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THE ECONOMIES IN THE BLACK SEA REGION: HOW DID THEY FARE AFTER THE COLLAPSE OF THE SOVIET UNION?

Introduction

Geographic terms are sometimes less clear than they seem at first sight. The term Europe, for example, may refer to different areas. The European soccer competition and the Euro Songfestival include participants from countries located outside Europe (such as Israel). Another example is Turkey, which is a candidate-member country of the European Union even though nearly all its territory is located on the Asian continent. Obviously, political, economic, and cultural borders may be quite different from geographic borders. This is also true with regard to the Black Sea region. Six countries border the Black Sea: Bulgaria, Romania, Ukraine, Russia, Georgia and Turkey. The Charter of the *Black Sea Economic Cooperation* (BSEC), however, has been signed by 11 member-states. In addition to the countries just mentioned, Albania, Armenia, Azerbaijan, Moldova, and Greece are members of the BSEC-pact. Furthermore, a number of countries have the status of observer at the BSEC, including Austria, France, Germany, Italy, Poland, and Tunisia. From October 1999, the BSEC itself has the status of observer at the United Nations because the General Assembly adopted a resolution to that effect.

Geographically, one may consider three of the five BSEC-countries without a Black Sea coast to belong to the Black Sea region. Moldova is located between Ukraine and

Romania and nearly reaches the Black Sea. Greece nearly reaches the mouth of the Bosphorus connecting the Black Sea and the Mediterranean Sea. Armenia does not border the Black Sea, but is located not far away from it. The two other countries without a Black Sea coast, however, are located at other seas. Azerbeidzjan borders the Caspian Sea, whereas Albania is bounded by the Adriatic Sea. It seems artificial to consider these two countries part of the Black Sea region. If Albania is considered part of the region, the question arises why Macedonia and Yugoslavia would not be considered part of the Black Sea region either. Similarly, if Azerbeidzjan is considered part of the Black Sea area, it is hard to understand why Iran and Iraq would not be part of the region. It goes without saying that the answers to these questions are political in nature. If countries conclude a treaty, it is based on political decisions that may be unrelated to geographic borders. The possible enlargement of the BSEC stresses this. A number of countries, including Iran, Yugoslavia, Macedonia, and Uzbekistan have applied for BSEC membership.

The Black Sea region lies at the crossroads of major existing and future oil and gas transportation routes¹. Traditionally, the region has well-developed trade relations. A common characteristic of all BSEC countries – including Greece – is their dependency on Russia for their

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¹ The BSEC goes back to 1992, when the then Turkish president Özal launched an initiative that initially resulted in the Bosphorus Declaration of June 25, 1992. The period June 25, 1992 until March 10, 1994 - when the BSEC Permanent International Secretariat was established - is usually referred to as the formative stage. Next, two major steps were taken (the Bucharest Statement of June 30, 1995 and the Moscow Declaration of October 25, 1996) towards a legal charter. The BSEC heads of states or governments signed the BSEC charter at the Yalta summit on June 5, 1998. This charter came into force on May 1, 1999 marking the official inauguration of the organization of the BSEC.

energy supplies. Azerbeidzjan is the only net exporter of energy. The dependency on Russia for energy supplies can hardly be considered a binding economic element. Considering the economy of the Black Sea requires defining the region in one way or another. It goes without saying that every definition is arbitrary and different definitions are conceivable.

One option is to take the BSEC-pact as a base. This would imply the inclusion of at least all BSEC member-states. However, this is a very diverse group of countries consisting of six former soviet republics (Armenia, Azerbaijan, Georgia, Moldova, Ukraine, and Russia), three former East Bloc states (Albania, Bulgaria, and

Romania), a candidate member-state of the European Union (Turkey), and a European Union member-state (Greece). Therefore, I have opted for a strictly geographic approach. In this article I will confine myself to countries that physically border the Black Sea. This is a smaller number of countries and, thus, a less diverse group. It consists of three former soviet republics (Georgia, Ukraine, and Russia), two former East Bloc states that are European Union candidate member-states (Bulgaria and Romania), and a candidate member-state of the European Union without a communist past, but that is largely located outside the European continent (Turkey).

Economic development in the 1990s

During the first years following the collapse of the Soviet Union the former communist countries suffered from a transition depression and a (in some cases large) decrease of the economy. The other countries of the former East Bloc also went through a depression. Turkey is

the only of those included in this article without a communist past. Thus, it did not suffer from a transition depression. In this section I will first present a concise overview of the economic developments in the 1990s per country. Then I will present a summary.

Georgia

With the exception of Russia, former soviet republics have an additional disadvantage relative to other countries of the former East Bloc. After the collapse of the Soviet Union they had to establish a new independent state and to build from scratch the public institutions belonging to an independent state. In addition, in the Caucasus several civil wars were waged. Immediately after the collapse of the Soviet Union in 1991, for example, a civil war broke out in Georgia that lasted until 1994. The lack of social and political stability resulted in an enormous decrease of Gross Domestic Product (GDP) by three-quarters in the period 1990-1994 (see Table 1). Inflation developed into hyperinflation and amounted to nearly 19,000% in 1994. The average annual inflation rate in

1991-1994 amounted to over 5,700%. At the same time the exchange rate of the Georgian currency plummeted from 220 lari per dollar in 1992 to over 1.1 million per dollar in 1994. In the late 1990s, however, the economy miraculously recovered with an annual GDP growth of 5.5% in the period 1995-2000. As a result of a tight monetary policy the inflation rate decreased to an annual average of 8.5% in the period 1997-2000. The infrastructure that was heavily damaged during the civil war, however, is an important obstacle for further economic development of the country. No data is available about unemployment. For 2001 and 2002 the projections are favorable: a real GDP growth of 4 and 6.5% respectively and an inflation rate of 6 and 4% respectively.

² International Energy Agency, *Black Sea Energy Survey*, OECD/IEA, Paris 2000, p. 18.

Table 1. Economic indicators for Georgia, 1990-2000.

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---------------------------------|-------|-------|-------|--------|---------|-------|------|------|------|------|------|
| Real GDP growth | -11.1 | -20.6 | -44.8 | -25.4 | -11.4 | 2.4 | 11.4 | 11.3 | 2.9 | 3.0 | 2.0 |
| Consumer price index (% change) | 4.8 | 81.1 | 809.9 | 3125.7 | 18916.0 | 183.2 | 39.4 | 7.1 | 3.6 | 19.2 | 4.1 |
| Exports of goods (USD m) | n/a | n/a | 267 | 457 | 381 | 356 | 372 | 230 | 191 | 238 | 372 |
| Imports of goods (USD m) | n/a | n/a | 645 | 905 | 744 | 683 | 686 | 931 | 1045 | 586 | 898 |
| Current account balance (USD m) | n/a | n/a | -319 | -485 | -446 | -410 | -295 | -499 | -543 | -198 | -166 |
| Unemployment | | | | | | | | | | | |
| External debt (USD bn) | n/a | n/a | 0.08 | 0.6 | 0.98 | 1.06 | 1.4 | 1.5 | 1.7 | 1.7 | 1.9 |
| Exchange rate (Lari/USD) | n/a | n/a | 220 | 12280 | 1102300 | 1.25 | 1.26 | 1.30 | 1.39 | 2.02 | 1.98 |

Source: EIU, *Country Report*.

Ukraine

Like in the rest of the ruble zone hyperinflation occurred in the first years of Ukraine's independence and rose to over 4,700% in 1993 (see Table 2). Inflation continued to be high, however, and still amounted to over 28% in 2000. The Ukrainian currency – after the abolishment of the initially ruble coupons, then the karbovanets, and from September 2, 1996 the hryvnia – depreciated sharply. The hryvnia's exchange rate decreased from 1.83 per dollar at the introduction in 1996 to 5.44 per dollar in 2000. The transition depression lasted very long in Ukraine. In 1991, the year in which the Soviet-Union collapsed, the

economy shrank by nearly 12%. Subsequently, economic growth was also negative throughout the period 1992-1999. In 1999, the economy had shrunk by nearly two thirds. Positive economic growth did not occur before 2000 (5.4%). The unemployment rate increased from 5.6% in 1995 – for previous years no data is available – to over 11% in 1998. Although the very slow pace of the reforms is a big problem, the projections for 2001 and 2002 are positive: a real GDP growth of 3.1 and 3.4% respectively, an inflation rate of 17.5 and 15% and an unemployment rate of 6.1 and 7.1% respectively.

Table 2. Economic indicators for Ukraine, 1990-2000.

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Real GDP growth | n/a | -11.9 | -17.0 | -14.2 | -22.9 | -12.2 | -10.0 | -3.0 | -1.9 | -0.4 | 5.4 |
| Consumer price index (% change) | n/a | 91 | 1310 | 4735 | 891 | 377 | 80.3 | 15.9 | 10.6 | 22.7 | 28.2 |
| Exports of goods (USD bn) | n/a | 7.3 | 6.0 | 12.8 | 13.9 | 14.2 | 15.5 | 15.4 | 13.7 | 13.2 | 15.5 |
| Imports of goods (USD bn) | n/a | 10.0 | 5.5 | 15.3 | 16.5 | 16.95 | 19.8 | 19.6 | 16.3 | 12.95 | 15.3 |
| Current account balance (USD m) | n/a | n/a | n/a | -849 | -1163 | -1152 | -1184 | -1335 | -1296 | 1658 | 1727 |
| Unemployment | n/a | n/a | n/a | n/a | n/a | 5.6 | 7.6 | 8.9 | 11.3 | n/a | n/a |
| External debt (USD bn) | | | | | | | | | | | |
| Exchange rate ^a (HRN/USD) | n/a | n/a | n/a | 0.045 | 0.33 | 1.47 | 1.83 | 1.86 | 2.45 | 4.13 | 5.44 |

Sources: EIU, *Country Report*; IMF, *International Financial Statistics*.

^a The hryvnia replaced the karbovanets on September 2nd 1996, at the rate of HRN 1:Krb 100000.

Russia

After the collapse of the Soviet Union, GDP decreased in the period 1992-1996 by over 40%. In terms of GDP the economy of Russia (with a population of 150 million people) is now not much larger than the economy of the Netherlands (with a population of 16 million people). Table 3 shows that after the hyperinflation of over 1,350% in 1992 the inflation rate has decreased, but in 2000 it still amounted to over 20%. During the last two years of the Soviet Union, economic growth was already negative, while Russia hardly experienced any positive economic growth after the collapse of the Soviet Union. Only in three years since 1992 the Russian economy grew (with 0.9% in 1997, 3.2% in 1999, and 6.3% in 2000). The positive growth of the past two years,

however, seems mainly due to the increase in oil prices. Since Russia exports raw materials – including crude oil – the current account of the balance of payments still shows a surplus. The strong decline of imports – which nearly halved after the financial crisis of 1998 – also contributed to this surplus. The Russian ruble has lost nearly all its value. The exchange rate plunged from 220 per dollar in 1992 to over 28,000 per dollar in 2000. The official unemployment rate increased from less than 5% in 1992 to over 12% in 1999. The projections for 2001 and 2002 are favorable: real GDP growth of 4% in both years, an inflation rate of 18 and 14% respectively, and an unemployment rate of 9.7 and 9.5% respectively.

Table 3. Economic indicators for Russia, 1990-2000.

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------|-------|-------|-------|-------|-------|
| Real GDP growth | -2.1 | -12.9 | -18.5 | -12.0 | -12.4 | -4.2 | -3.4 | 0.9 | -4.9 | 3.2 | 6.3 |
| Consumer price index (% change) | 5.0 | 92.6 | 1354.0 | 880.0 | 307 | 197.4 | 47.6 | 14.6 | 27.8 | 85.8 | 20.6 |
| Exports of goods (USD bn) | 48.8 ^a | 53.2 ^a | 42.4 ^a | 44.9 ^a | 51.6 ^a | 82.7 | 90.6 | 89.0 | 74.9 | 75.3 | 99.2 |
| Imports of goods (USD bn) | 50.2 ^a | 44.4 ^a | 35.0 ^a | 35.4 ^a | 37.7 ^a | 62.2 | 67.6 | 71.6 | 57.8 | 39.5 | 46.0 |
| Current account balance (USD bn) | -4.5 | 5.7 | 4.2 | 6.2 | 4.8 | 7.8 | 12.45 | 2.5 | 1.0 | 24.97 | 40.6 |
| Unemployment rate (%) | n/a | n/a | 4.9 | 5.5 | 7.5 | 8.5 | 9.6 | 10.8 | 11.9 | 12.6 | n/a |
| External debt (USD bn) | 59.8 | 67.5 | 78.7 | 83.1 | 92.9 | 120.4 | 124.9 | 126.0 | 183.6 | 174.3 | 160.4 |
| Exchange rate ^b (Rb/USD) | 16 | 30 | 220 | 932 | 2204 | 4559 | 5121 | 5785 | 9705 | 24620 | 28240 |

Source: EIU, *Country Report*.

^a Trade with countries outside the former Soviet Union only.

^b Informal market rate in 1990-91.

Bulgaria

In the early 1990s, the Bulgarian government showed a half-hearted attitude as to reforms. As a result, the Bulgarian economy adjusted in a very slow pace to the changed circumstances. In the period 1990-1993 the Bulgarian economy shrank by over one quarter. This was coupled to a deficit on the current account of the balance of payments. The Bulgarian currency sharply depreciated, while

the unemployment rate strongly increased. After a slight positive economic growth in 1994 and 1995, the economic crisis worsened with a negative economic growth of over 10% followed by a further contraction of 7% in 1997 (see Table 4). In that year, the Bulgarian economy faced hyperinflation (the consumer price index rose by nearly 1,100%). In March 1997, however, the Bulgarian government concluded an agreement

with the International Monetary Fund on stabilization and reform program. Its most important element was the establishment of a currency board that had to defend the fixed exchange rate of 1,000 lev per Deutschemark. This policy was not unsuccessful. In the period 1998-2000, economic growth amounted to an annual average of 3.6%, while the inflation rate was limited to an average of 11% annually. The official unemployment rate had increased from less than 2% in 1990 to a high of over 16% in

1993. In 1997, the official unemployment rate still amounted to nearly 14%. An important event occurred in Helsinki in December 1999, when Bulgaria was invited to begin talks about its accession to the European Union. The projections for 2001 and 2002 are fairly favorable: a real GDP growth of 4 and 3.8% respectively and an inflation rate of 8.5 and 4.3% respectively. The unemployment rate, however, is projected to levels of 17.4 and 15.6% respectively.

Table 4. Economic indicators for Bulgaria, 1990-2000.

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|----------------------------------|------|-------|------|------|-------|-------|-------|--------|-------|------|------|
| Real GDP growth | -9.3 | -13.8 | -5.7 | -1.5 | 1.8 | 2.1 | -10.1 | -7.0 | 3.5 | 2.4 | 5.0 |
| Consumer price index (% change) | 21.6 | 334.0 | 89.1 | 72.8 | 96.2 | 62.0 | 123.1 | 1082.3 | 22.2 | 0.4 | 10.4 |
| Exports of goods (USD bn) | 2.5 | 3.7 | 5.1 | 3.7 | 3.9 | 5.3 | 4.9 | 4.9 | 4.2 | 4.0 | 4.7 |
| Imports of goods (USD bn) | 3.3 | 3.8 | 4.6 | 4.6 | 4.0 | 5.2 | 4.7 | 4.6 | 4.6 | 5.0 | 5.9 |
| Current account balance (USD bn) | -1.2 | -0.9 | -0.3 | -1.0 | -0.03 | -0.04 | 0.08 | 0.4 | -0.06 | -0.7 | -0.6 |
| Unemployment | 1.7 | 11.1 | 15.3 | 16.4 | 12.4 | 11.1 | 12.5 | 13.7 | n/a | n/a | n/a |
| External debt (USD bn) | 10.9 | 12.0 | 12.2 | 12.9 | 11.1 | 10.9 | 10.1 | 9.9 | 9.9 | 10.0 | 10.4 |
| Exchange rate (Lev/USD) | 2.4 | 18.4 | 23.3 | 27.6 | 54.2 | 67.1 | 178 | 1682 | 1760 | 1836 | 2123 |

Sources: EIU, *Country Report*; IMF, *International Financial Statistics*.

Romania

In the early 1990s, the Romanian government adopted a strategy of gradual reforms. GDP decreased with one quarter in the period 1990-1992 and the inflation rate increased to over 200% in 1993. In the years 1993-1996, an economic recovery followed with economic growth of over 4%, but this proved to be unsustainable. Restructuring the heavy industry was postponed and as a result the imports of raw materials and energy continued to be high. The current account of the balance of payments deteriorated and in one decade the Romanian currency lost nearly all its value (the exchange rate plunged from nearly 22 lei per dollar in 1990 to almost 22,000 lei per dollar in 2000). The official unemployment rate rose from 3% in 1991 to over 10% in 1993 and continued

to be high in the rest of the 1990s. In 1999, the official unemployment rate still amounted to over 11%. The 1990s are characterized by a stop-go policy. After the gradual approach of the early 1990s, the government adopted in 1997 a shock therapy, resulting in a negative economic growth in the period 1997-1999 of nearly 4% annually. In 2000, GDP grew with 2%, but the inflation rate was still high (46%). Like Bulgaria, Romania was invited in 1999 to begin negotiations about its accession to the European Union. The projections for 2001 and 2002 are fairly positive: real growth of GDP increases to 3 and 3.5% respectively and the inflation rate declines to 34 and 25% respectively, but the unemployment rate continues to be high at 11.6 and 11.9% respectively.

Table 5. Economic indicators for Romania, 1990-2000.

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---------------------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Real GDP growth | - 5.6 | - 12.9 | - 8.8 | 1.5 | 3.9 | 7.1 | 3.9 | - 6.9 | - 5.4 | - 3.2 | 2.0 |
| Consumer price index (% change) | 5.1 | 170.2 | 210.4 | 256.1 | 136.7 | 32.3 | 38.8 | 154.8 | 59.1 | 45.8 | 45.7 |
| Exports of goods (USD m) | 5775 | 4266 | 4363 | 4892 | 6151 | 7910 | 8085 | 8431 | 8302 | 8503 | 11240 |
| Imports of goods (USD m) | 9203 | 5372 | 5784 | 6020 | 6562 | 9487 | 10555 | 10411 | 10927 | 9595 | 11941 |
| Current account balance (USD m) | -3337 | -1012 | -1564 | -1174 | -428 | -1774 | -2571 | -2137 | -2968 | -1288 | -1446 |
| Unemployment) | N/a | 3.0 | 8.2 | 10.4 | 10.9 | 9.5 | 6.6 | 8.9 | 10.3 | 11.5 | n/a |
| External debt (USD m) | 230 | 1143 | 2479 | 3357 | 4597 | 5482 | 7209 | 8584 | 9308 | 8436 | 9300 |
| Exchange rate (Lei/USD) | 22.4 | 76.4 | 308 | 760 | 1655 | 2033 | 3083 | 7168 | 8875 | 15333 | 21830 |

Source: EIU, *Country Report*; National Bank of Romania, *Annual Reports*.

Turkey

Turkey is the only country bordering the Black Sea without a communist past. Thus, it did not go through a transition depression. Table 6 displays that the Turkish economy shrank only in 1994 and 1999 (by 5.4 and 4.7% respectively), but the projection for 2001 also shows a decrease. In all other years economic growth was high and amounted to an average of over 6% annually. However, the inflation rate was also high and was never below 60% in the past decade. The exchange rate decreased very strongly from 2,600 lira per dollar in 1990 to nearly 419,000 per dollar in 1999. The official unemployment rate ranged from 5.8 to 8.4% and

amounted on average to over 7 per annually in the period 1990-1998. In early 1998, the Turkish government launched a 3-year stabilization program aiming at reducing the inflation rate to below 10% at the end of 2001. The earthquake of 1999, however, also damaged the economy in a period in which the Turkish economy already faced the detrimental consequences of the Russian crisis of 1998. It is already clear that the stabilization program will not succeed in reducing the high budget deficit and the high interest rates and cannot temper expectations with regard to inflation.

Table 6. Economic indicators for Turkey, 1990-2000.

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---------------------------------|-------|--------|--------|--------|--------|---------|-------|--------|--------|--------|------|
| Real GDP growth | 9.3 | 0.9 | 5.9 | 8.1 | -5.4 | 7.1 | 7.0 | 7.6 | 2.8 | -4.7 | n/a |
| Consumer price index (% change) | 61.7 | 65.45 | 70.33 | 66.45 | 106.2 | 87.96 | 80.3 | 85.8 | 84.62 | 64.86 | n/a |
| Exports of goods (USD m) | 13026 | 13667 | 14891 | 15611 | 18390 | 21975 | 32446 | 32631 | 31220 | 29326 | n/a |
| Imports of goods (USD m) | 22581 | 21007 | 23081 | 29771 | 22606 | 35187 | 43028 | 48029 | 45440 | 39773 | n/a |
| Current account balance (USD m) | -2625 | 250 | -974 | -6433 | 2631 | -2338 | -2437 | -2679 | 1984 | -1364 | n/a |
| Unemployment | 7.5 | 8.4 | 8.0 | 8.0 | 7.6 | 6.6 | 5.8 | 6.9 | 6.2 | n/a | n/a |
| External debt (USD m) | 61703 | 104809 | 177697 | 311299 | 903477 | 1421166 | 2453 | 6593 | n/a | n/a | n/a |
| Exchange rate (Lira/USD) | 2609 | 4172 | 6872 | 10985 | 29609 | 45845 | 81405 | 151865 | 260724 | 418783 | n/a |

Source: IMF, *International Financial Statistics*.

Economic development in the Black Sea countries have been very diverse. The three former soviet republics suffered from a deep and long transition depression with hyperinflation, very high unemployment rates, and a very large decline of GDP. However, as a result of the notorious allocative inefficiency of the soviet economy a decrease of GDP in the area of the former Soviet Union is not identical to a decline of the standard of living. A decrease of the production of weapons and barbed wire does not necessarily imply a decrease of the standard of living of the population. However, the former soviet republics seem to have bottomed out. For Georgia this was already true in 1995, after the end of the civil war in 1994. Notable seems that Georgia did not suffer from the financial crisis in Russia in 1998. This stresses the significance of a good social and financial policy and institutional capacity building towards a market economy. The Russian financial crisis of 1998 may have delayed the economic recovery in

Russia and other Black Sea countries. The Russian economy seems to be growing from 1999 and Ukraine seems to have bottomed out in 2000. The two former East Bloc states also suffered from a transition depression with very high inflation and unemployment levels. Bulgaria seemed to recover as early as in 1994, but suffered from a backlash in 1996 and 1997. From 1998, however, this country seems to be on track to economic recovery. In Romania GDP grew in the period 1993-1996, but decreased in 1997-1999. In 2000 economic growth was positive again and the transition depression seems to have bottomed out in Romania in 2000. Turkey does not carry the burden of the communist past. With few exceptions (1994, 1999, and probably 2001) it enjoyed positive economic growth. Inflation was high, but did not take the form of hyperinflation. The official unemployment rate was high, but considerably lower than in the former communist countries and also somewhat lower than in the European Union.

Prospects

One may mention a number of positive points about the Black Sea region. Traditionally, it has important trade relations and people are used to international traffic. The climate is very good. The labor force is fairly well educated and the wage costs are low. Yet, it is too simple to foresee sunny future. In the former soviet republics and East Bloc states the depression seems to have bottomed out and the projections for economic developments in 2001 and 2002 are favorable. However, this does not guarantee a sustainable favorable economic development. Besides the positives there are also negatives.

First, the infrastructure is very poor. Good climate is not a sufficient condition for a thriving tourist industry. Tourists should be able to travel to the region easily and comfortably. Airports in the region do not meet the standards for mass tourism. In addition, visa requirements make it more complicated and more expensive for tourists to travel to the Black Sea region. The region's traffic infrastructure is also poor. Most annoying to tourists is that the price/quality ratio of hotels in the region is absurd. The hotels offer Eastern European quality, but they charge western prices. This has most likely to do with wavering methods of privatization. Companies such as hotels are leased for relatively short periods (often five years). The government thus

retains the ownership, while the entrepreneur will have a time horizon of five years at the most. This is too short a period to take significant entrepreneurial risks and to invest on a significant scale. As a result, hotels are more or less cannibalized. The entrepreneur exploits them as they are without making any investments. Serious renovations are badly needed, but are not undertaken because the returns on these investments are too low in a period of five years.

Second, corruption is a big problem in the whole Black Sea region. Transparency International publishes a corruption perception index for a large number of countries on an annual basis. The corruption perception index indicates the extent of corruption in a country³. It ranges from 10 (very clean) to 0 (very corrupt). The corruption perception index for 2000 lists 123 countries. Since a number of them take joint places the list has 90 places. Finland is on the top of the list with a score of 10.0, whereas Nigeria with an index of 1.2 is at the bottom of the list. Georgia is not included, but its score would undoubtedly be low. Georgian enterprises spend 8.1% of their turnover on bribes, which is the highest percentage in the region⁴. All former soviet republics and East Bloc states score very low. Ukraine scores 1.5 and takes the 87th place. Russia scores 2.1 and is listed as No. 82. Romania has an index of 2.9 and takes the 68th

³ Annual overviews are published on the Internet [www.transparency.de].

⁴ Joel Hellman and Mark Schankerman, *Intervention, corruption and capture: the nexus between enterprises and the state*, European Bank for Reconstruction and Development, Working Paper No. 58, October 2000, p. 18.

place; Bulgaria has a score of 3.5 and takes the 52nd place. Finally, Turkey scores 3.8 and is listed No.50. Notably, the extent of corruption in a country seems to be correlated to the economic performance. Countries with a relatively favorable economic development tend to couple that to a relatively low extent of corruption.

Third, the building up of a social, economic and legal infrastructure is far from completed. Ownership cannot always be determined with certainty because property registries – insofar they exist - are unreliable and incomplete. This seems to be associated with the extent of corruption. Insofar taxes are collected, it does not always occur in a regular way. Moreover, licenses are not always issued in a proper way. Private investments are therefore discouraged, since extra risks related to corruption are added to the normal entrepreneurial risks. This increases the amount of uncertainty that

companies face, which is detrimental for the investment climate.

Fourth, the negotiations of the three applicant countries with the European Union can take a very long time. Reference can be made to the 1980s, when the negotiations about the accession of Spain and Portugal lasted nine years. The progress reports of the European Commission – the most recent reports were published in November 2000 - make clear that a lot has still to be done before the Central and Eastern European applicant countries can join the European Union. The European Commission refers explicitly to the corruption problem. It does not seem likely that Bulgaria and Romania can join the European Union in 2007, while Turkey will have to wait considerably longer for its accession because of the human rights situation and the position of Greece and Cyprus.

Conclusions

In this paper I confine myself to those countries bordering the Black Sea. Like any definition this definition of the Black Sea region is arbitrary. Of the three former soviet republics bordering the Black Sea, Georgia showed the best economic performance, in particular in the late 1990s. The economic performance of Russia and Ukraine is poor. Their economies shrank severely in the 1990s. Though the transition depression seems to have bottomed out, it is far from certain that the economic recovery is sustainable. The Russian economy might still have been shrinking without the

support of high oil prices. Of the European Union candidate member-countries bordering the Black Sea Bulgaria's economic performance is considerably better than Romania's. However, the high unemployment rates and the corruption problem still pose big problems in both countries. They will have a long way to go before accession to the European Union can be realized. Turkey combined high economic growth with high inflation in the 1990s. The stabilization program does not meet its objectives and accession to the European Union is still far away.