

Regional Cooperation in the Black Sea



Building an inclusive,
innovative, and
integrated region

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15 years
in the Region
growing together

Commissioned Paper for the Black Sea Trade and Development Bank

Dr. Panagiota Manoli, University of the Aegean

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Abbreviations

AA	Association Agreement
BSEC	Black Sea Economic Cooperation
BSTDB	Black Sea Trade and Development Bank
BlackSeaFor	Black Sea Naval Cooperation Task Group
BSS	Black Sea Synergy
CDC	Community of Democratic Choice
DABLAS	Danube Black Sea Task Force
DCFTA	Deep and Comprehensive Free Trade Agreements
EaP	Eastern Partnership
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDI	Human Development Index
ICBSS	International Centre for Black Sea Studies
IOM	International Organisation for Migration
PABSEC	Parliamentary Assembly of Black Sea Economic Cooperation
PCA	Partnership and Cooperation Agreements
TRACECA	Transport Corridor Europe-Caucasus-Asia
WTO	World Trade Organisation

Executive Summary

This report examines the experience of regional cooperation in the Black Sea area, its motivations, the different initiatives that Black Sea governments have pursued, the nature of Black Sea regionalism, and the current challenges. Regional cooperation reflects a rational response to the common developmental and political challenges that have arisen in the last twenty years in the region. As a result, Black Sea governments have concluded a large number of regional cooperation arrangements, out of which the Black Sea Economic Cooperation constitutes the most advanced and comprehensive structure. Though the region has a relatively recent experience of cooperation, it has come a long way in freeing up drivers of change in the economy and society and in building up a solid institutional framework. The Black Sea region is now at a critical juncture as regards reinvigorating its regional architecture and collective action for the future. This report advances the argument that regional cooperation needs to address the three strategic “I’s”—an *inclusive*, *innovative*, and *integrated* Black Sea region.

Introduction

The Black Sea region comprises a diversity of cultural, language, ethnic, and religious identities. Heterogeneity is also met in terms of the economic structure, size, and political orientation of Black Sea countries. It is thus, not merely a crossroads of geopolitical significance but also a crossroads of cultures, societies, and markets.

The Black Sea basin occupies a territory of 834,719 sq. km., and the wider Black Sea area includes a population of 332 million people living in the territories of the twelve member countries of the Black Sea Economic Cooperation (BSEC). As a region, the Black Sea has an estimated gross domestic product (GDP) of around USD 3.6 trillion, producing 4.3% of global GDP (year 2012) (World Bank, 2014b). Istanbul (13,624,240 inhabitants), Odessa (1,003,705 inhabitants), and Samsun (535,401 inhabitants) are its largest ports. There are about ten cities with at least 215,000 inhabitants. Bounded by Europe, the Caucasus, and Anatolia, it is connected to the Aegean and the Mediterranean seas to the south via the Bosphorus Strait and the Sea of Marmara. The Danube is the most important river running into the Black Sea. Apart from the Danube, Europe's third and fourth largest rivers, the Dnieper and Don, flow to the Black Sea.

Whether the Black Sea actually constitutes an international region - or not - has been debated by academics on arguments of identity, culture, market integration, and so on. Historically, there has been no evident form of socio-economic unity in the Black Sea area (King, 2006). Established frameworks of law and order have been a prerequisite for regional economic networks to flourish around the sea basin. The extent to which unifying factors in the region have been reinforced or undermined has depended each time on the extant international balance of power and geopolitical situation. Also, whenever economic life around the Black Sea flourished, it was done so in connection with increased exchanges with global

markets. Historically, entrepreneurial activities and private initiative have been the main unifying factors, while political divisions often undermined this unity. The fact that the economy has historically been the unifying factor in the area was reflected in the name of the new cooperative structure initiated in 1992: the Black Sea Economic Cooperation (BSEC).

As international regions are actually politically designed, one can argue that today, indeed, there is a Black Sea region which is delineated by the political structure of Black Sea Economic Cooperation, thus it comprises twelve countries namely Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey, and Ukraine. Starting from the 1990s, there were a few attempts to construct some sort of formal Black Sea regional community. Black Sea governments have embraced regional cooperation as an important component of their development strategies and concluded a large number of regional arrangements, several of which have significant membership overlap. The Black Sea region is now at a critical juncture as regards building its regional architecture for the future. Currently, the regional community and its institutional architecture are a 'work in progress' gradually taking shape. This region building reflects a process that requires stakeholders to mutually adjust their behaviour through the coordination of policy. The rationale driving this process is that regional cooperation can achieve additional benefits which the independent actions of states cannot.

The present report argues that regional cooperation today makes sense for the Black Sea; a region characterized by developmental and security challenges that require transnational responses. What is at issue, however, is whether the model of regional cooperation currently applied needs to be revamped and to what degree it needs to be tuned to contemporary needs.

I. A New Regional Context and Dynamics

The political and economic landscape of the Black Sea region has radically transfigured since the 1990s though the region is still faced with a complicated security and development nexus. Today, the Black Sea countries are going through a consolidation period, segmenting reforms that have been undertaken in the previous long period of transition. Prior to the global crisis and for the period 2000 – 2008, the region had registered high GDP growth rates at an average of 5.9% (BSTDB, 2011). The global crisis of 2008 posed the most serious systemic threat to this consolidation process, but the Black Sea economies showed resilience to external economic shocks, despite marking a sharp GDP decline in 2009. This consolidation of growth has strengthened regional economic networks and is creating necessary ‘demand’ conditions for the emergence of regional ‘supply’ conditions in the form of institutions and policies.

From an economic and strategic point of view, the Black Sea region derives much of its relevance for the global political economy from its role as an ‘energy corridor’ between the Caspian Sea and world markets and as the host of major energy producers. The region’s natural resources have become an important factor of regional and world economic security and have opened new market and trade opportunities. The importance of the Black Sea for the world economy, however, goes beyond the energy sector. The region hosts two G20 countries, namely Russia and Turkey, being among the largest economies of the world and having a systemic impact on global political economy. Adding the presence of the European Union (EU) on its western shores, following the accession of Bulgaria and Romania in 2007, it becomes obvious that there are actually three G20 powers on the Black Sea coast.

Despite the political and economic volatility and uncertainty, the Black Sea countries have integrated into the world economy, joining the World Trade Organization (WTO),¹ building a solid network of bilateral agreements on free trade, investments protection, and so on which provide the opportunity to exploit their comparative advantage. At the same time, Black Sea economies are increasingly connected through trade, financial transactions, foreign direct investment, technology, labor and tourist flows, and other economic relationships.

One of the main characteristics of the region is its close interdependence with the European Union with which Black Sea countries are tightly intertwined. Bulgaria, Greece, and Romania are EU members while Turkey has opened EU accession negotiations since 2005. Russia has a Strategic Partnership with the EU, while the remaining Black Sea states have signed Partnership and Cooperation Agree-

¹ All Black Sea countries, but Azerbaijan, are members of the WTO.

ments (PCA). Georgia, Moldova, and Ukraine have further advanced their EU relations with the initialling of Association Agreements (AAs) which contain Deep and Comprehensive Free Trade Agreements (DCFTAs). The interdependencies with the EU go beyond the institutional aspects as the EU constitutes the main trade and investment partner of all Black Sea economies while the region accounts for more than 34% of natural gas and oil imports of the EU.

Still, as the local economies become more globalized and regional links are mended after several years of transition, the Black Sea countries have been strengthening trade links with each other, and new trade opportunities for intra-regional trade appear. During the crisis years, *intra-regional trade* links strengthened for several Black Sea states. The trend of regional trade advancing at a faster pace than overall trade volume has actually not been reversed in the region during the crisis years providing evidence of rising regional economic cooperation. Thus, in the years of growth, from 2000–2008 and the recovery year of 2010, intra-regional trade expanded more quickly than overall external trade even though intra-regional trade flows around the Black Sea remained low. As a share of GDP, intra-BSEC trade remained above 8% of GDP in the last decade since (with the exception of 2009) with an upwards trend (BSTDB: 2012). The correlation of low intra-regional trade turnover with higher pace of its expansion indicates that there is room for further trade integration, and thus regional efforts to trade and investment facilitation would bring added value and underpin the efforts of the countries to pursue higher growth on a more sustainable basis, achieve mutual gains, and improve their economic competitiveness.

Regional trade and investment flows have deepened, as a result both of policy and market driven processes. Policy led (or formal) integration refers to a large number of regional and bilateral trade agreements that have built up in the last decade. Market driven (or informal) integration in the Black Sea area was led by investment and trade primarily in the energy sector, but also in services and manufacturing. The mounting importance of trade integration makes the provision of complementary regional public goods – especially infrastructure – of crucial importance. Growth prospects will also depend to a large extent on whether firms can develop a competitive advantage in extra-regional markets.

The positive trends in regional trade reflect improvements in several important domains. The 21st century transformation of the Black Sea has been accompanied by advances in fiscal consolidation, infrastructure (as in transportation and telecommunications), democratic consolidation, and civic engagement in governance issues. The human development consequences have also been profound. Between the years 1990 and 2012 all countries improved their place in the hu-

man development index (HDI) (Table 1). Increasingly, the most important engine of growth and stimulus of intra-regional transactions among the countries is their domestic market. The Black Sea region is largely composed of middle income economies which grow in size and median income. What becomes important as a driver of growth is the acceleration of private consumption, the increased public and private financial inflows, including workers' remittances.

Table 1. Human Development in BSEC Region

2012 HDI rank	Country	2012 HDI Value
29	Greece	0,86
55	Russia	0,788
56	Romania	0,786
57	Bulgaria	0,782
64	Serbia	0,769
70	Albania	0,749
72	Georgia	0,745
78	Ukraine	0,74
82	Azerbaijan	0,734
87	Armenia	0,729
90	Turkey	0,722
113	Moldova	0,66

Source: UNDP data

Migration within the region itself has become an important issue with economic and social effects. It is estimated that there are more than 23 million migrants in the Black Sea region, accounting for 6.8% of its population. Intra-regional migration accounts for 59% (13.6 million migrants) of the total immigration to the Black Sea (IOM, 2008). The reason for this high immigration rate among Black Sea countries is of course related to the geographic proximity and prevalent ties from the Soviet Union era, but it might also be related to the need for cheap labor, the visa free movement existing in the CIS region inherited from past times, and current visa facilitation regimes. The role of remittances in the economic development of the region is an increasingly important issue as remittances are normally positively linked to consumption, social services, and investment. According to

the World Bank (2008), in 2007 the countries of the Black Sea received USD 26.7 billion in remittances (or 8.4% of worldwide flows), 1.5 times more than in 2000. Remittances today account for more than ten per cent of GDP in Moldova, Armenia, and Albania (Table 2). The establishment of personal networks through migration presents many transnational opportunities in trade and investment and in social interactions. It also requires a multidisciplinary approach by the Black Sea countries that comprises various areas such as border security and crime prevention, economic and labour market developments, regional economic integration, and protection of human rights. This kind of multidisciplinary approach for migration management in the Black Sea region requires coordinated efforts against irregular migration flows and simultaneous facilitation of legal ones.

Table 2. Capital Flows and Human Mobility in BSEC Area

2012 HDI Rank	Country	Financial Flows			Human Mobility			
		FDI net inflows 2007- 2011	Remittances (% GDP)		Stock of emigrants 2010	Stock of immigrants (2010)	Net Migration Rate 2005/ 2010	2010 International inbound tourism
			% GDP	Inflows (2010)	Outflows (2010)	% of population	% of population	per 1,000 people
29	Greece	0,6	0,5	0,65	10,8	10,1	2,7	15007
55	Russia	2,8	0,35	1,26	7,9	8,7	1,6	22281
56	Romania	1,5	2,4	0,22	13,1	0,6	-0,9	7575
57	Bulgaria	3,4	2,91	0,05	16	1,4	-1,3	6047
64	Serbia	6	8,72	0,18	2	5,3	0	683
70	Albania	9,4	9,75	0,2	45,4	2,8	-3	2417
72	Georgia	6,8	6,93	0,43	25,1	4	-6,8	2033
78	Ukraine	4,4	4,11	0,02	14,4	11,6	-0,2	21203
82	Azerbaijan	2,3	2,71	1,82	16	3	1,2	1280
87	Armenia	6,5	10,63	1,67	28,2	10,5	-4,9	575
90	Turkey	2,1	0,12	0,02	5,6	1,9	-0,1	27000
113	Moldova	3,9	23,57	2,01	21,5	11,4	-9,4	8
	World	2,7	0,76	0,53	2,9	3,1	0	917082

Source: World Bank 2014a

The tourism industry constitutes today a source of revenues for most Black Sea countries. The Black Sea is being shaped as a cohesive region and an attractive tourist destination not only for foreign visitors but for its own people too. The BSEC countries attract almost 12% of global tourism or more than 106 million tourists (Table 2). What becomes important for the potential of regional cooperation is the fast increase in intra-regional tourism flows in the last years, a trend not present in the 1990s. As the tourist industry is closely linked to infrastructure development, services, and visa issues it represents a field for joint programmes and projects. Ecotourism, cultural tourism such as cultural routes projects constitute such examples of current cooperation among the Black Sea countries.

There is a clear, positive link between the might and prosperity of regional groupings and their openness to the global economy. Attractiveness to external investors and the ease of doing business is important in this respect. All Black Sea economies have undertaken reforms, especially in the last decade, that have been reflected in their overall business environment score. The favorable trend which was marked in FDI inflows since 2000 (BSTDB, 2012: 16) is supported by other qualitative analyses of the business environment such as the World Bank's annual *Doing Business* Report. According to the 2014 edition, there is a significant improvement and positive trend among the countries of the Black Sea region. Six regional economies are listed among the top 35 economies which narrowed the distance to frontier the most since 2005. These include Georgia, which was second overall globally, Ukraine, which was fourth, Azerbaijan, Armenia, Russia, and Moldova (Table 3). Ukraine was the top improver in 2012/13, implementing reforms in 8 of the 10 areas measured by *Doing Business* while Russia scored third (World Bank, 2014a: 9).

The Black Sea has advantages of proximity to large and important markets, especially with regard to the EU market, but what constitutes a new challenge for the region is the rise of Asia in the global economy. The Black Sea is at the crossroads of East and West, and the growing economic linkages with emerging economies enhance its global importance. These developments point to the need to think of the Black Sea area as a neighbourhood of the world rather than merely as a region in the east of Europe.

Table 3. Black Sea economies in the 35 economies narrowing the distance to frontier the most since 2005

Ranking	Economy	Distance to frontier (percentage points)		
		2005	2013	Improvement
3	Georgia	48.4	80.8	32.3
4	Ukraine	38.2	61.3	23.1
15	Azerbaijan	49.0	64.6	15.6
23	Armenia	56.2	69.7	13.5
28	Morocco	52.0	63.9	11.8
29	Russia	49.9	61.6	11.6
35	Moldova	54.4	65.6	11.1

Note: Rankings are based on the absolute difference for each economy between its distance to frontier in 2005 and that in 2013. The data cover 174 economies included in Doing Business. The distance to frontier measure shows how far on average an economy is at a point in time from the best performance achieved by any economy on each Doing Business indicator since 2003 or the first year in which data for the indicator were collected. The measure is normalized to range between 0 and 100, with 100 representing the frontier.

a. Reforms making it easier to do business as recorded by Doing Business since 2005.

Source: World Bank, 2014a: 16

The new trends marked in the last decade with regard to goods, capital, and peoples' movement in the Black Sea region indicate that the design of regional policies needs to be put on a new basis, acknowledging that the societies of the Black Sea can only benefit by joint marketing policies where the Black Sea constitutes a well interconnected regional market.

II. The Experience of Regional Cooperation

Today, regionalism in the Black Sea area is going through its third phase of development. Systemic changes and the evolving domestic context have underpinned three phases of post-Cold War European regionalism (Cottey, 2009: 3–4), a central scene of which has been the Black Sea. The first, formative phase took place in the nineties (1990s) when the end of the Cold War was followed by cooperative initiatives spurred by systemic changes and geopolitical shifts. Europe, in particular, became the theater of so called ‘new regionalism’ schemes featuring comprehensive, multidimensional, open-membership groupings. During this period, local powers saw new opportunities to assert regional leadership while, at the same time, the newly independent states adopted the rhetoric of regionalism in order to enhance their international standing and address development and security concerns.

A second phase of regionalism appeared in the first half of the 2000s when the eastward enlargement of the EU and NATO necessitated cooperative processes designed to mitigate the ‘dividing lines’ created by enlargement or led to the redefinition of the agenda of existing cooperative schemes. The ending of the Balkan unrest and the relative stability around the Black Sea (still though characterized by protracted conflicts) triggered a period of intensive regional institution-building.

The beginning of the third phase of Black Sea regionalism is placed in 2007/8. There are three developments that delineate the third phase of Black Sea cooperation coming from the European, local, and global levels. First, the accession of Bulgaria and Romania in the European Union in 2007 marked the expansion of the EU (and its regime) towards the Black Sea making the EU an internal (rather than external) player in Black Sea affairs. Second, the August 2008 war between Russia and Georgia had regional repercussions in terms of intensifying the security dilemma and in terms of the importance of Russia’s re-emergence in global affairs. Thirdly, the eruption of the global financial and economic crisis in 2008 shifted the priorities of all governments of the region and beyond towards managing macroeconomic imbalances, and it has reinforced the discussion on a new model of development.

These three phases reflect a qualitative and quantitative evolution of regional schemes. The first two phases of Black Sea regionalism are marked with the proliferation of regionally owned initiatives. Having a declaratory goal of trade facilitation and economic integration, their mission was to serve as means of European

voicing and structured dialogue with (often newly established) neighbours as well as stepping stones to global integration. The most important development of the first phase is the emergence of the Black Sea Economic Cooperation (BSEC) which was launched by the Bosphorus Statement on 25 June 1992. 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 divisions in Europe. With the adoption of the BSEC Charter (Yalta, 5 June 1998), which entered into force on 1 May 1999, BSEC evolved into the first full-fledged regionally owned economic entity in the area, becoming the Organization of the Black Sea Economic Cooperation. BSEC constitutes the prime expression of region-building and today represents its most advanced, comprehensive, and institutionally mature form. Today, BSEC, consisting of 12 member states, has 17 Observers and 17 Sectoral Dialogue Partners. Its institutional structure includes a Permanent International Secretariat and four Related Bodies, namely, the Parliamentary Assembly of the Black Sea Economic Cooperation (PABSEC), the BSEC Business Council (BSEC BC), the Black Sea Trade and Development Bank (BSTDB), and the International Centre for Black Sea Studies (ICBSS).

During the second phase (2000-2006), a proliferation of local initiatives was noticed with the initiation of the Community of Democratic Choice (CDC) in 2005 and the Black Sea Forum (BSF) in 2006. These initiatives developed primarily a political agenda putting an emphasis directly on issues of democratization, good governance, security, and civil society. Characterized by organizational flexibility, they constituted fora of political dialogue raising awareness and attracting political attention to the regional level. Nevertheless, they did not add to the cohesion of the Black Sea as a region while their policy relevance faded away. In parallel, a renewed activism by coastal states focused on sea borne threats. Schemes such as the Black Sea Naval Cooperation Task Group (BlackSeaFor), Operation Black Sea Harmony, Black Sea Coast and Border Guards Cooperation Forum, and the Black Sea Commission testify to sea born cooperation among the littoral countries.

All of the above-mentioned arrangements ran in parallel, having no links to each other or any form of interaction often scattering resources and policy focus. Still, this 'spaghetti regionalism' is not confined to the region but is met in most regions of the world representing the so called second wave of a multidimensional 'new regionalism'.

The EU devised its own concept of regional multilateralism in its 'eastern neighbourhood' which has taken the shape of two distinct policies; the Black Sea Synergy (BSS) and the Eastern Partnership (EaP). Thus the third phase of Black Sea regionalism signifies a qualitatively new process in terms of EU's direct involvement in multilateral affairs. At a conference between EU and Black Sea Foreign Affairs Ministers in Kiev on 14 February 2008, the Black Sea Synergy was initiated raising hopes for a new era in multilateralism and increased cooperation among the countries surrounding the Black Sea. Soon after this, the Eastern Partnership was launched in Prague on 7 May 2009 with the aim to accelerate political association and further economic integration between the EU and six partner countries in its eastern neighborhood; Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. The conceptualization of the EaP was dominated by the governance debate (Lavenex 2004, Weber et al. 2008). Essentially, EaP is viewed as an aspect of external governance; rule-based action and the convergence of policies in specific domains pursued through the bilateral and multilateral dimensions of the European Neighbourhood Policy.

The notion of developing 'synergies' within existing assistance programmes, meaning that projects would be also evaluated in 'Black Sea terms', first appeared in the Commission's Communication of 1997 (EC 1997a: 11). The term 'synergy' correctly reflected the fact that it referred to discrete agencies (EU on the one hand, and the Black Sea states and regional organisations on the other) which would act together while it gave a fresh and new meaning to the EU's Eastern policy avoiding the repetition of politically infused words such as 'dimension' (i.e. pointing to the 'Northern Dimension' paradigm). Two of the characteristics that make the BSS distinct is its inclusiveness in terms of participants and its bottom-up approach as it gives priority to cross-border, sub-state cooperation. In terms of its thematic scope, the BSS builds upon the European experience of region building, putting in the core of its programmes functional and 'low-politics' issues (economy, infrastructure, and people-to-people contacts).

Though the two policies were distinct, the parallel launching of EaP and BSS led to a diffusion of political support. The Black Sea Synergy constitutes a rather unsuccessful, so far, effort to reinvigorate cooperation *among* Black Sea countries, while the Eastern Partnership constitutes a renewed 'Europeanization' process for Black Sea countries which have no immediate membership prospects by bringing them closer to the EU through intense bilateral cooperation.² In many aspects, the BSS did not bring about a substantial change in EU policy nor did it reinvigorate

2 On the relevance of the Black Sea Synergy and the Eastern Partnership for Black Sea regionalism see Japaridze et al. 2010.

Black Sea cooperation as it soon withered into irrelevance. Despite its initial success in bringing attention to the regional level, it remained in the slow lane lacking a working programme, plan of action, or funding. Its launching revealed the diverse institutional preferences between the EU and several Black Sea states on the format of the new European Black Sea policy. The core disagreement developed around the issue of the institutional role of the BSEC with the Black Sea countries asking for the primacy of the BSEC as an equal partner in the implementation of the Synergy and the EU side rejecting such a role for BSEC. Consequently, local states and existing organizations did not take action for the implementation of the Synergy despite the ambitious premise that the latter's success would depend on its endorsement by regional partners and players. The BSS has suffered from its own ambiguity, the lukewarm reaction of Black Sea states and organizations, the almost parallel launching of the Eastern Partnership (May 2009) as well as from drainage of political support by EU states that initially supported its elaboration.

Reviewing the matrix of Black Sea regionalism, one can conclude that it does not reflect a single paradigm. There are rather two particular types (Manoli, 2012). One type is the sectoral multilateralism led by international organizations and includes a number of interstate programmes and projects. These are sector-based, and focus on problems primarily linked to environmental protection, such as the Danube Black Sea Task Force (DABLAS), or to transport and energy infrastructure, such as INOGATE or Transport Corridor Europe-Caucasus-Asia (TRACECA). Although technical in nature, these programmes, which are supported financially by the European Union and other donors, have been building cross-border networks but have not equally forged integration as they are focused on East-West linkages rather than economic integration per se. The second type comprises comprehensive schemes such as the BSEC which encompass a multidimensional agenda and complex organizational structure.

The list of types of regional schemes and programmes in the Black Sea area is both long and diverse (Manoli, 2010: 17-22).³ As Cottey (2009: 3-4) has argued, regional groups in post Cold War Europe have developed four distinct roles: a bridge building function across the 'dividing lines' between EU/NATO and their non-member neighbours and the geo-cultural divide between Europe and North Africa and the Middle East; an integrative function helping some member states to integrate into the EU and/or NATO; a role as frameworks for addressing trans-

3 Michael Emerson's (2008) has presented a comprehensive typology of Black Sea regionalism (e.g., technical regionalism, good neighbourliness regionalism, security regionalism, eclectic regionalism, dysfunctional regionalism, institutional regionalism, transformative regionalism, compensatory regionalism, geopolitical regionalism).

national policy challenges (such as environmental degradation and organized crime); and a role as facilitators of political, economic, and institutional reform in participating states. Most analysts agree that it was the concern about securing peace and stability that forged Black Sea countries together and contributed to the set-up of institutions such as BSEC as soon as in 1992. BSEC has actually served all previously mentioned roles but that of a waiting hall for EU/NATO membership, a feature that has made it attractive to such a diverse group of countries and resilient over time.

The evolution of Black Sea cooperation reflects the difficult political, security, and socio-economic circumstances in the region and the often competing policies of their stakeholders. All these efforts take place against a background of considerable obstacles, out of which two are most important; regional rivalry and tense bilateral relationships; and insufficient capacity for regional policy definition and implementation. In some cases, experts (Tassinari, 2006: 1) have identified the over-bureaucratization as one of the causes of the poor performance of certain regional institutions (i.e. the BSEC). Region building efforts have been undermined by the complexity of bilateral relations supplemented by i) the fact that most member states are simultaneously involved in different strands and cooperation programmes ii) the fact that externally initiated processes (e.g. the Black Sea Synergy or the Eastern Partnership) do not usually take into account existing regional schemes, generating policy confusion, diffusing resources and political attention (Manoli, 2010).

However, identifying only constraints of Black Sea regionalism would be misleading. Regional schemes in the Black Sea area have made marked progress in a number of aspects. Putting forward a qualitative argument, regionalism has succeeded in building channels of communication and interaction not merely among the political elites, but most importantly among people who are often called to initiate and implement policies (such as networks of officials working on border issues, organized crime, etc.). This also contributes to the difficult task of trust building. BSEC has made an especially significant contribution to confidence building through its permanent communication channels (such as the various working groups) and policy achievements particularly in so called 'low politics' matters (such as organized crime, science & technology, and emergency situations). Advances in its institutional structure are such that they can now undertake

new tasks as a result of their maturity and accumulated experience. The Parliamentary Assembly of Black Sea Economic Cooperation (PABSEC) has institutionalized political dialogue for democratic stability and was the first of its kind to advance common positions in the form of recommendations in the sensitive fields of education and social policies in the region. Prioritizing project development, the Black Sea countries established their own, though limited, financing mechanisms such as the BSEC Project Development Fund and the Hellenic Development Fund. In this respect, the most important development is the establishment of the Black Sea Trade and Development Bank (BSTDB) which plays a complementary role to multilateral lending and institutions in the last fifteen years since its launching in 1999. The importance of such a financing institution goes beyond its support to national and regional development efforts, to enhancing ownership and overall efficiency. BSTDB serves as a vital source of knowledge and expertise on growth and development for its member countries. Through time, regional policy on specific sectors (such as science and technology) has been informed and supported by research and analysis conducted by the International Centre for Black Sea Studies (ICBSS), BSEC's official think tank, which has been producing scientific knowledge and input to Black Sea-wide, regional processes. Gradually, Black Sea regionalism has acquired a project oriented, network building character (such as Black Sea Highway Ring, the Motorways of the Sea, and a liaison officers network for combating organized crime) rather than focusing on slow moving intergovernmental agreements.

Black Sea cooperation schemes that have taken various institutional expressions, have created a sense of belonging, as well as political, business, academic, and civil society links which constitute a solid basis for undertaking new challenges. Thus, existing regional institutions have had an impact on perceptions change and the accumulation of historical experience and knowledge on how to cooperate and build common institutions and regional communities. The actors (state and increasingly non-state actors) learn how to cooperate and readjust their policies, a learning process that takes time to deliver. The normality of interaction in regionalism helps engaged actors to share experiences and practices, and build networks that inform policy and alter perceptions of interests and modes of contact.

Building on this progress, the challenge for Black Sea regionalism is to be reformed in a way that improves the region's international place.

III. Turning Regional Cooperation into a Collective Project

The global post-crisis economy is faced with challenges that will affect regional dynamics and their institutional expressions. The redesign of global and European governance structures, increased competition and limited access to development financing are just a few of the current trends that will impact the development path of Black Sea countries. In this respect, closer cooperation among the Black Sea states is no longer just a political goal and design, but should be mainly understood as an economic imperative if the region is to integrate into a global economy that is less dynamic, more competitive, and increasingly structured around regional orders. The (geo)economic imperative is now more compelling given the instability of global financial governance as well as the weakening of multilateralism worldwide, both of which point to the need for regional solutions and mechanisms to coordinate collective responses. The Black Sea economies, most of them new entrants in the global economy, would be better off if they manage to place themselves as parts of a larger regional market. However, given the Black Sea's extant geopolitical conditions, the regional project depends heavily on a common understanding between the Black Sea actors. A common mindset among them on regional cooperation as a preferred policy is a requisite precondition.

Growing economic interdependence opens windows of opportunity for regional cooperation among the Black Sea countries. Recognizing this, the Black Sea countries have devised their own regionally shared development strategy as outlined in the Economic Agenda for the Future adopted by the Council of Ministers of Foreign Affairs on 27 April 2001. This roadmap of cooperative development was updated in 2012 in the context of the 20th anniversary of BSEC to address new challenges and opportunities in the global and local environment. It identifies seventeen areas of cooperation varying from trade facilitation to good governance and it prioritizes three goals i) pursuing sustainable development, ii) strengthening the project-oriented dimension of the BSEC Organization, and iii) cooperation with international and regional organizations, reflecting accordingly the developmental concerns of the Black Sea states and their commitment to bottom-up, project based interaction in an open, inclusive format.

Building on this common agenda that expresses a regional consensus, this report argues in favour of a regional strategy to address the three strategic “I’s”—an *inclusive, innovative, and integrated* Black Sea region. Regional cooperation remains the better, though not always the easiest, option as it requires strong and steady commitment to an attainable, well defined *Regional Strategic Framework (RSF)*.

To meet the goals of the RSF, a coordinated phased approach (Manoli, 2010: 29) by the most advanced organization in the region, namely the BSEC, would be required and include:

- raising awareness among Black Sea actors of the added value and benefits of regional cooperation;
- implementing projects that would bring some visible results;
- identifying long-term projects of significant welfare impact.

The traditional welfare related arguments in favor of regionalism are today reinforced by needs arising from current challenges posed by globalization and the post-crisis world order. Thus, especially with regard to the, small in their majority, Black Sea economies, regionalism expands national markets, promotes trade and capital flows, and stimulates production. Today, development strategies are increasingly based on strategic international partnerships in production, logistics, investment, and technology. This is where regionalism brings added value and becomes an indispensable policy tool.

The Black Sea has many strengths upon which a long term regional strategic framework can build to improve the living conditions and quality of life of its people and promote an inclusive, innovative, and integrated Black Sea region. The availability of abundant natural resources and a well educated workforce offer opportunities for productive activities. Its geographical location at the crossroads of major trade routes neighbouring fast developing as well as developed economies gives the Black Sea significant geoeconomic potential. Experience not only from Europe but from other areas in the world as in the Asia-Pacific shows that greater cooperation is needed to improve the place of the Black Sea region in the global division of wealth. This implies dealing with the challenges of productivity, complementarities, and innovation. These do not constitute merely economic notions but have broader social implications as they play an ever greater role in the well-being of a population. Deficiency in productivity, competitiveness, and innovation represent structural burdens to equitable development. Cooperation in areas such as infrastructure, energy, connectivity, and trade facilitation are crucial for competitiveness and growth, a central challenge facing the Black Sea region.

The first step in crafting a regional strategic framework is to identify and support *building blocks* or key drivers of change that will allow its implementation. Such drivers include the development of the private sector; good governance and institutions; a knowledge based economy, and partnerships with development institutions. These drivers should not be seen as independent of one to the other, since freeing up one has positive spill-over effects on the others. They also point to

'deeper' forms of cooperation as they deal with 'behind the border' issues, going further than 'shallow' cooperation that refers mainly to the reduction of measures applied at the border. Specifically:

- *The development of the private sector.* More efficient regional cooperation in the Black Sea area implies enabling factor mobility, the facilitation of movement of finance, people, goods, and services. In this regard, the development of the private sector is a critical vehicle for the optimal allocation of resources to bring about development and regional competitiveness. The private sector and business make *de facto* integration possible as they are the actual agents of intra-regional trade and investment linkages. For this, the improvement of services, some macroeconomic convergence and other complementary policies on regulatory frameworks including on investments are instrumental along with the reduction of obstacles for cross-border business.
- *Good governance and institutions.* Good governance refers to legitimate, rule-based, and efficient policy-making processes and can be used in several contexts such as corporate governance, sectoral governance, national governance, and local governance. As good governance implies effective institutions and the influential role in policy making of non-state agents and civil society, it becomes a precondition for efficient regionalism and collective action. Today's quest for multilevel, responsive, and inclusive cooperation that is not circumscribed along intergovernmental bargaining, requires efficient institutions at all levels of decision making. Institutions in general build the economic, political, and social environment in which regional cooperation and transactions can flourish.
- *A knowledge based regional economy.* In the context of a knowledge based economy, innovation and competitiveness builds upon trained human resources, especially in fields in which the region has or might acquire competitive advantages. Experience of successful regions as in Europe and South-east Asia suggest that knowledge flows, learning and innovation are critical to economic development outcomes. Regions in the face of accelerated global market integration and competition need to build on environments which retain and grow the knowledge economy.
- *Partnerships with development institutions.* The open and increasingly flexible character of Black Sea cooperation requires synergetic approaches that allow international organizations and third parties to engage. Partnerships with de-

velopment institutions will facilitate policy implementation, burden sharing, and provide expertise. Several organizations have significant resources committed to the region (World Bank, EU, UNDP, etc.) which have substantial expertise for project-oriented efforts, and could also play a sustained professional role in supporting regionalism.

BSEC has a central role in fine-tuning Black Sea regionalism. This report does not aim at presenting in detail what BSEC could do, but to advocate i) a strategy for the Organization that would focus on developmental aspects and set a fresh rationale for collective action taking stock of the new state of play in the region; ii) a focused, realistic, and selective, not over-ambitious, comprehensive agenda for immediate implementation that would balance goals with resources; and iii) more proactive institutions and member states to keep the cooperation process on track and ensure continuity. Attention needs also to be given to rationalizing structures between the regional level and national level. Regionalism requires a minimum of national cooperation before any regional consultations can take place, and today's mechanisms are often still too weak to ensure the inclusion of regional objectives in the national plans and budgets. BSEC needs to prepare *Sectoral Integration Strategy Papers* (SISPs) which will implement the long term Regional Strategic Framework, providing guidelines for streamlining regional operations and setting measurable and qualitative objectives in just a few priority areas identified already in the BSEC Economic Agenda (2012).

The pillars of such Regional Integration Strategy for the Black Sea regionalism should prioritize first, *regional infrastructure* and second, *capacity building*. Infrastructure (transport, communications, energy, science and technology) is critical for economic growth, productivity, export development, and balanced territorial development. An *Initiative for Upgrading and Integrating Regional Infrastructure (IRI)* implemented in partnerships could help the Black Sea to narrow the 'infrastructure gap'. *Capacity building* with regard to *human capital development* through technical and financial assistance, in turn, will enable the implementation of the necessary policy changes and strengthen the ability of the partner ministries and organizations to successfully participate and organize activities within the regional cooperation framework.

Conclusions

The phenomenon of regionalism is present in all parts of the world taking a range of shapes and acquiring various dynamics. As a process, it is driven by a combination of economic and political forces; sometimes politics pave the way for economic integration, and sometimes economics lead the way. It has to be acknowledged that each regional process involves its own specific conditions, and cannot simply be transplanted elsewhere in the same way.

Moreover, regional cooperation is not an end in itself. Instead, it is a gradual, multifaceted, long-term process which requires durable commitment to deliver. In the last twenty years, economic difficulties and the need for managing regional public goods (such as environment, trade, financial stability, and knowledge) have generated strong demands for regional cooperation and integration. In the Black Sea, these demands for policy coordination and regional responses need to be efficiently channelled into regional policy-making processes. In the 21st century regionalism has shifted more to governance rather than integration. The need for regional institutions comes from the inability of global ones to respond to region specific needs in a timely and efficient manner. Today, it makes sense for like-minded neighbouring states to address common challenges cooperatively first at a regional level while pursuing global responses to these issues where needed. Furthermore, governments are understandably concerned with preserving national sovereignty. Still, a better strategy would be 'responsible sovereignty' (UNDP, 2013: 7) whereby countries engage in fair, rule-based, and accountable international cooperation, joining collective endeavours that enhance welfare. Co-operation may be complex and cumbersome, but the reality is that none of the

development challenges facing today's intertwined world — from imbalances to resource scarcity — can be solved without it.

The tools to shape cooperation processes have also evolved along with economic and technological developments. The ingredients for successful regional cooperation today are not necessarily the same as those that would have appeared indispensable twenty or fifty years ago. As Pascal Lamy has argued (2010: 32) the toolbox for regional integration includes more of efficient procedures for delivering business visas and regional agreements on standards as tools that are more likely to help integration than a customs union or common external tariff, which were the leading tools of previous decades.

As the most successful case of cooperation, the European experience shows cooperation requires steady determination and political commitment. However, to turn regional integration into a collective project the involvement of business people and civil society is also critically important. Intergovernmental processes in the Black Sea would be invigorated by more active and greater participation of civil society actors, including the business community from within as well as outside the Black Sea which can bring additional resources as well as valuable solutions to critical regional problems.

For any regional policy to deliver, there is no substitute for the role of local stakeholders (state and non-state). Local elites need to step up their efforts and support regional efforts as an indispensable context within which national (development and security) policies can better perform and be sustained.

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