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Werner Gumpel\*

## The Black Sea Economic Cooperation Zone Outline of a New Community of States

*The political changes in eastern Europe have opened up new opportunities for trade among the countries surrounding the Black Sea, and especially between the former socialist countries and Turkey, the country with the longest Black Sea coastline. The following article describes the present stage of economic cooperation reached by the countries concerned and analyzes the prospects for the future.*

The disintegration of the Soviet Union and the communist bloc and the opening up of the borders in south-eastern Europe and Caucasia for people, goods, capital and services have created new political and economic opportunities around the Black Sea and in the neighbouring regions. The communist governments are being replaced by democratically elected ones and the centrally planned economies by economies based on the market system.

This has led to a completely new situation in the area around the Black Sea, which is of particular significance for Turkey, as the country with the longest Black Sea coastline. Up until the political turn in the Warsaw Pact countries Turkey was the only Black Sea country with a democratic system. Furthermore, it was firmly established as a member of NATO and was regarded as the Pact's south-east anchor. Within the framework of the "Cold War" all the other Black Sea countries were enemy territory.

Turkey was therefore forced to spend considerable resources on the defence of its territory against the potential enemies. The opportunities for economic relationships were limited by the monopoly of foreign trade ruling in the eastern bloc countries and the policy of relative autarky which they pursued. Communications between Turkey and its communist neighbours were correspondingly reduced to a minimum. The total share of CMEA-countries in Turkey's foreign trade in 1990, the year of the changes, was 8.7% of exports and 7.6% of imports, whereby the share of the USSR, the main trading partner in the CMEA at that time, was 5.6% of imports and 4.1% of exports.<sup>1</sup> Approximately 90% of trade with the CIS states falls to Russia.

There can be no doubt that the potential opportunities for trade are much greater than is apparent from the foreign trade data. Russia, Ukraine and Azerbaijan, in particular, can supply Turkey with the fuels and raw materials it lacks and urgently needs; sources of energy are of particular importance here. Turkey, for its part, can open up new markets for its products, some of which are not yet up to world market standards. The markets in the USSR's successor states will for quite some years to come offer sales opportunities for goods which with regard to both quality and design are not marketable in the industrial countries.

Markets in the former communist countries will be capable of absorbing goods above all once the necessary transport infrastructure has been created. This is a prerequisite for closer political and economic cooperation. Because the geographical distance between the trading partners is relatively small, if economic cooperation were intensified the transport costs of the traded goods could be kept low and economic benefits of the exchange of goods and services could thus be increased.

It is therefore not surprising that it was Turkey which, following a suggestion by President Özal, began the discussion on the idea of closer political and economic cooperation among the Black Sea countries. At a conference in Istanbul in June 1992 a community entitled the "Black Sea Economic Cooperation Zone" (BSECZ) was established. In addition to Turkey, the founding members were Russia, Ukraine, Moldova, Georgia, Armenia and Azerbaijan from among the USSR's

<sup>1</sup> Cf. TÜSIAD (Turkish Industrialists' and Businessmen's Association): The Turkish Economy '90, p. 73; and Türkiye İstatistik Yıllığı 1990, pp. 353 and 354.

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successor states, the former socialist states of Bulgaria, Romania and Albania, and Greece. Among the eleven member states there are four which do not have a Black Sea coastline, but which have an essential interest in close economic cooperation with the Black Sea countries and especially with Turkey. Membership of the community is open to other countries; Turkey is thinking in particular of membership for some of the new Turk republics such as Kazakhstan and Uzbekistan, but also of Macedonia and Bosnia-Herzegovina.<sup>2</sup>

The founding of the cooperation zone was preceded by extensive negotiations with the former Soviet Union, Bulgaria and Romania. A first preparatory meeting took place in December 1990 in Ankara. This was followed by discussions in work-groups in Bucharest and Sofia. The founding document was agreed upon on the occasion of a conference of Foreign Ministers in Istanbul in June 1992.<sup>3</sup> The cooperation zone embraces a market of 19.2 million sq.kms. and 322 million people with gigantic resources of raw materials and fuels (EC: 2.4 million sq.kms.; 345 million people).

### **Objectives**

The extremely comprehensive founding document contains 18 items of both a political and an economic character. The most important objective is to turn the Black Sea region into a zone of peace, political stability and prosperity. In the political sphere, this means the creation of a consultation mechanism for the partner countries. The desired close economic cooperation is to be achieved by liberalising traffic in goods and services as well as by freedom of movement for labour and capital. The governments of the member countries are to create the conditions necessary for close cooperation between private enterprises, which in the formerly socialist countries, however, will first have to be established. One focal point of economic cooperation is to be transport. Others are telecommunications and the exchange of data and information as well as the fishing industry. Particular importance is also accorded to the fields of energy and the environment. A "Black Sea Foreign Trade and Investment Bank", which is to be set up with Japanese assistance, is to create the financial prerequisites for cooperation.

A number of political conditions must be met in order to achieve these goals. Among these are the facilitating of

<sup>2</sup> Cf. The Black Sea Economic Cooperation Zone, Other Countries and Turkey, in: Middle East Business and Banking, Istanbul 1992, Vol. 12, Nos. 8-9, p. 11.

<sup>3</sup> Cf. Tansug Bleda: Black Sea Economic Cooperation Region, in: Dis Politika, Ankara 1991, Vol. XVI, Nos. 1-2, p. 61.

<sup>4</sup> On this, cf. Financial Times of 24. 2. 1992 and 10. 7. 1992 and Frankfurter Allgemeine Zeitung of 26. 6. 1992.

travel by abolishing visa requirements and by abolishing work permit requirements for citizens of member countries, as well as the reduction of customs duties and quotas. The organs of the BSECZ are the Conference of Foreign Ministers, which is the supreme organ, and commissions of experts. While the Foreign Ministers are to meet once a year, it is planned that the commissions of experts hold more regular meetings.<sup>4</sup>

### **Economic Situation**

The region's industrial potential is impossible to assess if and when the former socialist countries succeed in "taking off". Enthusiasm is not called for at present, however, although Turkey in particular rates the new regional cooperation very optimistically. For the time being it is a union of the economically weak and the poor. All the member countries are at a relatively low stage of development. This is even true of Russia and the Ukraine. Although their industries are extensive, they are run down and obsolete and are therefore not competitive on international markets. The Greek economy, too, has so far not succeeded in solving existing problems. Without the assistance of the European Community, of which Greece has been a member since 1981, the Greek economy would find itself in an even sorrier state, however.

In addition, the economies of the former socialist states, and thus of nine of the eleven BSECZ members, are – following the political changes in these countries – going through a severe crisis with sharply declining production figures and falling real incomes. Parallel to this, their total volume of foreign trade is diminishing at two-digit percentage rates. Stabilisation will at best take a number of years to achieve and a marked improvement in the state of their economies will take 10 to 15 years. For the present,

**Table 1**  
**The Black Sea Economic Cooperation Zone**

	Population in 1,000s	Area in sq.km.
Albania	3,388	28,748
Greece	10,260	131,957
Turkey	56,500	779,452
Bulgaria	9,010	110,994
Romania	23,272	237,500
Moldova	4,400	33,700
Ukraine	51,800	603,700
Russia	147,400	17,075,400
Georgia	5,500	69,700
Armenia	3,500	29,800
Azerbaijan	6,900	86,600
<b>BSECZ total</b>	<b>321,930</b>	<b>19,187,551</b>
<b>European Community</b>	<b>345,000</b>	<b>2,400,000</b>

Source: Bundesstelle für Außenhandelsinformation: Short reports on individual states.

the economic systems of the member countries are not compatible. Whereas Turkey has been taking the path towards a market economy since 1980, although it still has a very large, deficitary state sector, and while Greece is also a country guided by market principles but with strong interventionism on the part of the state and a large state sector, in the former socialist states market economy structures and a private sector must first be created. This will require an uncompromising transformation process, which with the exception of Bulgaria and possibly also Romania has, however, met with determined resistance from the old communist élite and with both a lack of understanding and incompetence in large sections of the population.

### Political Conflicts

The initial situation of the Black Sea Economic Cooperation Zone must also be regarded as difficult because there are a large number of political and military conflicts within the region. A large number of the members regard each other as enemies. Turkey and Greece, for example, are divided not only by four centuries of Ottoman history but also by the Cyprus and Aegean conflicts. Following the political changes in eastern Europe, it proved possible to ease the political differences between Turkey and Bulgaria over the treatment of the Turkish minority, but it cannot be ruled out that these revive again. Relations between Romania and Russia, and between Romania and Ukraine, are strained because of the armed conflict in the Dnestr region of Moldova. Moldova had to fight there against Russian troops and units of the local Russian population. The truce which followed these bloody conflicts is fragile. Georgia is fighting against the

Abkhaz minority in the west of the republic and against the Ossetians in the north. Both of these groups are receiving military support from the Russians. If Abkhazia secedes from Georgia, the latter will lose its most important port on the Black Sea following Batumi. Armenia and Azerbaijan are engaged in a bloody war over the Azerbaijanian province of Berg-Karabakh. The Caucasian peoples living in the Russian Federation fight partly among themselves and rebel against the Russians. Russia faces the risk that a number of republics might secede, such as Chechnya, Tatarstan and Bashkortostan. This process will not take place without violence.

In these military conflicts not only industrial plant is destroyed, but also parts of the transport and energy infrastructure, which is poor to begin with, as well as housing and communal utilities. This not only causes delays in the development of the economy but also causes the situation from which this development has to start to deteriorate further. Just how, under these conditions, a fruitful cooperation in the region, entailing the harmonization of economic and financial policies, is to be put into effect, is a question which cannot be answered at present. For the time being, therefore, the BSECZ is no more than a declaration of intent.

### Turkey's Interests

Nevertheless there are at the present time a large number of opportunities for cooperation, even if this must take place on a bilateral basis to begin with. The main interested party is Turkey, whose economy has experienced a marked thrust towards modernization since 1980 and is now looking for new markets. As one of the most important Black Sea countries its aim is to be the first

Hans W. Micklitz (ed.)

### Post Market Control of Consumer Goods

The Community has defined the objective of achieving the Internal Market by 1992. Efforts to open up markets by harmonizing divergent technical standards and regulations have involved the Community in product safety matters. This is now manifested in the Draft Directive concerning general product safety.

The present study on post market control, conducted on behalf of the European Commission, looks at two ways in which the „Europeanization“ of the rules governing this area might take place. First, the post market control systems in selected Member States, in Australia, Sweden, and the United States are analyzed, so that the consequences and perspectives for the establishment of a European post market control system may be examined. Secondly, the findings of the comparative analysis of post market control in the Member States and non-EEC countries are contrasted not only against the mechanisms proposed for the harmonization of the Member States' legislation but also against the mechanism proposed to monitor product safety on a European level in emergency situations.

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state to make its political and economic presence felt in the region and thus to acquire an influence which will stabilize and strengthen the country. The BSECZ is an instrument for achieving this objective.

Turkey is interested above all in the realization of projects which bring benefits to its economy, but which also at the same time lead to the economic integration of the BSECZ member countries. Such projects are also in the interests of the partner countries. Turkey is thinking in particular of electricity networks and of a network of gas and oil pipes leading into Turkey and via Turkey to the Mediterranean and to western Europe. This could give a new stimulus to the region's chemical and petrochemical industry. In the field of transport infrastructure it is intended to construct new railway lines, roads, airports and harbours, and to modernize existing ones, as well as to modernize air traffic control and telecommunications. And finally, the Black Sea is to be opened up to tourism to a greater extent than at present.<sup>5</sup>

Turkey hopes to receive contracts in all of the areas mentioned above as well as for the conversion of the armaments industry and in building. Turkish building contractors have already been operating successfully in the former Soviet Union and its successor states for a number of years, which is the reason why Turkey believes it will have especially good opportunities in future once a politically favourable climate has been created (which is the purpose of the BSECZ). Since Turkey is firmly integrated into the world economy via its association with the EC and its membership of the Economic Cooperation Organisation (ECO),<sup>6</sup> and the former socialist countries can in some areas thus find easier access to the world market, and especially to the market of the Islamic countries, through Turkey, closer cooperation with the latter is likely to be of interest to them, too.

**Relationship with Russia**

Russia has shown a particularly strong interest in the BSECZ. It regards the declaration of Istanbul above all as a contribution to the security of its southern border.<sup>7</sup> This is

<sup>5</sup> Cf. Nihat Gökyigit: Success of the Black Sea Economic Cooperation Zone and the Role of Turkey, in: Turkish Review (Ankara), Vol. 6, No. 28 (summer 1992), pp. 7-10; and Seyfi Tashan: Black Sea Cooperation: A Framework for Hope, *ibid.*, pp. 5-6.

<sup>6</sup> This developed out of the "Regional Cooperation for Development" which was founded in July 1964. The members to begin with were only Turkey, Iran and Pakistan. In the meantime some of the new Turk republics have also been admitted. For more details cf. Osman Cetintas: The Economic Cooperation Organisation. Its Past and Present, in: Dis Politika (Ankara), Vol. XVI, Nos. 1-2, p. 63 ff.

<sup>7</sup> Cf. Izvestia of 24. 6. 1992.

<sup>8</sup> Cf. Izvestia of 19. 8. 1992.

<sup>9</sup> Cf. Izvestia of 24. 6. 1992.

<sup>10</sup> Cf. Financial Times of 9. 9. 1992.

also expressed in the agreement made in Moscow to work together with Turkey towards the creation of an "Interparliamentary Assembly of Black Sea States". At the same time a broad framework for economic cooperation was drawn up. Turkey is thus to cooperate in the modernization of the Black Sea ports of Novorossiysk, Tuapse and Sochi, and in return will receive, above all, natural gas from Russia.<sup>8</sup> This can be expected to considerably ease the strain on Turkey's energy balance-sheet. Russia for its part hopes that the development of the ports will provide stimuli for the Black Sea region. The Russian government is also interested in the development of a ferry service between Novorossiysk and Samsun. It wishes to use this route not only for the transport of goods to Turkey but also for part of its trade with Arabia. Considerable savings can be made by circumventing the Bosphorus in this way.

In addition to the above, Turkey is endeavouring to intensify its cooperation with Russia in other economic areas such as the development of tourist infrastructure on the Black Sea coast, the improvement of the ecological state of the Black Sea and the construction of the planned "ring road" around the Black Sea.<sup>9</sup> The improvement in Turkish-Russian relationships is expressed in the development of the volume of trade between the two states, which in contrast to the general trend of Russian foreign trade increased markedly in the first half of 1992.<sup>10</sup>

**Bilateral Agreements**

Romania is also of interest to Turkey. The exchange of goods between the two countries has been expanded considerably since 1980, although it remained at a very low level (cf. Table 2). Eight hundred and twenty-nine Turkish-Romanian joint ventures are a sign of the Turkish economy's strong interest in the Balkan state. Extensive

**Table 2  
Turkey's Foreign Trade with the Members of the  
Black Sea Economic Cooperation Zone, 1990**

	Imports		Exports	
	in US-\$ 1,000	in %	in US-\$ 1,000	in %
Albania	1,453	0.01	5,680	0.04
Greece	128,591	0.58	139,387	1.08
Bulgaria	31,880	0.14	10,366	0.08
Romania	202,485	0.91	83,165	0.64
former USSR	1,247,436	5.59	531,139	4.10
<b>BSECZ total<sup>1</sup></b>	<b>1,611,845</b>	<b>7.23</b>	<b>769,737</b>	<b>5.94</b>
Foreign trade total	22,302,126	100.00	12,959,288	100.00

<sup>1</sup>Including those of the USSR's successor states which are not members of the Black Sea Economic Cooperation Zone (The Baltic States, Belarus, the Turk States).

Source: Dis Ticaret Istatistikleri 1990 (Foreign Trade Statistics 1990).

cooperation agreements have also been signed with Romania, and here, too, the BSECZ can at first only bring improvements in the atmosphere.<sup>11</sup> The same can be said for Bulgaria.

Cooperation between Turkey and Azerbaijan has developed particularly intensively. Turkey hopes that the expansion of its connections with Azerbaijan and with the Caucasian states will bring an economic revival to its Black Sea coast as well as to eastern Anatolia. Since the opening of the borders, per capita income in these regions has risen markedly, especially in the region of Trabzon. In the long term the Turkish government would like to make Trabzon and its port into an important centre of trade for Caucasia, as used to be the case in the past. In order to achieve this, the port is to be extended and modernized and the town to be declared a free trade zone.<sup>12</sup> The roads to the Georgian and Armenian borders are to be improved and new bridges built. The town of Erzurum will also profit from this.

Turkey also shows a lively interest in improving its relationship with Armenia, a wish which is shared by the latter. Armenia believes that the expansion of commercial relationships could also contribute towards the solution of political problems.<sup>13</sup> The supply of 100,000 tonnes of Turkish grain to Armenia in autumn 1992 in order to relieve the famine there must be seen in this context.<sup>14</sup> No information has yet been divulged, however, on the existence of concrete cooperation projects. Extensive border trade has already developed with Georgia, but due to the military conflicts in the country larger projects are out of the question at present.

### Prospects

The basic problem to be solved is the financing of the numerous capital-intensive projects. It is for this reason that the Black Sea Foreign Trade and Investment Bank already mentioned above is to be founded, of which it is hoped that it will be able to provide the necessary funds via cooperation with the World Bank, the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC), as well as the Far Eastern investment banks and the banks of the member countries. However, as long as the region continues to be

insecure politically, economically and legally, it will hardly be possible to acquire western capital.

Both the Greek and the Turkish business communities have in the past repeatedly attempted, in spite of all the existing political differences, to improve economic cooperation. They see a large number of opportunities for improving economic relationships, in the fields of trade, transport (the use of the Greek merchant fleet by Turkish shippers, the improvement of transit traffic) and tourism.<sup>15</sup> Under these circumstances, the BSECZ can also gain in interest for Greece and contribute towards political stabilisation in the eastern Mediterranean.

To summarize, it can be stated that the Black Sea Economic Cooperation Zone is, to begin with, primarily an instrument for Turkey to exploit the new political situation in the Black Sea area for the accelerated development of its own economy. This finds its expression in its efforts to intensify economic cooperation above all with the successor states to the USSR, but also with the states of south-eastern Europe. In this way Turkey is creating new markets for itself, but it is also opening up its own market to supplies from its trading partners, although these supplies will largely consist of raw materials and fuels due to the lack of other competitive products. With the progressive development of the postsocialist economies and the improvement of cross-border traffic routes, this at first complementary foreign trade will take on an ever more substitutive character and thus bring increasing benefits to all participants. In the medium term the Black Sea Economic Cooperation Zone can become a new free trade zone with trade-creating and integrative effects.

For Turkey, however, the BSECZ does not represent a substitute for membership of the European Community. The markets which are arising in the extended Black Sea area can replace Turkey's western trading partners neither from the demand nor from the supply side. This is particularly true for purchases of capital goods and for sales of textiles (western Europe, and in particular Germany, are the most important buyers of Turkish textiles). The Turkish government does not wish to sever Turkey from Europe. Rather it is concerned with the exploitation of economic and political opportunities which have arisen through the collapse of communism in south-eastern Europe and in the Soviet Union. The same is true for Greece. Romania and Bulgaria are seeking more intensive cooperation with the EC and hope, via association, to achieve membership some day. Thus, we must agree with Foreign Minister Cetin when he describes the Black Sea Economic Cooperation Zone not as an alternative to the EC but as an "extension of the European dimension".<sup>16</sup>

<sup>11</sup> Cf. *Tribuna economica*, Bucharest 1992, No. 7, p. 2.

<sup>12</sup> Cf. *Neue Zürcher Zeitung* (foreign edition) of 25. 9. 1992.

<sup>13</sup> Cf. *Hürriyet* (Ankara) of 23. 9. 1992.

<sup>14</sup> Cf. *Izvestia* of 22. 9. 1992.

<sup>15</sup> Cf. Faruk Sen: Interaktionsmöglichkeiten der griechischen und türkischen Wirtschaft – eine Möglichkeit für die Konfliktmilderung, in: *Südosteuropa*, Vol. 39 (1990), No. 2, p. 137.

<sup>16</sup> Cf. *Neue Zürcher Zeitung* (foreign edition) of 26. 6. 1992.