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ECONOMIC COOPERATION AS A PROMOTER OF PEACE AND STABILITY: THE BLACK SEA REGION

The idea that economic cooperation promotes peaceful relations between countries has a long history, and is ascribed to several classical liberal thinkers. Already in the 17th century, a French political writer Émeric Crucé concluded that wars could be reduced by the expansion of commerce: trade brought individuals of different nations into contact with one another and created common interests.

In *The Spirit of the Laws*, Baron of Montesquieu (1689-1755) declared that

> the natural effect of commerce is to bring about peace. Two nations which trade together render them reciprocally dependent: if one has an interest in buying the other has an interest in selling; and all unions are based upon mutual needs.

The importance of using international economic cooperation to bring nations to peace was emphasized by Immanuel Kant in his publication of Perpetual Peace. The Kantian concept of the pacific consequences of commerce was largely explored by the economists, notably by the Manchester school of "commercial liberalism". This school was formed on the basis of trade diplomacy, also known as Cobdenism, after Richard Cobden, the British politician who defined economic cooperation as a moral issue, as it maintains the right of people to exchange, consequently, brings "men together, thrusting aside the antagonism of race, and creeds and language, and uniting us in the bonds of eternal peace". Hereafter, the influence of commercial liberalism can be found in the writings of different economists, such as Adam Smith, David Ricardo, Frederic Bastiat, based on the principle that peace gradually emerges from commerce in a natural process, especially the commerce based on free trade.

People, as rational actors, will prefer to exchange for improving their wealth as it is impossible to produce everything by oneself. Along with

Adam Smith, David Ricardo (1772–1823) also considered in positive way the open trade where nations improve their well-being as they are able to purchase goods whose production is cheaper elsewhere, while expanding the market for their own products. Similarly, French economist Frederic Bastiat (1801–1850) emphasized the political benefits of trade observing that when borders impede the flow of goods, armies will cross borders.

Until recently, there were few empirical studies for determining the liberal concept of positive connection between economic cooperation and peace. The majority of these studies is focused mostly on the question of the impact of interdependence/trade on peace/conflict and is realized by a small number of American scholars. In whole, the statistical studies provide a mixed set of findings because of using different spatial and temporal domains, varying measure and employment of various sets of control variables.

Solomon W. Polachek (1980) found the inverse relationship between trade and conflict: if conflict decreases trade, the trade decreases conflict. Further in joint publication with Seiglie (2006), they conclude that any unfavorable gains from trade reduce the marginal cost of conflict, and that, "only through mutual dependence can equilibrium come about where peace remains solid and secure".

Oneal and Russet (1997) have found that bilateral trade flows reduce the risk of war, particularly if the level of these trade flows is high, as this augments the opportunity cost of conflict.

This case also was strongly supported by Mansfield and Pevehouse (2000). These scholars have made a remarkable contribution in studying the trade–security linkage in the context of preferential trading partnership – on bilateral and regional levels. Their proposition is that the 'conflict-inhibiting' effect of economic cooperation will grow larger and stronger as trade flows rise, and that "heightened commerce will be more likely to dampen hostilities between economic partners than between other states".

At the same time, the other group of scholars opposes these results arguing that trade can actually cause conflict. Catherine Barbieri (1996) assumes that the relationship between trade and conflict is positive for some dyads, but negative for others. She assumes that the explanation for difference resides in whether the relationship is symmetrically or asymmetrically dependent. Her findings, in general, develop a negative relationship between economic cooperation and peace. In late publications, she accepts that the high level trade may have the pacifying effect on dyadic relations.

Despite some criticism, most of the concepts underline that peace can be regarded as an outcome of good commercial cooperation. The main argument of this approach is that with increasing interdependence among countries, connected together by economic cooperative ties, conflict is leveled out.

Along with interdependence, scholars mention also other variables that contribute to creating an atmosphere of peace and stability. These include internal stability, strong institutions, like-minded governments, compatible market economies, well-defined borders and democracy. Democracy is considered a necessary ingredient by some; it constitutes much of the liberal peace theory. In particular, democracy allows those interest groups that have much to lose from a potential conflict to influence foreign policy with their vote; at the same time, Polachek, Robst and Chang (1999) conclude that democracies trade more than non-democracies, and as a result fight less.[1] Others argue that democracy might come after trade; that is, trade promotes economic development, which ultimately results in democracy. Many regional schemes for cooperation have proceeded on the faith that interdependence in the economic field can potentially soften political tension and competition between states.

Referring to the argument that the mutual economic cooperation fosters peace between countries and the regionalism stimulates the economic cooperation and growth, the formation of regional organizations were chosen in many regions as an efficient way of dealing with security tensions between neighboring countries, namely as a means of reducing frictions between antagonistic neighbors.

The idea of positive influence of regional economic cooperation to peace and stability underlies the modern successful regional integrations like EU, MERCOSUR, ASEAN, etc.

Interdependence promotes peace

"We live in the era of interdependence".[2] With these words R. Keohane and J. Nye begin their paper "Power and interdependence", giving the definition of interdependence as the situation characterized by the mutual influence between states and non-states actors in different countries. This definition of "mutual dependence" is very similar to David Baldwin's (1980) stating of interdependence, namely, "international relationships that would be costly to break".[3]

In the above-mentioned publication Keohane and Nye emphasize the positive role of interdependence noting that the "rising interdependence is creating a brave new world of cooperation to replace the bad old world of international conflict".[4] Nowadays the growth of interdependence is one of the main factors of globalizing world that has direct impact to the promotion and maintenance of peace and stability.

The questions of whether and how interdependence affects international conflict have received increased attention since the end of the Cold War, but it is not a new concept. This issue was always actual in the opposition of liberal and realist international theories.

All liberalist arguments hypothesize that interdependence decreases international conflict and fosters cooperative political relations. The realists affirm that the heightened interdependence may actually stimulate belligerence based on thesis that the states are interested to minimize their dependence on foreign commerce: as trade flows and the extent of interdependence increase, so do the incentives for states to take military actions to reduce their economic vulnerability.

For distinguishing the mutual dependence – interdependence – from the direct dependence, it is necessary to define two basic components of interdependence: sensitivity and vulnerability. Sensitivity is the extent to which one country is affected by action of another, whereas vulnerability is the extent to which a country can insulate itself from the costly effects of events that occur elsewhere.[5] The key difference between sensitivity and vulnerability interdependence connected to the costs that countries would bear if the relations between them would be disrupted. So it is possible to give another definition of interdependence as the highly sensitive and vulnerable state of countries to each other.

However, the scholars mention also the possibility of unbalanced interdependence that brings to direct sensitivity or vulnerability of one country from another. They focus on (mutual benefits) and negative (asymmetric or costly) aspects of interdependence. It is asymmetries in dependence providing sources of influence for actors in their dealing with one another: even this one-sided dependence could be a source of conflict between countries. But according to their co-authored paper "Conflict and interdependence: East-West trade and linkages in the era of détente" (1982), Mark Gasiorowski and Solomon Polachek concluded that trade creating a degree of interdependence between US and Warsaw Pact countries provided the incentives to reduce their mutual hostilities; in addition the "asymmetries in the benefits associated with trade were seen as leading to greater conflict reduction on the part of the participant that benefits more".[6] Moreover, Oneal and Russet found that even asymmetrical interdependence fosters peaceful relations.[7]

There are different measures of interdependence. The frequently used is the ratio of trade to GDP, which is valid for both sensitivity and vulnerability interdependence. In view of sensitivity interdependence, it shows the level of connection of commercial partners' economies. For the calculation of vulnerability interdependence, this ratio is also valid as commerce between countries represents an important part of each country's total economic output and it is costly for either partner to replace the trade conducted with the other. But this argument is not sufficient in the case of vulnerability as states with a big level of trade can easily locate close substitutes for the goods are not very dependent on each other. At the same time, states conducting little trade that would have great difficulty locating substitutes for the goods may be highly vulnerable. So for calculations of vulnerable interdependence it is necessary to consider also the strategic nature of trading goods; the more essential and strategic trading goods the greater interdependence.

Along with trade, especially trade in strategic goods, the scholars mention the important role of capital flow – foreign direct investment (FDI) – and of international institutions as the conventional measures of economic interdependence, particularly important among such institutions are preferential trading arrangements (PTAs).

Thus the economic cooperation promotes peace and stability by deepening the interdependence between countries through different channels, where trade, FDI and PTAs may be considered the important ones.

Trade reduces conflict

The liberal school usually focuses on trade as the most important component of interdependence and supports the proposition that trade decreases international conflict.

One country is not able to produce all it needs as efficiently as another. The existence of comparative advantages enables different countries to increase their own welfare through trade. Loss of existing trade because of conflict would involve the lost of welfare gain, that is why trading countries with significant trade relations would engage in less conflict for not sustaining the welfare losses associated with lost trade.

Therefore the countries that engage in trade will be peaceful, because they do not want to face a potential reduction, due to a conflict, of welfare gains from trade.[8]

So trade and conflict appear to be truly interdependent. The model is simple: if conflict leads either to the cessation or to a weakening of the terms of trade, then both the price of conflict as well as benefits from cooperation are proportional to the lost gains from trade. The higher these gains from trade losses, the less incentive to clash and the more motivation to collaborate.

The empirical studies on trade and conflict relationship are quiet recent and rely mostly on three main hypothesis confirming that more trade improve more peace and stability. Firstly, more trade means more economic cooperation and, consequently, more economic interdependence between the countries. This increases economic growth and welfare of countries and the costs of severing such economic links; because conflict or even the threat of it tends to disrupt normal trading partners. Secondly, more trade means more interaction between the peoples and governments; more economic exchange as well social and cultural that results the increased trust. Through communication and transnational ties trade develops the understanding among societies and the potential for cooperation. Finally, secure trading relations reduce the likelihood of war by raising security of access to the partners' supplies of strategic raw materials necessary for growth and prosperity that are often the reason of conflicts.

Many statistical researches were developed by scholars using different variables. The majority of calculations supports the liberal argument that trade reduces conflict. The pioneering research was realized by Solomon Polachek (1980, 1982) basing on theory of comparative advantages providing evidence of "a strong and robust negative association between conflict and trade": the conflict reduces trade and, consequently, a cost of conflict is the lost gains from trade.

The further investigation of S. Polachek with Mark Gasiorowski (1982) on this topic but in the context of asymmetric interdependence: trade between the US and Warsaw Pact countries. Again, the results indicated that trade reduced peace. But the relationship appeared to be nonlinear: the countries that are more dependent on trade avoid more conflict. In 1992 Polachek and McDonald realized a new research adding import demand elasticity as an independent variable. Along with supporting the previous result of nonlinear relationship, the new findings concluded that more inelastic the import demand the smaller the probability of conflict.

Edward Mansfield's study (1994) is very important as it supports the argument of economic liberalism linking the increased trade to less conflict and at the same time it uses the variables usually regarded as the strategic causes of war.

The all results of previous mentioned analysis indicates that international commerce promotes peace among countries: a percentage increase in trade leads to a proportional percentage decline in conflict; according to Polachek (1982) a 6 percent increase in trade lowers the conflict by about 1 percent.

However, many scholars emphasizes that the correlation trade-conflict depends on trade's importance to the exporter and to the importer where the main factor is the strategic feature of particular traded commodities to an economy of both countries.

The argument that "conflict will be most sensitive to bilateral trade in strategic goods"[9] was supported not just by liberals, but also by some representatives of realist school. Later, Polachek and McDonald (1992) identify the goods as being strategic; specifically, raw materials, minerals, fuels, and heavy manufacturers. The causality from trade to conflict is more frequent in food and live animals, beverages and tobacco, and machines and transport equipment.

Some statistical tests demonstrate also that higher level of free trade, rather than of trade alone, fosters peace more, because free trade removes protective barriers to trade and enhances the growth of economic exchange volume between countries. Consequently, it heightens the level of trade and the next following interdependence.

For Richard Cobden, free trade was expected to promote peace by bringing nations into a relationship of economic dependence in which they would recognize that their own wealth and prosperity depended on others, because disruption of commercial ties by war would be against a country's interest, dependence would lead to a reduction in conflict.[10]

This idea that trade has a pacifying effect on interstate conflict mainly when there are minimal barriers to trade were corroborating by different liberalists. John R. Oneal and Bruce M. Russet (1997) also underlines the positive effect of free trade to reduce international warfare confirming that "as countries become increasingly open to external economic relations, they become more constrained from resorting to the use of force, even against a rival with whom commercial ties are limited".[11]

Foreign direct investment (FDI) complements trade

Along with trade that extends the interdependence between countries, the liberal thinkers like Montesquieu, Smith, Spinoza also mentioned the important role of capital mobility to increasing peace among nations.

The influence of FDI to international commerce is similar to trade's one. FDI benefits two or more countries that it connects. If countries linked by FDI go to conflict, as a result FDI decreases, as well the welfare gains are lost. Thus, in order to protect these gains, the countries are interested in reduction of conflict and promoting of peaceful cooperation, as in the case with trading partners.

Even some scholars underline the stronger influence of FDI in way to reduce conflict than trade, because FDI has certain characteristics like the long-term perspective. Above it was mentioned that not all trading relations may create vulnerable interdependence which it also depends on strategic nature of goods. If the trading goods are not strategic, there is a possibility to change commercial partners. Even if the trading goods are strategic, the conflict can just held or delay the cooperation and the loss resulting from the termination of trade between countries can be minimized. But it is not the case for FDI, as, in general, it has long-term character. The loss from FDI because of conflict can continue a long time with the cost not being covered. So the countries are more interested to support the peaceful relations for not losing the potential gain source. At the same time, the invested country must demonstrate a stable factor in order to attract the further investments from other countries.

The empirical studies implemented by Solomon Polachek, Carlos Seiglie and Jun Xiang (2006) find that the increase of FDI by 10% decreases the conflict on average for 3%, as well augments the net cooperation for 3,1%.[12] So FDI does not only promote peace, but also complements trade in enhancing interdependence and, consequently, in reducing conflict.

On the basis of results, it is logical to conclude that the reducing the barriers to trade and capital flows can promote a more peaceful cooperation which is main goals of preferential trading arrangements (PTAs).

Economic regionalism in Black Sea region

According to definition of Louise Fawsett and Andrew Hurrel (Regionalism in world politics; regional organization and international order), regionalism is "the creation of interstate unions on the basis of region"[13] which is the result of regionalization - the empiric process that brings to different forms of cooperation, integration and rapprochement inside definitive geographical area – region. In the history we had two waves of regionalism; called "old" and "new" regionalism. Like the 'old regionalism' of 1950th – 1970th, the new regionalism which began in the mid of 1980th can be understood by its historical context – different structural transformation of global system: the end of bipolarity, elimination of system of state-nations, growth of interdependence and globalization. The regionalism in Black sea region refers to new wave and is based on economic cooperation as the majority of new regionalism.

According to Part IX, article 122 of UN Convention of the Law of the Sea, Montego Bay, 1982, the Black Sea can be defined like "enclosed or semi-enclosed sea" that means a gulf, basin, or sea surrounded by two or more States and connected to another sea or the ocean by a narrow outlet or consisting entirely or primarily of the territorial seas and exclusive economic zones of two or more coastal States". The coast of Black Sea is shared by six coastal countries: Ukraine, Russia, Georgia, Turkey, Romania and Bulgaria.

The Black Sea is one of the complex and heterogeneous areas of Wider Europe. This region is situated on two continents and includes the territory with surface of 20 mln. km^2, with population of 370 mln. and annual trade turnover of 300 billion dollars. It is the second region with world oil and gas reserves. This region includes the countries of very different sizes, levels of economic development, military potential, geopolitical interests, as well as the cultural, social and religious traditions (with orthodox and Muslim countries).

Is Black Sea a region? According to the definition of J. Nye, the region is "a limited number of states linked by a geographical relationship and by a degree of mutual interdependence".[14] The Black sea can be considered as a region where the geographical proximity of states and the level of interdependence is present. This interdependence exists because of a long historical background of different types of interconnections.

The north coasts of Black sea were always connected to Mediterranean countries, even Fernand Braudel, French historian, characterized the Black Sea as "partly Mediterranean". The Phoenicians were the first who navigated in Black sea, but the Greeks began to improve the trade relations and created the first policies: Tyras, Tomis (Constanta), Trabzon, Pingos (Burgas), Panticapeum, Olbia, Odessos, Kerkintide (Yevpatoria). They were numerous, and especially in the north coast. These city-states were united and Bospor kingdom was created in 6-5 centuries B.C. that became a part of Rome Empire in 1 century B.C. Even in Greek mythology these connections were shown: the Argonauts with Yason traveled to the north coast of Black sea for Golden Fleece.

After the invasion of Huns the Greek city-states were restored only during the establishment of Byzantine Empire on this territory. During the Byzantines, the regional economy were developed by Italian merchants from Genoa and Venice, but in 15th century all the coast were conquered by Ottomans and the Black sea became an "Ottoman lake".

The strengthening of Russian Empire in 18th century brought the big confrontation in Black Sea region with Ottoman Empire. The desire of Russian tsars to have an exit to "warm sea" was the reason of several Russian-Ottoman wars supported also by European states that underlined the existence of big interest to this region during the history. These wars resulted by the division of coasts between the two states. After the World War II the Russian-Turkish confrontation developed into global confrontation of capitalism (Turkey-NATO) and socialist bloc (USSR, Romania and Bulgaria – Treaty of Warsaw).

Only after the collapse of socialist bloc we had big geopolitical changes in the region that brings to new strategy and many problems like frozen conflicts but at the same time it is the period of "unfreezing" when we see the appearance of regional cooperation among the Black Sea countries.

Despite of instable situation in region, there were always close social connection among the population, and, basically, these relations were constructed on economic cooperation from the beginning.

There were several initiatives of regional cooperation in Black sea region. The first attempt was Prometheus created by Soviet immigrants in the 1920th-30th in Paris with purpose to restore the interdependence of Black sea countries from URSS, but the after the World War II the project was closed. It was the only initiative before the collapse of URSS. After the big geopolitical changes in Black sea region, different cooperative models connected the regional countries like GUAM, BLACKSEFOR, Black Sea Regional Energy Center. But these organizations were based on specific issues and were not able to cover the interest of all regional countries. The most extensive and common initiative goaled to create preferential trading arrangements is BSEC that will be considered further.

Interdependence among Black sea countries

As it was mentioned previously, the increasing interdependence can play an important role in security issues. The situation of interdependence between Black sea countries was always present, especially between countries of socialist bloc. After the collapse of socialist bloc in view of the transition economies the interdependence between some of them were disrupted and is now establishing or reestablishing, but in some cases because of strategic nature it continues to exist. Hereby, the one existing and another reestablishing interdependence of dyadic relations promoting peaceful relations will be considered.

For existing interdependence, the analysis of the Ukrainian-Russian relations after the collapse of URSS is more evident. Comparing the Russian population of the Crimea (about 58%) in Ukraine and of Transnistria (about 30%) in Moldova, it becomes interesting that separatism brought to conflict in Moldova, and not in Ukraine. In this case, it is reasonable to consider the interdependence between Ukraine and Russia. Ukraine was always the transport corridor for Russian products to Europe, and especially for oil and gas; the Ukrainian gas transporting system is second biggest system in Europe. Due to this interdependence, we can conclude that the Crimea avoided the conflict. Therefore, it means that the existence or non-existence of interdependence between the Soviet countries played an important role for modern relations between newly independent states.

As an example of reestablished interdependence, we will review the relations between Georgia and Azerbaijan. After the chute of URSS several conflicts took place in the Caucasus region in view of existing of important national minorities in each state. Despite the significant Azerbaijani minority in Georgia, the conflict became impossible. The reason derived from economic interest of countries. All projects in the Caucasus region coming from Caspian connect Azerbaijan, Georgia and further to Europe or other Western countries. Georgia plays the role of transport corridor for Azerbaijan gas and oil exporting (pipelines Baku-Supsa and Baku-Tbilisi-Ceyhan) where the both countries have the important gains. In this case, the potential interdependence bringing the gains prevented the conflict.

The above-mentioned examples conclude that the existing and potential interdependence between countries reduces conflict promoting peaceful relations.

NOTES

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