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ADVANCES ON HOW TO STRENGTHEN THE PEACE WITHIN THE BLACK SEA REGION

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Abstract

The reason/motivation for addressing issues related to the Black Sea region is multifaceted and requires adequate explanations which will be referred to here from Romania's perspective as a Black Sea area country by geography, historical background, cultural and social characteristics, the bridge of economic and cultural changes, peace stability and military safety. Its economy and standard of life is sensible to the various factors and trends originating in the region. This paper aims to offer new perspectives in sustaining the idea of a valuable contribution at the regional stability.

Key words: *Black Sea Region; stability; sound/sustainable development.*

JEL classification: O01, O03, O05



Positioning the Black Sea Region

The region we introduce for discussion can be identified in the Eastern part of the European continent highlighted around the Black Sea basin.

There are two distinct subgroups within the region marked with different colour patterns in the figure below.

The first one grouping Romania, Bulgaria, Turkey, Armenia and Georgia in the Southern half (in green) and the second one with Moldova, Ukraine, Russia and Azerbaijan in the Northern half (in yellow).

The Black Sea Region stands at the Eastern extremity of a politically strong, culturally rich and economically developed core, the European Union.

The Black Sea Region developed throughout the history at the crossroads of Europe and Asia continents, and exists today half way between several important business locations, such as the wealthy nations of Europe, the resource-rich Middle East and old traditional Central Asia.

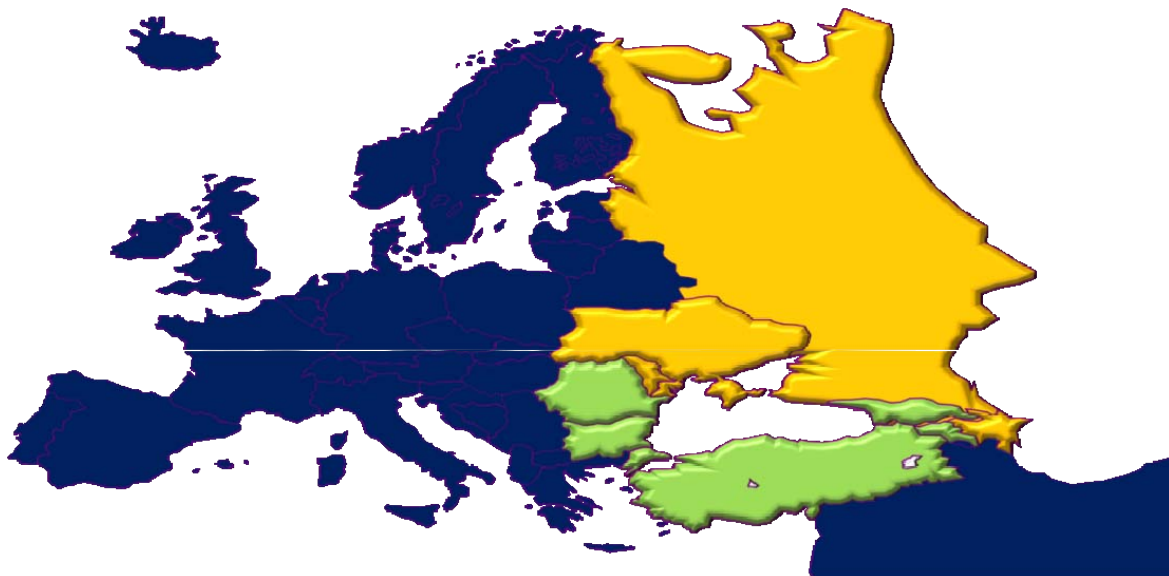


Figure no. 1. Geo-political localisation of the Black Sea Region

Source: own made figure



Historically and geographically, Romania was always at the core of this space and its cultural heritage contains multiple bridging elements borrowed somehow from and reflecting its geographical pattern.

The region holds a particular importance in the policies and business sustainability of both Romania and European Union. Therefore, the Black Sea Region requires specific attention and research from the part of analysts, historians, politicians as the European Union's economic influence cannot strengthen without simultaneously affecting that influence zone of the Russian Federation. The present situation increases the general preoccupation for the concept of *conflict of interest* [Luce and Raiffa, 1957] because most market interactions are consistent with *non-zero-sum* scenarios, meaning that participants have incentives to work together and to try to limit each other's losses. The derivate of this idea could refresh the classical hypotheses as new scenarios such as • constructed in complete information, meaning that the participants know their payoffs and strategies as well as those of their counterparts; • fully cooperative or fully non-cooperative; • simple realistic game represented in their normal form [Harsanyi, 1986].

The Multiple Facetted Sides of Business Cooperation and Competition inside the Black Sea Region

Strengthening business operations across the regional borders can create important incentives for long-term cooperation and represent a safeguard against multiple forms of interstate conflict.

While the relation between international trade and risk of interstate conflict has been addressed by multiple studies with mixed results, there is a consensus on the matter that the two elements are connected.

This way, the competition will connect to the long-term evolution of markets [Harsanyi, 1986].



Figure no. 2. Countries with access to the Black Sea

Source: own made figure

Cooperation or competitive outcomes *are justified by appealing to the natural selection of the behaviour that is more fit* [Duffy et al., 2011]. When determining the factors leading to sound development in a particular region, the positioning relative to advanced economies and technologically-superior states turns into highly significant.

Regions with agglomerations of strong economies usually represent the *externality arenas* where long-term development and investment in technology can be transferred between members and yield economic advantages [Bergman & Schubert, 2005]. The characteristics inherent in such scenarios and the main factors at work might pin point certain pre-existing or newly-assembled conditions that could be the prerequisites for future growth in peripheral regions.

While starting at a distinct disadvantage in terms of infrastructure, technology and know-how, periphery states had to have certain attributes that allowed for fast growth and typically more sustainable development than the societies they were originally modelled on.

The region's economy and life catch the marks of the neighbouring states' decisions and ambitions, formulated and adopted in specific models that can predict various geopolitical scenarios. The more volatile the global



economic environment is, the higher the risk of contagion ushered in by the forces of globalization. As a consequence, the business environment necessitates coping with the surroundings versatility and the companies carefully watch the big picture linked to competitive actors: owners and investors, clients, suppliers, laws and regulations, technological change, political factors, economic trends, social and behavioural aspect [Business Dictionary]. The macroeconomic analysis relies on business conditions on all levels and tracks, the external factors interfering with business operations and decisions [Kew & Stredwick, 2005].

The ways the changes are predicted rely on the public authorities and international entities understanding and recognition recognised and outlined under different surveys, such as: The World Business Environment Survey (World Bank), and the Business Environment and Enterprise Performance Survey (EBRD) highlight the importance of taking apart, and forecasting fluctuations in international business conditions. For such purposes, outstanding classification tools are used, such as: a) PEST (political, economic, social, technological sources), b) PESTLE – as an extended version (political, economic, social, technological, legal, ethical sources) and c) STEEPLE method (social, technological, economic, environmental, political, legal and ethical sources) to assess, identify and understand the impact of factors that come into play [WB and European Bank for Reconstruction and Development (EBRD) surveys].

Some elements are crucial as they contribute at influencing *the area state of the art*, such as:

– *The political system*: while the authoritarian leadership significantly and directly influences the market, the democracies guarantee a more transparent, gradual and mediated form of intervention, with particular direction of economic and social development;

– *The corruption size*: It can distort the construction and application of good policies, the distribution of resources, the encouragement of particular economic entities and the overall efficiency of the market processes.

– *The recognition and acceptance of the regional collaboration* as a prerequisite for tackling environmental and security matters [Ciuta, 2007].



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There are additional elements to consider for rapid periphery development with strong and reliable inputs and they are present in the Black Sea area.

Following the centrally controlled markets collapse in the early nineties, the countries surrounding the Black Sea basin found themselves engaged in serious and sustained diplomatic, cultural and business relations in the international arena. Among the most important contacts created by those nations are the diplomatic and economic cooperation with the European Union.

Thus, the degree of anxiety regarding the Russia-Ukraine conflict is extremely high both in Georgia and Moldova. With all American and European eyes on that struggle, the area needs both a peaceful and proactive attitude in protecting also Georgia and Moldova from any external intimidations. The crisis in Ukraine would be better solved away from any military solution and the involved parties should avoid any steps that could lead to a new escalation of the situation. While countries such as the Russian Federation and Turkey have acquired peculiar, touchy relations with the Western European nations, others, such as Romania and Bulgaria, made full integration the cornerstone of their future and foreign policy.

Besides this, an important element considered as a prerequisite for periphery development is the technological spill over, that can be generated indirectly by the operations of companies on the market or directly through the action of spill over agents, such as employees, researchers and well-informed individuals who migrate from one company to another or across different markets. Operating according to the principle of a free and open market, the countries in the Black Sea Region have been and continue to be exposed to spill over effects from the activities of more experienced and technologically advanced companies. Numerous multinational companies have been attracted to the region for particular reasons:

- expanding parts of their production and distribution facilities into the countries of Eastern Europe and the Black Sea Region;
- splay their national activity to use the less costly international labour;
- benefit of lax regulations and widespread openness to foreign investment.

While the income distribution and the wealth gap within countries has become a serious and complex challenge, there were overwhelming

signs that technological pullovers had a positive effect in reducing the discrepancy of capabilities and principles between Western nations and those in the extended Black Sea Region.

The Challenges of the Peaceful Signs of Development

Since its exit from the Soviet Union, Ukraine has struggled with inflation, experiencing hyperinflation, identified with the strong dependency on Russian imports. However, after gaining independence, the country experienced the national advantage of technology, expressed in a greater number of patents applications by residents and non-residents that became over 2700 in 2015.

Moldova also encountered major stumbling blocks on its path to democracy and an open market. The most significant drawback following the Soviet collapse was represented by the rise in ethnic tensions which led to a prolonged and indecisive conflict in the region of Transnistria. Moldova has remained one of the poorest European nations dependent on Russian energy and on the financial packages negotiated with the European Union and International Monitoring Fund. However, in pace with other countries in the region, Moldova has stepped up its engagement with international organizations. While shifting its orientation to the West, most decisively by participating in talks to increase its cooperation with the EU and NATO, Moldova has become increasingly vulnerable to economic pressure from the Russian Federation or indirectly from the latter's policy towards Ukraine. Currently, the Moldovan market has regained its positive trend and the foreign direct investment has been improving in the last decade.

Social factors pose both opportunities and threats for the business environment, as they provide customers and workforce in parallel and concurrently increase the risk of instability and ethnic conflicts caused by the 3.6 million of Moldovans or Romanians (78.2%), Ukrainians (8.4%), Russians (5.8%), Gagauz (4.4%) and Bulgarians (1.9%). Disputes between ethnic Moldovans and Slavs have directly disrupted economic activities in the region of Transnistria and indirectly affected the market as a whole.

The technological factors are important if companies operating in the local environment desire to remain efficient and competitive on an



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increasingly global market. In terms of legal and ethical aspects, the business environment is plagued by a rather bureaucratic and corrupt system which ranks 94th on the Transparency International 2014 Corruption Index, with a score of 36 out of 100 [Transparency International Corruption Index, 2014].

Russia occupies a significant position on the international scene by means of its energy exporter status, military capabilities, economic potential, and technological and engineering renaissance, with the country being very active in aerospace research and development.

Political factors have far-reaching effects on the Russian business environment with decisions in Moscow affecting the operations of companies in all fields of activity. Despite the fact that important steps have been taken to open the economy, state decisions have a heavy toll on the policies of the private sector [CIA World Fact book]. Russia remains a complex and important role in the Black Sea Region [World of exports], influencing the business environment in other countries and generating both threats and reassurance depending on the context.

European Union and China remain the two important destinations for Russian international exchanges [IMF and WB Statistics]. The country has become the world's largest producer of oil and the second largest producer of gas. However, other than the clear advantages generated by this situation, risks can also be identified for the Russian economy, as these types of exports are very susceptible to world trends, their prices rising and falling based on fluctuations in the economies of other regions. The imports statistics show Germany as the main European partner for Russian companies (after China).

Russia and China have a long history together in the field of economic cooperation. The business environment is influenced by social factors too – a large and declining population of 142.5 million that is unevenly distributed territorially, increased strain on future policies and ethnic, religious and cultural discrepancies between regions which can generate dormant or active conflicts. The legal and ethical factors remain a bottleneck for many Russian business operations, as the country continues to be subject to a highly bureaucratic system that is distorted by corruption



and state interference in private affairs. The nation is ranked 133rd on the Transparency International Corruption Index 2014 with a score of 32/100.

The top export destinations of Russia are [<http://atlas.media.mit.edu/en/profile/country/rus/>]: the Netherlands (\$41.8B), China (\$37.3B), Germany (\$29.5B), Italy (\$26.5B) and Areas (\$25.2B).

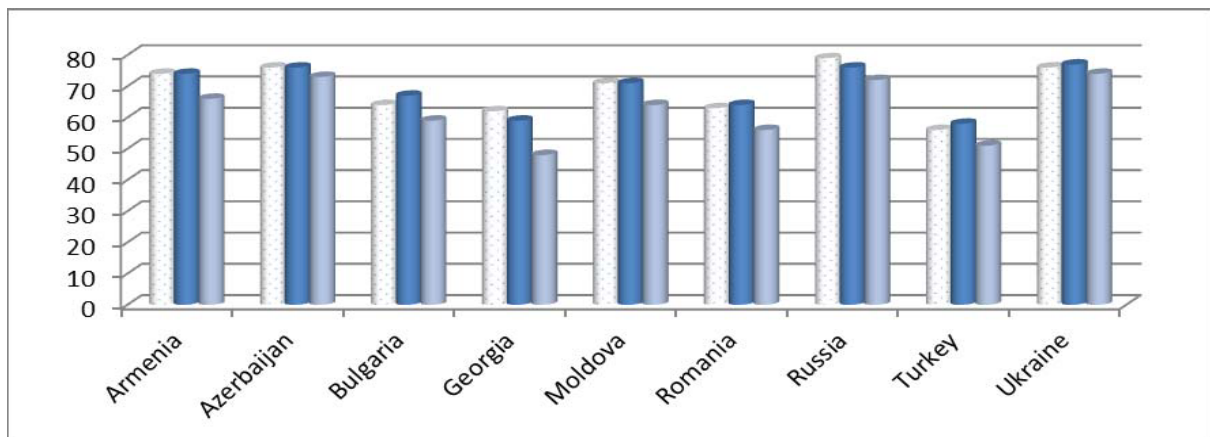
The latest conflict in the region, a short but intense conflagration between Russia and Georgia, highlighted the necessity for more dialogue and regional cooperation and the high country risks that businesses must deal with in order to operate in this geographical location. As the geopolitical literature indicates, diversionary measures are often used to distract attention from internal drawbacks. There are arguments suggesting that the former soviet republics in the Black Sea Region are a key element in the Russian Federation's foreign policy as they provide the necessary instruments through which the latter constructs its image and balances its relations with Western Europe and the United States [Filipov, 2009]. If this trend persists, with small local participants being drawn into the economic ambitions and power play of larger neighbours, complete regional integration and mutually advantageous collaboration will be obstructed.

The Turkish increasing involvement in the region the long-term cooperation would rather switch in collective collaboration. The initial efforts to establish a collective European entity were made in order to create long-term incentives for cooperation between former enemies with historically diverging interests. From this perspective, the Black Sea area can be seen as a result of European greater participation in the region's economic, cultural and political activities especially if Turkey makes outstanding progress in its integration into Europe, the actions of Romania and Bulgaria could prove very important.

While Romania has no on-going disputes with any member of the extended Black Sea Region, a special consideration should be given to countries that emerge in (Conflict, Conflict) or (Trade, Conflict) according to the game theory mechanism. Thus, increased caution should be given to the prospect of expanding operations to Ukraine, Moldova, Armenia, Azerbaijan and Georgia.



For the countries of the extended Black Sea Region an assessment can be made based on the implications of corruption and market size.



Graphic no. 1. The corruption index in the Black Sea Region countries for 2012-2014

Source: developed inside a doctoral research and based on data provided by Transparency International, available at <http://www.transparency.org/cpi2014/results>

The Black Sea Region has to become an outstanding market where numerous political influences, business operations and economic tendencies converge. The extended Black Sea area is viewed as a collection of different and, mostly heterogeneous markets, that can be brought together to represent the South-Eastern neighbourhood of the European Union. The historical background of the countries in this geographical area has ensured the existence of a particular environment characterized by general distrust of neighbours and fear of foreign intervention. The cultural elements, social characteristics, economic and business performances as well as the political directions differ significantly from one country to another. Furthermore, in multiple instances, factors which generate instability and mutual distrust among neighbours can be identified, such as the Transnistria, Nagorno-Karabakh, Chechnya and Ossetia conflicts which in active or latent forms continue to play a crucial role in the regional economic relations.

The security related volatility of the region has attracted special attention throughout the research, due to the fact that businesses are highly susceptible to country risks when they operate in such conditions, This



analysis was made in order to understand the dynamics of international economic interactions the basis for developing comprehensive models which could help predict political outcomes based on business incentives

Western democracies, just emerging from different crisis, with a level of growing dissatisfaction of the medium class, populist movements that threatened parties, have a lot of work to do with regard to the new elements blossoming in the region one of them being the Muslims' migration towards Europe. Even if the route through Romania is not frequented yet, this will not be an explanation for the future development.

Conclusions

From such specific actions we can deduce that the United States and the European Union will stay prepared but will not intervene militarily to stop the actions of revisionist Russia. However, if Russia negotiations with USA, Turkey, and Syria with regard at the Muslims accentuated migration to the Europe, a new strategic configuration has to be considered in the area, which can go towards the creation of a larger custom union with Russia-Kazakhstan-Belarus-Moldova that will not exclude other political agreements headquartered in Moscow

The West is aware in this case that damage will be greater than the benefits, which is why even today a direct economic or political strategy of the region is not seriously set. The Black Sea Region influence will expand and influence a larger area going to Greece and the military basis of Mediterranean.

What will be the ways remaining for the West to tackle this region and settle a sound strategy of economic development and security in the area? It is possible that new types of challenges would somewhat be identified to satisfy the representative pillars of peace in this region. All these will last until the establishment of a new balance of power. History will show the dynamics between unipolar, bipolar or multipolar.



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