

Panayota Manoli*

Limiting Integration: Transnational Exchanges and Demands in the BSEC Area**

Abstract: This paper focuses on the evolution of the Black Sea Economic Cooperation (BSEC) as a regional economic organisation and a type of regional governance as influenced by the level and direction of transnational exchange and demand. The analysis is based on empirical data available for the first decade of the BSEC activities. As indicators of transnational exchange, we use the volume of intra-BSEC trade and investment flows as well as the significance of non-governmental organisations and business 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.

Key Words: BSEC, economic cooperation, transnational exchanges

* Director of Studies and Research at the International Center for Black Sea Studies (ICBSS). The article represents the views of the author and does not reflect the position of the ICBSS.

Introduction

Subregional economic cooperation was necessitated by the reform process and the structural adjustments in the transition economies of the region and spurred by geographic proximity.¹ It would serve as a contribution to i) the Conference on Security and Cooperation in Europe - CSCE process, ii) the establishment of a Europe-wide economic area, and iii) to a higher degree of integration of the participating states in the world economy.²

It was recognised during preliminary discussions for the establishment of the 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"³. The obstacles here refer to structural barriers rather than tariff and non-tariff barriers in the conventional trade theory sense of the terms.

The 'open' character of sub-regional 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 the BSEC would not prevent its members from participating, and developing relations, with "third parties, including international organisation[s] as well as the EC", reasserting its role as a channel for the integration of its members into the world economy. 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).

Given, on the one hand, the diversity of trade regimes in the area and, on the other, the need to stimulate trans-national 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:

- facilitating via bilateral negotiations, the prompt entry, stay and free movement of businessmen and encouraging their direct contacts;
- providing support for SMEs;
- contributing to the expansion of mutual trade in goods and services by

¹ See Article 3 of the Summit Declaration on Black Sea Economic Cooperation, Istanbul, 25 June, 1992 in *Black Sea Economic Cooperation. Handbook of Document*, Istanbul: BSEC Permanent International Secretariat, 1994, pp.3-7.

² See Article 5 of the Summit Declaration on Black Sea Economic Cooperation, Istanbul, 25 June, 1992, *ibid*.

³ See Article 14 of the Summit Declaration on Black Sea Economic Cooperation, Istanbul, 25 June, 1992, *ibid*.

Given, on the one hand, the diversity of trade regimes in the area and, on the other, the need to stimulate trans-national exchanges, emphasis was placed on improving the business environment and encouraging individual initiative rather than on directly affecting trade patterns.

- continuing efforts to reduce or 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 agreements on the avoidance of double taxation and on the promotion and protection of investments;
- encouraging the exchange of information on international tenders organised in the participating states;
- encouraging cooperation in free economic zones.⁴

The BSEC as a Means of Economic Cooperation

The 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 European Initiative. Russia on the other hand has refused to sign due to the process of updating its national legislation. 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 Transport Associations in the BSEC Region - BSEC UTRA) successfully forwarded to BSEC in 2002, is still pending.

The SMEs were placed on the BSEC agenda as the primary engine for the realisation of cross-border economic cooperation.⁵ The way that the BSEC has dealt with SMEs is through the organisation of training programs and workshops, mainly in cooperation with the Small and Medium Industry Development Organisation of Turkey (KOSGEB) and the UNECE. The first step to co-ordinate actions for SMEs encouragement is the 'Declaration on the

⁴ *ibid.*

⁵ *ibid* and BSEC, *Economic Agenda for the Future towards a More Consolidated, Effective and Viable BSEC Partnership*, Istanbul, October 2001, pp.12-13.

Promotion of SMEs' which was however adopted only in 2001. It is comprised of a set of common principles on the development of SME sector and establishes a special Working Group on SMEs to function on a permanent basis.

The establishment of the BSEC itself and the institutionalisation of intra-regional affairs that have been ensured are considered a contribution to the reduction of political risk, which has barred large-scale investment in the region. However, as we will see in this paper little progress has been achieved in attracting Foreign Direct Investment (FDI). In accordance with the philosophy of the 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 members, elimination of restrictions on exporting capital, investors conduct and settlement of disputes - but on a non-binding basis.⁶

A Short Lived Free Trade Area (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 the BSEC according to the WTO system. This decision has yet to be implemented. In October 1996, the leaders of the member states declared that the BSEC should speed up the introduction of mutual trade preferences among participating countries and explore the opportunity for the creation of a FTA.⁷ 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 FTA of the 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 FTA 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 member states 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

⁶ See "Basic Principles of Investment Collaboration in the Black Sea Economic Cooperation" in BSEC, *Moscow Declaration of the Heads of State or Government of the Participating States of the BSEC*, Moscow, 25 October 1996, pp. 21-22.

⁷ See BSEC, *Moscow Declaration of the Heads of State or Government of the Participating States of the BSEC*, Moscow, 25 October 1996, Paragraph 4.

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group.⁸ Taking a step forward, the ninth meeting of the Ministers of Foreign Affairs adopted the decision to develop an Action Plan for the formation of a regional zone of free trade. According to the general understanding at the time, such a plan should be developed in cooperation with the European Commission and proceed primarily from the needs of the countries for the development of regional trade, taking into account the market transformation of their economies.⁹ 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 priority policy areas identified for the realisation of the long-term aim of a BSEC FTA were:

1. to promote bilateral free trade agreements between the BSEC Participating States, duly observing the obligations resulting from EU and WTO;
2. to review their foreign trade legislation related to manufactured products and identify the existing tariff and non-tariff obstacles;
3. to review the possibilities in the trade of agricultural products with a view to further expanding it by way of progressive preferential treatment on a mutually beneficial basis;
4. to finalise the process of accession to the WTO and assist those who are in the process of accession and bring the national legislation in conformity with the GATT and its agreements regarding trade in goods and the GATS concerning trade in services;
5. to gradually harmonise 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;
10. to conclude bilateral agreements on encouragement and protection of foreign investments, avoidance of double taxation and transfer of technology;

⁸ BSEC PERMIS, "Declaration of Intent for the Establishment of the BSEC Free Trade Area" in *Handbook of Documents*, Vol. 3, Istanbul: BSEC PERMIS, 1998, pp. 114-116.

Table 1										
Growth Rates of Intra-BSEC trade, 1991-2000 (percentage of annual change)										
Growth rates of exports to the 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 the 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. (covers several years).

Note: Years 1992 and 1993 do not include the bilateral trade between Russia and Ukraine.

BSEC 10: BSEC excluding Greece and Serbia and Montenegro.

The establishment of an FTA was however soon to be abandoned as it lost support from several of the member states.

Declaratory remarks notwithstanding, the FTA project found little support by the BSEC members and the EU itself.

11. to reform and modernise economic and social structures giving priority to technical support programmes for the SMEs.¹⁰

The establishment of an FTA was however soon to be abandoned as it lost support from several of the member states. Declaratory remarks notwithstanding, the FTA project found little support by the BSEC members and the EU itself. It took 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.

Given the lack of support for an FTA, the BSEC applied a more flexible approach towards the

liberalisation 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. 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, however, in a declaratory manner: i) past trade relationships have to be thoroughly re-examined, and ii) 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 an 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 obligations resulting from membership in the EU, WTO and from other international organisations".¹¹

Intra-BSEC Trade Flows¹²

Significance of the BSEC¹³ as a trade group remains small, representing only 2.8 per cent of world trade. There are two important features of intra-BSEC

⁹ E. N. Borisenko, "Black Sea Free-Trade Zone", *International Affairs* (Moscow), Vol. 45, No. 2, 1999, p. 70.

¹⁰ BSEC PERMIS, *Handbook of Documents*, Vol. 4, Istanbul: BSEC PERMIS, 2000, p. 251.

¹¹ BSEC, *Economic Agenda for the Future towards a More Consolidated, Effective and Viable BSEC Partnership*, *op.cit.*, pp. 6-7.

¹² Data are based on IMF, *Direction of Trade Statistics*, Washington D.C., covers several years, unless otherwise stated. Our analysis is on the basis of registered data and does not include the 'suitcase trade'.

¹³ In our analysis we do not include Serbia and Montenegro which joined BSEC in 2004.

Table 2									
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. (covers several years).

* Bilateral trade between Russia – Ukraine not included.

In fact the evolution of BSEC trade reflects, to a great degree, the evolution of Russian and Ukrainian flows in the subregion.

trade. First, its volume remains low relative to the size of market it covers 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).

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 (averaged 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 1). The evolution of the BSEC foreign trade is in the shape of a 'curve' with significant trade expansion between 1993 and 1995.¹⁴

In fact the evolution of BSEC trade reflects, to a great degree, the evolution of Russian and Ukrainian flows in the subregion. The trade volumes of Russia and Ukraine represent together approximately 67 per cent of exports and 50 per cent of import flows. However, their share in intra-BSEC trade, particularly in imports, has been slowly but steadily declining.

Russia's main BSEC trade partner by far is Ukraine, representing 70 per cent of its gross trade with the BSEC. In the case of Ukraine more than three-quarters of its trade within the 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 Ukrainian officials often claim this tendency testifies to a new political approach of promoting trade and economic contacts with other partners.

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 added together account for less than 10 per cent of intra-BSEC trade. As the data show, the Turkish share in BSEC trade has substantially increased since 1994 (particularly in imports), accounting for almost 18 per cent of BSEC flows. This is not the case for the other important trade partners (Greece, Bulgaria and Romania) whose shares have remained rather unchanged or even decreased. The significance of the NIS in intra-regional trade has been roughly stable.

The data show significant variations in the dependence of individual countries on BSEC trade measured as the ratio of intra-regional trade and the

¹⁴ Territoires Aménagement Développement (TAD), *Impact Territorial Sur l'Union Européenne des Evolutions dans la Région de la Mer Noire*, Paris: TAD, 2001, p. 64.

Table 3										
Intra-BSEC Trade by Country (1991-2000) (US\$ 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. (covers several years).

Note: Years 1992 and 1993 do not include the bilateral trade between Russia and Ukraine.
BSEC 10: BSEC excluding Greece.

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.

trade with the rest of the world. The countries most sensitive 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 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, intra-regional trade decreased. In the middle of the spectrum lie Albania, Armenia and Bulgaria.

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 other taxes on certain CIS countries whereas EU countries have more financial resources to enter this market.¹⁵

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.

The establishment of the BSEC has not been followed by a considerable increase in dependence on intra-BSEC trade (Table 4). 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 exports from the BSEC to the EU grew by 5.5 per cent each year while the exports from the BSEC to the EU grew by 9.5 per cent from 1994 to 2000 (at almost twice the rate). If we exclude Greece in the intra-BSEC flows (due to its EU membership) then the growth of intra-BSEC exports falls to

¹⁵ DEIK, *Bilateral Economic Relations*, 2003, www.deik.org.tr.

Table 4

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. (over several years).

* Bilateral trade between Russia – Ukraine not included.

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 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 way of example, Armenia's exports to Russia steadily declined from 73.3 per cent in 1994 to 36.1 per cent in 1998 while in Georgia, 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 countries least dependent on subregional trade while there is no evidence that their Black Sea neighbours are becoming their main trade partners.

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 the 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 establishment of the BSEC has not been followed by a considerable increase in dependence on intra-BSEC trade. 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 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 per cent 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.¹⁶ The same items account for two thirds of Turkish imports from Russia.¹⁷ 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 liberalisation within the BSEC. Therefore, 30 per cent of Turkish exports to the former Soviet Republics involves foodstuff¹⁸.

What do the above suggest? It becomes clear that transnational exchange within the BSEC subregion has been stimulated but has not reached high levels of intensity. The structure of trade turnover shows that the subregion is divided mainly 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 liberalising 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 states¹⁹, and ii) the structure and level of trade flows is not such as to justify strong demands for subregional governance. Actions by the BSEC, and the intention of its member states to establish an FTA (examined later) should be connected to their strategy of pushing economic cooperation forward not only in the subregion but beyond it.

Redirecting Trade to the EU Market²⁰

A central feature of the economic map of the BSEC subregion has been the

¹⁶ E. N. Borisenko, "Black Sea Free-Trade Zone", *op.cit.*, p. 115-116.

¹⁷ DEIK, *Bilateral Economic Relations*, *op.cit.*

¹⁸ WTO, *Trade Policy Reviews, Turkey*, October 1998. p. 25 (electronic version).

¹⁹ E. N. Borisenko, "Black Sea Free-Trade Zone", *op.cit.*, p.116.

²⁰ Data based on IMF, *Direction of Trade Statistics*, Washington D.C. (covers several years), unless otherwise stated.

Table 5									
Evolution of EU– BSEC Trade, 1992-2000 (US\$ millions)									
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. (covers several years).

It becomes clear that transnational exchange within the BSEC subregion has been stimulated but has not reached high levels of intensity. The structure of trade turnover shows that the subregion is divided mainly between exporters and importers of fuels.

reorientation of its trade links towards western markets and, in particular, the EU. The data show that over the last decade, the EU countries as a group have become the main trade partners of the BSEC. The trade balance for all BSEC countries is in deficit (with the exception of Azerbaijan and Russia). 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.

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 5). 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. 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,²¹ 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 on the EU is to be expected given its location while Greece's case is also justified by its EU membership. Romania's and Turkey's high trade dependence is significant taking into consideration their pre-accession status. Following the creation of a customs union between Turkey and the EU in 1996, the latter has become an increasingly important trade partner of Turkey. The second group includes countries whose trade with the EU represents something between 25 to 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

²¹ Territoires Aménagement Développement (TAD), *Impact Territorial Sur l'Union Européenne des Evolutions dans la Région de la Mer Noire, op.cit.* pp. 70-71.

Russia, the Balkan states are more dependent with the EU compared to their partners from the former Soviet space. This variation can be explained among other things 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 total EU external trade. On the EU end, during the period 1993-99, Germany accounted for 30 per cent of the trade 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.

Investment Driven Integration²²

FDI in the area is the lowest in Europe, 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.

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. An analysis of the direction of FDI indicates that despite the large number of BSEC states, FDI is heavily concentrated on the

²² Data is based on UNCTAD, *World Investment Report*, New York (covers several years) unless otherwise stated.

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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 of/between/among those three BSEC states are low, this is an indication that international capital is attracted by opportunities in the national and not the regional market. The BSEC 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 characterised by volatility, unstable currencies and lacking 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 total stock FDI in the subregion and it is particularly high in the Balkan states and less in the NIS states. However, exceptionally, in Moldova, 30 per cent of the foreign capital comes from Russia.²³ In Azerbaijan, one of the most successful CIS countries in attracting FDI, the largest foreign investor has been the USA with \$1.2 billion, 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.²⁴

The case of intra-BSEC capital flows is more disappointing. Despite progress made by BSEC countries in developing FDI-related legislation and liberalisation, 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 estimate that among the BSEC countries, Turkey is the main investor in the area, followed by Greece, Russia and Bulgaria.²⁵ The weight of the three Caucasian states as well as of Moldova and Albania in intra-regional FDI flows remains 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,

²³ UNCTAD, *World Investment Report*, New York: UNCTAD, 2000.

²⁴ EIU, *Country Profile 2000 Azerbaijan*, pp.33-34. The other sectors being industry (16 per cent) and construction (8 per cent).

²⁵ OECD, 'Regional Integration and Transition Economies: Trade and Foreign Direct Liberalisation in the Black Sea Economic Co-operation, Foreign Direct Investment (FDI) Aspects', OECD Policy Meeting, 15-16 October 1996, Istanbul (Restricted material) and PABSEC, 'Economic integration in the BSEC region: Current state and future prospects', Report GA19/EC18/REP/02, Istanbul: PABSEC, 2002.

intra-regional foreign investment from BSEC countries has increased substantially due to capital flows from Russia related to investments in the energy sector (e.g. Lukoil Petrol in Bulgaria) 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.²⁶ In the large economies of the subregion such as Greece, Turkey and Russia the weight of business operators from BSEC states is marginal.

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. Greek investments account only for 0.16 per cent of the total FDI in neighbouring Turkey estimated at \$60 million.²⁷ On the other hand, Turkish investments in Greece are even less significant reaching just \$4 million.²⁸ 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.

Intra-BSEC FDI flows have two main aspects which should be kept in mind. First, intra-BSEC investments develop in a bilateral way (in line with trade relations) between Greece and the individual Balkan states, between Turkey and Azerbaijan and between Russia and several of the former Soviet Republics (such as, for example, 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 than a regional compact.

Organised 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 organised itself around the BSEC?

A few preliminary observations need to be made. It should be clarified that the presence of the private sector itself in the region was limited in the early 1990s. Despite the will of the founding BSEC members to make the private

²⁶ EIU, *Country Report Armenia*, November 2000. p.32.

²⁷ DEIK, *Bilateral Economic Relations*, *op.cit.*

²⁸ Information provided by the Greek Commercial Attaché in Istanbul, 2003.

The case of intra-BSEC capital flows is more disappointing. Despite progress made by BSEC countries in developing FDI-related legislation and liberalisation, they have not succeeded in attracting foreign capital either from their BSEC partners or from other countries.

sector the locomotive of the initiative,²⁹ the fact was that a business community had not yet taken shape in the BSEC subregion which was in transition.

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 Industrialists³⁰, 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 which expresses the interests of the business community and its membership includes representatives from both the private and public sectors of the business community. The establishment of the Business Council was strongly encouraged by the Turkish government which supported the strategy of

advancing a 'business-led' cooperation model. It was thus originally created on the basis of bilateral Associations of the Turkish Businessmen. The aim of the BSEC Business Council is to contribute to private and public sector cooperation in keeping with the objectives of the BSEC. The Business Council was the first structure to receive observer status in the BSEC in December 1992, giving the business community the chance to communicate its views easily to the Council of Ministers through its participation in all Working Groups of the BSEC. On the basis of its consultative role within the BSEC decision-making process, it recommends measures and submits activities reports to the Council of MFA and, if necessary, appropriate action.

Despite its restricted, consultative role as envisaged statutorily, the Business Council can be actually quite influential. This is reflected in the BSEC Economic Agenda which requested "the *active involvement of the business community in BSEC decision-making* [emphasis added] and the implementation of joint projects."³¹ Representatives of private companies could be invited to

²⁹ As Ercan Ozer from the Turkish Ministry of Foreign Affairs stated: "The driving force, the locomotive, is to be the private sector," See B. J. Murray, "All trading together – Black Sea Economic Co-operation", *Financial Times*, 25.11.1993, p. iv.

³⁰ TUSIAD, *Karadeniz Ekonomik Isbirliği Bolgesi (KEİB), Ekonomik bir değerlendirme* [Black Sea Economic Cooperation Zone (BSEC) Economic evaluation], No. T/93, 5-159, Istanbul, May, 1993.

³¹ BSEC, *Economic Agenda for the Future towards a More Consolidated, Effective and Viable BSEC Partnership*, Istanbul, October 2001, p.16.

meetings of the relevant working bodies of the BSEC to present their proposals for joint projects when necessary". Firstly, the Business Council participates actively in the negotiation of BSEC agreements and documents. The incorporation of a chapter on SMEs and the strengthening of the business dimension in the BSEC Economic Agenda were initiated by it. Secondly, it has been functioning as a source of knowledge through the organisation of seminars and workshops 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 through the creation of the Black Sea Business Network (BSBIN).

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 it has not systematically approached the BSEC to make sure that such gains are realised.³² Business actors have put forward their demands through different channels. The largest business leaders of the BSEC area have lobbied their governments directly, downplaying the effectiveness of BSEC institutions. 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 rather with other organisations 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 programme on building private public partnerships.

The business community of the Black Sea is reluctant to address its demands to the BSEC as the latter lacks the resources. At the same time, the business community is significantly fragmented. The business communities in Romania and Bulgaria are more interested in direct partnerships with EU and United States interests, while the business community in the Caucasus is mainly interested in restoring links with the Russian markets. Greek and Turkish economic interests bypass the BSEC using their own bilateral channels and Russian business considers the BSEC too weak to serve its interests.

With regard to the demands of the business community, it is important to emphasise that these do not include requests for establishing an FTA or fundamentally changing the mode of function of the 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 capacities within the BSEC so as to speed up economic

³² TUSIAD, *Karadeniz Ekonomik İşbirliği Bölgesi (KEİB), Ekonomik bir değerlendirme* [Black Sea Economic Cooperation Zone (BSEC) Economic evaluation], *op.cit.*

Describing the Black Sea subregion as a market-led phenomenon that exists beyond formal institutional formations would be far from reality. The data indicate an increase in economic transactions among the countries of the subregion but this does not qualify it for existence as an economic bloc.

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 emphasised is the importance of WTO membership and compliance with WTO rules.³³ However due to the fact that trade regimes in the area are centred on 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;
- further efforts from the EU to allow increased market access for those products from applicant countries that are still subject to restriction;
- a design-strategy by the EU 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".³⁴

Business leaders want a change with respect to regional economic integration, but support enlargement of the EU regime and the WTO rules rather than demand a transformation of the BSEC to accomplish this. This helps us to understand why calls for an FTA were not strongly supported but rather a scheme of bilateral free trade agreements was encouraged.

Conclusions

Describing the Black Sea subregion as a market-led phenomenon that exists beyond formal institutional formations would be far from reality. The data indicate an increase in economic transactions among the countries of the subregion but this does not qualify it for existence as an economic bloc.

³³ BSEC Business Council, *New Opportunities in the Black Sea Region, Business Conference, Proceedings*. Istanbul, 28-30 April 1997.

³⁴ F. Miras, Speech in BSEC BC, *New Opportunities in the Black Sea Region, Business Conference*, Istanbul, 28-30 April 1997, p. 2.

Subregional trade and investment links, though increasing in the 1990s, are still relatively weak.

The establishment of the BSEC itself played at most, a 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, the BSEC contributed little to the implementation of trade liberalisation and harmonisation of trade policies. In this case as in other cases of regional integration involving transition economies, the main purpose of regional integration has been to consolidate the autonomous trade liberalisation 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.³⁵ Transition countries - which form the majority of BSEC members - have placed greater emphasis on political considerations than on genuine market-led forces. This can be expected since the private sector is underdeveloped and cannot take a leading role in promoting intra-regional links, nor are there adequate regional infrastructural facilities and financial resources. As has been argued before the notion that an introvert economic development strategy (multilateral economic cooperation between BSEC states) will achieve economic prosperity is at best incomplete.³⁶ It is FDI from other economic zones (in particular the EU) which offers 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 by an increased reliance on the extra-region, and particularly, on the EU. Intra-regional 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 western European markets.

Did the increase of transnational exchanges lead to demands directed at the subregional level? Transnational exchanges have been expanding and demands for change are voiced. Organised 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 to the transplanting of WTO and EU principles in the subregion, as well as to the facilitation of economic activities. The local elites have reached a consensus on

³⁵ OECD, *Regional Integration and Transition Economies: The Case of the Baltic Rim*, Paris: OECD, 1996, OECD, "Regional Integration and Transition Economies: Trade and Foreign Direct Investment Liberalisation in the Black Sea Economic Cooperation, Trade Aspects of the Black Sea Economic Cooperation", OECD Policy Meeting, 15-16 October 1996, Istanbul (Restricted material).

³⁶I- D. Salavrakos, *The Black Sea Economic Co-operation (BSEC): Problems and Prospects of Integration with the Global Economy*, Athens: Institute of International Economic Relations, Occasional Papers No.10, 1997, p.29.

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 may result in continuing isolation from the international economy and perpetuation of the economic backwardness which this could produce.

liberal economic policies and on attracting foreign investment, etc., shaping thus accordingly BSEC structures, priorities and activities. The demand is not for deeper subregional integration but for loose cooperation.

Transnational exchanges (in terms of trade and investment) have not developed subregional dynamics. Firstly, western European countries increasingly have become 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. Secondly, FDI flows within the subregion remain low, developing along 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 towards manufacturing and production but to energy-related activities, infrastructure and raw materials. Therefore, local investors have not yet perceived the Black Sea as a potential market.

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 the BSEC. Second, Russia's economic activities in the area - being the single most significant trade partner in the subregion - concentrated on the 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 modernising 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 the 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) let's recall that two of the BSEC states i.e. Moldova and Georgia can hardly be described as functioning 'national' economies since a part of their

territories and economic activities are 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 may 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.

Economic difficulties and transnational demands have underwritten BSEC reconfiguration to a loose economic cooperative organisation rather than to a trade bloc which would thus request the development of central supranational institutions.