

# BLACK SEA ECONOMIC COOPERATION: VISION AND OPPORTUNITIES

*Ambassador Nurver Nures*

*Former First Deputy Secretary General,  
Black Sea Economic Cooperation (BSEC), Istanbul*

## **BSEC Emerging in a World of Flux**

Upheavals in the flow of history are also periods of critical risks and major opportunities. The demise of the Soviet Union in December 1991 was a turning point of this magnitude. It gave rise to a number of new actors as independent states, extending from Central Asia to Central Europe, and give rise naturally to a process of new "nation building" across the Eurasian landmass. Two words easy to say, but in fact a formidable mission to realise.

This event drastically changed political relations in global terms; confrontation in essence yielded to dialogue, isolation to cooperation and interdependence. Global vision, regional strategies, and national policies gained recognition as the transition to a market economy began. These dramatic developments continue to proceed against a moving global theatre where change is the rule, constant renewal is its corollary and knowledge-based, information-driven computer science and technology the powerhouse behind.

A range of these factors along with the political search by the former Soviet Republics for identity and security in a new league of free and independent states - and the appeal of possible benefits regional cooperation may offer - are the dynamics which laid the ground for regional cooperation. Hence eleven states, i.e. Albania, Armenia, Azarbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine, initially led by Ankara, established the Black Sea Economic Cooperation (BSEC) on 25 June 1992 which has been, with the enactment (May 1998) of a Charter, transformed into a full-fledged regional economic organisation with a legal identity and recognition on the international stage.

The Charter is a political testament to the abiding political commitment of its member states to the BSEC and its aims. It also

specifies the priority areas of cooperation, such as trade and economic development, transport and communication, energy, banking and finance, agriculture and agro-industry, science and technology.

## **BSEC Set-Up**

*BSEC operates on five different platforms:*

- **Intergovernmental:** The Council of Foreign Ministers is the ultimate authority which charts the course of the BSEC process and is equipped with decision making power. A Committee of Senior Officials acts on behalf of the Ministers, functioning as a board where all BSEC matters are discussed and presented to the Council for final approval. The Permanent International Secretariat (PERMS), founded in Istanbul (March 1994), provides secretarial services under a Secretary General, and is essentially an intergovernmental body exercising its work and responsibility within the same parameter. Subsidiary organs operating generally in the format of Committees are active in specific economic sectors. The Chairmanship and venue of Council Meetings rotate among member states bi-annually, in alphabetic order. The host of the Council Meeting assumes sessional Chairmanship as the chief coordinator within BSEC for the following term. The Secretary General is subject to appointment by the member states every four years and is responsible for the Secretariat's daily management. In the engagement of professional staff to the secretariat, equitable distribution based on geographic location is the principle. Up to now, the executive staff and the three Secretaries General have been of diplomatic origin.

- **Interparliamentarian:** The Parliamentary Assembly (PABSEC) is composed of parliamentary groups from the eleven national parliaments and provides BSEC with constant support, especially in legislative matters. PABSEC and PERMIS operate in regular interaction.

- **Interbusiness:** Private sector driven, established in 1992. The BSEC Business Council is the responsible body. This is equipped with a Secretariat in Istanbul, operates under a Secretary General and run by a Board of Directors. It functions as a forum for BSEC businessmen. It is expected to develop into an enduring centre of interaction by way of wide ranging business-oriented activities, including incubating joint ventures.

- **Interfinance:** BSEC Trade and Development Bank (BSTDB) is the financial pillar of the organisation. It was founded in March 1998 and started operation in July 1999, located in Thessaloniki. It operates on commercial principles and follows private banking norms. Its initial capital is composed of quotas assigned to the member states in accordance with a special scale and is expected to reach an authorised capital level of SDR1bn (c. US\$1.35bn) upon fulfilment of quota purchases. The Bank's niche is the promotion of regional cooperation as an integral component of economic development. It has a dual function; to finance bankable projects in the BSEC region and to cultivate channels of investment flows by developing active relations with international banking and financial circles.

- **Interacademic:** It brings together scientists, scholars, researchers, academicians and representatives from other institutions with a view to translating the rich and diverse scientific, technological and intellectual resources of the region into projects that promote development and well-being. In relation with such exchanges, the International Centre for Black Sea Studies (ICBSS) located in Athens has its own status and operates independently under the umbrella of BSEC. The lack of any policy-oriented, pragmatic research or study relevant to the region was the reason behind its foundation.

## What Does BSEC Signify?

Pivotal to three continents, Europe-Asia-Africa, and encompassing a large portion of the Eurasian landmass, the BSEC covers an area of nearly 20 million sq.km. It spreads across nine time-zones, includes eight seas (some inland) where important sea lanes cross, has a market of 330 million people and annual foreign trade exceeding US\$300bn, and possesses large crude oil and natural gas reserves second only to the Gulf. Moreover, the BSEC region is home to a rich and diverse population ranging from top scientists, academicians, well-educated professionals, experienced technicians to both skilled and unskilled labour. The region has a broad-based industrial capacity, extensive fertile agricultural land and abundant forests. It has a large and diverse food processing potential, wealth in basic commodities and intermediary goods and a rich tourism-base waiting to be discovered and exploited.

With these appealing assets, can the Black Sea region uplift itself and assume its deserved place and role in the larger European

economic space? I believe that it can and that the opportunity is there. In a new mutually supportive and mutually beneficial partnership, BSEC is mandated to help activate what the region offers, can provide critical inputs, and act as a catalyst to complement national policies/strategies directed to development.

So far, the BSEC has consolidated itself structurally and become a standing forum for enduring dialogue region-wide. Within its framework, common initiatives in priority economic sectors are under progress. There is, however, a need to accelerate the momentum since all the members are developing states and are therefore racing against time to make progress. Thus, assessing BSEC at this juncture, with nine years of operations already achieved, reveal certain obstacles, which has slowed down its advance:

- member states caught unprepared by the rapid creation of BSEC;
- lack of proper transportation/communication networks;
- a culture of dialogue and cooperation is essentially alien to the region;
- mentality is proving difficult to change as old habits die slowly;
- there is a serious shortage of local capital and minimal flows of FDI;
- the problems of transition and nation-building restrict focusing on the BSEC process.

In spite of these drawbacks, BSEC has developed a regular, structured working relationship - a first for the region - and brought member states closer to improving their mutual familiarisation and understanding. Although frictions from the past still linger, trust is starting to build slowly, bringing about a softening in the political climate of the region. Certainly, a lot more needs to be done in this respect. But already the BSEC serves the region also as a confidence building measure - a remarkable achievement in itself.

The Turkish private sector has been impressed by these phenomenal developments in the BSEC area, particularly by the improvement in the political climate and motivated initially by its government which has moved with zeal to recognise this new

economic geography whilst maintaining its active participation in BSEC fora. The results have been eye-opening. From 1992-1997, Turkish trade with BSEC countries grew nearly three-fold to US\$8.2bn, not counting "luggage trade" estimated at a further US\$20bn. Contractors' engagements reached US\$10bn by July 1998; whilst during 1992-1998, 13.4 million tourists (9.5 million from the CIS and the rest from the other member states) visited Turkey, spending an estimated US\$10bn.

By 1998, Turkey's investments in the NIS of Central Asia grew to nearly to US\$20bn. In the meantime, the intra-regional energy market gained a new spur by the rapidly growing demand of Turkey, which is also on the way to becoming a major energy terminal directed to consumer countries abroad. By 1997, Russia leaped to second place after Germany in Turkey's foreign trade. Turkey and Russia emerged as each other's biggest economic partner in all major sectors of interchange within BSEC. Indeed, on the international stage it was towards these emerging markets that Turkey's economy showed its best performance in the 1990s. In 1998, however, economic crisis in Russia caused all these figures to fall sharply. The present economic crisis in Turkey will exacerbate further this decline and possibly have a negative impact on the other member states in the vicinity. On the other hand, this could also be attributed to the initial signs of integration, which hardly existed before the recent past.

This progress has proved to be a unique experience. Turkish businessmen have discovered themselves and put into practice their accumulated experience, their vision of entrepreneurship and globalisation, becoming highly articulate to international business prospects. Meanwhile, Istanbul often found itself at the centre of regional business flows, gaining recognition as a major transit metropolis and as a headquarters base for a growing number of firms.

Turkey's experience, indicative of the significant economic and business prospects and potential inherent to the region, is another motivation to urge the BSEC to overcome its weaknesses and help to extend such achievements to the other members. Progress in this direction will strengthen cooperation BSEC-wide, stimulate result-oriented initiatives and further activate the links between development and peace and stability, which are so important for the entire region. In the light of the above observations, a critical analysis of the present situation in the BSEC process leads to the following observations from abroad:

Foremost is that any international organisation can only be as strong and effective as the moral, political and material support accorded to it by its partners. The Secretariat acting on behalf of the organisation is not an exception to this rule. There is moral and political support, but material support is very much in short supply. Scarce funds cause strain on the Secretariat; there are no funds for detailed technical investigations such as feasibility studies; and a lack of technical experts make project development - which member states urgently need - extremely difficult. The Secretariat can at best coordinate multilateral work and strives to harmonise positions, but it can neither give guidance nor lead. It can follow up resolutions and initiatives, but can neither monitor nor force implementation. Thus a new look to the PERMIS is unavoidable.

In order to make the Secretariat operate more effectively and improve work toward project production, member states are faced with two main options:

- PERMIS remains intact, its operation continuing as before. New understanding among the member states would need to be reached, in that they must take it as imperative to implement resolutions made and within a specific time reference. This should be accompanied by an effective monitoring mechanism, regularly reporting on the progress of implementation. These improvements would be completed if measures were put in place to redress failure in implementation by any member state. All this would constitute a major advance over present practice.

- Transform the present setup into a project-oriented Secretariat, equipped with competent technical experts while keeping a nucleus of inter-governmental representatives, such as diplomats. Technical experts from the private sector are to be preferred for reasons of professionalism and unbiased performance. Funds should be made available to PERMIS in order to finance project development. This option would allow the Secretariat added scope for initiative, but added authorisation is also needed. Under the umbrella of PERMIS, meetings could be arranged composed of permanent technical experts with full authority, to be assigned by the national governments. The experts would remain in the payroll of the latter. The experts must have easy access to decision makers in their home state and be made responsible until the project is complete.

Regarding both of these options, another very critical point deserves special attention. The extensive orientation involving

numerous sectors under review needs to be replaced by intensive concentration limiting areas and topics to those cross-sectoral and cross-border fields where achievements will be that much greater. As I see it, herebelow are the locomotive sectors, which would create a lasting impact on the BSEC process, accompanied by comments on the progress made so far:

### *Regional trade has failed to live up to expectations*

Economic transition has disturbed region-wide trade patterns and volumes. This will continue for sometime. Russia is still the focal point in the flow of regional trade although its share is falling, as states shift their trade direction to third countries, mainly in Western Europe. So far, intra-regional trade has remained below expectations. BSEC encourages membership of the WTO and integration into the global trading system. Sustained development of intra-regional trade would be a step in this direction. However, the removal of barriers to trade, including non-tariff barriers, has yet to appear on the agenda of the BSEC. The decision on the establishment of a free trade area, given a background of meagre trade levels among the members, is destined to remain a distant objective. The easing of border controls is indispensable for the growth of trade, but this has not advanced so far beyond the stage of discussion. Moreover, the relaxation of visa regulations has failed to occur in general, although a few BSEC members have eased their restrictions a little, Turkey in particular.

### *Transportation and communications are in urgent need of renewal*

Although these constitute the strategic component of economic integration, the required improvements to these systems are beyond the capacity of national budgets and new investments have been minor. The system will have to go through a heavy construction and investment phase sooner rather than later. Nevertheless, BSEC has initiated regular, structured contacts between itself and the EU in the field of transport. The Black Sea basin is recognised within the EU system of Pan-European Transit Corridors, which have been further extended to cover Central Asia in the framework of the Transport Corridor Europe-Caucasus-Asia (TRACECA). A map produced by the BSEC covering rail and road links, ports and shipping routes in the region up to 2005 aims to create harmonised links when new projects are launched by national governments. The BSEC has been

instrumental is promoting regional concepts for this critical sector. Out of the seven principal communication projects in hand, three have been completed and are already in operation.

### *The Black Sea - a promising bread basket*

The Black Sea itself has a major potential in intra-regional and international trade. So far, actual trade has failed to realise this potential, mainly due to problems at the ports around the Black Sea. In its hinterland, some 150 million people make a living, many relying on trade and related business. That is, the Black Sea is not only a stage for trade but also a bread basket for the many. The efforts of BSEC, supported by the European Commission, have failed to improve so far the state of affairs at the ports.

Problems centre on two sets of issues. Firstly, modernising ports with advanced machinery and equipment is unavoidable but understandably difficult at this stage of transition, because of a shortage of capital. Secondly, investment alone is not enough. Organisational and administrative measures to facilitate the movement of vessels, the flow of goods and a change in bureaucratic mentality are also needed. Briefly, cooperation among the ports would yield manifold benefits, by easing trade and improving the well being of the millions living in the Black Sea basin.

### *BSEC region - an emerging big actor in global energy diplomacy*

Oil has been the single item which influenced most the flow of diplomatic history in the last hundred years. Oil and natural gas resources in the Caspian basin, given ever increasing new discoveries, have already cast this area into the centre of global competition.

Oil and natural gas can also be assessed in terms of regional peace, security and stability. It should be remembered here how the Coal and Steel Union between Germany and France marked the end of WW2 animosities and the beginning towards peace and security. The rapidly emerging intra-regional energy market and demand from third countries is giving rise to a network of pipelines and terminals for the transport of oil and natural gas within the region and to markets abroad. This involves a critical interdependence between energy-rich and energy-poor countries and is bound to cement relations,



strengthen mutual trust, encourage and diversify intra-regional trade, create new jobs, promote the flow of investments and technology and accelerate growth. Clearly, oil and natural gas are energising agents that will further consolidate the region and usher it more effectively into the international trading system. Movements towards this need to be encouraged and supported. It is notable that this strategic issue is considered as "hot" at the bilateral level and is not taken as a point of discussion in the BSEC process.

Nevertheless, intergovernmental work by all the members on the interconnection of electric power grids has reached the stage of a feasibility study, but has been awaiting financing for the last two years. This project should not be missed.

### *BSTDB crucial in project financing*

This bank has been built by the participation of the member states on the principle of self-help at a time of very serious capital shortage. It therefore deserves special credit. Since inauguration in July 1999, it has received over 204 project proposals. The interest in it is obvious. The amount of credits approved so far exceed US\$140m of which US\$51m are earmarked for trade financing and the rest for project finance. Trade financing operates through national financial institutions to draw them into this field. In these activities, the Bank aims to promote economic development, the transition to market economics and integration within the region.

Relations with the World Bank, IBRD, IFC, and EBRD are under progress and co-financing operations took place in this frame. At the present initial stage, BSTDB operations appear encouraging. Fulfilment of the purchase of the quotas by the member states would expand the volume and scope of financing and impact upon financial markets where BSTDB hopes to assume a growing presence. This would also impress the international rating agencies, so important for the image of the Bank.

### *SMEs need a business-friendly environment*

More than 95 % of enterprises in Greece and Turkey are small and medium-size business units. A similar pattern is also emerging in the Black Sea region as transition moves forward. Well aware of their

weight in economies in general, PERMIS together with the active support of the Conrad Adenauer Foundation have arranged an SME Program comprising some ten workshops since 1998 addressing pressing issues confronting SMEs. They helped to make the authorities aware of the crucial role SMEs have in development, transition, employment, distribution of earnings and wellbeing. Beyond this, however, progress in member states towards building the necessary legal infrastructure and the institutional framework supportive to SMEs has been limited. Implementation has moved slowly.

### *Tourism - fosters peace and aids wellbeing*

Tourism is coming alive in the Black Sea region. In the new environment of the region, inward-looking societies under duress became outward-oriented, stimulating for the first time in the Black Sea area the movement of many people across national frontiers. This can only be defined as dramatic, as indigenous people discover one-another for the first time in an environment of peace and security. It has proved to be a rewarding and exhilarating experience. It constitutes a priceless, long-term investment in peace and stability. A striking example in this respect is that the past animosity between Russians and Turks is now largely forgotten.

The region also witnessed the fact that tourism leads to personal relations, that it opens up new avenues of cooperation, fosters cultural exchange, stimulates trade, encourages investment, and generates many service-sector jobs. This is only a beginning for tourism in the Black Sea region, which has very much more to offer in this field. The many related business opportunities need to be discovered and cultivated. Greece and Turkey both have experience of the tourism industry and could impart their knowledge to the other member states, which could benefit from their accumulated experience and know-how. However, those other members need to take the initiative and come forward with a meaningful program indicating priority requirements.

## **Conclusions**

- In a state of global flux, the downfall of the Soviet Union set the stage where we see a new political and economic reality emerging - the revival of EURASIA. The transition from an historical, volatile and

adversarial relationship to one of cooperation is a long-term and painful journey, which cannot be accomplished overnight. Deep down, this is probably the main reason for the slow progress of the BSEC.

- It would be no surprise, therefore, if transformation still continues to occupy minds and strategies in the mid 21st Century. In this great task, there are many risks great and small. All must be prepared to face such developments, and in this respect, NATO's remote but sustained watch will be indispensable.

- The Eurasian people have for the first time in decades if not centuries seized the opportunity to shape and make their future and fortune. In the present transition and nation-building stage, beyond self-help, they look to the West, in particular the EU. If they are not let down, transition will gain pace and peace and security will acquire further strength. The free world owes this support. In this respect, Russia's reconciliation with the new order is of special importance for a smooth transformation.

- BSEC is the only international forum in the region where member states participate on their own free will without any outside interference. It is a standing platform which also provides scope for discussion of political issues on a bilateral level, outside of BSEC meetings.

- Russia is the largest economy followed by Turkey within BSEC. They also rank one and two in a larger area extending from East Asia to Central Europe, from the Balkans to the Middle East, which covers 24 million km.sq. with a market of 550 million people. Consequently, both have unique positions within BSEC. Without Russia, the organisation loses its political significance, trade flows and related business. Russia's increasing engagement in BSEC is invaluable economically as well politically. Without Turkey, an important emerging market as producer and consumer would be missed and, in its absence, overpowering political forces would curtail freedom of action, determine the course of events and thereby seriously weaken the interest of other members in collective cooperation.

- The EU is the principal mover determining Europe's future architecture on a firm base of peace and prosperity. The BSEC is a recent starter and is mandated to transform the Black Sea area into a region of peace and progress. The ongoing evolution in this process is but part and parcel of the changes taking place in the European

theatre. The two actors are in effect the main agents united in their objectives. Moreover, this unity could develop into active partnership if the BSEC could demonstrate that closer cooperation would yield "value added" results. The EU, on the other hand, should display a fuller understanding of the drama taking place in the BSEC region.

- A purposeful comprehensive platform should be prepared by the EU and the BSEC together, envisaging durable cooperation between the two. This would energise the BSEC and uplift the morale of its people. Indeed, Western Europe had similar support from the US in the immediate aftermath of WW2.

- Greece and Turkey have an edge over the rest of the BSEC member states with the establishment and operation of free-market economies. Thus, both Greece and Turkey bilaterally - and within the multilateral framework of BSEC - are capable of helping and assisting other member states. A more dynamic, motivated participation on their part in the BSEC process can only expand the contribution of the organisation. All member states need and expect this to occur.

- The Black Sea Economic Cooperation is an imaginative vision responding to the spirit and expectations of the 21st Century. It represents a golden opportunity to build upon a commonality of interests, which should not be missed. The eleven member states alone will determine its momentum and success. The Secretariat is only a functional instrument that operates only under the shared will of the member states.