

Daniel Grotzky, Mirela Isic

The Black Sea Region: Clashing Identities and Risks to European Stability

Daniel Grotzky and Mirela Isic are research fellows at the Center for Applied Policy Research (C·A·P), Munich.

Contents

Introduction	4
1. The lack of a common cognitive approach to the Black Sea region	4
1.1. The relevance of the Black Sea region for the European Union	4
1.2. A politically constructed region: bound by risk and strategic relevance rather than identity	5
1.3. The challenge of regional cooperation	7
2. The development of risks in the Black Sea region	8
2.1. The challenge of stateness	8
2.2. The democratic challenge	9
2.3. The economic challenge	11
3. Answering the challenges: Democratic governance, civil society, regional cooperation and European soft power	13
Notes	15
Annex	16

Introduction: The Black Sea region gaining relevance

The crisis over South Ossetia between Georgia and Russia that took place in August 2008 highlights the volatility of the Black Sea region as a new flashpoint in the common neighbourhood between Russia and the European Union (EU). What has made the conflict in Georgia so crucial to the EU is the fact that this is not to be seen as an isolated occurrence. The incidence has repercussions throughout a region that is marked by a plethora of challenges to political stability and democratic consolidation – factors that directly affect European security and welfare.

A region growing
in significance

The Black Sea region is bound to grow not only in strategic importance but will also come increasingly into the focus of public attention in the second decade of the 21st century. In 2014 Russia will host the Olympic winter games in the Black Sea town of Sochi in close proximity to the Georgian breakaway region of Abkhazia. The treaty between Ukraine and Russia over the stationing of the Black Sea Fleet in Sevastopol runs out in 2017. Adding to this the persistence and recently demonstrated volatility of unsolved frozen conflicts in Georgia and Moldova, the Russian and European attempts to introduce new energy infrastructure and pipelines and a shaky trajectory for democracy in Georgia, Ukraine or Turkey, it becomes obvious why this region is evolving into a complex and crucial focal point for European foreign policy.

Which states should be counted as “Black Sea states” is a difficult issue. Confining the Black Sea regional concept in a strictly geographic sense to the littoral states Turkey, Bulgaria, Romania, Ukraine, Russia and Georgia is obviously too narrow. Most definitions therefore include all southern Caucasus states (adding Azerbaijan and Armenia) as well as Moldova sandwiched in between Ukraine and Romania.¹

This paper takes a look at the overall and specific challenges that the EU faces in dealing with the Black Sea region. The first section analyses the lack of a European and a regional strategy for the Black Sea states and discusses the competing cognitive labels that frame the Black Sea region’s politics. The second section analyses the development of risks to stateness, democracy and economic prosperity in the region. Drawing on both analyses, the paper concludes by drafting suggestions for EU policy to strengthen a pro-European regional identity as well as hedge against risks for the Black Sea region.

Europe's strategic
interests and risks

1. The lack of a common cognitive approach to the Black Sea region

1.1. The relevance of the Black Sea region for the European Union

From a strategic point of view the Black Sea region derives most of its relevance from its transit character, as an “energy corridor” between Europe and the Caspian Sea, as well as a potential channel for illicit trafficking in persons, drugs, arms or as an access point for marine military capacity (particularly from Russia’s perspective). In combination with the economic potential and its proximity to the EU this signifies a defining European interest in the Black Sea region. The trajectory of the Black Sea area has direct implications for various dimensions of European security, including the diversification of energy transportation routes, the avoidance of uncontrolled migration, organized crime and terrorism. Hence, the Black Sea region is of crucial strategic importance for the EU for a number of reasons:

- The **risk of state failure** in the Black Sea region is higher than in other parts of the European neighbourhood. Yet today the region's frozen conflicts serve as a conduit for illegal trafficking into the European Union. Escalating conflicts would increase migratory pressure toward the EU.
- The **risk of failing transition** to democracy and a market economy directly affects the European Union's stability interests in the region. Democratic countries that share the EU's common values are more reliable and transparent partners in security and economy issues and more likely to share its strategic goals.
- **Economic market development** in the Black Sea region is decisive with regard to the reduction of asymmetries in quality of life between the European Union and neighbouring states, as well as to the opportunities for EU-businesses.

These factors are interwoven with each other. Failure of stateness, escalation of frozen conflicts and the proliferation of non-state actors or unrecognized political entities would have significant effects on energy supplies, trade and economic issues. Furthermore, the EU faces a strategic dilemma as Russia is a major stakeholder in numerous ways in the Black Sea region (in terms of military power and energy, as well as with regard to soft power and public opinion).

While the accession of Romania and Bulgaria theoretically has brought the EU into play as a direct Black Sea neighbour, the European clique's policy toward the region is still marked by fragmented perceptions of the regions' problems and interests and a lack of consensus over policy goals. Ukraine, Moldova and the Caucasus countries are covered by the European Neighbourhood Policy, while Turkey is an accession candidate and Russia enjoys a special relationship with the EU based on the EU-Russia policy and the "Four Common Spaces". In 2007 the European Union drafted a "Black Sea Synergy" aiming at better addressing challenges in the region.² However, this strategy has not lived up to the challenges it identifies, as after a year most progress has been restricted to the civil society dimension.³ The August 2008 crisis between Georgia and Russia has also further highlighted the different policy priorities of EU states toward the Black Sea states. While Poland, the Baltic states, Great Britain and Sweden have become strong advocates of building closer ties between modernizing countries such as Georgia and Ukraine and the EU and NATO whilst they have pursued simultaneously a strategy of containment toward Russia, Germany and France remain cautiously sceptical about an integration perspective for additional countries and want to retain some form of strategic partnership with Russia, after the last *Partnership and Cooperation Agreement* expired by the end of 2007.⁴

1.2. A politically constructed region: bound by risk and strategic relevance rather than identity

As policy is derived from the way a certain region is seen, it is necessary to capture the different cognitive approaches toward the Black Sea region, in order to define the parameters affecting the policy of the EU toward it. Unlike the Balkans or the Baltic Sea region, the Black Sea has not functioned as a common space with a specific regional identity for over a hundred years. This has made it vulnerable to being labelled with identities from the outside or by dominant actors within or around the region.⁵ As a result, regional definitions tend to be superimposed from the outside in relation to other neighbouring regional actors. Numerous factors prevent a common Black Sea regional identity, including:

The lack of a common European approach

Missing regional identity

- **Crossroad-character of the Black Sea:** A close look at the list of Black Sea states shows the region's character as a space of transition between other more saliently conceived regions, such as the Caucasus, the Balkans, Eastern Europe or in a wider sense between Europe and Asia. This makes it difficult to attach a regionally encompassing label.⁶
- **Cultural and linguistic differences:** The Black Sea region covers a number of different linguistic and cultural spaces that include such varying elements as Turkic-Muslim to Russian-Orthodox and Armenian-Christian.
- **Post-Soviet tensions:** The Northern part of the Black Sea region remains marked by the lasting repercussions of the fall of the Soviet Union in that political tensions between Russia and former Soviet republics are aggravated by the ongoing persistence of Soviet-era structures in economic realities.
- **Supra-regional competition:** During the Cold War, the Black Sea region was once a frontline functioning as a clash zone between NATO in the South (Turkey) and the USSR/Warsaw Pact in the North. This divisive label continues to frame the security debate in the region, as NATO has been joined by Bulgaria and Romania and is considering whether to initiate MAPs by Ukraine and Georgia.

While the Black Sea region has failed to develop a common identity, there are two competing approaches for how to deal with it. Both approaches put the region into a larger context of interests and values. The first puts the Black Sea region in relation to a wider idea of bringing the states of the region closer to Europe, while the other focuses on former Soviet power structures and the dominant role of today's Russia.⁷

Periphery or part of Europe?

The European Union's foreign policy to date has focused very strongly on enlargement and conditionality. This highlights a central aspect of the Black Sea region – the way the region is related to "Europe" politically and ideally. Successful recognition as a "European" country opens up the principle possibility of accession and also serves as a strong marker in identifying which trajectory domestic political and economic transition a state should pursue. Consequently imagining the Black Sea region as European "periphery" rather than an integral part of Europe subconsciously increases the tendency among policymakers to tolerate signs of state and market failure. The Black Sea region poses a strong challenge in this point, due to the competing definitions of "Europe" one can find here. While almost all Black Sea states claim a European identity, most of these European identities aren't considered without intra-EU controversy. Only Bulgaria and Romania are regarded as European by consensus. Turkey is a controversial candidate for accession, while EU-policy toward Russia is discussing whether to deal with it as a partner or rival.⁸ The other Black Sea states are covered by the EU's "Neighbourhood Policy", which has blurred the line between "European neighbours" and "neighbours of Europe" intentionally to avoid any discussion of accession.⁹ An interesting debate is now raging over the entry of Georgia and Ukraine into the NATO. Seeing that the option of EU-membership is currently not open, both states' governments are labelling their countries members of transatlantic space, using it as a corollary to a European identity.

A competing approach to the Black Sea region is to understand the Black Sea area in the context of Russia's re-emergence as a regional power. The northern Black Sea region (excluding EU-members Bulgaria and Romania, as well as Turkey) is viewed

as an area of overlapping interests between the European Union and Russia.¹⁰ Since – as shown above – the EU priorities in the region remain unclear, this perspective favours Russian dominance that draws its motivation from the northern Black Sea states' status as former USSR republics, whose economies, political conflicts and demographics can still be traced back to Soviet policy to a large extent. Vis-à-vis these "Newly Independent States" in the near abroad Russia believes to hold "privileged interests".¹¹ Acceptance among policymakers of the idea of the Black Sea region as an intrinsic part of "post-Soviet space" or a Russian-dominated "near abroad" that adheres to an authoritarian legacy might be the single largest challenge to European support for democratic and free market reforms in the region.

A "Post-Soviet near abroad"?

1.3. The challenge of regional cooperation

As a result of these two very different ways of perceiving the region, the policy of the Black Sea states mirror the interpretation of the region their policy makers prefer. This was a more or less self-explanatory route for Bulgaria and Romania that are new members of the European Union and aim at framing the entire Black Sea region as a European space¹². It is more difficult for Ukraine and Georgia that are facing massive pressure from Russia to reduce their ambitions of Western integration. The regional interpretation states subscribe to also limits their options in cooperation to either transatlantic-European institutions or close allegiance to Russia. As the European Union has not yet developed a strong strategy toward the Black sea region and in particular lacks a "grand vision" for the future of the region vis-à-vis itself another there have been other attempts at cooperation and integration in the region, even though none of these has ever reached a level of depth presented by European integration. Approaches to regional cooperation are currently the Black Sea Economic Cooperation, GUAM, Community of Democratic Choice and the Commonwealth of Independent States.¹³

Competing approaches

The **Black Sea Economic Cooperation** is an economic initiative established in 1992 by eleven countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine, which signed in Istanbul the Summit Declaration and the Bosphorus Statement giving birth to the Black Sea Economic Cooperation (BSEC). With the accession of Serbia in 2004, the cooperation increased to twelve. The multilateral political and economic initiative appeals to foster freedom, stability and prosperity in the region through economic cooperation. It thereby combines all major Black Sea states regardless of their EU membership status. However, throughout the years, the BSEC has failed to move beyond an exchange between the heterogeneous interests of the members and is as a result considered inefficient.

GUAM, the Organisation for Democracy and Economic Development represent an abbreviation for its member states of Georgia, Ukraine, Azerbaijan and Moldova that was first founded as a consultation round together with Uzbekistan that withdrew in 2005. A charter, signed in 2001, set an agreement of objectives such as democracy promotion, ensuring stability in the region and assuring international and regional security and with the aim of European Union membership. Turkey and Latvia enjoy observer status. To a certain degree GUAM was to be a counter-weight to Russia within the CIS and coordinate the interests of its members. However recently, the strong aspirations of Georgia and Ukraine to the West have created a gap between them and the other two members, effectively hampering GUAM.

The **Community of Democratic Choice** is an international organization established in 2005 by nine states (Estonia, Georgia, Lithuania, Latvia, Republic of Macedonia, Moldova, Romania, Slovenia and Ukraine) in the Ukrainian capital city Kyiv. The United States and the European Union, among others, are observers. The Community is aimed to promote democracy and human rights in the region between the three seas (Baltic, Black and Caspian Sea). Russia has explained immediately after the foundation of the CDC that it views the community as a threat to undermine the influence of Moscow in the region.¹⁴ Indeed, its inception date after the colour revolutions in Ukraine and Georgia and membership structure make this a strong argument. While given Russian attempts to influence the outcome of Ukraine's 2004 election certainly offered states in the region a reason to turn West, the exclusion of Russia from regional cooperation is also problematic.

Finally the **Commonwealth of Independent States (CIS)** was founded first by Russia, Belarus and Ukraine and was later joined by most of the former republics of the Soviet Union, though the Baltic States never did. In August 2008 after the dispute in South Ossetia, Georgia withdrew from the CIS as a result of its military conflict with Russia. The main aim of the CIS was to preserve the area of security and economy as the Soviet Union had represented. Within the frame of the CIS Russia has attempted to create a form of economic integration, which to date however has not been attractive enough for the members to make it a top priority. The divergent developments in particular of Georgia and Ukraine have led to a drop in significance of the CIS.

Weak identity,
weak integration

Concluding, regional cooperation has so far suffered from a lack of economic incentives, divergent interests and the difficult challenge of engaging Russia as a state that is increasingly seen by some of the region's states' as a threat to their freedom and sovereignty. The fact that regional cooperation is so strongly a subject of the competing European and Post-Soviet approaches and its lack of regional identity thus are confirmed in the failure to establish a consolidated format for regional cooperation that includes all relevant actors.

2. The development of risks in the Black Sea region

After having investigated the cognitive framework for the Black Sea region, this second section analyses the development of the states within the region over the past few years relating to three key risk factors: stateness, democracy and economic development. The development and prospects for all three indicators deeply affect the European Union. In order to better illustrate both the regional development in comparison to other former communist states, as well as with regard to European enlargement, this section utilizes different index indicators that pit the Black Sea states' development against a benchmark group consisting of Estonia, Latvia and Poland which share similar communist and/or Soviet heritages and can thus be seen as a comparative value to what the region's potential is. Comparisons are then made between the benchmark group's and the Black Sea states' rating average both with and without EU-accession states.

2.1. The challenge of stateness

One of the major Black Sea regional challenges is the well functioning of state sovereignty. Georgia, Moldova, Armenia, Azerbaijan and Russia are all parties to "frozen conflicts" that date back to the collapse of the Soviet Union and have created pocket

of unrecognized republics around the Black Sea area. The conflicts over Moldova's breakaway separatist region of Transnistria and South Ossetia and Abkhazia in Georgia are further complicated by the presence of Russian so called "peacekeeping" troops and Moscow's continued interest in keeping the separatist situation unresolved in order to retain a pressure instrument towards its "near abroad" neighbours. The recent military encounter between Georgia and Russia has clearly demonstrated the risk that such "frozen conflicts" pose.

These conflicts are not all truly ethnic in origin and often fuelled by an amalgam of local elite and business interests, as well as to some extent a Russian interest in keeping a foot in the door of what has come to be known as the "near abroad".¹⁵ However, the presence and categorisation of ethnic undertones in Georgia and Moldova make long-term settlements all the more difficult. Both Ukraine and Turkey suffer from more subtle disputes over state identity, Ukraine vis-à-vis its Russian and Russian-speaking population, Turkey toward its large Kurdish minority. EU-members Bulgaria and Romania have large Turkish and Hungarian minorities respectively. Ethnic diversity, though not always nor automatically a point of contention, is a defining characteristic of the risk structure around the Black Sea.

A functioning state that retains a monopoly over power is one of the main preconditions for a stable democratic and free market transformation. The stateness ratings contained within the *Bertelsmann Transformation Index (BTI)* are based on the average of four questions that probe the state monopoly on the use of force, the legitimacy of the state and titular nation among citizens, the impact of religious dogma on state identity and the salience of a public administration structure.¹⁶ Ratings 10-9 indicate a high consolidation of stateness, while 8-6 characterizes deficits of stateness, 5-3 significant challenges and 2-1 a lack of stateness characteristics. From this point of view the regional average shows stateness deficiencies which become even more obvious when the EU-members Bulgaria and Romania and EU-accession country Turkey are excluded from the calculation. Georgia and Azerbaijan show the greatest lack of state consolidation (Table 1). Compared to the benchmark group, the Black Sea Region clearly lags behind.

Since the BTI is not an annual measurement, drawing on the "Failed States Index" can give a more precise picture. This index has rated all Black Sea states except Romania and Bulgaria with a "warning" label, one level below the highest "alert" stage and shows regional stateness to be severely more endangered than the benchmark group (Table 2). In addition, it becomes clear that countries marred by "frozen conflicts" have not shown strong improvement. Georgia's recent conflict with Russia over South Ossetia and Abkhazia are a case in point that such conflicts can heat up without much warning for the international community.

2.2. The democratic challenge

In terms of democratic society the Black Sea states pose a true mosaic of different developments and trajectories, though all of them suffer higher rates of corruption, weaker civil society and less political stability than post-transition states in Central Europe and the Baltics.

While they are genuine democracies, Bulgaria and Romania that joined the European Union in 2007 still experience high levels of corruption and sporadic political instability. Bulgaria has recently been chastised by the EU-Commission for

Persistence of
"frozen conflicts"

Politicized ethnicity

Varying consolidation
of stateness

A fragile region

EU-members and candidates:
volatility remains

embezzling EU-accession funds¹⁷, while Romania went through a crisis when its government majority collapsed last year and the opposition impeached president Basescu just to have him reinstated by popular referendum. Turkish democracy remains fragile. While the ruling Islamist AK party has probably initiated more reforms than any previous government the political system threatened to collapse in summer 2008 when the constitutional court came close to banning the party which just before received strong popular backing in elections.

Ukraine and Georgia: a fragile democratic trajectory

Hopes that Georgia and Ukraine would become stable democracies in the follow-up to the “colour revolutions” in 2003 and 2004 respectively have disappointed. Ukrainian politics has turned out three different parliaments and five governments since 2004. The country’s constitution that has both a directly elected president and a parliament is constantly being re-interpreted for power struggles between the pro-Western and pro-Russian camp, as well as between reformist Prime Minister Timoshenko and President Yushchenko, making the country suffer a political stalemate. In Georgia, usually considered the most democratic and Western-oriented state in the Caucasus, the situation has become extremely difficult. The use of police force against opposition protests and ensuing short-term restrictions on media cast doubts over Saakashvili’s democratic credentials. Both the presidential and parliamentary elections in 2008 were criticized by the OSCE, in particular for the misuse of “administrative resources” in aiding the government party, though they did meet most of the OSCE’s requirements and elections to parliament showed improvements vis-à-vis the presidential poll. While the country’s political classes experienced a “rally-round-the-flag” effect during Russia’s military incursion it is quite probable that Georgia faces a turbulent debate over the role of president Saakashvili in triggering the events of August 2008 for the months to come.¹⁸

Armenia and Moldova: individual problems

Armenia and Moldova are both increasingly under the sway of Russian politics and continue to show major democracy deficits.¹⁹ The Armenian 2007 parliamentary elections were described by the OSCE as flawed, though showing improvements.²⁰ While parliamentary elections in Moldova in 2007 were considered an improvement with previous ones on 2003, abuses particularly during the electoral campaign remain and presidential control of all government branches is still strong.²¹

Russia and Azerbaijan: emerging petro-states

In Russia and Azerbaijan political institutions are used to preserve elite power rather than guarantee free and fair competition. The change in Russia’s presidential office from Vladimir Putin to Dmitri Medvedev or of Heydar Aliyev to his son Ilham Aliyev in Azerbaijan were carefully orchestrated transfers of power, which left the public without any choice. Media and civil society are controlled and partially repressed, opposition parties marginal. Not coincidentally both countries are rich in fossil fuel resources that serve as a foundation for state power.²²

The gap in democracy and civil society to other post-transition European countries is clearly visible in all ratings. The BTI scores show strong deficiencies in democracy on a regional average with only Romania and Bulgaria performing close to satisfactory and a clear gap between non-EU Black Sea states and the benchmark group. What is more, a number of states show little or no improvement in democracy, in particular Armenia, Azerbaijan and Russia (Table 3).

A look at one of the best known democracy ratings worldwide, the annual *Freedom in the World Report*, consolidates these findings (Table 4). Aside from Bulgaria and Romania, only Ukraine has recently received a “free” rating with all other Black Sea

states either “partly free” or “not free”. As there is little dynamic in most country’s ratings over the past years the negative development of democracy ratings for Georgia has had a downward effect on the region as a whole. The democracy gap is particular strong when comparing the benchmark group with Black Sea states without an EU-perspective.

2.3. The economic challenge

From an economic viewpoint the Black Sea region is characterized on the one side by high growth rates and on the other by difficulties in implementing schemes of a market place as inward environment of the economic system.

Owing in part to classical convergence resulting from playing catch-up with established economies, the region’s states have shown strong economic growth during the past years (Table 5). As Bulgaria, Romania and Turkey have slowed in growth, the Caucasus states have surged, with Azerbaijan taking a momentous lead given its oil boom. At the same time, a slowdown for Moldova does not signal well for Europe’s poorest country. Besides, the Ukrainian economy still seems volatile to sudden drops in growth, while Russia looks stable.

Strong economic growth

Bulgaria and **Romania** take pride in being part of the European Union’s single market. Despite high rates of economic growth²³ the youngest EU-member states still suffer a need for reforms. Bulgaria is planning the introduction of the Euro by 2012, Romania by 2014, but in order to implement this idea both states will need to combat their high inflation rates and national debt to be able to conform to the European Monetary System. At the moment, the average income of both states reaches a third of the average income of the EU. Bulgaria and Romania are still combating corruption and the frailties of judicial systems. At the same time, the youngest member states of the European Union are creating attractive terms for foreign investment. In Bulgaria, the corporate tax amounts about 10 per cent (Germany 15 per cent, EU-Average 13,8 per cent),²⁴ which is the lowest quotation in the European Union after Cyprus. In Romania, the construction and the services sectors are growing. The construction sector doubled to 33,6% from 2007 to 2008.²⁵

Economic boost to EU – member states: Bulgaria and Romania

Georgia and **Ukraine** have shown signs of a revival of business after the breakdown of the Soviet Union. The Ukrainian economy has been expanding, with GDP at 7.3% in 2007, especially in trade and transport industries. The Georgian success story has now been disturbed due to the escalation of its disputes with Russia, but previously in 2007, Georgia’s economic growth rate added up to 12.4%. A year before, the World Bank had called Georgia the “top-reformer 2006”. In fact, the country has pursued a course of privatization that includes the Georgian power supply system Energopro (taken on by a Czech company), the harbour of Batumi (now in Kazakh hands) and the Bank Republic (owned by France’s Société Générale). After the recent clashes with Russia, it remains to be seen how the economy will react on the Russian boycotts, which last since 2006 and probably won’t be reversed for an indefinite time. Contemporaneously, the Western foreign investors are avoiding doing risk investment in Georgia until the conflict situation in South Ossetia is dissolving. Therefore, the Georgian economy will certainly have to rebuild investor confidence.²⁶

Attempts at economic reforms: Georgia and Ukraine

Strong Russian economic growth has been driven by high energy prices, a high private consumption and growing domestic as well as foreign investment rates. **Russia** is one of the top producers of energy in the world with more than 1/3 of the world-

Oil-fueled wealth: Russia

wide gas in reserve and about 7% of the global oil occurrences. The International Monetary Fund (IMF) is expecting the Russian economic power to double until 2013, becoming one of the world's five largest economies by 2018. However, the war with Georgia has led to a massive withdrawal of foreign capital that has added to an already difficult situation for Russia's economy due to the global financial crisis. Also, inflation rates of about 15% are bringing prices up, which in the long-term might reduce political support for the government. Another problem is the dependence on the energy prices. While Russia has surged both economically and politically due to rising oil and gas prices, these have recently been falling again. Added to that, the Russian exchange was not escaped by the current crisis of the American financial market. The cash injection of about 13.8 billion Euro for the Russian capital market, released by President Medvedev after the breakdown of the American bank company in the middle of September will not change the obvious circumstances.²⁷ Russia needs to diversify its industry and support more high-tech and innovation businesses in order to sustain its current economic dynamic.

Pipeline economies: Armenia,
Azerbaijan, Turkey

Many countries in the Black Sea region rely heavily on their role as an energy transit or energy producing country. **Armenia** and Georgia for example are relatively small producers and consumers of energy, but host important oil and gas transit routes. The second largest oil pipeline, the Baku-Tiflis-Ceyhan pipeline (BTC), invented and constructed by US-companies, passes through **Azerbaijan**, **Turkey** and Georgia and flows about 1.2 barrel oil per day. The status of being a transit country is a curse and a bliss at one go. On the one hand the countries gain territorial strategic relevance, which entails conflict potential to the fact, that somehow transit areas are always hotly contested regions – from energy exporters as well as energy importers. On the other hand being a transit country assures current receipts to the treasury and imparts certain advantages when it comes to negotiations – economic and political of course.

Greater potential: Abkhazia

Currently, the Black Sea region still remains below its economic potential. As strong growth in most economies helps create a more affluent middle class one branch of industry that could be revitalized is tourism. But while the town of Sukhumi in **Abkhazia** was known as the "Côte d'Azur" of the Soviet Union, today the region is known for its territorial conflicts. Also, the proximity of EU-members Bulgaria and Romania will not lead to the rest of the Black Sea region profiting from growing closer to EU markets, as long as relations in particular between Russia and its neighbours remain strained.

Looking at the BTI market economy status (Table 6), which registers factors such as markets and competition, currency, private property regimes and welfare, the economic situations in the Black Sea region remains various. While EU-members Bulgaria and Romania have shown improvements, as well as Turkey, this does not hold true for the spanning regional development. The "colour revolutions" in Georgia and Ukraine have not automatically led to economic reform, Georgia has improved, but Ukraine declined in its ratings. Oil- and gas-powered Russia and Azerbaijan continue to score badly, as well.

Corruption as a persistent issue

A further development that is even more worrisome is a consistently growing gap in corruption levels between the Black Sea region and the benchmark group as registered by the Corruption Perception Index (Table 7). While Romania and Bulgaria seem to be reducing or at least stagnating at disappointing levels of corruption and Turkey has improved its ratings, the year 2008 has brought a downturn in a whole number of Black Sea states including Moldova, Russia and Ukraine.

With regard to free market entrepreneurship the Black Sea region is on the way to become a more accommodating place for business, nevertheless with the occasional glitch. The time required to start a business as measured by the World Bank in days shows: the states of the Southern Caucasus have all eased up on businesses, in particular Azerbaijan and Georgia, but the cut of bureaucracy in Russia is sluggish and economic progress in Ukraine clearly lags behind that of Georgia (Table 8).

3. Answering the challenges: Democratic governance, civil society, regional cooperation and European soft power

The analysis of the cognitive conception of the Black Sea region and an overview of the regional progress in the three key risk segments of stateness, democracy and economic development allow for the following conclusions:

Risks for modernization

- **Stateness:** Excluding the EU member or accession states reveals that deficient or threatened stateness is the norm for most Black Sea countries. Frozen conflicts and politicized ethnicity contain various risks for escalation. These risks are enhanced by the lack of common identity and risk perception among several Black Sea states. This is particularly true vis-à-vis Russia, as the conflicts suffer from the lack of neutral arbitration.
- **Democracy:** The “colour revolutions” in Ukraine in Georgia have not automatically led to a stable and successful development in both democracy and market economy. Even though Ukraine has improved its rating concerning democracy, the economic framework remains shaky. Furthermore corruption ratings have shown stagnation in the last years. Georgia has been able to improve its market economy scores and fight against corruption, but has experienced a drop in its democracy rating. Democracy is most stable and/or promising, where a European perspective is offered.
- **Economic development:** The region shows high economic growth rates, but still suffers from a lack of industrial diversification. Regional fragmentation hurts the potential for the commerce. At the same time, economic growth often does not build on free market structures and instead relies on the energy export industry, thus carrying the risk of dependency on the world's resource prices. In addition, Russia and Azerbaijan in particular do not show much improvement in democracy and free market conditions, yet retain high rates of growth, there seems to be little connection between democratic governance and growth. This is a risk that interweaves with democratic development.

Looking at the future challenges for the Black Sea region, three core points stand out to be significantly important for the development of the region: strengthening state institutions through democratic elites and civil society, ensuring dialogue between all Black Sea states including Russia and encouraging the view of the Black Sea area as a European region by means of promoting European “soft power”.

Civil society: The main risk to the Black Sea region is a breakdown of stateness. State stability depends on a number of factors, which include stable democratic institutions and conflict prevention. Yet the long-term effectiveness of institutions and solving regional conflicts depends on the commitment of political, economic and societal elites. Their function should be to ensure free and fair competition of interests while subordinating personal and professional ambitions to the rule of law. In

Supporting reform-minded elites

turn, this requires strong civil societies in all Black Sea states. Furthermore, active civil societies will strengthen the internal decision-making process and make the countries in the region, particularly those in Russia's "near abroad" less respondent to external influences. With Romania and Bulgaria as EU members, the European Neighbourhood Policy was strengthened and its regional assistance instruments became more diversified. The EU has already taken steps toward to offer more support for civil society groups and NGOs in the Black Sea region. Regional networks are also important for developing and promoting the democratisation in the Black Sea area. There have been different regional initiatives of civil society organisations, which have developed tools concerning peace-building, democratic reforms, media, youth, small businesses and education. There is no question about the positive effect of civil society action on stability. But the democratic breakthrough is never at the end of the democratization process and requires further consolidation.²⁸

Dealing with a difficult partner

Cooperation and engaging Russia: The second core issue to stabilize the Black Sea region will be to enhance regional cooperation and simultaneously to exclude Russia. This point is a challenge, because there are currently a number of strong tensions, in particular between Russia and Georgia and Russia and Ukraine. However, the region's security and energy issues will not be solvable without Russia at the negotiation table. There is a need for cooperation of Russia with the regional actors to prevent the area from further separations and domestic as well as foreign tensions. A first step would be to re-energize the communication between Russia and its neighbours. If Russia's self-understanding remains that of a regional hegemony in the region with the aim to defend its "national interests", a non-confrontational way should be pursued.²⁹ The European Union as well as the states belonging to the Black Sea area should take this to the heart and insist on an agreement with Russia to ensure safety in the region and establish lasting instruments of international peace keeping.

Winning hearts and minds

European soft power: Finally, the European Union must realize that it is not only facing a competition over energy transit routes or trade integration in the Black Sea region, but also one over hearts and minds. The current European policy toward most of the Black Sea states within the frame of ENP has not signalized strong readiness and engagement toward EU accession by Ukraine and Georgia. The lack of a strategy for the Eastern neighbourhood³⁰ and the failure to recognize Black Sea states as distinctly European risks in the long-term to discourage those among policy makers and elites who adhere strongly to values of democracy and the rule of law. Simultaneously, the domestic development of states such as Russia or Azerbaijan offer a very different blueprint for modernization, based on the centralization of state power and curtailing of liberal rights that will become increasingly attractive for ruling elites the less probable a the path to Europe looks like. Therefore the European Union must take more active measures in promoting its own model of the rule of law and democracy – both in order to support its own strategic interests in the region as well as to underline its principle commitment to such values.

Notes

- 1) Gabanyi, Anneli Ute: Die Initiative Schwarzmeersynergie. Die EU plant den Ausbau ihrer regionalen Zusammenarbeit, SWP Aktuell 29, Berlin, May 2007, p.2.
- 2) Commission of the European Communities: Black Sea Synergy – A New Regional Cooperation Initiative, Brussels, 11.04.2007.
- 3) Commission of the European Communities: Report on the first year of implementation of the Black Sea Synergy, Brussels, 19.06.2008
- 4) Bauer, Thomas/Grotzky, Daniel/Isic, Mirela: Europas Reifeprüfung am Schwarzen Meer, C·A·P Aktuell 4, München, August 2008.
- 5) Edition Körber Stiftung: Bergedorfer Gesprächskreis/Odessa, Das Schwarze Meer zwischen der EU und Russland. Sicherheit, Energie, Demokratie, 134. Bergedorfer Protokoll, Hamburg 2007, p.24.
- 6) See: Emerson, Michael: The EU's New Black Sea Policy – What kind of regionalism is this?, CEPS Working Document No. 297, Brussels, July 2008, p.6.
- 7) See: Socor, Vladimir: The Caspian – Black Sea Region: A Key to Diversifying Europe's Energy Supplies, In: Asmus, Ronald D. (Ed.): Next Steps in Forging a Euroatlantic Strategy for the Wider Black Sea, The German Marshall Fund of the United States, Brussels, 2006, p.137-157.
- 8) Leonard, Mark/Popescu, Nicu: A Power Audit of EU – Russia relations, Policy Paper, European Council on Foreign Relations, London, November 2007, p.25.
- 9) For a detailed discussion see: Lippert, Barbara: European Neighbourhood Policy: Many reservations – some progress – uncertain prospects, International Policy Analysis, Friedrich Ebert Foundation, June 2008.
- 10) Moshe, Arkadi: Priorität gesucht: Die EU, Russland und ihre Nachbarn, In: Osteuropa, year 57, 2-3, February/March 2007, p.23.
- 11) Transcript of the Interview of Russian Minister of Foreign Affairs Sergey Lavrov, Published in the Polish Newspaper Gazeta Wyborcza, Ministry of Foreign Affairs of the Russian Federation, Information and Press Department, Moscow, 11.09.2008, available online at: http://www.ln.mid.ru/brp_4.nsf/0/9EB35AFF3778B51CC32574C5001DBBE8
- 12) EurActiv Interview with Victor Bostinaru: Union for the Black Sea 'vital for Europe, Brussels, 22.09.2008.
- 13) See: Kempe, Iris/Klotzle, Kurt: The Balkans and the Black Sea Region: Problems, Potentials and Policy Options, C·A·P Policy Analysis 2, München, April 2006, p.7.
- 14) Peuch, Jean-Christophe: Ukraine: Regional Leaders Set up the Community of Democratic Choice, Radio Free Europe, 2.12.2005.
- 15) Halbach, Uwe: Der Kaukasus in neuem Licht. Die EU und Russland in ihrer schwierigsten Nachbarschaftsregion, SWP-Studie, Berlin, November 2005, p.23.
- 16) Center for Applied Policy Research (C·A·P) / Bertelsmann Foundation (Ed.): Bertelsmann Transformation Index 2008, Manual for Country Assessment, München/Gütersloh, 2008, p.16.
- 17) Commission of the European Communities: Report from the Commission to the European Parliament and the Council: On the Management of EU-funds in Bulgaria, Brussels, 23.07.2008.
- 18) Whitmore, Brian: Is The Clock Ticking For Saakashvili?, Radio Free Europe, 12.09.2008.
- 19) See: OSCE, Office for Democratic Institutions and Human Rights, Georgia, Parliamentary Elections, 21 May 2008, OSCE/ODIHR Election Observation Mission Final Report, Warsaw, 09.11.2008.
- 20) See: OSCE, Office for Democratic Institutions and Human Rights, Republic of Armenia, Presidential Election, 19 February 2008, OSCE/ODIHR Election Observation Mission Report, Warsaw, 30.05.2008.
- 21) Dura, George/Vitu, Liliana: Moldova. Nations in Transit 2008, Democratization from Central Europe to Eurasia. Budapest, 2008, p. 403, available online at: http://www.freedomhouse.hu/images/fdh_galleries/NIT2008/NT-Moldova-final.pdf
- 22) Walker, Christopher/Goehring, Jeannette: Petro-Authoritarianism and Eurasia's New Divides, Nations in Transit 2008, NT-Overview Essay, Budapest, 2008, available online at: www.freedomhouse.hu/images/fdh_galleries/NIT2008/NT-Overview%20Essay%20-final.pdf
- 23) Bulgaria: Selected Issues, IMF Country Report No 07/390, International Monetary Fund, December 2007; Romania: Selected Issues, IMF Country Report No 08/210, International Monetary Fund, July 2008.
- 24) Bundesagentur für Außenwirtschaft: Wirtschaftsdaten kompakt – Bulgarien, May 2008, available online at: https://www.bfai.de/ext/anlagen/MktAnlage_5802.pdf?show=true
- 25) Bundesagentur für Außenwirtschaft: Wirtschaftsdaten kompakt – Rumänien, May 2008, available online at: https://www.bfai.de/ext/anlagen/MktAnlage_5801.pdf?show=true
- 26) Compare: Georgia's economic dreams shaken up, In: International Herald Tribune, 27./28.09.2008, p.17.
- 27) Compare: Feuerwehrübung in Russland, Weitgehende Maßnahmen der Regierung zur Stabilisierung der Lage, In: Neue Zürcher Zeitung, 19.09.2008, p.10.
- 28) Kuzio, Taras: Comparative Perspective on the fourth wave of democracy, In: Reclaiming Democracy, Joerg Forbrig and Pavol Demes (eds.), German Marshall Fund of the United States, Washington D.C., 2007.
- 29) Monaghan, Andrew: 'An enemy at the gates' or 'from victory to victory'? Russian foreign policy, In: International Affairs, 84:4, London, 2008, p.717-733.
- 30) For further information on EU-Eastern policy see: Kempe, Iris: A New Ostpolitik? Priorities and Realities of Germany's EU Council Presidency, C·A·P Policy Analysis 4, August 2007.

Annex

Table 1: Data taken from Bertelsmann Transformation Index surveys (2006 and 2008), available at: <http://www.bertelsmann-transformation-index.de>

Bertelsmann Transformation Index stateness ratings (max. Positive rating: 10)		
	2006	2008
Armenia	8,8	8,8
Azerbaijan	6,8	6,8
Bulgaria	9,3	9,5
Georgia	5,3	6,8
Moldova	6,5	8,0
Romania	9,3	9,5
Russia	7,5	8,0
Turkey	7,8	7,8
Ukraine	8,0	8,8
Regional Average	7,7	8,2
Regional average excluding Bu, Ro, Tu	7,15	7,87
Benchmark		
Estonia	9,3	9,5
Latvia	8,8	9,5
Poland	9,8	9,8
<i>Average</i>	<i>9,3</i>	<i>9,6</i>
Average difference	1,6	1,3
Average difference excluding Bu, Ro, Tu	2,15	1,66

Table 2: The Fund for Peace: Failing States Index Scores (2005-2008), Ratings available at: <http://www.fundforpeace.org>

Failed States Index <i>low scores signify low risk of state failure</i>				
	2005	2006	2007	2008
Armenia	N/A	70,9	70,3	70,7
Azerbaijan	85,7	81,9	81,2	81
Bulgaria	N/A	62,1	60,3	58,5
Georgia	N/A	82,2	82,3	83,8
Moldova	N/A	82,5	85,7	85,7
Romania	N/A	62,6	60,9	59,9
Russia	83,5	87,1	81,2	79,7
Turkey	86	74,4	74,9	75,4
Ukraine	88,8	72,9	71,4	70,8
Regional average	N/A	75,7	74,7	74,4
Regional average excluding Bulgaria, Romania, Turkey	N/A	81,3	80,3	80,2
Benchmark				
Estonia	N/A	51	50,5	51
Latvia	N/A	56,2	56,7	54,5
Poland	N/A	47,9	47,6	47,6
<i>Average</i>	<i>N/A</i>	<i>51,7</i>	<i>51,6</i>	<i>51,0</i>
Average difference	N/A	24,0	23,1	23,4
Average difference excluding Bulgaria, Romania, Turkey	N/A	29,6	28,7	29,2

Table 3: Data taken from Bertelsmann Transformation Index surveys (2006 and 2008), available at: <http://www.bertelsmann-transformation-index.de>

BTI democracy status scores <i>high scores show high consolidation degree of democracy</i>		
	2006	2008
Armenia	6,1	6,0
Azerbaijan	3,8	3,8
Bulgaria	8,5	8,7
Georgia	6,1	6,9
Moldova	5,4	6,9
Romania	8,2	8,6
Russia	5,7	5,4
Turkey	7,1	7,1
Ukraine	7,1	7,4
Regional average	6,4	6,8
Regional average excluding Bulgaria, Romania, Turkey	5,7	6,1
Benchmark		
Estonia	9,4	9,6
Latvia	8,3	8,7
Poland	9,2	8,8
Average	9,0	9,0
Average difference	2,6	2,2
Average difference excluding Bulgaria, Romania, Turkey	3,3	2,9

Table 4: Freedom House: Freedom in the World (2005-2008), Ratings available at: www.freedomhouse.org/template.cfm?page=363&year=2008

Freedom House: Freedom in the World				
<i>Average of political and civil liberties (2,5< free, 2,5> partly free, >xx< not free)</i>				
	2005	2006	2007	2008
Armenia	4,5	4,5	4,5	4,5
Azerbaijan	5,5	5,5	5,5	5,5
Bulgaria	1,5	1,5	1,5	1,5
Georgia	3,5	3,0	3,0	4,0
Moldova	3,5	3,5	3,5	3,5
Romania	2,5	2,0	2,0	2,0
Russia	5,5	5,5	5,5	5,5
Turkey	3,0	3,0	3,0	3,0
Ukraine	3,5	2,5	2,5	2,5
Regional average	3,7	3,4	3,4	3,6
Regional average excluding Bulgaria, Romania, Turkey	4,3	4,1	4,1	4,3
Benchmark				
Estonia	1,0	1,0	1,0	1,0
Latvia	1,5	1,0	1,0	1,5
Poland	1,0	1,0	1,0	1,0
Average	1,2	1,0	1,0	1,2
Average difference	2,5	2,4	2,4	2,4
Average difference excluding Bulgaria, Romania, Turkey	3,1	3,1	3,1	3,1

Table 5: World bank Quick Query selected from World Development Indicators, accessed via <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userId=1&queryId=135>

Annual GDP growth				
	2004	2005	2006	2007
Armenia	10%	14%	13%	14%
Azerbaijan	10%	26%	34%	19%
Bulgaria	7%	6%	6%	6%
Georgia	6%	9%	10%	12%
Moldova	7%	8%	5%	3%
Romania	8%	4%	8%	6%
Russia	7%	6%	7%	8%
Turkey	9%	8%	7%	4%
Ukraine	12%	3%	7%	7%
Regional average	8%	9%	11%	9%
Regional average excluding Bulgaria, Romania, Turkey	9%	11%	13%	11%
Estonia	8%	10%	11%	7%
Latvia	9%	11%	12%	10%
Poland	5%	4%	6%	7%
Average	7%	8%	10%	8%
Average difference	1%	1%	1%	1%
Average difference excluding Bulgaria, Romania, Turkey	2%	3%	3%	2%

Table 6: Data taken from Bertelsmann Transformation Index surveys (2006 and 2008), available at: <http://www.bertelsmann-transformation-index.de>

BTI market economy status scores		
<i>high scores show high consolidation degree of market economy</i>		
	2006	2008
Armenia	6,4	6,8
Azerbaijan	5,2	5,2
Bulgaria	7,5	8,2
Georgia	5,4	6,4
Moldova	4,7	5,0
Romania	7,6	8,1
Russia	6,6	6,5
Turkey	6,8	7,3
Ukraine	6,8	6,5
Regional average	6,3	6,7
Regional average excluding Bulgaria, Romania, Turkey	5,9	6,1
Benchmark		
Estonia	9,2	9,3
Latvia	8,1	8,5
Poland	8,6	8,7
Average	8,6	8,8
Average difference	2,3	2,1
Average difference excluding Bulgaria, Romania, Turkey	2,7	2,7

Table 7: Corruption Perception Index (CPI), published by Transparency International, available online at:
http://www.transparency.org/policy_research/surveys_indices/cpi

Corruption Perception Index <i>low scores signify high corruption</i>				
	2004	2005	2006	2007
Armenia	3,1	2,9	2,9	3
Azerbaijan	1,9	2,2	2,4	2,1
Bulgaria	4,1	4	4	4,1
Georgia	2	2,3	2,8	3,4
Moldova	2,3	2,9	3,2	2,8
Romania	2,9	3	3,1	3,7
Russia	2,8	2,4	2,5	2,3
Turkey	3,2	3,5	3,8	4,1
Ukraine	2,2	2,6	2,8	2,7
Regional average	2,7	2,9	3,1	3,1
Regional average excluding Bulgaria, Romania, Turkey	2,4	2,6	2,8	2,7
Benchmark				
Estonia	6	6,4	6,7	6,5
Latvia	4	4,2	4,7	4,8
Poland	3,5	3,4	3,7	4,2
Average	4,5	4,7	5,0	5,2
Average difference	1,8	1,8	2,1	2,3
Average difference excluding Bulgaria, Romania, Turkey	2,1	2,1	2,4	2,7

Table 8: World bank Quick Query selected from World Development Indicators, accessed via <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userId=1&queryId=135>

Time required to start a business (days)				
	2004	2005	2006	2007
Armenia	25	19	18	18
Azerbaijan	123	114	52	30
Bulgaria	32	32	32	32
Georgia	25	21	16	11
Moldova	30	30	30	23
Romania	28	11	11	14
Russia	36	34	29	29
Turkey	9	6	6	6
Ukraine	34	34	33	27
Regional average	38	33	25	21
Regional average excluding Bulgaria, Romania, Turkey	46	42	30	23
Benchmark				
Estonia	72	35	35	7
Latvia	16	16	16	16
Poland	31	31	31	31
Average	40	27	27	18
Average difference	+2	-6	+2	-3
Average difference excluding Bulgaria, Romania, Turkey	-6	-15	-3	-5

C•A•P
Center for Applied
Policy Research
© 2008

Maria-Theresia-Str. 21
81675 Munich
Phone +49 · 89 · 2180 1300
Fax +49 · 89 · 2180 1329
E-Mail redaktion@cap-lmu.de
www.cap-lmu.de