

## THE ROLE OF THE ECONOMIC DIMENSION IN CONFLICT PREVENTION IN EUROPE

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*ABSTRACT. The article was originally delivered as a discourse at the UNECE/OSCE International Conference "The Role of the Economic Dimension in Conflict Prevention in Europe", Villars, Switzerland, November 19, 2001. It therefore attempts a reexamination of the economic and environmental dimension of security, emphasizing the urgent need of maximizing the effort of identifying security risks and tackling them in terms of early warning and conflict prevention. Due to the specific initial format of the text, minor editing has been operated.*

This meeting takes place at a time of deep anguish and concern, after the tragic events of 11 September. What has been much into our minds for quite a while became so painfully clear: in the post Cold War world we confront new security threats, including international terrorism, which need adequate responses in order to be fended off or contained. Most of these threats do have economic roots. This reality was starkly underlined, once again, by the Secretary General of the United Nations, Kofi Annan, at the recent meeting of the General Assembly. And James Wolfensohn, the President of the World Bank, has been talking about this linkage, without relent, for years now.

These threats can be framed into the economic and the environmental dimension (EED) of the OSCE. For this reason, the UN/ECE's initiative of organizing this meeting is more than commendable; and it is a further proof of the special relationship that exists between the OSCE and the UN/ECE, of the cooperation and support provided by the Commission to the OSCE. I would remind, in this respect, that, each year, the UN/ECE contributes substantively to the OSCE Economic Forum by preparing a Review of implementation of the OSCE commitments in the EED.

This meeting has its own peculiar feature for it attempts to take stock of the acquired learning in identifying and dealing with new threats to security, with the nexus economy/environment-security. We trust that those who are gathered here --governmental experts, academics, representatives of international organizations (including UN/ECE, the OSCE and NATO), etc-- will use this meeting (brainstorming) in a best way, for the benefit of all of us.

Before too long I would like to underline that the Romanian Chairmanship, from the very beginning of its mandate and by responding to opinions voiced by many OSCE Participating States have embarked on a reexamination of the economic and environmental dimension of security. The starting working point was an almost unanimous mindset: that more has to be done in identifying security risks and tackling them in terms of early warning and conflict prevention. Let me first air some views on the nexus economy/environment-security. I should say that my focus are transition countries for reasons I need not spell out.

### 1. The nexus economy/environment-security

#### 1.1 Economy and security: the pains of transition

Transformation has proved to be much more complicated and complex than initially thought. Institutional change, in particular, disproved the tenets of those who espoused a sort of hocus-pocus social science and practice. As against the euphoria at the start, nowadays, sobriety, cautiousness and more open-mindedness mark the conduct of research. Those who stressed the importance of initial conditions, of geography, of institutional change are vindicated by the sequence of events. Policy is important, but policy itself depends on a propitious context, on preconditions.

There is a cluster of countries, in the vicinity of the EU, which score quite highly in many respects of transformation. At the same time, however, South East Europe and the CIS countries remain pretty fragile institutionally, with very depressed levels of output (even if correction is made for redundant output), low saving and investment ratios, and are crisis prone. In addition, most of these countries reveal steadily worsening social indicators (life expectancy, death rates, infant mortality, spread of new diseases, income inequality, etc.), which is a bad omen for their ability to cope with future pressures. Moreover, weak public governance and a weak state is a constant trait of transition, which reinforces the thinking about unfavorable prospects for these countries.

From this bleak description of transition there emerges an interesting question: is not this state of affairs unsurprising in view of the challenges of transformation, which had remained largely unheeded for many years? And if this is the case, what should be the nature and the order of concerns to policy-makers and

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analysts? In order to suggest and answer, I would side with those who stressed the unjustified high expectations at the start of transition. I would go further and submit that most transition economies reveal a striking combination of features pertaining to rich and poor countries. For example, the level of education (literacy) and skills, in general, vs. the degree of competitiveness of most of their industries. What is worrying for these countries is, in my view, the steady worsening of the "good" indicators, which may undermine what appear now as factors of strength.

There is a special category of transition economies, which can be called distress economies. The latter can be found in the Balkans, where a decade of massive destruction and human suffering (caused by wars and inter-ethnic strife) complicated exceedingly the tasks of reforms, of transformation. Most of the Balkans is made up of areas which suffer from huge unemployment, aid-addiction, very depressed levels output, export stagnation, and rising criminal activity. I should say that such areas can be found elsewhere as well; let us think about the Caucasian space of the former Soviet Union, which is also ravaged by military conflicts and very precarious public governance. Nonetheless, nowhere else there does seem to be so much destruction linked with the process of one entity dissolution: The bad news is that the political map of the Balkans is still fuzzy and the current "silence" is due to a large extent, to the presence of outsiders (including the OSCE missions), to the functioning of hard and soft protectorates. It goes saying that sensible economic policies are very difficult to pursue under such circumstances and that economic fragility will continue to mark the life of these countries. The good news is that the EU integration process and the Stability Pact do exert a positive influence on the area and this anchor could prove increasingly stronger.

On this line of reasoning, I would highlight the high vulnerability of most transition economies. It is noteworthy that this vulnerability is not linked necessarily with financial markets<sup>1</sup>; it derives from large disequilibria, which sooner or later comes into the open as high inflation or banking crises, etc. Vulnerability should be judged in a narrow and a broad sense. In a narrow sense it refers to its economic dimension, to the inability to cope with domestic and external shocks. In a broad sense, it points to failures of society (state) to deliver public goods and provide a livable and empowering environment to its citizens; it signals a high probability for the existence of considerable

internal strife, for fragmentation and the upper-hand of centrifugal forces, which can be viewed as real threats to national security.

### 1.2 Security and Economy

One can go the other way around and see how security failures and concerns interfere with and strangle economic advance. When borders are questioned, or when the process of state-formation is the overriding task of policy-makers, the economy serves an ancillary function. Consequently, sensible economic policies – evaluated from the rationality of market-oriented institutional reforms – are hard to formulate and implement. This combines with the intrinsic pains of implementing reforms when strain is overwhelming.

Very shaky institutional foundations and a weak state are fertile ground for the expansion of underground, parallel structures. As a matter of fact, in many transition economies parallel structures are so powerful that they determine social and economic dynamics. A big threat to security is that parallel structures, which are non-transparent by definition, are driven frequently and mainly by criminal organization (networks). Would such organizations (networks) become transparent and submit themselves to the rules of well functioning market economy and democratic polity? I would argue that the victory of good over the evil cannot be taken for granted, even in the very long run. Path-dependency plays a critical role in history. For historical breakthroughs to occur there is a need to combine the actions of domestic factors with external anchors. However, for bigger countries the efficacy of external anchors can be questioned.

### 1.3 The World Context

It is not my purpose to analyze the impact of the new information technologies, neither is my intention to look at the process of EU integration, at mega-mergers, etc. All these processes have consequences for the relationship between economy and security, for they mean new technological and economic edges for some, growing divides, and intensified non-co-operative behavior as well. Instead I will highlight what I view as security challenges that are rooted in the worldwide dynamics.

Globalization brings about benefits and extraordinary opportunities. But in a world replete with asymmetries and agglomeration effects, financial and trade liberalization do not make all happy; there are many losers, and major trade clashes arise. Globalization affects social psychology, and it can increase fears of and resentment towards neighbors, or towards "those who are not like us".

Globalization is linked also with growing gaps both inside countries and among them. UNDP and World Bank reports speak eloquently about the dangers posed by rising income inequality which, arguably, is enhanced by the new information technologies. Increasing discrepancies between so called knowledge have

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<sup>1</sup>Deep financial markets are dangerous whenever macroeconomic policy is not sound and institutions are shaky.

and have-nots are very likely to strain social structures and create tensions against the backdrop of new information technologies, which allow people to compare and form new expectations. High inequalities would also impede economic growth, as World Bank studies emphasize. There are many revealing examples in today's world about economic strain leading to fragmentation, social and inter-ethnic upheavals. Indonesia is a conspicuous example in South East Asia. But one can argue that in the Balkans, too, economic strains have fuelled the dynamics of fragmentation. The late backlash against globalization, which can be detected both in rich and poor countries, mirrors intense social strain, which can lead to policy reversals and serious conflicts. Let us not forget that the period preceding the First World War was one of extreme openness of trade relations and labor movement, which was followed by rising protectionism<sup>2</sup>.

Globalization is meant, usually, to cover financial and trade-related matters. But there is another segment of globalization, less visible but highly threatening. Let us think of arms and drug trafficking, money-laundering, illegal immigration, etc. Criminal activity is getting a global thrust and it uses increasingly sophisticated means in order to outsmart state authorities. Many transition economies have become "congenial" environments for such activities. One should acknowledge, however, that western countries, too, as very open societies, are host to such activities on a significant (threatening) scale; the revelations following the tragedy of September 11th should be a stern reminder in this respect. As to the arms race, the latter is no longer an exclusive affair of governments; groups inside countries can drive it, whether they vie to take over state power, or are engaged in international illegal activities. This dynamic blurs images and hinders the capacity to deal effectively with threats.

## 2. Why doesn't cooperation work?

The linkage between regional cooperation and security is quite obvious. However, what seems to be a conspicuous incentive nexus for both individual and collective players does not always work in reality. Frequently, for reasons which I will try to revisit very briefly, regional cooperation remains deep down - an elusive goal and, thereby, security is impaired.

Let me underline a series of factors (circumstances) which are presumed to enhance regional cooperation and cooperation in general. The driving power of these factors/circumstances should likely get stronger in a world that, supposedly, is increasingly interconnected under the spell of fast technological progress and economic liberalization. First come economic incentives - trade and overseas investment/production. When these operate according to the logic of a non-zero sum game, losers, should they be numerous, can be compensated one way or another. Less ideological confrontation would also work to the same end. Following diminished confrontation, governments would show more restraint in using economic means (including sanctions) as instruments of foreign policy. The diminution (disappearance) of ethnic and religious enmity, where that exists, would be another favorable factor, as would be the reduction of border conflicts. I would range among these factors, also, a convergence of Weltanschauung outlooks, of values and principles which can foster trust and mutual respect. And finally, I would list the power of "attractors", of big players who can exert an "ordering" influence on events with international repercussions and on the conduct of smaller actors. Evaluating the post-1989 years from a less sanguine perspective would highlight a series of worrying phenomena. One is represented by the powerful forces of fragmentation, which intensify "cognitive dissonance" and friction (conflicts) among groups of people (communities/countries). These conflicts can involve land disputes (when borders are contested, or multi-ethnic countries disintegrate), or can take place along ethnic and religious lines; they breed resentment and fuel extremism and fundamentalism, which shows up in the form of domestic and international terrorism.

Financial and economic crises, which have proliferated during the last decade and confounded the zealots of unrestrained globalization, have brought about tremendous pains to various countries around the world.

Financial crises in Brazil, Argentina (which years ago was hailed as a model of reforms following the introduction of the currency board), Turkey, etc, show how tenuous the state of affairs in many emerging countries is and how rapidly economies can fall apart - especially when aid from outside is not readily available. Rising income inequality (in rich countries, too) as well as the growing "digital divide" do not supply grounds for optimism. One can add here the bogged down reforms in many transition countries in Europe and the FSU and the rising poverty and weak institutional structures, which are becoming endemic problems. Last but not least, questionable business ethics and the internationally spreading operations of organized crime, together with mounting transnational problems, would make up a gloomy balance sheet.

There are signs that the world is heading towards the creation of major trading and currency blocs.

<sup>2</sup>Jeffrey Williamson makes an illuminating analysis of that period and warns that one should not consider globalization as an inexorable process. See his "Globalization and the labour market: using history to inform policy" in Ph. Aghion and J. Williamson: "Growth, Inequality and Globalisation", Cambridge, Cambridge University Press, 1998, pp.103-201.

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Whereas economic and financial crises do enhance such a tendency (for blocs are seen by many as "damage-control" devices), which would clearly favor regional cooperation, it would not necessarily help the functioning of an open world system. Political and security implications can easily be imagined against the backdrop of the emergence of such blocs.

In Europe both NATO and the EU are facing major enlargement challenges, which would redefine the security and economic map of Europe. Some may be tempted to dispute such a statement, but I would argue that for the smaller countries - which would be either "ins" or "outs", enlargement is the overriding concern, which shapes popular perceptions and psychology, and will likely make the difference between successful reforms (modernization) and further falling behind.

It is striking to see that, whereas the collapse of communism terminated a historical ideological confrontation and signaled the demise of Cold War type bloc politics on the Continent, we seem, currently, to witness a sort of recreation of two major areas - a process which has, as the major feature, the economic divide of the Continent: a prosperous "new West" (which would be the enlarged EU, including a few transition countries) and a "new East", a poor area made up of former communist countries. This divide existed in the past as well, but now it is becoming more visible and it does create new uncertainties. Would the Partnership for Peace be capable of providing an effective tool in dealing with these uncertainties? These two different areas would shape countries' behaviors according to economic performance and military and security links.

How can cooperation be enhanced, among both major and little actors? I would say that the juxtaposition of big and little actors is not accidental if one admits that "demonstration effects are powerful" when they shape perceptions, propensities and conduct. There are several areas in which cooperation can be tested as on a battleground. Among non-military security issues, I would range environmental concerns (pollution, global warming, etc), massive illegal migration, health hazards (diseases), organized crime, drug trafficking, and vulnerability of highly complex systems (software) at a time of very fast technological change.

Among military issues I would mention, firstly, those which pertain to the balance of power motives. How to deal with (or contain) regional conflicts is high on the agenda in a world which is not short of such conflicts - and when it is not easy to decide who should intervene, under what mandate, and who should provide the human force required to maintain peace although this may involve casualties. Arms proliferation and domestic and international terrorism are also constant policy concerns for governments all around the world.

Last but not least, cooperation needs to be enhanced in dealing with major international economic issues: trade, financial flows, development aid, business ethics, etc. In this respect, there is much to do in order to bring practice in line with preaching and to acknowledge that whereas markets are the best mechanism for allocating resources and fostering entrepreneurship, at the same time they evince imperfections and asymmetries, which require public policy measures of pain alleviation and market failure correction.

In order for cooperation - either regional or on a broader scale - to be enhanced, actors (states) need to define common interests and areas where they can compromise in a better way. This result can be facilitated by acknowledging the existence of collective goods, whose production is indivisible. Of help would also be a more rigorous respect of norms and more adherence to the principle of non-double standards. That this aim is hard to achieve in practice - since "reality is very complex" and interests may shift in time - is an argument hard to refute. Nevertheless, statesmanship (leadership) is verified especially during duress, when one is asked to provide vision and good policy under adverse conditions.

### 3. A tentative summing up: major threats to security

The ideological divide of the Cold War is being replaced by an economic and institutional cleavage. One could argue that this cleavage is not surprising in view of the economic differences between the West and the East (in Europe) which go deeply down into history. On the other hand, one should not be complacent about these gaps in the internet age, and when the weak state syndrome is very intense.

Weak institutions, rising poverty, wars and inter-ethnic strife, are driving people to migrate on a massive scale; these phenomena also favor illegal activities (organized crime). These phenomena are compounded by state rivalries and inter-ethnic animosities, identity crises. What are, therefore, the biggest threats to security in Europe, which can be judged following the logic of the nexus economy-security?

- Economic decline and rising poverty in many transition countries, which is likely to breed internal strife;
- huge unemployment (like in some Balkan countries, where it reaches 30-35% of active population)
- massive migration, owing to domestic economic hardships and huge income differentials in Europe;
- failed (faltering) states, incapable of providing basic services to an increasingly poor population; this is conspicuous in several Balkan and Central Asia countries.
- decaying educational and health-care systems;

- environmental damage and negligence, due to the lack of resources by transition countries (budget retrenchment) and poor standards;
- growing networks of organized crime which "acknowledge no frontiers";
- drug and weapons trafficking;
- growing conflicts over scarce resources (water resources)

If these threats are seen for what they represent as security menaces, the economic dimension of the OSCE would have to consider them on a steady basis and in a more systematic way.

It is true that these threats, sometimes, do not provoke immediate crisis. But negative developments accumulate in time and, often, their effects can be devastating and with damaging spillover effects for neighbors. We therefore should keep a right balance between immediate responses to acute crises and constant effort to address the roots of long-term menaces.

#### **4. Strengthening the OSCE Economic and Environmental Dimension**

Against the background mentioned above the Romanian OSCE Chairmanship set the strengthening of the Economic and Environmental Dimension of the OSCE among its priorities. Our demarche has been a search for rendering the OSCE EED activities more effective, with a view to strengthening the Organization's early warning and conflict prevention capacity. Since the OSCE is a consensus based organization the Romanian Chairmanship initiated an intense and systematic discussion and involved the Participating States in an action-oriented debate aimed at identifying the most relevant topics and the most appropriate mechanisms.

This debate has reinforced the view that there are three tiers which can help address better the economic and environmental dimension.

The first tier regards the existence of a common denominator of understanding (perceptions) by OSCE actors (states) of the security threats which have an economic origin, or of other menaces which can damage their economies. The higher is this tier (common denominator) the easier is for the economic dimension to be dealt with effectively. But the common denominator is an evolving notion (parameter), which, itself, depends, on one hand, on a moving reality and, on the other hand, on the thinking (analytical) component of the OSCE efforts. This is why the OSCE needs to develop its own institutionalized thinking component on the economic dimension (I should stress that the cooperation with the UN/ECE is essential). The third tier regards the operational component, which serves the goal of enhancing the economic and environmental dimension and deals with the security threats rooted in the nexus economy/environment-security. Whereas the OSCE field missions play a major role in this respect follow-up measures are critical for success.

Several means would help achieve the goal mentioned above:

- strengthening the activity of the Office of the OSCE Coordinator of Economic and Environmental Activities (OCEEA). Unless this is done it would be hard to claim that the economic dimension enjoys the same credentials and attention as other dimensions. This process would imply an enhanced role of the Office of the Coordinator of Economic and Environmental Activities, which should strengthen its capacity to identify risks to security (which are widely acknowledged by member states), prepare reports and proposals (for OSCE involvement), which should be brought to the attention of the OSCE decision making bodies. The OCEEA should strengthen its co-operation and co-ordination with the OSCE institutions and field presences, as well with partner organizations. Clearly, a revisit of the Bonn Document is needed in view of the new international environment and new threats.
- enhancing the thinking (analytical) component of the OSCE. Here again the OCEEA plays a critical role. There are, at least, two complementary ways to this end: first, there is need to build up the in-house thinking component of the Office; second, it does make sense to use better the current informal group of "friends of the economic dimension", turn it into a more effective structure – as a matter of fact, the Chairmanship proposed the creation of an informal regular committee.
- injecting more dynamism in the activity of the OSCE missions by relying on the policy-agenda validated by the Permanent Council and, also, by using better the inputs provided by the missions. The OSCE field missions have a significant role in identifying problems and viable projects at the local and regional level. Strengthening the activities of OSCE missions, supporting their initiatives and programs, using their unique expertise and direct knowledge of the realities in the field is essential for our endeavors. Together with local governments, NGOs and in cooperation with other organizations present in the field, they have developed and implemented a series of activities and grass-root initiatives. There are a lot of positive examples of networking and cooperation, promoted by OSCE field presences, all over the OSCE region. The OSCE missions can, for example, stimulate projects of the Stability Pact for South Eastern Europe, support local government in implementing Initiatives on Anti-Corruption and Anti-Trafficking, as well as the Investment Compact. As a result of the discussions during the Economic Forum and thereafter, the OSCE would seek a

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closer cooperation with SECI in combating organized crime and corruption as well as in promoting SMEs.

- organizing regional events which should broaden the scope of the annual Economic Forum.

There is a growing awareness among the Participating States, the OSCE institutions and field presences regarding the economic and environmental dimension and of the role of the OSCE. There are encouraging signs in Vienna and in the field, a stronger commitment regarding the EED of the OSCE. Likewise, other partner organizations begin to consider OSCE as a relevant interlocutor.

The OSCE can hardly achieve its goals unless there is effective working together with relevant international organizations, international financial institutions, regional organizations and initiatives, as well as with civil society and business associations. The member states are conscious of the limitations of our organization and the need to use the knowledge and the capabilities which other organizations possess. And this is the key to tackling effectively security risks: the joint efforts by partner organizations in preventing, managing, or responding to crises (conflicts). But however limited its resources may be, it is unquestionable that the OSCE, which has its own uniqueness in Europe, has a clearly defined niche of concerns: the nexus economy/environment-security. That this nexus may, frequently, be pretty blurred is another matter and is one of the reasons for convening this meeting.

#### 4. The OSCE Role

The need for enhanced inter-institutional cooperation has been emphasized many times. It is vital that we work in complementarity with other organizations such as the UN, the World Bank, the OECD, the Council of Europe EU, etc. As a catalyst, the OSCE can bring together international donors and recipient countries. We need to work closely with other players in responding to our common challenges.

Sharing best practice, leading to a strengthening of state institutions and credible benefits for the citizens, is another example of what the OSCE can do. We can create a framework for dialogue by identifying needs and gaps in communication and information.

The OSCE can play an important part in stimulating the political will to develop and implement adequate legislation, in promoting international legislation (the Governance and Anti-Corruption Programs of the World Bank; the OECD Convention on Combating Bribery; the OECD Recommendation on Improving Ethical Conduct in the Public Sector; the UN Convention against Transnational Organized Crime, the Aarhus Convention etc) and regional co-operation, in engendering a wide public debate, in strengthening civil society and increasing civil participation in the governmental decision-making process.

The OSCE can promote institutional reforms, with the aim of enhancing stability, so that public institutions function properly, that the right laws are in place, that the judiciary is independent and honest, that the public administration sector is rationalized and strengthened.

The OSCE can also contribute to fighting corruption at all levels, to the creation of a friendly business environment; it can support the development of a strong and performing private sector, especially SMEs. The Romanian Chairmanship has consistently emphasized that corruption and illegal activity like money laundering, trafficking and organized crime are serious threats to OSCE values. They endanger not only economic growth and sound development, but also our security.

The focus of the Romanian Chairmanship has been on good governance and transparency (also the theme of this year's OSCE Economic Forum), which we consider central to developing well functioning economies. Disfunctional, unresponsive and non-transparent institutions generate incoherent and inefficient governmental policies, and open the way for corruption and abuses, underdevelopment, economic and social polarization.

The OSCE firmly condemns terrorism and extremism and fully supports the creation of a strong and broad international coalition against terrorism. Along with other international organizations, we have also begun to consider what specific contribution the OSCE can make in the international fight against terrorism. Aware of the direct influence economic and social factors can have in providing a fertile ground for extremist ideologies and terrorist activities, the OSCE contribution would include addressing root causes, such as economic and social marginalisation and fighting the "grey zones" of organized crime, including trafficking in people and arms. A Working Group has been established in Vienna, to prepare a Declaration on combating terrorism and a Plan of Action to be adopted by the OSCE Ministerial Council in Bucharest. In mid-December, in Bishkek, the OSCE will organize, together with the UN ODCCP, the "International Conference on Enhancing Security and Stability in Central Asia: Strengthening Comprehensive Efforts to Counter Terrorism".

We must pay particular attention to the links between organized crime and terrorist groups, particularly on the financing side. The OSCE can also act as a bridge between regional initiatives in order to set common priorities and stimulate political will for collective action. During the visit to the Caucasus and Central Asia, the OSCE Chairman-in-Office has brought up with the leaders of the respective countries the idea of

enhancing contacts and cooperative action against organized, trans-border crime, by setting up regional structures in the respective regions. The SECI Regional Center for Combating Trans-border Crime, located in Bucharest, which proved successful in South Eastern Europe, could serve as a model and inspire ideas for improvements, which could be adapted and used within different regional contexts. Follow-up activities could be envisaged during the coming period, involving the countries in the Caucasus or Central Asia, as well as other international actors.

It is very important to ensure a consistent follow-up to our discussions, to take seriously the recommendations made in such meetings and to implement the most valuable recommendations. I also believe that the principle that needs to guide our efforts is convergence. The OSCE should aim at creating a convergent area of stability, economic performance, good governance and social and regional cohesion. We can achieve this through a joint and focused action of our organizations and states, in which each one of them would bring its added value.