The formation of Black Sea Economic Cooperation
A case study of subregionalism

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DECLARATION

This dissertation is the author's own work and it has not been submitted for a degree at another University.

ABSTRACT

What are the determinants of the formation of the Black Sea Economic Cooperation (BSEC)? This is the question around which this dissertation evolves. Simple it might be as a question, preoccupation with it aims at disclosing the substance and nature of contemporary subregional cooperation which takes place at the borderlands of Europe.

This dissertation is above all a case study based on empirical research. The object of analysis is the Black Sea Economic Cooperation (BSEC), a cooperative structure that emerged in Europe in the early 1990s. Here we do not claim to undertake an area research rather we aim at examining an international political economy phenomenon.

The main conceptual element of this dissertation is that it brings forward the notion of subregionalism. To examine the formation of Black Sea subregionalism we embark on an eclectic theoretical approach and apply an analytical framework of five variables which come both from within the subregional level and outside of it: economic difficulties, transnational demands, leadership, security dilemma and the European Union.

What this dissertation concludes is that BSEC is an intergovernmental mode of cooperation representing more a foreign policy tool and less an integration process. We show that the Black Sea has witnessed a structural or 'instrumental' subregionalism of intergovernmental nature which is shaped by the interplay of the abovementioned variables. The correlation between subregionalism (around the Black Sea) and regionalism (Europe-wide) is thus of great importance. Thus, BSEC is better understood not within the framework of the regionalization-globalization nexus but rather in the framework of the new European order. Furthermore we show how contemporary subregionalism, being a primarily political instrument, is of a flexible nature responding to different needs at different times.

ABBREVIATIONS

ABSAR	Association of Black Sea Area Regions
APEC	Asia Pacific Economic Cooperation
BASPA	Black and Azov Seas Ports Association
BEAC	Barents Euro-Atlantic Council
BlackSeaFor	Black Sea Naval Cooperation Task Group
BRASS	Black Sea Region Association of Shipbuilders and Shiprepairers
BSCA	Association of Black Sea Capitals
BSEC	Black Sea Economic Cooperation
BSEC BC	Black Sea Economic Cooperation Business Council
BSEC URTA	Union of Road Transport Associations of BSEC
BSII	Black Sea Investment Initiative
BSTDB	Black Sea Trade and Development Bank
CARDS	Community Assistance for Association, Democratization and Stabilization
CBSS	Council of Baltic Sea States
CEFTA	Central European Free Trade Agreement
CEI	Central European Initiative
CEPS	Center for European Policy Studies
CIS	Commonwealth of Independent States
CMEA	Council of Mutual Economic Assistance
DEIK	Foreign Economic Relations Board
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECO	Economic Cooperation Organization
EFTA	European Free Trade Association
ELIAMEP	Hellenic Foundation for European and Foreign Policy
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FYROM	Former Yugoslav Republic of Macedonia
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GE	Group of Experts
GUUAM	Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova
HCNM	High Commissioner for National Minorities
IBSC	International Black Sea Club
ICBSS	International Center for Black Sea Studies
INOGATE	Interstate Oil and Gas Transport to Europe
IPE	International Political Economy
ISS	Institute for Security Studies
KNK	Confederation of Peoples of the Caucasus
NAFTA	North American Free Trade Area
NATO	North Atlantic Treaty Organization
NGOs	Non Governmental Organizations
NIS	Newly Independent States

OECD	Organization for Economic Cooperation and Development
OSCE	Organization for Security and Cooperation in Europe
PABSEC	Parliamentary Assembly of the Black Sea Economic Cooperation
PERMIS	Permanent International Secretariat
PfP	Partnership for Peace
PHARE	Poland/Hungary: Assistance for Restructuring Economies
RIIA	Royal Institute of International Affairs
SAPARD	Special Accession Program for Agriculture and Rural Development
SECI	Southeast European Cooperative Initiative
SME	Small and Medium Sized Enterprises
TACIS	Technical Assistance for the Commonwealth of Independent States
TAD	Territoires Amménagement Développement
TRACECA	Transport Corridor Europe Caucasus Central Asia
UCPTE	Union for Power Production and Transport Coordination
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
UNFAO	United Nations Food and Agriculture Organization
WEU	Western European Union
WG	Working Group
WIDER	World Institute for Development Economics Research
WNIS	Western Newly Independent States
WTO	World Trade Organization

INTRODUCTION

This dissertation is primarily an empirical study. The research object is the Black Sea Economic Cooperation (BSEC) whose foundations lie in the Istanbul Declaration of 25 June 1992 signed by the following eleven states: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine.

The purpose of this dissertation is twofold. First, to fill a gap in the empirical literature on contemporary regionalism by undertaking systematic research on a largely ignored subregional structure. Second, to contribute to the ongoing theoretical debate within the international relations discipline over the issue of regionalism by advancing the conceptualization of one type of regionalism: subregional cooperation.

Above all this dissertation examines the story of Black Sea subregionalism and in doing so, reveals what is significant here. The basic concern of the research is to disclose how the formation of BSEC has evolved since its conceptualization and what has been driving and conditioning the BSEC process.

1. The research agenda

An introduction to BSEC

According to its Charter BSEC is a 'regional economic organization' whose mission is "to promote a lasting and closer cooperation among the states of the BSEC region" (preamble, para. 6). Its members share the common vision of their regional cooperation as "a part of the integration process in Europe, based on human rights and fundamental freedoms, prosperity through economic liberty, social justice, and equal security and stability, which is open for interaction with other countries,

regional initiatives and international organizations and financial institutions" (preamble, para. 9). Economic cooperation is seen as "a contribution to the achievement of a higher degree of integration of the Founding Members into the world economy" (preamble, para. 10). Although an economic organization, BSEC's aims go far beyond purely economic goals to "turning the BSEC Region into one of peace, stability and prosperity" (preamble, para. 11). Furthermore, it does not represent a design and implementation of a set of preferential policies within the group of countries it includes, although it aims at the encouragement of the exchange of goods between them.

Hence, the philosophy upon which BSEC is built is based on the principle of 'stability and peace through prosperity'. Regional economic cooperation was thus perceived by the founding members as a stimulus for regional security and political stability and it was based on three motivations: cooperation rather than conflict; regionalism as a step to global integration and avoiding new division in Europe (Adams et al., 2002).

The principles and objectives to be promoted by the organization are specified as follows (BSEC, 1998a, article 3):

a) to act in a spirit of friendship and good neighbourliness and enhance mutual respect and confidence, dialogue and cooperation among the Member States;

b) to further develop and diversify bilateral and multilateral cooperation on the basis of the principles and rule of international law;

c) to act for improving the business environment and promoting individual and collective initiative of the enterprises and companies directly involved in the process of economic cooperation;

d) to develop economic collaboration in a manner not contravening the international obligations of the Member States including those deriving their membership to international organizations or institutions of an integrative or other nature and not preventing the promotion of their relations with third parties;

e) to take into account the specific economic conditions and interests of the Member States involved;

f) to further encourage the participation in the BSEC process of economic cooperation of other interested states, international economic and financial institutions as well as enterprises and companies.

In line with the above principles and objectives, BSEC's focus of activities is on the following fields: trade and economic development; banking and finance; communications; energy; transport; agriculture and agro-industry; health care and pharmaceuticals; environmental protection; tourism; science and technology; exchange of statistical data and economic information; collaboration between customs and other border authorities; human contacts; combating organized crime; illicit trafficking of drugs, weapons and radioactive materials, all acts of terrorism and illegal migration (BSEC, 1998a, article 4).

Conceived in 1990 as a flexible economic cooperation scheme originally among four Black Sea coastal states (Turkey, Romania, Bulgaria and the former Soviet Union), BSEC was soon transformed into an intergovernmental bureaucratic structure of eleven states stretching beyond the Black Sea itself.[1] It covers an area of

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[1] Iran, FYROM, Serbia and Montenegro and Uzbekistan have put forward their applications to join BSEC. Austria, Italy, Israel, Egypt, France, Germany, Slovakia, Tunisia and Poland participate as observers.

nearly 20 million sq. km expanding in two continents and has a market of 300 million people.[2] Although it remains a primarily intergovernmental organization, it has established a web of institutions at the parliamentary, local government, business, academic and financial level.

BSEC's regional identity has been contested. Starting with its membership it presents great asymmetry in terms of economic development, security concerns, political power, culture and religion, size and population and affiliation to international organizations. Historical developments have left each country at a different level of economic development. Geographical proximity, though contested, as in the case of Albania's membership, is a criterion for classing the countries as a group, but it is not a sufficient explanation for regional cooperation. Actual political and economic integration is difficult to trace throughout the BSEC-wide area. One might claim that there is a type of security community in terms of the interlink of security problems in the area but this is far from arguing that there is a common threat perception. Given the economic and political fragmentation of the BSEC space and the complex security problems among its members (almost all its members have bilateral security problems with some of them being technically in a state of war e.g. Armenia-Azerbaijan) as well as its cultural diversity, the *existence* of BSEC alone has been considered as a success. Notwithstanding the poor results of subregionalism in the area, it seems that all countries remain focused on subregional cooperation. The mode in which this cooperation has been evolving is a primarily intergovernmental one.

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[2] The ten member states plus the three Russian oblasts which have Black Sea coastlines is 190

The driving question

The main concern of this dissertation is to explore the factors that shape BSEC's formation and evolution.

Conflict and cooperation are two dynamics that shape international relations around the Black Sea. It was disintegration (collapse of the Soviet Union, emergence of new state entities, economic and social fragmentation) rather than integration that in many aspects was dominant around the Black Sea area in the last decade. Institutionalized cooperative efforts to build a subregion have advanced in spite of the negative structural environment. In a decade of existence, BSEC's actual contribution to the economic integration or political coordination among its members may be regarded as poor, but BSEC has both enlarged and deepened particularly in the form of institutional development. From a historical perspective, at the time of its conceptualization, BSEC was devised as an informal economic process that would be business-led, requiring no extensive institutional structures. However, it developed exactly in the opposite direction, resulting in an intergovernmental structure, with a web of subregional bureaucratic institutions.

The main concern of this dissertation is to account for the reconfiguration of BSEC. This question is addressed in three sequenced parts. First, we aim to introduce BSEC and to provide an overview of the subregional process around the Black Sea. Second, we seek to establish the nature of BSEC and explain its mode of governance. Third, we place BSEC within the European integration process, revealing the interaction between the EU and BSEC. The main purpose is to cast light on the

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million people.

factors influencing the reconfiguration of BSEC thus contributing to the conceptualization of the subregional phenomenon in Europe.

With this research, we try to fill in a gap in the existing literature on BSEC that either has focused on the founding factors of the initiative or has been of a normative nature. What has been lacking is a detailed and analytical exploration of the character of BSEC subregionalism and the dynamics of its evolution.

What is new?

This dissertation has two elements that may be considered as carrying a sense of originality. Firstly, a systematic investigation to conceptualize the Black Sea Economic Cooperation process has not been previously carried out. We thus aim empirically to further the existing literature on regional cooperation with the insights derived from a structure not examined before. The existing literature deals with the issue of the origins of subregionalism but there is a gap in our understanding on the actual difference that subregional groups such as BSEC have brought about in international relations and in particular their interrelation with broader regional processes. Secondly, we embark upon an endeavour to test the analytical power of the term 'subregionalism' which has appeared relatively recently in the international relations literature.

2. A historical perspective

Depending on the power struggle in the area, the Black Sea has been both a frontier and a barrier, a land of peace and intensive economic interaction or a field of competition and fragmentation.

Starting from its geographical characterization, the Black Sea is an almost closed sea, which communicates with the Mediterranean only through the narrow Bosphorus Straits. It has access to the Central Asian Steppes (through the Caucasus and the Caspian Sea) and to Central Europe (through the Danube and other major European rivers). To question the existence of the Black Sea as a unity would be not a very difficult task. Textbooks of geography never present this region as a geographic unity but as a series of territories. Its territorial variety and cultural diversity has been coupled throughout time with political and often economic fragmentation that has reinforced the image of a divided land. Most approaches have placed the Black Sea on the margins of historically important regions such as Europe or the Mediterranean. Braudel (1976, p. 110) thus, has treated the Black Sea as a 'backyard' or an extension of the Mediterranean world:

> The far off Black Sea, limit of Mediterranean shipping, was ringed round by wild lands, with a few exceptions, both uncivilized and de-civilized. Great mountains bordered it to the south and east, hostile mountains through which the roads made their difficult way from Persia, Armenia, Mesopotamia to the great center of Trebizond. To the north by contrast rolled the great Russian plains, a land of passage and nomadism, over which a jealous guard was still maintained by the Crimean Tatars in the sixteenth century. It was only in the following century that the Russian outlaws, the Cossacks, were to reach the shore of the sea and begin their piracy at the expense of the Turks. Already in the sixteenth century, the Muscovites were taking advantage of the winter to make 'courreries' towards its shores.

Historically, the ports of the Black Sea created a network of economic activities linking the people around and beyond the sea, i.e. they had their own economic life.

A blooming trade took place across the Black Sea during the ancient Greek and Roman times, connecting its south and north, east and west coasts. In antiquity, fish and grain from the Black Sea were traded with manufactured goods from Greek and Italian cities. This composition of trade made the role of the Black Sea economy a peripheral one (Ozveren, 2001, p.73). In the Roman period, Sinope in the south of the Black Sea, benefiting from its central positioning, thus acting as a collecting point for products bound for export to the south and interior of Asia Minor or the Mediterranean. From the 4th century B.C. onwards the sea trade expanded. This was due to corn imports from the Crimea and southern Russian Steppes to Athens and Greek cities to support the ever expanding Roman army. The Euxeinos Pontus[3] became soon a Roman lake with garrisons placed along the north and east coasts to protect the corn trade of the north coast and the eastern trade.

Trade was not generated only around the coast of the Black Sea itself. Trade with Asia was central for the economy of the Black Sea cities. The northern trade route from the East to the Black Sea was a principal means of conveying the commodities of the East to Europe. Goods were brought from India to the Caspian Sea and from there to the Black Sea and via Sinope and the South Coast to Byzantium and Europe. In addition to the flourishing spice trade under the Roman Empire, the old silk-road from China ran along the north route and through to Tanais, the most north-eastern point of the Black Sea. Trade with the East was mainly in luxury items (silk, spices, perfumes, drugs, and ivory).

During the Byzantine rule, Black Sea production was directed to the capital city (Constantinople). When the Byzantine authority started fading, the area became

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[3] In ancient times, the Black Sea was called *Euxeinos Pontos* which means the Hospitable Sea

politically fragmented and open to outside economic penetration (Bratianu, 1969, p. 177). As Braudel argues (1976), in the sixteenth century the Black Sea was increasingly reduced to the status of an Ottoman lake, being turned into an economic unit cut off from the rest of the Mediterranean. The Black Sea as an economic unit was basically the result of the imposition of a certain division of labour by the Ottoman capital city. The regional market became subservient to the designed division of labour imposed from the centre with an eye to the 'provisioning principle'.

The regional political economy changed with the introduction of the Russian factor from the north. Braudel (1976, p. 191) stated that during the sixteenth century, the Russian presence in the region was limited, since Russian interest was focused on the Baltic and Caspian Seas as well as the economic expansion of Russian land:

> The whole of southern Russian was a deserted land. Crossed only by the bands of Tartar nomads...At the end of the eighteenth century Russian settlers were again to find an immense waste land, empty except for a few nomadic brigands raising their camels and horses.

In the late 19th and early 20th centuries (especially between 1870-1917) a water-born trade was flourishing. Merchants from Europe went into joint ventures with local businessmen and cooperated with the branches of locally established foreign firms in South Russia, sometimes even representing the interests of local entrepreneurs and merchants (Minoglou, 1997, pp. 70-77). Greek and Jewish networks dominated foreign trade on the south of Russia, and on the eve of World War I, the main livelihood of 40 million people living in the South was foreign trade.

(Koromila, 1991, p. 27).

Their activities were mainly focused on the export-import trade with western Europe. In 1912, sixty per cent of Russian exports went through the ports of the Black Sea and the Sea of Azov. They included mainly grain and petroleum products (the later being exported from the port of Batumi and Novorosiisk) while a few industrial exports (wood, glass, cotton, metals and rubber articles) were directed to the Balkans and Turkey. A trade, banking and shipping network was established by Greek businessmen who were attracted to the shores of the Black Sea by the special advantages granted to them such as free land and no obligation to pay taxes. At this time Odessa, located in the Northwest, became a credit market for the entire Black Sea region and the ports in the Sea of Azov such as Rostov, Taganrog and Mariupol also flourished. The multi-business networks were extended to several cities around the Black Sea, in central and western Europe, changing the local social fabric and opening up the local economy. The development of those regional networks was interrupted by World War I and later on by the Russian Revolution which halted entrepreneurship.

Historically, the balance between the north-south (Russia-Ottoman Empire) and later the east-west (Communist/Soviet-Capitalist) axes in the Black Sea has conditioned the regional political economy. The north-south axis has been considered as the backbone of the balance of power in the region, reflecting throughout time, i) the influence of the Byzantine and Ottoman authorities in the south, ii) the Russian and Soviet authority in the north, or iii) even earlier the Greek city-states dominant role in the economic life of the region. The east-west divide that kept the Black Sea frozen for half of the 20th century introduced significant barriers among the local population and structures, thus strengthening the argument that the Black Sea world lacks a unifying factor.

A dominant perception has been that Black Sea unity can not be attributed to a common denominator of civilization. Far from constructing a unity, the Black Sea area and all eleven members of the BSEC group fall into the 'fault lines between civilizations' as reflected in the work of Huntington, i.e. 'The clash of civilizations' (Huntington, 1993, p. 33). Being on the northern border of the Islamic world, the area has been prone to conflicts following the end of the Cold War, divided between Orthodox (Russians, Armenians, Romanians, Georgians, Bulgarians, Greeks, majority of Ukrainians) and Muslim people (Azeri, Turks and Albanians). The two main poles, Russian (Orthodox) and Turkish (Muslim), have kept the land and its people divided. Russian fears about the security of its southern borders are thus not just an issue of state politics but also contain a cultural anthropological element. The Russian concerns are captured as follows:

> Much of Russian history concerns the struggle between the Slavs and the Turkic people on their borders, which dates back to the foundation of the Russian state more than a thousand years ago. In the Slavs' millennium-long confrontation with their eastern neighbours lies the key to an understanding not only of Russian history, but Russian character. To understand Russian realities today one has to have a concept of the great Turkic ethnic group that has preoccupied Russians through the centuries (Roosevelt quoted in Huntington, 1993, p.33).

At the same time, the legacy of Turkish-Ottoman rule in the regions neighbouring Turkey has a particular impact on perceptions and policy. This historical experience, as well as the territorial, ethnic and property questions inherited from the past have not been conducive to the establishment of mutual trust.

During the Soviet era, the Black Sea remained fragmented and economically paralysed, being divided into two political and economic blocks that allowed for no communication. With the end of the Cold War, the Black Sea was given a chance to assume the status of a regional political economy. This is the first time in modern history that the Black Sea joins the international system, having a multilateral institutional framework and with the ambition to be dressed with a common political ability. As Ozveren has argued, the Black Sea deserves regional status as an entity, forecasting that the Black Sea of this century is likely to replicate the politically polycentric, economically market-integrated model of the nineteenth century (Ozveren, 2001, pp. 61-79).

Historically the social and economic unity of the Black Sea area is not evident. It can be argued that the constitution of law and order within the Black Sea area has been a prerequisite for regional economic networks to flourish. Depending on the balance of power at the international level and the geopolitical situation each time, its unifying factors have been reinforced or undermined. What seems clear is that whenever economic life around the Black Sea flourished, it has done so in connection to increased economic interaction either (primarily) with the western markets or the eastern ones. Entrepreneurial spirit has not been absent from the region, but it was rather artificially interrupted through most of the 20th century, an interruption that resulted in the absence of the private sector in the early 1990s. Going through an overview of the history of the Black Sea we identify entrepreneurial activities and private initiative as the main unifying factors, while political divisions often undermined this unity. In the 1990s, it was state initiative that called for the creation of a common regional scheme of cooperation that would be based upon the activation of private actors. The fact that the economy has been historically the

unifying factor in the area is reflected in the name of the new cooperative structure: Black Sea *Economic* Cooperation.

3. Why the Black Sea Economic Coöperation?

A review of the literature indicates that the Black Sea area as a regional unit has almost been ignored in the field of international relations. The literature is rich in references to other neighbouring areas or sub-groupings such as Central Asia, Central Europe, the Balkans, the Caucasus or to large local players such as Turkey, Russia and Ukraine. The only reference to the Black Sea as a regional unity has been in terms of its ecosystem and the environmental issues or problems related to it. Neal Ascherson's (1996) book *The Black Sea* was an effort to bring to the front the richness of the political and cultural elements of the peoples of the region. For most of the twentieth century the political economy of this area was ignored. Politically divided between the 'East' and the 'West', the water body that today unites several peoples, was a zone of non-interaction and no communication. A new regional political economy emerged with the collapse of the Soviet Union and the end of the Cold War. One of the early formations in the area was the BSEC process which established unified institutional capacity, in June 1992 thus marking the re-entrance of the Black Sea in to the political arena of international relations.

This dissertation chooses BSEC as a research area for the following three reasons. First, the phenomenon of subregional cooperation in Europe lacks a comprehensive analysis especially from a theoretical point of view. Insights from one of those processes i.e. BSEC, will contribute to a better understanding of the political economy of subregionalism. Second, the case of Black Sea subregionalism has almost been completely ignored by existing international relations literature with the exemption of some comparative studies on subregionalism (Cottey, 1999b; Hook &

Kearns, 1999). This thesis thus, tries to fill in a gap in the existing literature and to shed light on new materials. Third, the Black Sea case can significantly contribute to the conceptualization of subregional cooperation as it dissolves some of the myths, e.g. 'the clash of civilisation' argument while reconfirming others, e.g. politics is the main driving force of cooperation. The overall transformation of the political economy of the Black Sea area through the emergence of new actors and the structural and ideational changes make this case an interesting laboratory where the power of traditional theories can be tested and tools of new analytical frameworks can be applied.

Consequently, as a subregional entity, BSEC has a number of characteristics that make it a unique case compared with all other subregional structures:

i. Although a subregion, it delineates a significant landmass stretching in two continents (Europe and Asia) and includes a large population.
ii. It has a large (eleven states) and highly diversified (in terms of economic development, size, culture, security concerns) membership.
iii. It has an advanced organizational structure and an international legal personality.
iv. It is an indigenous structure that lacks any participation of a power external to the subregion.

As we will see in Chapter 2, literature on BSEC is noticeably atheoretical with few exceptions (Sezer, 1992b). Most of the writings focus on the individual member states rather than approaching BSEC as a regional entity. BSEC has been hardly related to the regional processes in Europe and the world, nor has it been examined within the framework of the globalization-regionalization nexus. A large body of the existing literature is of a normative nature and policy orientation, addressing the calls for a more effective functioning of BSEC. Thus there is a paucity of research data on the dynamics of the configuration of BSEC.

4. Why the term subregionalism and other definitional clarifications

Regionalism and regional cooperation have been used interchangeably to refer to the same phenomenon. A broad definition of regionalism which fits the perspective of this dissertation is one of a "*conscious policy* of states to coordinate activities and arrangements in a greater region" (Wyatt-Walter, 1995, p. 77). Robert Keohane (1984, pp. 51-52) describes the process of cooperation as a process of 'policy coordination' where actors adjust their behaviour to the actual or anticipated preferences of others. Thus intergovernmental cooperation "takes place when the policies actually followed by one government are regarded by its partners as facilitating realization of their own objectives, as the result of a process of policy coordination" (Keohane, 1984, pp. 51-52).

Subregionalism fits these definitions as a type of regional cooperation but it is better conceptualized as a coordination of policies among states in a circumscribed space and vis-à-vis a larger regional political project. It can not be conceived as an independent process but it takes place within a larger regional context, aiming at the inclusion of its members in a broader integration process. Therefore, here the prefix 'sub' refers to the suggestion that the cooperation process is embedded in a broader regional political project. By using the term subregionalism we try to emphasize the fact that the BSEC process cannot be viewed without reference to the framework of an Organization for Security and Cooperation in Europe (OSCE)-wide region and the effects of the ongoing EU process. At the same time it is used to distinguish the case study from lower levels of microregionalism promoted at a subnational level[4]. Chapter 1 of the dissertation examines the elements of the concept of

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[4] On the levels of regionalism see Hook & Kearns, 1999, pp. 6-8.

subregion(alism). In the conceptualization of the term subregionalism, emphasis should be put on the cooperation dimension rather than integration within the area it delineates. Thus, subregionalism has an extrovert character and it is a form of intra-regional cooperation process and governance rather than integration in its classic definition.[5] Subregionalism does not aim at higher levels of economic integration with the aim of achieving a union as described by classic integration theory. A broad, inclusive definition of subregionalism that stems from a study on subergionalism in post-Cold War Europe by the East West Institute[6] is as follows:

> Subregionalism can be defined as a process of regularized, significant political and economic interaction among a group of neighbouring states. This interaction takes place between national governments, local authorities, private business and civil society actors across a wide range of issues. It trends to be characterized by a low level of institutionalization and to be directed at the specific challenges negotiated by a particular group of - usually - neighbouring states.

The concept of a BSEC subregion is ambiguous and lacks a clear empirical reference. For reasons of clarity, let us refer here to the distinction between Black Sea coastal states and BSEC members. The BSEC subregion covers the territory of eleven countries (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova Romania, Russia, Turkey, Ukraine) while the Black Sea area covers six coastal states (Bulgaria, Georgia, Romania, Russia Turkey, Ukraine). In this dissertation we do not

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[5] In its conventional use regional integration refers to a deeper process than regional cooperation. Generally, the concept is broken down into economic integration (formation of a transnational economy, often referred to as negative integration), political integration (formation of a transnational political system, often referring to a minimum degree of transfer of sovereignty or functions to supranational organs), and social integration (formation of a transnational society). Regional cooperation may (or may not) form part of the process of regional integration.

[6] See the three volumes produced by the EastWest project: Cottey, 1999; Dwan, 1999; Dwan & Pavliuk, 2000.

follow the above-mentioned strict definitional distinction, but we use both terms - Black Sea and BSEC subregion - interchangeably, for reasons of convenience.[7] Scholars of international relations have generally referred to the geographical dimension of the Black Sea but have not regarded it as an international subsystem or purposive regional actor. When referring to the BSEC subregion itself, even the element of geography fades away. The BSEC area expands from the Caspian Sea (Azerbaijan) to the Adriatic (Albania), including countries that are considered to belong to Central Europe (Ukraine), the Balkans (Bulgaria, Romania), the Mediterranean (Turkey), the Caucasus (Armenia). The existing literature hardly focuses at the Black Sea level but rather refers to its sub-groupings such as the Caucasus (and partly Southeast Europe).

Here the term subregionalism is used to describe a formally constructed intergovernmental grouping which covers an area smaller than any of Europe's region-wide organizations. Subregionalism and subregional cooperation are used interchangeably as both terms place emphasis on the process of policy coordination between governments.

5. Introducing the analytical framework

The scope of this dissertation is limited in several ways. First, it is limited by the research object. We do not undertake a comparative analysis but we focus on one specific process, the Black Sea Economic Cooperation. The aim is to conceptualize

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[7] The same approach has been applied by the organization itself and it is met in all BSEC official documents.

that scheme of subregional cooperation and to address a particular issue: BSEC's reconfiguration.

The second limitation is related to the factors that the dissertation takes into consideration in examining the object of analysis. The author's belief is that no single theoretical proposal can fully explain a complex phenomenon such as regional cooperation, particularly when this has a broad, 'comprehensive' agenda and it does not fit into the classic categories of security alliance or trade bloc[8] formation. 'Region building' in international relations studies has been associated primarily with types of integration, governance and delineation of borders (not merely political but also economic, security and cultural borders). Rational and cognitive approaches provide a rich variety of theoretical maps and analytical tools for the study of regionalism. The value of each theory notwithstanding, given the complexity of contemporary 'new regionalism', we select a set of causal factors that we deem necessary in answering the question that this dissertation has placed at its centre. In this perspective, questions are raised regarding the role of states and their political elites as agents of integration on the one hand, and the impact of transnational demands and economic difficulties, on the other hand. Regional institutions, such as the EU, in fostering cooperation elsewhere, become the third factor.

Schools of thought conflict on a salient issue. What is the balance between domestic and systemic factors of regional integration? On the one hand, domestic factors play an important role in developing new regionalism: the will of nation-

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[8] A trade bloc is "an association of countries that reduces intra-regional barriers to trade in goods (and sometimes in services, investment and capital as well) ...seek[ing] to 1) generate welfare gains through income and efficiency effects and trade creation; 2) augment negotiating leverage with third countries; and 3) sometimes promote regional political cooperation", Schott, 1991, pp. 1-2.

states and mainly of leaders to rescue their sovereignty and recover their international bargaining power. The second cause is the private interest of export industries lobbying and networking on a regional basis. Thirdly, there is the internal functional spill-over as a consequence of successful - even if limited to relatively marginal sectors and branches - cooperation agreements. Finally, there is the desire of countries to cope gradually with global competition. On the other hand, many researchers focus on the impact of systemic causes which can make it easier to underline what is common among regional organizations. As R. O. Keohane points out, without an overview of common problems, constraints and challenges set by the international system, we would miss the analytical basis to better understand the weight of domestic factors and distinguish them from external causes (Goldthorpe, 1984).

The particular approach of this dissertation combines both these classical schools of thought. Apart from exploring the role of leadership from within the subregion, we put into the picture the structural, systemic changes that have shaped the context within which BSEC evolved. We place BSEC within a hemispheric regional (Europe-wide) level since subregional groupings in post-Cold War Europe are more about the new European order and less about the globalization - regionalization nexus. Neighbouring the most advanced political and economic regional structure, European subregional structures have been primarily, if not exclusively, looking towards the European Union. The focus here is the actual relationship between regionalism (European integration) and subregionalism (BSEC).

Nevertheless, we do not aim here to present a comprehensive theory of subregionalism that serves any case or any historical period. As we stated this

dissertation examines the factors behind BSEC's intergovernmental mode of cooperation whose nature and purpose is decisively shaped by the European integration process. We suggest that subregionalism's formation as an intergovernmental mode of cooperation has to be examined as the outcome of the interplay of four variables from the subregional level:[9] transnational demands, economic difficulties, regional leadership and security concerns, and one variable from the regional level: the European Union. We have to clarify however that this dissertation places the member states and their political elites at the forefront of the analysis. The reasons for doing so are: i) BSEC's majority of members were newly established states, ii) the private sector has been either non-existent or too weak, and iii) the civil society fragmented.

6. Issues in research methodology

This research and its empirical oriented focus should be seen as an effort to enrich the debate over an ever evolving phenomenon: subregionalism in contemporary Europe. BSEC is a new case in international relations empirical research not theoretically conceptualized, empirically examined or policy evaluated. It has remained as a rather undefined political structure. The case study presented in this thesis is a detailed analysis of the evolution of regionalism in the Black Sea and as such it depends on the available historical materials, archived documents and recollections of those who were interviewed.

In terms of the literature reviewed, the diversity and quantity of literature on regionalism and the relevant terms has been impressive. Selecting what part of

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[9] The analytical framework is presented in detail in Chapter 1.

literature would be examined and therefore influence the theoretical stand and method of this research was not an easy task. This dissertation was not meant to provide an economic analysis of BSEC nor to focus on security aspects alone. A strictly historical approach to what forms a Black Sea region would be an interesting and unique endeavour but that would be beyond the scope of this research. To comprehend contemporary subregionalism we applied an 'inside-out' and 'outside-in' perspective accepting that both external and internal factors are necessary to be examined when conceptualizing a multidimensional phenomenon. A critical overview of the existing literature is therefore made which is informed with the empirical findings of the BSEC case. One dimension of this thesis develops at a conceptual level but the main emphasis is on the empirical part and the illustrations from field work in the Black Sea system.

Apart from the literature review other sources which have been used include the internet, official publications and documents, agreements and data from national (state) and international sources (organizations). Documentary research was part of the methodology applied. The BSEC Permanent Secretariat together with the Secretariats of other BSEC related bodies, most of them based in Istanbul, provided the main bulk of documentary evidence. Intergovernmental agreements, reports and recommendations, declarations, work programs, internal regulations, statutes, speeches, progress reports and press releases related to BSEC (and to other BSEC related bodies) were directly obtained from the relevant Secretariats. All material produced by the BSEC Secretariat are in English, the official language of the organization. For further documentation of other international organizations, information was obtained by their official web sites. Official documents from national governments were also used. As for the statistics on economic trends those

were mainly obtained by official publications of international institutions found in academic libraries and national resources. Some newspaper articles were also used.

Interviews were conducted at several stages of the research (during the early writing as well as at the final stage) with BSEC officials, policy-makers and academics. Open and semi-structured interviews[10] were mainly used due to the different background and position of each interviewer. Interviews yield rich resources of data on officials' experiences, opinions and expectations. To a certain degree opinions and conclusions presented in the dissertation stem from discussions with several people involved in the BSEC process whose names it is not always possible to include in the text. At an early stage of the research, a questionnaire was also formed and answered by the following persons: one BSEC bureaucrat, a member of the political elite from the region, a representative of the European Commission bureaucracy and a region expert. A list of the persons interviewed and consulted is provided.

The author's work at one of the institutions of the BSEC organization for several years has greatly contributed to a better understanding of the subregional process. Working at the Economic, Commercial, Technological and Environmental Affairs Committee of the Parliamentary Assembly of the BSEC, based in Istanbul, the author was permitted free access to documentation relevant to the research (published or restricted). Thus, a unique experience of how 'subregionalism' is translated into policy terms and everyday life was accumulated through daily engagement of the author in the PABSEC Secretariat and participation in BSEC

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[10] Open interviews are also called 'informal', 'unstandardized' or 'unstructured' interviews. Semi-structured interviews are based on questions normally specified, but the interviewer is

official meetings. This provided direct involvement in the negotiating processes and brought attention to pre-agreed, negotiated or even rejected documents. The author's researcher capacity was most of the time unknown to the officials. Nevertheless, employment at the PABSEC Secretariat did sometimes result in an overestimation of the ability of the regional institutions and the weight of the BSEC bureaucracy in the cooperation processes.

Several problems occurred during the research. One difficulty was to obtain valid and comparable data for the economies of certain countries in the region as well as the lack of literature on their social development and on the changes in the overall political economy environment around the Black Sea. The significant diversity of the countries involved in the BSEC endeavour as well as the multidimensional character of the cooperation ensured heterogeneity of the information and literature used.

BSEC is engaged in a wide spectrum of fields including economic development, environment, transport, communications, trade, agriculture, tourism, 'soft' security issues, etc. Due to the lack of a previous detailed reference to BSEC's engagement in those areas of cooperation, it was deemed necessary to examine developments and progress achieved. We also place emphasis on the dynamics of economic integration and political/security considerations in the subregion. The reason for doing so is that BSEC, although used as a political instrument, has placed particular emphasis on the role of the market for its final success.

As far as the level of analysis is concerned, the dissertation proceeds on two levels. BSEC's identity is placed first within the context of the perceptions of the

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more free to probe beyond the answers in a manner which would often seem prejudicial to

participating states (subregional). Second, the EU factor is examined (regional level). This study shows how important politics remain and particularly how significant the influence of the EU has been on the effectiveness of subregion building. Although as the 'new regionalism' approach would stress, BSEC and the subregional groups of the same period are initiated from 'the inside'. However, the influence of external factors such as the EU should not be downplayed.

Learning how BSEC developed up to the present is helpful to configure what the essence of subregionalism is and what its role is in contemporary European new architecture. However, regionalism is a phenomenon in constant evolution. Acknowledging that, the author recognizes the limitations of the conclusions of this research, limitations that are, the least, time and geography related.

7. The structure of the dissertation

This dissertation is solely a case study which attempts to reveal the factors that shape the type of subregional process evolving within BSEC. We do not claim to produce a causal model that fits all cases. What we aim to do is to comprehend BSEC, cast light on the nature of subregionalism that has been thriving in contemporary Europe and generate a set of causal factors.

The dissertation starts with an Introduction which summarizes the basic premises and points out its main concerns and the way forward to dealing with the central question of the evolution of the BSEC process. The first main chapter deals with theoretical approaches to regionalism and provides a definition of subregionalism. The analytical framework of the dissertation and the variables used

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the aims of standardization and comparability (May, 1996, p. 93).

to explain BSEC's reconfiguration are presented here. The second chapter refers to the existing literature on BSEC, its origins and the cooperation motivations. Unfolding the BSEC history we disclose the significance of leadership in initiating the process and the large diversity of motivations among the member states. The third chapter introduces BSEC as a structure and mode of governance and describes the institutionalized expression of subregionalism as an effort to create vested interests and to stimulate cooperation. The institutionalization of BSEC and the empirical evidence from its performance indicate that rather than being conceived as a tool of 'integration' among its member states, BSEC should be better understood as a mode of governance which still remains of a strictly intergovernmental nature (similar to many other subregional structures in post-Cold War Europe).

The following chapters - four, five and six - explain the *why* of the mode of governance of BSEC. Its intergovernmental character is explained on the basis of four variables from within the subregion: transnational exchange and demands, economic difficulties, the presence of a benevolent leading country and transformation of the security dilemma. In chapter four, we focus on transnational exchanges within the subregion as manifested by trade and investment flows and the organized business community. We indicate that, if any, transnational demands within BSEC were about compliance with WTO principles and EU requirements. Economic difficulties have two conflicting effects: they triggered subregional cooperation but they also hindered its realization. Chapter five focuses on the political and security dimensions and shows how the lack of a benevolent leading country and the - lack of - transformation of the security dilemmas among the member states led to an intergovernmental mode of governance around the Black Sea. The sixth chapter incorporates a factor external to the subregion in explaining the reconfiguration of

BSEC on the basis of its interaction with the European Union. Here we show how the EU itself has influenced BSEC. This chapter indicates the asymmetry between the EU's approach towards BSEC and the expectations of the latter's members. The empirical findings, theoretical proposals and future research directions are presented in the last concluding chapter.

We propose that the most adequate framework for understanding BSEC' s reconfiguration is a two level approach: the subregional one (Black Sea) which consists of four variables: transnational exchange and demands, economic difficulties, a leading country and security concerns, and the regional level (European) which brings in the variable of the EU. The second level of analysis i.e. the regional (European) on which brings in the variable of the EU, is of primary importance for understanding the character, evolution and limitations of BSEC.

Referring to two main elements of this research we can say the following: First, we indicate that subregionalism is not a static process but its nature evolves throughout time according to the preferences of the actors involved and *in particular* depending on their perceptions of a broader - hemispheric - regional process. The BSEC case shows that the agenda of subregional groups is thus determined by a more powerful external or broader regional process such as that initiated by the EU. Second, we provide a set of proposals regarding the factors behind the intergovernmental nature of BSEC arguing that its mode of functioning is explained on the basis of insufficient supply conditions (such as the lack of a leading country) and a redirection of demands beyond the subregional level.

CHAPTER 1. THEORETICAL PERSPECTIVES

1. Introduction

This chapter undertakes two tasks. First, we examine the central arguments of basic theories of international relations on conceptualizing regionalism and subregionalism and indicate the direction that we shall follow to analyze subregionalism. Second, we present the main elements of the analytical framework that we have chosen for this research.

We begin by identifying the basic characteristics of an international region and collating it with a new notion in international politics, that of subregion. The search for the attributes of region and subregion is not an end in itself but it serves the purpose of clarity while it constitutes the first step towards understanding why (sub)regionalism is of interest in contemporary international relations. The need for a definition of subregion stems from the lack in international relations literature of an adequate theoretical and empirical reference to the term. In the European context, subregion(alism) has been used as an alternative to regionalism to describe primarily schemes of intergovernmental cooperation such as the Barents Group, the Baltic Sea Cooperation Council and the Black Sea Economic Cooperation, which take place within a broader hemispheric or continent-wide regional context.

We make no claim here that subregionalism and regionalism are two very different and diverse processes. In fact, both terms have been used as alternatives to describe the same phenomenon. Hence to trace significant differences in the theoretical underpinnings of the two processes is a difficult endeavour. Subregionalism is a type of regional cooperation which does not fall into the traditional categories of alliance formation and economic integration. It takes place in a geographical area smaller that than of a region and its primary feature is its

relevance to a broader regional process. Although a distinct phenomenon, subregionalism does not need a *sui generis* theory.

Since there is little consensus over definitions in the literature, theorizing should start by clarifying concepts. A distinction should be made between regionalism and regionalization as a starting point. Regionalism is usually associated with institution-building and it has been defined as 'a state- or states-led project designed to reorganize a particular regional space along defined economic and political lines' (Gamble & Payne, 1996, p. 2). Regionalization on the other hand, is associated with non-formal processes of economic integration and it may or may not be directed by formal regionalism. Another term that we make use of later in the dissertation is transnationalism. Transnationalism is a process driven by private, non-state actors which leads to the opening up of national political economies to increased transactions with abroad.

2. Conceptualizing international (sub)regions

2.1 Defining regions

The notion of region gained a new momentum in the end of the twentieth century as the level of analysis of international affairs has moved away from the traditional state unit. An 'international region' as a unit of analysis lies between the state and the world system. How and by whom is a region defined? What are the criteria used to draw a region? Is there anything permanent about it? Are there overlapping regions? These are questions that have occupied political scientists and have generated different definitions and theoretical constructions of what a region is. Applying however the criteria suggested by several scholars until now we might be able to delineate a region but we might find it difficult to say what is *not* a region.

Definitions of region vary from ones emphasizing the geographical variant to ones completely ignoring geography and focusing only on political attitudes (such as voting attitudes in the United Nations). It goes without saying therefore that an international region does not mean the same thing to all analysts at all times. It could refer to a continent such as Europe, or to a broader geographically specified area such as the Asia - Pacific or a single territory covering parts of several states ('Euro-regions') or to a non-geographic area. It could be *de facto* or *de jure* depending on whether it is institutionalized or not. What are the main approaches to what constitutes a region in international relations and what criteria have been used by scholars to delineate regions?

Most scholars emphasize to different degrees geography, history, economy, culture and common interests as the underlying forces of region formation. The central hypothesis is the general idea that states and societies of a given geographic area share the same concerns (strategic, economic, ecological) and they are interdependent. Seen from this standpoint, an international region is viewed as "a limited number of states linked together by a geographical relationship and by a degree of mutual interdependence" (Nye, 1968, p. xii). The geographical connotation is particularly important in defining regional security systems, thus Buzan's definition has stressed the "relations among a set of states whose fate is that they have been locked into geographical proximity with each other" (Buzan, 1991, p. 188).

A systematic attempt to define international regions has been made by Thompson (1973) who after assembling all available definitions, lists twenty-one attributes used to identify what he calls 'regional subsystems'. Most definitions include proximity or primary emphasize on geography and the exhibition of a particular degree of regularity of actors' pattern of relations or interactions as the main attributes of a region. In this sense, proximity (the minimal regional criterion)

and regular interaction come closest to be the necessary and sufficient conditions for applying the concept of 'regional subsystem' (Thompson, 1973, pp. 93-94). In addition to that, internal and external recognition of the region as a distinctive area are equally important features (Thompson, 1973, p. 101), an element that adds to the ambiguity of the notion and it is not shared by all (Calleya, 1995, p. 51). In another work by Russett (1967) regions are classified as:

1. Regions of *social and cultural homogeneity;* that is, regions composed of states which are similar with respect to several kinds of internal attributes.
2. Regions of states which share similar *political attitudes or external behaviour,* as identified by the voting positions of national governments in the United Nations.
3. Regions of political interdependence, where the countries are joined together by a network of supranational or intergovernmental *political institutions.*
4. Regions of *economic interdependence,* as identified by intraregional trade as a proportion of the nations' national income.
5. Regions of geographical *proximity* (stress on the original).

Louis J. Cantori and Steven L. Speigel, conceptualized region as 'subordinate' to a more 'dominant' system of interaction at the global level, featuring competition between the 'world's great powers' (Cantori & Spiegel, 1970, p. 3). In this context, geographic proximity is only one feature of a region. Other more important variables include: the nature and level of sociopolitical cohesion or integration among would-be members of a regional arrangement; the frequency of their communications (transportation, mass media and elite exchanges); the extent to which their national decision-making is adjusted to accommodate the interests of other regional actors (e.g. the transfer of power); and the sources and intensity of their cooperative or conflicting behaviour toward each other (Cantori & Spiegel, 1970, pp. 10-20).

Stressing the evolutionary character of region-building, Hettne identifies five levels of regionness that may also suggest a certain level of development of a region (Teunissen, 1998, pp. 204-205): i) region as *a geographical unit* delimited by more or

less natural physical barriers and ecological characteristics, ii) region as *a social system* with widening trans-local relations between human groups (e.g. a security complex), iii) region as *transnational cooperation* which may be institutionalized or informal, iv) region as *civil society* with an organizational framework (formal or not) promoting social communications and convergence of values, and v) region as *acting subject* with a distinct identity, actor capability, legitimacy and structure of decision making.

From a social constructivist perspective a region can be comprised of states with a shared sense of communal identity. The process whereby a society first comes to imagine itself is neither materially determined as Marxists used to claim, nor simply a matter of instrumental rationality, as utalitarians would have it (Ruggie, 1998, p. 184).

Forging these diverse criteria of geography, proximity, culture, economic interaction, etc. into a unified perspective has proved to be an almost impossible task.[1] Stubbs and Underhill (1994, pp. 331-332) trying to incorporate those criteria, suggest that a region in a definable geographic area may develop - not necessarily equally - in three dimensions: i) the extent to which countries in that area have significant historical experiences in common and find themselves facing the same general problems (post-Cold War Eastern Europe), ii) the extent to which countries in that area develop socio-cultural, political and/or economic linkages that distinguish them from the rest of the global community (USA-Canada), and iii) the extent to which a group of countries develop organizations to manage crucial aspects of their collective affairs (European Union).

Most of the literature agrees on two factors underlying the persistence of regions (Russett, 1967, pp. 2-7). These are, a higher degree of mutual dependence

[1] For other definitions of region see Hettne et al., 2000; Katzenstein, 1996; Lake & Morgan, 1997.

within an area than in relationships outside that area (this leads to the feeling of being part of a region - loyalty) or/and an ad hoc problem (e.g. Southeast Asia's principal claim for regional status was a result of the threat coming from Communist China). As Haas has put it, actors who make integrative decisions do not always worry about the naturalness of their region (Haas, 1975, p. 8). Therefore, a way of overcoming difficulties that emerge from dealing with 'geographic proximity' or 'cultural homogeneity' is to see region as a policy-making space. A space whose emergence lies first, on the recognition of the existence of regional as opposed to state policy problems and second, on the existence of sufficiently strong policy networks/communities that see the need to articulate policy responses to questions and problems in the context of a regional economic/corporate political space (Rosamond, 1996, p. 5). When both of the above conditions exist then it makes sense to think in terms of 'regional arrangements' in addition to existing national arrangements.

Finally, an important feature of regions is their 'global influencing characteristics' (Groom, 1994, p. 45). In this sense, the main international regions such as the EU, NAFTA and APEC reflect interrelationships in large parts of the world. This feature is in fact what makes regionalism substantially different to subregionalism.

2.2 Defining subregions

The distinction between regions and subregions is at least unclear. Both terms have been used alternatively to describe inter-state or cross-border cooperation schemes. To give an example, the EU itself has been approached as a 'higher level' of regional structure (Hook & Kearns, 1999, p. 6) while others have indicated that it is actually a 'subregional' one (Wallace, 1997, p. 202) at least at its early stages given its restricted

membership to the Western European states. Another term, which has been used instead of subregion is that of 'infraregion' implying 'low' or 'limited' cooperation among states engaged in a wider regional integration process. Clarifying and empirically informing the term subregion(alism) is thus a challenging task. How is a subregion defined and how does it differ, if it does, from a region?

Subregion has generally been defined as part of a region whether it involves more than one state or some transnational composition (border areas) (Buzan et al., 1998, pp. 18-19). It may neighbour or be a constituent part of a regional project such as the EU or NAFTA. Cooperation between two or three countries within the EU framework aiming at supporting their particular interests within the EU integration process has thus been described as subregional cooperation (Seabra, 1998). Such has been the case of the Benelux or the two Iberian countries.

Outside Europe, the term has also been used by scholars to describe mainly security subregional groups that emerged in the 1970s and 1980s listing among others Southeast Asian Treaty Organisation (SEATO), the Arab League, the Association of South East Asian Nations (ASEAN), the South Asian Association for Regional Cooperation (SAARC), etc. In this framework, Tow (Tow, 1990, p. 4) defined subregion as "a group of geographically contiguous states united by their mutual susceptibility to a specific threat, a common interest in neutralizing that threat in ways beneficial to their individual national securities, and a means of collaboration to reduce individual and collective vulnerabilities to future threats". In the 1970s and '80s, subregional security groups emerged as tools of addressing local problems and as responses to the inefficiency of 'collective security' plans of global or bigger regional institutions. As Tow shows most subregional security actors are relatively small or underdeveloped nation-states that need not share the same

language or commensurate levels of economic or political development (Tow, 1990, p. 4).

The term subregion has been extensively used to delineate groupings of states in post-Cold War Europe having a geographic connotation such as Central European, the Baltic, South-East Europe, Western Balkans and so on. Some subregions have existed as entities without being institutionalized, e.g. the Balkans, while others were defined *post factum* as the result of institutionalization, e.g. BSEC. Although all the above subregional structures emerged simultaneously and their purpose has been the reconstruction of Europe, they have been divided into two types in terms of membership and motives (Bailes, 1997, p. 27; 1999, pp. 161-163). The first type consists of groups with large memberships which encompass a diverse range of states (e.g. BSEC, BEAC, CBSS and CEI). The second type consists of the Visegrad and Central European Free Trade Agreement (CEFTA) with small memberships and good chances of rapid integration in west European structures. Subregional groups of the first type do not have a joint integration strategy but they seem to have an instrumental role as they can relativize the loss felt by those who do not enter the EU/NATO at first attempt and mediate some of the tensions between existing membership of those groups, applicants and local powers opposed to enlargement. The small homogeneous groups were created as training grounds for integration and devices for maximizing their members' hopes of entry.

The literature has identified four common features in all subregional groups (Hook & Kearns, 1999, pp. 248-250). First, subregional projects are of a multidimensional character in terms of their activities. Second, they are driven by liberal economic ideas, therefore being of an 'open' nature representing an attempt to promote exports and trade liberalization. Third, seen from a constructivist point of view, they do not form exclusive identities and require no public awareness. There is

in fact little evidence to suggest that new identities are challenging old ones. Following that, it is concluded that those projects are in fact elite-driven. Fourth, as far as security is concerned, they are dealing only with 'soft' security issues (e.g. organised crime).

Subregional groups vary in terms of their institutionalization. Some groups such as EFTA have barely become institutionalized at all, while others such as BSEC have witnessed high institutionalization (Hook & Kearns, 1999, p. 251). It would be wrong however, to conclude that the level of institutionalization is a guide to how deep or how effective the resultant cooperation will actually be. It seems furthermore that wherever ambitious institutional structures have been set out, they often slide into disuse or become an additional source of potential tension between the states involved.

Regarding the regime types involved in subregional cooperation, we can argue that the process of democratization (in Eastern Europe and the former Soviet Union) has helped to create a climate facilitating cooperation. Nevertheless, there are cases in East Asia and Africa where subregional groups are underway or led by non democratic regimes, weakening the argument that democratic regimes are more likely to cooperate with one another than non-democratic.

A subregion theoretically may exhibit all characteristics of an international region. Empirically however, subregions do not have 'global reaching effects' as purposive actors. The fundamental difference between a region and subregion may not be related to geography itself nor to the economic and political weight of their members but it is to be found in their rationale which points to the subordinate character of a subregional formation vis-à-vis larger regional structure(s) which in the European context is primarily the EU. Here we use the term subregion to refer to formally constructed inter-state cooperation which is embedded in a wider region.

2.3 Regions and Subregions

As we saw earlier in this chapter, there are three elements which are stressed in different degrees in the definition of an international region. First, geographical spatial indicators, second, interdependence and the existence of networks (of transaction, communication), and third, cognitive elements (e.g. collective identity). Are all of those equally important when defining a subregion?

While proximity (the minimal regional criterion) and regular interaction come closest to be the necessary conditions for applying the concept of a region (Thompson, 1973, pp. 93-94) this is not the case for a subregion. Proximity still remains a central definitional feature of a subregion. Regular interaction, however, even more the establishment of networks of transaction and communications, rather than being a pre-existing feature is an objective. Subregion-building embarks upon geographical indicators, with the aim of strengthening interdependence and developing networks as a step towards qualifying membership of a region and not with the view to establish trade blocks or security alliances.

A subregion just like a region may be conceived as a cognitive map. In fact it is the case that the weakness of the material foundations of a subregion is compensated by cognitive elements. Demonstrating elements of imagined communities[2] subregions form "structures and processes that are desired and believed to be susceptible to creation as means of linking together the interests, values and futures of people who do not know each other but who are nonetheless regarded as fellow members of the same collectiveness. They are imagined communities in the sense that while they may not have achieved political autonomy, economic viability and social coherence, the mental and emotional predispositions necessary to establish

[2] We owe the term to the work of Benedit Anderson (1991) who showed how imagination can underlie the formation of historic communities in particular nation building over the last several hundred years.

them are sufficiently widespread to foster hope that the imagined can be transformed into the real" (Rosenau, 1997, p. 129).

As we mentioned earlier, a fundamental difference between regions and subregions is to be found in their rationale which points to the subordinate character of a subregional formation vis-à-vis larger or more powerful regional structure(s) which in the European context is primarily the EU and the OSCE political space. Subregionalism has been used as the best alternative to indicate the relevance of the cooperation processes with a broader hemispheric integration in Europe. As a consequence, subregion-building may reflect an effort to conceive a group of states as a part of a region thus enabling them to share in the associated benefits.

Although the common element of all definitions of subregionalism has been its relevance to 'larger' or 'macro' regions, the actual relation between these two processes has not been empirically or theoretically investigated. The basic assumptions for establishing a subregion are considered to be the same as in the case of a region and the differences between the two processes seem to be restricted just at the level that they evolve. However, the differences between the two processes are more than just at the level they evolve and they relate to their substance and nature.

Geographic proximity is an element of any subregion with many of them emerging around a natural, physical border such as a sea (Baltics, Black Sea, North Sea) or/and at the borderlands of a region. It is the neighbourhood to, inclusion in, or geographic vicinity to an international region that becomes a basis of cooperation.

Evidence both from the declaratory aims as well as from the actual development of subregional groups in Europe shows that they do not aim at political nor at economic integration in the classic definition within the area they delineate, rather they aim at coordination of policies in issue specific areas with a strategic goal to integrate with 'the rest'. The 'rest' could refer to a hemispheric integration process,

the EU, or adherence to broader political structures such as the OSCE. On this basis, subregionalism may be regarded as a form of cooperation and not intra-regional integration.[3] Its success depends on the inclusion of its members into a broader regional project and not on the creation of strong economic blocs or political-security communities *per se*.

Common cultural elements, historical experience and social interaction do exist among neighbouring peoples and ignoring them in the formation of a subregion would be an omission particularly when assessing its effectiveness. It is however, the claim for a cultural continuity between the subregion and the broader region that is of importance here. From a cognitive point of view, sharing a broader cultural identity, not creating an exclusive, separate identity is what a subregion is about. Thus the shared call for the 'return to Europe' that underlined all subregional formations in the post-Cold War era was also an identity call of their members for acquiring once again their place in the 'European identity' that they had lost in the second half of the twentieth century. European subregional groups are portrayed as parts of the 'European identity' and as 'concentric circles of allegiance' (Smith, 1993, pp. 129-135).

Lacking cohesion, subregions' delineation generates difficulties. Where do the borders of a subregion lie? The answer to this question is often an artificial one such as in the case of BSEC where the subregion covers the territories of the eleven member states as specified in the Charter of the organization. Borders are of a flexible nature and membership in a subregional group does not have an exclusive character with one member participating in several subregional formations or being at the same time member of an economic union or security alliance. Although the term subregionalism acquires some importance from a policy-making perspective, the

[3] For the difference between the two, see Introduction, footnote 5.

actual geographic, economic or cultural delineation of a subregion is highly abstract. In fact, this abstract geographic delineation should not be considered in negative terms as one of the functions of the subregional groups is exactly to overcome new dividing lines.

Summing up the main features particular to subregions, we may identify the following: i) geographical proximity is the main definitional element; ii) they lack global influencing characteristics; iii) they have no grand integration strategies nor do they form security alliances, and iv) they depend on or are part of a broader regional process. The reference to an external centre of power is a feature that results from the fact that subregions are not independent processes but they are embedded into a broader regional process. Even in those cases where a benevolent country does exist, the real power centre rests outside the subregion itself. The direct influence of the neighbouring regional actor sets the course of action and the agenda of a subregional group. Global, transnational forces are in fact filtered by the dominant region.

3. A review of theories of international relations and the regional phenomenon

International relations literature on regionalism is vast. Fawcett & Hurrell's *Regionalism in World Politics* (1997) has provided a systematic review and evaluation of the mainstream theoretical approaches to regionalism. Most theoretical approaches have focused on intra-regional relations, the conditions that are likely to promote or hinder regional cooperation and the link between economic cooperation and political community. Historically, two forces catalyzed the study of regionalism as a phenomenon; the birth of the European Community/Union, the most institutionalized regional group in the world, and the force of globalization which alters the fundamentals of the international system.

The rationalist line of thought which is based on the assumption that states behave as rational utility maximizers, has been dominant in the theoretical debate on regionalism. Governments are seen as rational actors, using international organizations to the extent that they serve their interests. Rational approaches which will be examined here include system theories i.e. (neo) realism and structural interdependence/globalization (outside-in perspective), and interdependence theories i.e. neo-functionalism and neo-liberal institutionalism (inside - out perspective).

The limitations of the rational approach have been stressed by the constructivist or reflective variant which concentrates on the question, how different cultural, legal, political or other backgrounds shape the perception an actor has of a specific situation. In this respect, regionalism is believed to "reflect historically distinctive combinations of material circumstances, social patterns of thought, and individual initiative. Rationalistic theory can help to illuminate these patterns, but it cannot stand alone" (Keohane, 1995, p. 297). The dominant line of regional cooperation research follows to different degrees the rationalistic variant as it offers greater possibilities for operationalization. But the constructivist - reflexivist approach has gained the status of the most innovative theory in international relations in recent years (Wendt, 1995, pp. 71-81).

Here we will not reflect on economic theories. Insights from a strictly economic approach especially vis-à-vis the viability of trade blocs and economic unions are important but our view is that contemporary subregionalism has been primarily a political endeavour, thus this section focuses on international relations literature.

3.1. Traditional theories of international relations and regionalism

The Systemic Level of Analysis

Systemic theories underline the impact of outside pressures on a region and stress the importance of the broader political and economic structures within which regional schemes are embedded. Regardless of the degree of emphasis they place on structural factors, most authors agree that "analyzing state behaviour from inside-out alone can be misleading as it leads observers to ignore the context of an action" (Keohane, 1984, p. 25).

Kenneth Waltz (1979) tried to show the error of theorizing at the unit level without reflecting on the effects of the international system as a whole and he emphasized the importance of external configuration of power, the dynamics of power-political competition, and the constraining role of the international system. Under this perspective, regionalism is examined as a response to external challenges and has much in common with the politics of alliance formation (Walt, 1987). Proponents of realism emphasize the fundamental importance of the geographical framework (Mearsheimer, 1990) and argue that the success of regional groups is contingent upon the policies of major powers who dominate international structures. In the case of the European Community, integration was encouraged by the US hegemony and was embedded within a transantlantic security framework. The acceptance of security dependence was therefore one of the essential compromises on which European cooperation and integration was built.

In the neorealist version, a few elements of institutional thinking have been used such as the assumption that anarchy under certain conditions may be modified by inter-state cooperation and that institutions which are set up to organize such cooperation represent a buffer. Nevertheless, institutional elements are not given much credit by the neorealists.

One of the central elements of the neorealist perspective is that there are no essential differences between economic and political regionalism. Economic objectives of regional integration do not derive from the pursuit of welfare (as classic economic theory suggests), but from the close relationship that exists between economic wealth and political power and from states' inevitable concern with relative gains and losses. Applying a mercantilistic perspective, neorealism sees regional integration as a response to the loss of competitiveness. It is perceived as a bargaining chip in the negotiations that determine the international order (NAFTA as a stick to increase pressure in Japan to open its markets, APEC in applying pressure to the EU in the final stages of the Uruguay round of GATT). Economic integration (and the market forces underlining it) therefore is not 'autonomous' but is determined by the structures of the international political system and the policies of major states.

On the basis of the neorealist assumptions, hegemonic theory has advanced on power struggle-based assumptions about regional groupings. There are several applications of hegemonic theory. Waltzean neorealism claims that rising big powers are sooner or later balanced by single states or by coalitions of states therefore, regional institutions are instruments of secondary and minor states trying to balance the dominant state. In this respect, regionalism may be seen as a response to the existence of an actual or potential hegemonic power or an attempt to restrict the free exercise of hegemonic power through the creation of regional institutions. On the other hand, weaker states might seek regional accommodation with the local hegemon in the hope of receiving special rewards ('bandwagoning').[4] The general

[4] "This kind of behaviour is most likely when power differentials are very great, when there are few external alternatives to accommodation with the hegemon and when the small state finds itself in close geographic proximity" (Hurrell, 1997, p. 52). On traditional realist account in which states are fearful of unequal power 'bandwagoning' will be an exception.

argument that neorealists such as Robert Gilpin (1975) and Stephen Krasner (1976) bring forward on regional cooperation is that it is heavily dependent on the presence of a hegemon who bears the cost of establishing institutions through which interdependence can be maintained. One way to determine whether a single regional hegemon is present is to examine the distribution of intraregional overall national capacities, while another is to examine the distribution of issue-specific capacities. Hegemonic power must have control over raw materials, control over resources of capital, control over markets, and competitive advantages in the production of highly valued goods. Placing emphasis on one's incentives to project one's power abroad, hegemony can be perceived as a situation in which 'one state is powerful enough to maintain the essential rules governing interstate relations and willing to do so' (Keohane & Nye, 1977, pp. 44, 49-54; Keohane, 1980). Since the hegemon is in a dominant position, institutions and institutionalized regionalism are unnecessary or marginal. A hegemon itself however, might also want to become involved in the construction of regional institutions. Why should hegemons need such institutions? It is declining power which makes cooperation more necessary, as it may press the hegemon towards the creation of common institutions to pursue its interests, to share burdens, to solve common problems and to generate international support and legitimacy for its policies.[5] Regional institutionalization can be seen from the big power of the region as a way of preventing balancing and promoting regional 'bandwagoning'. Apart from that, regional big powers have an interest in preventing defection (military, political, economic exit from the zone of influence of a big power).

The strategy of 'cooperative hegemony' is most appropriate for major powers with one (or more) of the following characteristics: major powers which suffer from

[5] This argument has been made in relation to the Asia Pacific region by Crone (1993).

certain relative weaknesses, either in terms of geostrategic location, material resources or prestige; major powers in decline; major powers which possess great strength in terms of soft power (technology, ideology, culture). Thus 'cooperative' hegemony has four advantages as seen from the perspective of the regional big power (Pedersen, 1998, pp. 8-9):

a) advantages of scale: if the cooperative hegemon is economically the most efficient state in the region, the advantages of a unified regional market may be very considerable. For a regional big power surrounded by small or tiny states, the advantages of scale gathering from regionalism are marginal;

b) advantages of stability: preserving the established status quo;

c) advantages of inclusion: enabling the hegemon to influence other states, secure access to scarce raw materials and the possibility of integrating diasporas;

d) advantages of diffusion: diffusion of hegemon's ideas.

The explanatory power of neorealism is significant at the stage of the initiation of a regional group but it says little about the character of regionalism once established especially when the last has no features of an alliance or a coalition. It is poor on conceptualizing contemporary market-led or multidimensional regionalization processes involving other than state actors, which are spontaneous and are not envisaged in national policies. Although power struggle and self-interest might well be the motivation behind regional projects, there is little evidence that those (power and interest) are confined to nation states alone. Furthermore, it has little interest in examining how or by whom power and interest are defined, claiming that the state as a unitary agent is of importance. In the structure-agent dilemma, neorealism reveals the powerful rôle of external structural conditions in the decision making process but it ignores domestic level factors, downplaying at the same time factors such as individual expectations and beliefs or in particular in the case of regionalism factors such as identity, cohesion and awareness.

Neorealist assumptions are nevertheless significant in understanding the interstate relations in eras of structural transformation of the international system such as the one in the aftermath of the Cold War where reconfiguration of power is taking place and aspiring hegemons might attempt to fill in power vacuum. One of the criticisms is however that the neorealist picturing of the international system is misleading as it oversimplifies the nature of the system and neglects the competitive dynamics of change over time (Hurrell, 1997, p. 54). The interdependence theory of the 1970s opened up this criticism and shifted attention to the importance of interdependence in specific fields and the regimes and norms that manage it.

Another strand of systemic perspectives stresses the effect of structural interdependence and globalization on the patterns of cooperation (and conflict). Interdependence is 'mutual' but 'unequal' dependence among states and societies (Keohane & Nye, 1977, pp. 8-11). It is therefore argued that interdependence or the ways in which states and their societies are linked through the interactions and structures of the market, affect the politics of the state in the domestic and international context (Stubbs & Underhill, 1994, p. 22).

The most significant element in the context of contemporary regionalism is provided by globalization (economy, production, technology, social forces, culture and capital). The literature has in these terms focused on globalization and regionalism as complementary or contradictory to each other. Regional processes are generally seen as responses to three aspects of globalization (Underhill, 1998, p. 44): the replacement of national markets by world markets, the decline of geographical determinants of financial location and the internationalization of the division of labour, the continued strengthening of multinational and private policy-making structures vis-à-vis the public authority of the state.

Structural approaches have great explanatory power as far as the establishment and emergence of regionalism is concerned to the degree that systemic changes in the world affairs condition the choices available to actors. However, systemic approaches are not sufficient in explaining the substantial differentiation regarding the evolution of a cooperative scheme and its particular features.

The Regional Level Perspective

The core idea of inside-out perspectives is that regional cooperation is essentially a response to increased social and economic interdependence within a specific area.

Functionalism investigates how transnational ties and interdependence at a regional level lead to integration. The basic argument of functionalism is that collaboration in one particular technical field or functional area would lead to further collaboration in other related fields ('ramification'). As states and societies become increasingly integrated due to the expansion of collaboration to technical issues in which all parties gain, the cost of breaking these functional ties would be great and hence give leaders reason to pause before doing so. Economic unification contributes to political integration as exemplified by the EU. Functionalism focuses on the role of societal actors as opposed to that of political institutions as agents of integration (Mitrany, 1975).

Neofunctionalism defines integration as a process "whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states" (Haas, 1958, p. 16). Haas argued that integration must be perceived by political elites to be in their self-interest and it will be attained and sustained only if actors believe their own interests are best served by making a political commitment to an international organization.

Neofunctionalism parted company with functionalism in its rejection of the notion that one can separate technical tasks from politics or welfare from power. Its basic argument is that high and rising levels of interdependence would lead eventually to political integration. Beginning with technical and non-controversial issues, cooperation will 'spill over' into high politics. Neofunctionalism was developed and refined between 1955 and 1975 as the most comprehensive attempt to provide a general theory of European integration. Despite the richness of its insights, neofunctionalism is regarded as having offered an unsatisfactory account of European integration (Haas, 1975; Cornett & Caporaso, 1992). The most widely-cited reason is empirical: neofunctionalism appears to mispredict the trajectory and the process of EU evolution as the process of Community building has proceed through a series of intergovernmental bargains.

Neoliberal institutionalism has been the most influential theoretical approach to the study of international cooperation (Keohane, 1989; Keohane, 1984). Its basic argument is that increasing levels of interdependence generate increased 'demand' for international cooperation. Institutions are perceived as purposively generated solutions to different kinds of collective action problems. As Keohane puts it "regimes are established by states to achieve their purposes. Facing dilemmas of coordination and collaboration under conditions of interdependence, governments demand international institutions to enable them to achieve their interests through limited collective action" (Keohane, 1993, p. 274). The institutional approach is heavily statist, concerned with ways in which states conceived as rational egoists can be led to cooperate (unlike realism it argues that co-operation is possible). The extent of cooperation will depend on the existence of international institutions or regimes whose main contribution is that they change the context within which states make decisions based on self-interests. Cooperation fostered by awareness of bounded

rationality "does not require that states accept common ideals or renounce fundamental principles of sovereignty" (Keohane, 1984, p. 13). In contrast to neofunctionalism the state is viewed as the gatekeeper between the domestic and the international. Institutions matter because of the benefits that they provide and because of their impact on the calculations of the players and the ways in which states define their interests. Cheating or defection is considered the main obstacle to cooperation rather than, as neorealists argue, distributional conflict and concern for relative gains. The trend has been to apply institutional theories to non-region specific questions but to economic and environmental fields.

Criticism directed to integration theory (and neoliberal institutionalism) starts with its focus on the experience of Western Europe. Neofunctionalism is further criticized that it underestimates the resilience of the national state and ignores the differences between 'low politics' and 'high politics'. The evolution of the European Union itself did not follow the path assumed by the neofunctionalists, where the spill over effect into the political sphere did not take place in the deterministic way envisaged in neofunctionalism. Another criticism is that regional affairs are presented as static and the changing influence of external factors, political, economic, security is ignored (Hurrell, 1997, p. 60). Neofunctionalism lost most of its relevance to contemporary regionalism as the latter in most cases especially outside Europe, has followed an informal, non-institutionalized form. Furthermore, it does not have explanatory power as far as the motivation of regional cooperation is concerned although it tells about the role of supranational institutions once created. Second, its hypothesis on the weakening role of the state in relation to supranational institutions has little applicability beyond the EC/EU example (Hurrell, 1997, p. 60). At the same time, integration theory (trade or market integration, functionalism and neofunctionalism, institutionalism etc.) is deficient inasmuch as it understates power

relations and fails to offer an explanation of structural transformation (Mittelman, 1999, p. 26).

Constructivism

The last half of the 1990s has witnessed the emergence of a new dichotomy in international relations theory pitting rationalist scholars who generally depict regional institutions as the products of conscious state design, against constructivist scholars who posit a more profound role of institutions in socializing and constituting the actors within them. Constructivism allows us to see the extent to which regime building is influenced by ideology, beliefs and knowledge and especially the evolution of consensual knowledge positions among crucial actors (Underhill, 1998, p. 45). Constructivism analyzes ideational constructs at a regional level as the development of 'inter-subjective structures' (and not merely as rational responses to interests) which consist of a "shared understandings, expectations and social knowledge embedded in international institutions and threat complexes, in terms of which states define (some of) their identities and interests" (Wendt, 1994, p. 389).

One variant of constructivism stresses the idea that the character of interstate (or inter-societal) relations can be understood in terms of a sense of community, 'we-ness', mutual sympathy, loyalty and shared identity and that the process by which a community emerges is related to the compatibility of major societal values (i.e. capitalism, liberal democracy) and to processes of societal communication based on an increase in the level of transactions between two or more societies.

The second variant argues that attention must be paid to the processes by which interests and identities are created and evolve, to the ways in which self-images interact with changing material incentives, and to the language and discourse

through which these understandings are expressed. Both interests and identities are shaped by "particular histories and cultures, by domestic factors and by ongoing processes of interaction with the others" (Hurrell, 1997, p. 65). Interests change as a result of learning, persuasion, knowledge and ideology.

The sources of the ideas underwriting regional cooperation are not to be found simply in the interests identified by state policy-making elites (Underhill, 1998, pp. 43-45), but also in the influence of emerging communities of like-minded corporate sector actors, scholars, research brokers and practitioners engaged in the definition of regional identities, problems and putative policy proposals. Therefore, integration might not be the result of purposive interstate interaction but the manifestation of cognitive change resulting from increased communication. This transactionalist or communication theory of integration of Karl Deutsch (1958) sees the building of networks of communication and exchange as a primary condition for integration to take place among nation-states. When communicative channels are multiple and well-developed, views converge and building of a shared feeling or security result. Integration was thus defined as 'the attainment, within a territory, of a 'sense of community' and of institutions and practices strong enough and widespread enough to assure for a 'long' time, dependable expectations of 'peaceful change' among its population' (Deutsch et al., 1958, p. 5).

Constructivist approaches have been criticized as overestimating the importance of regional identities. Indeed critics employ examples of conflict in areas of sharing values to highlight the weaknesses of regional identity as a tool. Criticism of cognitive approaches also points to the problems of measurement and operationalization. Another line of criticism particularly of the Deutsch approach concerns the unclear process by which informal interactions generate formal institution - building and how socio-psychological interactions feed into

authoritative action. This brings us to another question which relates to the assumption that cognitive changes necessarily result from increased communication (Rosamond, 2000, pp. 47-48).

Domestic level Perspectives

Domestic level approaches have gained weight particularly in explaining the features of the current wave of new regionalism, the latter being defined as a process 'from within' and not imposed by outside powers. They claim to have more explanatory value in explaining the variety of roads that regional groups have taken, contrary to structural perspectives which identify the commonality of various regionalist projects throughout the globe. In general, domestic level approaches put light among others on the significance of a viable state, of the regime type and the convergence of domestic policy preferences (Hurrell, 1997, pp. 66-71).

The absence of viable states (effective state functioning and accepted territorial boundaries) makes the process of region-building difficult. Regionalism and state strength do not stand in opposition as states are the building blocs with which regionalist arrangements are constructed. In fact, weak states and problems related to legitimacy between states and within them have undermined regionalist projects in parts of Africa as well as the post-Soviet area. Furthermore, political elites' main concern to secure legitimacy may lead them to seek regional collective action as the only option to maintain national social/economic arrangements and policies (Hirst & Thompson, 1996, p. 162).

Regime type has been considered as important in facilitating or hampering cooperation. On the basis of the democratic peace argument, democratic regimes are supposed to be conducive to the success of integration or cooperation. The decade-long process of democratization and transplant of liberal democratic ideas in the

transition countries has indeed been accompanied by cooperative attitudes in interstate affairs and a strong support for the establishment of regional structures. Nevertheless, several of the countries which strongly advocate regional cooperation are far from being considered as fully consolidated democracies (e.g. Azerbaijan, Georgia). Criticism therefore, points out both the contentious concept of 'liberal democracy' and the fact that the democratic nature of states has not been necessary for regional cooperation to emerge (Solingen, 1996).

A third cluster of domestic level rooted hypotheses evolves around the assumption that domestic ruling coalitions and the convergence of their political - economic strategies shapes the dynamics of regional cooperation (Snyder, 1989). The core assumption is that the kinds of ties binding different actors (institutions, economic sectors, bureaucracies) to international processes do affect their conception of interest within the regional context (Solingen, 1997, pp. 68-100). Domestic policy convergence has been a factor in the resurgence of regionalism particularly in the developing and transition states that have adhered to market and trade liberalization policies and export expansion.

3.2 The new regionalism approach

In spite of the obvious importance of traditional theories for understanding regionalism, the complexity and plurality of the regional phenomenon urged a new framework to explain what contemporary regionalism is all about. The starting point of the 'new regionalism' approach is that contemporary regionalism is a new phenomenon that warrants a new type of analysis which transcends the dominant theories of regional integration. It claims that the mainstream theories in the field provide valuable insights but cannot capture the multidimensionality, pluralism of

contemporary regionalism, its comprehensiveness and its social construction (Schulz et al., 2001, p.2).

The origins of the new regionalism are traced in the eclectic theoretical framework which employs an inter-disciplinary method in international relations. New regionalism has been differently defined by authors but in general it refers to a second wave (as opposed to the first wave of the 1960s) of regional cooperation/integration witnessed in the post-Cold War era and within the context of globalization. It represents something qualitatively new "as it is no longer created from the outside and 'from above' but 'from below' and from within" (Joennieni, 1995, p. 11). The new regionalism is a political response to the market-driven process of globalization and the social eruptions associated to it (Hettne, 1998, p.201). Research within the UNU/WIDER project undertaken by B. Hettne, A. Inotai and O. Sunkel showed differences between the old regionalism and the new type of regionalism, the latter having the following features (Hettne et al., 1999, p. 7).

First, the structure of the international system differs, with the new regionalism taking place within a multipolar world order. In those terms, the end of the Cold War led to the dissolution of artificially hostile regions and allowed for the creation of new ones. Second, while the old regionalism was created 'from above', often being initiated by big power intervention, new regionalism is a spontaneous process from within the regions. States merge in response to global pressures and domestic needs. Third, new regionalism is of an 'open' character thus compatible with an interdependent world economy. Regional groups do not aim at constructing power or economic blocs through protectionist measures. On the contrary, their concern is the liberalization of economic activities and export promotion. Fourth, while old regionalism was either aiming at security alliance formation or at the building of trade blocs, the new regionalism is a comprehensive, multidimensional

phenomenon. It thus includes in its goals, political, economic, social, security issues. Fifth, old regionalism was a state-centric process while new regionalism is a process which involves non state actors at different levels. Sixth, regions are defined *post factum* (Hettne et al., 2000, p. xx) so there are many different regionalisms supported or challenged by many different ideological arguments and reflecting various positions in the world economy as a whole.

In new regionalism, the political ambition of establishing regional coherence and regional identity - apart from security and welfare - seems to be of primary importance. This 'pursuit of regionness' can be compared to the 'pursuit of stateness' in classic mercantilist nation-building (Hettne, 1998, p. 203). Regionalism is thus related to the world order and any particular process of regionalism has systemic repercussions in other regions, influencing the way in which the world order is organized.

Short of being a theory itself, the new regionalism approach provides us with a full set of analytical tools for researching both the foundations and the particular features of specific regional projects world wide. The new regionalism's merit rests on its analytical power and applicability in researching contemporary subregional cooperation schemes.

4. Conceptualizing Europe's subregionalism

Contemporary subregionalism represents a new pattern of international relations (Hook & Kearns, 1999). It is fostered by forces related to the end of the Cold War, globalization and changes in the domestic political economy. European subregionalism bears most of the features claimed by new regionalism: multidimensionality, 'open' character, *post factum* definition and initiation from within the subregion.

Nevertheless, its conceptualization has been dominated by traditional systemic level approaches and an emphasis on inter-state politics. Consequently, concerns related to the structural power of states or to security issues have been identified as the basic motivations behind subregion-building. In particular neorealist explanations have dominated institutional ones as subregional institutions wherever they exist, have not by any means taken over the direction of matters. In most cases subregional institutions have been weak and there has been no re-direction of expectations and loyalties away from the national centre.

With the exception of the comparative research on subregional groups around the world by Hook and Kearns (1999) which draws upon the 'new IPE' approach (seeking to overcome the divisions in the classic integration theories), other works on (particularly European) subregionalism have focused on security related analysis (Dwan & Pavliuk, 2000; Dwan, 1999; Cottey, 1999b; Bailes, 1997). Subregions have not been conceived or examined as security alliances but they have been positively assessed as exerting great influence on the EU enlargement process, promoting indispensable links between the 'ins' and the 'outs'. As Alyson JK Bailes has shown in the security spectrum of subregional groups in Europe, they may exercise influence in tackling existential and soft security issues (Bailes, 1999, p. 171; 1997, pp. 27 - 31).

Neorealism's emphasis on systemic factors has placed it as the most appropriate theoretical approach, given the fact of the fundamentally new structure of the international relations in the post-Cold War Europe (Rosecrance, 1991; Varyrynen, 2003). The multilateral world order that followed the collapse of the Cold War structures, the influence of powerful regional economic groups (i.e. EU and NAFTA) and the globalization forces serve as explanations of the spur of subregional groups around the globe. Since subregionalism is embedded into broader regional

and global processes, systemic analysis provides useful analytical tools in explaining its contextual framework. It also explains partly the common features of subregions such as their intergovernmental and elite-driven character.

The central hypothesis of the structural approaches has been that the only way for poor and violent areas to become less peripheral in structural terms is to become more regionalized i.e. to increase their levels of 'regioness'. Their only other power would rest in their capacity to create problems for 'core' regions (chaos power), thereby provoking some sort of external engagement (Hettne, 1998, p. 211).[6] The basic similarity across subregional groups becomes the main concern of their members to avoid (further) marginalization hence, regional cooperation is seen as a way of achieving this (Lahteenmaki, 1999, p. 217). Weak states thus organize to avoid marginalization and complete collapse, but their subregional arrangements are fragile and ineffective as their state structures and civil institutions. At the same time, they must tackle acute domestic violence and poverty. Their overall situation makes 'security regionalism' and 'developmental regionalism' more critical than the somewhat irrelevant creation of free trade regimes, or even adherence to the more cautious 'open regionalism'. As a conclusion, it seems that the literature agrees that subregional projects are "promoted by the weaker states in the global political economy which are seeking to strengthen cooperation in a more circumscribed space than at the regional level. In this sense, subregional projects take on their significance within the context of the more embracing regional projects and identities promoted by the more powerful states" (Hook & Kearns, 1999, p. 6). It is not however only weaker states that have been engaged in subregionalism. European subregionalism

[6] The *Core* regions are economically advanced and have stable regimes. Those organize in order to better control and gain access to the world outside their own region. The *Peripheral* regions are politically turbulent and economically stagnant. Domestic unrest, conflict, economic underdevelopment plunges them to the bottom of the system (Hettne, 1998, pp. 206-207).

in the 1990s emerged mainly at the 'intermediate' and 'peripheral' zones, but it has also been initiated and supported or at least it has involved countries from the 'core' zones as well. This is the case with the Council of Baltic Sea States where the European Commission is a member itself. When putting this into the picture, subregionalism seems not just a tool only of weaker states to avoid marginalization, or to change their structural position, but it might well reflect policy choices of external powers and their own security or economic priorities.

A significant part of literature on subregionalism points to the role of a regional hegemon. Assumptions of the cooperative hegemony approach are of importance here, as subregional groups initiated 'from within', may be seen as initiatives of local hegemons (Pedersen, 1998) in an effort to pursue advantages of stability, inclusion and diffusion in their immediate space. Cooperative hegemony does not however explain the emergence and in particular the persistence of subregionalism in the absence of a hegemon or in the case that the real or potential hegemon does not support subregion building. Furthermore, it is the case that often subregional groups exhibit a 'horizontal' structure excluding hegemonic policies.

Although the rhetoric of subregion-building uses arguments of neofunctionalism and neoliberal institutionalism, the regional level of analysis has found limited applicability in theorizing over subregionalism. Neoliberal institutionalism explains subregionalism as a functional response to the need to ensure a minimum of institutionalization in order to maximise welfare gains and not as an awareness of regional identity. There are two specific dimensions that deserve attention here. First, there is not sufficient evidence to support the basic assumption of integration theories that subregionalism comes as a response to increased social and economic interdependence. On the contrary, transnational ties and socio-

economic interaction are weak or disrupted and subregional institutions are built to promote them.

Second, as the main concern of subregionalism is how to integrate within a broader region rather than to achieve deeper integration within the area it delineates, emphasis has been placed on the sequence approach. The sequence approach tries to link integration processes at different levels, arguing that regional cooperation or even integration should be considered as a stepping stone towards larger integration and global competitiveness. Sequencing theory goes in line with the training ground approach that has been revitalized with strong reference made to the history of European integration processes. According to this view, countries should first of all, learn the rules of the game in the regional framework in order to become 'global players'.[7] However historical experience shows that with the exception of the core countries of the EU itself, more fundamental (sub)regional cooperation was the result of, and not a precondition for, efficient integration into the global (or 'anchor') economy (Inotai, 1997).

Neorealism's emphasis on the structural determinants of states' behaviour has downplayed domestic factors in the conceptualization of European subregionalism. Although the literature pictures subregionalism as a process generated from 'within' and not imposed from 'outside', the domestic level of analysis has been neglected. This neglect contrasts with the contemporary dominant trend in international relations research to bring to the forefront domestic factors underlying large regional formations in Europe, Southeast Asia and North America. In particular, given the fundamental changes at the domestic level resulting from the double transition to a market economy and democracy, the absence of domestic level analyses indicates a

[7] Frequent allusions to the imitation of the European Payments Union by the transforming countries are good example for this approach.

gap in the literature. However, there seems to be a consensus resulting from existing literature that subregionalism in Europe has been a foreign policy tool, driven by political elites. This approach has led economic analysis to the margins and resulted to a poverty of empirical research on possible private interests in subregional processes.

The paradox, however, is that although subregionalism is presented as an elite-driven phenomenon being conceived 'from within', the actual empirical work focuses on the structural dimension, ignoring the preferences or the change in the priorities of the leaderships. A leadership's choice to form or join a subregional group becomes merely a response to systemic, regional changes and not a domestic policy choice. Given the fact that often subregionalism involves states in transition, national institutions are weak and characterised by poor output efficiency, elite interaction is paramount for understanding the emergence of an 'elite network' type of regional cooperation (Steen, 1997, p. 114). Elites' attitudes, behaviours and beliefs in cases of newly established state entities or in the presence of 'failing states' have consequences for the type of subregion that develops. A balance between domestic and systemic level analysis needs thus to be established in the study of subregion-building.

An analysis of the regional phenomenon which moves away from interest-based explanations to ones that point out the role of ideas in shaping attitudes towards regional cooperation[8] would have applicability in explaining not only the *why* but also the *how* of subregionalism. In the presence of vague structural pressures, certain ideas (such as neoliberalism) acquire significance for subregion building. Subregional cooperation may be understood in terms of converging domestic policy preferences among regional states. Convergence of national

economic policy preferences centred around certain ideas such as economic liberalization and deregulation may thus lead to regional integration as a way of consolidating market - liberal policies.

Limited references to cognitive elements in the formation of a subregion as opposed to strictly utilitarian stands exist in the literature as elements of common culture and identity have been weak within the subregions.

The above illustrate that the conceptualization of European subregionalism has evolved around the factors underscoring its emergence. What has been missing is a framework explaining the reconfiguration of the mode of governance of the subregional groups once they have been established.

5. The analytical framework

Despite its variations in institutionalization, subregionalism remains a process of an intergovernmental nature. The analytical framework deployed here aims at disclosing the causal link between a set of factors and the mode of governance that is shaped at a subregional level.

Modes of governance

Interstate cooperation is often difficult to achieve because of problems of collective action, i.e. when states in the absence of international governmental agencies act as 'rational egoists' they often end up with suboptimal outcomes because they cannot see the advantages of cooperation (Young, 1989, pp. 1-2). However, this does not mean that international relations are in a permanent state of disorder or chaos.

[8] As proposed by Parsons, 2002; Wendt, 1995; Rosamond, 1997.

Instead states have found a way to respond to the collective-action problem by developing international institutions.[9]

Sandholtz and Stone Sweet (1998, pp. 8-9) place international institutions along a continuum that stretches between the ideal-typical modes of intergovernmental and supranational governance. The concept of governance has been used to denote similar arrangements in issue areas such as telecommunications, transport and environmental policy. A definition of the term governance might be suggested as follows: "Governance denotes the structures and processes which enable a set of public and private actors within an issue area to coordinate their interdependent needs and interests through the making and implementation of binding policy decisions in the absence of a central political authority" (Krahmann, 2001, p. 7).

In intergovernmental politics, the national executives of the member states bargain with each other to produce common policies (Young, 1989, p. 8; Mattli, 1999, pp. 28-31). This mode of governance is characterized by at least three assumptions (Karlsson, 2000). First, sovereign states are assumed to be the dominant actors. Other actors, such as international secretariats or transnational movements, are of secondary importance because they do not possess enough meaningful autonomy. Thus, the primary function of an international organization is to enhance the efficiency of interstate bargaining by lowering the transaction costs for governments. For instance, by providing logistical coordination a secretariat can reduce the costs of information, policy innovation and negotiation. Second, state preferences are assumed to be the result of bargains among domestic actors. Intergovernmentalists tended originally to view states as unitary actors, but due to criticism some of them have shifted towards a two-stage approach in which a domestic process of

[9] International institutions are social institutions covering governing the activities of the members of the international society (Young, 1989, p. 6).

preference formation precedes interstate bargain (liberal intergovernmentalism). Finally, the outcome of interstate bargains is assumed to reflect the relative power of the member states. International cooperation is therefore usually interpreted as an expression of the preferences of the great powers.

In supranational politics centralized governmental institutions make binding rules presenting constraints and opportunities for the member states in any given policy domain (Sandholtz & Stone Sweet, 1998, p. 8). The establishment of a supranational mode of governance requires that the member states voluntarily transfer their authority over an area of national policy towards the supranational level. The essence of supranational politics therefore is not that the supranational institutions replace governments, but that within some given policy domains they are able to prescribe behavioural roles, constrain activity and shape expectations of other actors, including the member states.

The purpose of this section is to present the factors that help explain the reconfiguration of BSEC and in particular its intergovernmental mode. I will restrict here the analysis to some factors that are being emphasized in the following two frameworks of understanding regional integration.

Demand conditions

The first of these is the transaction-based theory offered by Stone Sweet and Sandholtz (1998). One of the propositions of their model for European integration is that "increasing levels of cross-border transactions and communications by societal actors will increase the perceived need for European-level rules, coordination and regulations" (Sandholtz & Stone Sweet, 1998, p. 11). Thus, as transnational exchange increases such as trade, investment, the establishment of non-governmental

networks and associations (Sandholtz & Stone Sweet, 1998, p. 2), so will the demand for supranational governance.

Furthermore, because the business community has the greatest material stake in cross-border exchange, it is expected that they should have the strongest preferences for a change (Sandholtz & Stone Sweet, 1998, p.15). Once transnational actors have expressed a need for supranational governance, the crucial point becomes the political willingness to meet those needs. Sandholtz and Stone Sweet have a rather optimistic view on this point. Because transnational exchange increases the cost of keeping separate national rules, governments are assumed to have strong incentives to begin a movement towards integration so that the generation of wealth and prosperity is not hampered. Governments may resist or try to slow down movements towards supranational governance, but the cost of such a policy is expected to be considerable. So instead of actively pressing on for more integration, governments are perceived as 'reactive' and 'constantly adjusting' to more independent forces of integration (Sandholtz & Stone Sweet, 1998, p. 12). Subsequently theorizing by Stone Sweet and Sandholtz is devoted to the internal dynamics of integration. However, since the BSEC has not left yet the stage of intergovernmental governance, I will leave this part of their theory aside. The theory offered by Sandholtz and Stone has some affinity with neofunctionalism. For example, the proposition that social exchange and transaction generate demands for supranational governance appears in neofunctionalism. However, in contrast to neo-functionalism the dependent variable in the work of Sadholtz and Stone Sweet remains the mode of governance rather than the formation of identities or the process of state-building (Sandholtz &Stone Sweet, 1998, pp. 5-6).

Supply conditions

The second framework for understanding regional integration has been developed by Walter Mattli (1999). Being influenced by political economy, this theory contains propositions that stress the importance of both market and institution factors. The starting point for Mattli's theorizing is basically the same as in the first framework, but after this it develops in another direction. First, "the potential for economic gains from market exchange within a region must be significant .... market players will then have an incentive to lobby for regional institutional arrangements that render the realization of these gains possible. The demand for regional rules, regulations and policies by market players is a critical driving force of integration" and second, "there must be a fulfilment of supply conditions. These are the conditions under which political leaders are willing and able to accommodate demands for regional institutions at each step of the integration process" (Mattli, 1999, p.42).

Thus while Sandholtz and Stone Sweet expected a more immediate 'reactive' response to transnational demands, Mattli assumes that there are also a number of supply conditions that must be fulfilled before the integration process actually takes off. Three supply conditions are identified (Mattli, 1999, pp. 50-57). First, it is assumed that economic difficulties can work as a background condition of regional integration. As long as national economies prosper, governments are less likely to move towards supranational governance "because their expected marginal benefit from integration in terms of improved re-election chances (or simply in terms of retaining political power) is minimal and thus not worth the cost of integration" (Mattli, 1999, p. 51). However, this is expected to change in times of economic difficulties. This means that if integration is perceived to improve the economic conditions, the domestic political payoff of such a move is expected to become higher.

Second, it is assumed that movements towards supranational governance are facilitated by 'the presence of a benevolent country'. This is perceived to be a key supply condition because even if governments are willing to respond positively to demands for integration they may still be unable to do so because of the problem of collective action. However, a benevolent leading country can help the region to respond to this problem by assuming the role of coordinator or 'regional playmaster' (Mattli, 1999, p. 56). The function of a 'playmaster' is primarily to ease the distributional tensions that usually follow from integration, for example by making side-payments. Finally, once the member states have concluded an integration agreement, it is expected that the process towards supranational governance will be favoured by the establishment of 'commitment institutions' i.e. institutions which could monitor and implement rules (Mattli, 1999, p. 54-55). However, since the BSEC still is a case of intergovernmental governance we will not insist on this third condition.

Security conditions

Another variable included in our framework is security related conditions. The frameworks of Sandholtz and Stone Sweet, and Mattli do not explicitly address this issue. However, Mattli does in fact emphasize that the quest for national security and the role of military alliances can play a significant role in integration (Mattli, 1999, pp. 17-18). This assumption rests among others on the observation that trade is generally higher among militarily allied countries.[10] From a broader perspective, military alliances can be seen as part of the security dilemma i.e. the circumstance that many of the means by which a state tries to increase its security decrease the security of others (Sperling & Kirchner, 1997). The intensity of the security dilemma

is among other things, affected by changes in the defence balance and by estimates of the behaviour of others. As the dilemma becomes less intense, it is reasonable to expect that it will positively affect the political willingness to meet demands for integration. This hypothesis is not least suggested from the post-war development in Western Europe (Wyatt-Walter, 1997).

The actual status of the security dilemma in the post-Cold War era is a much disputed matter within the academic community. Quoting Wyatt-Walter, the scholarly debate is divided between "those on the one hand who see Europe as transcending the security dilemma in a potentially unique institutional manner and those on the other hand who see it as vulnerable to an eternal cycle of structural repetition" (Wyatt - Walter, 1997, p. 9). Among the former are Sperling and Kirchner, who argue that the transition to post-Cold War Europe has 'transformed' the security dilemma and made it much less intensive (Sperling & Kirchner, 1997, p. 8). Mark Webber on the other hand, argues that the dilemma has not been removed since Russia's nuclear and conventional capabilities still arouse strong concern - at least in NATO (Webber, 1996, p. 213).

An external center of power

As the systemic approach points out the regional phenomenon cannot be examined in isolation from broader processes and pressures that come from the international system or from 'outside'. This is particularly important when examining the evolution of subregions whose center of power or modernizing anchor is often outside the delineated subregion and the states involved. Subregionalism may not be simply a response to outside pressures as neorealism would argue (Waltz, 1979), but its contents and character are significantly shaped by external factors that result

[10] For references on this literature see Mattli, 1999, p. 31.

either from the nature of the international system (e.g. globalization) or from specific states, international organizations or other regions.

As we argued earlier, a generic element of subregionalism is its dependence on broader (hemispheric) regional processes or powerful neighboring regional organizations. Certainly, the EU in this respect is the most powerful actor at the continental level and it dominates the political and economic developments in the BSEC subregion too. The EU becomes a 'soft hegemonic regional power' organizing the continent in concentric circles, integrating norms and interests (Telo, 2001, p. 180).

What we are looking for here is not just to indicate whether the EU has spurred regionalism or not, but how it has influenced the reconfiguration of subregionalism.

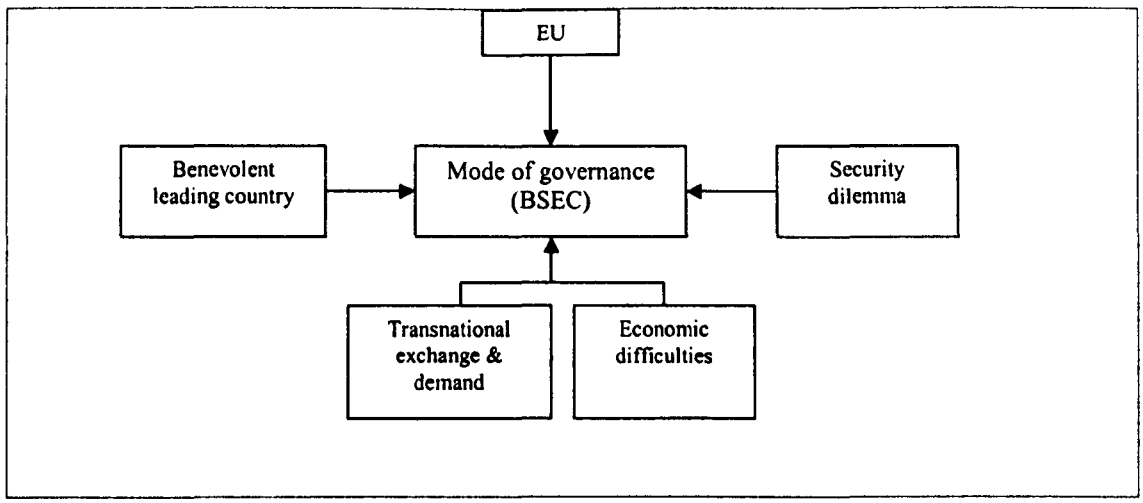
6. Conclusion

Given the complexity of the regional phenomenon every approach presented here has its own merits. In this dissertation we formulate an analytical framework in order to answer the basic question posed; the dynamics of the formation of BSEC.

The theoretical proposals examined earlier in this chapter suggest that the following model (figure 1.1) could help us in the search for an answer to why BSEC has so far developed into an intergovernmental mode of governance. The model contains four variables from within the subregion: transnational exchange and demands, economic difficulties, the presence of a benevolent leading country and transformations of the security dilemma. Of the four variables, transnational exchange and demands is assumed to function as an initial causal mechanism, while the others are decisive on whether or not governments are willing and able to meet transnational demands for a supranational mode of governance. The fifth variable, the external factor (i.e. the EU) adds an 'outside-in' perspective and it is decisive both

as a factor shaping subregional structures themselves and directly influencing the above-mentioned factors from within the subregion.

Figure 1.1 Explaining the mode of subregional governance



CHAPTER 2. UNFOLDING BLACK SEA ECONOMIC COOPERATION: ASSESSING NATIONAL PRREFERENCES

1. Introduction

The idea of BSEC belonged originally to the Turkish ambassador to the United States, Sukru Elekdag, who announced this project for the first time during a panel discussion organized in Istanbul in January 1990 i.e. prior to the disintegration of the Soviet Union. The first positive reaction came from the then Soviet ambassador Albert Chernichev. It was after the meeting of Turgut Ozal, the then Turkish President, with Sukru Elekdag that the Turkish government adopted the project (Elekdag, 1994, pp. 203-206). Sukru Elekdag believed that "the climate just after the historical changes in the world and the beginning of a new era of peace and cooperation could be reflected to the Black Sea Region to create favourable conditions and to establish institutional arrangements among the Black Sea countries for the development and diversification of their economic relations" (Neacsa, 1996, p. 1).

In November and December 1990 several preliminary meetings were organized in Ankara which included delegations from Bulgaria, Turkey, Romania and the former Soviet Union. At those preliminary meetings, the issues of socio-economic and environmental nature were put on the agenda. A draft 'BSEC Frame Agreement' was submitted to Bulgarian, Romanian and Soviet officials at a preparatory meeting in Ankara in December 1990, and it was agreed that the delegation of the Soviet Union would include six Republics i.e. Russia, Armenia, Azerbaijan, Georgia, Moldova, and Ukraine (Ilkin, 1993, p. 59). Follow-up meetings took place in Bucharest on 12-13 March 1991 (technical level), in Sofia on 23-25 April 1991 (Deputy

Foreign Ministers), and in Moscow on 11-12 July 1991 at which Greece and the former Yugoslavia were invited to attend as observers (Genckaya, 1993, p. 549). At these preliminary meetings a draft document determining the framework for subregional cooperation was prepared. When the project could have possibly remained stillborn due to the lack of enthusiasm of certain states and on account of the initial confusion caused by the break-up of the Soviet Union, Turkish officials continued to press for the project's adoption (Athanassopoulou, 1994, pp. 37-41). The final document was signed on 3 February 1992 by the delegates of nine countries (Armenia, Azerbaijan, Bulgaria, Georgia, Moldova, Romania, Russia, Turkey, Ukraine). In a document released after the meeting, it was stated that the cooperation would be open to other states that would accept the BSEC Declaration. It was also specified that if formal applications were received by the Turkish Foreign Ministry from Yugoslavia and Greece they would be invited to join BSEC as founding states (Genckaya, 1993, pp. 549-557). Greece and Yugoslavia had sent observers for the first time to the meeting of the Deputy Ministers of Foreign Affairs in Moscow (July 1991). Indeed, Greece applied for membership on 28 February 1992. The disintegration of Yugoslavia rendered its application for membership meaningless. As to Albania, it was hesitant to the end whether to accept or not the Turkish invitation to attend the meting for the signing of the Bosphorus Declaration (*To Vima*, 27 October 1991; *Macedonia*, 25 June 1992). It was due to the strong diplomatic efforts of Prime Minister Demirel that Albania took its place at the Summit (Ozuye, 1992, p. 53).

At the end of 1991, the collapse of the Soviet Union changed the scope of the initiative. The newly independent states immediately expressed their interest in participating in BSEC but their priorities were to facilitate their political-economic transition, to ensure participation in the European affairs and integration in the

world economy and to enhance stability and security in the region. None of them, as *The Economist* (27 June 1992) put it was "famous for their ability to cooperate". BSEC was formally established on 25 June 1992 at the meeting of Heads of State and Government in Istanbul by eleven countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine.

BSEC as established in 1992 and actually developed later was less ambitious than the originally proposed Turkish scheme. In a special speech given in Istanbul in September 1992, President Ozal presented the Turkish view on the objectives, membership and character of the future 'Black Sea economic zone'. Turkey's initial idea included plans to create 'a zone of economic and commercial cooperation' a kind of 'Black Sea economic community' with a 'free movement of goods, people and capital'. It was to be relatively closed in character and unite only the Black Sea states from the Balkans to Caucasus. A 'Black Sea customs union' was planned for a later stage (Elekdag, 1991, pp. 19-21). However, even during the first preparatory meetings of the expert groups, the representatives of the former Soviet Union, Bulgaria and Romania rejected the Turkish suggestions for the relatively closed character of the 'Black Sea zone', insisting on the inclusion of non-Black Sea countries such as Greece and Yugoslavia and declaring themselves against its premature institutionalization (Christakoudis, 2000, p. 6). The participating states agreed in principle to create a rather more open (not institutionalized) organization in whose name the controversial word 'zone' was substituted for 'cooperation'. The Summit Declaration in June 1992 did not finally refer to a free trade arrangement but spoke on the reduction or the progressive elimination of obstacles to trade while it referred to the free movement of only businessmen, rather than persons.

The foundations for the transformation of BSEC into a regional organization were set out in the Bucharest Declaration of 1995. At their next meeting in Moscow (25 October 1996), the Heads of State and Government of BSEC defined BSEC as an 'international economic organization'. It was the eleventh BSEC MMFA on 30 April 1998 that approved the Charter of BSEC, which constitutes the basic legal document establishing the new organization. In May 1999, BSEC was finally transformed into an international organization. One of the most important decisions for the future of the organization was taken on 17 April 2003 when the BSEC Council proceeded with the enlargement of the organization and invited two new states to accede: the former Yugoslav Republic of Macedonia (FYROM) as well as Serbia and Montenegro.

Based on a purely geographical concept (itself rather unclear), the new grouping presented important differences in terms of the members' size, population and economic development. Ranging from a country (Greece) fully integrated in the Euro-Atlantic structures to states with virtually no relationship with the same institutions (EU, NATO, WEU) there was practically no common feature in terms of political orientation. There was, however, a common willingness to profit from the new opportunities brought about by the new European and regional environment and to join forces in common projects. For almost half the participating states (i.e. for the NIS and for the, until then, self-isolated Albania) it was above all a historic first in their appearance on the international scene.

2. BSEC in the literature

BSEC has received less scholarly attention than any other subregional group. It is interesting to note that with the exception of Siskos (1998) and Borisenko et al., (1998) there is no other published book on BSEC in English, French, Greek and Turkish

language. Aybak's edited book (2001) and Adams et al., (2002) are the only works which put the Black Sea in a regional perspective.[1] Any other substantial reference on the Black Sea subregional dynamics is included in volumes of comparative research (Hook & Kearns, 1999; Cottey, 1999b) or research papers. Consequently literature on BSEC itself as an organization or on the Black Sea as a subregion has been limited and bears two characteristics. First, it is poor on conceptualizing Black Sea subregionalism or moving beyond normative and policy oriented approaches. Second, structural explanations have dominated the literature, picturing BSEC as a result of the fundamental changes in the international system following the end of the Cold War. The emphasis on the systemic imperatives of regional formations in post-Cold War Europe has triumphed in analyzing BSEC.

BSEC is officially defined as a 'regional economic organization' (Charter, 1998) placing trade and economy-related activities as the priority issues on its agenda hence, almost all of its Working Groups have focused on trade, finance, SMEs, agriculture, transport, etc. This being said, there has been no evaluation or assessment of BSEC's welfare impact or economic effects wit h a few exceptions (Shchetinin, 1996; Sayan, n.d.; Salavrakos, 1997). The reason is that on the ground BSEC has not developed into a trade bloc, or a FTA (despite initial efforts), nor have its members taken trade related commitments. The BSEC agreement does not directly provide for any trade preferences for countries within the group (OECD, 1996; OECD, 1997; Sayan, n.d.) and for this reason neither trade diversion nor trade creation effects arise - in the sense that it would change the relative costs in domestic markets of imports from member and non-member countries (Sayan, n.d.).

[1] There have been however a few published papers such as Valinakis, 1999; Emerson & Vahl, 2001.

There are two aspects of Black Sea subregionalism that relate to each other and have attracted scholarly attention. First, attention has been placed on the formative stages of the initiative hence on the issue of what has allowed for the emergence of BSEC. Second, BSEC has been examined within the framework of its relevance to security and viewed under a normative approach as to whether subregionalism contributes to the stability of post-Cold War Europe and should be encouraged (Bailes, 1997; Cottey, 1999b; Dwan, 1999).

As far as BSEC's emergence is concerned, two popular accounts of the forces driving cooperation are frequently encountered: securing peace and cooperative hegemony. From a normative point of view, the argument of peace through cooperation has dominated the understanding of subregionalism and encouraged a positive approach to subregionalism according to which regional cooperation weakens power politics and makes armed conflict less possible. Most analysts agree that it was the concern about securing peace which contributed to the set-up of BSEC. Therefore, although BSEC has been described as a multidimensional, comprehensive process being part of Europe's new subregionalism (Cottey, 1999a; Hook & Kearns, 1999), what has been stressed is its 'indirect approach' to security. We have to clarify however, that BSEC has never been pictured as a security alliance. The power of the securing peace argument notwithstanding, it does not explain why all eleven countries participate in the process. There is no evidence that either Greece or Albania joined BSEC out of concerns about peace. Yet this does not change the fact that conflict is still very dominant around the Black Sea.

Neorealist explanations of BSEC have been dominant with the most influential one the early work of Sezer (1992b). Sezer summarized the logic behind initiating BSEC as the call of the regional hegemon (Turkey) to its neighbours "to cooperate

rather than defect". Although this provides for a good understanding of the motivation behind the policy of the hegemon it does leave several aspects of the process unexplained. First, one has to investigate the degree to which there has actually been a regional hegemon in the area. Hereafter, in this research we indicate that the organization itself lacks a clear hegemonic leadership. Sezer's conceptualization of the BSEC process points out the role of a particular state driving the BSEC process but there has been no follow-up to explain the evolving features of the subregional process, e.g. its high institutionalization or to explain the interests of the rest of member states and their elites, within the context of regional hegemony.

Thus, the analytical tools employed to conceptualize BSEC are limited, coming from the most classical aspect of the (neo)realist reading of international relations. Much of the literature on subregionalism in the Black Sea suffers from focusing solely on security issues, downplaying such factors as the role of ideas, beliefs, civil society, knowledge or attitudinal change. In spite of BSEC's comprehensive nature there has been no analysis of the role of non-state actors and the impact of economic interests on the BSEC process. Part of the problem is that many aspects of the regional market forces and transnational actors have yet to develop and to be studied in depth.

In an effort to readdressed some imbalances in the literature we focus here on three main aspects. First, we disclose the expectations of all eleven BSEC member states. This takes place in the next section.

A second step is to cast some light on the domestic level of analysis and the - changed - preferences of the leadership. We try to indicate that the change in favour of cooperation has reflected a shift in preferences of the local elites and segments of the society. It was only recently, in the 1990s that the region started to generate a

common vision: the perspective of integration within the European structures, even of an EU membership. The basic preconditions for eventual EU membership, such as the Helsinki principles, the Copenhagen criteria and the adoption of the *acquis communautaire* are more and more becoming the guiding principles and the role model for political and economic reform and institution-building in the countries of the subregion. A set of explanations focuses specifically on the notion of leadership. As we see later, the imaginative leadership of Ozal, the President of Turkey in the early 1990s, may explain both the timing and the early stages of BSEC's development. Despite leadership's importance in the formative years of BSEC we do not claim however that it can explain all aspects of BSEC's reconfiguration. A focus on the preferences of Turkish leadership's preferences would fail to explain why BSEC did not develop in accordance to the initial ideas of its founding fathers. It also fails to explain why other leaderships adhered to the idea of subregional cooperation.

Third, we undertake an effort, as we said in the introduction, to address the issue of BSEC's formation rather than simply its emergence. In this endeavour we place BSEC within a hemispheric regional process led by the EU. Although literature places BSEC within the new European order, little has been said on the influence of neighbouring regional actors such as the EU on the subregional processes in general and on BSEC particularly. Analysts acknowledge but have not systematically researched the high level of dependency that subregional groups have on neighbouring strong regional actors or broader regional processes. Although some preliminary efforts have been made to relate BSEC to the EU process (Adams et al., 2002; Genckaya, 1993; Emerson & Vahl, 2001), those are mainly focused on policy related issues of normative nature. In chapter six we attempt to fill this gap in the literature as far BSEC is concerned.

3. Leadership's choice

Leadership is a key factor shaping the identity of BSEC as the latter has been created and conceived by political elites rather than societal groups. It thus reflects the main orientations, specific understandings and expectations of the local political elite. The role of leadership and personal influence in the constellation of emerging regional orders cannot be overestimated particularly in periods of sweeping changes in the system of international relations such as the end of the 1980s.

Turgut Ozal, Prime Minister (1983-89) and President (1989-93) of Turkey was an important factor that affected foreign policy in Turkey during the 1980s (Abramovitz, 1993, pp. 164-181; Robins, 2003, pp. 53-57; Hunter, 1995, pp. 90-94). He was also the leader who realized the BSEC project along with a number of other regional projects in the areas neighbouring Turkey. Ozal's ideology was a synthesis of technological westernization and cultural Turkish and Islamism (Ataman, 2002, pp. 120-153). One part of his ideology was the Ottoman and Islamic culture. The second half was economic and political liberalism. He claimed that modernization could only be achieved through liberalization and used economic liberalism to achieve political pluralism and *vice versa*.

New types of alliance patterns were pursued with Turkey shifting its strategic priorities and focusing on regional issues rather than playing largely with global powers. While previous leadership led Turkey to follow a strictly Western-oriented alliance pattern, the Ozal leadership led Turkey to follow a more diversified policy to serve as a bridge between the West and the East and attempted to transform it into the political and economic centre or the 'regional hegemon' of the evolving orders in Central Asia, the Caucasus and the Balkans. Ozal was however aware that without

the Western support it would be difficult to maintain its regime in one of the most strategic and unstable regions in the world.

Full membership in the EU was not the only alternative for Ozal's leadership who aimed to benefit from the EU in economic terms as he believed that economic competition within the EU market would benefit the Turkish economy (Ataman, 2002, p. 143). He thus viewed the EU as a means to improve Turkey's industrialization and economic development rather than a political objective and stressed that "still by keeping the priority of the European context, we have to attach great importance to the United States, Black Sea Economic Cooperation and East Asia" (Ozal, 1991, p. 35). He therefore attempted to restructure Turkey's foreign policy from being 'the tail end of Europe' into the centre of its own newly emerging world (Fuller, 1997, p. ix). Building a network of alliances was one of the tools to reduce dependency on the Western bloc. The initiation of 'alternative patterns' such as BSEC, Economic Cooperation Organization (ECO) and the East Asian market would balance its Western partnership. This 'alliance pattern' improved Turkey's relations with the Newly Independent States (NIS), the Islamic world and the neighbouring eastern European countries (Ataman, 2002, p. 132).

Furthermore, making use of the religious element he forged closer relations with countries having a high percentage of Muslims. When Ozal paid an official visit to Bulgaria, FYROM, Albania and Croatia in February 1993, it was interpreted by many as a historical step taken by Turkey towards building ties with Muslims while challenging the aspirations of former Yugoslavia and Greece. After his visit, Ozal stated that for Turkey "the most effective power in the region is Islam" and he advised religious organizations in Turkey to activate in theses states (Tanil, 1995, p. 280).

Ozal's approach to foreign policy characterized by his aspiration "to depart from established policies, to take calculated risks, and to search for new alternatives and options" (Sayari, 1992, p. 18) led a more diversified, active and outward-oriented foreign policy. During the Ozal administration more international agreements than any other administrations in Turkish history were signed while improving relations with the Soviet Union/Russia and with other socialist countries (before the collapse of the socialist bloc) was part of a foreign policy increasingly focused on multilateralism. Turkey opened the border station at Sarp (Turkish-Georgian borders) in September 1988, which had been closed since 1937. It signed a number of agreements with the Soviet Union during the period of 1986-1990, including the agreement on Exchange Commodities, the Convertible Currency Protocol, and the Long-term Program: Economic, Trade, Scientific and Technological Cooperation (Ataman, 2002, p.139). During Ozal's Presidency further cooperative acts were also taken. Turkey solved the 17 year old problem of the Flight Information Region over the Black Sea in 1989. Russia and Turkey signed a Treaty of Friendship and Cooperation in 1991 and Turkey opened its consulate in Baku, and the Soviet Union opened a consulate in Trabzon. In spite of problems, similar improvements in political and economic fields continued with Russia. In the first several years following the collapse of the Soviet Union, over 300 agreements of all kinds were concluded between Turkey and the newly emerged states - particularly the Turkish speaking ones - covering such diverse subjects as civil aviation and prevention of double taxation.

Ozal was an exponent of classical liberal concept of international relations and the notion of complex interdependency according to which growing levels of economic integration can stabilize difficult bilateral relations as they increase the cost

of and the likelihood of tension and conflict thus generating better political relations. Consequently he advocated multilateralism. Multilateral/regional cooperation was not thus just a security strategy but it was also a foreign economic policy to spread Turkish economic and political power (Robins, 2003, pp. 56-57). None of the initiatives launched at the time, had a strictly security orientation, they rather aimed at fostering economic interaction and promoting Turkish economic interests in the area. The Turkish Cooperation Development Agency was thus founded in the Foreign Affairs Ministry in 1992 to organize relations with the NIS and to foster cooperative opportunities.

Ozal needed no persuasion to include economic interests in foreign affairs as he viewed foreign policy 'as a branch of international trade relations'. To benefit from the new foreign economic opportunities Ozal had to "galvanize his own business sector" (Robins, 2003, p. 59). He did that by taking Turkey's most influential businessmen along with him wherever he travelled abroad and sought to ensure that Turkey, with its recent export oriented economy, took advantage of every foreign opportunity and every high-level personal contact made in the sphere of political affairs. With this practice he pushed Turkish businessmen towards investment, trade and contracting abroad. Those businessmen alerted by the opportunities offered to them, were in turn ready to support Ozal's policies in the interior while drawing the attention of European critics, who were concerned that his authority was acquired under a military regime, to the positive results of his policies (Robins, 2003, pp. 59, 85).

The documents establishing the BSEC process mirrored the liberal economic and political ideas exposed by Ozal. The Summit Declaration of the BSEC (1992) was based on West European liberal ideas and the rule of law. The Turkish government

argued for the integration of the principles of the 1975 Helsinki Final Act into the draft documents of the BSEC, including those of democracy, human rights and fundamental freedoms. This demonstrated the extent to which the country was striving to act as a bridge between the European organizations and the states of the Black Sea region (Muftuler Bac, 1997, p. 45). Consequently, a flexible cooperative structure was originally envisaged for BSEC to pursue four freedoms: the free movement of people, goods, capital and services.

4. Assessing motivations of BSEC cooperation

4.1 Turkey's interests and geopolitical considerations

Turkey's geostrategic location[2] at the opening of the Black Sea gives to the country a central role in developments in any sphere of subregional cooperation (military, political, economic, environmental, energy, etc.). As we saw earlier, the initiative for BSEC came from Turkey, whose political elite wished to foster intra-Black Sea relations and at the same time recover a leading role in the area. Since BSEC occurred at a time of considerable bilateral tension among its members, the advantages of stability were very important. Turkey found it necessary to adopt a cooperative strategy in its relations with the neighbouring states to promote its foreign (economic) policy interests and to this end it first of all tried to create a good relationship with Russia. It should be emphasized that Ankara's interest in the Black Sea area dates before the collapse of the Soviet Union. What have been the main considerations behind the Turkish call to establish BSEC?

The BSEC process gained momentum in the overall foreign policy orientation of Turkey within a relatively short period of time. At the opening of the BSEC

[2] See among others Tashan, 1992, pp. 20-28; Mughisuddin, 1995, pp. 189-201; Winrow, 1996.

Summit in June 1992 the then Prime Minister Suleyman Demirel underlined the 'top priority' of BSEC within the country's overall strategy: "The reason why we attach such importance and priority to this cooperation is simply our belief in the existence of a fundamental base for this project and in the prospects for its improvement under the present conditions" (Demirel, 1992). As the Speaker of the Turkish Grand National Assembly stated, Turkey had taken a historic step toward a comprehensive multilateral cooperation scheme covering the Balkans and the Caucasus: "Turkey is stepping for the first time into multilateral economic cooperation of such a large portion and scope" (Cindoruk, 1994).

The Black Sea project was seen as another symptom of Turkey's confidence and a reflection of its re-emergence on the post-Cold War scene (Fuller & Lesser et al., 1993, pp. 103, 157). Subregionalism was thus employed as a foreign policy tool, and initiatives such as BSEC under Turkish leadership were seen as enhancing Turkey's place in the changing post-Cold War era. Turkey aimed at using BSEC in such a way as to raise its profile within the new European architecture while it could facilitate cooperation with the Balkan countries and the ex-Soviet states (Ataman, 2002, p. 140). Particularly, the inclusion of Balkan countries in the BSEC process was seen as a means to replace the Balkan Conferences, seen as rather ineffective, with a more eastward-oriented cooperation framework.

As we said earlier, exporting its own ideology and regime based on western ideas and ideals and cultivating cultural and economic relations may be identified as another goal of Turkish active role in subregional efforts in the area (Sezer, 1996, p. 87). Additionally, geographical proximity, mutual complementarity among the economies of the Black Sea region and the Turkish reform experience that began in

the early 1980s were seen as "natural advantages whose expeditious exploitation could yield significant mutual benefits" (Sezer, 1992b, p. 158).

Furthermore, Turkey had a strategic interest in several of the former Soviet republics, given the perceived potential of the Turkish world which had been under Soviet control for decades in the Caucasus and Central Asia. BSEC was still in a preliminary stage when the Soviet empire began to collapse, offering Turkey what it saw as a historic opportunity to increase its influence in a region of roughly forty million people encompassing Turkish-speaking Azerbaijan, Kazakhstan, Turkmenistan, Kyrgyzstan and Uzbekistan. Accordingly, Turkey has continued to exploit this opportunity in the post-Soviet era, bearing in mind Russia's strategic interest in this region (Athanassopoulou, 1995, pp. 279-285).

In addition, with the demise of the Soviet Union, BSEC was perceived as an instrument of Turkish policy vis-à-vis Iran and the CIS. Turkey's role within BSEC has served to enhance the perception that it has become a regional power, a perception that is essential to Turkey's relations with Iran, which it considers as a potential rival due to the latter's influence in the Transcaucasus and Central Asia (Glenny, 1995, p. 105).

Nevertheless, there are two central factors that have filtered Turkey's policy towards BSEC. First, Ankara has given priority to its relations with the EU which is considered a strategic foreign policy orientation - hence EU orientation filters Turkey's attitude towards any (sub)regional forum while conditions the level of its integration within it. Second, Turkish policies vis-à-vis BSEC go through its relations with the historically rival state; Russia.[3]

[3] On Russian – Turkish relations see Chapter 5.

Russia is considered the most important partner for the stabilization of the Black Sea area (Fuller G., 1993, pp. 33-40). Instability in the newly established republics has been a main structural factor at the centre of Russian - Turkish relations in the 1990s as the region is vital for both countries' interests. During the decade of the 1990s both states considerably shifted their foreign policies towards their borders and away from their global role (for Russia) and their relations with the United States (for Turkey) (Hill, 2002). As existential security concerns on Russia's role were eased in Ankara, rivalry between the two states was replaced by 'managed competition' (Sezer, 2001). The Black Sea and Central Asia became the main scene where this new stage of bilateral affairs has been tested. With reference to BSEC, we may argue that the new initiative provided a framework for the strengthening of this 'managed competition' or the 'virtual rapprochement' between Moscow and Ankara. It should thus be noticed that the BSEC idea was embraced by both administrations in the year 1990 when bilateral relations were going through what has been called as a 'golden period'. With the break up of the former Soviet Union, BSEC offered for Turkish diplomacy the appropriate multilateral framework to maintain and improve its relations with Moscow and explore possibilities of enhancing its influence in the region.

Expanded relations with the NIS seemed simultaneously to offer new possibilities for cultural and economic development especially at a time when Turkey's position in Europe was faltering. The post-Cold War era brought to the surface the inner tensions between Turkey and its western allies as its European identity was questioned in view of the redefinition of 'Europe' and the expansion of the EU (Sezer, 1996, p. 87). Turkey perceived and promoted itself as a middleman between the former Soviet/Warsaw Pact nations and the West, with BSEC being one

vehicle for triangular cooperation (Muftuler Bac, 1997, p. 46). The argument that Turkey could be drawn away from the West by new opportunities in Central Asia and elsewhere - that it might seek a 'Middle Eastern' or 'Turkic' identity rather than a 'Western' one - has been disputed by most observers who point out that the supposed new choices are not contradictory or competitive, they are complementary.

Most analysts suggest that BSEC was motivated primarily by Turkey's geopolitical interests as a state that is torn between the western and eastern culture (Uuzeyir, 1992; Connely, 1994, p. 32). In fact, Turkey's political elite thus liked to present its country as a bridge between Europe, the Middle East and Central Asia. However, there was a risk for western Europe, which might prefer to see it as a barrier against a hostile 'other', left outside European structures. In the absence of closer ties with a Western Europe, this line of argument suggested that Turkey would explore new areas of opportunity, such as the NIS of central Asia and the Black Sea (Fuller & Lesser et al., 1993, pp. 102, 129; Hale, 2000, p. 193; Sezer, 1992, pp. 17-46). Turkey's increasing role in the area was in fact encouraged by its western allies as it was in the interest of Western Europe and the United States to regard Turkey as an 'integral component' which could also "maximize its relations with the Middle East and Central Asia" (Fuller & Lesser et al., 1993, p. 2). Indeed most of the economic assistance programs that Turkey developed for these republics were in one form or another funded by the United States, Japan, the World Bank or others (Hunter, 1995, p. 95).

It could thus be argued that for Turkey an active policy outside Europe was important partly because it increased its significance for policy-makers in Western Europe in the post-Cold War environment. BSEC's geographical basis and

membership reflected exactly Turkey's concern to look simultaneously to both the East and the West.

Political economy considerations

Turkey's embrace of the Black Sea region was not, merely an alternative security strategy. The opening up of the exports markets in the former Soviet Union which had previously been restricted by the state-controlled economic system, was offering new economic opportunities particularly for the Turkish businessmen. Accordingly, it has been argued (Fuller & Lesser et al., 1993 p. 157) that the main aim of Turkey in establishing BSEC was "to get into the Soviet market and to have access to Soviet raw materials".

The policies of an open market economy applied by Ozal in the early 1980s which altered the decades long statist policies not only brought a significant growth in the national economy but they also lent it an international orientation that had an effect on Turkish foreign policy (Onis, 2000; Fuller & Lesser et al., 1993, p. 39). The principal source of economic growth during the 1980s and 1990s was the expansion of exports, which increased at an average of 4.1 per cent per annual during the period 1988-1995 (WTO, 1998, p. 9). [4] Turkey's new export-oriented policies[5] increased its interest in the neighbouring economies: Middle East, the NIS and Eastern Europe. The liberalization of the Turkish economy to be successful generated demands in the foreign policy. Turkish governments needed to increase the

[4] Exports rose from 13 billion USD in 1990 to $31.1 billion in 1998, and imports from $22.6 million to $45.5 billion over the same period. As a result, total foreign merchandise trade, as a proportion of GNP, rose from 23.5 per cent to 36.5 per cent. See EIU, 1993, p. 3 and *Briefing*, 22 March 1999, p. 32.
[5] By the early 1980s, Turkey had an economy that was more export oriented in approach than the import substitution model of old. Its export profile was shifting from agricultural output to manufacturing. Thus the composition of exports moved from 64 per cent agric-food products in 1980 to 71 per cent industrial products in 1989 (Robins, 2003, p. 208; Onis, 2000).

country's exports and service earnings, so as to avoid the frequent balance-of-payments crises which had bedevilled the economy up to the 1980s and secure access to foreign markets (Hale, 2000, p. 208). This meant that Turkish governments had to try to prevent political conflicts with important trading partners and avoid isolationist policies. Consequently, an increasingly central business interest was that political problems with neighbours should not be allowed to interfere with commercial operations. Thus Turkish businessmen tried to promote economic interaction with Armenia.[6] At the same time, during the Chechen conflict in the Russian Federation, Turkish businessmen lobbied behind the scenes to persuade Ankara not to introduce economic sanctions against Russia for its crackdown on the Chechens for fear that this would damage growing commercial interaction with Russia (Robins, 2003, pp. 84-86).

By the end of the 1980s there was the first wave of excitement about new economic opportunities in Eastern Europe and the Soviet Union where geographic proximity was an additional asset of the Turkish products to compete. The Black Sea project thus built on an expanding volume of Turkish trade and investment across the Black Sea, embracing Russia and the NIS. Turkish enterprises, led by the construction and pharmaceutical industries, have been particularly active in developing commercial ties with those republics. In 1989, Turkish trade with the former Soviet Union was worth $1.2 billion, triple what it had been in 1986 rising to $1.9 billion in 1990 (Robins, 2003, p. 57). Apart from the normal trade passing through regular commercial channels, there was also an unexpected flow of what is

[6] A Turkish business leader, Ishak Alaton of the Alarko corporation, attempted to use his business contacts with American-based Armenians to try to promote economic interaction between Turkey and Armenia. He arranged a meeting between Hirair Hovannian whom he accompanied and Turkish foreign minister Hikmet Cetin, at which Hovannian argued for the opening of a border gate for trade to enable Armenia to benefit from transit via the Black Sea port of Trabzon. See *Sabah*, cited in Turkish Press Review, 19 February 1992.

called 'suitcase trade'[7] The Turkish Central Bank began by 1996 to show 'suitcase trade' (which consisted entirely of exports) as a separate item in the balance-of-payment figures, though it gave no breakdown by countries. However, assuming that 90 per cent of 'suitcase' exports went to the CIS countries, it can be assumed that in 1998 such exports were worth around $3 billion, in addition to normally recorded exports to CIS of $2.7 billion and imports from the CIS of $3.7 billion (DEIK, n.d., p. 15). Including the 'suitcase' exports, trade with the CIS now accounted about 12.7 per cent of Turkey's total foreign trade - a far higher proportion than during the Cold War. Meanwhile the share of the Middle East in total trade had shrunk to 5.9 per cent.

Such was the promise of the new trading relationship that Turkey lubricated it with export credits. Turkey's Eximbank extended two credit lines to the value of $150 million in 1989 for the purchase of Turkish consumer goods. A further $350 million by way of investment credit was extended to help finance the foreign direct investment activities of Turkish contractors which by the end of 1989 were involved in 30 projects ranging from hotels to a copper wire plant to a show factory (Robins, 2003, p. 57). Between 1991 and mid 1994, Turkey signed over 160 protocols and cooperation agreements, pledged more than $1.2 billion export credits, and worked to build ties in transport and telecommunication infrastructure, to extend financial and business contacts, and to reinforce cultural relations by developing scholarships and student exchange programs (TUSIAD, 1993, pp. 83-90).

The situation can be summed up by saying that the 1990s saw a marked increase in Turkey's economic links with what had been previously the Soviet Union. However, the dominance of the main western industrial countries was repeated in

[7] 'Suitcase trade' is purchases in Turkey by citizens of the former Soviet republics, and other eastern European countries who took clothing, household goods and other supplies home with them.

Turkey's trade in services, and in financial flows, though the NIS was also gaining an increased role.

Energy as a transforming force

By the late 1990s, Turkey was facing an economic problem which had an important impact on its foreign policy. Because of the paucity of domestic reserves of carbon fuels, especially oil and natural gas, the country faced a large and potentially very critical energy deficit, as total demand for energy was rising at over 10 per cent per year, and this increase was expected to continue. In 1997, total annual energy consumption ran at around 72 billion tons oil equivalent, of which 46 billion tons was imported. Importing crude oil did not appear to raise important political problems, since there were potential suppliers. The only problem was that of price, over which Turkey had virtually no control. From a political viewpoint, natural gas was the most critical item, since it was relatively cheap and served as pollution-free fuel for heating and power generation. Turkey had chosen natural gas to be as John Barham in the *Financial Times* has put it, "the fuel of choice" to power its new generation of power stations.[8] As a sign of this, Turkey's consumption of natural gas which was mainly imported from the Soviet Union and later from Russia, rose from 1.2 billion cubic metres in 1988 to an estimated 13 billion cubic metres in 1999, with forecasts of annual consumption of around 50 billion cubic metres by 2010 (Hale, 2000, pp. 211-212). Some gas was being imported by special tankers on liquid form but it was considered to be more economical to build pipelines directly to the producing countries. However as of 1999, the only such pipeline in operation was that from Russia, passing through Ukraine, Moldova, Romania and Bulgaria, which had been

[8] 'Survey on Turkey: Energy', *Financial Times*, 31 March 1998.

inaugurated in 1987 but Turkey needed both to arrange a new and more direct pipeline from Russia and to diversify its sources of supply. Standing at some 6 billion cubic metres in 1998, Turkey's gas supplies through the above mentioned pipeline represented 67 per cent of its total gas imports.

Soviet gas offered the possibility of a motor for bilateral trade. A gas accord was first forged between Ankara and Moscow in 1984 providing for a combination of Turkish manufactured goods, products, and contracting services to be used in payments. This was the mechanism that permitted Turkish contractors to enter its domestic market and to establish close relations with members of the new emerging post-Communist elite at a time when its potential competitors were too cautious or unimaginative in seeking complementary alliances. As the relationship thickened and became more sophisticated the Turkish companies formed joint venture outfits with their partners in Russia. The profile of Turkish contractors increased to such an extend that by early 1994 it was claimed that Turkish companies had completed $5.5 billion worth of housing contracts in Russia out of an accumulated portfolio worth $30 billion[9] (Robins, 2003, pp. 56, 222-223). The signing of the so-called Blue Stream in December 1997 during a visit to Turkey by the then Russian Prime Minister, Victor Chernomyrdin marked a new era for the economic and political relations not only between Russia and Turkey but for the whole region. Under the terms of the $20 billion accord Russia was to supply Turkey with as much as 16 billion cubic metres of gas a year over a 25 year period, via a new 1200 km pipeline to run 2000 metres under the Black Sea (*International Herald Tribune*, 13 December 1997). The arrival of Chernomyrdin, the day after Turkey's disappointment at the outcome of the EU's

[9] Minister of State Ibrahim Tez during a visit to Russia, see BBC/SWB/EE, 3 February 1994. For the period 1990-1999, Russia attracted 35 per cent of the works of Turkish contractors abroad (this figure represents 304 projects). See briefing material produced by the Union of International Contractors in Turkey (www.tca-uic.org.tr), and Planck, 1998, p. 16.

Luxembourg Summit, led to a mood swing which inflated the expectations about Russia (Robins, 2003, pp. 224-225).

The importance of energy in Russian-Turkish relations has been also stressed by the Deputy Prime Minister of Russia who stated at the last BSEC Summit Meeting (Istanbul, 2002) that "fuel and energy industry is the leading field of the Russian - Turkish cooperation" (Matvienko, 2003, p. 71), while Russian Prime Minister M. Kasianov in 2000 stated that "Russia and Turkey are not rivals but partners, and our governments will from now on proceed from this understanding".[10] Part of Ozal's vision, the gas deal grew into a means to foster stable relations with Moscow, through the establishment of economic interdependence.

4.2 Russia' s considerations vis-à-vis the Black Sea

The signing of the Istanbul Declaration in June 1992 establishing BSEC was amongst the first foreign policy efforts undertaken by the new leaders of the Russian Federation after the Soviet Union fell apart. However the case of Black Sea as a regional entity that would require a new 'regional' policy developed by Moscow, presented difficulties as the Russian traditional position over the centuries has been that the Black Sea does not constitute a single region but together with the Mediterranean forms a common Mediterranean-Black Sea space (Kusnetzky, 1996, p. 205). Thus Russia could not envisage the emergence of the Black Sea as a separate regional political entity with international acclaim.[11]

While examining the Russian factor in BSEC's development one has to note that it was the Soviet Union back in 1990 that first embraced and supported the idea

[10] Cited in Freedman, 2002, p. 9.
[11] Interview, Mikhail Savva, 3 June 2003.

of initiating a scheme of Black Sea cooperation. Thus Russia's initial stand towards BSEC has to be placed within the framework of the foreign policy changes during the last years of the Soviet Union and the first years of the new Russian Federation.

Domestic changes in the Soviet Union at the end of the 1980s did not leave its foreign policy untouched (Adomeit, 1998, pp. 40-43) as the liberalization of economy and politics was bringing positive effects on opening up interstate relations. In 1990 Moscow's main concern was to develop links of communication with the neighboring countries which had been ignored during the previous decades. The Soviet Union's global approach in foreign policy (competition with the US) changed as superpower politics were replaced by emphasis on relations with the 'near abroad'. The dominant perception of BSEC during 1990-1992 among the policy making elite was the one of cross-border cooperation and not of interstate regional integration as modelled in Western Europe.[12] At that time, the Soviet Union embarked upon a process of exploring new possibilities of creating cooperation between border areas of the Soviet Union (particularly in its southern and western borders) and border areas of neighbouring countries. The main idea was how to promote the development of the peripheral regions of the Soviet Union by opening up links of communication and exchange with the countries on the other side of the borders. That took the form of an increasing independent role played by the Russian regions and their active engagement in subregional groupings where Russia participated (Ivanov et al., 1999, pp. 134-153; Kuzmin, 1999, pp. 112-121). The majority of Russia's 89 regions have since then opted for a limited autonomy that allows economic and political engagement with a range of external actors (Dwan & Pavliuk, 2000, p. 8). Subregional processes, emphasizing practical interaction often at

[12] Interview, Mikhail Savva, 3 June 2003.

the substate level, offered Russia's regions one way of pursuing that goal both through participation in intergovernmental processes such as the BEAC and through the initiation of relations with neighbouring regions, particularly in the Baltic and Barents areas such as the Council of Baltic Sea States (CBSS) and the Barents Euro-Artic Council (BEAC) (Shklyar, 2000, p. 87).

Therefore, subregionalism had emerged as one of the means through which Russia and its regions could engage with the outside world (Shklyar, 2000, p. 87) and the concept of regional cooperation was thus further supported by Russia in a zone i.e. the Black Sea, where historically it had strong interests. In addition to geopolitical considerations and historical links, Russia had comparative economic advantages in the area as its products could compete in those markets. Economic concerns were gaining in weight in the formulation of relations with the nearby states in particular with Turkey, Greece, Bulgaria and Romania. Relations with Turkey had been dramatically improved in the late '80s and early '90s, a period described as the 'spring' time or 'golden age' for Russian-Turkish relations with many political issues solved and economic relations expanding. At that time (1989-1991) there were no hegemonic concerns on behalf of the Soviet Union since the main pillars of foreign policy of Russia had been revised and the country was pursuing a more liberal foreign policy. The initial Russian perception of BSEC as a practical means of mainly economic cooperation among border areas was close to the Turkish perception of a flexible initiative oriented towards advancing economic relations around the Black Sea. This approach however was soon to be challenged, as the organization was undermined in the midst of increasing security dilemmas.

Russia's policy towards BSEC did not continue in the same liberal line as it reflected the interplay of two approaches that dominated Russian foreign policy as

early as in 1992: liberal internationalism eloquently expressed by Foreign Minister Andrei Kozyrev and nationalist lines expressed by Russian Vice-President Aleksandr Rutskoi and the parliamentary speaker Ruslan Khasbulatov.

According to the liberal approach, economic/political interstate cooperation and integration with the international political economy was a demand of the Russian policy elite (Lynch, 2002). Liberal premises were imposing that Russia should observe international norms of behaviour, thus participating in subregional organizations such as BSEC. However it became apparent to Russian policy-makers that whatever Russia's real chances for integration into the Western political economy and security community, there were far more pressing issues - all unexpected throughout Russia's immediate post-Soviet periphery. Those included the presence of nuclear weapons on the soil of independent Ukraine (as well as in Kazakhstan and Belarus); the disruption of economic ties in what had been a previously integrated economic space; the outbreak of wars, secession movements and streams of refugees along Russia's borderlands, especially in the Caucasus, and the existence of tens of millions of Soviet Russians living as national minorities in the NIS.[13]

The above strengthened the nationalist lines urging a reorientation of Russian foreign policy towards the CIS and the re-establishment there of old Soviet economic and security, if not political ties (Lynch, 2002, pp.164-167). Accordingly Russia should opt for its own dominance in what was now referred to as the old 'Soviet geopolitical space' or the 'near abroad'[14]. The centrality of classical geopolitical rather

[13] In 1989 the Russian population in the countries around the Black Sea was as follows: 11,356 million (22.1 per cent) in Ukraine, 562 thousand (13 per cent) in Moldova, 341 thousand (6.3 per cent) in Georgia, 52 thousand (1.6 per cent) in Armenia, 392 thousand (5.6 per cent) in Azerbaijan (Baev, 2000, p. 222).

[14] By spring 1992 the term 'near abroad' crept into the Russian political vocabulary, denoting a peculiar status for and special relations with the NIS (Adomeit, 1998, p. 36).

than liberal criteria in Russia's policy towards the Black Sea gained in the concern of the Russian policy elite whose main concern now was to maintain the policy objective of establishing Russian diplomatic and security hegemony throughout the territory of the former Soviet Union, which would also support Russia's 'great power' status in international fora. Therefore, by 1992 political considerations prevailed in Russia's engagement with BSEC and the latter's political dimension became more apparent since Russia had to determine its new position in the regional and international system and to preserve its influence over the NIS that were once part of the Soviet Union. Consequently, Russian policy towards BSEC became rather subordinate to its broader policy towards the former 'Soviet geopolitical space'. In general, Russian interest in the Black Sea has been explained mainly by the following set of factors (Kusnetzky, 1996, pp. 205-206; Kovalsky, 1994, pp. 113-119).

a) Many Russian regions have maintained strong economic links with the Black Sea area. Thus, the central part of Russia, the Volga region and the Ural region cooperate closely with the areas adjacent to the basins of the Black Sea and the Azov Sea, even those that have become part of Ukraine, Georgia or Moldova.

b) The Black Sea has always been a gateway to the world ocean for Russia. The Black Sea routes accommodate about 25 percent of the Russian foreign trade.

c) Participation in BSEC offered an additional opportunity to solve economic and social problems of the transition period in its south, in the Krasnodar territory and the Rostov region.

d) The Black Sea constitutes a natural security line for Russia. Even though virtually no military threat emanates from other states in this region at this time, armed conflict in Chechnya poses the main security threat coming from the area. The fact is that the Black Sea and bordering areas are marked by potentially destabilizing

factors, e.g. alarming situation in Transcaucasia, charged situation around Iraq and Iran, etc. (Hunter, 1994, pp. 142-156).

e) Finally, the entire history of the Black Sea region made a substantial impact on the shaping of the Russian national identity (e.g. Christianity came to Russia through the Black Sea zone, the liberation of the Crimea in the late 18th century and once again in the 20th century - during World War II) and the Russian mindset was always responsive to the developments in the Black Sea.

4.3 Engaging Greece in the BSEC process

Historically, Greece has been engaged in regional cooperation in its immediate neighborhood, the Southeast Europe.[15] Inter-Balkan cooperation, rather than Black Sea cooperation, had become a Greek foreign policy priority where a multilateral mechanism was set up as early as in 1975 (Veremis, 1994/1995, p. 5; Descan, 1990, pp. 134-147). The failure, of the different efforts aiming to promote Balkan Cooperation, did not impede successive Greek governments from hoping to revive it at some point.

Consequently, Greece viewed the initial efforts to establish BSEC with suspicion (Kazakos, 1994, pp. 168-202). Turkey's active interest in promoting the idea in 1990-91 was seen as a diversion from a more Europe-oriented Balkan cooperation scheme. Indeed, Meetings of Ministers of Foreign Affairs of the Balkan countries were regularly taking place during these same years, Albania had joined for the first time ever, and several ministerial and expert meetings were also planned. The eastward orientation (at least as far as the membership was concerned) of the proposed BSEC scheme was therefore met initially with Greek resistance

[15] The term Southeast Europe is used interchangeably with the term Balkans.

(Couloumbis & Yannas, 1995, p. 43). This was also manifested by the fact that Greece joined the PABSEC in 1995, two years after its establishment. Although Greece's participation in BSEC as a founding member had been made possible due to the invitation extended by the Turkish President T. Ozal in 1992, its accession to PABSEC was not considered to be an automatic procedure and it encountered resistance. Greek membership was the only case where unanimous agreement could not be reached and Greece finally joined PABSEC with the vote of seven out of nine members (Turkey and Azerbaijan abstained).[16] As the representative of the Turkish delegation argued, the delegation was not against the accession of Greece but it had serious doubts over the commitment of Greece to the whole BSEC project since "despite PABSEC's persistent invitations in the past... Greece had turned down all of them" while "in the past... it even stopped its efforts in BSEC" (PABSEC, 1995c, p. 6). Indeed, Greece had reservations over the establishment of a Parliamentary Assembly and its mode of functioning. According to the Greek perceptions, BSEC should be confined to economic spheres of cooperation and not acquire a political dimension.[17] Those concerns were expressed as follows:

> The Parliamentary Assembly constitutes a kind of Black Sea Parliament where the Ministers of the BSEC member states will be asked to reply to questions posed by the parliamentarians. However, there is no organic link between the Parliamentary Assembly (which unilaterally defined the above mentioned- role) and the Ministers who, of course have no statutory obligation to appear at the Parliamentary Assembly even more when this is for issues (social, political, cultural) which go beyond the goals of the BSEC founding document. Strangely, national representatives i.e. members of the parliaments of the BSEC member states undertake for themselves the role of making

[16] On the debate concerning the accession of Greece to PABSEC, see PABSEC, 1995a, p. 3; 1995b, pp. 2-4; 1995c, pp. 5-7.
[17] Information based on discussion with member of the Hellenic delegation to the PABSEC, 3 July 2003.

recommendations to the Ministers etc. what in other terms happens in national parliaments. Maybe the authors of the text [Rules of PABSEC] were inspired by other examples (European Parliament, Council of Europe) while forgetting that the ratification of the role of those Parliamentary Bodies was done through Conventions i.e. through ratification by the national parliaments themselves. This shows the urgency of the authors which in most cases reveals the inexperience of the new democracies while in other cases indicates simply the lack of real parliamentary practice. In addition, there is a Secretariat in Istanbul which in addition to other functions, it will forward the results of the Assembly's work to the national delegations, to the Ministries of Foreign Affairs and to other parties.[18]

In the course of 1991, developments in Europe had progressively changed Greece's position. The crisis and subsequent war-fighting in Yugoslavia blocked any effort to reconvene the Balkan cooperation bodies. Fearful of the regional destabilization potential, Greece was reluctant to accept the *faits accomplis* in the area and the collapse of Balkan cooperation (Valinakis, 1994, pp. 227-228). Its participation as a founding state in BSEC was seen as an insurance policy in case of a prolonged disorder in Yugoslavia or diplomatic deadlock impeding the revival of Balkan Conferences. At the same time Greece's participation in BSEC following Ozal's invitation was welcome by Turkey (contrary to what would happen three years later with Greek accession to PABSEC). It, like the inclusion of Armenia, enhanced Turkey's role as a 'bridge' between this region and the Euro-Atlantic space, and supported Turkey's ongoing interest in long term European integration, as well as a reluctance to define its interests in terms of bloc politics and hence to avoid the polarization of critical policy issues (Kirchner, ed., 1997, pp. 45-46).

[18] Information Paper, Ministry of Foreign Affairs of the Hellenic Republic, 9 June 1993 (original in Greek).

Commending on the Greek policy toward BSEC, the Greek Minister of Foreign Affairs, G. Panandreou (2002, p. 18) has argued that until 1995, Greece preferred to adopt a relatively low profile. However, since early 1995, Greece increased its interest and started playing a more active role. Several factors influenced this new attitude:

(a) The progressive disillusionment as to the cooperation potential in Southeast Europe. The ravaging war in Bosnia allowed no realistic hopes for a regional cooperation framework to be re-institutionalized in this part of Europe, thus inviting a fresh new look at other possibilities.

(b) New considerations regarding Greece's position within the EU as a result of the enlargement/deepening process and its role in the neighbouring to the EU countries in the wider Southeast Europe.

(c) Greece came to realize the importance of the challenge it faced as the only EU member in BSEC.[19] As a result, it started to respond and seek to be seen by its BSEC partners as a possible bridge between them and the EU.

(d) Considerations of economic nature also surfaced in Greece and acted as an additional incentive. The Black Sea region came to be seen as constituting a natural economic outlet for the expansion of the Greek private sector. The exploitation of new markets where businessmen and investors did not have access in the past provided new opportunities and dynamism to the Greek economy.

As however, Greek officials have stated, regardless of the economic and security considerations there is another factor that heavily influenced the decision of Greece to engage in initiatives concerning the Black Sea. That has been the existence

[19] "The application of Greece, a member of the EC, to become a member of the Black Sea Economic Cooperation project is clear evidence of the complementary nature of this model and its compatibility with other European groupings", (Ozuye, 1992, p. 52).

of a population of Greek origin in almost all of the new independent states which following the dissolution of the Soviet Union faced immediate survival problems.[20] It was expected that the presence of Greece in BSEC would complement the efforts of the Greek Ministry of Foreign Affairs to provide economic assistance to the Greek communities of the Black Sea.[21]

4.4 Ukraine: a 'buffer' state

Ukraine like the other NIS joined BSEC in an effort intended above all to underline its autonomous presence in international affairs and diversify its international contacts. At the same time, it aimed at reinforcing bilateral and multilateral relations in its immediate vicinity which was undergoing a process of radical restructuring of economic and political relationships. As BSEC was perceived to be serving both aims mentioned above, the newly independent Ukraine was among the Istanbul Summit Declaration (1992) signatories and displayed an active interest in the process.

Subregionalism for Ukraine was a tool in support of its declared policy of neutrality, on the one hand, and its two main foreign policy priorities on the other hand: integration within the European structures and balancing the Russian factor. Ukraine had found itself caught between two conflicting pressures: its desire to join the European institutions on the one hand, and its close economic dependence on Russia on the other (Larrabee, 1996, pp. 143-165; Van Ham, 1994; Strekal, 1995). The country's future participation in the EU has been one of the priorities of Ukrainian foreign policy, while normal interaction with Russia is regarded as a precondition of

[20] In the beginning of the 1990s, the population of Greek origin was estimated in Armenia at 7,000, in Azerbaijan at 2,000, in Georgia at 105,000, in Ukraine at 150,000 and in Russia at 90,000. A large proportion of that population left to Greece following the collapse of the Soviet Union. For further information on the subject see Agtzidis, 1997, pp. 589-698.

[21] Information based on discussion with senior officials of the Greek Ministry of Foreign Affairs, June 2003.

Ukrainian integration into Europe (Kulinich, 1995, p. 131). President Kuchma and other officials have stressed that Ukraine's integration in European structures and a deepening of trans-Atlantic cooperation are the country's strategic goals. At the same time they have added that "though Ukraine will continue to push for full integration with the European Union, relations with Russia and the CIS are equally vital".[22] In his speech at the Moscow BSEC Summit (25 October 1996) President L. Kuchma emphasized Ukraine's determination to define and carry out a general strategy aimed at the country's full-scale integration into European structures, both directly and through regional institutions.

Regional cooperation became an important tool in Ukraine's foreign policy as the latter joined all European organizations[23] putting particular emphasis however in the 'Central European' identity of the country rather than the Black Sea one. It also became a member of the CIS in which twelve of the former Soviet republics participate.[24] However, given Russia's predominance within the CIS, Ukraine did not want to limit its international presence to the CIS framework but sought participation in other regional groups. The main concern of Ukraine throughout the 1990s was to reduce dependence on Russia, particularly in the security sphere, through diplomatic means, collaboration with international organizations or participation in regional cooperation schemes (Rainow, 1999, p. 53). Subregional cooperation thus became a foreign policy tool to increase the international leverage of the country vis-à-vis Russia.

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[22] 'Ukraine: Kuchma stresses stability in Relations with Russia', Foreign Broadcast Information Service (FBIS) - SOV -96-137, 16 July 1996, p. 44; 'Ukraine: Kuchma seeks further Integration into Europe', (FBIS) - SOV- 96-110, 6 June 1996, p. 44.

[23] In February 1994 it became the first CIS state to join NATO's Partnership for Peace (PfP) Programme and the second to be admitted to the Council of Europe.

[24] On Russo-Ukrainian relations see Sherr, 1996, pp. 77-84; Lapychak, 1996, pp. 6-8.

The fact that it was mainly security and geopolitical considerations that underlined Ukrainian's perceptions of subegionalism is clearly manifested in its security-related proposals both in the framework of CEI and BSEC. It therefore promoted the idea of Baltic Sea - Black Sea regional cooperation, i.e. a belt of independent states extending from the Baltic to the Black Sea. Such ideas found however little support, since most of the countries concerned seem to prefer direct links with the EU and NATO (Larrabee, 1996, pp. 158-159).

In conclusion, Ukraine's participation in BSEC was dominated by geopolitical considerations, seen particularly as an effort to diversify its international relations beyond Russia and to present itself as a link between the Black Sea and the Baltic Sea, stressing therefore its Central *European* identity. Furthermore, it wished to take advantage of any opportunities available to overcome the current economic limitations resulting from its dependence on the structures inherited from the former Soviet Union, by approximating its economic and organizational infrastructure to those of the rest of Europe.

4.5 Between Southeast Europe and the Black Sea: Albania, Bulgaria and Romania

Bulgaria and Romania showed their support for the BSEC idea early in 1990 (thus before the collapse of the Soviet Union) and participated in the preparatory meetings. Originally it was their geographic location and the economic and environmental dimension of the Black Sea cooperation that weighted heavily in their decision to join BSEC. Their strategy towards BSEC has however evolved gradually around two factors. First, their EU membership aspiration and second their place within other subregional initiatives that developed in Southeast Europe in the 1990s. Another consideration for both countries has been to 'keep an eye' on the Russian and

Turkish endeavours in an area of strategic importance to their interests. The Albanian case is however different in terms of the fact that Albania although a founding member never showed a strong interest in the BSEC process. As we said earlier, its inclusion in BSEC was advocated by Turkey on the basis of cultural and religious criteria.

Romania and Bulgaria placed emphasis on the fact that they held physical assets for international cooperation within the context of BSEC such as the Danube-Black Sea Canal and the port of Constanza for Romania (Iliescu, 1996, p. 8) and the Varna port for Bulgaria. It was their geographical location rather than their geopolitical importance that brought them into the project and their governments were not enthusiastic from the beginning (Fuller & Lesser et al., 1993, pp. 157-158). Additionally, Bulgaria has stressed the fact that among BSEC members are to be found Bulgaria's most important trade and political partners.

Economic cooperation around the Black Sea was positively assessed only as long as it served their strategic foreign policy goal, i.e. integration in the Euro-Atlantic structures and in particular their EU orientation as both countries became Associate Members of the EU (Hartwig, 2001; Roussev, 1996; Karaganov & Valinakis, 1996). Subregional cooperation has been deemed instrumental since settling all disputes and good neighbouring relations has been a requirement for joining the EU. Bulgaria and Romania thus considered their membership "as a transitional stage of adaptation to the European standards" (Christakoudis, 2000, p. 10). Indeed, after the collapse of the Warsaw Pact, the priorities of these states in their foreign policy orientation were first, the reinforcement of their bilateral and multilateral relations and second, the accessibility to the Western European economic and political institutions (Ecobescu, 1996, pp. 50-65). Both countries estimated that subregional

cooperation among others through BSEC was supporting these objectives. After all, the most important advocates of the two countries in the EU and NATO were also their BSEC partners, namely Greece and Turkey.

In addition, given the war in former Yugoslavia and the subsequent failure of the Balkan Cooperation, the Balkan states found themselves in a situation where both bilateral and multilateral cooperation had become a necessity. In this spirit, both countries attended the Foreign Ministers meeting of the Southeast European Multilateral Cooperation which was held in Sofia in July 1996 and became members of the CEI. Both countries have advocated that participation in various regional structures is not mutually contradictory but rather constitutes a complementary process which helps foster cooperation among and between the various regions: the Black Sea, Southeast Europe and Central Europe (Iliescu, 1996, pp. 3-4).

In regard to BSEC, the main concern of particularly Bulgaria and Romania has been to avoid the 'Russification' of the process or to find themselves under the Russian orbit. Unlike many other BSEC members (particularly the NIS), the Balkan states were presented with other alternatives of subregional cooperation which were more lucrative and were enhancing their European identity. This is the case with Bulgaria's and Romania's application and subsequent admission to the CEI which could be attributed to their desire to be treated as Central European rather than Black Sea countries.

The reluctance of the Balkan states to become fully involved in BSEC is better illustrated by the late accession of Bulgaria to the PABSEC which happed as late as in 1997 during the PABSEC Hellenic Presidency. It was after the joining of Greece itself in 1995 and consultations with the Greek side that Bulgaria was persuaded to join

in.[25] Bulgaria feared that "a closer involvement with BSEC could harm her future relations with the EC (EU) and slow down the process of Euro-integration. Romania has similar fears and doubts" (Christakoudis, 2000, p. 5).

Although a founding member, Albania seemed to have little interest in the process. Included in BSEC upon a Turkish proposal (which aimed to increase the moderate Muslim element in the process) Albania never formulated a BSEC strategy or shared any 'Black Sea identity' with the other BSEC states. It however shared the view of BSEC as a part of the integration processes going on in Europe and a means "to speed up the economic and social development of the respective nations, to help overcome the transition period difficulties and economic restructuring in the area and to make all these economies genuine partners in the evolving European economic space" (Bala, 1996, p. 3). Although Albania saw some economic advantages in the creation of links eastwards (including projects such as the construction of the gas pipeline from the Caspian to the Adriatic port of Vlora) it never had a strong position on how to serve those interests through BSEC. Being geographically remote from the Black Sea, it has placed priority in developing contacts westwards.

4.6 Small state policy: Armenia, Azerbaijan, Georgia, Moldova

BSEC membership for a number of NIS (Armenia, Azerbaijan, Georgia and Moldova) marked their entry into international networking. Signing the February 1992 agreement to establish BSEC was for many of them the first international act. We have to recall here that their political elites were familiar with the BSEC process as

[25] Information based on discussion with member of the Hellenic delegation to the PABSEC, 3 July 2003.

they had participated in the elaboration of the preparatory BSEC documents in 1990 and 1991 as members of the Soviet Union team.

Subregionalism was not initially perceived as a means of economic development but as a way to reinforce bilateral and multilateral relations. As newcomers to the international scene, the NIS had an additional motive to emphasize cooperation as a way to foster statehood, consolidate their national identity and increase the legitimacy of their governments.[26] Indeed, for many of these countries BSEC was the first international forum in which they participated under their new flag and not under the umbrella of the Soviet Union. What was important in 1992, was the recognition of the statehood of all new independent states not just by the international community but above all by the countries in their immediate neighbourhood and above all by Russia. BSEC provided the ideal forum for that.

A second motivation was to open up links of communication among the political elites in the area. Six out of nine states around the Black Sea and the Caucasus were lacking established links of communication with their neighbours. BSEC was generally expected to reduce to a certain extent political tensions and to create favourable conditions for direct contacts between leaders and experts. Fearful of isolation and of an unstable regional framework, these states opted for a subregional system of cooperation which allowed for more predictability, interaction and a reduction of tensions.

As statehood was taking root, political economy and broader foreign policy considerations weighed more heavily. First, subregionalism was used to support the transition period and consolidate their independence. Second, as all countries developed institutionalized links with the European Union, their participation in

[26] Interview, Valery Chechelashvili, 6 December 2001.

subregional structures was used to confirm their good neighbourly relations. Regional cooperation was expected to be politically and economically rewarded by the European Union.

In fact preserving communication links in the subregion was vital in the early 1990s as many of the NIS were, directly or indirectly, involved in conflicts with their neighbours (see Chapter 4). Therefore, it was BSEC meetings which back in early 1990s offered the only permanent forum of communication between the political elite of the Armenia and those of Turkey and Azerbaijan. Particularly for Armenia, which was under trade embargo, BSEC was important in breaking the country's isolation and gaining guarantees for its national security. Those were Armenia's primary foreign policy objectives[27] which would be better served through rapid integration into the world economy (Adalian, 1995, p. 312) and BSEC was a first step towards that direction. Deprived of access to the Black Sea or any other sea, and with strained relations with its neighbours, Armenia required a regional system of cooperation with an emphasis on the opening of transport routes and free circulation of goods. In this regard, Armenia became gradually more interested in addressing issues of practical cooperation in the field of infrastructure and trade cooperation.

A stable environment around the Black Sea was also a priority for Azerbaijan in view of the construction of new oil pipelines and the security of the unimpeded flow of oil emanating from the shores of the Caspian. Even though subregional groups such as BSEC could do little if anything to directly influence decisions on energy production and transportation, their contribution in cultivating cooperative attitudes was important to Azerbaijan. Regional cooperation was also important for

[27] The other objective is to the question of Nagorno – Karabakh.

the country's political elite in its efforts to secure legitimacy, international recognition and break its isolation.[28]

Particularly for Georgia which at that time was torn by civil war and whose state structures were far from being consolidated, BSEC was the only means of communication with the neighbouring countries while it served as a 'training' forum for managing international affairs.[29] Georgia's support to BSEC was further based on the latter's extended geographic delineation from East to West (Caspian Sea to the Adriatic), which stressed the importance of the Black Sea as a major trading route and put forward the idea of the Euro-Asian Corridor. This axis would facilitate the free movement of goods, services, and capital and eventually lead to an arc of stability in the area (Chikvaidze, 1994, p. 115).

Not unlike other countries from within the area, for Moldova too, BSEC was perceived as a forum to consolidate its sovereignty. In its 'Principal directions of foreign policy for the period: 1998–2002' the Moldovan government listed multilateral cooperation among its four main priorities (Lowenbhardt et al., 2001, p. 617).[30]

For the newly independent states (excluding Russia) the choice of subregionalism was not underwritten by any conceptual foundation or by clearly identified interests vested in the process.

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[28] In 1992 the US Congress demanded the suspension of most forms of US aid until there was an end to the economic blockade of Armenia. On Azerbaijan's politics see Fuller E., 1996, pp. 35-39; Alieva, 1995, pp. 286-307.

[29] Interview, Valery Chechelashvili, 6 December 2001.

[30] The other three are i) consolidation of sovereignty and independence, ii) integration in the EU, and iii) bilateral cooperation.

5. Conclusion

Broadly speaking there are three types of motivations that theory identifies in forging regional arrangements: geopolitical interests, political economy considerations and domestic rooted interests. As we indicated here, BSEC is a case where geopolitical interests have prevailed.

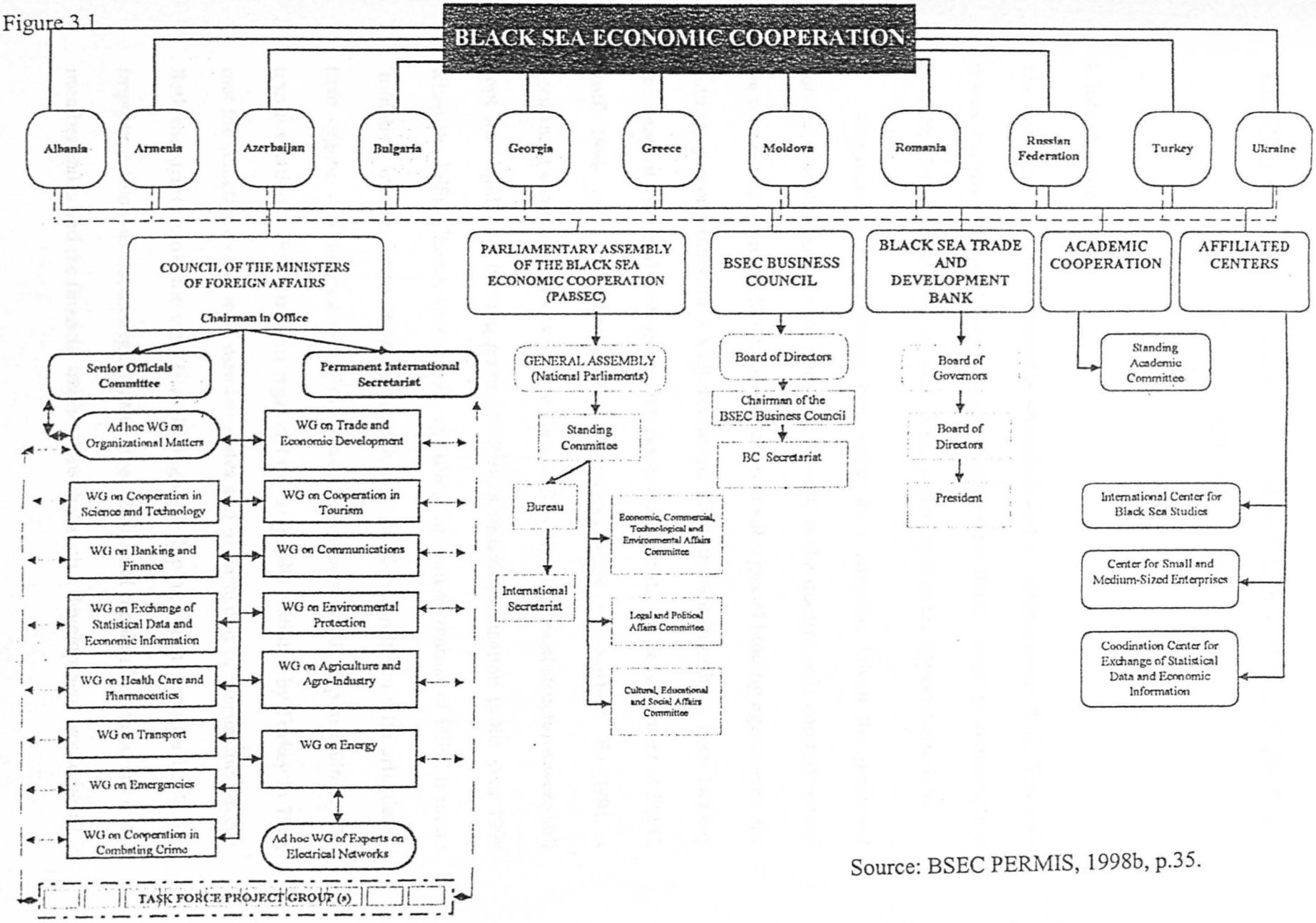
Since BSEC is an elite-driven process we deemed it necessary to explore the agenda and interests of the BSEC member states. This endeavour was also motivated by a lack in the literature regarding the motivations of all BSEC members. First, we need to keep in mind that BSEC is not merely a post-Cold War structure but it has set an example of the liberal foreign policy envisaged by Ozal at the end of 1980s. It was nevertheless, soon overtaken by political developments in the area. Despite the rhetoric on the economic character of subregionalism - which might be partly attributed to the influence of Ozal's ideas - BSEC developed primarily as a foreign policy tool to serve the strategic priority of the political elites in the newly independent states; their 'return to Europe'.

Beyond, however, the common ground provided by the 'return to Europe' call, little commonality was to be found in the members' agendas. Given the wide diversity of BSEC members and their con flicting foreign policies, it has become difficult to identify common interests behind BSEC that would shape real consensus on how BSEC should function. Therefore, one of the fundamentals upon which BSEC has evolved is a minimum of a common understanding of what BSEC represents and what interests serves.

We have identified two aspects that have been ignored by the literature on BSEC. First, there has been no research on the role of leadership and its beliefs and ideas in shaping the character of the initiative. On the contrary BSEC has been simply

pictured as a product of and response to systemic changes in post-Cold War Europe. Earlier in this chapter we cast some light on the way that a shift in the leadership (and its ideology) particularly in Turkey and the former Soviet Union (Russia) underwrote the conceptual basis of subregionalism and of BSEC. The second aspect not covered in the literature is a detailed research on BSEC itself as an organization and mode of governance as well as an investigation of the factors that shape its reconfiguration. The subsequent chapters address those issues, starting with the presentation of the institutional aspects of BSEC.

Figure 3.1



Source: BSEC PERMIS, 1998b, p.35.

CHAPTER 3. AN INTERGOVERNMENTAL MODE OF COOPERATION: THE INSTITUTIONAL SETTING

1. Introduction

The definition of BSEC subregion is strongly linked to institution-building. Although it was initially envisaged that subregionalism within BSEC would be characterized by institutional parsimony, cooperation soon developed in the opposite direction.

Organizational complexity may come as a surprise. Given the persistent politico-security problems and mistrust as well as the questionable commitment of the member countries to the implementation of subregional binding agreements, the political preconditions for a well-developed institutionalization have been lacking. The years of 1994 and 1998 are landmarks in the institutional development of BSEC. Until 1994, permanent bureaucratic structures were non-existent. By 1994, a permanent secretariat was established but BSEC's organizational structures were still kept less rigid. The turning point for BSEC's institutionalization is the year 1998 when the BSEC Charter was signed signalling the transformation of BSEC from an 'initiative' into an 'international economic organization' equipped with articulated, firm organs and mechanisms with increased capacity and responsibilities. The transformation of BSEC into an organization, originally initiated by Turkey in 1996, met the reluctance of several member states and in particular of Russia and Greece. Both countries shared the view that although developing a legal basis for BSEC was important, this was not an urgent issue given the actual capabilities/resources of the member states and the financial implications that such a development would bear.[1]

[1] On these views see Chapter 5.

What are the main forms and features of institutionalized subregional cooperation? How is this linked to the actual decision making mechanisms and the redirection of the loyalties of the national based centres, if any? What does the institutionalization and decision making process show about the nature of subregionalism? Those are the questions to be addressed hereafter.

2. The institutional design

The process of BSEC's institutionalization has lasted for a considerable period, it has absorbed a lot of resources and it has attracted most of interstate bargaining. It is worth mentioning that a formal type of cooperation is encountered at all levels of interaction be that intergovernmental, inter-parliamentary, sub-state or business-related. Notwithstanding a web of permanent secretariats, working groups and committees, those institutions have failed to create a regional regime in terms of multilateral agreements, conventions not to mention common attitudes. In fact, the existence of subregional institutions *per se* has provided the main argument or proof for the existence of the BSEC subregion itself.

The structure of BSEC resembles that of many other European subregional formations but exhibits a higher degree of institutionalization (figure 3.1). The fact that BSEC is an organization rather than a forum or an initiative justifies partly its well-developed institutionalization. Other reasons for the necessity of such a web of organs was the absence of prior or other subregional structures of this scope; the reluctance of its members - at least at the early stages - to take major decisions other than the ones related to the internal affairs of BSEC; the need to accommodate and balance national interests vested in BSEC institutions; the effort to create vested interests by tying together the member states around common organs; the urge to

demonstrate to the rest of Europe that institutionalized relations with neighbouring countries are a priority for the newly established states around the Black Sea and thus such an attitude should be politically rewarded.

However, in 1992 the intention of the founding members was to create a scheme of economic cooperation with the least possible bureaucracy. The sole institution foreseen in the Istanbul Declaration (1992, para.17) was the Meeting of the Ministers of Foreign Affairs to be convened "regularly on rotation basis at least once a year in order to review progress and to define new targets". The participating states refrained from creating an international secretariat as it was seen necessary "to ensure institutional flexibility" (BSEC, 1992a, para.17). They proposed however, the establishment of a Black Sea Foreign Trade and Investment Bank, renamed when established to Black Sea Trade and Development Bank, in order to expand economic and commercial cooperation. BSEC functioned during its first two years of existence without a secretariat, its administrative load undertaken by the Ministries of Foreign Affairs of the member states and in particular by the Turkish Ministry of Foreign Affairs.[2] This system however, was soon to be changed and in 1994 it was deemed necessary to establish a permanent bureaucratic structure for the administration of the BSEC affairs. This change was also a sign that the role of the governments in the BSEC process, which was initially perceived as subordinate to the role of the private initiative, was going to increase.[3] Institution-building became so complex that it was later contested. The document that sets out the strategy of BSEC for the future identifies "too much bureaucracy" as an obstacle to the development of effective multilateral cooperation (BSEC, 2001, p. 2).

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[2] 'Progress Report of the Operations and Activities of the BSEC Permanent International Secretariat (March – June 1994)' in BSEC PERMIS, 1995, p. 99.
[3] Interview, Tansu Blenda, January 2002.

The BSEC Charter (1998), apart from summit meetings and meetings of the Council of Ministers of Foreign Affairs, envisages subsidiary organs formed upon the decision of the Council (Chapter IV and V). It also envisages a troika system, a committee of senior officials, a permanent secretariat and a chairmanship. Apart from those, a number of Related Bodies are also recognized in Chapter VII of the Charter, being of mainly consultative nature: a Parliamentary Assembly; a Business Council; a Development Bank and other Affiliated Centres.

The eleventh MMFA (30 April 1998) decided to establish the position of Permanent Representatives and Permanent Missions to BSEC whose role would be to follow the main subjects being negotiated in the Subsidiary Bodies and the Council and to maintain links with all of the other BSEC institutions. The Summits of Heads of State and Government organized at irregular intervals determine the strategic direction of BSEC. Six Summits of BSEC have so far taken place (in Istanbul, 1992; Bucharest, 1995; Moscow, 1996; Yalta, 1998; Istanbul, 1999 and Istanbul, 2002).

The Chairmanship

In the early years of BSEC, the Chairmanship was responsible for the bulk of organizational and policy matters. Its role however, became more marginal in the latter years as the Charter did not leave much room for policy initiatives to come from the Chairmanship (BSEC, 1998a, art. 13). It envisages rotating Chairmanship every six months and the Chairman-in-office (Minister of Foreign Affairs) prepares the agenda, coordinates and chairs meetings at all levels but always under the recommendations of the Council while it represents the organization in the international arena.

Although the Chairmanship prepares the program of activities of the organization and gives the direction of its work, it has played a marginal role. The Work Programs of the Chairmanships which were introduced during the Moldovan Chairmanship in 1997, have been very general in terms of their political directions indicating no intention by the member states to promote a particular dimension of the organization or to pursue their own priorities through BSEC.[4]

The Council of Ministers of Foreign Affairs

The decision-making body of the intergovernmental component is the Council of Ministers of Foreign Affairs - MFA (prior to 1999 called the Meeting of Ministers of Foreign Affairs - MMFA).[5] The Council functions on a regular basis and meets no less than every six months taking all policy decisions, establishing working groups and granting observer status to new states. In April 1995, the Troika System was introduced in an effort to increase coordination and efficiency but it has played no prominent role until today.

The agenda of each session of the Council is worked out by the Committee of Senior Officials representing the Ministers of Foreign Affairs. The Meeting of the Senior Officials is held regularly before the Council Meetings and whenever deemed necessary. The Committee is entrusted with a variety of competencies. It has a central place in the function of the organization and the decision-making process as it reviews the activities of the subsidiary organs, evaluates the implementation of decisions of the Council and elaborates recommendations to it. It also considers issues related to coordination and cooperation with BSEC Related Bodies,

[4] The Work Programs of the Chairmanships are available at http://www.bsec.gov.tr
[5] Hereafter called the Council.

organizational aspects of the BSEC activities, and the elaboration of the preliminary calendar of events. It takes decisions on relevant matters except the issues under the competence of the Council and the Chairman and submits to the Council for approval the annual budget of BSEC (BSEC, 1998a, article 15).

The Subsidiary Bodies

Working Groups (WGs) and Groups of Experts (GEs) are the basic Subsidiary Bodies which carry the main bulk of work for BSEC. They are established by the Council which has the power to terminate their mandate if their work is accomplished or when in general it is deemed necessary. These bodies are assigned to draw up the cooperation projects as well as to consider the possibility of implementing joint projects in their respective areas of activity (BSEC, 1993, art. 5, par. 3). The Subsidiary Bodies adopt recommendations that "are for the consideration of the Council of MFAs" and "will bear effect upon their approval by the MMFA" (BSEC, 1993, art. 19). These bodies have been functioning on a rather regular basis. There are eleven WGs established by the Istanbul Declaration: a) agriculture and agro-industry, b) informatics, c) science and technology, d) tourism, e) energy, f) veterinary and sanitary protection, g) exchange of economic and commercial information, including statistics, h) health care and pharmaceuticals, i) mining and processing of mineral raw materials, j) standardization and certification of products, and k) transport and communications, including their infrastructure. This latter WG in November 1993 split into two WGs, one on transport and another one on communications. As BSEC moved towards the 'soft' security field, two more WGs were established in 1998: one on combating crime and one on emergency assistance.

There are no permanent representatives in the WGs but they consist of specialists of the relevant national ministries. The Ministry of Foreign Affairs controls all communication, distributes the documentation and decides upon participation, prepares and coordinates the national positions. The WGs mostly negotiate over detailed proposals for BSEC action on the basis of drafts from national delegations, the Secretariat and interested third parties. The Council usually indicates earlier to the Secretariat or the WGs that it requests a recommendation on a particular issue. Something like ninety per cent of the Council's texts is agreed in WGs, another nine-ten per cent at the Senior Official Meetings, leaving only the signing or one per cent to the Council itself. The proceedings of the WGs are managed by the Chairmanship while for the preparation of the agendas the Secretariat plays an important role, always under the guidance of the Chairmanship. The WGs act as fora for discussion on BSEC projects and proposals. They do so through negotiations, by trying to establish a consensus. Habits of consensus seeking are deeply ingrained and actual votes are relatively rare, even when technically possible.

The institution of Country Coordinators for the WGs was first introduced in 1998 (Sofia, Twelfth MMFA) and it is implemented on a rotation basis of two year term. The level of mobilization of the country coordinators until now was comparatively limited. The country coordinators present a two-year Plan of Action in the relevant sphere of cooperation; consult with each successive Chairman-in-Office on the manner in which the latter would integrate the priorities of the country coordinator in the Chairmanship program of activities; are responsible for convening at least one meeting of the Working Group annually; may chair or co-chair meetings of the WGs whose activities they coordinate; establish a focal point, a person or

service, who is the contact point for the PERMIS, the Chairmanship and the member states.[6]

Figure 3.2 and 3.3 provide information on the frequency of the BSEC Meetings and the Subsidiary Bodies. In general the number of meetings throughout the years has remained relatively stable with small variations, with a noticeable increase since 1998. A few of the WGs such as the ones on health care and pharmaceutics, mining and processing of mineral raw materials, standardization and certification of products, veterinary and sanitary protection remained inactive throughout the years. The lack of interest of the member states, of expertise as well as the technical nature of the subjects made those WGs defunct. With the exception of the WG on health care, which was held once in 1996, the others were never convened. Transport and communications (23 meetings), followed by the WG on organizational matters (11 meetings) have by far attracted most of BSEC resources. The large number of organizational sessions is easily explained due to the internal needs of BSEC's constant institutional evolution and enhancement. The WG on transport is the most successful one not only in terms of the frequency of meetings but also in terms of outcome. The intensive function of this WG is to be attributed to its interface with transport projects of other organizations (such as the EU and the UNECE).

At the same time, Groups of Experts (GEs) have been established on an *ad hoc* basis to prepare the technical aspects of an agreement or of a specific project such as 1) technical cooperation in the field of tourism, 2) transport networks, 3) electrical networks, 4) promotion of technology transfer and 5) promotion and protection of investments.

[6]'Terms of Reference for the Institution of the Country Coordinator' in BSEC, 2002b.

Figure 3.2 Frequency of Subsidiary Bodies, 1992 - 2002
Source:Figure based on information provided by BSEC PERMIS, Istanbul, 2002

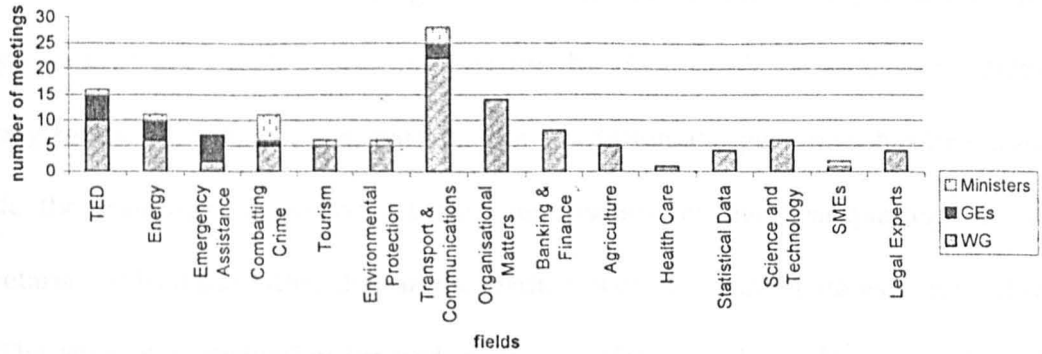
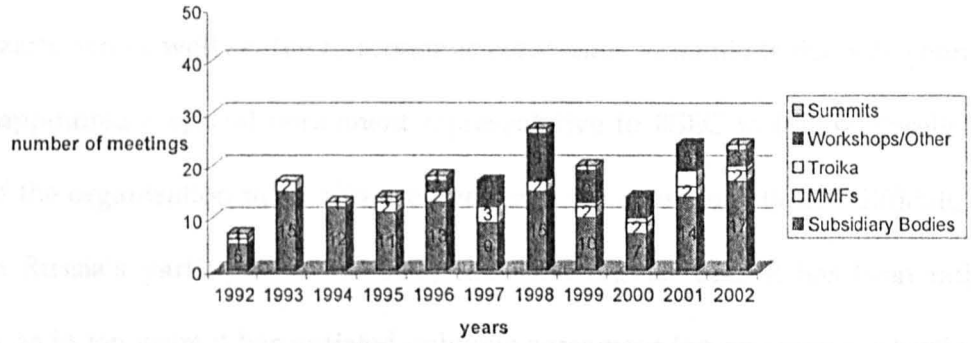


Figure 3.3 Number of BSEC meetings, 1992 – 2002
Source: Figure based on information provided by BSEC PERMIS, Istanbul, 2002



Participation in the BSEC meetings varies but is relatively high (figure 3.4). Russia, Turkey, Ukraine and Romania are the most frequent participants, followed by Greece. The least involved country in the work of the Subsidiary Bodies is Azerbaijan, followed by Armenia, Albania and Moldova while Bulgaria and Georgia are in the middle. Apart from the frequency of participation what is of more importance is the fact that in several cases the member states are represented not by officials from the national institutions but by their diplomatic representatives in the country where the meeting is held. There is no regularity as far as the participants are concerned, and whenever diplomatic personnel participate in meetings, they act

as observers with no power to bargain and reach agreements.[7] The problem of the irregularity of participation was pointed out by BSEC itself as early as in 1995.[8] During the last couple of years, participation by diplomatic personnel has increased while the meetings of the WGs have been realised at the headquarters of the Secretariat, in Istanbul rather than in the territories of the member states as it used to be. The level of participation for each country differs and depends on a variety of reasons. Armenia's poor participation, especially at the early stages of BSEC, is due to the lack of diplomatic relations with Turkey, where several meetings are held, and with Azerbaijan as well as due to economic constrains. Armenia is the only country which appointed a special permanent representative to BSEC to follow closely the work of the organization in an effort to overcome the above mentioned difficulties.[9] Though Russia's participation has been the most regular one, it has been rather passive, as in ten years it has initiated only one agreement (on emergency situations) while it has not signed the Additional Protocol on the Agreement on Combating Organized Crime and the Memorandum of Understanding on Road Transport Facilitation (table 3.4). At the same time, there are some striking absentees such as the frequent absence of Azerbaijan from the WG on energy. Albania's limited involvement in the work of the Subsidiary Bodies has been mainly due to poor interest as it has increasingly paid more attention to other subregional structures

[7] Participant's observations. Also information based on the List of Participants in the Meetings available at the BSEC PERMIS.

[8] "...taking into account the fluidity of the composition of national delegations to the meetings of WGs and GEs, it will be desirable to appoint delegates on a more permanent basis so as to ensure better continuity of the activities of the BSEC bodies and a more effective follow-up process" quote from 'Progress Report on the Operations and activities of the BSEC Permanent International Secretariat (April-October 1995)' in BSEC PERMIS, 1996, p. 24.

[9] For all other member states, the duties of the special representatives are performed by their diplomatic missions in Turkey.

established in its immediate Southeast European neighbourhood such as the Stability Pact.[10]

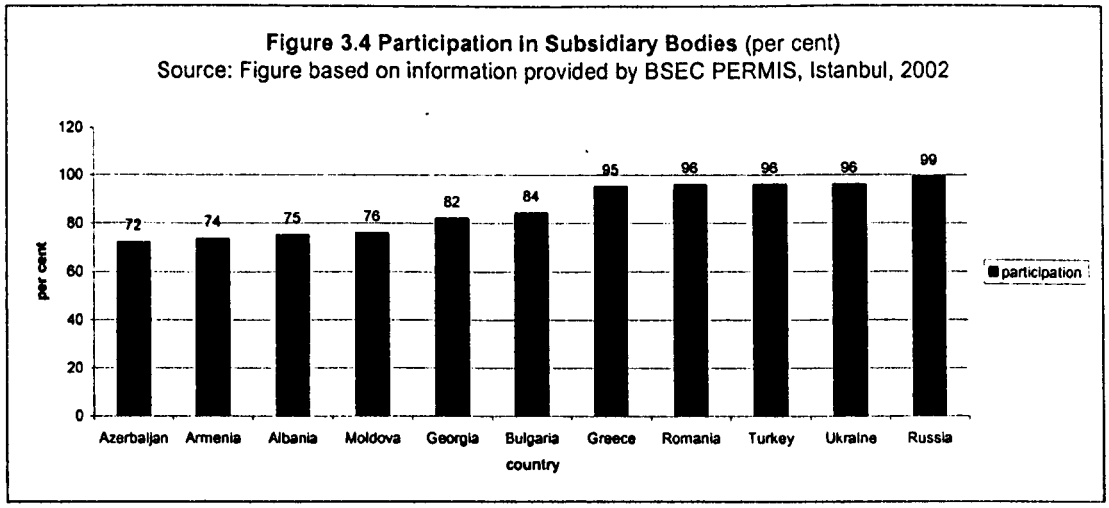


Figure 3.4 Participation in Subsidiary Bodies (per cent)
Source: Figure based on information provided by BSEC PERMIS, Istanbul, 2002

Meetings of Ministers other than the Ministers of Foreign Affairs are also considered Subsidiary Bodies. Those take place on an *ad hoc* basis and their operation is subjected to the program of the Chairmanship. They may adopt Joint Declarations and Action Plans but their deliberations require the approval of the Council of Ministers of Foreign Affairs. Indicating the existence of basis for consensus around functional issues until today Ministerial meetings have been held in the field of transport and communications, energy, environment, SMEs as well as in the domain of 'soft' security. Such meetings although not realised at the early stages of BSEC, are held regularly since 1996 to meet the need of increasing the authority and efficiency of the Working Groups whose attendance was considered poor.[11]

[10] Albania's participation in the Stability Pact meetings is more active and regular. In his speech delivered at the Third BSEC Council of MFA (Bucharest, 20 October 2000) the Minister of Foreign Affairs of Albania, Pascal Milo referred almost exclusively to the Stability Pact rather than BSEC.

[11] "... on the basis of positive experience of some regional structures (for example APEC), the Participating States may wish to consider the possibility of either upgrading the Working Groups on Energy, Transport and Trade and Industrial Cooperation to the Committee level, which would ensure the participation in their activities of respective Ministers or their deputies, or to create committees in addition to the WGs" quote from 'Progress Report on the Operations and activities of the BSEC Permanent International Secretariat (April-October 1995)', in BSEC PERMIS, 1996, p. 24.

Although meetings of Ministers have become necessary for the conclusion of agreements and Action Plans on specific issues, their weight in the decision making process is limited as the only organ entitled to decide remains the Council. Documents thus adopted by the ministerial meetings are not valid until endorsed by the Council. The seniority of the Council rests, first, on the presumption that foreign ministers have an overarching and coordinating role inside the member governments. Second, it rests on the domination of foreign policy concerns in the intra-regional affairs which meant that any agreement reached should also be consistent with the foreign policy/security priorities of the members.

The Permanent International Secretariat

The Permanent International Secretariat (PERMIS) of BSEC established by an MMFA decision, works under the authority of the BSEC Chairman-in-Office, in full capacity in Istanbul as of 10 March 1994. It is headed by a Secretary General and its main tasks are of a strictly administrative and technical nature. The staff of the PERMIS makes up the BSEC civil service, formed by diplomatic personnel appointed across the member states. The diplomatic background of the small bureaucracy that runs BSEC affairs and the lack of experts has been another indication of the primarily politically oriented approach that member states have taken to the BSEC process. The role of the PERMIS has been confined to providing administrative and secretarial support to the meetings, acting as a centre of communication and exchange of information.

The PERMIS has however reached its limits vis-à-vis the real needs of the new phase of BSEC which requires more control on project elaboration and implementation (BSEC, 2001, p. 26). Moving towards this direction, the PERMIS has initiated regular meetings among the Secretariats of the BSEC Related Bodies on a

consultative basis (the first meeting held in 2001). The BSEC Charter recognized that the PERMIS should become a dynamic and effective organ at the core of BSEC, but it did not grant the Secretariat additional functions and responsibilities. The member states are still reluctant to transfer any of their policy-making powers to a central bureaucratic structure. The division of labour and responsibilities between the PERMIS and the Chairmanship is today an issue of debate.

3. Multilevel governance

A feature of the BSEC landscape is its intention to open direct contacts between BSEC bodies and the subnational levels of governance. The rationale for this rests on two points. First, it was considered that national governments should not monopolize the contacts within the subregional policy-making level and second, that engagement at the BSEC level would reinforce the phenomenon of regionalization. To achieve the above, three policies were applied which we examine hereafter: i) establishment of Related Bodies, ii) sectoral dialogue with NGOs, and ii) support for substate interaction.

3.1. BSEC Related Bodies

The BSEC Charter (Chapter VII, art. 20) recognized three Related Bodies that "...shall perform their functions in accordance with their basic instruments and with due respect to the principles of the BSEC set forth in the 'Summit Declaration on BSEC' ...". Those are the Parliamentary Assembly of the BSEC (PABSEC), the BSEC Business Council (BSEC BC) and the Black Sea Trade and Development Bank (BSTDB). The Related Bodies however, have very loose institutional links with the

organization itself and the basis of their interaction is strictly consultative. Additionally, BSEC decisions are not mandatory for them while the latter cannot impose their decisions on the organization.

The Parliamentary Assembly

The PABSEC was established by a Declaration on 26 February 1993 by the Parliaments of nine states (Albania, Armenia, Azerbaijan, Georgia, Moldova, Romania, Russia, Turkey and Ukraine). The Hellenic Parliament became a full member in 1995 and the Assembly of Bulgaria in 1997.

The administrative work of PABSEC is carried out by a Permanent Secretariat and the Assembly's main bodies are the Presidency, the Bureau and the Standing Committee. Its President is appointed from among the speakers of the parliaments of the member countries in alphabetic rotation for six months. The Assembly consists of national delegations whose members are deputies of national parliaments. Population is the criterion of the size of each national delegation. At the present the Assembly consists of 70 members - Albania, Armenia, Moldova (4 seats each), Azerbaijan, Bulgaria Georgia (5 seats each), Greece (6 seats each), Romania (7 seats each), Turkey, Ukraine (9 seats each), and Russia (12 seats each) (PABSEC, 1993).

The bulk of work is realized by the three PABSEC Committees: i) the Economic, Commercial, Technological, and Environmental Affairs; b) the Legal and Political Affairs, and c) the Cultural, Educational and Social Affairs Committee. The Committees meet on a regular basis to discuss relevant problems and submit their reports and recommendations to the General Assembly which after being approved are forwarded to the BSEC Council for consideration.

The basic functions of the PABSEC are laid down in its founding Declaration as follows:[12]

- to provide the legal ground for the realisation of the principles and the goals of respect for human rights, rule of law and democratic values as embodied in the Declaration signed on 25 June 1992 by the Heads of State and Government of the Participating States of the Black Sea Economic Co-operation, as well as the Bosphorus statement issued on the same date,
- to assist and contribute to the realisation of these principles and goals,
- to provide for the democratic participation and support of the peoples by communicating the principles of the BSEC to the people of participating states with the help of the parliaments considering the important role of the parliaments and the parliamentarians will play,
- to develop friendly relations and co-operation between the parliamentarians and Parliaments of the BSEC Participating States, thus further promoting the atmosphere of confidence and good neighbourhood among peoples,
- to help the BSEC Participating States to act in concert in the international organisations to which they are parties.

The decision-making process in the Assembly is on a majority basis. Reports and recommendations after being debated within the Committees are adopted by the General Assembly by majority. However, all important decisions are taken by the Standing Committee and require consensus. The work of the Assembly shows that the actual bargaining process is moderate and the negotiable documents reflect an effort to maintain consensus among the members, leaving aside controversial issues.

The Assembly has developed its own agenda parallel to the work of BSEC but its influence is limited as its recommendations are not followed by action either by the member states or BSEC organs. The Assembly has however played a significant role in expanding the BSEC agenda. It was the first body to engage in social, cultural

[12] 'Declaration on the Establishment of the Parliamentary Assembly of the Black Sea Economic Cooperation' in PABSEC, 1994, p. 7.

and soft security matters.[13] Much before BSEC itself placed similar issues on its agenda, PABSEC recommendations were forwarded to the Council on issues of combating organized crime and trafficking in people. Its Cultural Affairs Committee is the only subregional forum where cultural and social matters (such as protection of cultural heritage, social reintegration of jobless people, etc.) are addressed.

PABSEC has tried to insert itself more effectively into the decision-making process but its powers are limited as the BSEC Charter states that the Assembly "...provides consistent support to the Black Sea cooperation process on a consultative basis" (BSEC, 1998a, art. 20). The Council bears no other obligation apart from simply taking into consideration the PABSEC recommendations. The document on the 'Relations between the BSEC and the PABSEC' approved in April 1996 by BSEC is of a general nature indicating the opposition of the Council to give more powers to the Assembly. Therefore, it simply refers to the necessity of measures by the Assembly to realize legislation necessary to put into action the Council's resolutions and decisions and to mutual participation at each other's sessions at various levels.

The BSEC Business Council[14]

The first structure to receive observer status in BSEC in December 1992 was the BSEC Business Council (BSEC BC). The BSEC BC was established on 6 December 1992 with the aim to contribute to private and public sector cooperation in line with the

[13] Recommendations have been forwarded to the Council among others on: 'Cooperation among the PABSEC Member Countries in Combating Organized Crime' (Recommendation 15/1996), 'Social Guarantees during the Transition Period in the PABSEC Member Countries' (Recommendation 14/1996), 'Guidelines of the Program of the Protection of the Cultural Heritage in the Black Sea Region' (Recommendation 18/1996), 'Rights and Social Protection of Refugees and Displaced Persons in the Black Sea Region' (Recommendation 21/1997), etc. (available at www.pabsec.org).
[14] We examine the BSEC Business Council in detail in Chapter 4.

objectives of BSEC (BSEC Business Council, 1992, art. 1). It was initially seen as the locomotive of economic activities in the region, in line with the Turkish concept of a business-led BSEC process and it was created on the basis of bilateral associations of Turkish businessmen. Its main scope of activities is to identify private and public investment projects and develop a network of contacts through the existing channels of bilateral business councils. Today it operates through its Secretariat based in Istanbul and it is run by a Board of Directors, headed by the Chairman who rotates on a six-month basis. Although its establishing agreement envisaged the operation of 14 WGs (energy, transportation, telecommunication, trade and industry, banking, finance and insurance, fair trade practices, harmonization of commercial legislation, tourism, environment, agriculture, mining, training, business information, research & development, and technological cooperation) recommending measures to the BSEC, such WGs have not been formed.

The functioning of the BSEC BC has been hindered by the underdevelopment of the business sector across the Black Sea. In spite of that, it has become increasingly more involved in BSEC affairs as it has been a main source of knowledge and expertise. It has lobbied BSEC for the generation of new policies and instruments in particular in the fields of SMEs, transport and project financing. Its role, however, remains consultative just like all other Related Bodies (BSEC, 1998a, art. 21).

The Black Sea Trade and Development Bank

The idea of a regional financial institution has to be traced back to the Summit Declaration on BSEC (1992, art. 15) which refers to the possibility of establishing a 'Black Sea Foreign Trade and Investment Bank' which was followed by the 'Agreement Establishing the Black Sea Trade and Development Bank (BSTDB)'

signed in Tbilisi on 30 June 1994. The BSEC member states had realized that for the BSEC's plans of economic development to flourish, a developmental machinery was necessary. Thus, the financial component of BSEC, i.e. the BSTDB, was formally established in 1998 with its headquarters placed in Thessaloniki (Greece).

The Bank's three largest shareholders are Greece, the Russian Federation and Turkey with 16.5 per cent each of the total subscribed capital. Bulgaria, Romania and Ukraine account for 13.5 per cent each with the five remaining members, Albania, Armenia, Azerbaijan, Georgia and Moldova each contributing 2 per cent of the total subscribed capital. The Bank benefits from a subscribed capital base of 1 billion Special Drawing Rights (approximately $1.35 billion) and concentrates primarily on the following areas: i) project finance, including economic infrastructure investments with strong cooperation and development impact, preferably involving participation of several member countries, ii) trade finance aimed at fostering trade and economic cooperation among member countries, and iii) private enterprise sector development by providing credit lines and equity investments, in particular to medium sized companies.

There is no institutional link between the Bank and BSEC. It was only in 2000, that the Council adopted a text on the 'Modalities for BSEC-BSTDB interaction' which identifies the areas and mechanisms of interaction but still has a very loose approach including only participation in each other's meetings, regular high-level meetings for the coordination of the activities of the two bodies and information exchange.[15] Nevertheless, the Council has no authority over the financing activities and projects of the Bank which is an independent financial actor.

[15] 'Modalities for BSEC-BSTDB Interaction' (Chisinau, 27 April) in BSEC PERMIS, 2002, pp. 65-67.

3.2 Sectoral dialogue

Article 19 of the BSEC Charter refers to 'sectoral' dialogue with international organizations and institutions while Article 24 refers to *Affiliated Centres,* which are established upon approval of the Council to serve all the interested states on specific areas of cooperation. Affiliated Centres have an advanced level in BSEC recognized as Related Bodies but their work is taken into account by the Council only on a consultative basis.

BSEC's multilevel approach of including non-governmental actors in the policy-making process reflects its effort to shift attention from politics to entrepreneur and civil-oriented images of subregionalism. It aimed at turning BSEC into a developer of networks of experts or epistemic communities while it served the purposes of: i) involving experts as promoters of ideas and techniques and ii) involving groups from the civil society in the WGs of the organization in brainstorming - rather than negotiating mode - through an institutionalized dialogue with specialized groups.

The International Centre for Black Sea Studies (ICBSS) is the first Affiliated Centre which was set up in Athens in 1998 with the task of carrying out policy-oriented and practical research aimed at the realization of the BSEC goals. It functions as the think-tank of BSEC, stimulating the scientific potential and getting the academic community involved into the process. Its legal status has been strengthened being recognized as the 'facilitator/coordinator of the Academic Cooperation' (BSEC, 1998a, article 23) and thus an *ad hoc* Related Body. The Statute of the ICBSS (art. 4, paras. 1, 3) guarantees the openness of the centre to all the member states and the organization as such through the *de jure* participation of the Secretary General of the BSEC PERMIS in the Board of Directors with full voting power. The

ICBSS functions under the guidance of the Council and it has played a significant role in directing the work of the organization. The first draft of the Economic Agenda for the Future, the document that sets out the organization's policy priorities for the years to come, was elaborated by the ICBSS. The ICBSS also lobbied and succeed in organizing the first group of experts on security issues which has been placed on the agenda of BSEC.

Furthermore, a network of specialized centres and NGOs has a sectoral dialogue of partnership with BSEC. Those include the BSEC Coordination Centre for the Exchange of Statistical Data and Economic Information (Ankara), the Balkan Centre for SMEs (Bucharest), the Black Sea Regional Energy Centre (Sofia), the Black Sea International Ship-owners Association - BISNA, the Black Sea Region Association of Shipbuilders and Ship-repairers-BRASS and the Black Sea Universities Network - BSUN (Sofia).

This multilevel approach has managed to generate a web of partners but the networks established are without power to influence decision-making. In the next section we focus on the subnational level to indicate that despite the increase of interaction among actors at the subnational level those have not been benefited by policy empowerment as a result of their engagement in BSEC.

3.3. The substate level

Subregionalism was soon to be followed by formal microregionalism[16] as an effort of the local authorities to enhance governance at the substate level (table 3.1). Microregionalism was perceived as both the outcome and promoter of political and

[16] "Microregionalism refers to subnational levels of regionalisation, whether in the political, economic, security or social dimensions", (Breslin & Hook, 2002, p. 13).

economic interdependence. From its initial stages though, it has been conditioned by the lack of genuine economic forces in the area and by the suspicion with which the national centres have responded to any active role undertaken by subnational authorities. As a result a *de jure* microregionalism[17] has emerged which bears the characteristics of any formal organization (regular meetings, international secretariats, bureaucracy, etc.) and asks for the credentials of the national centre while very often is seen as the extension of national policies and interests (Manoli, 2002b, pp. 193-214).

Cooperation among city-ports in the area was the first to be established, motivated by the potential of economic activity involving shipping and sea trade. The Varna-based International Black Sea Club (IBSC) was founded on 5 December 1992 with the aim to create a basis for formal cooperation among city-ports for economic and social development through promoting collaboration among the private sectors of those cities. It has an open-ended participation and observer status in BSEC. Another similar forum operating under the auspices of BSEC is the Black and Azov Seas Ports Association (BASPA) which functions through the organization of Conferences of the Heads of the Black Sea Ports Authorities (e.g. in Poti (Georgia), on 24-25 March 1999 and in Istanbul on 26 November 1999).

The most institutionalized forum however has been the Round Table of Black Sea Capitals' Governors and Mayors which was transformed into the Black Sea Capitals Association in 1998. Roundtable meetings focus on issues concerning urban facilities (transport, housing, communal services, water supply, sewerage etc.) as

[17] The distinction between *de jure* and *de facto* regionalism has been used in the literature to describe *regionalism* (or state-led regional integration) and *regionalization* (or market-led regional integration) respectively. See among others Higgott, 1997, p. 167.

well as on democratic municipal governance.[18] Recognizing that the solution to the above problems is closely related to the overall political and economic progress of each country, the Round Tables have tried to put forward ideas and initiatives aimed at improving the living conditions of the citizens of the whole region. However, the real purpose of its existence is to assist in the fulfilment of the goals of BSEC and this is clearly stated in its Resolution adopted in Kyiv on 14 September 1995, which says that the Round Table " ...serves towards attaining the overall objectives of the Black Sea Economic Cooperation". Consequently its objectives are:[19] i) promotion of systematic exchange of information and experience, ii) support and encouragement of cooperation among companies, enterprises, investor institutions chambers of commerce and industry, legal institutions, universities, iii) facilitation of multilateral projects elaborated by BSEC, iv) encouragement of twin-city relationships between the member cities, v) development of human contacts and cultural cooperation, vi) protection of the environment, historical and cultural monuments, and vii) close collaboration with other bodies of the BSEC process.

Being mainly a discussion forum, it has limited power either to mobilize the private sector or to influence decision making at a national or regional level. Its products still remain declaratory documents. In fact, the initiation of the Round Table did not come from the cities themselves and it cannot be seen as a 'bottom-up' demand. It has been set up by the PABSEC under whose auspices it has been functioning. In launching the initiative of the Black Sea Capitals' Association, the PABSEC, "proceeded from the conviction that local authorities, rendering direct service to the public and addressing everyday problems encountered by citizens,

[18] 'Declaration of the Black Sea Capitals' Governors and Mayors Round Table', Istanbul, 7 September 1994.
[19] 'Statute of the Black Sea Capitals' Association', Bucharest, 15 May 1998.

could make a major valuable contribution to attaining the aims of the Black Sea Economic Co-operation" (PABSEC, 1998, para. 1).

Table 3. 1 MICROREGIONAL SCHEMES IN THE FRAMEWORK OF THE BSEC AREA	
Participants	Objectives - Features
International Black Sea Club (IBSC)	
Burgas (Bulgaria), Varna (Bulgaria), Piraeus (Greece), Thessalokini (Greece), Constanta (Romania), Taganrog (Russia), Ilichevsk (Ukraine), Nikolaev (Ukraine), Odessa (Ukraine), Kherson (Ukraine)	- Exchange of information and development of partnerships between its city-members in the fields of ecology, tourism, transport, communications, sports and culture. - Economic promotion of the Black Sea region - Observer status in BSEC
The Black Sea Capitals' Governors and Mayors Association (BSCA)	
Capitals of the BSEC states	- To develop cooperation and exchanges among the capital cities of BSEC Participating States
The Black and Azov Seas Ports Association (BASPA)	
Poti (Georgia), Burgas (Bulgaria), Constanta (Romania), Ilichevsk (Ukraine),	- To enhance interaction among the regions ports - To support activities under the auspices of BSEC
Association of Black Sea Area Regions (ABSAR)	
Regions of the States in the Black Sea which are also members of the CPMR (Peripheral Maritime Regions of Europe)	- Created within the CPMR and acts as its Geographical Commission - To act as the political voice of the regions of the Black Sea Basin
Source: Manoli, 2002b, p. 202	

The actual outcome of subnational endeavours involved in BSEC is yet to be seen. The International Black Sea Club (IBSC) being concerned with customs difficulties in the area initiated a joint action by the cities to simplify and harmonize procedures in the region. Its efforts channelled through BSEC brought no results.[20] At the same time, issues related to the decentralization process that is still going on in post-communist political systems undermine the actual potential of regional authorities. Some states worry that much cross-border autonomy could erode their own central authority or create alliances between regions from both sides of the border eventually bypassing them.

[20] Assembly of the IBSC (n.d.), 'Appeal to the Parliaments and Governments of the Black Sea Economic Co-operation', adopted by the Tenth Assembly Meeting.

Although the agendas of the above-mentioned schemes are broad, their actual influence both in the realization of projects and the mobilization of the private sector as well as on the BSEC decision-making process is limited. Two main reasons can be identified: first, the absence of a genuine economic regionalization and second, the security problems existing in the region which mainly involve border areas. Formal cooperation among sub-state actors has developed as a response to or upon the initiative of BSEC. The role of the formal microregional groups has been that of pressure groups and the extent to which they are able to influence policies of the states or of BSEC depends primarily on the other levels (i.e. intergovernmental).

4. Comprehensive subregionalism: ambitions and limitations

Along with experimenting with multilevel governance, BSEC attempted to foster a comprehensive type of subregionalism. This section discloses that despite BSEC's advancement in this direction, implementation of commitments especially in the key areas of economic cooperation presented problems.

Subregional cooperation has gone through two stages. Until 1998, BSEC was almost exclusively preoccupied with economic issues, trade and infrastructure. Since 1998, increased emphasis has been placed on political and security aspects. This is manifested by the creation of new working bodies such as the WG on combating organized crime and the GEs on security along with the conclusion of relevant agreements. Despite the limited success in the economic domain, the scope of subregional cooperation widened to include social and security issues. Before proceeding we have to clarify that the domains of economic cooperation and security are examined in more detail in chapters four and five respectively.

Economic cooperation

All WGs envisaged in the Summit Declaration (1992) were of a functional nature covering the fields of economy, technology, environment, energy and infrastructure. Cooperation in the social, cultural and political domains was set aside. With the exception of the first paragraph that refers to the need of "shaping a new era of peace and security on the principles laid down in the Helsinki Final Act" (BSEC, 1992, para. 1) all other paragraphs of the Summit Declaration refer strictly to the economic and environmental domains.

Although BSEC is defined as a 'regional economic organization', it was recognized during the preliminary discussions for the establishment of BSEC that full economic integration would not be an *a priori* commitment for the participants, even though consideration of such integration could be given later on. The participating states agreed to promote cooperation by contributing to "... the expansion of their mutual trade in goods and services and ensure or progressively eliminate obstacles of all kinds, in a manner not contravening their obligations towards third parties" (BSEC, 1992a, para. 14). Their commitment to facilitate trade, led to the 'Declaration of Intent for the Establishment of a Free Trade Area' (1997), a plan which was however later characterized as 'ambitious' (BSEC, 2001, p. 7) and its implementation lost priority while "trade facilitation and liberalization [was seen] as a more realistic goal for the BSEC member states at this stage".[21] The aim of the Declaration of Intent was not the creation of a trade bloc. The free trade area was seen as a complementary step to the process of national reforms towards market economy. Notwithstanding the declaratory statements in this direction, the BSEC partners did not take practical steps to liberalize trade policy among themselves

[21] 'Chart of the Implementation of the BSEC Economic Agenda' in BSEC PERMIS, 2002, p. 238.

and/or harmonize their policy towards third parties. A number of meetings on cross-border facilitation as well as on non-tariff measures' reduction took place jointly with the WTO and the United Nations Economic Commission for Europe (UNECE) but they have not produced concrete actions or commitments. The creation of a Free Trade Area (FTA), six years since its announcement in February 1997 has remained on paper as many countries (e.g. Greece, Romania and Bulgaria) withdrew their commitments arguing that their international obligations particularly vis-à-vis the EU contradict with a BSEC FTA. On the other hand, Azerbaijan steadily refused to consent to deepening economic integration prior to the settlement of the security issues in the Caucasus and primarily the Nagorno-Karabakh conflict, while Russia has remained passive. Furthermore, the FTA original plan was soon to be abandoned due to the lack of transnational demands as we will see in the next chapter, while the political support for a FTA ceased to exist. The FTA plans did not go beyond the drafting of a 'Recommendation for the procedure to eliminate quantitative restrictions and measures with equivalent effect on trade in BSEC region' and an 'Exemplary list of quantitative restrictions and measures with equivalent effect on trade' in order to prepare a model of actions for the liberalization of trade in the BSEC region. Neither of the two documents, prepared by Turkey, received active support of the other members. Detailed negotiations never took off.

The lack of consensus and of real commitment on behalf of the member states left economic cooperation without a concrete task. Over the years the WG on economic cooperation remained without a plan of action and its priorities have become less clear. It has so far met ten times; which is a small number, given the primacy placed on the economic character of cooperation while its main bulk of work has been forwarded to *ad hoc* meetings of experts which have a business

orientation and deal with issues such as investment promotion, avoidance of double taxation and visa facilitation for businessmen. A redirection of priorities from trade towards improving the business environment was hence witnessed. Negotiations have been hard to succeed even on issues such as visa facilitation where a draft 'Agreement on visa facilitation for businessmen' has been negotiated but has yet to be signed due to the reluctance of at least three countries. Bulgaria and Romania were not in a position to sign due to their international obligations (i.e. EU accession negotiations) while Russia was prevented by the ongoing updating of its national legislation on its visa regime.[22]

In accordance with the BSEC philosophy of transplanting the rules of the WTO into the region - since only few of its members were members of the WTO in its early stages - the same approach was applied in the field of investments. The member states agreed on basic principles of investment collaboration but on a non-binding basis: transparency, non-discrimination, investment stimulation, investment control exportation and compensation, convertibility, entry and sojourn of key members, eliminating of restrictions on exporting capital, investors' conduct and settlement of disputes.[23] However, no other action was taken beyond declaratory measures. It was again Turkey that initiated measures in the investment domain. In cooperation with the OECD and the BSEC Business Council it designed a concept to promote investments in the BSEC region, which was approved at the meeting of Ministers of the Member States responsible for SMEs (Istanbul, 27 September 2001) named as 'Black Sea Investment Initiative' (BSII).

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[22] 'The Progress Report of the Secretary General on the operations and activities of the BSEC Permanent International Secretariat (November 2002 - May 2003)', in BSEC PERMIS, 2003, p. 7.
[23] 'Basic Principles of Investment Collaboration in the Black Sea Economic Cooperation' (Moscow, 25 October 1996), in BSEC PERMIS, 1996, pp. 21-22.

The initial ambition to create a business-led cooperation process was not realized as the private sector remained by and large outside the BSEC decision-making process never taking the place envisaged in the founding BSEC documents. The representatives of the business community preferred bilateral contacts and their own channels of interaction with their counterparts while they showed no interest in lobbying BSEC. BSEC's interest therefore, moved away from trade related issues.

Infrastructure

An overview of the functioning of the WGs shows that the ones whose activities have had an interface with projects supported by the EU or other international organizations indicate a higher degree of activity. This is the case of the WG on transport which is the most frequently convened group (convened 16 times since its establishment). Beyond the actual need for infrastructure rehabilitation, the necessity of coordinating actions in implementing projects initiated by the European Commission and the UNECE (e.g. PETrA, TRACECE) in the area has often dictated BSEC's focus on infrastructure.

Despite that, even the most frequently convened WG on transport has met little success due to lack of resources and expertise while the international community did not always consider BSEC as a reliable partner in realizing projects. The Black Sea Pan-European Transport Area (PETrA) project initiated by the EU was therefore, negotiated outside the BSEC framework. Although BSEC was involved in the development of the concept of Black Sea PETrA, it has been given only observer status with the PETrA project and it has been declined full membership, hence any

real influence on the project's implementation.[24] In 2002 a decision was taken to incorporate PETrA in the TRACECA, despite the strong reaction of the BSEC members and their proposal to host the Secretariat of PETrA in the BSEC PERMIS in Istanbul. In parallel to PETrA, BSEC has developed another concept the one of the 'Black Sea Ring Corridor' (proposed by Turkey) which builds upon the existing or projected transport corridors in the area and attempts to generate multimode north-south links in addition the west-east ones. A comparative analysis of the transport policies of BSEC and PETrA (UNECE Secretariat, 2001) indicated that "they appear to address substantially similar objectives and priorities". Nevertheless, neither the BSEC policies nor the 'Black Sea Ring Corridor' were considered by the EC.

The UNECE involvement in BSEC resulted in the conclusion of a 'Memorandum of Understanding on facilitation of road transport of goods in the BSEC region' in March 2002. The 'Memorandum of Understanding' (MoU) was mainly concluded due to the strong support by the UNECE and it was seen as complementing the similar MoU concluded within the SECI. Even here though Russia and Romania were reluctant to join in (postponing their signature to a later date) while Azerbaijan and Turkey signed with reservations regarding the application of the MoU in Armenia.[25] Economic infrastructure (transport, communications) has met some success as joint projects have been funded by the international community but not by BSEC itself. Projects in those fields (such as Black Sea Submarine Fibre Optic Cables - BSFOCS) usually involve a number but not

24 The issue of the upgrading of BSEC in PETrA was discussed at the WG of Transport in Istanbul on and the request was rejected, 'Report of the Meeting of the BSEC Working Group on Transport' (Istanbul, 14-15 June 2001) in BSEC PERMIS, 2002, pp. 430-435.

25 "The Republic of Azerbaijan declares that none of the rights, obligations and provisions set out in the Memorandum... shall be applied by the Republic of Azerbaijan in respect to the Republic of Armenia" and "The Republic of Turkey does not consider itself bound by the provisions of the Memorandum...as it relates to transport between Turkey and Armenia" in the 'Protocol on Opening of the Signing Procedure of the Memorandum of Understanding on Facilitation of Road Transport of Goods in the BSEC Region' (Kyiv, 6 March 2002), para. 5 and 6 in BSEC, 2002b.

all of the BSEC countries and they should not be considered as BSEC projects since they have not been negotiated within its organs.[26]

Energy

Energy has been identified as one of the most promising fields of subregional cooperation given the geopolitical significance of the Black Sea in the transport of Caspian energy, hence the chances it offers for integration with the rest of Europe. Actual cooperation in this domain has been however restricted to electricity, leaving aside the politically sensitive sectors of the oil and gas industry. The 'Memorandum on Cooperation in the Field of Electric Power Industry' (1998) signed at first by eight out of the eleven BSEC states (Bulgaria, Romania and Turkey jointed later) was concluded in a view to create a BSEC Interconnected Power System (BSEC PERMIS, 2000, pp. 198-203). Negotiations over the Memorandum revealed once more the reluctance of several countries to commit themselves to cooperative projects that might be perceived as contradicting their EU membership aspirations. Those concerns are best expressed in Bulgaria's Declaration attached to the Memorandum (BSEC, 2000, p. 202) which stresses that "Bulgaria implements its national strategy for energy development with the priority aim to interconnect the Bulgarian electric power system to the UCPTE".[27] Accordingly, Romania's Declaration referred to the fact that "...Romanian is a Central European Country..." and "[t]op priority for Romania is the preparation of national electric system for the interconnection with UCPTE" (BSEC, 2000, p. 203).

[26] For a brief overview of projects in the area see PABSEC, 2000.
[27] The Union for Power Production and Transport Coordination (UCPTE) is based in Brussels and regulates the electric connection of the EU countries.

Environmental protection

Environmental protection is the most advanced example of Black Sea policy-making evolving around the Bucharest Convention (1992) and the Black Sea Environmental Programme (supported by the UN). The six littoral states adopted a 'Strategic Action Plan for the Rehabilitation and Protection of the Black Sea' in 1996 which has been implemented through advisory groups around the Black Sea and a Secretariat based in Istanbul. All activity develops outside the BSEC framework despite the fact that Black Sea environmental protection was given priority from the very beginning of the organization. Despite the fact that the Summit Declaration establishing BSEC makes particular reference to cooperation in the sphere of environmental protection in two separate paragraphs (para. 4 and 15), the relevant WG has been among the least active, while there has been no BSEC Action Plan or any other project in the field. It was under the BSEC Turkish Chairmanship (2000) that the organization became involved in the negotiations of drafting a 'Convention for Fisheries and Conservation of living resources of the Black Sea'. The Convention was originally proposed by the six littoral states on 25 June 1997. However, negotiations within BSEC were unsuccessful and were transferred back to the UN Black Sea Environmental Program due to the fact that the 'BSEC principle' i.e. inclusion of all eleven member states (and not only the six littoral states) should be respected for the Convention to be signed within BSEC (BSEC PERMIS, 2002, pp. 256-257). The evolving environmental regime in the Black Sea is therefore, shaped by the UN and EU (through programs or legal instruments) beyond the BSEC framework.

Agriculture

Cooperation in the field of agriculture has in fact developed not among the BSEC states, but between BSEC and the UN FAO on a project basis. It evolves around the

project on 'Institutional Strengthening to Facilitate Intra- and Inter-regional Agricultural Trade among BSEC Member States' which includes technical assistance and training workshops.[28] It has a geographic focus on eight BSEC member states, namely: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Moldova, Romania and Turkey. Despite some training programs by the UN FAO and a few project proposals (e.g. plant genetic resources) no substantial progress has been registered.

Science and Technology

The inclusion of a science and technology dimension in BSEC has the aim of applying "the achievements of science and technology to concrete fields of cooperation and thus to accelerate the process of multilateral cooperation in the region" and this is done 'by promoting a closer link between the academic circles and concrete projects of the BEC, conducting joint scientific studies in an interactive manner with the decision - making and working bodies of the BSEC" (BSEC PERMIS, 1997, p. 24). It is in fact a dimension which was strengthened by the Secretariat at the early years of the functioning of BSEC.[29] It has nevertheless been confined in regular meetings and ongoing negotiations over the establishment of a BSEC Center on Innovation Technologies.

Emergency situations

Although not envisaged as a field of cooperation in the founding BSEC documents, emergency situations has been one of the most successful fields of common BSEC action. An agreement signed in 1998 by ten out of eleven member states covers cases

[28] The Project of $342,000 started in November, 2002.
[29] Information by directorial staff of the BSEC PERMIS.

of extraordinary situations of natural and technological character with which the parties can not cope alone (BSEC, 1998c). Strong Russian support resulted in the conclusion of the agreement within just a year after its proposal and the creation of an International Rescue Centre in Gelendhik (Russia). However the agreement was not signed by Turkey, the latter raising concerns over its compatibility with other international agreements.[30]

Security

The above indicate that advancement on cooperation in functional or technical issues has been very slow and limited. The poor tangible results on 'low policy' issues such as environment, transport, communications, etc. do not provide a strong case of 'spill- over' effect into the field of security. Nevertheless, after ten years of functioning BSEC moved to the domain of security although in an informal way.[31] The first meeting of the ad-hoc Study Group for considering ways and means of enhancing the contribution of BSEC to strengthening security and stability took place in March 2003.[32] Following the adoption of the BSEC Economic Agenda, the member states had become more amenable to the idea of expanding exchanges of views and collaboration in security affairs, stressing however (e.g. Turkey) that such a development should remain a 'second track', informal process. This new attitude to including sensitive spheres of high politics on the subregional agenda is primarily to be attributed to two factors. First, it was the subregional structures such as the ICBSS and the BSEC PERMIS rather than the states themselves which took the initiative to

[30] See chapter 5.
[31] See chapter 5.
[32] 'Report of the Meeting of the Ad Hoc Study group for considering ways and means of enhancing contribution of the BSEC to security and stability in the Black Sea region', (Athens, 26-27 March) in BSEC PERMIS, 2003.

include security in the draft document of the BSEC Economic Agenda which was later accepted by the member states. Second, it was an after effect of developments in the international arena in 2001 when security concerns increased in significance.

BSEC's previous engagement with security was restricted only to 'soft' security aspects such as combating organized crime where a relevant agreement was concluded in 1998 by all eleven members (BSEC, 1998e). It is the only agreement which is almost universal as it has been signed by all and ratified by ten members (Albania has not ratified the Agreement) without reservations.[33] Beyond the agreement itself, mechanisms of practical cooperation have been also considered which have led to the creation of a BSEC network of Liaison Officers.

The BSEC Economic Agenda

The BSEC Economic Agenda for the Future (2001) was negotiated during the period of two years and was meant to set up the course of action of the organization. Initially drafted as a primarily economy oriented document, it later became a more general one with political connotations, indicating however a low degree of commitment and not clarity as far as its aims are concerned. A reservation on behalf of Armenia indicates the obstacles resulting from the security concerns in the area, the climate of mistrust and the lack of consensus over which negotiations took place.[34]

[33] See however the Declaration of the Georgian Parliament, accompanying the instrument of ratification of the Agreement: "Georgia will not be responsible for violations of the provisions of the Agreement on the territories of Abkhazia and Tskhinvali Region, before the full restoration of the territorial integrity of Georgia". Ministry of Foreign Affairs of Georgia (2000), Note, no. N10-17/197 dated 12 June.

[34] "Armenia finds inappropriate the use of term 'aggressive separatism' in the BSEC Economic Agenda and believes that the use of such a term is uncommon in international practice, politically charged and reflects subjective qualification for ongoing conflicts in the BSEC region" (BSEC, 2001, p. 30).

Table 3.2 THE BSEC ECONOMIC AGENDA FOR THE FUTURE
I. ACCELERATION OF EFFECTIVE MULTILATERAL ECONOMIC COOPERATION AND ATTAINMENT OF SUSTAINABLE DEVELOPMENT
- Concerted Actions for Economic Expansion of the BSEC Member States
Project Based Approach
Project Elaboration and Promotion
Intra-Regional Trade Investments
Banking and Finance
- Defining Priorities for Cooperation in Specific Sectors of the Economy
Energy: Oil and Gas Projects, Interconnection of Electricity Networks
Transport
Telecommunications
Environmental Protection
Science and Technology
Information and Communication Technology
Investment in Education and Training
Regional Strategy for Agricultural Development and Food Security
Tourism
Strengthening of the BSEC Business Dimension - SMEs
- Exchange and Harmonization of Economic and Statistical Data and Economic Information and Adoption of Common Accounting Principles
II. COOPERATION IN THE FIELD OF INSTITUTIONAL RENEWAL AND GOVERNANCE
III. SOFT SECURITY MEASURES IN THE FRAMEWORK OF MULTILATERAL COOPERATION
- Cooperation in Combating Organized Crime, Illegal Trafficking of Drugs and Arms, Terrorism, Corruption and Money Laundering in the Wider European Context
- Cooperation in Emergency Situations
IV. BSEC: TOWARDS THE MATURE PARTNERSHIP, COMMON ENDEAVOUR AND SHARED VALUES
- Broadening the Basis for Multilateral Cooperation among Governmental and Parliamentary Structures, NGOs, Businessmen and Academic Communities
- The Role of the PABSEC and National Parliaments of the BSEC Member States
- Further Development and Improvement of the BSEC Implementation and Coordination Mechanisms
- The Role of the BSEC PERMIS
V. EXTERNAL RELATIONS OF THE BSEC ORGANIZATION
- The BSEC Role in the New European Architecture
- The BSEC-EU Platform of Cooperation
- BSEC and the World - Cooperation with other International Organization
Source: BSEC (2001)

The document reaffirms a comprehensive approach of defining subregional cooperation from functional issues such as cooperation on environment and infrastructure all the way to social and cultural development and to the field of soft security (illegal trafficking of drugs and arms, terrorism, etc.). Concerted actions for accelerating multilateral economic cooperation are set out as the first aim of the Agenda but concrete commitments or timetables are not included, the Agenda remaining rather a document of general orientation.

The lack of clarity in defining the priorities of the organization is manifested throughout the first ten pages of the document that constitute its main body and include every possible field of economic action without, though, presenting which field is a priority: trade, investment, energy, transport, telecommunications, environmental protection, science and technology, information, education, agriculture, tourism and SMEs. Chapters three and four of the BSEC Economic Agenda expand cooperation in soft security, democracy building, social and cultural development and education, fields that for the first time since the initiation of BSEC are placed on subregional level. The commentary on the sectoral policy headings often does not distinguish between national policies and specifically regional projects where BSEC could have a comparative advantage (Adams et al., 2002, p. 10). The overall picture of the Agenda confirms that cooperation around the Black Sea might have been broadened but has not deepened, being conceived more as a mechanism of foreign policy rather than a tool of integration.

Table 3.3 Examples of BSEC cooperation

Field	Project	Initiator/year
Trade	Establishment of a BSEC Trade and Investment Center *(proposal)*	Turkey (1998)
SMEs	BSEC Information System for Support and Development of SMEs *(proposal)*	Armenia (1998)
Investments	Black Sea Investment Initiative	OECD, BSEC BC, Turkey (2001)
Energy	BSEC Interconnected Power System	Russia (1998)
Transport	Black Sea Ring Corridor Concept	Turkey
	Unified System of voluntary satellite monitoring of ships sailing in the Black Sea *(proposal)*	Russia (2000)
Emergency Situations	International Rescue Centre in Gelendhik (Russia)	Russia (1998)
Organized Crime	Network of Liaison Officers	Turkey (2000)
Agriculture	Institutional Strengthening to Facilitate Intra- and Inter-regional Agricultural Trade among BSEC Member States	BSEC/UNFAO (2002)
	Promotion of Beekeeping Among Low Income Rural Families for supplementary earnings in the Black Sea *(proposal)*	Turkey (2002)
	Plant Genetic Resources and Bread Wheat Network *(proposal)*	Turkey (2002)

Note: Initiator and year where appropriate.
Source: Table based on information provided by BSEC PERMIS, Istanbul, 2002.

5. Policy-making and intergovernmentalism

As indicated earlier in this chapter, the decision-making process in the BSEC framework is structured in an intergovernmental logic with all authoritative power resting in the Council and the Committee of the Senior Officials of the Ministries of Foreign Affairs.

Institutional evolution has left approaches to bargaining and decision-making process untouched. The decision-making process in BSEC relies on proposals being made exclusively by the Subsidiary Bodies (WGs, GEs and Ministerial Meetings) which are approved by the Council. Decisions are made by consensus or on a majority basis depending on the issue on question. Consensus is required on all important issues concerning: admission of new members, granting of observer status, creation of new organs and modification of such organs, mandates, adoption and modification of the Rules of Procedure, adoption of the agenda of the BSEC meetings; approval of cooperation projects; dialogue partnership with third parties and financial commitments affecting all members. Less substantial technical issues are settled by a two thirds majority. In this case those who voted in favour of a proposal have to abide by the provision adopted. However, in practice consensus-building is the most frequent way of reaching an agreement. Across all policy domains the participants tend to base cooperation on consensus even in those cases where majority applies. So far there is little evidence of majoritarian methods emerging to resolve disagreements and this has led to the minimum possible common ground and a poor outcome.

Institutional dynamism has not facilitated substantive outcomes. The actual number of agreements signed and projects elaborated falls behind the expectations and the organizational input (table 3.3 and 3.4). The lack of consensus has led to poor

subregional regime making. In ten years of functioning, there have been only two agreements signed strictly within the BSEC framework. Only one of them is signed by all eleven countries while the second agreement does not include Turkey.[35] Non-obligatory Memoranda of Understanding, Action Plans and Declarations (e.g. on a BSEC FTA in 1997, on Tourism in 2002, on SMEs in 2001), Memoranda and Action Plans (Transport, 1999) which require a minimum of political commitment have been the most commonly negotiated documents. Even for those declaratory documents, long drawn-out negotiations take place with an average time of two years of bargaining for a Declaration or a Memorandum to be agreed upon.

Table 3.4
Agreements reached within BSEC (as of September 2003)

Country	Agreement on Emergency Assistance and Emergency Response to natural and man - made disasters Sochi, 15 April 1998*	Agreement on Combating Crime, in particular in its Organized Forms Corfu, 1-2 October 1998**	Additional Protocol on the Establishment of a Network of Liaison Officers Kyiv, 15 May 2002***	Memorandum on Cooperation in the Field of Electric Power Industry Yerevan, 15 April 1998	Memorandum of Understanding on Facilitation of Road Transport of Goods in the BSEC region Kyiv, 6 March 2002
Albania	M	M	M	M	M
Armenia	R	R	M	M	M
Azerbaijan	M	R	N	M	M
Bulgaria	M	R	R	M	M
Georgia	M	R	M	M	M
Greece	M	R	Ma	M	M
Moldova	R	R	R	M	M
Romania	R	R	M	M	*N*
Russia	R	R	*N*	M	*N*
Turkey	*N*	R	R	M	M
Ukraine	R	R	M	M	M

N: non participating M: member R: Ratification
a: joined on 16 April 2002
* in force on 15 March 2003 ** in force on 4 October 1999 *** in force on 16 April 2003
Source: Table based on information provided by BSEC PERMIS, Istanbul, 2002.

The declaratory nature of the bulk of BSEC activities discloses the member countries' main concern to indicate 'good neighbourly relations', a political condition imposed by the EU vis-à-vis its relations with third members and candidate countries rather than a real interest in deepening subregional integration. The application of a comprehensive approach in defining subregionalism has made

[35] The first one is the Agreement on 'Combating Crime, in Particular in its Organized Forms' (1998) and the second one is on 'Collaboration in Emergency Assistance and Emergency Response to natural and man – made Disasters' (1998).

progress as far as the expansion of the areas of cooperation is concerned but not its deepening.

As table 3.3 indicates most initiatives have by far resulted from Turkey which has been the single most active member in the organization. Evidence shows that member states have been divided in practice into two groups regarding their negotiating attitudes and on the basis of their EU relations. The EU candidate states (Bulgaria and Romania) have refrained from undertaking initiatives and participating in binding agreements to avoid complications for their EU orientation. It is significant to note that Turkey though an EU candidate country has with but a few exceptions not followed the Bulgarian and Romanian attitude. At the same time, a variable geometry option has developed in practice where not all countries participate in certain agreements. A sharp subregional focus has been absent with most sectoral policy coordination being a mixture of national policy priorities (the latter not always being clearly defined themselves but being at the stage of formulation).

The institutional structures are the same for all domains of policy-making. Subregionalism may be defined as a multidimensional process as far as the spheres of engagement (trade, environment, 'soft' security, etc.) are concerned, but the decision-making processes and their structures remain exclusively in the hands of the governmental elites. The member states have resisted handing over any real power to subregional institutions. The form of policy-making indicates that there is no transfer of powers from the national to the subregional level. Subregional structures are thus far from developing into a supranational type of governance.

The subregional institutions are very loosely connected to institutions within the member states. The Ministries of Foreign Affairs control all communication with

the organization and set the overall policy. National agencies and authorities may become part of the BSEC architecture through their direct involvement in the functioning of the WGs where projects and programs are initiated and which constitute the first stage of bargaining but they are not engaged in the final stage of decision-making. Furthermore, it is interesting to note that in several cases it is experts and senior officials of the Ministries of Foreign Affairs (rather than other Ministries) that participate in WGs even of technical nature (e.g. on transport and communications, etc.). Issues of trade and economic development are permanently addressed by officials from the Ministries of Foreign Affairs strengthening thus the general perception that economic cooperation is conceived as a foreign policy tool rather than a genuine integration process. In spite of the increase in the density of interaction among many actors from within the subregion, the BSEC dimension of policy has not become a significant part of the work at the national level (such as national officials, lobbyists not to mention ministries).

The founding declarations of BSEC did not refer to any central institutions, 'Related Bodies' or 'Affiliated Centres'. This changed, however, with the approval of the BSEC Charter which assigned a consultative role to 'Related Bodies' and provided observer status to NGOs as a point of access to the policy process for socio-economic groups. Still, most of those involved in the institutional structures are members of governmental elites, with the process operating at a distance from the wider population. The Assembly and particularly the BSEC Business Council as well as the Affiliated Centres with sectoral dialogue have increasingly become active but they still remain without any real power in the policy-making process. Associations representing societal interests, the environmentalists, businessmen, and increasingly a range of other advocacy groups and NGOs have taken pains to develop links with

BSEC institutions mainly since 1998. A multilevel institutionalization involving substate and transnational actors is backed by BSEC, but only as long as an intergovernmental policy-making mode is preserved. The clearly expanded level of activity of transnational actors should not thus, be confused with real influence. Lobbying of BSEC by transport and shipbuilding associations is indicative in this respect. The BSEC UTRA and the BRASS have participated in the WG on transport preparing an agreement for 'Visa Facilitation of Professional Drivers Nationals of the BSEC member states' (since May 2002) and an agreement on 'General directions of governmental policy of the Black Sea Economic Cooperation (BSEC) countries in the sphere of shipbuilding, marine fleet and ship-repair'[36] (negotiations held between 2000-2002) respectively. After approximately two years of negotiations both processes have reached a stalemate. Until today no agreement or project initiated outside the governmental bodies has been approved or completed within the BSEC framework.

What do BSEC institutional configurations tell us about the way that interests are defined, ideas are propagated, and issues are addressed? First of all BSEC institutions are conceived and used as fora for addressing foreign policy concerns of a comprehensive character and consequently vested interests are primarily defined by the governmental elites. This is despite the rhetoric on the supremacy of the private sector as the driving force of cooperation. The above is reflected in the institutional evolution of the organization, its decision making process and the type of participation in the meetings. Transnational actors have refrained from lobbying BSEC partly due to lack of knowledge over the BSEC modes of function and

[36] 'General directions of governmental policy of the Black Sea Economic Cooperation (BSEC) countries in the sphere of shipbuilding, marine fleet and ship-repair' draft document presented at the ad hoc Meeting of Experts on Shipbuilding, Shiprepairing and Shipping (Istanbul, 6 February 2002). See also BSEC, 2002b.

primarily due to the fact that their demands are directed towards other centres as we will see later. BSEC policy making is a process of mutual learning in which both interests and ideas shape the search for a consensus. The significance of the extensive structures which characterize the Black Sea subregionalism (WGs, GEs, parliamentary committees, etc.) lies in the role that they play in transmitting detailed information and ideas.

We suggest here that in identifying the policy entrepreneur in this process, primacy is to be given to the individual governments as the agenda setters (intergovernmental approach). The policy initiatives emerge mainly from the member governments and not by the subregional structures with only a few exceptions (as we saw earlier). It follows from this, that policy outcomes are the product of deliberate bargains among strategically oriented rational actors (governmental elites). Notwithstanding the declaratory intentions of generating a comprehensive cooperation scheme, BSEC has a strong intergovernmental character with state elites and governments at the core of the process.

6. Conclusion

What conclusions can we draw from the above analysis on the mode of governance that BSEC represents? As this chapter indicates, subregionalism around the Black Sea has acquired significant institutionalization, despite the fact that contractual commitments within BSEC remain low. On the contrary, its member states have refrained from equipping the organization with supranational organs while they have undermined its authoritative capacity.

What spurred institutionalization at first place? The degree of the interest in the institutionalization of BSEC has varied among its member states as we will also see later. None of the founders wished immediately the creation of central bureaucratic structures. However, practical and political considerations motivated some states (particularly the small NIS) to push for institutionalization. Interest in institutionalization has had a qualitative aspect as well. Thus, while Turkey has supported an increased role of the central bodies and the Secretariat in order to meet the needs of administrating a FTA, other members have preferred a more 'horizontal' institutionalization strictly preserving the intergovernmental nature of the cooperation.

In the 1990s, the newly formed countries around the Black Sea witnessed a fragmented regional environment with no established links of direct communication with the neighbouring states. At the same time, the national administrations lacked the resources, experience and expertise to efficiently respond to the demands of multilateral cooperation. The creation of subregional organs thus corresponded to both above-mentioned needs. The institutionalized approach of subregionalism corresponded as well to the dominant understanding by - primarily the former Soviet - elites that all intraregional communications has to be formal and government controlled. Intraregional relations, notwithstanding the rhetoric behind the establishment of BSEC, were perceived by the local elites as intergovernmental relations where state diplomacy was given the main floor. On the other hand, as we will see in chapter four, transnational flows had been weak hence the need for subregional institutionalized mechanisms that would stimulate such flows was an urgent one. At the same time, it was understood by the governmental elites, that the creation of and participation in subregional organs was viewed positively by the EU

which had proclaimed good neighbourly relations hence, regional cooperation as a prerequisite for membership for those states aspiring to membership or closer links with the EU. Furthermore, building institutions was also expected to stimulate a regional identity both among policy elites and people. Regularity of contact and a pattern of socialization meant that the Council and the Subsidiary Bodies would develop a kind of insider amity. The proliferation of centres and NGOs linked with BSEC undertook the mission to develop a Black Sea identity within the society.

Advanced organizational structures should not however be confused with deepening. In fact, the lack of political commitment by the member states to pursue binding agreements and common positions, redirected their attention towards establishing institutions that politically were effortless.

The institutional setting and performance show the distinct features of BSEC subregionalism which support the intergovernmental scenario. Policy-making in the area during the 1990s has been marked by intergovernmental entrepreneurship rather than by the demands of transnational interests. BSEC should therefore be placed within the context of the EU paradigm of institutionalized regional cooperation but there is as yet no multilevel governance approach here. Thus, despite the fact that a number of Related Bodies were established around BSEC and NGOs were granted observer status or 'sectoral' dialogue with the organization, this was not translated into actual multilevel governance. First, the activation of those actors has been weak and second, central governmental authorities kept the decision making process strictly a state to state process.

The clear stand of BSEC members against a supranational mode of governance has been reflected in the following ways. First, member states have rejected all organized forms of close political cooperation. Second, they have refused to upgrade

the role of the Secretariat into a policy-making body following the transformation of BSEC into an organization. Third, more emphasis has been placed on the issue of enlargement (on the necessity of which all member states agree) rather than deepening.

How has this institutionalism reflected the level of subregional transactions and respective demands? Does BSEC illustrate an integration trend taking place in the field of trade and investments? Those are the issues that we examine next. Empirical evidence as we will see in the next chapter indicate that contrary to functionalist expectations there has been intensification of BSEC institutionalization without corresponding increases in intraregional transactions such as trade and investments.

Table 3.5 The evolving BSEC governance

Trade	Declaration on Intent on establishing a BSEC FTA (Turkey, 1997) An exemplary list of quantitative restrictions and measures with equivalent effect on trade (Turkey, 2001) Recommendation for the procedure to eliminate quantitative restrictions and measures with equivalent effect on trade in BSEC region (Turkey, 2001)
SMES	Declaration on SMEs at the Dawn of the 21st Century (Turkey)
Investments	Basic principles of investment collaboration (Turkey, 2001)
Transport	Transport Action Plan (1999) Memorandum of Understanding on Facilitation of Road Transport of Goods in the BSEC Region (UNECE-BSEC, 2002)
Tourism	Plan of Action (2002) Declaration of the Ministers of Tourism or Heads of Delegations of the BSEC Member States (2002)
Combating Organized Crime	Agreement on Combating Crime, in particular in its Organized Forms (Turkey, 1998) Additional Protocol to the 1998 BSEC Agreement on Cooperation in Combating Crime, in particular in its organized forms (2002)
Emergency Situations	Agreement on collaboration in Emergency Assistance and Emergency Response to Natural and Man-made Disasters (Russia, 1998)
Visa facilitation	*Draft* Agreement on Simplification of Visa Procedures for the Businessmen Nationals of the BSEC Member States *Draft* Agreement on Simplification of Visa Procedures for Professional Drivers Nationals of the BSEC Member States (BSEC URTA, 2002)
Energy	Declaration on Energy Cooperation in the BSEC Region (2003) Memorandum on Cooperation in the Field of Electric Power Industry (Russia, 1998) *Draft* Agreement Peaceful Uses of Nuclear Energy (Turkish Atomic Energy Agency) *Draft* Agreement on Early Notification and Exchange of Information in the Event of a Radiological Emergency

Note: Initiator and year of signature where appropriate.
Source: Based on information provided by BSEC PERMIS, Istanbul, 2002.

CHAPTER 4. LIMITING INTEGRATION: ECONOMIC DIFFICULTIES AND TRANSNATIONAL DEMANDS

1. Introduction

One assumption of our analytical framework is that the mode of cooperation that develops in the subregion reflects the level of transnational exchanges and demands as well as the existence of economic difficulties that would normally trigger cooperative attitudes. The main idea is that as transnational exchange increases, so would the demand for a change of governance (chapter one). The business community is expected to be the most interested in lobbying for a change as it would be the one to benefit most. As indicators of transnational exchange, we use the volume of intra-BSEC trade and investment flows as well as the significance of non-governmental organizations and associations. We also examine trade and investment flows between BSEC countries and the EU to indicate the level of reorientation of transnational exchanges outside the subregion and towards a larger neighbouring market.

The second dimension to be examined is the effect of economic difficulties on subregionalism. In times of economic difficulties, it is expected that incentives for economic integration would increase. 'Economic difficulties' are here defined as an economic growth rate below the average of the OECD countries. Typical problems that characterize the transition economies are also included as indicators of economic difficulties.

Should the intergovernmental mode of BSEC be attributed to the fact that there is lack of transnational exchange and demands? What has been the effect of economic

difficulties in the shaping of BSEC? It could be hypothesized that BSEC's evolution into an intergovernmental mode of cooperation would be due to the fact that there is no transnational exchange and demand for change and integration (to be led by supranational institutions) or that economic difficulties did not trigger demands for more supranational mode of cooperation. In this chapter we test those two assumptions.

2. Economic conditions

2.1 Economic fragmentation

Before moving to the examination of the economic difficulties in the subregion we have to refer to some of the historical parameters and indigenous structural conditions under which subregional arrangements around the Black Sea were shaped.

BSEC consists of a group of states which exhibit different levels of economic development. In 1992 only Greece and Turkey had market oriented economies and were OECD members, whereas the other nine countries were still planned economies. Greece was a full member of the EU and Turkey was negotiating a customs union with it. Only a few of the founding members were members of the WTO, namely Greece, Turkey, Bulgaria and Romania (Albania and Georgia joined in 2000 and Moldova in 2001), leaving the majority of the participating states outside the framework of the multilateral trade system. Such an institutional and normative variation hindered integration with the global economy on the one hand, and created a fragmented subregional economic regime on the other. Differentiation persisted throughout the 1990s with Bulgaria and Romania advancing their links with the EU

(conclusion of Europe Agreements) which brought another type of normative west-east division around the Black Sea.

Among the factors that impaired the process of economic transformation and cooperation, which need to be mentioned here, are the location disadvantages of the subregion (in terms of its distance from the important west European markets), the highly unfavourable starting conditions (in terms of inherited economic distortions) and the lack of historic traditions of institutional development (UNECE, 1999, p. 2).

Regarding the patterns of pre-BSEC trade between current members, those indicated first, a sizeable trade among the former Soviet bloc countries, and second the relatively insignificant volumes of trade that these countries had with Greece and Turkey despite their geographic proximity (Sayan, n.d., p. 5). The collapse of the CMEA/COMECON (Council of Mutual Economic Assistance) had led to the drop in the foreign trade volumes of the former socialist countries especially among the countries of the former Soviet Union. In the early 1990s, from a geographical perspective most of the NIS, except Russia, continued to depend on intra-NIS flows (OECD, 1997). The development under the Soviet planning of strong input-output linkages between industries in different Republics had led to a significant degree of complementarity between member economies which diverted trade away from non-members. The feasibility of barter trade[1] among members had also contributed to this process. Following the collapse of the Soviet Union both the NIS and the formerly socialist states of Eastern Europe became exposed to competition for global markets. At the same time, a new dynamic appeared in the trade flows of all countries in the subregion: the geographic reorientation of their trade towards other (western) European markets.

[1] Exchange of goods and services directly without the use of money.

Table 4.1 BSEC Countries in Transition: Indicators of Economic Performance, Liberalization, Democracy and Initial Conditions

Country	Avg. Growth 1990-1993	Avg. Growth 1994-1998	Output Fall 1990-1998	Output Recovery 1990-1998	GNP p.c. ($)* 1993	Liberal Index 1990-1993	Liberal Index 1994-1998	Democr. Index 1990-1993	Democr. Index 1994-1998
Albania	-8.83	5.68	60.38	26.02	340	0.40	0.63	0.479	0.517
Armenia	-22.98	5.68	31.00	9.84	660	0.25	0.57	0.479	0.483
Azerbaijan	-14.53	-2.86	36.96	6.65	730	0.16	0.45	0.313	0.250
Bulgaria	-7.40	-1.94	63.69	2.23	1160	0.58	0.63	0.729	0.783
Georgia	-25.80	3.08	25.38	7.42	560	0.23	0.55	0.354	0.483
Moldova	-12.33	-9.90	32.36	0.00	1180	0.26	0.62	0.375	0.567
Romania	-6.45	0.18	74.99	1.10	1120	0.40	0.65	0.396	0.717
Russia	-7.80	-4.82	55.89	0.00	2350	0.31	0.67	0.563	0.567
Ukraine	-10.63	-10.02	36.76	0.00	1810	0.13	0.52	0.563	0.583

Sources: EBRD (2002), EBRD (2003), World Bank (1996); State Institute of Statistics (2003).
Notes: Output Fall is the lowest level of GDP attained between 1990 and 1998, with 1989=100. Output Recovery is the cumulative increase in GDP since reaching the lowest level. GNP per capita in 1989 is in USD at purchasing power parity. Liberalization Index ranges between zero (no liberalization) and one (complete liberalization). Democracy Index is the average of political rights and civil liberties, respectively and range between zero (no democracy) and one (complete democracy).
*current prices

2.2 Economic difficulties

Economic difficulties have had an ambivalent effect on subregional cooperation: constituting either a mobilizing force for change and support of subregional cooperation or an impediment to integration. In this section we primarily concentrate on the economic difficulties witnessed in the subregion in the early 1990s. Upon the establishment of BSEC, nine out of eleven member countries were in transition to a market economy and were undergoing the most severe recession compared with other transition economies in Central Europe. The inherited economic difficulties from the dissolution of the centrally planned economic system were rather complex: high inflation requiring stabilization, a distorted economic structure with high unemployment, collapse of foreign trade, decline of output and recession, the lack and/or exorbitant cost of capital.

Addressing those urgent economic difficulties became thus a primary motivation for engaging in cooperative schemes. The assumption that regional cooperation could assist them either directly (rebalancing foreign trade) or indirectly (building a good political climate for macroeconomic stability) is reflected in all BSEC

founding documents which claim the necessity of subregional cooperation in view of "the particular problems of the countries in transition to market economy" (BSEC, 1992a, para. 10). However, economic difficulties alone were not sufficient to trigger cooperation as they also constituted key obstacles to transactions.

One way to measure economic difficulties is the rate of GDP growth in BSEC countries (table 4.2). A comparison of the BSEC countries and the OECD countries shows that there is a performance gap and that this gap is slowly shifting in favour of the former as one would expect after ten years of transition period. Data indicate that during the initial stages of BSEC (1991-1993), the majority of the countries experienced an extremely steep economic decline. The cumulative output decline in the BSEC transition states was approximately 50 per cent before starting its recovery.[2] In the decade of the 1990s, BSEC's GDP remained lower than the OECD (average of 2.4 per cent) for all the decade and it was in the year 2000 that all states recorded positive GDP growth. The fluctuation of GDP growth rate reflects the structural difficulties which these economies experienced. Especially for the countries which emerged from the dissolution of the Soviet Union, where poverty has also risen the most, the shock was bigger because of the collapse of the internal networks between the Republics. The most severe growth decline was registered in the small former Soviet economies of Georgia (-45 per cent), Armenia (-42 per cent) and Moldova (-29 per cent). Growth in Bulgaria and Romania was sharply interrupted by serious macroeconomic crises brought on by insufficient structural reform in the mid 1990s, and their GDP in 2000 stood at four-fifths of its 1990 level (World Bank, 2002, p. xv). In the NIS, early reformers such as Armenia and Georgia whose GDP fell sharply, have been growing in the past five years. But Russia, barring a short-lived upturn in 1997, did not begin to

grow until 1999, while Ukraine did not return to growth before 2000. In most of the NIS, the GDP in 2000 stood at only 63 per cent of its 1990 levels while in 1998 one in five people in the region survived on less than the $2.15 per day standard poverty line (World Bank, 2002, p. xiii). Annual GDP growth averaged 3.5 per cent in the 1990s for Turkey but its growth has been volatile. After two years of very robust growth in 1992-1993 the Turkish economy contracted by 4.7 per cent in 1994.

Table 4.3 presents evidence regarding inflation. In 1992 hyperinflation of more than 1000 per cent characterized most of the former Soviet Republics (e.g. Armenia with 1346 per cent and Ukraine with 1219 per cent) while the Balkan countries of Bulgaria, Albania and Romania had the lowest inflation on average. The high and persistent inflation in BSEC countries was accompanied by very high interest rates rendering the cost of capital extremely high and putting pressure on commercial and investment activities.

The problems of the two market economies of Greece and Turkey have been different. For the Greek economy the main issue was neither its transformation, nor its integration in global economy. The strategic economic goal was the fulfillment of the Maastricht criteria (reduction of public deficit, inflation and debt) and the joining of the European Monetary Union. Turkey, on the other hand, had to deal with the implications of the customs union with the EU and the improvement of its macroeconomic indicators (recession, public deficit and high inflation).

Transactions within the subregion were not only obstructed by the bad macroeconomic performance but also by structural problems such as the underdevelopment of the financial structures and legal system. Financial sector reform did not occur at the initial stage of the transformation process, therefore,

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[2] By way of comparison in Central and South Eastern Europe and Baltic countries output declined by

banks and other financial institutions emerged as a major problem for the reforms. The problems of the financial sector can be classified as follows: i) the absence of important institutions of financial intermediation (such as specialized savings and loans organizations, security firms, equity and bond markets, etc.), ii) the small capital base of the existing commercial banks, iii) the excessive dependence of banks on a limited number of clients (mainly large state enterprises), iv) the lack of experience in credit operations, and v) the absence or the ineffectiveness of prudential regulations and bank supervision (UNECE, 1995, p.13). The implications of the failure to reform the financial sector at the start of the transition were important. The most important was probably the rapid accumulation of bad loans in commercial banks. A second important implication of the failure to reform the financial sector has been the development of the informal (pyramid) financial markets. The insufficiency of the legal framework is another indicator of economic difficulties. Labor legislation, legislation on land, on property rights and on foreign direct investment were some examples of factors affecting the legal environment. In many cases the problem has been concentrated on the unstable nature of the existing legal framework.

The theoretical interpretation of the above data, suggests that the existence of economic difficulties in the early years of the formation of BSEC (1992-1995) would create the condition, or a 'window of opportunity' for changes at the subregional level. Economic difficulties may thus partly explain *why* BSEC was established in the first place. However, there is no evidence, as we shall see below, that the business community seized the opportunity to demand a significant change of BSEC to a more supranational mode of governance. Expectations were directed towards the EU rather

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about 14 per cent (World Bank, 2000, p. 11).

than BSEC. Nevertheless, they did influence BSEC's structure and functioning as an economic organization.

Table 4.2 Annual change in real GDP in BSEC countries
(percentage over the previous year)

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	-28.0	-7.2	9.6	8.3	13.3	9.1	-7.0	8.0	7.3	7.8
Armenia	-	-41.8	-8.8	5.4	6.9	5.9	3.3	7.3	3.3	6.0
Azerbaijan	-	-22.6	-23.1	-19.7	-11.8	1.3	5.8	10.0	7.4	11.1
Bulgaria	-11.7	-7.3	-1.5	1.8	2.1	-10.9	-6.9	3.5	2.4	5.8
Georgia	-	-44.8	-25.4	-11.4	2.4	10.5	10.8	2.9	3.0	2.0
Greece	3.2	0.8	-1.6	2.0	2.1	2.4	3.5	3.1	3.4	4.0
Moldova	-	-29.1	-1.2	-31.2	-1.4	-5.9	1.6	-6.5	-3.4	2.1
Romania	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.8
Russia	-	-18.6	-13.0	-13.5	-4.2	-3.4	0.9	-4.9	5.4	8.3
Turkey	0.5	5.9	8.0	-4.7	8.1	6.9	7.6	3.1	-2.3	7.0
Ukraine	-	-9.7	-14.2	-22.9	-12.2	-10.0	-3.0	-1.9	-0.2	5.9
BSEC	-	-16.6	-6.3	-7.4	1.1	0.9	0.9	1.7	2.1	5.6
OECD	...	1.7	0.9	2.9	2.3	2.8	2.9	3.2	2.8	3.9

Source: data based on EBRD (2002), IMF (2001), OECD (2000), national sources.

Table 4.3 Annual inflation in BSEC countries
(per cent)

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	35.5	226.0	85.0	22.6	7.8	12.7	33.2	20.6	0.4	0.1
Armenia	274.0	1346.0	1822.0	4962.0	175.8	18.7	14.0	8.7	0.7	-0.8
Azerbaijan	107.0	912.0	1129.0	1664.0	412.0	19.7	3.5	-0.8	-8.5	1.8
Bulgaria	333.5	82.0	73.0	96.3	62.0	123.0	1082.0	22.2	0.7	9.9
Georgia	79.0	887.4	3125.4	15606.5	162.7	39.4	7.1	3.6	19.2	4.1
Greece	...	16.0	...	10.9	9.2	8.2	5.6	...	2.3	2.2
Moldova	98.0	1,276.4	788.5	329.7	30.2	23.5	11.8	7.7	39.3	31.3
Romania	170.2	210.4	256.1	136.7	32.3	38.8	154.8	59.1	45.8	45.7
Russia	92.7	1526.0	875.0	311.4	197.7	47.8	14.7	27.6	86.1	20.8
Turkey	...	67.0	...	...	93.6	80.4	85.7	84.6	65.1	...
Ukraine	91.0	1210.0	4734.0	891.0	377.0	80.0	15.9	10.5	22.7	28.2

Source: EBRD (2003) EIU, *Country Profile* (several years).

Table 4.4 Absolute Poverty Rates of Transition Economies in BSEC countries
(selected years)

Country	Survey year	Headcount index $2.15/day	Headcount index $4.30/day
Albania*	1996	11.5	58.6
Armenia	1999	43.5	86.2
Azerbaijan	1999	23.5	64.2
Bulgaria	1995	3.1	18.2
Georgia	1999	18.9	54.2
Moldova	1999	55.4	84.6
Romania	1998	6.8	44.5
Russia	1998	18.8	50.3
Ukraine	1999	3.0	29.4

Source: World Bank, 2000, p. 35. * The survey did not cover the capital city Tirana

3. Transnational exchange

3.1 Trade barriers and trade regime(s)

This section presents a review of the trade barriers to economic cooperation among BSEC countries that have existed particularly in the early 1990s, i.e. during the first stages of BSEC. According to an OECD study (1997) most of the trade barriers mentioned in the early 1990s were due to: a) the small number of trade relations/agreements, b) the large amount of state trading, c) the great number of tariff and non-tariff measures in exports and imports, d) the large share of barter trade transactions, e) the non-liberalization of the foreign exchange system, and f) the existence of protectionist lobbies.

Although several of those barriers were partly alleviated in the process of the economic transformation of the member states, regionalization was restrained due to either the persistence of trade obstacles or the preservation of a diversified trade regime among the BSEC members.[3] Four BSEC states, among which the two most important trade partners in the subregion i.e. Russia and Ukraine, remain outside the multilateral trade system of the WTO (the other two are Armenia and Azerbaijan). A comparative analysis of trade regime in the area indicates significant normative variation:

- Greece's EU membership
- Free trade agreements among the CIS countries
- Customs Union between Armenia and Russia
- Customs Union of Turkey and the EU
- Free trade agreements between Bulgaria, Romania and the EU within the framework of the Europe Association Agreements

Although the member states have recognized the need for a multilateral framework for the conduct of commerce in the area, they have refrained from undertaking commitments at a subregional level. Instead, they have indicated a preference for managing economic relations with their neighbours through bilateral

[3] For a comprehensive analysis of the obstacles to economic cooperation in the area see Vlachoutsikos & Liargovas, 1997; OECD, 1996c; 1996d.

agreements (table 4.5). Thus FTAs signed by Armenia, Azerbaijan, Georgia, Moldova, Ukraine and Russia within the CIS framework do not remain in effect but have been supplemented by bilateral agreements. To give an example, Georgia's FTAs within the CIS framework, which stipulate zero import duties on products from those countries, have not been ratified by its Parliament. As a result, Georgia does not enjoy a zero import tariff and in turn levies full import tariffs on all neighbouring countries. Romania and Bulgaria however, are implementing FTAs on industrial products as part of their obligations from their participation in CEFTA as well as the Europe Agreements. On the other hand, exports by BSEC countries towards Greece are subject to EU regulations, including special restrictions on agricultural products and the wide use of quotas.

Table 4.5 Free Trade Agreements among BSEC countries

Country	Albania	Armenia	Azerbaijan	Bulgaria	Georgia	Greece	Moldova	Romania	Russia	Turkey	Ukraine
Albania				X				X			
Armenia					X(CIS)		X(CIS)		X(CIS)		X(CIS)
Azerbaijan					X(CIS)		X(CIS)		X(CIS)		X(CIS)
Bulgaria	X					X(EC)		X (CEFTA)		X	
Georgia		X(CIS)	X(CIS)		X(CIS)		X(CIS)		X(CIS)		X(CIS)
Greece				X				X			
Moldova		X(CIS)	X(CIS)		X(CIS)			X	X (CIS)		X(CIS)
Romania	X			X(CEFTA)		X(EC)	X			X	
Russia		X(CIS)	X(CIS)		X(CIS)		X(CIS)				X(CIS)
Turkey				X				X			
Ukraine		X(CIS)	X(CIS)		X(CIS)		X(CIS)		X(CIS)		

Source: Based on WTO, *Trade Policy Reviews*, several years; PABSEC (1999) and national sources.

3.2 Intra-BSEC trade integration[4]

As stated earlier, while the development of economic regionalization within BSEC is being reshaped, each party maintains a different status vis-à-vis its economic relationships, its international and bilateral commitments. This analysis shows that

[4] Data are based on IMF, *Direction of Trade Statistics*, Washington D.C., several years, unless otherwise stated.

transnational exchange *within* the subregion has been stimulated but it has not reached high levels of intensity.

We should start by saying that as a trade group, BSEC' s significance remains small as it represents only 2.8 per cent of world trade. There are two important features of intra-BSEC trade. First, its volume remains low relatively to the size of the market covered and second, trade flows are dominated by Russia due to the latter's energy exports (Russia is today the second largest energy exporter in the world).

Table 4.6 Growth Rates of Intra-BSEC trade, 1991-2000
(percentage of annual change)

Growth rates of exports to BSEC by country										
Country	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	1994-2000
Albania	na	na	-28,0	88,9	0,0	-11,8	40,0	-4,8	2,5	19,1
Armenia	na	na	35,8	11,0	12,9	-26,3	-31,0	-15,5	36,7	-2,0
Azerbaijan	na	-39,5	-42,1	-13,1	31,0	45,5	-12,6	-24,8	26,6	8,8
Bulgaria	0,0	13,4	81,4	79,7	-0,5	-5,3	-19,6	-19,5	31,8	11,1
Georgia	na	na	-27,5	0,0	18,5	9,5	27,3	-12,2	13,9	9,5
Greece	0,0	149,7	40,2	19,1	17,3	3,3	-11,4	-5,4	32,0	9,2
Moldova	na	1,6	20,5	20,6	3,5	9,4	-28,9	-38,7	4,6	-4,9
Romania	0,0	-14,8	-1,0	21,1	-5,6	8,9	-15,7	15,7	51,3	12,6
Russia	na	1,2	262,8	9,0	11,3	0,7	-18,8	-14,0	36,0	4,0
Turkey	0,0	3,8	57,2	48,2	18,8	31,3	-14,6	-32,8	9,1	10,0
Ukraine	na	170,3	284,3	57,2	-3,1	-24,5	-16,9	-14,2	41,1	6,6
Total	0,0	17,7	141,1	27,5	6,9	-1,8	-17,1	-15,9	33,3	5,5
BSEC 10	...	19,3	165,0	28,6	6,6	-2,8	-19,4	-19,2	31,5	4,2
Growth rates of imports from BSEC by country										
Country	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	1994-2000
Albania	na	na	75,9	58,9	-26,9	-25,7	39,7	14,4	16,7	12,8
Armenia	na	na	34,3	58,4	0,5	56,0	-8,8	-9,4	-0,7	16,0
Azerbaijan	na	-49,0	-4,1	-2,6	73,5	-8,2	15,8	-21,0	3,5	10,1
Bulgaria	482,5	2,7	-14,4	57,8	2,1	-33,4	10,6	-0,5	65,9	17,1
Georgia	na	na	32,9	163,4	65,8	15,2	18,3	-15,8	-31,6	35,9
Greece	-23,6	239,8	38,9	21,9	-0,6	3,8	-7,4	-1,2	53,3	11,7
Moldova	na	3,8	8,4	21,4	14,2	4,9	-27,5	4,7	-4,3	2,2
Romania	38,8	259,3	20,4	31,6	-3,3	5,6	-12,8	-25,6	56,6	8,7
Russia	na	-20,1	442,6	43,5	-4,2	-21,0	-27,7	-27,0	37,8	0,2
Turkey	318,0	58,7	-21,7	84,6	-4,5	17,1	-3,1	-0,8	55,9	24,9
Ukraine	na	117,2	1741,1	33,0	11,5	-9,4	-11,4	-20,0	3,8	1,2
Total	410,7	38,6	122,5	43,0	2,6	-8,3	-11,8	-14,6	31,5	7,1
BSEC 10	...	25,0	162,2	47,6	3,6	-9,9	-12,7	-16,6	29,9	7,0

Source: IMF, *Direction of Trade Statistics*, Washington D.C. (several years).
Note: Years 1992 and 1993 do not include the bilateral trade between Russia and Ukraine.
BSEC 10: BSEC excluding Greece.

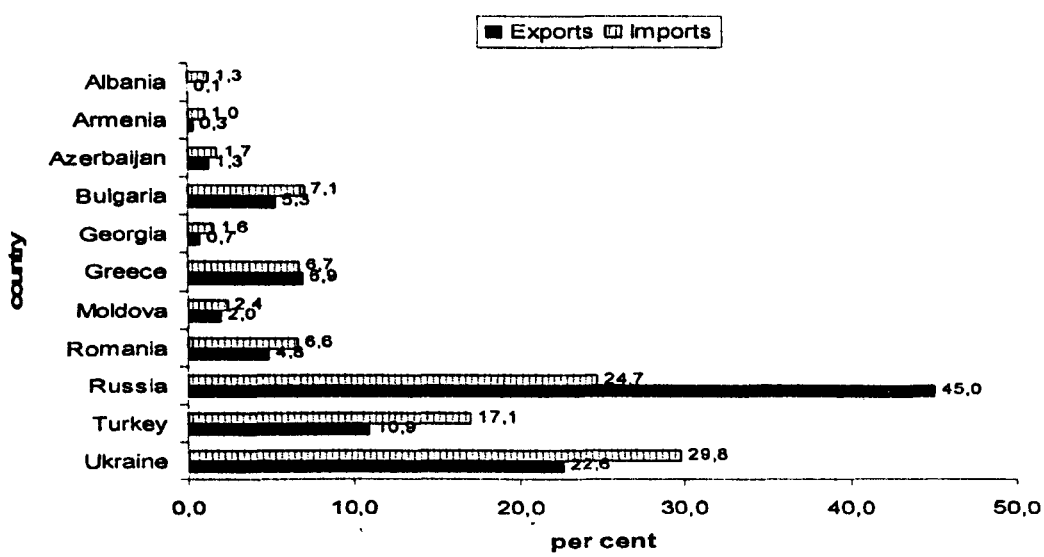
Although increasing, the value of intra-BSEC trade, is only $48 billion (2000) or approximately 16 per cent of the total foreign trade of the BSEC states (average between 1992 and 2000). Since 1994 the total volume of commercial exchanges for the eleven countries with their BSEC partners has increased at a yearly average rate of

5.5 per cent for exports and 7.1 per cent for imports. The speed however at which this shift has taken place differs significantly from one country to another (table 4.6). The evolution of the BSEC foreign trade has had the shape of a 'curve' with significant trade expansion between 1993 and 1995. After 1996 there was a retreat of trade flows, though this varied from country to country. The picture given by Greece and Turkey is also one of a 'bell curve' but the increase of foreign trade is more solid and the fluctuations less sharp (TAD, 2001, p. 64).

Subregional flows are dominated by the trade volumes of Russia and Ukraine which together represent approximately 67 per cent of exports and 50 per cent of import flows (figure 4.1). In fact the evolution of BSEC trade reflects, to a great degree, the evolution of Russian and Ukrainian flows in the subregion. The weight of Russia in BSEC trade became obvious when intra-BSEC trade declined by 15 per cent after the Russian economic crisis in 1998.

Figure 4.1 Share of each country in Intra-BSEC Trade, 1994-2000 (per cent)

Source: IMF, *Direction of Trade Statistics*, Washington D.C., several years



To show the extent of this dependence, in 1994[5] Russia represented 49 per cent of intra-BSEC exports and 31 per cent of imports, followed by Ukraine (23 per cent and 31 per cent respectively). However, since then, their share in intra-BSEC trade, particularly in imports, has been slowly but steadily declining to reach 18 per cent of intra-BSEC trade for Russia and 23 per cent for Ukraine (table 4.8). An illustrative example is Russian-Armenian trade where despite the latter's geographic location and economic/political problems (embargo) which make Russia its most significant partner, compared to 1994, Russian exports to Armenia dropped by 80 per cent in 2000 and imports dropped by 17 per cent (appendix 4.1 - Russia).

In fact it is the bilateral trade between Russia and Ukraine which dominates intra-BSEC exchanges. Russia's main BSEC trade partner by far is Ukraine representing 70 per cent of its gross trade with BSEC (appendix 4.1 - Russia). In the case of Ukraine more than three-quarters of its trade within BSEC is still conducted with Russia but over the last five years the latter's share has been steadily decreasing from 89 per cent in 1996 to 83 per cent in 2000. As the Ukrainian side has claimed that "this tendency testifies to a new political approach of promoting trade and economic contacts with other partners" (Supreme Rada of Ukraine, 2002).

Turkey holds the third biggest share of intra-BSEC trade (11 per cent of exports and 18 per cent of imports), followed by Bulgaria (5 per cent and 7 per cent), Greece (7 per cent imports and exports) and Romania (5 per cent and 7 per cent). The rest of the BSEC countries (Moldova, Azerbaijan, Albania, Armenia and Georgia) added altogether account for less than 10 per cent of intra-BSEC trade (figure 4.1). As the data show, Turkish share in BSEC trade has substantially increased since 1994 (particularly in imports). In 2000, for example, it accounted for almost 18 per cent of

[5] We use 1994 as the basis for the calculation of intra-BSEC trade due to the fact that for 1992-1993

BSEC flows. This is not the case for the other important trade partners (Greece, Bulgaria and Romania) whose share has remained unchanged or even decreased like in the case of exports. The significance of the NIS in intra-regional trade has been roughly stable.

Table 4. 7 Significance of individual countries in Intra-BSEC trade, 1992-2000 (per cent)

Exports to BSEC countries									
Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	-	0,3	0,1	0,1	0,1	0,1	0,2	0,2	0,2
Armenia	-	0,8	0,5	0,4	0,4	0,3	0,3	0,3	0,3
Azerbaijan	10,0	5,1	1,2	0,8	1,0	1,5	1,6	1,4	1,4
Bulgaria	6,0	5,7	4,3	6,1	5,7	5,5	5,3	5,0	5,0
Georgia	-	2,1	0,6	0,5	0,5	0,6	0,9	0,8	0,8
Greece	5,1	10,7	6,2	5,8	6,4	6,7	7,2	8,0	8,0
Moldova	5,5	4,7	2,4	2,2	2,2	2,4	2,1	1,2	1,2
Romania	14,9	10,8	4,4	4,2	3,7	4,1	4,2	6,5	6,5
Russia	38,0*	32,7*	49,1	42,0	43,7	44,8	43,9	45,8	45,8
Turkey	14,3	12,6	8,2	9,6	10,6	14,2	14,6	9,6	9,6
Ukraine	6,2*	14,3*	22,9	28,2	25,5	19,6	19,7	21,2	21,2
BSEC Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Imports from BSEC countries									
Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	-	1,6	1,2	1,4	1,0	0,8	1,3	1,7	1,5
Armenia	-	1,1	0,7	0,8	0,7	1,3	1,3	1,4	1,1
Azerbaijan	9,6	3,5	1,5	1,0	1,7	1,7	2,3	2,1	1,7
Bulgaria	22,7	16,8	6,5	7,1	7,1	5,2	6,5	7,5	9,5
Georgia	-	0,8	0,5	0,9	1,5	1,9	2,5	2,5	1,3
Greece	4,3	10,6	6,6	5,6	5,5	6,2	6,5	7,5	8,8
Moldova	6,9	5,2	2,5	2,2	2,4	2,7	2,2	2,8	2,0
Romania	5,0	12,9	7,0	6,4	6,1	7,0	6,9	6,0	7,2
Russia	22,1*	12,7*	31,1	31,2	29,1	25,1	20,6	17,6	18,4
Turkey	27,0	30,9	10,9	14,0	13,0	16,7	18,3	21,3	25,2
Ukraine	2,4*	3,8*	31,5	29,3	31,8	31,5	31,6	29,6	23,4
BSEC Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: IMF, *Direction of Trade Statistics*, Washington D.C. (several years).
* Bilateral trade between Russia - Ukraine not included

The data show significant variations in the dependence of individual countries on BSEC trade measured as the ratio of intra-regional trade and the trade with the rest of the world. The countries most sensitive[6] to intra-regional trade are Moldova (an average of 64.3 per cent) and Georgia (57.1 per cent) followed by Azerbaijan (43 per cent) and Ukraine (45 per cent). Those which are least sensitive to intra-regional trade are Greece (8.9 per cent) and Turkey (10 per cent) followed by Romania and Russia. In the case of Russia, it is the BSEC group that is sensitive to the Russian

comparable data for the bilateral trade between Russia and Ukraine are not available.

flows rather than *vice versa*. The sensitivity of BSEC trade (in particular of Turkey, Ukraine) to the Russian market became evident in 1998 when following the Russian economic crisis of that year, official intra-regional trade as well as luggage trade decreased. In the middle of the spectrum lie Albania, Armenia and Bulgaria (figure 4.2).

Table 4.8 Intra-BSEC trade by country (1991-2000)
$ millions

Exports to BSEC countries										
Country	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Albania	...	...	25	18	34	34	30	42	40	41
Armenia	...	...	67	91	101	114	84	58	49	67
Azerbaijan	...	699	423	245	213	279	406	355	267	338
Bulgaria	329	417	473	858	1542	1534	1452	1167	940	1239
Georgia	...	...	171	124	124	147	161	205	180	205
Greece	278	354	884	1239	1476	1731	1788	1584	1498	1978
Moldova	...	385	391	471	568	588	643	457	280	293
Romania	269	1044	889	880	1066	1006	1096	924	1069	1617
Russia	...	2656	2689	9755	10634	11840	11922	9681	8329	11324
Turkey	347	1003	1041	1636	2425	2880	3782	3229	2171	2368
Ukraine	...	437	1181	4538	7132	6911	5221	4340	3722	5252
Total	**1223**	**6995**	**8234**	**19855**	**25315**	**27064**	**26585**	**22042**	**18545**	**24722**
BSEC 10	**605**	**5610**	**6690**	**17725**	**22794**	**24302**	**23615**	**19025**	**15372**	**20215**
Imports from BSEC countries										
Country	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Albania	...	...	141	248	394	288	214	299	342	399
Armenia	...	...	102	137	217	218	340	310	281	279
Azerbaijan	...	618	315	302	294	510	468	542	428	443
Bulgaria	252	1468	1507	1290	2036	2079	1384	1531	1523	2527
Georgia	...	...	76	101	266	441	508	601	506	346
Greece	365	279	948	1317	1606	1597	1658	1536	1518	2327
Moldova	...	449	466	505	613	700	734	532	557	533
Romania	232	322	1157	1393	1833	1773	1872	1632	1215	1903
Russia	...	1430	1142	6197	8895	8524	6736	4870	3554	4897
Turkey	417	1743	2766	2166	3998	3817	4468	4330	4297	6699
Ukraine	...	157	341	6278	8348	9305	8434	7475	5977	6204
Total	**1266**	**6466**	**8961**	**19934**	**28500**	**29252**	**26816**	**23658**	**20198**	**26557**
BSEC 10	**302**	**5299**	**6624**	**17369**	**25628**	**26544**	**23915**	**20885**	**17412**	**22614**

Source: IMF, *Direction of Trade Statistics*, Washington D.C. (several years).
Note: Years 1992 and 1993 do not include the bilateral trade between Russia and Ukraine.
BSEC 10: BSEC excluding Greece

The opening up of the Black Sea economies has not always benefited intra-regional trade. As the Foreign Economic Relations Board of Turkey (DEIK) has claimed regarding the potential of Russian-Turkish trade, Turkey's exports decreased as the number of foreign firms operating in Russia increased. Turkish exporters have been negatively affected as Russia does not impose VAT and some

[6]Countries for which BSEC trade accounts for more than 50 per cent of their foreign trade.

other taxes on some CIS countries while, on the other hand, EU countries have more financial resources to enter this market (DEIK, 2003).

On the export side, opportunities have been restricted because of the lack of economies of scale and the high cost of transport to neighbouring or world markets. An important reason for weak export performance is the dearth of internationally competitive goods produced in the area apart from natural resources. While geographic proximity has been a positive factor in trade flows, the low demand in the area is a restraining factor that has been changing the direction of trade. Increasingly thus, trade flows are reoriented towards west European and other international markets. Poor infrastructure has further weakened proximity advantages. Although sea routes have facilitated trade links between Bulgaria and Romania and the opposite edge of the Black Sea, the volume of trade remains very low. For example, total trade with Bulgaria in 1998 accounted for 4.7 per cent of Georgia's foreign trade.[7]

The establishment of BSEC has not been followed by a considerable increase in dependence on intra-BSEC trade (table 4.9). On the contrary the fastest growing trade partners for all BSEC members (apart from Greece) have been the western European states as we will indicate later. The rate of trade growth with the EU differs significantly for each country but on average between 1994 and 2000 (table 4. 10 and 4.11), exports grew by 5.5 per cent while exports from BSEC to the EU by 9.5 per cent (at almost twice the rate). If in the intra-BSEC flows we exclude Greece (due to its EU membership) then the growth of intra-BSEC exports falls to 4.2 per cent. As far as imports are concerned, the growth rate is approximately the same both for intra-BSEC flows and flows with the EU. Although this reorientation is expected for

[7] These figures are based on registered data.

countries such as Turkey, Romania and Bulgaria due to their EU contractual links, it is interesting to note that it is also strong in the countries of the Caucasus. By the way of example, Armenia's exports to Russia have steadily declined from 73.3 per cent in 1994 to 36.1 per cent in 1998 while in Georgia, where Turkey and Russia are the largest trade markets for Georgian products, the fastest growing export markets in recent years were again the EU and the US.

What is more important to note is that the more developed economy in the subregion i.e. Greece, and the two largest markets e.g. Russia and Turkey are the least dependent countries in subregional trade while there is no evidence that their Black Sea neighbours are becoming their main trade partners.

Table 4.9 Share of BSEC trade in the total foreign trade of each BSEC country (per cent)

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	...	22,87%	37,02%	36,33%	28,75%	32,06%	34,07%	32,54%	32,54%
Armenia	...	39,30%	35,74%	30,20%	28,82%	37,72%	32,77%	30,70%	29,20%
Azerbaijan	51,27%	45,33%	38,66%	41,90%	49,56%	55,49%	53,30%	35,37%	26,77%
Bulgaria	22,47%	23,43%	26,61%	32,47%	26,84%	26,89%	29,08%	26,39%	33,72%
Georgia	...	53,12%	45,55%	71,82%	66,37%	56,98%	51,44%	54,27%	53,29%
Greece	1,96%	6,25%	8,68%	8,35%	8,53%	9,03%	7,91%	8,40%	11,16%
Moldova	75,41%	76,86%	79,74%	74,46%	68,99%	67,53%	59,72%	51,98%	47,69%
Romania	12,67%	18,91%	18,00%	16,56%	16,64%	16,03%	13,64%	12,84%	15,83%
Russia	8,95%*	5,41%*	15,69%	15,75%	15,85%	13,57%	12,73%	11,57%	11,85%
Turkey	7,04%	8,03%	9,18%	11,19%	9,94%	10,99%	9,84%	9,46%	9,66%
Ukraine	17,12%*	25,52%*	52,47%	44,20%	50,70%	43,56%	43,26%	41,40%	40,15%

Source: IMF, *Direction of Trade Statistics*, Washington D.C., several years.
* bilateral trade between Russia - Ukraine not included

From the commodity perspective, it is the energy sector (oil, gas and electricity) particularly large volumes of energy exports of Russia, that dominates intra-BSEC trade. In the last decade, trade in agricultural products has decreased while the exports of industrial products have collapsed along with the collapse of the regional industry. Slow progress in improving business climate and industrial restructuring has further limited export potential particularly for the NIS. Beyond the natural resources and semi-finished products of the Soviet-era plants, the South Caucasus countries have a rather limited export base.

The stable growth of trade turnover is based on increased purchases by Turkey, Romania and Ukraine of Russian energy as well as Azerbaijani energy exports. The categories of 'fuel and mineral resources, oil and its products' and 'ferrous metal' accounted for 78.6 percent of the aggregate Russian exports to Romania in 1994. In 1995 the figure was 83.5 per cent and in 1996 it was 87.5 per cent (Borisenko, 1999, pp. 115-116). The same items account for two thirds of Turkish imports from Russia (DEIK, 2003). In addition to energy, other raw materials such as minerals are the main commodities traded within the region as well as foodstuffs which partly explains the modest progress in trade liberalization within BSEC. Therefore, 30 per cent of Turkish exports to the former Soviet republics involves foodstuff (WTO, 1998, p. 25). The three South Caucasus countries trade mainly energy, mineral resources and semi-finished products (e.g. Armenia exports copper).

What does the above analysis suggest? We can conclude that trade with BSEC partners is not important for the majority of the Black Sea countries in their overall trade turnover and therefore is not a foreign economic priority. The structure of trade turnover shows that the subregion is divided only between exporters and importers of fuels. This is a sign of an absence of a subregional division of labour among the member states which is the cornerstone of any regional market. The limited range of commodities and a lack of balance in trade turnover, a considerable share of fuels and mining products are a natural barrier on the road towards liberalizing the foreign trade regimes in the region. From this it follows that i) cooperation in trade is not a priority created by the existing foreign economic relations among the member states (Borisenko, 1999, p. 116), and ii) the structure and level of trade flows is not such as to justify strong demands for subregional governance. BSEC's actions and the intention of its member states to establish a FTA (examined later) should be

connected to their strategy of pushing forward economic cooperation not only in the subregion but beyond it, but this does not reflect transnational demands.

Suitcase trade

Unrecorded trade is taking place in many parts of the region through the large volume of 'suitcase trade' especially between Turkey and several Black Sea countries. Almost 65 per cent of suitcase exports from Turkey goes to Russia (Morgil, 2002). The 'suitcase trade', which is largely unrecorded and untaxed, is estimated to range from $5 to $10 billion depending on the source.[8] In certain cases such as the one between Armenia with Turkey where an embargo is in force, 'suitcase trade' is the only means of bilateral commercial exchange. However the volume of 'suitcase' exports from Turkey has been decreasing in the last five years from almost $6 billion in 1997 to $1 billion in 2002 among others due to the regulation of commercial relations.[9]

3.3 Redirecting trade to the EU market [10]

A central feature of the economic map of the BSEC subregion during the 1990s has been the reorientation of its trade links towards western markets and, in particular, the EU. Trade integration between BSEC and the EU might manifest itself in numerous ways including rising growth of exports and imports as well as rising shares of BSEC trade in total EU foreign trade. Here we focus particularly on the first aspect given the small weight of BSEC in EU external trade.

[8] Turkey's DEIK estimated in 1995 that the suitcase trade was $10 billion.
[9] Data based on the State Statistics Institute of Turkey.
[10] Data based on IMF, *Direction of Trade Statistics*, Washington D.C. (several years), unless otherwise stated.

The data show that over the last decade, the EU countries as a group have become the main trade partner of BSEC. The trade balance for all BSEC countries is in deficit (with the exception of Azerbaijan and Russia due to their exports of hydrocarbons). The growth rate of trade between BSEC and the EU is accelerating faster than the intra-BSEC one at an average growth rate of 9.5 per cent for BSEC exports and 7.4 per cent for imports since 1994 (table 4.11).

Figure 4.2 Share of BSEC trade in the total foreign trade of each BSEC country (per cent). Source: IMF, *Direction of Trade Statistics*, Washington D.C., (several years)

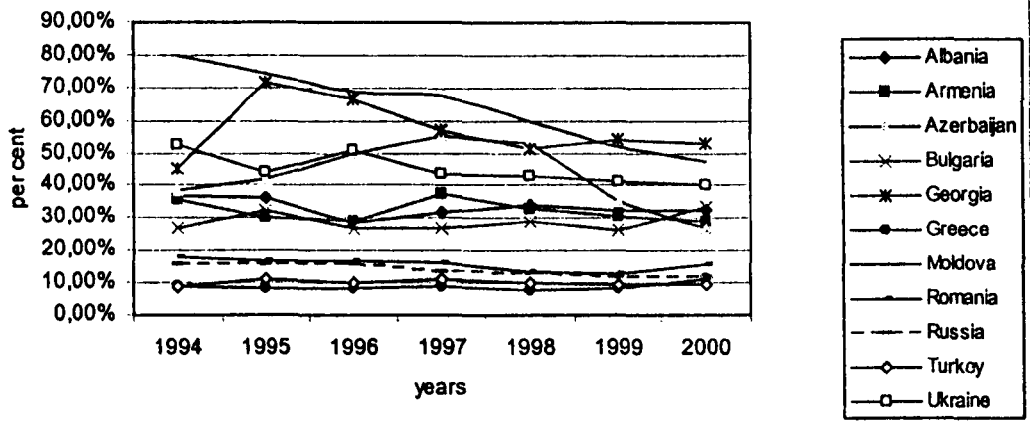
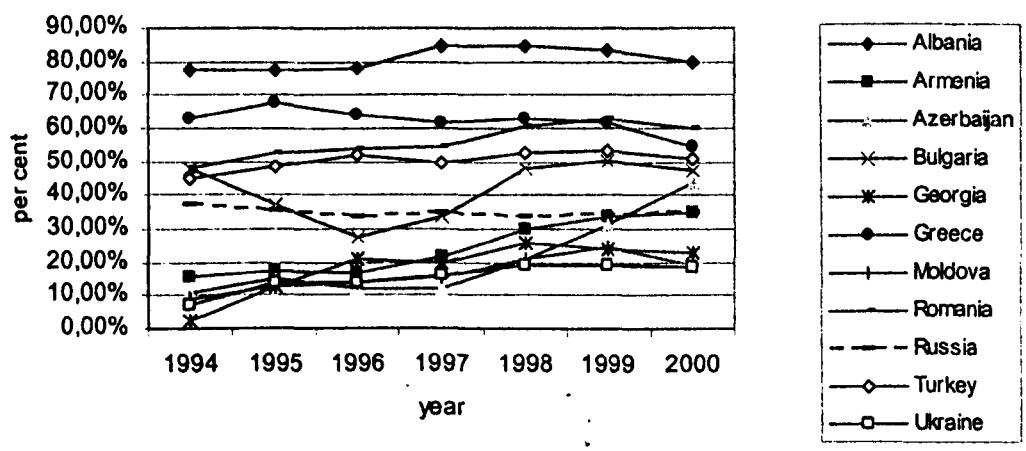


Figure 4.3 Share of EU trade in the total foreign trade of each BSEC country (per cent). Source: IMF, Direction of Trade Statistics, Wasington, D.C.(several years)



By 2000 the EU absorbed approximately 38 per cent of BSEC exports and 48 per cent of its imports while the volume of EU-BSEC trade reached $140 billion (table

4.10). However, the figures do not justify any claims for integration with the EU. On the contrary, the significance of individual BSEC countries in the total BSEC-EU trade varies (appendix 4.2). In 2000, just six countries (Russia, Romania, Turkey, Greece, Bulgaria and Ukraine) absorbed 95 per cent of EU exports to the BSEC area and similar conclusions can be drawn regarding the total EU imports from the area. Russia is by far the most important trade partner as it accounts for 33 per cent of the EU-BSEC trade, followed by Turkey with 29 per cent and Greece with 15 per cent.

According to a survey by the European Commission (TAD, 2001, pp. 70-71), the BSEC countries may be divided into three groups depending on the level of their integration with the EU measured by their trade exchanges. In the first group belong countries whose exchanges with the EU represent more than 50 per cent of their total commercial exchanges. These include Albania (80 per cent), Greece (54 per cent), Romania (60 per cent) and Turkey (51 per cent). The high level of dependence of Albanian trade to the EU is to be expected given its location while Greece's integration is also justified by its EU membership. Romania's and Turkey's high integration is significant taking into consideration their pre-accession status. Following the creation of a customs union between Turkey and the EU in 1996, and the free trade in industrial goods between Turkey and the EU, the latter has become increasingly an important trade partner of Turkey. The second group includes countries whose trade with the EU represents something between 25 per cent and 50 per cent. They include Bulgaria with 45 per cent and Russia with 38 per cent. In the third group are countries whose trade with the EU represents less than 25 per cent of their total trade (Ukraine, Moldova and Georgia). From the above we can see that in addition to Russia, the Balkan states are more integrated with the EU compared to their partners from the former Soviet space. This variation can be explained among

others by structural reasons (the Soviet legacy and the transition period), geographical criteria and the variation of institutional links between BSEC states and the EU.

On the other hand, the BSEC group is not a major trade partner of the EU. For the period 1993-1999, BSEC represented approximately 3 per cent of the EU's total commercial exchanges (or 3.2 per cent of its exports and 2.6 per cent of its imports). On the EU end, during the period 1993-99, Germany accounted for 30 per cent of the exchanges between the EU and the BSEC group, followed by Italy (18.5 per cent). If we include Austria (3 per cent) then we can easily conclude that three Central European countries represent 50 per cent of EU trade with the BSEC group. Greece with 14 per cent of its exports going to Bulgaria, Romania and Albania becomes the fourth closest EU partner.

To sum up, trade integration between the EU and BSEC is not yet at a significant level that would suggest a type of regional integration. Although flows are increasing, the absolute level of trade is still very low - approximately $113 billion in 1998, only $80 billion in 1999 and $140 billion in 2000 (excluding Greece). The difficulties of the majority of the countries in switching exports to alternative markets stem not only from the increased competitive pressures of western markets but also from the structure of their exports. In general, it is the internationally less competitive products, including machinery and equipment that are traded while exports consist mainly of intermediate products and some consumer goods produced under outward processing arrangements. Energy products (e.g. from countries like Russia and Azerbaijan) constitute the most important growth element in exports.[11]

[11] Azerbaijan's main export market in 1999 was Italy, which provided 33.7 per cent of export revenue because of shipments to the Trieste terminal (EIU, 2000c, p. 31).

Table 4.10 Evolution of EU- BSEC trade, 1992-2000 ($ million)									
BSEC exports to the EU									
Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	50	89	109	160	181	124	191	258	275
Armenia	4	31	61	79	62	6	76	107	107
Azerbaijan	228	70	83	94	59	88	131	423	1054
Bulgaria	1144	1090	1564	2013	1913	1942	2137	2054	2463
Georgia	67	9	1	7	17	20	67	106	68
Greece	6447	5637	4706	6709	6488	5846	5729	5421	4683
Moldova	12	31	39	86	78	90	79	95	102
Romania	1536	2027	2970	4388	4271	4752	5253	5537	6630
Russia	20227	19672	22411	26051	27189	27998	23073	24022	36881
Turkey	7600	7287	8269	11078	11477	12247	13440	14348	14509
Ukraine	806	1111	671	1716	1599	1762	2135	2130	2362
Total	40113	39047	42878	54376	55330	56872	54309	56500	71134
BSEC imports from the EU									
Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	240	527	572	754	694	519	658	721	805
Armenia	21	38	38	104	133	177	259	253	303
Azerbaijan	106	58	70	84	136	102	224	191	227
Bulgaria	1609	1908	2379	2098	1780	1628	2325	2638	2858
Georgia	32	23	12	63	167	210	334	195	167
Greece	15290	12076	13831	18213	18656	17800	19222	16715	16352
Moldova	37	67	68	115	177	226	266	290	226
Romania	2331	2686	3117	4811	4732	5316	6145	5673	6727
Russia	15952	11198	15379	18003	15761	19578	15539	11101	11138
Turkey	10048	12948	10278	16862	22704	24869	24076	21416	26610
Ukraine	1045	2010	842	3135	2758	3378	3167	2399	2883
Total	48703	45532	48580	66237	69694	75800	74213	63591	70296

Source: IMF, *Direction of Trade Statistics*, Washington D.C. (several years).

Table. 4. 11 Growth rates of EU -BSEC trade, 1992-2000 (percentage of annual change)									
BSEC exports to the EU									
Country	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	1994-00
Albania	78,0	22,5	46,8	13,1	-31,5	54,0	35,1	6,6	20,7
Armenia	675,0	96,8	29,5	-21,5	-90,3	1166,7	40,8	0,0	187,5
Azerbaijan	-69,3	18,6	13,3	-37,2	49,2	48,9	222,9	149,2	74,4
Bulgaria	-4,7	43,5	28,7	-5,0	1,5	10,0	-3,9	19,9	8,6
Georgia	-86,6	-88,9	600,0	142,9	17,6	235,0	58,2	-35,8	169,6
Greece	-12,6	-16,5	42,6	-3,3	-9,9	-2,0	-5,4	-13,6	1,4
Moldova	158,3	25,8	120,5	-9,3	15,4	-12,2	20,3	7,4	23,7
Romania	32,0	46,5	47,7	-2,7	11,3	10,5	5,4	19,7	15,3
Russia	-2,7	13,9	16,2	4,4	3,0	-17,6	4,1	53,5	10,6
Turkey	-4,1	13,5	34,0	3,6	6,7	9,7	6,8	1,1	10,3
Ukraine	37,8	-39,6	155,7	-6,8	10,2	21,2	-0,2	10,9	31,8
BSEC	-2,7	9,8	26,8	1,8	2,8	-4,5	4,0	25,9	9,5
BSEC imports from the EU									
Country	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	1994-00
Albania	119,6	8,5	31,8	-8,0	-25,2	26,8	9,6	11,7	7,8
Armenia	81,0	0,0	173,7	27,9	33,1	46,3	-2,3	19,8	49,7
Azerbaijan	-45,3	20,7	20,0	61,9	-25,0	119,6	-14,7	18,8	30,1
Bulgaria	18,6	24,7	-11,8	-15,2	-8,5	42,8	13,5	8,3	4,9
Georgia	-28,1	-47,8	425,0	165,1	25,7	59,0	-41,6	-14,4	103,1
Greece	-21,0	14,5	31,7	2,4	-4,6	8,0	-13,0	-2,2	3,7
Moldova	81,1	1,5	69,1	53,9	27,7	17,7	9,0	-22,1	25,9
Romania	15,2	16,0	54,3	-1,6	12,3	15,6	-7,7	18,6	15,3
Russia	-29,8	37,3	17,1	-12,5	24,2	-20,6	-28,6	0,3	-3,3
Turkey	28,9	-20,6	64,1	34,6	9,5	-3,2	-11,0	24,3	19,7
Ukraine	92,3	-58,1	272,3	-12,0	22,5	-6,2	-24,3	20,2	45,4
BSEC	-6,5	6,7	36,3	5,2	8,8	-2,1	-14,3	10,5	7,4

Source: IMF, *Direction of Trade Statistics*, Washington D.C. (several years).

Figure 4. 4 Evolution of Intra-BSEC trade & BSEC-EU trade, 1992 - 2000 (millions of USD)
Source: IMF, *Direction of Trade Statistics*, Washington D.C. (several years)

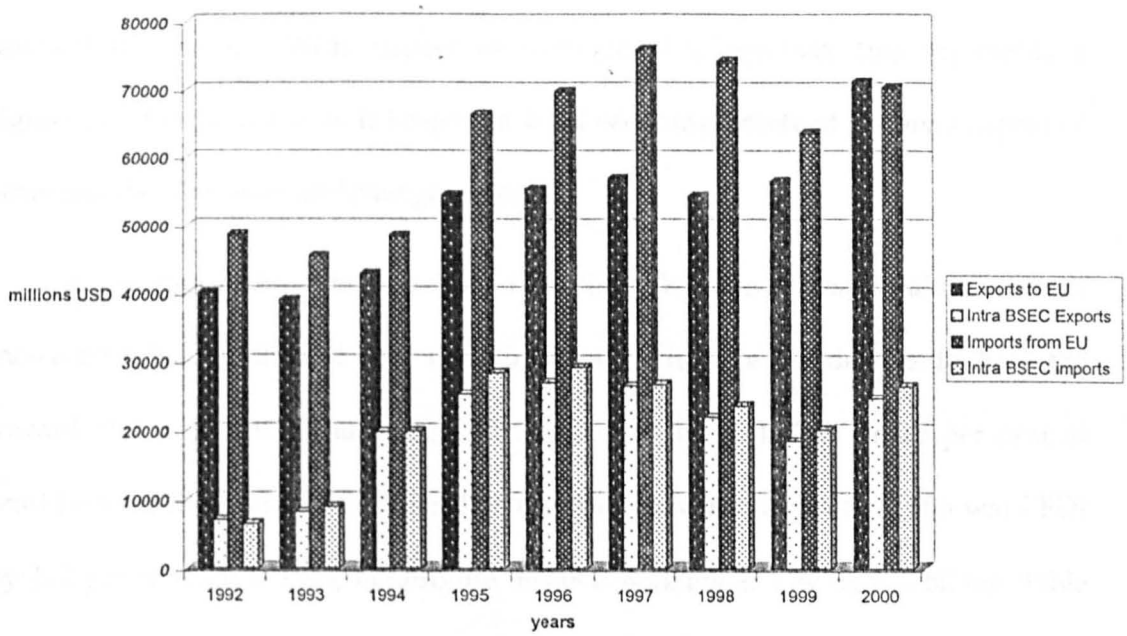
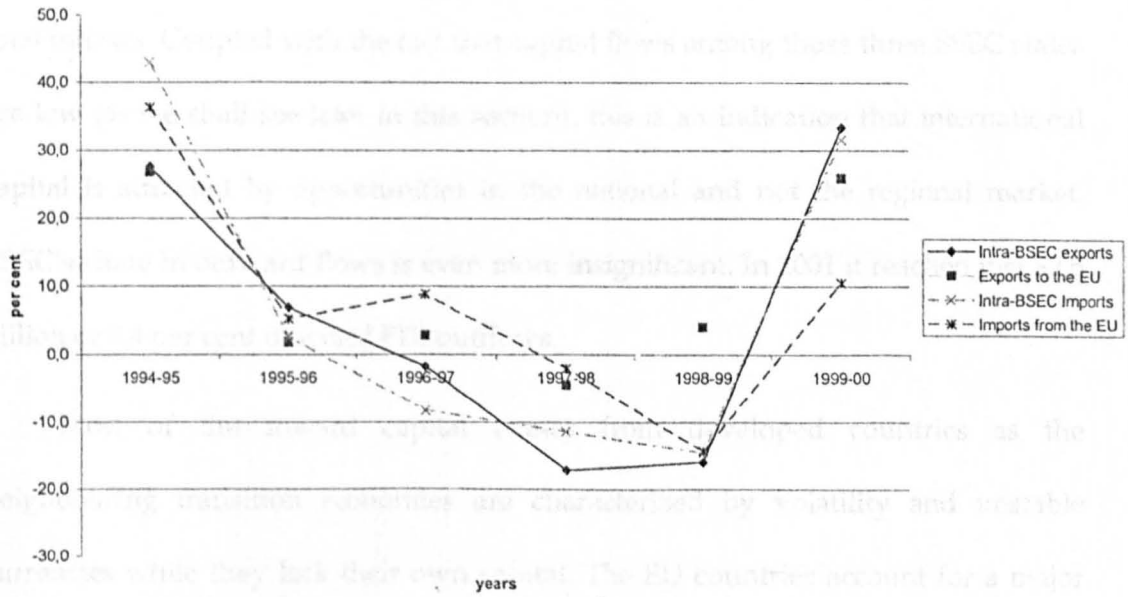


Figure 4.5 Growth rate of intra-BSEC & EU - BSEC trade, 1994 - 2000 (per cent of annual change)
Source: IMF, *Direction of Trade Statistics*, Washington D.C. (several years)



3.4 Investment driven integration[12]

Despite the size of the BSEC market, foreign direct investment in the area is the lowest in Europe. FDI remains below potential, reflecting economic volatility and political uncertainty. With respect to subregional integration, this represents a significant disadvantage as it keeps the local economy bereft of the main agent of economic development and change - capital.

According to the data (appendix 4.3), FDI inflows in terms of value have not increased substantially and have remained low during the last decade. In 2000, the inward FDI to the BSEC subregion accounted for just $8 billion or 0.5 per cent of world inward FDI. Although, the BSEC countries increased their stock of inward FDI by 112 per cent since 1995, in absolute terms it remains as low as $72 billion (table 4.12). An analysis of the direction of FDI indicates that despite the large number of BSEC states, FDI is heavily concentrated on the triangle of the states of Russia, Turkey and Greece which together absorb more than two-thirds of the subregion's total inflows. Coupled with the fact that capital flows among those three BSEC states are low (as we shall see later in this section), this is an indication that international capital is attracted by opportunities in the national and not the regional market. BSEC's share in outward flows is even more insignificant. In 2001 it reached just $2.5 billion or 0.4 per cent of world FDI outflows.

Most of the inward capital comes from developed countries as the neighbouring transition economies are characterized by volatility and unstable currencies while they lack their own capital. The EU countries account for a major part of the foreign capital in the BSEC countries. It is estimated at 40 per cent of the

[12] Data is based on UNCTAD, *World Investment Report*, New York (several years) unless otherwise stated.

total stock FDI in the subregion and it is particularly high in the Balkan states. However, exceptionally, in Moldova, 30 per cent of the foreign capital comes from Russia (UNCTAD, 2000). Thus, in Bulgaria, only 30 per cent of the FDI in the year 2000 originated from outside the EU while in Romania, the EU accounted for 57 per cent of inward stock FDI (1999). The EU members as a single investor account for less in the NIS states (for example, 25 per cent in Russia and 28 per cent in Ukraine in 1999). In Azerbaijan, one of the most successful CIS countries in attracting FDI, the largest foreign investor has been the USA with $1.2 billion, followed by the UK with $672 million while Turkey is the third biggest investor. However, an overwhelming 60 per cent of the total FDI in the 1990s was directed to the oil sector and oil related industries (EIU, 2000c, pp. 33-34).[13]

Table 4. 12 FDI INFLOWS IN BSEC COUNTRIES, selected years (millions of USD and per cent)

	Stock by 1995		1995	Stock by 1997		1997	Stock by 2001		2001
Economy	mln USD	%	%	mln USD	%	%	mln USD	%	%
Albania	48	0,00	0,03	68	0,00	0,01	775	0,13	...
Armenia	34	0,00	0,01	103	0,00	0,01	714	0,12	0,02
Azerbaijan	352	0,01	0,10	2094	0,06	0,23	3962	0,65	0,03
Bulgaria	446	0,01	0,03	1059	0,03	0,11	3410	0,56	0,09
Georgia	6	0,00	0,00	67	0,00	0,05	583	0,10	0,02
Greece	10957	0,36	0,32	12999	0,36	0,21	12006	1,98	0,21
Moldova	93	0,00	0,02	193	0,01	0,02	600	0,10	0,02
Romania	821	0,03	0,12	2352	0,07	0,25	7638	1,26	0,15
Russia	5465	0,18	0,44	14718	0,41	1,02	20142	3,32	0,34
Turkey	14977	0,50	0,27	16504	0,46	0,17	17521	2,89	0,44
Ukraine	910	0,03	0,08	2064	0,06	0,13	4662	0,77	0,10
BSEC	34109	1,14	1,41	52221	1,44	2,20	72013	11,87	11,87
CEE	40187	1,34	...	71629	1,98	...	155734	25,67	...
World	3001996	100,00	100,00	3616576	100,00	100,00	606698	100,00	100,00

Source: UNCTAD (2003).

Table 4. 13 FDI INFLOWS FROM EU CUNTRIES, selected years

country	FDI inflows						FDI stock			
	Mln USD			Per cent			Mln USD		Per cent	
	1995	1999	2000	1998	1999	2000	1995	1999	1995	1999
Bulgaria	17.9	144a	...	50.9	43.3	67.9	374.8	1339.5	72.4	62.0
Moldova	5.8	1.5	7.6	1.4	3.7	5.3	22.6	...	25.9	22.7
Romania	204.9	423a	535a*	...	...	...	814.1	1753a	51.0	56.8
Ukraine	170	...	...	...	...	...	375	576.0	42.1	28.1
Russia	...	1131	1567	36.5	26.5	35.4	2776	5476.0	47.2	24.7

Source: UNCTAD (2002); Eurostat. *1999 a: Ecu/Euro

[13] The other sectors being industry (16 per cent) and construction (8 per cent).

The case of intra-BSEC capital flows is more disappointing. Despite progress made by BSEC countries in developing FDI-related legislation and liberalization, they have not succeeded in attracting foreign capital either from their BSEC partners or from other countries. Although data concerning intra-regional FDI flows is incomplete, studies conducted (OECD, 1996d; PABSEC, 2002) estimate that among the BSEC countries, Turkey is the main investor in the area, followed by Greece, Russia and Bulgaria. The weight of the three Caucasian states (Armenia, Azerbaijan and Georgia) as well as of Moldova and Albania in intra-regional FDI flows has remained negligible.

The weight of intra-BSEC investments, as should be expected has tended to grow over the decade but the speed at which this shift has taken place is slow and differs from country to country. Therefore, for small countries such as Moldova and Armenia whose economies are still strongly dependent on Russia, intra-regional foreign investment from BSEC countries has increased substantially due to capital flows from Russia. However, this is related to investments in the energy sector and infrastructure rather than in production. For example, in Armenia 30 per cent of Russian FDI was directed to energy and 39 per cent to telecommunications (EIU, 2000a, p. 32). In the large economies of the subregion such as Greece, Turkey and Russia the weight of business operators from BSEC states is marginal.

The limited and heterogeneous FDI outflow data (OECD, 1996d) available for two countries of the region - Ukraine and Turkey - for the early years of BSEC's formation (1992-1996) tend to confirm the growing weight of intra-regional foreign investment among BSEC countries. Western countries, transition economies and BSEC countries, as aggregate destination countries, were major destinations of FDI from Ukraine and Turkey in 1994 and 1995. They accounted for respectively 41, 48

and 37 per cent of Ukrainian FDI stock abroad by the beginning of 1996. When compared with the end of 1992, the share of BSEC countries in Turkish FDI stock abroad increased from 3 to 5 per cent by the beginning of 1996; over the same period the share of OECD countries as destination countries decreased from 70 to 63 per cent.

One dynamic trend within the subregion concerns Greek investments in the three Balkan states - Albania, Romania, Bulgaria - which have benefited from location advantages and low labour costs (Karahalios, 1995; Bitzenis, 2001, p. 5). Over the past ten years, about 3000 companies, mainly small companies based in northern Greece have set up and formed joint ventures with local partners across the area. The investors are small trade companies as well as banks and food companies with the bulk of investments directed to trade or services. Limited investment is on manufacturing, as EU regulations permit part manufacturing outside the Union, with goods then returned for finishing and exported as EU products. The Greek manufacturers export cloth which has already been cut to be made up across the border particularly in Bulgaria and shipped back to a Greek factory for finishing, making cross-border workshops flourish (*Financial Times*, 1 June 1998). Greek investments in Albania are also concentrated in the southern part of the country but they deal mainly with the trade related services. Investments in the field of telecommunications are also important especially in Armenia, Romania and Moldova. However, in terms of value, Greek FDI remains low. By 2001, the stock of outward FDI accounted for $670 million in Albania, $950 million in Romania and $170 million in Bulgaria (Bitzenis, 2001). Thus, 22 per cent of the stock of FDI in Albania (by 1999) was of Greek origin, it was 7.8 per cent in Bulgaria (by 1998) and

2.7 per cent in Romania (by 1999).[14] Investments in Albania are however concentrated in trade related activities, food, agriculture and construction with no major capital in industry or manufacturing.

Of more importance is the role of Turkish investments in the subregion (table 4.14). Turkey has 15 per cent of the total FDI in Azerbaijan while it is the largest investor in the non-oil sector, operating with 1267 companies (379 are joint ventures) in production (22 per cent), construction, transport and trade related activities. On the other side of the Black Sea and despite efforts to boost Ukrainian-Turkish bilateral links, Turkish investments represent less than 1 per cent (DEIK, 2003).

One major observation in terms of the distribution of FDI is that large Russian investments in the BSEC area are concentrated on the energy sector (e.g. Lukoil Petrol in Bulgaria). Russia remains an important source of FDI only in Armenia (a quarter of the FDI flows in 2000) and Moldova (30 per cent) but in both cases the energy sector attracts the bulk of FDI.

Another important aspect of intra-BSEC capital flows is their low level between the three most important sources of FDI from within the region namely Greece, Russia and Turkey. In 2003, Greek investments accounted only for 0.16 per cent of the total FDI in neighbouring Turkey and were estimated at $60 million (DEIK, 2003). On the other hand, Turkish investments in Greece are even less significant reaching just $4 million.[15] Turkish investments in Russia, amounted for $500 million or 4.4 per cent of the stock inward FDI in Russia in 2001, but they have been mainly concentrated on the construction sector with some investments going to the food industry, textile and banking.

[14] Sources: National Bank Albania, 1999; UNCTAD, 2000.
[15] Information provided by the Greek Commercial Attaché in Istanbul (2003).

Table 4. 14 Turkish FDI in the BSEC region, by host country (2001)

	FDI Inflows Stock Mln USD	Per cent in total	Sector
Albania	20	2.6%	Shoes, retail, health services housing
Azerbaijan	869.4	15%	Oil sector, production construction transport telecom. Etc
Bulgaria	126.5	1.4 %*	...
Georgia	45	7.7%	Port administration, Glass, telecom., bottling, clean water, textile
Greece	4	...	...
Moldova		...	Irrigation fresh water, telecom
Romania	360	4.4 %**	...
Russia	500	2.5%	Construction, business Centres, shopping malls, foodstuff, beverages, textile, banking, telecom
Ukraine	32	0.8%	Foodstuff, clothing, wood, mines, metals, construction

Source: DEIK, 2003. * year 1998, ** year 1999

Table 4. 15 FDI in Bulgaria by Foreign Investor Country, selected years

Country/ region	FDI stock mln USD				FDI Inflows mln USD				Cumulative number of FIEs	
	1995	1996	1999	1996	1997	1998	1999	2000	1995	1996
Albania	...	...		...	...	...	...	...	...	...
Armenia	...	...	4.8	...	...	...	...	...	71	...
Azerbaijan	...	...	-	...	...	...	...	...	...	...
Georgia	...	...	0.3	...	...	...	...	...	...	...
Greece	33.1	36.7	416.8	2.1	4.1	20.9	2.3	99.1	573	867
Moldova	...	0.0	0.2	...	...	...	...	...	...	...
Romania	...	0.0	0.2	...	...	...	...	...	...	...
Russia	37.9	37.8	144.6	-	0.2	15.1	99.5	21.5	191	374
Turkey	37.8	...	20.5	0.1	1.3	22.4	12.3	25.4	304	...
Ukraine	...	...	2.1	...	...	...	...	0.1	3	...
EU	356.9	384.2	1339.5	60.2	370.7	273.1	354.8	679.8	1043	1492
USA	54.8	33.9	...	...	...	...	...	...	85	171
World	467.2	577.2	2160.4	109.0	504.8	537.3	818.8	1001.5	2954	5641

Source: OECD, 1996a; UNCTAD, 2002.

Table 4. 16 FDI in Romania by origin of Foreign Investor Country, selected years

country/ region	FDI Registrations mln USD				Cumulative number of committed FIEs			
	1993	1994	1995	1996	1993	1994	1995	1996
Albania	0.0	0.0	0.0	0.04	2	10	12	15
Armenia	0.0	0.0	0.0	0.01	8	14	16	18
Azerbaijan	...	...	0.0	0.01	...	...	2	2
Bulgaria	0.2	...	6.1	6.5	49	104	167	14
Georgia	0.0	6.0	0.0	0.0	1	1	1	0
Greece	11.2	0.0	26.5	43.5	602	857	1295	1501
Moldova	1.0	15.8	4.0	5.0	188	304	550	609
Russia	...	1.6	0.6	0.9	...	8	54	69
Turkey	16.6	0.0	55.0	85.1	1872	2502	3591	4255
Ukraine	0.0	29.6	0.2	0.7	15	35	51	61
BSEC	29.0	51.4	92.0	142.2	2693	3845	479	6724
EU	361.4	459.7	0.2	0.7	7575	10663	15934	18229
USA	64.4	72.0	103.0	886.8	105	1480	2030	2226
World	535.9	751.1	1227.1	1721.4	20460	28896	42706	50183

Source: OECD, 1996a.
Notes: Data refer to registered foreign capital and foreign investment enterprises which have not necessarily paid in their capital and started their operations.

Intra-BSEC FDI flows have two main aspects which should be kept in mind while trying to evaluate the power of transnational exchanges and demands. First, intra-BSEC investments (like trade) develop on a bilateral way between Greece and individual Balkan states, between Turkey and Azerbaijan and between Russia and several of the former Soviet Republics (such as Moldova and Armenia). Second, investments have not been directed to the production sector but to the energy related sectors and to infrastructure (particularly telecommunications and construction).

The lack of a legal framework regarding the promotion of trade and investments led BSEC countries to conduct bilateral agreements as we saw earlier with the conclusion of FTAs. Members' preference was for bilateral agreements rather that a regional compact. An overview however, indicates a great asymmetry between countries which have bilateral agreements with most of their BSEC partners, e.g. Turkey, Russia, Greece, and other states (Albania, Bulgaria) whose record on bilateral agreements on investment promotion and double taxation is poor. Nevertheless, the lack of agreements on avoidance of double taxation between Greece, Turkey and Russia is noticeable.

Table 4. 17 BILATERAL INVESTMENT AGREEMENTS AMONG BSEC COUNTRIES (date of signature)

Country	Protection & Promotion of Investments	Avoidance of Double Taxation
Albania	Greece (1991) Turkey (1992) Bulgaria (1994) Romania (1995) Russia (1995)	Romania (1994) Turkey (1994)
Bulgaria	Russia (1993)	Ukraine (1995)
Greece	Albania (1991) Romania (1991) Bulgaria (1993) Armenia (1993) Russia (1993) Georgia (1994) Romania (1997) Moldova (1998) Turkey (2000)	Albania (1995) Armenia (1999) Bulgaria (1991) Georgia (1999) Romania (1991)
Moldova	Bulgaria (1996), Georgia (1997), Greece (1998), Romania (1992), Russia (1998), Turkey (1994), Ukraine (1995)	Romania (1997)
Romania	Albania(1994) Bulgaria (1994) Georgia (1997) Greece(1997) Russia (1993) Turkey (1991) Ukraine (1995)	Albania (1994) Armenia (1996) Azerbaijan (1996) Georgia (1997) Moldova (1997) Russia (1996) Turkey (1986) Ukraine (1994) Greece (1991) Bulgaria (1996)
Russia	Albania (1995), Armenia (2001), Bulgaria (1993), Greece (1993), Moldova (1998), Romania (1993), Turkey (1997, 1990), Ukraine (1998)	Turkey (1993)
Turkey	Greece (2000) Albania (1992) Russia (1990, 1997) Romania (1991) Ukraine (1996)	Russia (1993) Albania (1994) Romania (1986)
Ukraine	Turkey (1996) Armenia (1994) Bulgaria (1994) Greece (1994) Georgia (1995) Moldova (1995) Romania (1995) Azerbaijan (1997)	Georgia (1997)

Source: Based on UNCTAD, 2003.

4. Organized transnational demands

Transnational exchanges (intra-regional trade and investments) around the Black Sea area, despite their low level, have increased throughout the 1990s as we indicated earlier. Has this increase been followed by active lobbying by the business community? Has the business community been organized around BSEC?

A few preliminary observations have to be made. We have to clarify that given the transformation of nine BSEC states from centrally planned to market economies, the presence of the private sector itself was limited in the early 1990s. Despite the will of the founding BSEC members to make the private sector as the locomotive of the initiative,[16] the fact was that the business community was not yet formed throughout the BSEC subregion.

It was the Turkish business community that showed some interest in the process, mainly at its early stages. A report on the future of BSEC as an economic forum was prepared by the Association of Turkish Industrialists (TUSIAD, 1993) while the Foreign Economic Relations Board (DEIK) undertook the burden of bringing together the area's businessmen by establishing a BSEC Business Council on 6 December 1992. The latter has become the main body expressing the interests of the business community[17] and its membership includes representatives from both the private and public sectors of the business community.[18] The establishment of the

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[16] As Mr. Ercan Ozer from the Turkish Ministry of Foreign Affairs stated: "The driving force, the locomotive, is to be the private sector" (Murray, 1993, p. iv).

17 Another structure is the Association of Chambers of Commerce and Industry of the Black Sea Countries (established in 1997) which has however remained rather inactive.

[18] Each country participates in a different way. In Greece, a Hellenic Business Council has been established especially for this purpose with members from the major business associations and federations of the country. In the Russian Federation, there is a Russian National Committee consisting of the various business people. In Turkey, DEIK fulfils this role. The other countries are represented by their Chambers of Commerce and Industry.

Business Council was not a spontaneous process but it was strongly encouraged by the Turkish government which was supporting the strategy of advancing a 'business-led' cooperation model. It was originally created on the basis of bilateral Associations of the Turkish Businessmen and until today its administration is primarily run by DEIK which undertakes most of the financial and administrative burden.

According to the agreement establishing the BSEC Business Council, its aim is to contribute to private and public sector cooperation in keeping in line with the objectives of BSEC (article 1). At the same time the overall objective is to promote integration not only among the member states but with the global markets (Sutcliffe, 2002, p. 78). The Business Council was the first structure to receive observer status in BSEC in December 1992, so as to give to the business community the chance to communicate its views easily to the Council of Ministers through its participation in all Working Groups of BSEC (such as the ones on trade and economic development, banking and finance, etc.). As we mentioned in chapter three, on the basis of its consultative role within the BSEC decision-making process, it recommends measures and submits its Reports of activities to the Council of MFA for information and, if necessary, appropriate action (BSEC, 1998a, art. 21).

Despite its restricted, consultative role envisaged statutorily, the Business Council has been more influential. This was reflected in the BSEC Economic Agenda (2001, p. 16) which requested "the *active involvement of the business community in BSEC decision-making* [emphasis added] and the implementation of joint projects. Representatives of private companies could be invited to meetings of the relevant working bodies of the BSEC to present their proposals for joint projects when necessary". First, the Business Council has participated actively in the negotiation of BSEC agreements and documents. The incorporation of a chapter on Small and

Medium Enterprises and the strengthening of the business dimension in the BSEC Economic Agenda (BSEC, 2001, pp. 16-17) were initiated by it. Second, it has been functioning as a source of knowledge through the organization of seminars and workshops (always in cooperation with another international organization such as the EBRD, OECD or UNIDO) for the training of representatives of the public and the private sector. Another aspect that the Business Council has tried to address is the lack of information regarding business opportunities in the area. The Black Sea Business Network (BSBIN) established by the Chamber of Commerce and Industry of Romania in 1997 has been under the coordination of the Business Council and provides information on SMEs business proposals.

Although the business community shares the assumption that the Black Sea area has a potential for economic gains from market exchange above the present level (TUSIAD, 1993) it has not systematically approached BSEC to make sure that such gains are realised. Business actors have put forward their demands through different channels. The largest business leaders of the BSEC area have lobbied directly their governments downplaying the effectiveness of BSEC institutions. This is also the case with the Turkish business community which although it administers the Business Council, it has not actively lobbied the organization. Rather than representing sectoral interests in the BSEC process, the Business Council is concerned with improving the business environment in general, facilitating the activities of the private sector and attracting investments to the region. In doing so, it has launched its main initiatives not in cooperation with the BSEC but with other organizations that have resources and expertise. The Black Sea Investment Initiative was thus launched in cooperation with the OECD while the Business Council participates in the UNECE program on building private public partnerships.

The business community of the Black Sea shows no interest in addressing its demands to BSEC as the latter is perceived mainly as a slow-moving bureaucratic organization without resources. At the same time, the business community is significantly fragmented. On the one hand, the business communities in Romania and Bulgaria are more interested in direct partnerships with EU and American interests, while on the other hand, the business community in the Caucasus is mainly interested in restoring links with the Russian markets. Greek and Turkish economic interests bypass BSEC using their own bilateral channels and Russian business consider BSEC too weak to serve its interests.[19]

With regard to the demands of the business community, it is important to emphasize that these do not include requests for establishing a FTA or changing fundamentally the mode of function of BSEC. Claims concentrate on measures to deal with economic difficulties rather than establishing a trade bloc. There have been requests however to empower the Ministers of Economy with decision making capacity within BSEC so as to speed up economic cooperation. Accordingly, when the business community speaks of common rules they are almost exclusively referring to the rules of the WTO and the EU. For example when BSEC has been lobbied for measures to promote regional trade, what has been emphasized is the importance of WTO membership and compliance with WTO rules (BSEC Business Council, 1997). However due to the fact that trade regimes in the area are centred around the EU, business leaders have also come to the conclusion that what is needed are:

- initiatives to facilitate liberal trade between the BSEC countries through transplanting the EU legislation;

[19] Discussion with directorial staff of the BSEC Business Council, June 2003.

- further efforts from the EU to allow increased market access for those products from applicant countries that are still subject to restriction;
- the EU to design a strategy for a future economic relationship between the EU and the Black Sea area.

It becomes clear that a second assumption of the business community, as expressed by the established transnational structures, is that BSEC's mode of governance is considered within the context of the EU. The business community has in several cases explicitly said that "*since* [emphasis added] we consider BSEC a facilitating component for the integration procedure and structure of Europe .... all BSEC activities are supported" (Miras, 1997, p. 2). According to the report prepared by TUSIAD in 1993, BSEC was not seen as a trade bloc but as a contribution to the "creation of a Europe-wide economic area and a higher level of integration of economies of member countries with global structures" while "in order to have relations develop in favour of BSEC an economic area between BSEC and EC may be established, similar to the 'European Economic Space' between EC and EFTA" (TUSIAD, 1993, pp. 103-104).

Business leaders want a change with respect to regional economic integration, but they support the enlargement of the EU regime and the WTO rules rather than demand the transformation of BSEC into a trade bloc. Calls for a Black Sea FTA were not thus strongly supported but a scheme of bilateral free trade agreements was encouraged.

5. BSEC as a means of economic cooperation

Subregional economic cooperation was necessitated by the reform process and the structural adjustments in the transition economies and societies of the region and

spurred by geographic proximity (BSEC, 1992a, art. 3). It would serve as a contribution i) to the Conference on Security and Cooperation in Europe - CSCE process, ii) to the establishment of a Europe-wide economic area, and iii) to a higher degree of integration of the participating states in the world economy (BSEC, 1992a, para. 5). BSEC is not a preferential trade agreement. Its members do not grant each other any specific preferences, thus BSEC does not have to be notified to the WTO under article XXIV or be submitted to WTO examination and surveillance procedures concerning its conformity with WTO rules.

It was recognized during the preliminary discussions for the establishment of BSEC that full economic integration would not be an *a priori* commitment for the participants, even though consideration to such integration could be given later in the process of cooperation. The participating states agreed to promote cooperation by contributing to "... the expansion of their mutual trade in goods and services and ensure or progressively eliminate obstacles of all kinds, in a manner not contravening their obligations towards third parties" (BSEC, 1992a, para. 14). The obstacles here refer to structural barriers rather than tariff and non-tariff barriers in the conventional trade theory sense of the terms. Second, given that Greece is a member of, and Turkey is in a customs union with, the EU there is little room for setting the levels of conventional barriers independently without contravening commitments with third parties.

The 'open' character of subregional integration was declared from the beginning where article 5 of the Istanbul Declaration set as a major goal "the achievement of a higher degree of integration of the Participating States into the world economy". Also, article 7 made it clear that BSEC would not prevent its members from participating in and developing relations with "third parties,

including international organization as well as the EC", reasserting its role as a channel for the integration of its members into the world economy. It is thus stipulated that subregional cooperation is a step towards opening up the local economies to globalization forces. Cooperation would develop gradually, taking into account "the specific economic conditions, interests and concerns of the countries involved, and particularly the problems of the countries in transition to market economy" (article 10).

The barriers in the BSEC context are not of the type that nations artificially erect by introducing tariff and non-tariff measures of protection which once decided may be lifted fast. Instead the barriers to trade among the BSEC states are primarily structural ones that have been formed over long periods of time and it would take time to eliminate them compared to more conventional barriers. Yet, it has been argued that to the extent that BSEC is successful in facilitating the reduction of these barriers, it will help create trade in a slightly different sense than the one suggested by the conventional definition of trade creation (Sayan, n.d., p. 3). The removal of these barriers which has to do with the inefficiency of channels for trade also requires major restructuring and reorganization in many sectors and areas including transportation and communications infrastructure. Fields of cooperation such as the standardization of products traded, the harmonization of customs regulations, the speeding up of the customs formalities and the easing of national visa regulations are at the centre of BSEC activities although they may not be typical priority areas for other regional organizations.

It is thus difficult to classify BSEC as an example of any of the regional arrangements varying from preferential trade agreements to economic unions.[20] Conventional trade theory argues that the motivation behind regional arrangements is to improve the welfare of their members through a reduction or elimination of barriers to trade in the region. However, applying this to the case of BSEC requires some attention as the BSEC agreement does not directly provide for any preferences for countries within the group (OECD, 1997) apart from requiring the parties to lower trade barriers as described above. Notwithstanding declaratory statements in this direction, BSEC partners did not take practical steps to liberalize trade policy. BSEC does not require strong commitments towards harmonization of commercial policies vis-à-vis third parties, and the reduction in tariff or non-tariff measures for trade among members. Consequently, participation in BSEC does not imply direct trade creation or trade diversion effects. However, by helping diversify sources of imports for each of its members, BSEC could potentially help reverse the trend of diverted trade that had been going on between ex-Soviet partners prior to its formation (Sayan, n.d., p. 3).

Given, on the one hand, the diversity of trade regimes in the area and, on the other, the need to stimulate transnational exchanges, emphasis was placed on improving the business environment and encouraging individual initiative rather than on directly affecting trade patterns. Therefore, priority was placed on (BSEC, 1992a, para. 14):

- facilitating via bilateral negotiations, the prompt entry, stay and free movement of businessmen in their respective territories and encouraging direct contacts among enterprises and firms;

[20] For an attempt to evaluate BSEC against other forms of regional integration see Gultekin & Mumcu, 1996, pp. 179-201.

- providing support for SMEs;
- contributing to the expansion of mutual trade in goods and services and ensuring conditions favourable to such development by continuing efforts to further reduce or progressively eliminate obstacles of all kinds, in a manner not contravening member states' obligations towards third parties;
- ensuring appropriate conditions for investment, capital flows and different forms of industrial cooperation, notably by concluding and putting into effect, in the near future, agreements on the avoidance of double taxation and on the promotion and protection of investments;
- encouraging the exchange of information on international tenders organized in the participating states, in accordance with national rules and practices;
- encouraging cooperation in free economic zones.

Consequently, BSEC slowly moved away from trade issues to other domains of economic cooperation. Although several attempts have been made for agreements in the field of visa facilitation, SMEs and investments, progress has been very slow. Negotiations on a BSEC Agreement on 'Simplification of Visa Procedures for Businessmen Nationals of the BSEC Member States' were concluded in April 2003, but signing was postponed as three countries were still reluctant to join. Bulgaria's and Romania's reservations are of particular importance. Both countries have argued that they are not in a position to participate due to their international obligations (EU accession), although they have signed similar agreements in the framework of Central Europe. Russia on the other hand has refused to sign due to the process of updating its national legislation.[21] Negotiations over another agreement on 'Simplification of Visa Procedures for Professional Drivers Nationals of the BSEC Member Countries' which is the first initiative by an NGO (the Union of Road

[21] Information based on participant's observation. See also BSEC PERMIS, 2003, p.7.

Transport Associations in the BSEC Region - BSEC UTRA) successfully forwarded to BSEC in 2002, are still pending.

The SMEs were placed on the BSEC agenda as the primary engine for the realization of cross-border economic cooperation (BSEC, 1992a, para. 14; 2001, pp. 12-13). The way that BSEC has dealt with SMEs is through the organization of training programs and workshops. A large number of workshops is organized every year mainly in cooperation with the Small and Medium Industry Development Organization of Turkey (KOSGEB) and the UNECE covering all aspects of SMEs functioning. The first step to coordinate actions for SMEs encouragement is the 'Declaration on the Promotion of SMEs'[22] which was however adopted only in 2001. It is comprised of a set of common principles on the development of the SME sector and establishes a special WG on SMEs to function on a permanent basis.

The establishment of BSEC itself and the institutionalization of intra-regional affairs that has ensued are considered a contribution to the reduction of political risk, which has barred large-scale investment in the region. However, as we saw earlier in this chapter little progress has been achieved in attracting FDI. In accordance with the philosophy of BSEC to transplant the rules of the WTO into the subregion - given the fact that only some of its members are members of the WTO - the same approach of transplanting liberal policies and principles was applied in the field of investments. The member states agreed on basic principles of investment collaboration - transparency, non-discrimination, investment stimulation, investment control exportation and compensation, convertibility, entry and sojourn of key

[22] 'Declaration on the Promotion of SMEs' (Istanbul, 27 September) in BSEC PERMIS, 2002, pp. 331-340.

members, elimination of restriction on exporting capital, investors conduct, settlement of disputes - but on a non-binding basis.[23]

The BSEC Business Council, while taking practical steps for the actual improvement of the business climate, preferred to cooperate directly with the OECD in generating the 'Black Sea Investment Initiative' (BSII) which is a framework of policy reforms to eliminate the business disincentives in the region particularly as far as the SMEs are concerned. The BSII complements the work of the Investment Compact for South East Europe and its key features are the involvement of the private sector, the region-wide approach, the harmonization and partnership with related initiatives and actions for the implementation of reforms. The initiative concentrates in eight main policy areas: FDI policies and promotion strategies; SME support structures; fiscal reform and taxes; corporate governance; competition law and policy; financial sector development; corporate anti-corruption and public governance.

5.1 A short lived FTA project

Discussions on the elimination of trade barriers including tariffs began in 1995 when a decision was taken to study the possible elimination of trade barriers within BSEC according to the WTO system. This decision has yet to be implemented.[24] A year later, in October 1996, the leaders of the member states declared that BSEC should speed up the introduction of mutual trade preferences among participating countries and explore the opportunity for the creation of a Free Trade Zone (BSEC, 1996, para.

[23] 'Basic Principles of Investment Collaboration in the Black Sea Economic Cooperation' (Moscow, 25 October) in BSEC, 1996a, pp. 21-22.
[24] 'Report of the fifth Meeting of the Ministers of Foreign Affairs' (Athens, April 1995) in BSEC PERMIS, 1995, pp. 120-121.

4). In February 1997, the 'Declaration of Intent for the Establishment of the BSEC Free Trade Area', was adopted proclaiming that the time to study the ways and means for gradual formation of a zone for free trade of BSEC as part of the European Architecture had arrived. The aim of the 'Declaration of Intent' was not the creation of a trade bloc. The free trade area was seen as a complementary step to the process of national reforms towards the market economy. In most of its clauses, hence, it refers to the commitments of the BSEC members vis-à-vis the EU resulting from full membership, Partnership and Cooperation Agreements, European Agreements, Trade Commercial and Economic Cooperation Agreements, thus explicitly denouncing the formulation of a trade group.[25] Taking a step forward, the ninth meeting of the Ministers of Foreign Affairs (Istanbul, 30 April 1997) adopted the decision to develop an Action Plan for the formation of a regional zone of free trade.[26] According to the general understanding at the time, such a plan should be developed in cooperation with the European Commission and proceed first primarily from the needs of the countries for the development of regional trade, taking into account the market transformation of their economies (Borisenko, 1998, p. 70). The dominant understanding was that the BSEC FTA could be solely a trading alliance of secondary importance designed to prepare the member states for integration into an extended Europe. The free trade project is "important not so much because of direct economic advantages produced by wider regional trade, inflow of foreign investments and boosted economic efficiency. The FTA project is important as a stage that will prepare BSEC to become an inalienable part of the wider European economic space" (Borisenko, 1999, p. 111).

[25] 'Declaration of Intent for the Establishment of the BSEC Free Trade Area' (Istanbul, 7 February 1997) in BSEC PERMIS, 1998a, pp. 113-116.
[26] 'Report of the Special Meeting of the Ministers of Foreign Affairs with the Participation of the Ministers Responsible for Economic Affairs' in BSEC PERMIS, 1998a, p. 2.

The Plan of Action elaborated in 1999 was not officially adopted due to the restrictions resulting from the existing trade commitments of the BSEC members. The concerns on how the FTA would be connected to the EU were reflected in the decision of the MMFA which stated that the Action Plan "...could be further developed in consultations with the European Commission in order to seek its views on and gain from the experience of the European Union in this context".[27] The priority policy areas identified for the realization of the long-term aim of a BSEC FTA were:[28]

1. to promote bilateral free trade agreements between the BSEC Participating States, duly observing the obligations resulting from EU and WTO and other international arrangements;
2. to review their foreign trade legislation related to manufactured products with a view to identify the existing tariff and non-tariff obstacles;
3. to review the possibilities and future prospects in the trade of agricultural products with a view to further expanding it by way of progressive preferential treatment on mutually beneficial basis;
4. to finalize the process of accession to the WTO and its relevant organizations and assist those who are in the process of accession by sharing available experience and information and consequently bring the national legislation in conformity with the GATT 1994 and its agreements regarding trade in goods and the GATS concerning trade in services;
5. to gradually harmonize the customs, foreign trade and competition legislation and elaborate rules of origin in the framework of the FTA;
6. to improve certification procedures in order to facilitate mutual recognition of certificates of conformity;
7. to ensure cooperation among the national institutions of statistics;
8. to improve border crossings;
9. to develop frontier trade;

[27] 'Meeting of the Ministers of Foreign Affairs, Resolutions, Decisions and Recommendations' (Tbilisi, 30 April 1999), para.28 in BSEC PERMIS, 2000, p. 91.
[28] 'Plan of Action for the Establishment of the BSEC Free Trade Area' (Istanbul, 27-29 January), para. 1-12 in BSEC PERMIS, 2000, p. 251.

10. to conclude bilateral agreements between the BSEC participating states on encouragement and protection of foreign investments, avoidance of double taxation and transfer of technology;
11. to reform and modernise economic and social structures giving priority to the adoption and the implementation of technical support programs for the SMEs.

The establishment of a FTA was however soon to be abandoned as it lost support from several of the member states. To lessen fears that the FTA would create a trade bloc opposing the EU, Turkey which had been the strongest advocate of the idea, sought the approval of the EU on a BSEC FTA stating that "the European Council has declared that they would approve the integration of the free trade area that is to be created within Black Sea Economic Cooperation with the EU" (Ciller, 1997, pp. 4-5). Declaratory remarks notwithstanding, the FTA project found little support by the BSEC members and the EU itself. Only Romania expressed its views on the draft Action Plan for the establishment of a FTA while Armenia, Greece, Turkey and Ukraine sent their proposals for the drafting of the document which reflected different ideas about the stages, terms and major tasks of creating a free trade zone.[29] It took however almost a year for the member states just to open negotiations on the elaboration of the Action Plan while poor participation led to the cancellation of several meetings. During the drafting of the Action Plan, Romania insisted in keeping all envisaged actions in line with the obligations resulting from the EU, the WTO and other international organizations.[30] Greece, on the other hand, expressed its reservation that it would participate in the FTA only to the extent that

[29] 'Comments of the Romanian Side on the Draft Plan of Action for the establishment of the BSEC Free Trade Area', 'Memorandum on the Plan of Actions' prepared by Armenia, 'Memorandum on an Action Plan' prepared by Greece, 'Working Paper on an Action Plan' prepared by Turkey 'Memorandum on the Plan of Actions' prepared by Ukraine' presented at the Working Group on trade and economic development (Yerevan, 3-4 February 1998), unpublished.

this would not contradict the commitments deriving from its full membership to the EU.[31] The member states' positions indicated their different vision of subregionalism. Turkey has consistently favoured the FTA and the construction of wider subregional arrangements. However, this did not reflect a relatively greater dependence on the Black Sea markets but political developments in the subregion. On the contrary, despite the economic weight of Russia in the subregion, Russian policies have not favoured a BSEC FTA and arrangements reflecting its choice not to support deepening of any other regional group but the CIS.

Given the lack of support for a FTA, BSEC applied a more flexible approach towards the liberalization of trade by compiling an 'Exemplary list of quantitative restrictions and measures with equivalent effect on trade' and focusing on the elimination of non-tariff obstacles. Little however has been done beyond a draft 'Recommendation for the procedure to eliminate quantitative restrictions and measures with equivalent effect on trade in BSEC region', prepared by Turkey in June 2001.[32] The BSEC Economic Agenda adopted in 2001 still considers the removal of the barriers that hamper free circulation of goods in a two-tier strategy (BSEC, 2001, pp. 6-7). First, past trade relationships have to be thoroughly re-examined, and to the extend that they make sense, be encouraged and supported. Second, serious efforts have to be made to establish new trade relationships based on present and future comparative advantages of the states involved. As far as the creation of a FTA is concerned, it states that this remains an objective to be achieved gradually "in conformity with the Customs Union, the European Agreements as well as the

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[30] 'Comments of the Romanian Side on the Draft Plan of Action for the establishment of the BSEC Free Trade Area' presented at the Working Group on trade and economic development (Yerevan, 3-4 February 1998), unpublished.

[31] 'Meeting of the Ministers of Foreign Affairs, Resolutions, Decisions and Recommendations' (Tbilisi, 30 April 1999), para.29 in BSEC PERMIS, 2000, p. 91.

obligations resulting from membership in the EU, WTO and from other international organizations" (BSEC, 2001, p.7).

6. Conclusion

On the basis of the above analysis we can answer three types of questions which relate to BSEC's formation as a subregional structure.

First, does the BSEC subregion constitute a market-led phenomenon? Describing the Black Sea subregion as a market-led phenomenon that exists beyond formal institutional formations would have been far from the reality. The data indicate an increase in economic transactions among the countries of the subregion but this does not qualify for the existence of an economic bloc. Subregional trade and investment links, though increasing in the 1990s, are still relatively weak and have not brought changes in production.

The establishment of BSEC itself played at most limited direct role in the re-direction of economic flows. Particularly due to the economic disparities among the members and the diversity of their legislative basis, BSEC contributed little to the implementation of trade liberalization and harmonization of trade policies. In our case as in other cases of regional integration involving transition economies, the main purpose of regional integration has been to consolidate the autonomous trade liberalization process undertaken by these countries and by promoting trade and investment links within the regional context, to foster their gradual integration into the world economy (OECD, 1996; OECD, 1996b; OECD, 1996c). Transition countries - which form the majority of BSEC members -, have placed greater emphasis on

[32] 'Recommendation for the Procedure to Eliminate Quantitative Restrictions and Measures with Equivalent Effect on Trade in BSEC Region' in BSEC PERMIS, 2002, pp. 419-420.

political considerations than on genuine market-led forces. This is to be expected since the private sector is underdeveloped and cannot take a leading role in promoting intra-regional links, and second, due to the lack of adequate regional infrastructure facilities and financial resources. As it has been argued before (Salavrakos, 1997, p. 29) the notion that an introvert economic development strategy (multilateral economic cooperation between BSEC states) will achieve economic prosperity is at best incomplete. It is FDI from other economic zones (in particular the EU) which offer to these countries the economic development they need. The dominant intra-BSEC activity is trade rather than investment, and the total capital is far less than the amount which companies from other countries have invested. The increase of intra-regional flows is also accompanied with an increased reliance on the extra-region, and particularly, on the EU. Intraregional trade can be a stimulus for growth as the size of the economies involved is significant, but the stimulus seems to be smaller than the one provided by closer integration with the west European markets.

Second, what role did economic difficulties play in the formation of BSEC? The empirical findings seem largely to indicate that severe economic difficulties in the subregion did trigger inter-state cooperation in the early 1990s. Nevertheless, the subregional level has not been conceived as the appropriate level where those difficulties can be addressed, hence calls for authoritative supranational institutions within BSEC did not develop. Economic difficulties around the Black Sea have not been classic difficulties related merely to growth or production but they have been structural in their nature. They are interlinked with a fundamental change of the politico-economic regime of the majority of the BSEC countries from central planned

to market oriented economies which has required a governance change first of all at the national level.

Third, did the increase of transnational exchanges lead to demands directed to the subregional level? Transnational exchanges have been expanding and demands for change are voiced. Organized interests from the business community are increasingly involved in the subregional bargaining process, but their demands are connected to the trade regimes of the WTO and the EU and the transplanting of their principles in the subregion as well as to the facilitation of economic activities. The local elites have reached a consensus around liberal economic policies and on attracting foreign investment, etc., shaping thus accordingly the BSEC's structures, priorities and activities. There is no demand for deeper subregional integration but for loose cooperation, hence not for supranational organs in the Black Sea subregion. Thus, one reason why BSEC has moved to an intergovernmental mode of integration rather than to a supranational one is because the business community has not presented a clear demand for such a change.

Transnational exchanges (in terms of trade and investment) have not developed subregional dynamics. First, western European countries have been increasingly becoming the main trade partners of the BSEC states. Intra-BSEC trade has increased but not as much as trade with the *extra*-region. As we saw earlier, this reorientation also reflects contractual links of the BSEC states with the EU. Second, FDI flows within the subregion remain low and they develop in a bilateral level (much like trade). What is more important is the fact that most of the economic activity within the subregion is not directed to manufacturing and production but to the energy -related activities, infrastructure and raw materials. Therefore, local investors have not yet perceived the Black Sea as a potential market.

Demands for subregional integration might have been expected to come primarily from Turkey given its leading role in establishing free trade conditions around the Black Sea. This however did not happen. First, the Turkish capital which was invested in Russia in early 1990s, was mainly concentrated on the construction sector and did not expand to other activities in production or manufacture. Despite its interest in the new markets, the Turkish private sector could not compete with the western capital and benefit of proximity advantages in the Black Sea area. Sectoral interests in BSEC - not only for Turkey but for all the other member states too - focused mainly on activities such as raw materials, construction, agriculture where there is little room for liberalization thus for supranational governance or institutions to implement agreements on free trade. Second, readjusting to the conditions of the customs union with the EU (January 1996) attracted most of the attention of the Turkish private business. As far as the other main source of capital from within the subregion - the Greek private sector - is concerned, its interests were almost exclusively oriented to the Balkan market. Economic relations with the Balkan economies of Bulgaria and Romania were of course placed within the EU framework or bilateral agreements rendering BSEC's competence irrelevant.

We can conclude that transnational exchange around the Black Sea developed in a bilateral way. To this bilateralism, the following obstructing factors have to be added. By 1997, those countries which had the potential to drive economic integration and stimulate transactions, had already developed or were developing contractual links with the EU (Greece, Turkey, Romania, Bulgaria), therefore redirecting any demands for the governance of their economic relations to the EU rather than BSEC. Second, Russia's economic activities in the area - being the single most significant trade partner in the subregion - concentrate on energy sector and

not on production. Third, for all states in the subregion, expectations for relative economic benefit from the BSEC market were limited. The modernizing anchor (i.e. source of capital) was not perceived to be within the subregion but in western Europe and beyond.

The dynamics of transnational exchange and demand within BSEC may not be fully understood unless we incorporate political considerations. Greece and Turkey, the two market economies that could have driven economic integration, have insignificant bilateral links due to their uneasy political relations. Beyond the persistence of trade embargos in the subregion (e.g. in Armenia) we shall recall that two of the BSEC states i.e. Moldova and Georgia can hardly be described as functioning *'national'* economies since part of their territories and economic activities is not controlled by the central government. Furthermore, the Black Sea countries resisted subregional regimes which could imply integration with Russia. Regardless of the actual economic benefits of integration, particularly the NIS share the fear that increased integration within the subregion, which includes Russia, will result in continuing isolation from the international economy and perpetuation of the economic backwardness which this could produce. The security dilemma in the subregion has been so intense that economic relations were considered a state controlled activity, where transnational actors had to serve the national interest rather than the market dynamics.

In the next chapter those concerns are brought into the surface. Economic difficulties and transnational demands were not sufficient to drive integration within BSEC. They have underwritten BSEC's reconfiguration to a loose economic cooperation organization rather than to a trade bloc which would thus request the development of central supranational institutions.

Appendix 4.1 Direction of Trade for each BSEC state, 1991 - 2000
Source: *IMF, Direction of Trade Statistics Yearbook,* Washington D.C. (several years).
Notes: BSEC 10: BSEC without Greece
(-): not applicable
(...): indicates lack of data

ALBANIA

Direction of Trade, 1991-2000
Millions of USD

Exports										
Economy	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
World	...	...	122	141	202	211	141	206	275	280
Armenia	-	...	...	...	...	...	...	...	...	...
Azerbaijan	-		...	...	1	...	...	...	...	
Bulgaria	...	...	1	1	...	...	...	...	...	...
Georgia	-	...	...	...	...	...	...	...	...	...
Greece	...	...	22	15	20	27	29	41	39	37
Moldova	-	...	...	...	...	...	...	...	...	...
Romania	...	...	...	...	...	...	...	...	...	...
Russia	-	...	...	...	...	...	...	...	...	1
Turkey	...	...	2	2	13	7	1	1	1	3
Ukraine	-	...	...	...	...	...	...	...	...	...
BSEC 10			3	3	14	7	1	1	1	4
BSEC Total	...	...	25	18	34	34	30	42	40	41
EU	...	50	89	109	160	181	124	191	258	275
Imports										
Economy	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
World	...	...	604	737	976	909	620	795	899	1091
Armenia	-	...	...	...	...	...	...	...	...	...
Azerbaijan	-	...	...	...	...	...	...	...	...	2
Bulgaria	...	...	...	...	67	36	17	22	27	26
Georgia	-	...	...	...	...	...	...	...	...	...
Greece	...	...	138	237	288	187	165	232	249	280
Moldova	-	...	...	...	1	...	...	1	1	...
Romania	...	...	3	5	8	21	2	3	6	11
Russia	-	...	...	...	...	2	...	7	4	7
Turkey	...	...	...	65	30	39	27	27	49	67
Ukraine	-	...	...	...	...	3	3	7	6	6
BSEC 10	...	...	3	11	106	101	49	67	93	119
BSEC Total	...	...	141	248	394	288	214	299	342	399
EU	...	240	527	572	754	694	519	658	721	805

ARMENIA

Direction of Trade, 1991-2000

Millions of USD

Exports										
Economy	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
World	-	7	171	242	357	290	233	221	232	300
Albania	-	...	...	...	...	...	...	...	...	...
Azerbaijan	-	...	...	...	...	...	...	...	...	...
Bulgaria	-	...	1	...	...	...	...	1	1	1
Georgia	-	...	3	3	3	7	11	10	11	13
Greece	-	...	...	...	...	...	...	...	...	3
Moldova	-	...	...	...	...	...	...	...	...	...
Romania	-	...	...	...	...	...	...	...	...	...
Russia	-	...	59	84	91	96	63	40	34	45
Turkey*	-	...	...	...	3	6	7	3	1	2
Ukraine	-	...	4	4	4	5	3	4	2	3
BSEC 10	-	...	67	91	101	114	84	58	49	64
BSEC Total	-	...	67	91	101	114	84	58	49	67
EU	-	4	31	61	79	62	66	76	107	107
Imports										
Economy	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
World	-	51	259	396	696	862	891	902	843	885
Albania	-	...	...	...	...	...	...	...	...	...
Azerbaijan	-	...	...	...	...	...	...	...	...	...
Bulgaria	-	...	...	1	5	14	25	16	12	7
Georgia	-	...	20	18	62	51	38	27	27	28
Greece	-	...	...	...	6	5	10	9	13	54
Moldova	-	...	...	...	...	...	...	...	...	1
Romania	-	...	...	...	1	5	1	1	...	...
Russia	-	...	78	112	135	125	216	191	181	137
Turkey*	-	...	...	1	3	6	38	57	40	40
Ukraine	-	...	4	5	5	12	12	9	8	12
BSEC 10	-	...	...	...	211	213	330	301	268	225
BSEC Total	-	...	102	137	217	218	340	310	281	279
EU	-	21	38	38	104	133	177	259	253	303

* Turkey's embargo on Armenia was imposed in 1992 thus officially trade is not registered. The figures presented here are estimations.

AZERBAIJAN

Direction of Trade, 1991-2000

Millions of USD

Exports										
Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	-	1571	993	637	544	631	781	607	929	1745
Albania	-	29	...	...	...	...	...	...	...	2
Armenia	-	...	...	...	...	...	...	...	...	...
Bulgaria	-	6	3	...	1	1	4	11	2	3
Georgia	-	...	35	17	41	92	133	77	72	75
Greece	-	4	28	1	10	10	14	12	13	23
Moldova	-	15	17	13	3	4	1	1	...	...
Romania	-	...	...	...	...	...	...	...	4	8
Russia	-	375	218	140	99	111	181	106	83	98
Turkey	-	126	65	16	26	39	41	136	69	105
Ukraine	-	144	57	58	33	22	32	12	24	24
BSEC 10	-	695	395	244	203	269	392	343	254	315
BSEC Total	-	699	423	245	213	279	406	355	267	338
EU	-	228	70	83	94	59	88	131	423	1054
Imports										
Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	-	998	635	778	666	961	794	1076	1036	1172
Albania	-	1	...	...	...	...	...	...	...	...
Armenia	-	...	...	...	...	...	...	...	...	...
Bulgaria	-	3	2	1	7	3	2	2	8	12
Georgia	-	19	20	8	19	28	37	25	9	10
Greece	-	...	...	...	1	1	2	4	...	3
Moldova	-	5	11	13	4	9	8	3	2	2
Romania	-	...	...	...	...	1	1	1	2	2
Russia	-	275	147	118	88	158	152	194	226	249
Turkey	-	89	74	76	141	216	180	220	143	129
Ukraine	-	226	61	86	34	94	86	93	38	36
BSEC 10	-	618	315	302	293	509	466	538	428	440
BSEC Total	-	618	315	302	294	510	468	542	428	443
EU	-	106	58	70	84	136	102	224	191	227

BULGARIA

Direction of Trade 1991-2000

Millions of USD

Exports										
Economy	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
World	3225	3922	3729	3947	5359	6602	5323	4296	3925	4807
Albania	...	...	...	...	61	43	21	25	33s	24
Armenia	-	...	...	1	7	20	15	11	7s	6
Azerbaijan	-	...	2	1	7	14	12	12	5s	4
Georgia	...	...	...	2	39	79	110	70	43s	58
Greece	143	144	179	294	368	348	378	377	337s	376
Moldova	-	...	5	9	43	91	89	45	19s	16
Romania	58	84	65	59	96	75	60	53	53s	85
Russia	-	189	222	314	536	480	339	235	167s	119
Turkey	128	...	...	178	385	384	428	339	276s	492
Ukraine	-	...	...	...	...	...	...	...	...	59
BSEC 10	186	273	294	564	1174	1186	1074	790	607	863
BSEC Total	329	417	473	858	1542	1534	1452	1167	940	1239
EU	919	1144	1090	1564	2013	1913	1942	2137	2054	2463
Imports										
Economy	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
World	2537	4468	4720	4260	5661	6861	5224	4981	5409	6362
Albania	...	...	1	1	...	...	...	...	...	...
Armenia	-	...	1	...	5	...	1	1	...	...
Azerbaijan	-	...	3	...	5	1	2	...	...	...
Georgia	-	...	4	...	12	10	5	4	1s	...
Greece	96v	245	331	497	249	196	191	297	322s	318
Moldova	-	17	18	11	20	12	7	4	4s	2
Romania	66v	120	113	113	61	70	53	59	73s	230
Russia	...	1010	1036	521	1584	1694	1030	1038	953s	1581
Turkey	90v	76	...	147	100	96	95	128	170s	214
Ukraine	-	...	...	...	...	...	...	...	...	182
BSEC 10	156	1223	1176	793	1787	1883	1193	1234	1201	2209
BSEC Total	252	1468	1507	1290	2036	2079	1384	1531	1523	2527
EU	1504	1609	1908	2379	2098	1780	1628	2325	2638	2858

GEORGIA

Direction of Trade, 1991-2000

Millions of USD

Exports

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	-	76	227	156	151	199	230	338	365	330
Albania	-	...	...	...	...	...	...	...	...	...
Armenia	-	...	10	13	18	21	19	24	24	13
Azerbaijan	-	...	15	...	13	24	25	23	9	21
Bulgaria	-	...	3	...	6	12	9	4	1	2
Greece	-	...	5	...	...	...	1	6	10	8
Moldova	-	...	...	...	...	...	...	...	...	...
Romania	-	...	...	....	....	2	...	...	1	...
Russia	-	...	103	52	47	57	69	58	45	68
Turkey	-	...	22	24	34	26	30	83	85	74
Ukraine	-	...	13	6	6	5	8	7	5	19
BSEC 10	-	...	166	124	124	147	160	199	170	197
BSEC Total	-	...	171	124	124	147	161	205	180	205
EU	-	67	9	1	7	17	20	67	106	68

Imports

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	-	55	238	338	392	687	931	1249	899	704
Albania	-		...	...	...	...	...	...	...	...
Armenia	-	...	5	1	11	17	22	11	12	14
Azerbaijan	-	...	12	24	48	79	116	85	79	55
Bulgaria	-	...	...	2	28	43	46	77	48	15
Greece	-	...	1	2	11	18	14	28	11	11
Moldova	-	...	...	...	...	...	...	...	...	...
Romania	-	...	...	3	30	41	15	71	56	10
Russia	-	...	10	26	48	127	125	113	64	94
Turkey	-	...	35	39	82	77	114	181	126	109
Ukraine	-	...	13	4	8	39	56	35	46	38
BSEC 10	-	...	75	99	265	423	494	573	495	335
BSEC Total	-	...	76	101	266	441	508	601	506	346
EU	-	32	23	12	63	167	210	334	195	167

GREECE

Direction of Trade, 1991-2000

Millions of USD

Exports

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	8671	9439	9093	8808	10961	11948	11128	10732	10475	10747
Albania	12	41	125	216	262	329	251	192	222	249
Armenia	-	...	...	3	7	4	7	9	11	45
Azerbaijan	-	...	...	1	2	2	17	11	3	4
Bulgaria	...	...	301	452	450	329	319	439	408	450
Georgia	-	...	2	5	15	19	25	25	10	7
Moldova	-	...	2	2	7	10	9	6	13	14
Romania	76	71	90	94	169	177	176	218	209	379
Russia	86	109	185	245	238	364	418	267	243	244
Turkey	104	133	148	139	222	357	436	337	333	544
Ukraine	-	...	31	82	104	140	130	80	46	42
BSEC Total	278	354	884	1239	1476	1731	1788	1584	1498	1978
EU	5845	6447	5637	4706	6709	6488	5846	5729	5421	4683

Imports

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	21564	22818	20200	20640	25944	28745	27046	28717	25433	27824
Albania	12	18	15	34	38	36	36	36	38	40
Armenia	-	...	...	...	...	...	...	1	...	1
Azerbaijan	-	...	...	...	1	...	2	...	12	7
Bulgaria	...	...	196	324	487	371	416	383	349	392
Georgia	-	...	...	6	5	...	3	7	11	19
Moldova	-	...	...	3	4	7	7	4	2	3
Romania	93	51	66	91	122	145	204	191	208	301
Russia	92	67	502	538	650	700	634	488	460	1063
Turkey	168	143	137	173	211	233	297	362	366	386
Ukraine	-	...	32	148	88	105	59	64	72	115
BSEC Total	365	279	948	1317	1606	1597	1658	1536	1518	2327
EU	13785	15290	12076	13831	18213	18656	17800	19222	16715	16352

MOLDOVA

Direction of Trade, 1991-2000

Millions of USD

Exports										
Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	-	470	484	565	745	795	875	632	463	471
Albania	-	....	...	...	1	1	1	...	...	...
Armenia	-	1	...	...	3	5	...	...	...	...
Azerbaijan	-	8	31	13	5	6	1	...	1	2
Bulgaria	-	13	17	10	21	12	10	2	5	4
Georgia	-	2	1	1	...	3	4	...	...	...
Greece	-	...	1	5	3	4	5	5	6	2
Romania	-	102	104	83	104	72	59	59	41	38
Russia	-	164	172	289	360	429	509	339	191	210
Turkey	-	13	2	1	12	9	5	4	3	2
Ukraine	-	82	63	69	59	47	49	48	33	35
BSEC 10	-	...	390	466	565	584	638	452	274	291
BSEC Total	-	385	391	471	568	588	643	457	280	293
EU	-	12	31	39	86	78	90	79	95	102

Imports										
Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	-	640	631	659	841	1072	1164	1024	1101	1261
Albania	-	...	...	...	...	...	...	...	...	...
Armenia	-	1	...	...	...	...	...	...	...	...
Azerbaijan	-	7	39	12	6	5	4	1	...	...
Bulgaria	-	19	5	10	32	32	62	28	20	17
Georgia	-	...	1	1	...	...	...	...	...	3
Greece	-	...	...	4	5	3	9	6	14	17
Romania	-	63	68	43	56	66	101	110	111	129
Russia	-	265	222	309	278	321	333	228	265	231
Turkey	-	...	1	3	7	11	14	10	12	...
Ukraine	-	94	130	123	229	262	211	149	135	136
BSEC 10	-	...	...	501	608	697	725	526	543	516
BSEC Total	-	449	466	505	613	700	734	532	557	533
EU	-	37	67	68	115	177	226	266	290	226

ROMANIA

Direction of Trade, 1991-2000

Millions of USD

Exports										
Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	4269	5203	4892	6160	8061	7644	8387	8128	8432	10367
Albania	3	2	3	5	7	23	3	4	8	10
Armenia	-	...	...	...	2	3	4	2	2	...
Azerbaijan	-	...	1	3	3	7	3	3	3	3
Bulgaria	60	116	103	103	71	68	57	78	110	290
Georgia	-	1	2	14	50	45	37	64	51	42
Greece	53	116	84	141	207	173	175	198	215	324
Moldova	-	72	94	60	82	92	128	128	101	142
Russia	-	415	220	207	158	150	248	78	47	89
Turkey	153	219	277	252	348	384	353	319	469	627
Ukraine	-	105	105	95	138	61	91	50	63	90
BSEC 10	216	928	805	739	859	833	921	726	854	1293
BSEC Total	269	1044	889	880	1066	1006	1096	924	1069	1617
EU	1576	1536	2027	2970	4388	4271	4752	5253	5537	6630

Imports										
Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	5203	5582	5929	6466	9443	9058	10129	10615	9358	11868
Albania	3	...	...	...	...	11	...	...	...	...
Armenia	-	...	...	...	...	11	...	...	...	...
Azerbaijan	-	...	...	...	3	1	1	...	6	1
Bulgaria	58	84	65	59	70	60	50	43	45	80
Georgia	-	...	...	...	...	....	1	...	1	2
Greece	86	71	63	81	144	154	171	182	179	338
Moldova	-	...	79	86	95	49	56	56	37	38
Russia	-	...	695	894	1117	1144	1233	958	639	1019
Turkey	85	167	134	137	228	168	191	242	211	247
Ukraine	-	...	121	136	176	175	169	151	97	178
BSEC 10	146	251	1094	1312	1689	1619	1701	1450	1036	1565
BSEC Total	232	322	1157	1393	1833	1773	1872	1632	1215	1903
EU	1636	2331	2686	3117	4811	4732	5316	6145	5673	6727

RUSSIA

Direction of Trade, 1991-2000

Millions of USD

Exports										
Economy	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
World	-	39931	44047	63078	77595	83979	85077	71389	72453	102998
Albania	-	1	...	...	...	...	1	2	4	6
Armenia	-	...	...	154	127	103	96	128	57	28
Azerbaijan	-	...	...	147	86	171	220	148	115	136
Bulgaria	-	1165	942	473	670	915	914	594	479	585
Georgia	-	...	...	56	49	100	147	103	58	42
Greece	-	236	194	266	147	137	202	365	577	1273
Moldova	-	...	...	542	398	388	381	322	241	210
Romania	-	605	475	459	627	776	739	565	395	922
Turkey	-	649	1078	949	1632	1667	1983	1923	1617	3098
Ukraine	-	...	...	6709	6898	7583	7239	5531	4786	5024
BSEC 10	-	2420	2495	9489	10487	11703	11720	9316	7752	10051
BSEC Total	-	2656	2689	9755	10634	11840	11922	9681	8329	11324
EU	-	20227	19672	22411	26051	27189	27998	23073	24022	36881
Imports										
Economy	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
World	-	...	26751	38600	46399	44504	52400	42939	30286	33853
Albania	-	...	...	...	...	...	1	2	1	1
Armenia	-	...	...	53	75	85	60	39	28	44
Azerbaijan	-	...	...	141	107	150	261	165	98	135
Bulgaria	-	584	245	345	472	244	261	163	108	116
Georgia	-	...	...	52	58	67	150	63	50	77
Greece	-	32	134	185	257	204	185	125	122	125
Moldova	-	...	...	475	636	808	841	492	264	325
Romania	-	431	102	146	132	135	202	90	48	79
Turkey	-	383	661	400	542	575	794	512	312	348
Ukraine	-	...	...	4400	6616	6256	3981	3219	2523	3647
BSEC 10	-	1398	1008	6012	8638	8320	6551	4745	3432	4772
BSEC Total	-	1430	1142	6197	8895	8524	6736	4870	3554	4897
EU	-	15952	11198	15379	18003	15761	19578	15539	11101	11138

TURKEY										
Direction of Trade, 1991-2000 Millions of USD										
Exports										
Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	13723	14606	15348	18155	21650	23123	26246	26301	26587	27625
Albania	21	21	38	59	57	53	41	44	66	61
Armenia*	-	...	...	...	...	...	...	...	...	...
Azerbaijan	-	102	68	132	161	239	320	325	248	230
Bulgaria	76	72	86	134	183	153	176	213	233	253
Georgia	-	12	35	67	68	110	173	161	114	132
Greece	144	146	118	169	210	235	298	369	407	438
Moldova	-	0.01	0.4	4	7	14	21	28	21	26
Romania	105	173	152	175	302	311	359	467	268	326
Russia	-	442	505	820	1238	1494	2056	1347	589	644
Ukraine	-	36	39	76	199	267	337	274	226	258
BSEC 10	203	857	923	1467	2215	2645	3484	2860	1764	1930
BSEC Total	347	1003	1041	1636	2425	2880	3782	3229	2171	2368
EU	7377	7600	7287	8269	11078	11477	12247	13440	14348	14509
Imports										
Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	21132	24380	29355	23278	35760	42464	48656	44731	40687	52713y
Albania	1	0.882	2	1	1	9	3	3	1	3
Armenia*	-	...	...	...	...	...	...	...	...	...
Azerbaijan	-	35	34	9	22	38	58	50	44	596
Bulgaria	140	224	243	195	402	358	409	367	295	465
Georgia	-	6	22	26	50	32	66	90	93	155
Greece	77	88	120	105	201	283	431	320	303	431
Moldova	-	2	29	20	16	14	15	12	11	7
Romania	199	256	301	229	368	437	394	344	401	647
Russia	-	1041	1542	1045	2,082	1800	2174	2155	2374	3886
Ukraine	-	90	473	535	856	744	918	989	774	981
BSEC 10	340	1655	2646	2061	3797	3534	4037	4010	3994	6268
BSEC Total	417	1743	2766	2166	3998	3817	4468	4330	4297	6699
EU	9897	10048	12948	10278	16862	22704	24869	24076	21416	26610

UKRAINE

Direction of Trade, 1991-2000

Millions of USD

Exports

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	-	8045	7817	9531	14966	14400	14232	12637	11582	14579
Albania	-	...	...	...	...	...	1	2	1	4
Armenia	-	...	4	5	5	25	11	8	12	12
Azerbaijan	-	...	55	79	30	88	88	90	29	41
Bulgaria	-	206	412	127	171	137	155	205	295	383
Georgia	-	...	12	8	7	183	49	32	42	38
Greece	-	...	29	...	80	97	80	60	75	48
Moldova	-	...	118	367	208	238	294	180	123	176
Romania	-	141	121	...	176	157	149	161	76	165
Russia	-	...	...	3837	6015	5577	3723	2906	2396	3516
Turkey	-	90	430v	115	440	409	671	696	673	869
BSEC 10	-	...	1152	4538	7052	6814	5141	4280	3647	5204
BSEC Total	-	437	1181	4538	7132	6911	5221	4340	3722	5252
EU	-	806	1111	671	1716	1599	1762	2135	2130	2362

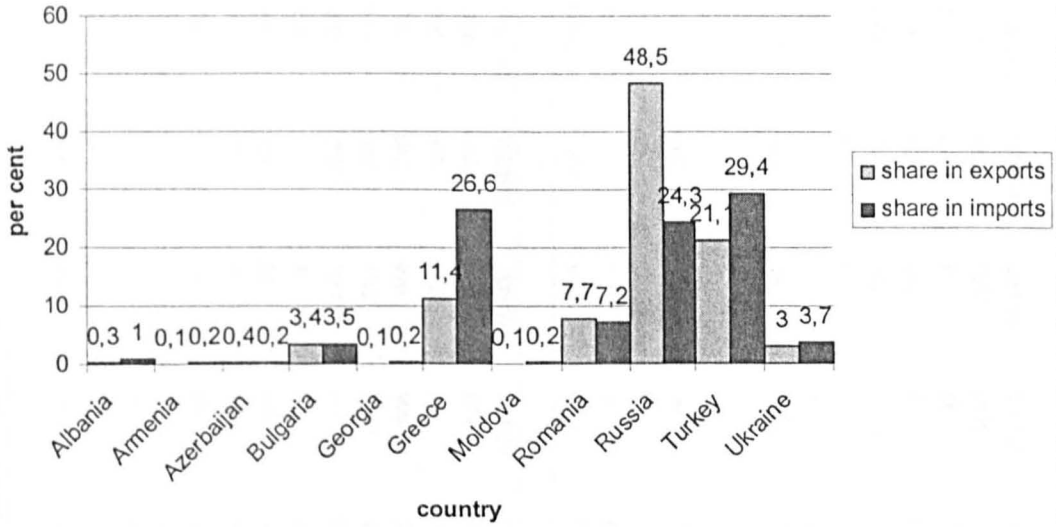
Imports

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	-	7099	9533	11082	20054	17586	17114	14676	11844	13955
Albania	-	...	...	....	....	....	2	...	...	...
Armenia	-	...	5	1	5	4	8	5	2	3
Azerbaijan	-	...	63	41	37	31	47	28	34	24
Bulgaria	-	....	...	68	210	126	143	101	68	60
Georgia	-	...	14	3	6	4	8	8	6	10
Greece	-	3	34	...	114	60	65	34	55	39
Moldova	-		69	159	65	73	74	51	25	35
Romania	-	115	115	...	151	80	87	48	52	48
Russia	-	...	...	5998	7588	8817	7838	7064	5592	5825
Turkey	-	36	41	8	172	110	162	136	143	160
BSEC 10	-	154	307	6278	8234	9245	8369	7441	5922	6165
BSEC Total	-	157	341	6278	8348	9305	8434	7475	5977	6204
EU	-	1045	2010y	842	3135y	2758	3378	3167	2399	2883

Appendix 4.2 Share in BSEC - EU trade by country, 1992 - 2000

(per cent)

Source: IMF, *Direction of Trade Statistics*, Washington D.C. (several years)



Appendix 4.3 FDI IN BSEC COUNTRIES, 1991 - 2001 (millions of USD)

FDI INFLOWS

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Albania	...	20	45	65	89	97	42	45	41	143	181
Armenia		2	1	8	25	18	52	232	130	133	140
Azerbaijan		...	0	22	330	627	1115	1023	510	130	227
Bulgaria	56	41	40	105	98	138	505	537	819	1002	689
Georgia		...	0	8	6	54	243	265	82	131	160
Greece	1135	1144	977	981	1053	1058	984	85	571	1089	1560
Moldova		17	14	18	73	23	79	74	37	138	150
Romania	37	73	87	341	417	415	1215	2031	1041	1025	1137
Russia		...	...	409	1460	1657	4865	2761	3309	2714	2540
Turkey	810	844	636	608	885	722	805	940	783	982	3266
Ukraine		200	200	151	257	516	624	743	496	595	772
BSEC	2038	2341	2000	2716	4693	5325	10529	8736	7819	8082	10822
World	158821	166967	225495	255901	333812	384960	478082	694457	1088263	1491934	735146

FDI OUTFLOWS

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Albania	...	20	7	9	12	10	10	1	7	6	...
Armenia		...	...	...	...	...	...	12	13	8	11
Azerbaijan		...	...	...	175	36	64	137	336	1	158
Bulgaria	...	1	...	...	-8	-29	-2	...	17	3	10
Georgia		...	...	...	...	...	...	...	1	-1	...
Greece	-26	47	-22	16	42	-25	156	262	539	2102	-607
Moldova		...	...	18	1	1	1	-1	...	...	...
Romania	3	4	7	1	3	2	-9	-9	16	-11	-17
Russia		...	142	101	358	771	3184	1270	2208	3208	2618
Turkey	27	65	14	49	113	110	251	367	645	870	497
Ukraine		...	...	8	10	-5	42	-4	7	1	23
BSEC	4	137	148	202	706	871	3697	2035	3789	6187	2693
World	198042	201527	244253	287178	356572	395728	474010	684039	1042051	1379493	620713

Source: UNCTAD, 2003.

CHAPTER 5. SUBREGIONALISM WITHOUT LEADERSHIP AND UNDER SECURITY DILEMMA

1. Introduction

This chapter examines two factors which relate to the mode of BSEC cooperation as suggested in the analytical framework. First, it tries to identify whether there is a benevolent leading country[1] within BSEC. Second, it examines how the security dilemma in the subregion has developed and transformed in the 1990s.

It is a common assumption that even if governments are willing to meet demands for more supranational governance they might be still unable to do so because of collective action problems. In line with the third variable of our analytical framework, the existence of a benevolent leading country may help governments to respond to collective action problems. Besides taking responsibility for coordination, such a country may help to ease distributional tensions by assuming the role of a 'regional play-master'. What we examine here is whether there is a leading country directing BSEC affairs and how this factor has shaped the reconfiguration of BSEC and the latter's mode of governance. We thus identify interests, capabilities and actual initiatives of member states that would indicate their leading role or the absence of such a role.

As we saw in chapter three each member state has equal votes within the BSEC Council guaranteeing an equal participation and power of all member states in the policy-making, irrespective their size. Member states however are divided into three categories in accordance with their contribution to the BSEC budget: the large contributors namely Greece, Russia, Turkey and Ukraine (16.5 per cent), the medium

[1] There are coercive and benevolent versions of leadership or hegemony of which the benevolent strand has probably been the most influential (Kindleberger, 1986).

ones - Romania, Bulgaria (8.0 per cent) - and the small contributors Albania, Armenia, Georgia, Moldova Azerbaijan (4.0 per cent). This categorization is useful as it also reflects to a degree the member states' political weight in the BSEC affairs.

Another dimension examined here which constitutes the fourth variable used in our analytical framework, stems from the security domain. It is a common ground that security problems hinder collective action and the deepening of cooperative structures to more binding and supranational modes of governance. Apart from the existence of security problems *per se*, what is of importance here is the transformation of security dilemma and its effects on the demand for governance at the subregional level. The Black Sea is a zone of instability which contains most of the ongoing or 'frozen' conflicts in Europe. Traditional security concerns notwithstanding, the definition of the very concept of security has acquired throughout the 1990s a more comprehensive content. What conclusions may we draw when relate the transformation of security dilemmas of the member states to the formation of BSEC?

2. In search of leadership: ambitions, capabilities and constraints

The search for a leadership within BSEC in general has to consider interests capabilities, actual policies and constraints. Chapter 2 disclosed in details the national motivations and interests of the BSEC members. Here we will move beyond interests to assess whether there has actually been a leading country within BSEC or not.

Turkey has been singled out by most analysts as the state that has been performing such a role (Sezer, 1992b; Neasca, 1996; Gumpel, 1993; Gokyigit, 1992) motivated by geostrategic and economic considerations. Besides Turkey, another

indisputable 'regional play-master' is Russia, primarily due to its security and economic (i.e. energy) leverage over the majority of the states in the area. For reasons that rest on its economic development (relatively to its neighbours) and on its EU membership, Greece has also been considered as a potential benevolent leading country within BSEC. Another country that has been expected to play a leading role is Ukraine due to its size as well as due to its strategic location stretching from Central Europe to the coast of the Black Sea. Several members of BSEC are small states (e.g. Albania, Armenia, Azerbaijan, Georgia and Moldova) which neither had the capacity nor the experience to undertake leadership. At the same time, Bulgaria and Romania for reasons that relate to their foreign policy priorities refrained from becoming active in BSEC affairs, preferring other fora of cooperation in Southeast and Central Europe. Two concerns weighed heavily in both countries' reluctant involvement in BSEC.

First, their preference to be regarded as Southeast *European* countries rather than Black Sea countries (particular if the latter would mean exposure to Russian influence) and second their accession negotiations with the EU absorbed most of their resources as EU membership became their strategic foreign policy goal. None of the countries wished to jeopardize their EU orientation by advancing or leading integration within BSEC particularly given the total absence of institutionalized links between the EU and BSEC. The absence of the European Commission from the BSEC organs (unlike its membership in the Council of the Baltic Sea States) was perceived as a denial by the former to treat BSEC as a European, economic or political partner (Siskos, 1998, p. 34). The above considerations underlined their hesitant rather than proactive BSEC membership which, as we saw in Chapter 3, was practically

translated into refraining from signing BSEC agreements and even less binding memoranda (e.g. in the field of electric power).

Hereafter, we focus on those four countries (Turkey, Russia, Greece and Ukraine) that have had either the material basis, or might be expected to perform a benevolent leading role.

Table 5.1 Key Economic Indicators of BSEC countries

Country	Population	Surface Area	GNP			Inflation
	(1992)	Thousand sq. km	per capita USD (1993)*	per capita USD (1996)*	Mln USD (1996)	(1992)
Albania	3 360 000	29	340	809	2 678	226
Armenia	3 500 000	30	660	424	1 599	1346
Azerbaijan	7 200 000	87	730	416	3 181	912
Bulgaria	8 460 000	111	1 160	1 142	10 017	820
Georgia	5 400 000	70	560	645	3 044	887
Greece	10 300 000	132	7 390	11 855	87 851***	16
Moldova	4 400 000	34	1 180	471	1 693	1276
Romania	22 700 000	238	1 120	1 563	35 334	210
Russia	148 400 000	17 075	2 350	6 575	971 300	1526
Turkey	58 500 000	775	2 120	2 928	181 077	67
Ukraine	50 400 000	604	1 810	1 180	81 519**	1210

Source: State Institute of Statistics, 2003; EBRD, 2003.
* current prices ** Hryvnia *** Euro

2.1 The leadership role of Turkey

Turkey is the only state which attempted to assume the role of a benevolent leading country within BSEC. A flourishing literature (Eren, 1993; Masty & Nation, 1996; Rubin & Kirisci, 2001) in the early 1990s pictured Turkey as a rising regional power. It was argued that "Turkish diplomacy has displayed an outstanding ability in using the influence thrust upon it as the new superpower in the region" while "...the leaders of the member nations, including the Russians and Greeks, they expressed their reliance on Turkey to keep [BSEC] Council members attached to their mutual security and economic growth" (Eren, 1993, pp. 52, 53).

Particularly in the late 1980s Turkey seemed to possess several attributes for such a leading role. In terms of size (market), population and military power[2] (table 5.1 and table 5.2) it has been an indisputable power in subregional affairs. What reinforced Turkish aspirations was the fact that it was seen as a model of development and governance by several NIS, particularly in central Asia and the Caucasus, during their state-building process. It appeared to be firmly anchored to Euro-Atlantic structures both in economic and politico-military terms. As a pillar of NATO in a highly sensitive and strategically important area, it was considered to be an essential and stable strategic partner and as a market economy it provided an alternative economic model to the former centrally planned economies. Furthermore, Turkey appeared to bear 'issue-specific advantages', having international experience in the fields in which it envisaged cooperation - trade, finance, communications, SMEs. It was expected to transfer knowledge and resources in technical fields of cooperation.

Soon however it became apparent that Turkey lacked the financial and political capacity to establish itself as a dominant power in the subregion. The material basis for a leading role was proved weak particularly as its unstable national economy was prone to frequent crises, characterized by high inflation, external debt and inability to attract long-term foreign capital (Onis, 2000). On the other hand, Turkey slowly lost most of the 'ideological' basis of its power as the closest exponent of western liberal ideas and a locomotive of modernization. More powerful states or organizations entered in the Black Sea system while the local leaderships soon directed their expectations to other centres of power which had either the military capacity (e.g. the US) or the financial power (e.g. the EU) to assist them in addressing

[2] Turkey has established a naval superiority in the Black Sea consisting of 116 vessels and 16 submarines. Russia possesses 52 vessels and 4 submarines.

their urgent state-building and transition related problems. Turkey was unable to provide economic aid in the quantities needed by the countries in transition and by and large its attempts to extend its sphere of influence into the new republics were not met with the expected success.

The locomotive of Black Sea subregionalism

Turkey has been the locomotive of Black Sea subregionalism in several aspects. Turkish active policy in forming BSEC's agenda was more obvious at the formative stages of the initiative and until 1998. First, the founding goals and principles of BSEC reflect the perception of Turkish leadership of subregionalism as a tool of liberalization of foreign economic affairs and the opening up of markets. Turkey therefore was the single state that mostly influenced the ideational basis of BSEC.

In 1991 Turkey assumed not only the political but also the administrative and financial cost of running BSEC. It undertook the administrative burden, drafting the preparatory documents, organizing meetings and working groups. Beyond establishing the intergovernmental dimension of BSEC, it initiated all other dimensions of Black Sea subregionalism, encouraging its multidimensional character. It was the Turkish Grand National Assembly that proposed the creation of the PABSEC in 1993 while the BSEC Business Council was established on the basis of the bilateral associations of the Turkish businessmen. Hence, the secretariats of the three main BSEC Bodies (at the governmental, parliamentary and business level), established between 1992 and 1993, were hosted in Istanbul. The initiative of the transformation of BSEC into an international organization belonged also to Turkey which prepared the draft charter of the organization in 1996 just as it had done six

years earlier when preparing the declaratory documents establishing BSEC as a cooperation initiative.

Acknowledging the economic difficulties of its partners (most of them in transition) Turkey financed the whole amount of the budget of the new initiative for the first three years of its existence.[3] Still today it finances the total budget of the BSEC Business Council while it has established the BSEC Coordination Centre for Exchange of Statistical Information and Economic Information in Ankara under the State Institute of Statistics with the aim of remedying the lack of information on social and economic indicators of the member states. At the bilateral level, Turkey also extended economic assistance either directly or indirectly through special funds for economic operations. It thus established in 1992 the Turkish International Cooperation Agency (TICA) attached to the Prime Minister's Office in order to coordinate and direct assistance particularly to the NIS more efficiently.[4]

Strengthening the international voice of BSEC has been almost an exclusive preoccupation of Turkey. It is important to notice that three out of the total six Summit Meetings until today have been hosted in Istanbul (in 1992, 1999 and 2002) while one of them (1999) was held within the framework of the OSCE Summit again upon a Turkish proposal. During its last Chairmanship (May - November 2001) the number of working groups and workshops (in total 15 meetings) outnumbered those realized by any other Chairmanship. Turkey's leading role as the locomotive of BSEC is more evident when one considers the number of project proposals that it has initiated most of them in the fields of economy, trade, tourism, agriculture and SMEs (see chapter three). Nevertheless, Turkey's influence in directing BSEC's orientation

has decreased and there are signs that it has lost its initial interest in the organization altogether.

Beyond the difficulties mentioned earlier and hindering Turkish aspirations, we have to stress the fact that Turkey's original intentions for the organization have not been realized. Turkish efforts to create some type of FTA or a zone of free trade were dismissed as unrealistic. On the other hand, BSEC failed to attract the interest of the business community as Turkey expected, since the private sector estimated that the opportunities offered through BSEC were limited.[5] Hence, soon the process was left without its envisaged central motor, the (Turkish) private interests. Seeing its initial intention to use BSEC as a tool of foreign economic policy and to turn the Black Sea into a zone of free trade, failing under the lack of support from the domestic private sector, the persistence of economic difficulties and political turmoil in the area, Turkey did not come up with another grand strategy for the organization. Therefore, despite the number of project proposals forwarded to BSEC organs, Turkey's last significant initiative dates back to 1996 and the opening of the debate on the transformation of BSEC into an organization. The weakening of Turkish influence in leading BSEC is more clearly illustrated in the fact that the organization has moved steadily from being economy-oriented to acquiring a more explicit political and security dimension (e.g. the creation of a BSEC study group on security) despite Turkey's lack of enthusiasm for such a development.

Since 1998, Turkey clearly became less active due to domestic economic difficulties as well as due to the redirection of the priorities of its foreign policy. The

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[3] Turkey financed the total budget of PABSEC until 1995, "The principle governing the budget of the BSEC shall also govern the budget of the Assembly. The whole of the budget of the Assembly for the financial years of 1994 and 1995 as well as the partial budget of the Assembly for the remaining months of the year of 1993 ... shall be financed by Turkey" (PABSEC, 1993, provisional article 1).
[4] For information on the main functions of TICA see http://www.tika.gov.tr
[5] Views expressed by staff of TUSIAD International, June 2003.

Turkish administration had to deal with the EU negotiations and the destabilization in the Balkans, Middle East and particularly in the Gulf. As regards to capabilities, it should be noted that in the 1990s the Turkish economy endured three severe crises (in 1994, in 1998 and 2001) that have hindered the realization of its plans towards the Black Sea region. The economic blow in 1994, the serious downturn in economic activity after the Russian crisis in 1998, and later on the outburst of the financial crisis of February 2001, with the latter being the most serious economic crisis that Turkey had faced in approximately fifty years,[6] reduced the capacity of Turkey to act as a modernizing pole. Turkey faced relatively high levels of unemployment (7.3 per cent in 1999), persistent double digit inflation (93.6 per cent in 1995) and an urgent need for international assistance. Turkish foreign dept stock was 101.8 billions of USD at the end of 1999 or just over 50 per cent of GDP, up from about 80 billions of USD or 45 per cent of GDP in 1996 (EIU, 200b, p. 48). Furthermore, the social and economic impact of the disastrous earthquake of August 1999 had already forced the Turkish governments to put more emphasis on issues of internal affairs rather than foreign policy. At the political level, on the other hand, the Turkish enthusiasm for the Black Sea project had to be tempered by a more realistic view of the situation as conflicts in the area persisted and intensified in the first half of the 1990s. Although Turkey was not directly involved in any of the conflicts, its tense relations with some of its immediate neighbours (e.g. Armenia, Greece and Bulgaria) topped with the suspicion of Russia, undermined its role as a leading country.

Turkey's strong geopolitical and economic considerations regarding the benefits of improved relations with its neighbours around the Black Sea, in particular with the Soviet Union and its successor states, were not always seen to be best served

[6] According to the Central Bank of Turkey, only between 21 February and 23 February 2001, the Turkish lira was devaluated by 56.6 per cent.

through BSEC. As we indicated earlier, Ozal's leadership was the key factor in Turkish proactive policy towards BSEC. New leadership in Turkey in the second half of the 1990s did not show the same enthusiasm for the project as Ozal did.

Thus, although the first half of the 1990s witnessed a strong and active interest on behalf of Turkey, not only in BSEC affairs but generally in establishing multilateral fora of cooperation, the second half of the decade witnessed a more hesitant Turkish policy than expected. The diversity of BSEC members and of their priorities vested in subregionalism - which did not always coincide with Turkish priorities - pushed Turkey to actually develop relations with its Black Sea neighbours either at a bilateral level or at a more circumscribed space (e.g. involving only the six coastal states).

2.2. Russia: a regional playmaker

Russia's passive involvement in BSEC affairs should not be interpreted as lack of a strategy vis-à-vis the organization. The 'core' of the delineated BSEC area constitutes a top priority in its foreign policy (Adomeit, 1998, p. 43). Although a 'weakened great power' in the Black Sea or a medium power with nuclear capability (Sezer, 1997, p. 3), Russia has had significant leverage over many of the BSEC members thus being one of the most influential factors in the organization's development. However, Russia's reduced presence in the Black Sea has impeded further its efforts to maintain its role in the area. The Black Sea coast line inherited by the Russian Federation is a modest 30 plus percent of its former grandeur. Russia acquired only three of the 20 major coastal cities and only one technologically advanced sea port - in Novorossisk. Nevertheless, it has several tools in its use to exercise its influence.

These include the presence of Russian minorities in all former Soviet states; the dependence of several BSEC states on Russian oil, gas and pipelines; Russian military basis, forces and equipment on their territory; the inability of the new states to protect their external borders or secure the stability of their regime; and Russia's engagement in territorial and ethnic conflicts (Adomeit, 1998, pp. 43–44). Throughout the 1990s Russia preserved mainly its security leverage over the NIS due to its military strength, engagement in conflicts and its power to influence political and economic developments in the whole region. Perceptions of Russia have been an important consideration particularly in the developments of Armenia, Azerbaijan, Moldova and Georgia's international relations as well as in the course of the conflicts and their cease-fires and negotiations. Even though Russia continues to overshadow the area, its power has declined relative to that of other external players and relative to the increasingly independent and assertive governments in Baku, Tbilisi and to a lesser extent Yerevan (Herzig, 1999, pp. 102-108).

Most NIS have remained however energy-dependent on Russia (particularly Moldova and Ukraine) while for their state survival and internal stability they had to take into consideration the Russian factor (e.g. Georgia, Moldova). Notwithstanding the Russian leverage over the NIS, that leverage was not expanded to all BSEC states since almost half of the member countries such as Romania, Bulgaria, Albania, Greece and Turkey, for different reasons each, were less susceptible to the Russian influence.

We can say that two factors undermined the capacity of Russia to undertake a leading role. First, the country's dire economic situation and second the increasing direct or indirect influence of other external actors. Russia was not seen as the modernizing factor by any of the states in the Black Sea subregion who directed their

expectations to international financial institutions and the EU as guarantors of their economic restructuring and survival. At the same time, Russia was seen as part of the problems of the subregion thus making the Black Sea states at least cautious about and even strongly hostile to any leading role of Russia within the newly formed structure of BSEC. The fear of a revival of the Russian dominance as experienced within the former Soviet Union was leaving Russia with little room to undertake initiatives within subregional structures. Russia might have been perceived as a coercive hegemon, at least by the NIS, but increasingly 'Russification' was identified with backwardness. The choice of the local political elites to be within the orbit of the European influence was not a merely interest-based calculation but it reflected their views on what represented modernization.

Russia's participation in BSEC was not accompanied with active involvement in the affairs of the organization but more with political apathy and reluctance. Russia has shown preference for using the CIS framework for advancing its relations with the NIS rather than any other subregional forum. As we argue here undermining BSEC's deepening rather than undertaking leadership within it, was closer to Russian interests.

Undermining BSEC

Although some analysts present Russia as having a positive engagement in BSEC (Kovalsky, 1996) others argue that in fact cooperation around the Black Sea was perceived "either as irrelevant, or as driven by Turkey's strategic aim (which Ukraine tactically supports) to penetrate into the Caucasus" thus with suspicion by Moscow (Baev, 2000, p. 132). The performance of Russia in BSEC organs inclines to the second

argument, indicating Russia's political decision not to encourage BSEC's deepening or functioning as a full-fledged mechanism.

Given Russia's geopolitical and geoeconomic interests in the area, one would expect its active engagement in BSEC affairs. Furthermore, being a 'weakened great power' Russia should theoretically be interested in regional institutionalization. The first ten years of BSEC's existence indicate that this did not happen. First, the Russian Ministry of Foreign Affairs did not have a clear strategy of engaging in subregionalism.[7] Second, Russia's preferred cooperation tool in the area has been its own 'child', the CIS, formed at the meeting in Minsk in December 1991, rather than BSEC. The CIS has been the primary integration tool used by the Russian political elite while BSEC did not receive an equivalent status within the Russian foreign policy ever. This is not difficult to understand given the diversity of BSEC's membership (Turkey, Greece, Romania, Bulgaria) which poses limitations on the influence that Russia can exert on the organization while on the other hand, BSEC unlike CIS could not be used as a means of 'reintegration' of the former Soviet space. It is therefore not surprising that although Russia systematically resists the formation of a FTA within BSEC, it has concluded FTAs with all CIS members apart from Ukraine.

Furthermore, Russia unlike the rest of BSEC members, did not place emphasis on the role of BSEC within the European architecture, neither did it expect to use its participation in BSEC in its relations with the EU, hence having no interest to 'show good performance' in subregionalism. Although all BSEC members have stressed their participation in regional structures during their talks with the EU (either to meet the 'good neighbourhood' condition or to increase their bargaining power) this

[7] Interview, Michael Savva, 3 June 2003.

has not been the case with Russia. Relations between the EU and Russia developed their own dynamic away from BSEC, as subregional cooperation was not offering any additional leverage to Russia. Subregionalism was thus used by Russia as a foreign policy tool almost exclusively vis-à-vis its relations with the NIS. A shift in Russia's stand towards BSEC took place in 1996 when it organized the Moscow Summit (Smirnov, 1997). Russia's priorities however for BSEC's agenda evolved around the field of emergency situations and other non-economic issues. Its only initiative within the organization has been the agreement on emergency situations, indicating its intention of using BSEC as a forum for undertaking confidence-building measures rather than as a tool of economic integration. Furthermore, Russia has no interest in paying particular interest to BSEC's economic dimension as the lion's share of its foreign trade has been with countries outside BSEC (see chapter four). The lack of a proactive BSEC agenda in the Russian Ministry of Foreign Affairs was manifested during its last Chairmanship (November 2000 - April 2001) when Russia organized just six meetings of Working Groups.

Russia has been more of a coercive hegemon but it has not pursued a role of a benevolent leading power within BSEC. Its cautious policy however has influenced fundamentally BSEC's governance as it has constituted a factor of keeping subregionalism as a loose non-binding mode of governance.

2.3 Greece: a reluctant player

Greece has remained very cautious of all efforts for further deepening, politization and policy expansion of BSEC.[8] Outlining the Greek positions on BSEC's development, ambassador Emmanuel Spiridakis, chairman of the coordinating

committee for BSEC Affairs at the Ministry of Foreign Affairs, clarified in 1995 that Greece "still considers as premature the conversion of the BSEC into an international organization, but does not rule this out in the future. Besides, there is the precedent of the CSCE (Conference on Security and Cooperation in Europe), which carried on its work for a number of years without having organization status, which it only recently acquired after 19 years of activity" (Drakopoulos, 1995, p. 4). This cautious stand regarding the character and potential of Black Sea subregionalism which made Greece a reluctant rather than a pro-active power within the organization was also manifested during discussions on the Black Sea 'Convention on Cooperation in the Fields of Culture, Education, Science and Information'[9] as follows:

> As far as the Greek position is concerned, in general, Greece should cooperate but without any obligations..... it has to be stressed that the 'cultural' aspects have been included ... in BSEC but its goals and aims require the preservation of its strictly economic - functional character. On the contrary, expansion towards the parliamentary field or even more towards issues of minorities, nationalities, population groups etc. which have become so popular lately, will be out of any control later and they will anyway require another type of engagement. Relevant is also the issue of overlapping. It is necessary to remind that only confusion will result from the wish of some members to undertake parallel activities with the CSCE (that covers the same issues), the Council of Europe and at the same time to sign agreements such as the one of the BSEC. If Russia and others intend to preserve their control over or to secure their population in the former Soviet Union republics, for others (e.g. Bulgaria, Ukraine) this idea, may not be pleasant particularly when e.g. there is the possibility for anyone to transmit any type of material through 'Cultural Centres', BSEC publications, tapes and other material.

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[8] "While Greece is expected to lobby for a cautious approach and to propose the creation of a special committee to assess the effectiveness of proposed change concerning the bloc' (*Athens News*, 24 October 1996), it might be better to opt for a more pro-active policy" (Triantaphyllou, 1996).

[9] The Convention was signed on 6 March 1993 in Istanbul. It is not a BSEC Agreement but it is signed by most BSEC members: Albania, Armenia, Azerbaijan, Belarus, Georgia, Moldova, Romania, Russia, Turkey and Ukraine.

Even more attention should be brought to the issue of the languages as there is no reference to the official languages of the member states but in general to 'those spoken in the region'.[10]

Greece never saw or supported a political potential in BSEC and it remained indifferent in assuming a leading role in the process - particularly until 1995. It is of interest to note that Greece in ten years of the functioning of BSEC institutions did not undertake any effort to occupy high positions in the bureaucracy that would permit it to exert influence both on the political direction and the actual functioning of the organization, refrained from undertaking any political initiatives and did not participate in BSEC meetings at the highest political level. On the contrary, it pursued a policy of stressing the economic and 'practical' nature of BSEC cooperation, hosting the BSTDB (in Thessaloniki) and supporting activities directed to non-political issues. The 'project oriented approach' proclaimed in the BSEC Economic Agenda reflects that policy.[11] Undermining the political dimension and institutionalization of BSEC was a conscious policy of Greece due to the fact that given the limited political leverage of Greece in the Black Sea area, BSEC could turn into a tool of serving foreign policy goals of countries such as Russia and mainly Turkey.

On the other hand, both economic and political factors restricted Greece from undertaking the role of a benevolent, leading country within BSEC. Although Greece was better off than any of the other ten countries in terms of economic development and indicators of prosperity as well as its membership in the most developed international economic organizations it lacked the economic power and experience first to influence developments around the Black Sea and second to assume the role

[10] Information Paper, Ministry of Foreign Affairs of the Hellenic Republic, Athens, 10 June 1993.
[11] It is worth noticing that the draft of the *BSEC Economic Agenda* (2001) was prepared by the ICBSS, the think –tank of BSEC which is funded by the Greek Ministry of Foreign Affairs.

of a 'bridge' between the EU and BSEC. In 1993 and upon the establishment of BSEC, Greece's GNP per capita equalled the aggregated GNP per capita of all its BSEC partners excluding Turkey (table 5.1). However, being a country of limited resources and capacity in pursuing multiple (foreign) policy tasks, priority was placed by Greek governments on internal economic restructuring and the requirements of joining EMU as well as in managing its immediate neighbourhood in the Balkans which experienced instability and conflict throughout the 1990s.

The Greek presidency of BSEC in the first half of 1995 however acted as a catalyst in pushing the then Minister of Foreign Affairs Karolos Papoulias into adopting a new policy profile in the area. Organizationally, a coordinating committee on BSEC affairs was formed in January 1995 within the Ministry of Foreign Affairs. New ideas were worked out as to Greece's more active participation in the BSEC process and to the role it could play as the link between BSEC and the EU. The outcome of this shift was that Greece hosted both of the two newly established BSEC related bodies - BSTDB and ICBSS - in an effort to exert influence in two fundamental machineries of subregional cooperation, the financing body and the think-tank of the BSEC. Thus today Greece contributes financially more than any of the other ten countries in BSEC's operation, among others through covering 16 per cent of the annual budget of BSEC, the Parliamentary Assembly, the BSTDB, supporting the BSEC Project Development Fund, operating a Special Technical Fund within the BSTDB, funding the total amount of the annual budged of ICBSS as well as financing the BSEC Business Council.

A bridge between the EU and BSEC?

The central piece of Greece's policy vis-à-vis BSEC increasingly became its potential as a bridge between the EU and BSEC in particular after 1995.[12] However, at the beginning Greece did not envisage for itself a strong political role but wished to make use of its comparative advantage as an EU member to step up "efforts to provide funds for the implementation of various BSEC programs, particularly in the fields of energy, communications, transportation, strengthening of small and medium-size enterprises and personnel training".[13] One should not exaggerate either the political will of Greece to actually assume the cost of advancing BSEC - EU relations or Greece's power to influence the EU's external policies. However, BSEC recognized an enhanced role for Greece, and at the Thessaloniki Meeting of MFA (27 October 1999) with its Resolution (Resolution I.A, para.5) requested that "For the purpose of making the dialogue between the EU and BSEC, envisaged in the Platform for Cooperation, more effective, Greece, as a member of the European Union, could be consulted by the BSEC troika". Another dimension to be taken into consideration is the fact that Greece placed the Balkan area (rather than the Black Sea) as a foreign policy priority and wished to insert the interests of the Balkan states into the EU. In March 2002, Greece adopted a Plan for the Economic Reconstruction of the Balkans which provides 550 million Euro (from which 70.93 to Romania, 54.79 to Bulgaria and 49.89 to Albania) for the period 2002-2006 aiming at promoting infrastructure development, investments, democratic institutions etc.[14] No such plan was developed for the Black Sea countries.

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[12] "Indeed, Greece is determined to play a constructive role in the process of developing further relations between the EU and BSEC and to encourage a more energetic policy by the EU towards the countries of the area" (Kranidiotis, 1997).

[13] Speech of Mr. Nicolaos Akritidis, Head of the Hellenic National Delegation following the accession of Greece to PABSEC, Fifth Plenary Session, PABSEC General Assembly, Moscow, 6 June 1995.

[14] 'The International Development Cooperation policy of Greece and the case of the Hellenic Plan for the Economic Reconstruction of the Balkans (HIPERB)' Hellenic Ministry of Foreign Affairs, 2002 (htpp://www.mfa.gr/English/foreign_policy, 30/07/03).

Initiatives in BSEC were seen as complementary to the cooperative initiatives in Southeast Europe and special emphasis was placed on enhancing cooperation between BSEC and the Southeast European initiatives. Accordingly, in 1999, it proposed to prepare a protocol on institutionalized cooperation between BSEC and SECI with the long-term objective of adopting a common regional framework agreement on road transport.[15]

The first initiative by the Hellenic Ministry of Foreign Affairs was to prepare the 'Platform of Cooperation between the EU and BSEC' adopted by the 13th BSEC MMFA in Tbilisi on 30 April 1999. It was presented by the Hellenic Ministry of Foreign Affairs to its counterparts at the EU General Affairs Council of June 1999 but without positive result as it was met with reluctance by the EU. The European Commission even as late as 2003 was still not enthusiastic on developing institutionalized relations with BSEC. As senior officials from the Greek Ministry of Foreign Affairs have said, they could not reverse the prevailing reluctant attitude of the EU towards BSEC.[16] Thus during the Hellenic Presidency of the EU, no initiative was taken to develop a type of 'Black Sea dimension' of the EU despite previous claims of the Hellenic Ministry of Foreign Affairs.[17] The objective limitations on the Hellenic Presidency (Iraq crisis, EU enlargement) notwithstanding, Greece did not lobby or push forward ideas for advancing relations of BSEC with the EU.

Although the European Commission remained negative to the idea of elaborating a framework of relations with BSEC, the European Parliament became

[15] Thessaloniki MMFA (27 October 1999), Decision II. A. para. 48, in BSEC PERMIS, 2000, p. 138.
[16] "The European Commission is steadily negative in opening discussions on the issue of BSEC's relations with the EU" quoted by senior official of the Hellenic Ministry of Foreign Affairs during discussions with the author, June 2003.
[17] ".... Greece will be in the Presidency of the EU in the first half of the year 2003. We intend to make the EU-BSEC cooperation one of our priorities. We will ensure that, in the meetings of the relevant working groups, the BSEC dimension will be present in all the EU programmes or policies directed to this region", statement by George Papandreou (BSEC, 2003, p. 80).

more involved and in a direct way in BSEC affairs. Preliminary meetings between the PABSEC and the European Parliament were initiated by the PABSEC Hellenic Chairmanship (June 2002 - November 2002) and led to a request by the European Parliament to PABSEC to elaborate a political document on the modes of cooperation between the EU and BSEC and second to forward its opinion on the Communication of the EC to the European Parliament on the 'Wider Europe' which will draw up the lines of the relations of the EU with its neighbours in the post-enlargement period (Koukiadis, 2002 and 2003).

In addition to the objective difficulties resulting from the EU policies themselves (examined in chapter six), Greece could not function as a bridge between the EU and BSEC and thus perform the role of a benevolent, leading country due to reasons related to its own foreign policy priorities. Greece's strategic foreign policy concern at the end of the 1990s was the successful implementation of the EU enlargement process that would include Cyprus as well as its participation in the EMU, the resolution of the long-standing disputes with Turkey (which is a constant Greek foreign policy concern) and the integration of the Balkan countries into the European structures in order to secure stability in its northern borders. Most of the resources in the Hellenic Ministry of Foreign Affairs were directed to managing the effects of conflict and instability in the Balkans (e.g. securing its borders from illegal activities and migration) and addressing new challenges i.e. the dissolution of the former Yugoslavia and the ethnic wars that erupted afterwards or formulating policies vis-à-vis its new neighbours i.e. the FYROM (such as the diplomatic struggle to resolve the dispute over the name of the FYROM, its flag and the references on territorial claims in its Constitution).

In conclusion we can argue that Greece did not formulate a comprehensive policy vis-à-vis BSEC rather its policy was fragmented. Its limited resources and the lack of political interest undermined Greece's leading role in the organization.

2.4 Ukraine: balancing of power policy

Ukraine is the third largest BSEC country on the basis of population and territorial criteria (table 5.1). Its geographical location on the one hand, stretching from the Black Sea to Central Europe and its size in terms of territory and population, on the other hand, are assets that have placed Ukraine among the 'large' countries in BSEC structures. Ukraine however lacked the economic basis or political weight to undertake a leading role in such a large organization such as BSEC not least due its transition and nation-building related problems. Given those restrictive conditions Ukraine did not seek to assume a leading role.

Rather than acting as a benevolent leading country, Ukraine sought through BSEC to strengthen its economic and political independence, find new markets for its goods and services, and new suppliers of goods and services for its own national economy and people (Sharif, 1996, p. 5). Being involved in BSEC activities, Ukraine hoped to obtain the necessary experience in developing international economic projects. At the same time, Ukraine's participation in BSEC was seen to enhance the country's eligibility for eventual membership in the EU. The accumulation of experience in dealing with countries with stable market economies (and especially with the only EU member - Greece), would contribute to stabilizing Ukraine's economy and gradually fulfilling the requirements of an EU associate member (Sharif, 1996, p. 5). At the BSEC meeting in Yalta on 4-5 June 1998, its Minister of

Foreign Affairs, Boris Tarasyuk, characterized the formation of a Euro-Black Sea economic space as the BSEC's main task.

Ukraine might well be one of the largest countries in Europe, with the potential to undertake a leading role in BSEC but it has been cautious in policy towards the subregion. First, the relationship with Russia remains a central element of Ukraine's role in the area.[18] Tensions with Russia in both the security and economic spheres (the two countries found themselves on the verge of economic war in September - October 1996) did not allow Ukraine to develop a BSEC strategy itself. Early in the 1990s, Ukraine had to resolve a whole cluster of difficult problems in bilateral relations associated with the Crimean issue. The division of the Black Sea fleet and the status of its major base - Sevastopol - was another source.

Beyond its relations with Russia, another factor which undermines Ukraine's role in BSEC has been its political choice to be regarded as a Central European rather than a Black Sea country. To strengthen this position, Ukraine has not regarded the Black Sea as isolated from neighbouring areas but as an integral part of Europe (Bukkvoll, 2001, p. 87). The latter was manifested by Ukraine's initiatives to organize joint ministerial meetings between BSEC and CEI specifically on transport and to promote the idea of a Baltic - Black Sea space. All major initiatives of Ukraine within BSEC related almost exclusively to linking BSEC with other subregional fora even beyond Europe such as the Mercosur.

Being aware of its restricted status in the Black Sea subsystem and the limitations of its foreign policy, Ukraine's main concern in its policy vis-à-vis BSEC has been to keep the organization away from the Russian influence, to stress its

[18] For the relations of Ukraine with Russia see Albright & Appatov, 1999.

European orientation and create a multi-polar system of international affairs in the subregion.

3. Transformation of the security dilemma

The fourth variable in the analytical framework suggests that security considerations determine the mode of cooperation that appears at the subregional level. If states no longer perceive each other's security means as a threat to their own security, then the dilemma becomes less intense and favourable conditions for institutionalized cooperation are established. Security dilemmas that states confront historically express two concerns. First, is the concern that "many of the means by which a state tries to increase its security decrease the security of the others" (Jervis, 1978). A second security dilemma facing decision makers is the division of national resources as between economic welfare and military security (Sperling & Kirchner, 1997, p. 6).

The two security dilemmas have become less intense and have been transformed in post-Cold War Europe, but they are still dominant in several aspects around the Black Sea, constraining state choices and influencing subregional dynamics. Thus measures taken by the states of the subregion to enhance national security defined in its military or security dimension are not always viewed as a positive contribution to security but as a threat.

On the other hand as table 5.2 indicates defence expenditure of BSEC member states remains relatively high in comparison to the NATO average with Greece and Turkey having the highest defence expenditure as a percentage of GDP among all their NATO allies. Despite economic hardships, countries such as Albania, Armenia and Bulgaria by 1999 have increased their defence budget. On the other hand, the

reduction in military expenses in several transition countries including Russia has to be attributed to budgetary problems rather than a reallocation to welfare expenses (Kuzio, 1998, pp. 134-136).

Table 5.2 Defence expenditure and size of armed forces of the BSEC countries

State	Number of Armed forces (000)		Defence expenditure as % of GDP	
	1994	1999	1994	1999
Albania	73.0	54.0	2.7	3.6
Armenia	32.7	53.4	3.1	8.6
Azerbaijan	56.0	69.9	8.7	4.4
Bulgaria	101.9	80.8	2.5	3.3
Georgia	10.2	26.3	2.4	2.4
Greece	159.3	165.6	5.7	5.0
Moldova	11.1	10.7	3.8	0.5
Romania	230.5	207.0	2.9	1.8
Russia	1714.0	1004.1	9.6	5.1
Turkey	503.8	639.0	3.2	5.5
Ukraine	517.0	311.4	2.1	2.9

Source: NATO, 2001, p. 34.

We have to clarify two issues before we proceed with the examination of the security dilemma among BSEC members. First, there is no meaningful concept of a *single* BSEC-wide security complex (including all eleven member-states) whereby conflicts in one part of the subregion could generate tensions and spill over to other parts nor of a common security umbrella. In fact BSEC includes countries which belong to two main security subgroups: one delineated by the Balkan space and the one covering the former Soviet Union space (Caucasus and the WNIS). Security perceptions and priorities are thus significantly diversified among BSEC states. Second, in their majority, BSEC members are fragile states which have either gained their independence recently and/or are undergoing a fundamental political-economic transformation. This means that issues of state survival and sovereignty have been central on their political agenda. Internal reconstruction and regime stability has often become more important than foreign policy issues (Papayoanou, 1997, pp. 220-221). State-building in the cases of Azerbaijan, Georgia, Moldova, Ukraine and Russia was directly related to internal security concerns and national identity building. Georgia and less Moldova are outstanding examples of 'failing'

states whose survival has been a constant in their security perceptions as they do not fulfil at least one of the basic definitional elements of a state: control over their territory.

3.1 From polarization to pluralism

The Black Sea was for decades a political landscape representing the constellation brought about by the Cold War dynamics and the East - West confrontation. It was divided in an almost 'north - south' geographic axis, where the north was part of the Soviet bloc and the south belonged to the NATO allies. This created a space identified by clear cut hierarchies and statist or 'bloc' configurations. There was hardly any room for pluralistic thinking and cooperation. Following the collapse of the Soviet Union, the geopolitics in the Black Sea has changed 'from hegemony to pluralism' (Sezer, 1997, pp. 1-29). However, the system of international relations in this area is still in the making. At the same time, a number of historical legacies re-emerged, some driving Black Sea subregionalism, others restraining it.

The Black Sea subregion is distinctly marked by an expanded number of international actors. From a geopolitical point of view, the number and variety of actors that emerged around the Black Sea has been unique compared to other areas in the world. Seven NIS (Moldova, Georgia, Ukraine, Armenia, Azerbaijan, Ukraine and Russia), along with an almost equal number of non-internationally recognized state entities have emerged in the 1990s making any meaningful sense of classic '*inter-state*' affairs blurred. The presence of more remote states (United States) and international organizations has been also strengthened, the latter either through their expansion to include Black Sea states (e.g. NATO, EU, Council of Europe, etc.) and/or through their mediation in conflict resolution (e.g. UN, OSCE). The security

picture becomes more complicated with the formation of subregional arrangements with implicit or explicit security roles and aspirations (e.g. CIS, BSEC, GUUAM). Nevertheless, neither locally initiated cooperative structures, nor international organizations have had a decisive direct involvement in the security domain in the area. Non-state actors, on the other hand, have remained a distant voice in shaping subregional dynamics with the exception of secessionist movements, seceded authorities and organized crime.

As we will see in the next section, a three polar constellation of power (Russia, Ukraine and Turkey) has been shaping security dynamics and dilemma around the Black Sea but this is not dominant throughout the whole BSEC subregion. The security complex of the western part of the Black Sea (which includes the Balkan states) is more clearly placed in the Euro-Atlantic security orbit.

Beyond the actors, pluralism is also witnessed in the definition of security itself (Krahmann, 2001, p. 6). New transnational threats are added to traditional military ones altering or broadening the nature of security dilemma in the area. This is not to say that traditional security concerns regarding the preservation of state boundaries have lost any of their significance - on the contrary they have been strengthened - but a new dimension of the protection of societies and individuals within states has been added. With the extension of the concept of security to new levels of analysis, threats are also perceived in broader terms to include a multitude of dangers ranging from the inadequacy of political and social structures, to environmental degradation.

3.2 The triangle of rivalry and cooperation

One dimension of the security dilemma involves the foreign policy preferences of Russia, Turkey and Ukraine both independently and towards one another. On the

one hand, national interests and policies commensurate with the status of a 'great power' have become central themes in the Russian foreign policy (Adomeit, 1998, p. 33). On the other hand, Turkey as a rising geopolitical power has been delineating its sphere of influence in the emerging constellation of power while Ukraine's main concern has been the consolidation of its sovereignty through a 'neutral' foreign policy. Each one constitutes a significant factor in the threat perceptions of the others and relations among those three states (in particular Russia and Turkey) have included strong elements of rivalry (e.g. in the past, territorial wars) as well as of common interests (regional stability). Despite their 'regional power' status, for all three states the security dilemma has also been directly related to state integrity and borders preservation. Shifts in the policies of and relations between them have a powerful impact on BSEC dynamics.

As we saw earlier (chapter two) the rapprochement between Turkey and the former Soviet Union that was witnessed in the late 1980s, motivated mainly by new geoeconomic considerations and a change in elite policy, permitted BSEC to take root. However, relations among the three states (Russia, Ukraine and Turkey) in the post-Cold War era have been burdened by historical images in the collective national memories (Fuller E., 1996). Turkey has traditionally perceived Russia as an expansionist state. According to S. Elekdag, despite all controversial issues, "the two countries have a strong political will to expand their mutual area of interest, to minimize points of contention and to be careful and respectful to the sensitivities of each other. In the light of the above it would not be wrong to state that Russia does not constitute an urgent threat for Turkey. Nevertheless, Turkey must include the Russian Federation in her threat assessment rating. The main reason for this protection is the possibility that due to social and political instabilities, the likes of

Jirinovski may come to power and pursue expansionist policies" (Elekdag, 1996, pp. 53-54). Two sets of issues have strained bilateral relations. First, Turkey's desire to be an active player in Central Asia and the Southern Caucasus and second, tensions resulting from secessionist movements in both countries, namely Kurdish separatism in Turkey and Chechen in Russia. Russian perception of Turkey as a threat to Russian interests in Central Asia, and more acutely in the southern Caucasus, generally falls into three categories: Turkey as a challenger in Russia's backyard; as a provocateur of Turkish/Islamic secessionism; and as a military threat in collusion with the West (Sezer, 1997, pp. 14-18).

The Russian - Ukrainian relationship at the historical level is to a degree one of brotherhood more than enmity, with Kiev having been the first capital of the Rus in early medieval times. The political schism in both states is as much about identity as it is about economic system and political structures. In each of the two countries, the relationship with the other state is an integral part of the identity crisis. Whereas the loss of Ukraine contributed more, perhaps, than the loss of any other part of the Soviet Union or Russian empire to Russia's identity crisis, for Ukrainians the most urgent task in establishing an independent state was to define an identity which was separate from Russia. This makes both Russians and Ukrainians highly sensitive to the policies adopted by the other (Light et al., 2000, pp. 11-12). Two main issues influenced Ukrainian - Russian relations in the 1990s. One is Ukraine's position as a buffer state between west and east and the other is specific to Sebastopol, Crimea and the Black Sea fleet.[19] For Ukraine recognition by Moscow of its independence

[19] In May 1997, long negotiations over the issue of the status of Sebastopol and the future of the Black Sea fleet were concluded with signature of a set of agreements. Russia acknowledges Ukrainian sovereignty over Crimea, Sebastopol and the naval port there. Russia retains about four-fifths of the Black Sea fleet buying part of the half earlier allocated to the Ukraine, and taking out a 20 year lease over the main bays and some hinterland. Ukraine will receive a rent for the port facilities used by Russia and retain one bay outside the main port for its own fleet.

within its current borders was its ultimate goal while its integration with the West has been a priority of its foreign policy. However, Ukraine's dependence on Russia for energy and the issue of the Black Sea fleet has left Kiev exposed to Russian pressures (Toritsyn & Miller, 2002). Economic tensions recur over gas supplies. In fact these have now eased, with the Black Sea Fleet settlement substantially financing debt service. However, pipeline politics can work both ways, Russia holding Ukraine under pressure for its vital energy needs, Ukraine having a hold on Russian export earnings with the gas pipeline to the west passing through its territory (Adams et al., 2002, p. 75). The bottom line in Russia's considerations is the fear that Ukraine might be headed for full-fledged incorporation into a Western bloc or into an alliance with other powers in the subregion (Turkey, Romania, Georgia) that might some day turn anti-Russian. Kiev in turn fears that Russia does not really accept Ukrainian sovereignty and independence within its present borders (Goncharenko, 1998, pp. 121-128; Bukkvoll, 2001, p. 95).

For Ukraine a central dilemma emerges. The strengthening of a strategic partnership with Russia and closer relations with NATO has been hard to combine. As in several occasions President Kuchma has noted there is one principally important axiom for Ukraine's international policy: its European future is indivisible from a strategic partnership with Russia. Ukraine and Russia are extremely sensitive to one another and particularly to the relationship of the other to Europe. Both are outsiders in relation to the EU but each would become even more isolated if Europe (either NATO or the EU) seemed to favour one at the perceived expense of the other (Light et al., 2000, p. 12). Ukraine has not formally sought NATO membership, but it

has pressed for a 'special partnership'[20] and its commitment to neutrality has come to be viewed in Russia with scepticism. Kiev entered the North Atlantic Cooperation Council (NACC) in 1992 and has been an early participant in the PfP since 1994.

Turkey and Ukraine have shared the same hope since 1991 that Russian hegemony will not return to the Black Sea (Sezer, 1997, p. 10). How Ukrainian-Russian relations evolve is critical to the course of Ukrainian-Turkish relations. Ukrainian-Turkish relations flourished during the tenure of President Kravchuk, who in the early years of independence, was convinced that Turkey possessed the qualities necessary to play a positive leadership role in the region. He gave full support to the BSEC initiative (Sezer, 1997, p. 11) and numerous projects for economic, commercial and defence cooperation were also proposed in this period (1991-1994). The initial euphoria and momentum in Ukrainian-Turkish relations did not continue at the same degree after late 1994 for one basic reason: Ukraine has turned towards the West to serve its national interests. With new-found reassurance and prestige, Kiev no longer feels the need to seek regional patterns and allies for support against potential Russian dominance.

Strained relations notwithstanding among the three dominant powers in Black Sea politics, none of them considers explicit alliances against the other (in particular against Russia) to be the best solution (Bukkvoll, 2001, p. 95). There has been however a consensus reached to use BSEC's confidence-building capacities, though at a different degree each, with Ukraine being the strongest advocate (numerous proposals in 1993-1994) and with Turkey being the least enthusiastic.

3.3 Security policy diversification

[20] A Charter on a Distinctive Partnership between NATO and Ukraine was signed at the Madrid NATO Summit in July 1997 which gives Ukraine the right to call for consultations

BSEC members represent the most heterogeneous group of states in post-Cold War Europe in terms of their security policy interests and requirements. Their security policies are shaped by national imperatives, regional dynamics and extra-regional influences. Policy-choices are still viewed by many states in the area in zero-sum terms.

The subregion lacks multilateral security policy coordination. Greece and Turkey being both full-fledged NATO members did not share the security concerns of their neighbours regarding their security policy (re)orientation, but did share most of their neighbours' suspicion of any proposals for collective security schemes outside the Euro-Atlantic structures. It became clear soon that a common feature of security policy course was emerging among BSEC members. That has been the 'westernism' or the reorientation of the countries' security preferences to powerful external actors being the United States, NATO and the EU. The majority of the NIS has followed a 'pragmatic westernism' foreign policy orientation (Kuzio, 2000, pp. 81-114) to relax their main concern of how to avoid new dividing lines between 'Europe' and 'the rest'. Expressing a view shared by all member states, the Ukrainian Minister of Foreign Affairs Tarasiuk has argued, while referring to the role of GUUAM, that ensuring that no new dividing lines were created as NATO and the EU expanded eastwards would prevent its members being defined outside Europe and thereby within Russia's sphere of influence *(Financial Times*, 11 September 1999).

Consequently, proposals to link security of the Black Sea states with the Western structures were aired in the early 1990s, particularly from Ukraine. In May 1993 the idea of an east-central European collective security system which would exclude Russia was discussed by the Ukrainian and Polish presidents (Allison, 1998,

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with NATO if it feels threaten (www.nato.int/docu/basictxt/ukrchrt.htm).

p. 24). However, the NATO orientation of Poland and of other Central and East European countries rendered this and similar proposals unrealistic.

Most NIS remain suspicious of collective security schemes that include Russia fearing its domination, particularly within the CIS. The Tashkent agreement on collective security of 15 May 1992 has remained thus on paper.[21] Internal instability in Russia, the weakness of the CIS mechanisms, the opposition of several of the CIS countries, including Ukraine, Azerbaijan and Georgia, inhibit Moscow from activating a CIS collective security authority. This has led to a proliferation of efforts to create smaller cooperation schemes which have however failed to materialize or produce any meaningful outcome. At the sub-state level, the plan for a Confederation of Peoples of the Caucasus (KNK) expressing the interests of the non-Russian peoples of the North Caucasus has not offered a prospect for regional cooperation and the transformation of KNK militias into joint regional military forces (excluding Russia) has remained unrealized. The proposal for a 'Common Caucasian home' which would include defence cooperation among the three Caucasian states also collapsed under the division formed by the Nagorno-Karabakh conflict (Allison, 1998, p. 23).

Beyond intra-regional security dynamics, the uncertainty of the evolving Euro-Atlantic security system through the dual enlargement of NATO and the EU has had a profound impact on Black Sea geopolitics and on the transformation of security dilemmas (Herd & Moustakis, 2000). The criteria for enlargement - the institutionalization of democratic values, a free market enlargement, the resolution of disputes with neighbours, democratic civil-military relations and the ability to

[21] The Tashkent agreement includes nine states: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan. Azerbaijan has described the CIS collective arrangements

contribute to NATO's military effectiveness - have underpinned the PfP programme bringing positive effects in dissolving security dilemmas by building networks of trust at the national and multinational level. The decision of the December 1999 EU Helsinki Summit, to make Turkey a candidate for EU accession has fostered and consolidated the reconciliation between former adversaries such as Greece and Turkey as it has created (in the words of the Greek Minister of Defence) "new parameters and new conditions" for the Greek-Turkish relations (Tsohatzopoulos, 2000). The inclusion in 1999 of Bulgaria and Romania in the next round of enlargement has created positive dynamics too while their accession preparations for NATO have been accompanied with closer cooperation between the two countries and Greece and Turkey. At the same time confidence-building measures at a subregional level proliferated. A Balkan rapid-reaction brigade created in 1999 (operational in 2000) represents the first multinational arrangement in south-eastern Europe to be utilized by the NATO to increase security.

However, the lack of an overall security umbrella around the Black Sea, keeps security dilemma high among BSEC members in particular as far as the foreign policy orientation of their neighbours is concerned. The feeling of a double exclusion for most of the BSEC members (both from the EU and NATO expansion) has important implications for the domestic and foreign policies that the governments of the 'outsiders' states adopt (Herd & Moustakis, 2000, p. 120). The enlargement of the NATO and the EU creates a new diving line around the Black Sea leaving the most fragile states (Moldova, Georgia, Azerbaijan) outside the evolving European structures and susceptible to Russian influence. Of the Black Sea states, Romania

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as 'purely declarative' and placed 'special hopes on NATO to help restore Azerbaijan's territorial integrity' see *Monitor*, 26 April 1996.

and Bulgaria are expected to join NATO by May 2004.[22] Several of the BSEC states (Ukraine, Georgia, Armenia, Azerbaijan) although they participate in NATO programs such as the PfP have no security guarantees. Georgia and Azerbaijan have both stated that they perceive the PfP programme as a stepping stone to full NATO membership. The expansion of the EU and NATO influences the security perceptions of all BSEC members, the way they view their role in Europe and particularly their relations with subregional organizations. Perceptions of exclusion and potential isolation are strong in all states but they are produced by different fears. The prospect of NATO expansion aroused them in Russia whereas in Ukraine they were evoked by disappointment that EU membership proved so difficult to attain. In an effort to reduce security dilemma resulting from the feeling of exclusion, the Black Sea states have joined the Council of Europe and the OSCE not individually but as a group. Thus Armenia and Azerbaijan were both admitted to the Council of Europe on 25 January 2001. Their membership has enlarged their security policy horizons and contributed to familiarization with OSCE and western principles and practices.

The Russian attempt to limit diversification in the security policies of the states in the 'near abroad' has been expressed in its reluctance to accept the legitimacy of even a limited UN or OSCE presence in the area being suspicious about the intentions of these organizations, in which it participates (Allison, 1998, p. 26). OSCE missions have been in Georgia (South Ossetia) since December 1992. An OSCE peacekeeping force has been earmarked for Nagorno-Karabakh on the basis of an OSCE summit decision in December 1994. A small UN observer mission (UNOMIG) was established in Georgia in August 1993.

[22] On 26 March 2003, Bulgaria and Romania signed accession protocols.

Although none of the states in the area has regarded subregional security building measures or alliances as an alternative to NATO or EU security provisions, sub-groupings have emerged among the BSEC members increasing policy diversification. The GUUAM [23] and the Black Sea Naval Force establishments are the most interesting examples of such cooperation involving a group of like-minded states or dealing with specific problems related to the Black Sea itself. Although GUUAM's military and security dimension is downplayed, it has launched joint peacekeeping units to protect oil transportation routes (January 1999) that could also be the first step in the direction of internationalizing peacekeeping in Georgia and Azerbaijan. Ukrainian, Georgian and Azeri units held their first joint military exercise on 13-19 April 1999 in conjunction with the inauguration of the Baku-Supsa oil pipeline and Poti-Odessa railway ferry link. Defence ministers hold special meetings alongside the PfP exercises and the defence ministries of Azerbaijan and Georgia signed a memorandum on military cooperation (March 1999) proposing the establishment of a multinational GUUAM force within the PfP to protect the security of their energy sectors (Kuzio, 2000, p. 87).

At a bilateral level, BSEC states have been steadily developing military links with extra-regional powers as well as with their neighbours. Ukraine has been in the forefront of this process, concluding a Memorandum of Cooperation in the field of defence with the United States in July 1993, followed by similar memoranda with Germany and the United Kingdom.

The conclusion of bilateral agreements has often indicated an 'axis' approach. Azerbaijan and Georgia have initiated military cooperation with Turkey on training

[23] GUAM, expanded to GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova), was launched on 10 October 1997 with a joint presidential communiqué issued as part of the framework of the development of the TRACECA transportation corridor.

and military assistance while Ukrainian-Turkish military discussions offer Ukraine "a potential strategic axis to the south if tensions with Russia in the Black Sea were to increase" (Allison, 1998, p. 22). In contrast Armenia has concluded military cooperation agreements with Greece and Bulgaria, states which "share Yerevan's distrust of Turkey, although it is unlikely to reduce Armenia's military dependence on Russia" (Allison, 1998, p. 22). In August 1997, a bilateral treaty of friendship, cooperation and mutual assistance was signed between Russia and Armenia.

3.4 Traditional and new elements of security dilemma

Still today the security map of the Black Sea consists of a puzzle of 'frozen' and 'ongoing' conflicts involving ethnic animosities, border demarcation and secessionism (table 5.3) which raise security dilemmas. What is important to stress is that security concerns of the BSEC members come from within the subregion or in other words from their BSEC partners. It would be difficult to identify today a common external security threat.

Ethnic animosities in the Black Sea subregion stem from an extraordinary ethnic diversity of an area populated by more than 20 different larger ethnic groups and nationalities. Besides, these nationalities are dispersed in the territories of several countries, where the national minority often plays a substantial role. For instance, ethnic Russians constitute 22 per cent of Ukraine's population, 13 per cent of that of Moldova and 8 per cent of the Georgian population. Many ethnic Ukrainians reside in territories adjacent to their country. Thus 300,000 of them live in the adjacent Rostov region, and another 600,000 live in Moldova. The Crimea is known for its ethnic entanglements, as its population of 2.5 million is composed of 1.7 million ethnic Russians, 600,000 Ukrainians and 280,000 Tartars (*The Moscow Times*, 15

January 1994). What is important here is that the conscious playing-off of one ethnic group against the other has been often applied as a strategy of 'divide and rule' (Hunter, 1997, p. 5). The problem of refugees and forced migrants is clearly outstanding in this context. Droves of refugees amounting to 600,000 have fled the Northern Caucasus to settle in the Krasnodar and Stavropol territories. As many as 250,000 to 300,000 refugees from Abkhazia have come to settle in Georgia. Crowds of refugees estimated at 900,000 (as of 1993) by the UN High Commissioner on Refugees fled Nagorno-Karabakh for Azerbaijan (*Peace Courier*, September 1994) while huge migration flows were also triggered by the war in Chechnya.

Ethnic aggravation linked with issues of national identity and territorial claims has assumed an acute dimension in the subregion. This is further complicated by several NIS failing to demarcate their borders. In the Caucasus, administrative and national borders frequently lie in sharp contrast to the ideas of the local populace about the entitlement of certain ethnic groups to specific territories (Ingushetia - North Ossetia). This situation is particularly fraught for Russia, as some segments of its southern borders have not been legally formalized. In Armenia, international demarcation treaties of the early 1920s were perceived as unfairly discriminating in the late 1980s. The striving of smaller ethnic communities for the attributes of a nation comes into conflict with the previously established, but now obsolete, borders (like in the case of Georgia). This obsolescence by and large occurred due to civil war, forced and spontaneous migrations and the incapability of the NIS to defend their external borders. Particularly the eastern part of the Black Sea subregion, as well as Moldova, is marked by a fierce bloody tussle over territories combined with struggle for independence (King, 2001). This has meant that security dilemmas have not been transformed but have been based on traditional military concerns.

Territorial integrity and sovereignty are still a prerequisite while some of the BSEC member states are still technically at war (i.e. Armenia, Azerbaijan). As we said already the initiation of BSEC took place at a time when most of the participating states were either in conflict or in dispute with each other (Table 5.3). While negotiating the BSEC founding documents in 1991 and 1992, Armenia, Azerbaijan, Georgia, Moldova and Russia (half of the BSEC members) were engaged in violent conflicts involving another BSEC state. Nagorno-Karabakh brought Armenia and Azerbaijan at war, the issue of Transdnistria brought Moldova in confrontation with Russia and Ukraine, while Georgia was thrown into a civil war and the country was in the midst of internal conflicts and unrest in Abkhazia, South Ossetia and Adjaria. Traditional rivalry between Russia and Turkey as well as long-standing disputes between Greece and Turkey cultivated a climate of mistrust and increased insecurity feelings. The two NATO allies, Greece and Turkey, came close to war in 1996 over territorial disputes.

Table 5.3 List of Major Conflicts around the Black Sea

Violent Conflicts			
Case	Initiation	Resolution/Status	International Mediation
Azerbaijan/ Nagorno - Karabakh/ Armenia	02/1988-	Ceasefire	Russia/OSCE
Russia/Chechnya	12/1994 - 08/1996 10/1999 -	Ceasefire and treaty Conflict	OSCE/HCNM OSCE
North Ossetia/Ingushetia	01/1991	Control Regime	Russia
Moldova/Transdnistria	09/1991 -	Ceasefire	Russia/Ukraine/OSCE/HCNM
Georgia/Abkhazia	04/1989	Ceasefire	Russia/CIS/UN/OSCE/HCNM
Georgia/South Ossetia/	01/1991	Settlement	Russia/OSCE
Non-violent conflicts			
Ukraine/Crimea	1990	Constitutional Autonomy	OSCE
Russia/Tatarstan	03/1990	Treaty Autonomy	None
Moldova/Gagauzia	09/1991	Constitutional Autonomy	HCNM
Georgia/Adjaria	01/1991	Constitutional Autonomy	None

Source: Hughes & Sasse, 2002.

As we can see in table 5.3 which summarizes the major conflicts around the Black Sea, security dilemmas evolve at large around the Russian factor. First, Russia

has been involved in all conflicts and disputes and second, state and regime stability or even survival in the NIS has been depending on Russian support (militarily, politically or economically). Russia's role in the conflicts in the Caucasus has generated the reaction of Azerbaijan and Georgia which have strengthened cooperation with the US and Turkey to counterbalance the Russian factor. Azerbaijan has attacked the supply of Russian arms to Armenia and since 1999 it has implied that in retaliation it could offer basing rights to NATO or Turkey on its soil (Allison, 2000, p. 161). Moscow has taken several concrete and positive steps since 1991, which has helped to make the security dilemma in the Black Sea region much less intense than before e.g. the initiation of the CIS collective security agreement and involvement in conflict resolution. However, the conditions for regional cooperation could have been better. Although there longer exists an immediate Russian threat, there is still much negative Russian behaviour that continues to cause uncertainty and insecurity for the other countries in the area.

The destabilizing factors cited above are rarely manifested individually. More frequently, a confrontational incident evolving into a conflict will be brought about by a whole set of intertwined causes. This situation may be common for all major conflict entanglements in the BSEC subregion. The conflict in the Caucasus is probably the most intractable, as bloody clashes break out here and now in various parts of its territory. The situation in North Ossetia, Ingushetia, Abkhazia and Nagorno-Karabakh has not been settled so far, even though Russian peace-making and intermediary efforts undertaken jointly with the UN and OSCE produced some results. The situation in Chechnya appears to be particularly dangerous as regards its potential consequences at this point in time. Moreover the issue of arms control (particularly proliferation of small arms) and criminality are key factors contributing

towards overflowing regional security agenda. The inevitable turmoil and disorder in a conflict become a fertile breeding ground for organized crime and drug-dealer rings. Taken in conjunction these factors induce the growth of organized crime, especially in the eastern part of the region but also in other parts e.g. Moldova, Albania. At the same time, the growth in the number of crimes, expansion of criminal activity and the increasing share of violent crimes are typical for most countries of the Black Sea region.

The factors that complicate the situation in the Black Sea subregion and create tension both in terms of politics and economics include the shipment of the Caspian oil extracted from the shelf and land fields through this area. The choice of a route for the oil main pipeline affects the interests of all BSEC members, several other countries and major oil multinationals (Forsythe, 1996). The energy factor has weighed both negatively and positively in the security picture in the area. On the one hand, it has increased competition among the BSEC members over the pipelines while on the other hand, it has been a main factor for the rapprochement between Turkey and Russia following the agreement on the Blue Stream gas project (as we saw earlier in Chapter 2) and the determination of the states to secure a stable environment around the Black Sea. Cooperative initiatives have emerged regarding e.g. the security of pipelines as we saw in the case of GUUAM but all efforts have remained outside the BSEC framework. The organization has steadily and consciously kept oil and gas issues outside its agenda although it has established a WG on energy and it has dealt with other less contentious aspects of energy such as electricity. [24]

[24] The only exception being the Recommendation 68/03 on 'Cooperation in the field of energy' forwarded to the BSEC Council by the PABSEC in October 2003.

Aggravating environmental problems (Aleksandrov, 1997; Mee, 2002) should also be added to the security dilemmas. The Black Sea with its coasts providing home for about 160 million people is becoming one of the most polluted in the world. Intensified oil shipments, construction of oil terminals and oil and fuel spills from vessels result in the greater contamination of water, an adverse impact on the fishing industry and tourism. The same fate befell the Azov Sea, which was turned into a dumping site for the industry of the neighbouring areas. Ho wever, the security sector where inter-state cooperation has been weakest within BSEC is the one sector that most unites states within the area and gives the subregion its definitional distinctiveness - environmental security in the Black Sea area. Environmental problems led to positive action but this was not undertaken by BSEC.

4. BSEC under security dilemma

As we indicated here security dilemma in the BSEC subregion far from being transformed in the 1990s has remained intensified while the definition of security itself has broadened. How has this influenced the evolution of the organization's strucutres and policies?

Given the 'hard' security concerns in the early 1990s, BSEC's only survival policy was the 'de-securitization' of its character by building cooperation around seemingly unrelated areas (transport, trade, agriculture, etc.) which would have the cumulative effect of helping its members stabilize the regional environment. This is reflected in its institutionalization, which envisaged working bodies dealing with functional issues and foresaw regular meetings of the heads of governments and meetings of the Council of the Ministers of Foreign Affairs but not meetings of defence ministers or military staff.

Although BSEC was established with the aim "to ensure the Black Sea becomes a sea of *peace, stability* [emphasis added] and prosperity, striving to promote friendly and good neighbouring relations" its 1992 founding Declaration did not include specific security measures as to how this main goal should be reached. Promotion of economic cooperation was attributed most attention as the vehicle of prosperity and long term stability. The Bosphorus Statement (25 June 1992) restated the commitment of the heads of state and government "to act in a spirit of friendship and good neighbourliness and enhance mutual respect and benefit, cooperation and dialogue in the relations between them". It dealt with the issue of dispute settlement emphasizing "the need for the peaceful settlement of all disputes by the means and in accordance with the principles set out in the CSCE documents". The signatories committed themselves to resist aggression, violence, terrorism and lawlessness in order to restore peace and justice while relying, as a basis of their common understanding, on the general principles of the UN Charter and the CSCE documents.

The reference to the CSCE principles and the UN Charter should be placed in a historical context. In 1991 only Greece, Turkey, Bulgaria and Romania were participating in the CSCE (OSCE) and only two of them Greece and Turkey) were also members of the Council of Europe. Adherence to the CSCE principles was a priority in formulating the conceptual basis of the foreign policy of the new states around the Black Sea and in establishing a regime for interstate affairs in the subregion. Furthermore, explicit adherence to those principles was a precondition for the recognition of their statehood as it was outlined by the Bush Administration: respect for human rights and the democratic process, due regard for borders, and

adherence to the Helsinki Final Act and Charter of Paris of the CSCE. Similar guidelines were issued by the EC.

As it has been argued (Pavliuk, 1999, pp. 141-143; Valinakis, 1999, pp. 32-34) the diversity of BSEC members, and political tensions between them, mean that the organization is most unlikely to agree to a coordinated approach to peacekeeping or crisis management or to coordinate security policies towards its neighbours. The difficulties regarding BSEC's potential role in the peaceful settlement of disputes in the subregion are underscored by the European Commission's acknowledgement that the ability of BSEC to bring together representatives of all Black Sea states is itself a notable achievement (EC, 1997a, p. 4). In fact, neither the states of the region nor the international community have requested BSEC to undertake an active role in arms control issues or direct involvement in conflict management crises. It would be hard for such an heterogeneous group of neighbouring states which lacks formal competence for conflict management, shared military resources, and large economic sticks or carrots to undertake such a role (EC, 1997a, p. 4).

The first specific reference to security concerns (though of a non-traditional nature) appeared in the Bucharest Summit Declaration (30 June 1995) stating that the members "will take coordinated actions by the conclusion of the bilateral agreements, aimed at the struggle with organized crime, drugs sales, illegal transportation of the weapon and radioactive materials, acts of terrorism and illegal crossing of borders".[25] In subsequent declarations, BSEC members steadily expressed their political will to enlarge their partnership from being strictly economic to undertaking measures in the 'soft' security field and even more explicit security

[25] 'Bucharest Statement' in BSEC PERMIS, 1995, p.17.

issues (e.g. terrorism).[26] However, in line with the original perception of BSEC as an 'economic organization' no reference was made to security issues in the Charter establishing the BSEC organization which was signed three years later. Only some general reference is made in the preamble which refers to "the common vision of their regional cooperation ... based on ... prosperity through economic liberty, social justice, and equal security and stability..." (para 9). This reaffirmed the dominant perception among its members (in particularly Turkey and Greece) to maintain the economic character of BSEC and at least at a statutory level to avoid any security functions. Expectations for addressing 'hard' security issues were still directed to larger organizations such as the OSCE and particularly the NATO. Nevertheless, since BSEC's early stages of development the NIS (and Russia) have been more inclined to include confidence-building measures on the agenda.[27] The fact that the first ever agreement concluded in BSEC has been on combating organized crime in (signed by all members) while the second agreement has been on cooperation in emergencies (not signed by Turkey) testifies to the above.

Combating organized crime and terrorism has been the main concern of the last three meetings of BSEC interior ministers (Borisenko et al., 1998, pp. 139-142). The first meeting, held in Yerevan (October 1996) produced a joint statement that marked the launching of interaction between law-enforcement agencies in combating organized crime, terrorism, trafficking of drugs, illicit trade and illegal migration. At the second meeting held in Istanbul (October 1997) the ministers agreed to establish a joint front and common institutions of cooperation in the sphere of combating crime,[28] followed by a subsequent agreement in October 1998.[29] In the aftermath of 11

[26] 'Moscow Declaration' in BSEC PERMIS, 1996, p. xii.
[27] Ideas presented here on BSEC's security dimension are also reflected in Manoli, 2002; 2003.
[28] 'Joint Statement' adopted at the Meeting of the Ministers of Internal Affairs of the BSEC Participating States (Yerevan, 17 October 1996) and 'Joint Declaration' adopted at the Second Meeting

September 2001, and in response to the urgent need for implementation of the BSEC 'Agreement on Cooperation in Combating Crime in Particular in its Organized Forms' the organization concluded an Additional Protocol to this agreement envisaging the establishment of a Central Network of Liaison Officers on Combating Crime to provide for a speed regional response in urgent cases and to inform the members on the trends of transnational crime in the region. The agreement covers acts of terrorism, corruption, smuggling, trafficking in people and in weapons, economic crime, ecological crime, high-tech crime, trade in human organs and kidnapping, maritime crime and illegal trafficking in vehicles. The implementation of the agreement with the establishment of a Liaison Centre on Combating Crime met the reservations of several countries though. The strongest opposition was from Bulgaria which stated that "the Bulgarian side cannot afford to ignore the recommendations of the Justice and Home Affairs Directorate of the European Union, which strictly requires for such initiatives to be coordinated with EU member states". The Bulgarian opposition however reflected another problem associated to the duplication of efforts and its burden: "bearing in mind the experience we gained in the difficult process of setting up the SECI Centre on Trans-border Crime in Bucharest and our commitments regarding this Centre... the establishing of new centres and structures would be beyond the abilities of [the] country in terms of financial and human resources".[30]

The readiness of the BSEC member states to undertake measures on confidence-building should not be considered within the framework of the

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of the Ministers of Internal Affairs (Istanbul, 22 October 1997) in BSEC PERMIS, 1998a, pp. 139-142 and 148-149.

29 'Agreement Among the Governments of the Black Sea Economic Cooperation Participating States on Cooperation in Combating Crime, in Particular in its Organized Forms' (Corfu, 2 October 1998).

[30] Note of the Ministry of Foreign Affairs of the Republic of Bulgaria, No. 04-19-9 dated 7 May 2001, Annex V to the 'Report of the 4th Meeting of the WG on Combating Organized Crime', Istanbul, 10-11 December 2001, p. 2.

expectations addressed to BSEC by the international community and in particular the EU rather than merely the priorities of BSEC's member states. In 1996, the Assembly of the Western European Union (WEU) issued a call for security to be incorporated into the existing subregional cooperation structures, including BSEC. The proposal projected that in the long term, structures for political and security dialogue would need to be set up in order to ensure systematic headway in developing the stability essential for consolidating economic progress (Assembly of the WEU, 1996, p. 9). The EU also supported engagement in 'soft' security issues. The European Commission, in its 1997 report to the Council, suggested that cooperative efforts could constructively focus on the promotion of political dialogue, the strengthening of human rights, democracy, and the rule of law, as well as on the reduction of drug trafficking, smuggling, and illegal immigration throughout the region (EC, 1997a, pp. 8-9) .

Any inclusion of hard security issues on the agenda has found strong resistance by both Greece and Turkey. This position was expressed by Greece which while holding the term Chairmanship of BSEC in 1999, refused to represent BSEC at a meeting of the Working Table on security issues of the Stability Pact on the grounds that:

> The BSEC participation in the said Working Table cannot find justification in the character of the organization which is primarily of an economic nature and therefore a BSEC participation cannot take place. The fact that issues of BSEC concern, like Justice and Home Affairs are included in the Draft Agenda of the Meeting cannot counterbalance the inclusion of items dealing with issues completely out of BSEC's reach like Defence and Security.[31]

[31] Verbal Note of the Ministry of Foreign Affairs of the Hellenic Republic, no. AS.445, 13 October 1999.

Turkey has also held a strong position on the matter, its view departing from the CSCE (OSCE) process. It has reiterated the functional logic of security and stability via economic cooperation. In this respect it has expressed the conviction that the BSEC Economic Agenda already provides a sufficient framework for the contribution of BSEC to strengthening security. The Turkish position however contains some additional elements. It refers to the "importance of social and cultural dialogue which surely will contribute to building-confidence amongst the peoples of the BSEC member states". Consequently it underlines that the "comprehensive approach to security adopted by BSEC requires utilization of opportunities that will be presented for close cooperation in the fields of culture, science and sports".[32] Thus, for this reason the idea of a Black Sea naval task force which includes six of the BSEC members, has been promoted as a separate national initiative by Turkey (and it is not linked either to BSEC - not even to the PfP program). Outside the BSEC framework, the Agreement of Black Sea Naval Force signed on 2 April 2001, made an important step towards the institutionalization of naval cooperation among all littoral states on the Black Sea. It is intended to be an on-call force composed of naval units of the participating states (Bulgaria, Georgia, Romania, Russia, Turkey, Ukraine).[33] The purpose of BlackSeaFor is to foster cooperation in search and rescue operations, mine clearing operations, environmental cooperation and organizing goodwill visits among the Black Sea navies.

Although 'hard' security concerns have not been relaxed and the security dilemma remains intense BSEC reiterated its willingness to move cautiously to new security aspects. Ten years since its inception and despite the reluctance of Greece

[32] Note of the Ministry of Foreign Affairs of the Republic of Turkey, no. 2002/CEGY/397836, 17 October 2002.

and Turkey, the Decennial BSEC Summit Declaration (Istanbul, 25 June 2002) requested that the organization considers "...new means of cooperation within the mandate of the BSEC" (para. 9). Following the mandate of the Decennial Summit Declaration, the Council (Tirana, 25 October 2002) considered the issue of enhancing BSEC's contribution in strengthening security. As a compromise between those advocating expansion of BSEC to encompass security issues and those being more reserved at that stage it was finally agreed that the ICBSS, which is a Related Body to the organization, (but not the organization itself) would organize ad hoc meetings (Study Groups) with participants from the BSEC member states, but not official governmental representatives, to produce a working paper on the implementation of the mandate of the Decennial Declaration.

5. Conclusion

In this Chapter we tried to explore two issues: the dynamics of the security dilemma in the BSEC subregion and the presence of a benevolent leading country. Empirical evidence can assist us to understand the formation of BSEC and its mode of governance under the dynamics of the above-mentioned factors. As became evident in this section, the intensity of security dilemma among BSEC members, the sources of which have to be traced within the subregion rather than beyond it, undermined significantly the chances of the emergence of a benevolent leading member state.

The insistence on a state-to-state bargaining and intergovernmentalism comes both as the outcome of the absence of leadership and as a choice of the member states whose perception of subregionalism is not that of a tool of intra-regional integration

33 'Agreement on the Establishment of the BlackSea Naval Cooperation Task Group', (www.blackseafor.org). On the Black Sea Naval Cooperation see Allison, 2000, pp. 162-163; Maslov,

but of a means of loose policy coordination. As we indicated in this section the organization lacks a clear leadership. Despite the fact that Turkey seems to have displayed most interest in the BSEC process, its role falls behind that required for a benevolent regional leader. The possible leading states simply lack the resources to support an ambitious multilateral scheme in the subregion (e.g. Russia, Ukraine) or do not have the political will to undertake such a role (e.g. Greece). The fear of being dominated by larger neighbours, such as Russia or Turkey, has been a strong undermining factor which relates to the intensity of security dilemma. BSEC members have instead chosen to place their concerns within broader fora where the weight of larger states (particularly of Russia), can be balanced by the presence of other powers or within smaller groups in which larger neighbouring states do not participate.

The findings with respect to security dilemma appear at large to be in accordance with the expectations of the analytical framework. Thus, one reason why BSEC cooperation continues to be of an intergovernmental nature is because the security dilemma has not yet been fully transformed in the Black Sea region. This supports the argument that the greater or more serious the regional security concerns are for a group of states, the more unlikely they are to engage in deep cooperation with each other (Allison, 2000, p. 172). The diversity of the countries involved does not qualify for a clear common strategic vision shared by all states as far as inter-regional political, security issues are concerned. The salient feature since the early 1990s has been that each of the states in the subregion is eager to be involved in the integration process taking place in the European continent.

2002, pp. 53-55.

New threats called for new types of subregional structures around the Black Sea. The way that the Black Sea subregionalism developed has to be seen as a response to the new broadened concept of 'security governance' and the expansion of the concept of security into non-military issues. However, institutionalization of BSEC and its mode of governance do not actually reflect only the preferences of the member states as to how manage their intra-regional affairs better, but their concern on how to use BSEC as a functional tool vis-à-vis the expectations and priorities of the EU in the region. The latter is manifested in the engagement of the organization with confidence-building measures to meet respective expectations of the international community (e.g. of the EU, OSCE, WEU). BSEC's role has been likewise undermined by the low degree of member-states' commitment to cooperation within the institution. Its weak political voice results from the fact that all of the member states prefer other foreign and security fora to BSEC for meeting their security objectives (Pantev, 2001, p. 120). A number of BSEC members therefore place greater priority on pursuing their foreign policy objectives in the region by other means (EC, 1997a, p. 4). At least one of the major players, Russia, displays a lack of interest in using multilateral institutions in the area and has not revealed any enthusiasm for building a Black Sea community. However, states from the region have formed other smaller groups such as GUUAM - consisting of Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova - in an effort to counterbalance Russian influence and in response to their particular security concerns.

Despite the intensity of the security dilemma among its members, BSEC's evolution has manifested a new stage of affairs in the area - from conflict to cooperation. The process of institutionalized cooperation has been slow given the security policy diversification, historical legacies, ongoing conflicts as well as the

diversity of the views of the BSEC members in defining 'security' as a field of competence of the organization. However, the broadening of the definition of the concept of security and the inclusion of economic considerations allowed for more cooperative attitudes to prevail when traditional military concerns were still strong. Nevertheless, the persistence of traditional security concerns and the absence of a leading country have maintained BSEC's strictly intergovernmental character and its role as a means of governance rather than an integration machinery. The acute security dilemma would allow nothing more than a superficial integration and a resistance to building supranational regimes in any of the fields of expected competence of BSEC (e.g. environment, trade).

CHAPTER 6. THE IMPACT OF THE EUROPEAN UNION ON BSEC: INTERRELATIONS WITH THE EXTERNAL ANCHOR

1. Introduction

While examining the intra-BSEC dynamics in earlier chapters, it becomes evident that one factor external to the subregion, the European Union, has been influencing both the preferences of the BSEC member states and the organization's evolution itself. This chapter examines the extent of the EU's influence on the formation of BSEC.

Comparative studies on other subregional groups in the world have shown that there is asymmetrical influence between subregionalism and what is often called 'hemispheric' regionalism, with the latter being the dominant process (Inotai, 1997; Phillips, 2002; Telo, 2001). In Europe, the EU constitutes the dominant force of hemispheric regionalism on the basis of its strategy of 'non-dividing' lines in the continent and its (external) integration effects on the overall political economy of Europe.

In the search for the impact of the EU on the BSEC process it is important to acknowledge that firstly, direct interaction between the EU and the BSEC organization itself has been limited and secondly, the diversified bilateral links of BSEC member states with the EU and their perceptions of (sub)regional cooperation have determined the direction of EU - BSEC interaction.

The subsequent sections consider first, the overall links of the EU and BSEC and second, the EU as a factor shaping the evolution of Black Sea subregionalism. The conclusions summarize how the EU has influenced the reconfiguration of BSEC.

2. BSEC: stepping stone or alternative to EU membership?

BSEC has been variably described as an alternative to the EU, a preparatory ground for EU membership, or a limited subregional initiative open only to its members (Genckaya, 1993; Sen, n.d.; Ozer, 1997; Dragasakis, 1995). As a consequence, interest in BSEC has fluctuated depending on prevailing perceptions on European integration. At times, BSEC members have given considerable importance to BSEC, strengthening its institutional status along the lines of the EU model and allocating resources. However interest has at times waned and initiatives such as sector-focused working groups have diminished in relevance.

Contemporary regional cooperation and integration processes in Europe focus on a vision of 'enlargement' (EC, 1997b, para. 20). As part of a broader process of hemispheric integration the central project is to construct a Europe-wide space stretching from the Urals to the Atlantic. Subregional groups have thus been considered either as a 'training ground' for future membership in the EU or as 'stepping stones' to inclusion into the European structures and norms. Like the EU enlargement, subregional groups envisage increased cooperation among countries of often disparate levels of development and their integration with the EU market. This process is premised on forces of market reform and democratization that have been sweeping Central and Eastern Europe in more than a decade. Nevertheless, subregional cooperation as a 'stepping stone' is not a new phenomenon in Europe given the previous examples of the Iberian or Benelux cooperation or more recent ones such as the Visegrad group. Experience however, has shown that the sequence runs not from subregional to regional (or global) cooperation, but in the opposite direction (Inotai, 1997) as subregional cooperation (particularly of less developed countries) cannot be a substitute for integration into a community of more developed

nations. Widespread international experience of successfully modernizing countries indicates that efficient policies have always proceeded from the global (and regional) to the subregional level. Subregional groups in Europe such as BSEC, the CEFTA and the CBSS have implemented more or less parallel processes, but with clear priority given to integration into the EU structures.

Subregionalism as a stepping stone

The idea of subregional cooperation as a stepping stone, or even a condition for integration into the EU was embraced by the BSEC members and arose out of a number of different arguments, concepts and misconceptions. These have already been presented in detail in chapter two and five. Epitomizing the main arguments of subregionalism as a stepping stone we can group them as follows.

Subregional cooperation was expected to serve as a training ground or learning process for EU membership in various areas: economic development, institution-building, political cooperation, development of mentality and behaviour patterns, the ability to build a consensus and collective approaches to solving common concerns.

Geopolitical and security considerations were emphasized. Subregional cooperation was seen as a support for regional security after the collapse of the Soviet system. A subregional security anchor would shield the EU from unfavourable developments and political and social disorder. Furthermore, contentious issues such as ethnic and national minorities, border disputes, and historical antagonisms need to be resolved or regulated among neighbours before applications to the EU were to be considered.

The EU had an economic interest in intensified subregional cooperation, to provide easier market access for its goods, companies and capital during the transformation process.

The building of a new BSEC subregion could be a testing ground for reintroducing the kind of elements of regional cooperation applied in Western Europe after World War II: a regional trade zone, common institutions, coordination of regional policy approaches, etc.

Finally, some observers saw EU emphasis on subregionalism as an indication of lack of a clear, genuine strategy, with which to respond to the urgent needs of the Black Sea countries in the crucial years of transition, and therefore, as a conscious device for delaying Eastern enlargement.

BSEC as a substitute to EU membership?

The debate over the character of BSEC as a 'stepping stone' or an alternative to EU membership was eminent during the formative years of the subregional initiative but has lost much of its significance today. However the discussion over the nature of BSEC and the fear of its member states that BSEC might be perceived or used as a substitute to EU gave grounds for a reluctant stand of the member states to create supranational structures that would be beyond a traditional intergovernmental mode of cooperation or simply delayed/stopped joint projects that could be conceived as running parallel to similar EU projects (e.g. in the field of energy). The question of whether BSEC could be an alternative model to EU was linked primarily to the motivations of Turkey and the priorities of its leadership at that time (1990-1992).

That is why we make a detailed reference here to the real intentions of Turkey as regards the potential of BSEC to be an alternative model to the EU.

Following the European Commission's opinion to the Council on 18 September 1989, stating that it was unlikely to be able to discuss Turkish membership before 1993, Turkey started exploring other areas of cooperation and alliance patterns. According to some experts Turkey's primary consideration in proposing the creation of the BSEC was to explore alternatives to an eventual exclusion from the European Union: "the essence of the endeavours and cooperation agreements of Turkey is the fear of exclusion from the Western blocs and in particular the EU" (Ilkin, 1993, p. 69).

It has been argued that full EU membership was not a final objective for Ozal leadership who viewed the EU as a means to improve Turkey's industrialization and economic development rather than a political objective (Ataman, 2002, p. 143). He acknowledged that if Turkey solves its domestic cleavages (such as political Islam and the Kurdish problem), EU membership is irrelevant, or not while he claimed that "still by keeping the priority of the European context, we have to attach great importance to the United States, Black Sea Economic Cooperation and East Asia" (Ozal, 1991, p. 35).

However, most analysts view BSEC as a scheme that has been conceived and elaborated as an integral part of Europe's new architecture and that would make Turkey a more promising economic partner for Europe, regardless of EU status (Fuller, 1993, p. 104). Turkish officials have steadily stressed the ability of the project to improve Turkey's longer-term prospects for EU membership. According to President Suleyman Demirel regional efforts are not regarded as an alternative to Turkey's relations with the Euro-Atlantic alliances, instead, "they are considered complementary to and supportive of them" (Demirel, 1994, p. 45), while for the

Speaker of the Turkish Grand National Assembly H. Cindoruk, "BSEC must definitely not be regarded as an alternative to the international organizations in which Turkey is a member or aspires to join. On the contrary, this process must be considered as a tool of economic integration to further strengthen Turkey's economic and political status and to support, complement and accelerate its integration into the European Union" (Cindoruk, 1994). Even if it is not likely that Turkey will accede to the EU in the near future, schemes of regional cooperation offer Turkey the possibility of being an important regional actor. Ankara hoped that BSEC and what is seen as Turkey's role within it as *primus inter pares* would enhance Turkey's prospects for full admission to the EU. By focusing on its historical and cultural ties with other states and peoples in the area, Turkey aimed to tap the full potential for trade and other economic links with all countries in these regions. In the words of Turkey's Prime Minister, Tancu Ciller BSEC is a "complementary bid for peace and stability at this end of Europe. Its role and institutions have been consciously designed to link the member states to the wider European market" (Ciller, 1996, p. 6).

The inclusion of Greece strengthened the argument that BSEC could not function as an alternative but as a complementary process to the EU. However, the EU's positive stand towards other subregional groups in Europe on the one hand, and its total absence from the BSEC organs on the other hand, sent mixed signals to the Black Sea states regarding the way that the EU assessed BSEC. The founding documents clarified that BSEC was part of the new European architecture, not contravening obligations with other organizations in particular the EU (BSEC, 1992, para.7). All Summit Declarations without exception stressed the European orientation of BSEC. Nevertheless, the fears of several member states that BSEC could be seen as a 'non European structure' or as a counter organization to the EU,

were not allayed. This concern has been clearly reflected in all official documents, decisions and agreements reached within BSEC which one way or the other repeatedly refer to the complementarities of the BSEC and European integration processes.

3. Regional treatment versus differentiation

Subregionalism and the EU

In broad terms the EU has supported subregionalism within its own borders and beyond them. EU involvement in subregional projects in Europe has been based on the assumption that regionalism is a potential mechanism to ensure stability along the borders of the EU as well as a means of assisting neighbouring states overcome historical and/or ongoing conflict (EC, 1997b). It is therefore, a member in the Barents Region Council and in the Baltic Sea Council and it has supported the Visegrad group (Poland, Czech Republic, Slovakia and Hungary). Regional cooperation in terms of 'good neighbourly relations' has become a precondition for aid from the EU. On the other hand, its participation in regional fora gives a chance for the EU to connect nearby areas with its internal activities without permitting full membership with all burdens for the Union (Lahteenmarki & Kakonen, 1999, p. 211).

However, the EU has often been criticized for showing little interest in subregional or cross-regional forms of regionality (Berg & Meurs, 2002, pp. 68-69). Critics point, among others, to the formal division in several regional categories instilled itself in the institutions of the Union: the directorate-general for enlargement is not responsible for Southeastern Europe while its external relations counterpart has no mandate for the accession states. There is a mismatch between the

European Union's division of labour and cross-cutting regional organizations such as the CBSS or BSEC. In addition, the bilateral conditionality of EU perspectives and negotiations often put regional cooperation on hold. The EU's hesitant attitude towards practical engagement with subregional groupings can be explained as follows (Herolf, 2000, pp. 87-90):

First, the number of subregional initiatives that have developed in the course of the last decade has made the EU reluctant to become closely involved in each one. While the EU has declared its support for this development, there is considerable scepticism as to the sincerity and commitment of many subregional actors to engage in concrete cooperative projects. Demonstrated 'clear political will' on the part of participants to regional cooperation, notably through their 'active involvement' in projects, is in the view of the Commission, a prerequisite for any EU assistance (EC, 1997a, para. 4). Furthermore, a 'progressivity' principle, i.e. financial assistance shall reward reform, was incorporated as a main element of the 'new neighbourhood' approach of the EU to its relations with its eastern and southern neighbours (EC, 2003, p. 16).

Second, the enlargement process has been another factor. Enlargement has overwhelmed the Union's external policy processes towards its immediate region. The way in which enlargement has been structured as a largely bilateral and highly statist endeavour, it has not been an incentive to deepening cross-border cooperation. The complex hierarchy of relations among applicant countries added to this. The difference statuses of EU relations - accession, pre-accession, partnership and cooperation - are accompanied with distinct frameworks of assistance. This complex system tends to encourage interstate cooperation to be determined more by the EU

relationship status than by geographical proximity and contributed to competition between states.

The third factor impeding interconnection between the EU and subregional groupings lies in the nature of the two processes. There is an inherent tension between the supranational European project and the loose, multilevel process of subregional cooperation. EU integration is a process of comprehensive, structural cooperation in which a significant degree of state sovereignty is voluntarily transferred to a supranational authority. Member states are limited in the range and nature of cooperative commitments that they can make with non-EU states in any field in which an *acquis* exists. The consequences of this for subregional cooperation among states with different EU relations are significant.

In general, it has been argued (Inotai, 1997) that, on the one hand, subregional groups have minimal economic impact for the EU business while on the other had, they have little political relevance for the EU governments, given that they are perceived to be simply complementary processes and facilitators of the Europe-wide integration process. In addition, the political fragility and shallow integration seem to justify the pessimistic view that they are ill equipped to meet the political, economic and institutional challenges. The result is then a vision of the obsolescence of weak and fragment subregional groups such as BSEC (Aral, 2002). However, it is generally detrimental for a country to opt out of an established subregional cooperation group, whether on the grounds of real or alleged (fictitious) 'advantages'. Opting out will not improve the position of a country to the extent that it increases regional instability, so delaying the membership of all countries involved in the sub-regional cooperation scheme.

3.1 Preference for bilateralism

Once BSEC was defined as part of the European integration process, relations with the EU and other European organizations became a central issue on BSEC agenda. There has been no annual report of BSEC activities or program of BSEC Chairmanship-in-Office where interaction with the EU is not mentioned as a priority. For BSEC, establishing institutionalized relations with the EU has been as important a goal as deepening integration among its member states. Nevertheless, the EU's official position remains that cooperation with BSEC cannot develop in an institutionalized way but it should be on a 'case by case' basis or involve more systematic interaction (Lake, 2000; Koukiadis, 2003).

Seen from a power disparity perspective, relations between the EU and BSEC can best be described as a case of 'regime maker and regime taker'.[1] The outcome of negotiating issues either between the two institutions or between the EU and individual BSEC states (EU membership, the content of trade agreements, or the level of aid) reflects great power differentials. BSEC represents more than a small portion of the EU's total GDP while the economic relations of its members (in trade and FDI) are EU-dominated as indicated earlier in chapter four. Consequently, their strong dependence on the EU means they have to consider developments on an EU level when shaping their domestic and foreign policies.

International organizations including the EU do not possess a distinctive approach or policy towards the Black Sea as a subregion and BSEC as an organization but their policies have developed at a bilateral level. As EU officials have repeatedly stressed "the primary basis of the EU relations with the Black Sea area is and will remain the bilateral agreements with the countries of the region"

(Jeffreson, 1999). This has not been the case with other (sub)regional groupings where EU has a uniform approach or a specific dimension. Examples vary from the two Iberian states - Spain and Portugal - which were treated as a group and were both offered EU membership in 1985 to the Northern Dimension that was launched - upon the initiative of Finland - in 1997 and the Stability Pact for South East Europe launched in 1999.

Table 6. 1 Agreements between the EU and BSEC countries

	Membership	Europe Agreement (negotiating candidate)	Association Agreement (non -negotiating candidate)	Stabilization & Association Agreement	Partnership & Cooperation Agreement*
Albania				(negotiation)	
Armenia					1996
Azerbaijan					1996
Bulgaria		1993			
Georgia					1996
Greece	1981*				
Moldova					1994
Romania		1993			
Russia					
Turkey			1963		
Ukraine					1994

Note: dates of signature * accession
Source: Based on information from www.europa.eu.int

Existing bilateral links with countries in the subregion (table 6.1) represent a different status for each country and include them in different programs and policies while implying therefore a diversity of legal and financial instruments. Notwithstanding the above, what comes across as an undisputable is the intensification of interaction between the EU and the Black Sea countries throughout the 1990s. Thus with the establishment of BSEC in 1992, among the eleven founding members, Greece was an EU member and Turkey had submitted its application for membership but had no association agreement while the remaining states had no institutionalized relationship with the EU. Today relations have advanced but in a variety of ways as table 6.1 illustrates.

Bulgaria and Romania are in the process of negotiating their accession to the EU with membership expected in 2007 or soon thereafter. They receive economic and

1 The term has been used in Keohane et al., 1993, p. 191.

technical assistance from the EU through the PHARE, SAPARD (Special Accession Program for Agriculture Development) and ISPA (Instrument for Structural Policies for Pre-Accession) programmes aimed at preparing them for EU membership. Turkey has a customs union and was recognised in 1999 as a candidate for EU accession, expecting to begin negotiations for EU accession by the end of 2004. The other BSEC members have signed Partnership and Cooperation Agreements with the EU while Albania is negotiating a Stabilization and Association Agreement and is a beneficiary of the CARDS program of financial and technical assistance. The non-Balkan states are also beneficiaries of EU financial assistance though at a lower level, through support programs such as the TACIS.[2] Given the geopolitical significance as well as the relative weight resulting from the size and the economic potential of Russia and Ukraine, the EU concluded separate Common Strategies for those countries in 1999 (European Council, 1999a; European Council, 1999b). Although regional cooperation in general has been encouraged by the EU, there has been no direct reference to BSEC in most of the agreements or other cooperation programs between the Black Sea states and the EU. The brief reference to BSEC in the EU Common Strategy on Russia[3] is the exemption which confirms the reluctance of involving BSEC in the EU strategies towards the region.

The amount allocated by the EU to the different categories of countries in its neighbourhood vary from 1200Euro/capita for the enlargement countries, to 200Euro/capita for the western Balkan countries (e.g. Albania) and 13Euro/capita for the former Soviet Union republics (Adams et al., 2002, pp. 19-20). This allocation

2 The Republic of Moldova has been reluctantly accepted as a participating member in the Stability Pact for Southeastern Europe as a beneficiary, only after pursuing participation tenaciously, but it is unique among participants in not being eligible to sign Stabilisation and Association Agreements, as are the other participants once they meet specific standards of democratization.

aims at reducing economic disparities between the EU and its new members as well as assisting the transition process but it does not address the gap among the candidate countries and the former Soviet Union republics. Nevertheless, the EU remains the main source of financial assistance to the BSEC states which reached 2589 million ECU - excluding the assistance allocated to Greece - in the period 1991 - 1996 (EC, 1997a, p. 9). Diversification on the types of assistance has meant that candidate countries benefit investment support while the former Soviet Republics receive mainly technical assistance. The EU accession countries also receive funding from the European Investment Bank which has so far been unable to operate in the NIS. Analytically table 6.2 shows the allocation of resources by the EU to the BSEC states.

Table 6.2 EU Assistance to selected BSEC countries 1991-2000 (millions of Euro)

Country	Total	Type of Assistance
Albania	1037.7	Phare, CARDS, FEOGA (Agriculture), Humanitarian Aid, Food security, macro-financial assistance, democracy and human rights, EIB loans
Armenia	286.13	Tacis National Allocations, Nuclear Safety Tacis, ECHO, food aid, Humanitarian assistance, financial assistance
Azerbaijan	326.90	Tacis, Exceptional Assistance, ECHO, FEOGA, Food Security, Rehabilitation, Exceptional Humanitarian Aid
Georgia	295.13	Humanitarian Aid, ECHO, FEOGA, food security program, TACIS, rehabilitation in conflict zones, aid against effects of Russian crisis
Moldova	262.94	Tacis, Macro-economic Assistance, Humanitarian Assistance, Food Security, EBRD credits
Romania	1450	Phare, ISPA, SAPARD
Russia	2281	Tacis, Nuclear Safety, donor coordination, etc.
Turkey (1964 - 1999)	2573	Financial protocols, special aid, Euro-Mediterranean programmes, earthquake relief, macro-financial aid, special aid 'customs union'
Ukraine	1072	Tacis , humanitarian assistance, macro-financial assistance

Source: http://www.europa.eu.int/comm/external_relations, 24 July 2003.

The availability of EU financial resources has proved an important factor in subregional cooperation. Financial resources made available for subregional projects have a general, indirect positive impact on the countries' economic cooperation potential, by contributing to growth, structural change, competitiveness and

[3] It refers to the intention of the European Union to cooperate with Russia in regional and cross border cooperation and infrastructure "by working more effectively with Russia in the various form of regional cooperation (CBSS, BSEC, Barents Euro-Arctic Council) ...", part I, 4d.

attractiveness to FDI. Perhaps more importantly in the longer term, financial transfers may stem the growing regional differentiation, and so consolidate the regional stability that is a major factor of successful subregional economic cooperation. BSEC has not however benefited from a financial strategy on behalf of the EU or any other organization.

3.2 A Platform for Cooperation

Although fostering relations with the EU is an often cited claim by BSEC [4] neither BSEC nor its Related Bodies have articulated a strategy to achieve that goal. The closest effort to such a strategy is the 'Platform for Cooperation between the BSEC and the EU' adopted by the BSEC MMFA in Tbilisi on 30 April 1999.

In fact it was the European Commission that 1997 set out the conceptual basis and the framework of its interaction with BSEC and other subregional groups in Europe with its 1997 and 1996 Communications forwarded to the Council (EC, 1997a; 1997b; 1996). In its Communication to the Council titled 'Regional Co-operation in the Black Sea area: state of play, perspectives for EU action encouraging its further development', the EC set out the priority objectives for cooperation around the Black Sea (EC, 1997a, pp. 8-9):

- First, political stability and strengthening of human rights, democracy and the rule of law;
- Second, development of the region's transport, energy and telecommunications networks including connection with the European networks;
- Third, creation of favourable conditions to attract EU and other foreign investment, including in the sector of SMEs;

[4] Among others see the 'Summit Declaration on ten years of BSEC: Anniversary' (Istanbul, 25 June 2002).

- Fourth, sustainable development, environmental protection and nuclear safety;
- Fifth, reduction of drug trafficking, smuggling and illegal immigration.

Those objectives have been in line with the original priorities declared in the BSEC founding documents, although the emphasis differs. What is of interest however, is the total lack of any reference to trade policies and trade-related measures. BSEC is not seen as bearing great potential in undertaking trade-related initiatives. Placing political stability as the main objective of subregional cooperation, the EU recognized that BSEC could play more a political and security role rather than an economic one. The above-mentioned priorities would be supported 'exclusively' by the existing instruments of the EU towards the region (Phare, TACIS, Interreg, etc.) excluding thus any additional or separate financing. The EU strategy towards BSEC was exhausted in the idea of developing 'Black Sea synergies' within the existing assistance programs meaning that the project proposals made by the Black Sea countries would be also evaluated in 'Black Sea' terms (EC, 1997a, p. 11). Although the EC recognized the need for 'some form of relationship with BSEC', by requesting observer status in BSEC activities, it stressed that such a relationship would only be 'complementary to strengthening bilateral relations' with each of the BSEC member states (EC, 1997a, pp. 12-13). However, the Communication did propose that the Commission could become an observer in BSEC.

Beyond the above-mentioned priorities, the EU did not formulate a distinct BSEC strategy. Rather, the EU has developed its own instruments, structures and programs in addressing the issues that it considers of primary importance in the subregion such as energy, environment and transport, bypassing BSEC even though "BSEC is seeking to do all the things that EU policy is typically looking for in regional cooperative structures in the area of its borderlands" (Adams et al., 2002, p.

2). Officials from the EU have mostly held ad hoc consultations with their BSEC colleagues and attend several meetings but with no direct involvement whatsoever in BSEC activities. In fact, BSEC has unilaterally granted the Commission and the European Parliament observer status.

One factor contributing to the EU's position is that in EU circles, BSEC countries feature as more of a source of problems such as migration, crime and conflicts and much less as an area of new markets and other economic opportunities that would anyway be served through BSEC. Other factors relate to the complexity of the bilateral agreements that EU has concluded with each of the BSEC members and the great differentiation of BSEC membership that does not allow for a single approach towards the subregion. At the same, as the example of the 'Northern Dimension' shows (developed by the EU under the Finish Presidency) there has been no EU country to politically lobby for an EU Black Sea strategy. Neither Greece as a member state of both organizations nor any other EU states which are observers to BSEC - such as Germany, Italy and France - have prepared the political ground for a Black Sea strategy. In fact Greece, the most obvious advocate for such a strategy, has been trapped between its own policy of downgrading the 'political' character of BSEC on the one hand and the calls of all BSEC states for an enhanced political dialogue between the EU and BSEC, on the other hand. Furthermore, we should not underestimate the fact that BSEC's indigenous character - being conceived not in Brussels or by any EU member - has weighed negatively as Brussels was neither convinced of the goals of the organization nor of the political commitment of its members.[5]

[5] Estimations of the author based on discussions with EU officials during BSEC meetings.

The absence of a constructed proposal by BSEC itself regarding its relations with the EU has added to the scepticism and reluctance of the EU to engage systematically with the Black Sea subregion. Officials of the European Commission commenting on the 'Platform for Cooperation between the BSEC and the EU' proposed by BSEC in 1999, have argued that it cannot be considered as an equivalent to the 'Northern Dimension' as it lacks a vision. The document itself is too brief and does not suggest ways of moving EU-BSEC relations forward. In 2002 it was therefore, explicitly requested by the European Parliament that BSEC formulates a set of proposals and concrete ideas on the modalities of EU-BSEC interaction (Koukiadis, 2003).

The 'Platform for Cooperation between the EU and the BSEC' adopted by the BSEC MMFA on 30 April 1999 in Tbilisi aimed to open up a political dialogue with the EU. It was prepared along the lines of the 'Yalta Summit Declaration' (5 June 1998) which emphasized the importance of the Conclusions of the EU Luxembourg Council of Ministers (December 1997) as a step forward in creating a "comprehensive strategy" of the EU towards BSEC embracing the fields of transport, energy, telecommunication, trade and environment (para. 8). It should be also considered as the response of BSEC to the Communication of the Commission (1997a) on the EU's perception of Black Sea cooperation. The Platform outlines the objectives of BSEC-EU cooperation in the most general way: i) integration into Europe, ii) shaping an EU-BSEC economic area, and iii) development of infrastructure networks, cooperation in commerce, investments, sustainable development, nuclear safety and fight against organized crime. BSEC expected that detailed modalities for cooperation would develop through close negotiations with the EU. Therefore, its proposals on how to promote political dialogue with the EU were limited and tried to reflect the ideas

presented earlier by the EC itself in its 1997 Communication. The main proposals for the substance of the political dialogue of the EU-BSEC were (para. 11-18):

i) requesting the European Commission to obtain observer status in BSEC;
ii) annual joint 'troika' meetings and direct contacts of the BSEC Chairman-in-office and the EU Presidency;
iii) direct contacts at the level of bureaucracy;
iv) creation of a 'focal point' on BSEC activities in the European Commission;
v) introducing 'Black Sea synergies' for the EU assistance instruments;
vi) establishment of a BSEC Fund entrusted to the EBRD or the BSTDB;
vii) provision of technical and logistical support to the BSTDB;
viii) EU assistance for the accession of all BSEC states to the WTO.

A response from the Commission on the document of the Platform was never forwarded to BSEC indicating the reluctance of the EU to open up a direct political dialogue with the organization. In September 1999, in his letter to the Greek Minister of Foreign Affairs - who was holding the term BSEC Chairmanship -, the President of the European Commission reaffirmed that the "...Commission will continue its cooperation with BSEC through the exchange of information and possibly through projects of mutual interest. However, he expressed his reservation regarding the mode of a future relationship with BSEC, following consultations with the [European] Council". Indeed, at the BSEC Council of MFA held in Thessaloniki (Greece) on 27 October 1999 "the Finnish Presidency of the EU, having the promotion of the Northern Dimension as a priority, downgraded its presence (it was represented by the Minister of Justice and a Director from the Ministry of Foreign Affairs of Finland) while the European Commission participated not with observer status but as a special guest, being represented by a bureaucrat".[6]

[6] Information Paper, ΑΠ6409/10726/ΑΣ606, Ministry of Foreign Affairs of the Hellenic Republic, General Directorate for European Union Affairs, Athens, 16 July 2002.

4. A case of 'regime maker - regime taker'

Irrespectively of the EU commitments towards the Black Sea states and the BSEC organization itself, the EU plays a prominent role in the economic and political scene of the subregion. This is primarily due to the fact that the EU as the dominant regional actor sets the agenda for most of the issues in the area. The EU-BSEC interaction shows a heavy bias towards the EU which exerts practical influence on subregional cooperation in almost all meaningful areas. First, it exerts direct influence on the policy choices of the states of the subregion which are also the principal actors in Black Sea subregionalism and, second, it shapes the character and agenda of the organization itself.

To distinguish the impact of the EU on subregionalism, in terms of whether it is positive or negative, would be a difficult endeavour as EU's impact can change in time while it may also vary according to what sectors are examined. The correlation between the process of the European Union integration and (sub)regionalism rather than being examined in a 'strengthening - weakening' approach (Inotai, 1997) is better understood through a multifaceted process "involving a substantial reconfiguration of the subregionalism due to the complex interaction of hemispheric processes and the internal dynamics of the subregional projects" (Phillips, 2002, p. 5).

4.1 A 'soft' power

Subregionalism is embedded in the process of economic liberalization and neoliberal restructuring as well as the new European security architecture that took part across Europe over the course of the 1990s. The establishment of BSEC was premised on the notion of 'open regionalism' and articulated as all its documents and activities. Apart

from facilitating trade liberalization, 'open regionalism' was expected to assist the member states in attracting foreign direct investment. Beyond this however, subregionalism in the Black Sea has little to do with domestic political economy concerns as it did not imply relocation of decision-making authority thus serving as a option to maintain national social/economic arrangements and policies.

The process of European integration spreading beyond the strictly speaking EU integration, as manifested by the formation of the so-called 'Common European Economic Space', should be understood as an attempt to further entrench the neoliberal rules reflecting "the triumph of economic liberalism, of faith in export-led growth and of belief in the centrality of the private sector to development processes" (Payne, 1996, p. 106). Therefore, hemispheric regionalism represents "a specific strategy on the part of its protagonists - governments or business interests - to lock in a political economy ideologically and strategically hospitable to the rules of the neoliberal game" (Phillips, 2002, p. 6). Of these protagonists at the European level the most important driving force is the EU, which systematically works for the dissemination of the values of neoliberalism and democracy.

The EU is seen as the indisputable anchor for Europe's development and modernization (Inotai, 1997). This has two important impacts on subregionalism. First, the BSEC subregion which has a lower level of development considers the EU as the core for its members' as well as of its institutions' growth and development, the provider of longer-term stability and predictability in their catching-up process, the purveyor of free access to large markets, and the supplier of resource transfers to finance modernization projects. Second, as a result of intensified globalization and regionalization, both the members and the near geographical neighbours of the EU

class it as the core of Europe's 'new regionalism', and the main economic actor in the international economy.

The correlation between BSEC and the EU should not be encapsulated solely in a focus of the immediate interests of the EU in the economic sphere or on its ability to define the negotiating agenda. EU strategies cannot be simply understood in economic terms. What is striking in this case is the relative insignificance of the Black Sea region for key EU economic interests. The only exception to that would be the energy sector but even in this case the EU interests involve more the Caspian and Central Asian states (producers) rather than the Black Sea states (transport routes). On the other hand, energy politics have been consciously left outside the subregional agenda. Both the EC Communication (1997a) and the TAD Report (2001) on the territorial impact on the EU of the developments around the Black Sea point to political issues (involving stability and immigration) and not to economic interests.

The benefits of encouraging subregionalism seem to be less economic. It is the structural and ideological foundations of EU hegemony that are diffused and reinforced through the subregional project. Beyond the expansion of neoliberal discipline, the EU interests in the region are defined far more robustly by the security agenda and concerns about democracy and stability. The key issues in the security agenda - illegal trafficking in people and drugs, environment, terrorism, energy, etc. - are thus seen to call for an approach which increases the leverage of the EU in the region and the vehicle through which this objective is pursued is through a Europe wide integration process.

Given the diversified membership of BSEC, particularly in terms of its members' contractual links with the EU and all other international organizations, it is misleading to talk about *the* impact of the EU on the BSEC subregion. Nevertheless,

despite its asymmetric presence in the subregion (strong in the western part, distant in the eastern part), particularly in domains of critical importance (e.g. conflict resolution) for a number of 'failing' states, the EU has been perceived as the 'modernizing anchor' by all states in the subregion.

The pro - EU drive and its impact

The pro-EU drive has first influenced the conceptualization of BSEC itself as a 'European' structure and a 'stepping stone' or 'training ground' for integration in European political economy as it is reflected in the statutory documents of the organization. Second, the pro-EU drive has affected the level of political cooperation that each state seeks within subregionalism, as relocation of decision-making authority is directed directly to the EU rather than the subregional level.

From a political point of view however, the starting point must be the prevailing reality that not all of BSEC members will join the EU no matter their intention of becoming an integral part of the European political economy. They are therefore, affected differently by the EU processes and by such major EU issues such as the future of sovereignty, the EMU, restructuring structural funds, enlargement, the evolving balance of power and so on. Thus, this should be expected to influence governance and the level of commitments at the subregional level. On the other hand, differentiation regarding their contractual relationships with the EU has undermined their ability to use subregionalism as the basis for bloc bargaining and also as an arena for undertaking the necessary adjustment processes. In neither of these two areas can it be claimed with much conviction that subregionalism is effectively or concretely being 'strengthened' in the Black Sea.

More subregional cooperation becomes a prevailing feature in all parts of Europe as border conflicts and ethnic minority issues have to be settled in order for countries to be admitted in the EU or develop advanced political and economic partnerships with it. This has become a powerful argument for more subregional cooperation on the political level in recent years especially in the case of Black Sea and Southeast European countries. The EU's positive role is sometimes expressed not as one of moderating conflicts, but of preventing countries or parts of countries from initiating them. Furthermore, the EU sometimes creates a better balance of power, particularly between neighbouring countries with different potentials (e.g. Moldova, Russia). The EU orientation has fostered and consolidated reconciliation between former adversaries such as Greece and Turkey or has motivated Black Sea states to successfully address internal issues of democratization and minority policies like in the exemplary case of Romania which solved peacefully its minority and neighbourhood issues. The example in this respect is the one of Greece, Bulgaria, Romania and Turkey which have intensified cooperation in the prospect of EU accession for the latter three. Their cooperation has been translated into regular meetings, the provision of technical assistance as well as political support on behalf of Greece as an EU member state.

The EU supports a learning process of cooperation on a subregional level. Countries aspiring to EU membership have to show a sufficient degree of political cooperation as a test of maturity. Talks with Brussels in which various countries in the same subregion participate allow the parties to get to know each other better, rid themselves of prejudice and uncertainties about their neighbours, and find new areas of cooperation. The idea of taking up a joint position towards Brussels has been

strengthened by the meetings among the BSEC leaders.[7] Thus BSEC countries have cooperated to attract the interest of the EU institutions while pressing for 'Black Sea' synergies in the EU's policies. Joint delegations from Romania, Greece and Georgia or from Azerbaijan, Bulgaria and Ukraine have met with EU officials to lobby for the elaboration of an EU Black Sea strategy.[8]

In any case, contractual bilateral links between each BSEC state and the EU contain a number of common elements in the spheres of legislation, economy, political system and institution building that have to be considered for each of the countries. Thus, the EU indirectly fosters subregional cooperation, even though each country prepares alone.

Furthermore, the prospect of EU membership has encouraged the removal of barriers that hinder subregional cooperation. The creation of free trade agreements with the EU is expected to enhance the chances of smaller countries to gain economies of scale in production, due to the larger market, and some of this output could be marketed in the subregion. Contractual relations in general and the Association Agreements in particular, have a salutary impact on the creation of an adequate framework for subregional trade relations. As a result of EU obligations, several BSEC economies managed to bring forward a free-trade agreement. Therefore, Albania signed an FTA agreement with Romania in February 2003 while it is currently preparing an FTA with Turkey as a result of negotiating a Stabilization and Association Agreement with the EU. Economic ties between Bulgaria and Romania on the one hand, and Greece on the other, have accelerated as a result of the accession process of the first two into EU. Trade and investment links have

[7] Several bilateral and trilateral meetings have been held to this end, e.g. 'President Sezer renews his support to Ukraine's Euroatlantic integration', *Turkish Daily News*, 20 June 2003.

flourished among the three countries, legal frameworks and physical infrastructure are becoming more compatible and harmonized and restrictions regarding the movement of goods and people are diminishing in anticipation of the entry of Bulgaria and Romania into the single market of the EU.

From an economic point of view, however, paradoxically, while the rapid expansion of trade with the EU may ensure survival and even development for several economic activities in the BSEC countries, the EU's rapidly growing market share may contribute to a decline in subregional trade for several reasons: i) more powerful, better financed EU exporters could crowd out traditional suppliers from the subregion, ii) the entrance of western firms in important sectors of the national production and consumption markets could destroy much of the domestic production and export capacities tailored to the subregional market, iii) new trade links with the EU, favoured by the Association Agreements may divert some potential subregional trade, while eliminating structural linkages, and iv) most financially weak enterprises in the countries in transition are unable to compete with western firms, and lose market share at home and in the subregional markets.

The ambiguous impact of the EU on subregional cooperation may become pronounced in the coming years in the general economic-policy adjustment of the BSEC countries. Hasty adjustment to EU rules (*acquis communautaire*) and unhealthy competition among countries in the same subregion to fulfil the adjustment criteria, without taking account of the economic realities in individual countries, may give

[8] Such meetings were held between delegations of the PABSEC with the leadership of the European Parliament in March 2002 and May 2003.

way to short-sighted national efforts, with a detrimental impact on subregional cooperation.[9]

4.2 Setting the policy agenda

The formation of subregionalism as has been evolving within the last decade should not be seen merely through the lenses of the choices of subregional actors (in BSEC case, those actors have been primarily the governments) but through the influence of the 'soft' hegemonic power driving a hemispheric integration process; namely the EU. First, transnational actors (as private economic interests) that could have set their own agenda in BSEC have been absent. Second, none of the leading states was willing or powerful enough to drive the BSEC process beyond the EU imperatives. In the midst of weak integrative subregional forces, the external anchor became a decisive formative force. We indicated in earlier chapters how EU obligations or EU related considerations of the BSEC member states have underlay their position in subregional bargaining. The BSEC group has hence been clearly divided between two subgroups: the 'close' to the EU states (Greece, Turkey, Bulgaria, Romania and Albania) and the rest.

Although BSEC started with a clear economic orientation (see founding declarations and type of meetings in chapter three) being pushed by the need to address the extreme economic problems that the majority of its members were facing, it slowly changed its scope of activities. This is better reflected if one compares the founding Declarations of BSEC in 1992 and the priority fields of action identified in the BSEC Economic Agenda for the Future of 2001 (table 3.2), the

9 Obviously, the EU's impact on the domestic economy and society of BSEC states also needs to be assessed, but it remains beyond the scope of this research.

document that sets the future orientation of the organization. The latter reflects to a great degree the major issues in the EU enlargement process as illustrated in the agreements between the EU and BSEC states (i.e. Association, Partnership and Cooperation Agreements). At the same time, both the contents of the BSEC Economic Agenda and the type of activities that the organization developed particularly since 1997 manifest a process to stress the element of 'security' in the concept of 'comprehensive security-building'. Since the Commission's approach to BSEC (EC, 1997a) was not an economic one but it stressed the 'security-building' value of subregionalism, BSEC not accidentally, started developing a 'soft' security oriented agenda.

The BSEC Economic Agenda introduced for the first time social, cultural, security and political issues which were not initially BSEC priority fields. On the contrary, at its early stages, the organization had focused exclusively on entrenching regionally agreed rules and orientation on economic, functional issues such as environment, infrastructure, trade and investments. Security issues gained significance in BSEC following the explicit interest of the EU first expressed in the EC Communication (1997a) although not all BSEC countries shared the same interest to advance cooperation in the political sphere.

The impact of the EU on delineating BSEC's competence on issues of economic cooperation and particularly on trade has been important. Chapter four reflects on the relevance of the EU for subregional trade flows. The BSEC subregion is highly dependent on the EU market for imports and for the - limited - exports of its members but particularly as a source of foreign direct investment. Subregional trade has not benefited from the opportunities created by a larger market in BSEC and it has been diverted from the subregion towards mainly the European markets. This

has generated limited demands towards BSEC for a change in the trade regime of the subregion. On the contrary, subregional trade regime is being shaped by the adjustment to the *acquis communautaire* and the conclusion of free trade agreements between individual states and the EU.

Plans for the creation of a zone of free trade, which had spurred the conception of BSEC back in 1990, became redundant as they lacked any support from the EU. This is despite the fact that during the preparatory discussions on a BSEC FTA it became clear that its structure would be harmonized closely with the WTO requirements. The main aim was to create identical trading environments for the EU and the subregion and the expansion of the WTO principles rather than simply expand trade within the subregion or create a trade bloc (see chapter four). The EU's position on the creation of a FTA was clearly negative: "BSEC member states have expressed an interest in establishing a Black Sea Free Trade Area and are investigating the possibility. However, this does not appear to be a realistic objective, taking into account that Greece is a member of the EU, Turkey is engaged in a customs union with the EC, Bulgaria and Romania have association agreements with an eventual orientation towards accession to the EU, and a number of other BSEC states have yet to complete the WTO accession process" (EC, 1997a, pp. 3-4).

To sum up, BSEC has shown a defensive, follower-type pattern of trade and trade-related issues. Until now, trade liberalization was adjusted to the liberalization of trade implemented earlier with the EU, or taken as a sign of 'good behaviour' or 'EU maturity' in the associated countries. Subregional trade liberalization h ence, proceeds alongside trade liberalization with the EU.

Economic-policy coordination is weak among the BSEC states, for a number of reasons: i) as less developed countries, they necessarily look upon the EU as their

modernization anchor, and concentrate their policy harmonization on requirements formulated in Brussels, ii) their main economic partners (in trade and capital investment) are inside the EU, iii) adjustment to the *acquis communautaire* pre-empts the limited resources in these regions, and iv) the majority of the countries in the group are still engaged on key problems of transition, and have reached different stages of development.

Being in fact left without a clear economic goal, BSEC turned to new areas of cooperation (see points II, III on the BSEC Economic Agenda, table 3.2) such as institutional renewal and governance, combating organized crime, emergency situations and security.

4.3 Setting the institutional framework

The direct influence of the EU to BSEC is also manifested in the institutionalization of the organization itself and its mode of governance. As we illustrated in chapter three which dealt with the institutional design of BSEC, its structures reflect a certain transfer of the EU model.

Since its inception, BSEC has tried to transplant to the subregion a type of multilevel governance, imposed however 'from above', which included a Business Council to represent the interests of the private sector, a Parliamentary Assembly and a Development Bank to function as the financing mechanism of subregional projects. The institutional design besides the Council of Ministers of Foreign Affairs and the Summit Meetings includes a type of 'COREPER' with permanent representatives of the member states to the organization, namely the Permanent Representatives, and a 'troika' system. Those structures not envisaged before 1998 and the signature of the

Charter, were developed as a sign of the institutional maturity of the initiative. It would be however incorrect to argue that they indicated a shift in the preferences of the member states to engage more within BSEC and to deepen cooperation or change the organization's mode of governance. Therefore, and despite some discussions on the role of the Permanent Secretariat no consensus was reached on the enhancement of its role from a strictly administrative to a more political and policy generating one. Although it is recognized that "the role of BSEC PERMIS needs to be redefined, in order to be in line with the new phase of BSEC development" its role is still projected as "a center for communication, exchange of information and coordination of joint activities in all spheres of multilateral cooperation" (BSEC, 2001, p. 26). There has been no intention of the member states to allow for the development of anything other than a strictly intergovernmental mode of governance and decision-making. This is advocated both by the states more institutionally advanced with the EU which do not wish to jeopardize their EU future where they have redirected their expectations and the NIS which are against setting any supranational mode of governance that would involve Russia. We can therefore say that one factor that explains the advanced institutionalization of BSEC, which was strengthened despite the limited success of the organization itself, has been the influence of the EU as a paradigm of organization and regional governance.

The debate over the enlargement of BSEC is also indicative of the influence that the EU has on the character of BSEC. In the decision to accept two more Balkan states, namely the FYROM and Serbia-Montenegro, rather than expand in Central Asia, their 'European' identity weighted heavily. By accepting them as full members, BSEC did not expect any economic benefits. Rather its main intention has been to increase its political importance for the EU.

4.4 Ambivalent influences

Some authors argue that subregional cooperation involving transition economies, is not only impeded by the heterogeneity of the national transition processes but also by the bilateral relations with the EU as "conditionality creates asymmetries and tensions for which regionality cannot compensate" (Berg & Meurs, 2002, p. 68). Subregional cooperation is furthermore hindered by the somewhat ambiguous attitude that the EU itself takes to it. On the one hand, the EU stresses its importance in all cases (EC, 1997b) while on the other hand, if unwillingly, it keeps creating divisions among countries in the same region. The Partnership and Cooperation Agreements as well as the individual Strategies to Russia and Ukraine have a special reference to regional and cross-border cooperation with neighbouring countries particularly within the Tacis, Inogate and Traceca programs. However, the EU has been developing its strategy to the Black Sea subregion beyond the existing and - indigenous - subregional initiatives drawing new dividing lines and creating new concepts such as the Western Newly Independent States (Belarus, Ukraine and Moldova) which appears in the 'Wider Europe' Communication to the Council of the EU, contributing thus more to the disintegration of the concept of a Black Sea community or entity (EC, 2003).

The EU's hesitant behaviour reflects the absence of a clear strategy for the countries beyond the current round of enlargement. It impacts on subregional cooperation because the EU is the modernization anchor for the BSEC states. This problem is particularly evident in connection with the strategy or strategies for enlargement, or the lack of them.[10] Uncertainty about the timing and scope of

10 Another sign of the Commission's changing position can be found in 'Agenda 2000'. This document, while setting a comprehensive framework for Eastern enlargement, encourages negotiations with selected associated countries only.

enlargement has been a major barrier to subregional cooperation and in no way a benign pressure to intensify it. The possibility that some countries in a subregional group may become members of the EU earlier than others downgrades the group's relevance and immediacy. The same effect is produced by special national opting out from aspects of the subregional frameworks.

The cases of the environment, energy and transport are indicative of the ambivalent influence of the EU on segmenting subregional governance. The above-mentioned three sectors are priority fields of cooperation in BSEC. However, the evolving regime in all sectors remains outside BSEC as primarily the EU - and following it other international organizations active in the area - have not considered the BSEC framework as an appropriate one either for the negotiation of agreements or for their implementation and management. The division of labour in those sectors ignores BSEC as a subregional actor.

The development of the physical infrastructure is a basic component of subregional cooperation as indicated earlier (the BSEC WG on transport is the most frequently convent). The EU has had a substantial impact here through its support for infrastructure projects such as the TRACECA program, launched in 1993 by the five Central Asian and there South Caucasus countries together with the EU. This consists of EU funded technical assistance and catalytic investment support (so far approximately 100 million Euros) to develop a transport corridor on an east-west axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. The program has also attracted international funding. For example, the EBRD has committed approximately 300 million Euros. Within the framework of TRACECA 12 countries (including all BSEC states but Albania, Greece and Russia) the 'Basic Multilateral Agreement on International Transport for the Development of

TRACECA' was signed in 1998. At the Third European Conference of Ministers of Transport in 1997 dedicated to pan-European transport infrastructure, the Black Sea was designated as one of four Pan-European Transport Areas (PETrA), the maritime complement to the Pan-European Transport Corridors. A Steering Group was composed of representatives of the eight participating countries (the six Black Sea littoral countries, Greece and Moldova) and the EU Commission was established in 1999. Four sector working groups and an annually revised Action Program have been developed. A technical secretariat of the Black Sea PETrA is in Odessa despite the fact that the BSEC offered to host it in its Secretariat.

As suggested earlier in chapter five, environmental cooperation within BSEC is an interesting case. In spite of being considered as one of the highest priorities (along with trade) on the BSEC agenda, it has lost its relevance. Although it was the area expected to produce most of cooperative attitudes (since Black Sea pollution is among the most urgent subregional problems) the Black Sea environmental regime remains totally outside the BSEC organs. First, the diversity of the BSEC membership (five members are not Black Sea coastal states) made consensus difficult despite the identification of the Black Sea as the 'core' of BSEC's geographic reference and its identity basis. As a result, BSEC although was given the opportunity to handle issues of environmental management (such as preparing a fisheries agreement), it failed to reach an agreement as it was seen that such an agreement could not fulfil the BSEC principle, i.e. involve all eleven BSEC states. Second, the EU developed its own environmental policy towards the Black Sea, bypassing BSEC. Environmental legislation for three out of six coastal states (Bulgaria, Romania and Turkey) is revised in line with the EU requirements. On the other hand EU funding partly goes through the UN supported Black Sea Environmental Program and for the

implementation of the Bucharest Convention. No BSEC environmental activity has been financed by the EU. The outcome in the field of environment was the same with the one on trade cooperation; the WG on environmental protection remained without an agenda.

In chapter three we indicated how another priority area of BSEC, that of energy, lost its relevance too when even in the case of a less legally binding 'Memorandum on Cooperation in the Field of Electric Power Industry', the three pre-EU accession countries - Bulgaria, Romania, Turkey - were reluctant to commit themselves to cooperative projects that could be perceived as contradicting their EU related aspirations.[11] The establishment of a Black Sea Energy Center in Sofia in 1995 at the initiative of the European Commission under its SYNERGY programme indicated once more that BSEC was not perceived as a partner for addressing issues of regional concern.

Therefore, the EU accession process has at times impacted negatively on the deepening of BSEC cooperation mainly due to the diverse contractual links between the EU and the subregion's states and the preference for bilateralism.[12] Since the requirements to draw closer to the EU involve candidate countries, changing standards and rules concerning the flow of goods, people and the provision of services, there are cases within BSEC in which candidates have erected barriers with non-potential EU candidates (for example, in the areas of visa regime and trade). Already the differentiated process of the EU integration has impacted upon the stability in neighbouring countries. In Moldova, for example, citizens are now required to purchase visas for entering Bulgaria and Romania. These visas restrictions have contributed to a dramatic increase in the number of Moldovans

[11] See the Bulgarian reservation in Chapter 3, page 142.

acquiring dual citizenship with Romania (approximately 400,000 or ten per cent of the total population). This implies costs for the excluded as they risk losing important links with neighbours. At the multilateral level, the introduction of previously non-existent restrictions, at the very least impedes and at worst undermines the efforts of an organization such as BSEC to promote subregional cooperation and economic integration.

5. Conclusion

There are several aspects in which the EU exerts power beyond its borders; as a collective identity, a structural process, a new border and a political and economic actor. Here, we focused on how BSEC's mode of governance and character has been influenced by the EU process.

BSEC subregionalism is not an autonomous structure. Rather, it is embedded in a hemispheric integration process. The second process, the core of which is the EU, exerts an asymmetric structural and ideological power to subregion building. This is because of the EU's policy-making status, its long-standing advantage in socio-economic development, and the problems of less developed countries, both in their internal transformation and their external relations.

We indicated here that the impact of the EU on BSEC can best be placed not in terms of a merely strengthening - weakening dichotomy, but rather as involving a substantial reconfiguration of subregionalism due to the interaction of the wider European process and the internal dynamics of BSEC subregion. If we dispense with the strengthening/weakening dichotomy, we can see that the impact of hemispheric regionalism is felt principally in the reconfiguration of the nature and purpose of

[12] This applies not only to the EU but to the pre-accession BSEC states as well.

subregionalism that is currently in evidence across subregional blocs including in BSEC.[13]

Improving ties with the EU has been the primary means of the countries to attain their overall national objectives, including raising living standards, and alleviating poverty while in some aspects it has become an end in itself. To sum up, the EU dictates the positions of the Black Sea countries in the negotiating process of BSEC subregionalism while it constitutes a crucial dimension of the ways in which subregional strategies and structures have been articulated and pursued. This EU focus, has tended to push other initiatives of a subregional or trans-national character such as BSEC into the background or has underwritten both their character and potential.

What are the aspects in which BSEC's formation has been influenced by the EU's imperatives? In this case study we can identify:

First, that BSEC's economic character and rhetoric notwithstanding, progressively greater emphasis has been placed on the pursuit of political and strategic objectives in line with the EU's perceptions of where the instrumental character of subregionalism lies. The Black Sea countries therefore, moved away from setting up a free trade zone and have indicated their intentions to develop joint strategies for addressing a range of security problems (particularly, organized crime and corruption). Of course some of these strategies remain rhetorical and there is concern about the capacity of BSEC for dealing with such issues.

Second, there is preference for 'multi-thematic' subregionalism which encompasses the elaboration of subregional strategies in areas relating to infrastructure, the environment, combating crime, good governance and so on. This

13 The same has been argued for regionalism in the Americas (Phillips, 2002, p. 18).

tendency reflected in the original stages of BSEC was strengthened when the domains of cooperation expanded, since subregionalism became increasingly understood not as a merely economic integration process but as encompassing a multifaceted policy coordination.

Third, the economic agenda features a movement away from a focus on creating a free trade area and undertaking tariff liberalization towards an emphasis on the subregional level as an area for the adjustment necessitated by a wider regionalist project. The economic basis for more intensive subregional cooperation has been, or is expected to be created by global openness and a larger economic organization - the EU. In the BSEC case, the 'normal', defensive (passive) stance of adaptation has prevailed. As a consequence, European integration becomes the means of upgrading the subregional cooperation. Most of the welfare-creating and dynamic effects described by integration theories are expected to come from outside BSEC or the Black Sea states.[14]

The fourth dimension is that institutionalization comes as a result of political considerations vis-à-vis the effects of the European integration process rather than as the outcome of the commitment of the member states to deepen cooperation. Institutionalization does not represent power transfer.

Finally, state-to-state bargaining has remained at the core of subregionalism keeping the decision-making process and power within the governmental elites. Intergovernmentalism has been the only mode to develop as states from within the subregion redirect - if they do - their loyalty or authoritative decision-making towards the EU and not subregional structures. There is a strong reluctance to create regimes which could run parallel to or contradict EU ones. On the other hand, the

issue of lack of knowledge for EU policies and the possibilities to combine EU orientation with formulation of subregional regimes has often led to unjustified, extreme positions. Pre-accession EU states such as Bulgaria refrain from signing, for example, a BSEC MoU (e.g. cooperation in the field of electricity) on the grounds that it impedes on their EU commitments while EU members such as Greece do sign. It becomes therefore an open question as to whether 'EU commitments' have also been used by states within BSEC as an excuse to hinder deepening of subregional cooperation.

[14] The case of the Spanish and Portuguese accession to the EU shows that the EU impact on subregional cooperation came after integration, not before, and certainly not as a substitute to it.

CONCLUSIONS

The issue with which the countries involved in Black Sea Economic Cooperation have been concerned throughout the 1990s until today has not been whether or not to cooperate but how and to what degree. Hence one of the most interesting aspects of subregionalism refers to the mode of cooperation that it implies. In this case study, disclosing the mode of BSEC cooperation and its formation reveals the real intentions of the member states as well as the actual substance and purpose of subregionalism. What type of cooperation does BSEC subregionalism represent and what are the factors behind its formation? This is the basic question around which this dissertation has evolved.

Within this context, the dissertation has sought to achieve three principle goals. First, it has traced the development of BSEC as an initiative since 1990. Second, it has offered an analysis of the factors that have influenced its configuration. Third, it has sought to identify the substance of subregionalism around the Black Sea subregion.

This research was based on the hypothesis that BSEC's formation has to be explained on the basis of the following variables coming from the subregional level: i) transnational demands, ii) economic difficulties, iii) a leading country, and iv) the security dilemma. A fifth external variable is also incorporated, namely the European Union.

Empirical findings

There are two issues of importance in the evolution of BSEC. First, despite its complex organizational structure, policy making has remained an exclusively intergovernmental process. Second, BSEC has changed from being an 'integration'

tool - if it ever was one - to a governance structure. Consequently it has moved away from its original priority goals such as the creation of a free trade area to a broader, more inclusive agenda which touches upon issues of cultural, social and security policy coordination.

We saw in this case study that subregionalism as expressed in BSEC remains a strictly intergovernmental mode of cooperation. Although the member states have established the necessary institutional frameworks and mechanisms for coordination, none of the central bodies established has been empowered with any real authority. Intergovernmental bargaining and intraregional interactions have been institutionalized at all levels, but the organization has not gone far in forming supranational institutions. Despite its advanced legal capacity (being an organization rather than a forum or initiative), expanded agenda, multidimensional character and the involvement of other than only state-actors in the process, BSEC's capacity to act as a supranational actor has been undermined. A type of paradox has therefore emerged. Institutions at all levels (business, financial, civil society) have been established along with a permanent secretariat indicating an attempt to include into the process non-state actors and make decision making a more pluralistic process. To this end, observer status is been offered not only to states and intergovernmental organizations but to non-governmental organizations as well. With the transformation of BSEC into an international organization, it was expected that BSEC's authority would be enhanced, the power of the secretariat would increase and institutions would acquire a new dynamic accompanied with the conclusion of binding agreements. There is no evidence that this has occurred. State-to-state bargaining and consensus is the central piece of decision-making in BSEC for practically all issues. Beyond that, member states have refrained from building

supranational regimes in any field of the organization's competence. In the ten years of its existence, only two binding agreements and two Memoranda of Understanding have been concluded. Policy coordination takes place mainly through long-negotiated and legally non-binding Action Plans.

Like many other subregional groups in post-Cold War Europe, BSEC was formed in the early 1990s as a state-sponsored mechanism to establish a conducive subregional regime for economic cooperation and integration. To this end, it focused on functional fields of cooperation and developed a set of subregional organs to negotiate and produce common policies in almost all possible areas that could improve economic conditions: trade, investments, SMEs, environment, agriculture, transport, communications, technology and tourism. Issues of cultural, political and security cooperation were at that stage intentionally excluded. Driven by neofunctional logic, the expectations were that 'spill-over' would occur between economic and political issues. Cooperation in economic, technical issues or 'low' politics however did not take off. Since the Istanbul Summit Declaration in 1992, advances in the BSEC process have been largely sparse in terms of consolidating the rules of an enlarged market and the creation of a FTA has collapsed. The organization has instead acquired a more political role. Although the concept of the inseparability of security and economic development was advocated by the founding states of BSEC, the latter functioned on the basis of an artificially sharp division (in terms of its activities) between economic cooperation and security. This division however began to erode. After almost five years of existence, BSEC in 1997 moved towards issues such as combating organized crime and in 2003 it developed a 'second track' security dimension by establishing an ad-hoc group of experts on security.

Beyond - limited - cooperation on 'confidence-building' measures such as emergency situations, a BSEC-wide subregional cooperation has not taken root. Furthermore, in areas such as the environment, naval cooperation and transport where some success has been registered, the member states again responded with reliance on intergovernmental 'subsystems' which were distinct from the framework of BSEC. The result of this process was further incremental cooperation without a direct BSEC competence in either economic cooperation or security.

Nevertheless, institution building has advanced, the subregional agenda has widened and membership is enlarging with two newcomers: the Former Yugoslav Republic of Macedonia, and Serbia and Montenegro.

Having presented the development of BSEC since 1991 the issue of what explains its formation arises.

A national preference asymmetry

As illustrated in chapter two, the diversity of BSEC's membership led to different agendas and blurred any meaning of what the 'core' of BSEC business was about. Each member state viewed participation in BSEC through the prism of often diverging aspirations, but not contradictory ones. Although economic issues were placed on the centre of the BSEC agenda, it was geopolitical and security considerations that significantly shaped the features of the cooperation process. Thus, BSEC as a regional body was the result of geo-strategic considerations to which an economic dimension was added.

The convergence of the ideology between the Turkish and Russian leadership in 1991 set the grounds for the emergence of BSEC as an initiative. The creation of a

tool to facilitate economic interaction around the Black Sea along the lines of economic and political liberalism was advocated by both sides. Bilateral relations between the two historic rivals had been strengthened and the stable north-south axis seemed to be able to move forward the first cooperation of this kind around the Black Sea. However, the course of history and the disintegration of the Soviet Union changed the nature and scope of Black Sea subregionalism altogether. Diverse security considerations prevailed. The newcomers in the Black Sea international system, most of them fledging democracies, were too weak and disoriented, after years of authoritarian rule, to demand economic integration. Their main concern has been to overcome the difficulties resulting from the Soviet past of structural interdependence. Hence concepts of regionalism or integration were perceived in an instrumental way partly as tools to solve the structural problems that emerged in this area from a cumulative point of view, but mainly as a means to ensure the independence of their countries vis-à-vis their Russian partner by obtaining recognition at the international level. Considerations of internal stability which were under threat and increasingly weak in the process of transition were also strong (Buyukakinci, 1998, p. 6). Those concerns were mainly reflected in the case of the newly independent states as well as in the other three Balkan states of Albania, Bulgaria and Romania. Such concerns were however not shared by Russia whose main interest was to preserve its presence in the area and undermine the deepening of cooperative efforts that could limit its leverage. To make the picture of national priorities more complicated, the inclusion of non-Black Sea states in the process such as Greece and Albania deepened the existing diversity. Neither of these two states seemed to have had a clear agenda for BSEC beyond bilateral considerations. As we saw in chapter two, it was bilateral relations under a security prism that significantly conditioned the attitude of all member states vis-à-vis BSEC.

The salient feature that bound eleven states with such a diverse or no agenda for BSEC became their strategic priority to be involved in the integration process of the EU model. Almost all BSEC countries had to undergo certain stages of adaptation aimed at demonstrating their capability to function as viable economic and political bodies. However, it soon became evident that even the goal of integrating within the European structures would not be best served through BSEC.

Nevertheless, the political imperative of integrating within the world and primarily the immediate European structures influenced the development of the BSEC in an unmistakable way. To this end, what seemed to be required was horizontal rather than vertical integration: the adoption of measures such as unambiguous respect for the independence and territorial integrity of the newly independent states; encouragement of market-oriented reforms; and involvement of the private sector, governments and international organizations in the policy coordination process.

Economic difficulties, weak transnational exchange and demands

Despite the diverse national dispositions on the basis of security considerations, the urgency of the economic problems throughout the Black Sea area shaped a consensus on the necessity of regional cooperation. As we saw in chapter four, the poor economic performance of BSEC states in the early 1990s did spur cooperation and a call for coordination of economic and trade policies. This call however resulted not from transnational actors but from the governmental elites. More importantly, economic difficulties made states prefer the EU track instead of deepening BSEC cooperation.

Economic difficulties played a dual role. On the one hand, they have underwritten demands for more economic cooperation. On the other hand, they have been a main obstacle hindering any meaningful economic integration. Without actual economic integration taking root in the area, and weak transnational flows and demands, the form of subregionalism that emerged developed along the lines of state-to-state bargaining, being conceptualized primarily as a foreign policy. Hence, in the absence of clear demand for a distinct subregional trade regime that would require binding agreements and supranational institutions to implement them, both the decision-making procedures and the structures of the organization remained strictly intergovernmental.

Therefore, the empirical findings seem largely to support the hypothesis that the existence of economic difficulties as well as the increase of transnational exchanges and demands, influence the mode of governance that develops at the subregional level here. Transnational exchanges have been expanding and demands for change are voiced. Organized interests from the business community are increasingly involved in the subregional bargaining process, but their demands are connected to the trade regimes of the WTO and the EU and the transfer of their economic regimes and principles to the subregion as well as the facilitation of economic activities. There is no demand for deeper subregional integration but for loose cooperation, hence not for supranational organs in the Black Sea subregion. Thus, one reason why BSEC has moved to an intergovernmental mode of integration rather than to a supranational one is because the business community has not presented a clear demand for such a change.

Cooperation without leadership and under security dilemmas

Not only are national dispositions diverse but also the interest of the larger states in BSEC have fluctuated over time indicating that no country has actually had a clear agenda for BSEC or vested interests in it. The only exception would be Turkey however which back in 1992 under Ozal's leadership conceived the creation of a Black Sea Economic Zone of 'free movement of goods, people and capital'.

The lack of a clear interest in the process has undermined the potential leading role of any member state. As we saw in chapter five, beyond the lack of actual capacities, none of the countries seemed to wish to assume the role of a benevolent leading country, with the exception of Turkey. States either simply lack the resources to support an ambitious multilateral scheme in the subregion (e.g. Turkey, Ukraine) or/and do not have the political will to undertake such a role (e.g. Greece, Russia). The fear of being dominated by larger neighbours, such as Russia or Turkey, has been a strong undermining factor which relates to the intensity of the security dilemma. BSEC members have instead chosen to place their concerns within broader fora where the weight of larger states (particularly of Russia) can be balanced by the presence of other powers or within smaller groups in which larger neighbouring states do not participate. Particularly in the case of Turkey, which has had the political will to undertake a leading role in BSEC, two factors restrained its ambitions. First, a series of economic crises drained the country of the required resources. Second, there was a limitation of its role in the subregion as the Black Sea states turned towards other poles of modernization and mainly to the EU. For Turkey itself, what became the highest priority was the reorganization of its relations with the EU particularly after its nomination as an EU candidate country. Furthermore, the external constellation did not provide much room for the potential leading states to undertake the leading role as most of the functions of BSEC in those

spheres were to be absorbed by other organizations and institutions such as the EU, UN, World Bank, etc.

The findings with respect to the security dilemma appear at large to be in accordance with the expectations of the analytical framework. The BSEC case discloses the limitations that security dilemmas impose on any common action and commitment to supranational structures. The greater or more intense the regional security concerns are among a group of states, the less likely they are to engage in deep cooperation with each other. The diversity of the countries involved does not qualify for a clear common strategic vision shared by all states as far as inter-regional political and security issues are concerned. Also, what is of importance in the BSEC case is also the type of security dilemma. Since it has been linked with transition issues, identity building and state-building, subregionalism could do little to its transformation, as the problem has not been simply building trust but resolving ongoing or frozen conflicts. There is only one salient political feature since the early 1990s, that each of the states in the subregion is eager to be involved in the integration process taking place on the European continent.

Should one expect that once the security dilemma is transformed, then more demands for deeper subregional cooperation would emerge? On the one hand, as sovereignty issues become less contested and the economic problems remain, states may become more willing to embrace supranational institutions at a subregional level for economic benefit. On the other hand, an increased ability to trade with other regions of the world, coupled with security provisions provided by larger organizations such as NATO or external powers like the US (which are not involved in BSEC) may make subregional cooperation less desirable or necessary.

BSEC's engagement in the European integration process

Two dimensions are important in comprehending BSEC's evolution. First, it is a case which illustrates that countries in the same geographical area are not (necessarily) the ones with the political and economic power in the subregion. In this case the modernizing anchor is the EU. Second, beyond being a 'subregion in itself', the Black Sea is a 'subregion in Europe'. It is thus embedded in a hemispheric regional integration process by which it is asymmetrically affected.

Contrary to what has happened with other subregional formations in Northern Europe (e.g. CBSS) and Southeast Europe (e.g. Stability Pact), in our case study the 'soft' power in the continent (i.e. the EU) has refrained from being institutionally present in the organization's structures. The correlation between BSEC subregionalism and the European Union described in chapter six has disclosed that despite the EU's rhetoric in supporting regional cooperation, BSEC is a case where the EU has clearly distanced itself. The EU's ambivalent attitude has made Black Sea countries reluctant to commit themselves to the process. Thus as the Black Sea is slowly turning from being a geographical area to a structure symbolizing special political or economic relations, each time that the geographical denomination is taken to imply not only more, 'natural' regional cooperation but a differentiation from the EU (i.e. their modernization anchor), strong protests and open opposition follow. Having said that, the intergovernmental mode of BSEC and the low level of agreements reached at the subregional level, are underwritten by the lack of demands or incentives by the EU for supranational governance (e.g. subregional agreements and strong institutions) to emerge at the subregional level as well as due to the priorities of the states themselves when conceiving BSEC vis-à-vis the EU process.

There are several aspects in which the European Union exerts power beyond its borders - as a collective identity, a structural process, a new border and a political and economic actor. The impact of the EU on BSEC involves a substantial reconfiguration of subregionalism due to the interaction of the wider European process and the internal dynamics of the BSEC subregion. In chapter six we identified the following main aspects of this influence varying from the institutionalization of the organization itself to its identity and the core of its activities. First, there is the progressively greater emphasis to move away from trade related issues towards the pursuit of political and strategic objectives along with the expectations of the EU as to what European subregional structures constitute: comprehensive security building mechanisms. Second, there is a clear trend towards 'multi-thematic regionalism', which encompasses the elaboration of subregional strategies in areas relating to security, drugs, the environment, democracy, and social policy. Economic issues however, are subsumed into either the EU and/or other more powerful organizations (as we saw in chapter four) or trade issues were dealt with bilaterally. Alt hough originally envisaged as the centre piece of BSEC, the management of key trade and economic policy issues was made redundant, therefore the scope of subregionalism was changed for other political and security issues. The economic agenda features a movement away from a focus on free trade and tariff liberalization towards an emphasis on turning BSEC into a tool for the adjustment of the member states to the imperatives of a wider regionalism project.

Theoretical implications

Having placed the evolution of BSEC in the core of the dissertation there is one question that arises: what explains the formation of subregionalism around the Black

Sea? In a broader sense what conclusions can we draw on the correlation between the formation of subregionalism and the five variables identified in our analytical framework?

As we said at the beginning of the dissertation, we do not aim at generating a new theoretical proposal for regional cooperation. The aim though is to reflect on a set of causal variables driven from a 'two-level' analysis (internal and external) and a dependent variable, the mode of subregionalism.

Returning to the aforementioned question, we shall start by clarifying two basic conceptual elements of subregionalism. First, it is a process embedded one way or another in a larger regionalist project. Its generic complementary nature implies that theorizing over subregionalism should not be restricted to a 'one-level' approach. This being said we move to the second element. Subregionalism is an indigenous, top-down process initiated by local governmental elites and it is not imposed by external powers.[1] This makes governmental elites the dominant agents in the process.

The current configuration of Black Sea subregionalism should be understood not so much as the concentration of trade and investment activities around circumscribed integrated areas but rather as a policy option pursued as a response by governmental elites to address the need for the provision of public goods. Furthermore, despite the rich rhetoric about the role of subregionalism as a step towards further integration into global structures and as a tool of economic integration, it actually refers to governance and foreign policy rather than integration. Therefore, there is a need to readjust the theoretical approaches to subregionalism from 'integration' theories to 'foreign policy' and governance.

[1] This is not the case with cooperative structures such as the Royaumont Process, launched by the EU in December 1995, or the SECI launched by US in December 1996, which fall into another category.

Empirical research in this dissertation tried to disclose the dynamics of the formation of BSEC as a structure. On the basis of the findings of this case study we can draw four proposals with theoretical implications on the formation of subregional governance as the outcome of the relationship between a set of demand and supply conditions.

Demand conditions point to transnational exchange. This case study shows that an increase in transnational exchange and the existence of demands for change, do not necessarily lead to more supranational institutions. Furthermore, as we have shown here, countries belonging to one geographical region are not necessarily the main or natural economic partners for each other. What is important here is the issue of expectations and the direction of demands. Demands for change might be directed not to the subregional level but to external centres of authority which possess more structural power. Therefore, transnational forces did trigger cooperation but expectations were directed to the EU track.

The same conclusion is drawn for the impact of economic difficulties on BSEC's evolution. Economic difficulties do partly explain why BSEC was established at first place. However, while at the first place they constituted the mobilizing force for change and support of subregional integration they later on inhibited the deepening of BSEC.

Two other supply conditions are important here. First, BSEC shows how the absence of a benevolent leading country impedes the formulation of supranational institutions. The significance of a leadership with a preference for supranational institutions becomes crucial, the more diverse the national preferences and the larger the number of countries involved in a cooperation process. Second, subregionalism under intense security dilemmas among its member states cannot move beyond

intergovernmentalism. Subregionalism however, if empowered with confidence-building functions, assists in the transformation of security dilemmas.

Given the weakness of subregional integrative forces, the role of external factors in the reconfiguration of subregionalism is substantial. An external structural or ideological power may become the decisive engine of subregional cooperation.

Under those conditions subregionalism develops along the lines of loose policy coordination resulting from negotiations among governmental elites, unequipped to exercise any real authoritative power and form effective supranational institutions. However, subregional groups require some sort of supranational institutions, to avoid being captured by special interests action.

Today's literature is preoccupied with the general question of what drives subregionalism. Is it ideas embodied in institutions and transported to policy formation? Or do socio-economic interest groups construct ideas and ideologies for the purpose of legitimizing claims to power. Whatever the answer to the question in general, the argument made here is that an interest-based approach cannot explain all aspects of the evolution of BSEC. Rather than socio-economic interests, it is ideas that have shaped the process. The following considerations support the argument. First, new elites in positions of influence in the early 1990s were becoming familiar with and wanted to transplant neoliberal ideas. Second, there is the influence of the dominant (neoliberal) ideology embedded in the hemispheric regionalist project driven by the EU on the mode of subregionalism. The EU's influence on subregionalism goes beyond identifying political and economic interests of the EU in the subregion. It is the EU as a 'soft' structural and ideological power and as the core of the European identity that shapes the conceptualization of subregionalism.

Realist explanations of state behaviour have been shown to have considerable salience in understanding subregionalism. Member states have proved to be very reluctant to accept supranational governance in any field given the persistence of security dilemmas and the conflicting perceptions of how their interests are best served. At the same time, the politics of both 'high' and 'low' security remain intertwined with conceptions of sovereignty and national identity, even if the distinction between the two is academically and practically unsatisfying.

(Neo)realism however ignores the importance of inertia and the extent to which institutional cooperation leaves a legacy of cooperation. This is the most important aspect of subregionalism. The process of cooperation, even via the less binding nature of intergovernmental subregional mechanisms, does make a difference in states' abilities to calculate the costs and benefits of unilateral action. The neorealists' contempt for integration as largely irrelevant ignores the durability of institutions. The habits and structures of cooperation developed in subregional formations will leave a legacy of cooperation. These groupings and the commitment to consult and coordinate within them, do influence state behaviour and the assessment of national interest (Wyatt - Walter, 1997, p. 254) and cast 'a shadow over the future'. The frequency of meetings in subregional fora such as BSEC provides continuous and multiple channels through which states can communicate their policy positions. Although intergovernmentalism means that common approaches are not always agreed, the process of information and feedback alters the context in which national policies are formulated.

Yet, despite the importance of institutions, we have found that the areas of cooperation remain largely untouched by processes of 'spill-over'. The neofunctionalist belief that accelerated integration in economic affairs would create

pressures for political and then security integration may still be true over the long term but this study shows that states consciously resist such pressures for supranational integration by employing intergovernmental mechanisms. The experience of BSEC has shown that the member states have chosen other subsystems or broader frameworks.

Finally the research demonstrates the need for theoretical eclecticism. Both the realist and institutionalist approaches have their uses in understanding subregionalism formation but neither is fully satisfying.

Future research directions

Subregionalism around the Black Sea is not just about interests. Rather it is about the diffusion of neoliberal ideas and the cultivation of the habit of cooperation. Interest-based approaches, despite their explanatory power in disclosing either national or private preferences, cannot capture the whole picture of the evolution and formation of BSEC. The four variables chosen for our analytical framework which mainly point to the interests and the preferences of the agents in the subregion assist us greatly in understanding the - intergovernmental - mode of governance that BSEC represents. However, it is constructivist elements that need to be taken into consideration in explaining the persistence of BSEC and its reconfiguration.

Ultimately, the question that arises when one researches a phenomenon is utilitarian. What is significant about BSEC? The significance of BSEC is on building institutions to defuse cooperative attitudes and assist in modernization and the implant of the neoliberal rules of the European and global 'game'. This utility argument should not be dismissed easily given the endemic deficiencies of the Black

Sea system. Subregionalism aims at strengthening the agents of change which are in the making in the Black Sea system: states, private actors, institutions and ideas. There is however one element which became clear in this case study and significantly restricts the power of BSEC: the lack of commitment either by the local elites or/and particularly by the dominant power - the EU - to endow BSEC with authoritative power.

How can we proceed in the future in researching subregionalism? What we postulate here is that given the complexity of the regional phenomenon and its constant evolution, further research needs to be conducted on the ground, to test an already rich theoretical literature. Given the specific economic, political, social, cultural, historical conditions in each region, we cannot talk about a single regional phenomenon. In researching BSEC's formation, three dimensions that need further research come up.

First, subregional cooperation as a means to assist in successful transition needs to be empirically assessed. Beyond its historic significance, such research could reveal the actual impact of subregionalism and its character in the troublesome decade of the 1990s. The empirical findings could produce policy recommendations to be taken into account when the international community drafts 'subregional' structures such as the Stability Pact for Southeast Europe, as a means to assist the completion or consolidation of the transition process in Europe. Transition bears with it endemic elements such as feeble state structures or 'failing' states (like Georgia and Moldova in our case study), weak transnational actors and the absence of effective institutions. In other words, all possible agents (viable states, transnational actors and institutions) identified by integration theory are not present to drive subregionalism.

Second, the relationship between the EU and BSEC has to accommodate as its unit of analysis both the subregional organization as such and the states which comprise it. Here, we placed emphasis on the first type of correlation. Given the size of BSEC's membership and the complexity of its members' contractual links with the EU an in-depth analysis of the second dimension would require extensive research which would alter the scope of this dissertation. BSEC consists of eleven members, each with a unique relationship with the EU which affects differently all the domains of their interaction. Further research therefore could be taken to examine further this dimension. The case of countries such as Romania and Bulgaria in this respect would present useful insights on i) how prospective EU members readjust their positions in view of regional (as in the EU) and subregional (as in BSEC and other fora) options and ii) the actual and not normative impact of the hemispheric pan-European integration process driven by the EU. Most research to date, places subregional groups within larger regional processes describing them either as 'stepping stones' or 'stumbling blocs' to further integration or as 'training grounds' and 'club' formations. A redirection of the research is needed. Why should the impact of subregionalism on the regional or international system be examined when there is a clear asymmetry on the impact that the external dominant actor (e.g. the EU) exerts on subregionalism? What is the actual impact of the EU itself, primarily in economic but also in political terms, in subregion building examined mainly through the commitments of the states that participate in both processes? How does EU orientation affect the sectors of the economy and the chances for market-led subregional integration? Such an investigation could disclose what happens beyond rhetoric. What type of subregionalism, if any, does the EU actually reinforce beyond its borders and in the continent?

Finally, there is one aspect that could contribute significant to the study of subregionalism and particularly to the study of the BSEC process. It is the case that often loose intergovernmental structures - such as subregional groups - have no capacity to change the foundations of power (production, security, economy and knowledge) but they might be symptoms and manifestations not only of a policy change (as we indicate here) but also of an identity building. In these terms subregionalism has not only an instrumental value but also a cognitive one. This is an aspect that would require further research.

By disclosing the main dynamics of the formation of BSEC we indicated here that an eclectic analytical framework, in terms of the agents and levels of analysis incorporated in it, is more adequate to provide an understanding of the contemporary phenomenon of subregionalism. Further research, as proposed earlier, would place subregional groups in a wider perspective and would indicate what is permanent about them and what is not.

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Exchange of views has taken place with: a former under-Secretary at the Turkish Foreign Ministry, a Legal Adviser of BSEC, Senior staff of the ICBSS, Senior officials of the Hellenic Ministry of Foreign Affairs, Members of the Hellenic delegation to the PABSEC and staff of TUSIAD International.