

bulletin

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Economic Recovery as a Prerequisite for Conversion

by Jan Krzysztof Bielecki

The end of the Cold War left the countries of eastern Europe with a surplus capacity for arms production. This makes the conversion of defense-related resources for civilian use a necessity—not a luxury. Since the reallocation of resources requires a long-term strategy, the key to success is, foremost, economic recovery and sustained growth. Without this, it is at best difficult to reallocate resources from one sector to another.

Currently, the countries of eastern Europe are in the process of implementing political and economic reforms simultaneously. Not only do they have to design economic transformation programs, but also to implement them in a changing political and legal environment. Some countries have been more successful than others, as one can see by using GDP as a measuring tool. For example, Poland was the first eastern European country to regain—and surpass—1989 output levels. In 1997, Poland's GDP was 11.6% higher than in 1989. However, while Poland has started to reap the benefits of its reforms, output in other countries has been declining since 1989. The most acute cases of such persistent recession can be found in Russia and Ukraine. Between 1990 and 1997, Russia's average annual rate of GDP growth was minus 7.9%. Ukraine fared even worse. Its GDP fell an average of 10.3% annually during the past eight years.

Despite these mixed results, a report recently published by the European Bank for Reconstruction and Development announced that eastern Europe as a whole will record a positive growth rate in 1997—the first time since the start of the reforms. This is largely due to the end of the prolonged recession in Russia, which will counter the crises in other countries. The Bank's *Transition Report*, also states that the initial stage of transition has been accomplished, albeit with varying degrees of success.

Countries have introduced stabilization, liberalization, and privatization reforms. As they proceed to the next phase of transition they must strengthen their institutions in order to create an

investment-friendly environment. This can be done through policies and strategies in both the public and private sectors. Government not only has to support the entrepreneurial spirit and good corporate governance which are the root of a booming economy. It also has to remove the remaining obstacles to reaping the benefits of investment. Fighting corruption, bureaucracy, and monopolistic practices is vital, if these countries are to have stable and transparent legal and administrative systems. Both legislation and implementation must be improved. This is the only way to achieve dynamic and sustainable economic growth, which is essential for the successful conversion of the defense industry.

In the countries of central and eastern Europe, a range of factors make conversion difficult, including:

- Defense-related research and development activities were often isolated from both municipal centers and production sites. Furthermore, production centers were often isolated as well. The phenomenon is best described by the expression “closed cities.” The existence of such cities involved huge overhead costs for the workers' social base (housing, education, health care, etc.).
- In converting former military installations for civilian use, funds are needed for investment in the former military and civilian personnel, environmental clean-up, and infrastructure. There is no doubt that base closures are inevitable, though in the short-run they may have a disastrous impact on the local level.

As a result of these difficulties, it is safe to say that successful conversion depends on economic recovery. The only way eastern European countries will be able to meet the combined challenge of economic transition and conversion is if they generate enough income to cover the high cost of conversion.

Such a turnaround is easier for countries with a clearly defined political and legal framework which contributes to an investment-friendly environment. Investment is a prerequisite for economic success and, consequently, for effective conversion. It is important to remember that membership, actual or prospective, in international political organizations may also be helpful

in mobilizing external investment resources. As the prospects for an eastern European country's integration become more realistic, it is more attractive for foreign investors.

Nevertheless, one must be extremely cautious about the levels of foreign capital flowing into countries in transition. While it is true that the external world can be a catalyst for reform and modernization, it can also inadvertently initiate crisis. In the global economy money can travel fast, and fluctuations in capital flows can lead to the withdrawal of investment capital as investors try to avoid possible devaluation.

In short, conversion involves a range of factors, both internal and external. Countries committed to specific political goals are in a much better position to plan both their economic recovery and restructuring in the defense sector. Ties with external political organizations seem to be particularly helpful, however, external factors may also damage the process of economic transformation. As a consequence, successful conversion of military industry could also be adversely affected. Simply stated, sustained growth is the best recipe for rapid modernization of the defense industry—and all sectors of the former planned economies.

Jan Krzysztof Bielecki is the Director of the European Bank for Reconstruction and Development and a member of BICC's International Board. This article is an excerpt from a keynote address given at BICC's international conference "Converting Defense Resources to Human Development."

Staff Spotlight:



Joseph Di Chiaro III

Joseph Di Chiaro III joined BICC's staff in June 1994, shortly after the institute was established. As a researcher and project leader with expertise in the fields of industrial conversion and the management of surplus weapons, Joseph has visibly contributed to the Center's profile. In addition to regular contributions to BICC's annual *Conversion Survey*, the main focus of his work has been on a range of both practical and research-oriented projects.

Early on, Joseph was involved with an industrial conversion project in Martin, Slovakia, which evolved into an endeavor directed at building democratic institutions and practices at the local level through the creation of an NGO. This work led directly to Joseph's membership on the Board of Directors of the Martin-based Foundation for East-West Initiatives.

Currently, Joseph is focusing his work on the development and implementation of several projects in BICC's surplus weapons area. Under a project—which has received partial funding from the Ford Foundation over a two-year period—he is analyzing both weapons collection and destruction programs in developing regions undergoing military downsizing as well as emerging new technologies for the disposal of surplus weapons. The Ford funding is also enabling BICC to develop Internet-based services on surplus weapons transfer and disposal.

With a formal training in international relations at Stanford University and the Monterey Institute of International Studies, Joseph worked briefly at the United Nations Centre for Disarmament Affairs (where he was responsible for developing the data base of the UN Register of Conventional Arms) and at the Center for Nonproliferation Studies (where he designed and conducted a project to track international arms transfers) before coming to BICC.

During his time in Germany, Joseph has coached the men's and women's lacrosse teams in Bonn. In 1997, he served as the head coach of the German National Lacrosse Team.

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Bonn Hosted International Development Conference

From November 9-11, nearly 100 practitioners and policy-makers from around the world met in Bonn for a BICC conference entitled 'Converting Defense Resources to Human Development.' The conference was opened by North Rhine-Westphalia's Minister for Higher Education and Research, Anke Brunn, who is also the Chair of the Center's International Board. In her remarks, she said that 'promoting conversion practices is one of BICC's main tasks,' and that international events demonstrate the Center's ability to achieve its objectives.

Through the conference BICC sought to highlight the relationship between conversion and development by channeling discussion to three inter-related but distinct substantive areas:

- Resettlement and Reintegration of Demobilized Military Personnel.
- Practical Disarmament: The Management and Reduction of Surplus Weapons in Developing Countries.
- Accountability, Transparency and Allocation Processes of Defense Expenditures.

Herbert Wulf wrapped up the conference by stating that capacity-building is a cross-sectional issue which cuts across topics and continents. He voiced the need to win international organizations (donors, NGOs, etc.) as active contributors to the process whereby defense resources are converted for human development, and argued that public debate on civil-military relations is the best way to foster the idea of conversion on a global scale.

BICC was pleased at the level of interest in the conference—by media and participants alike. One spin-off was the launching of a "joint venture" between BICC and the Monterey Institute of International Studies: the production of a documentary on how people deal with light weapons and small arms in their respective countries and communities. A number of conference participants were interviewed for the film.

Conference documentation is planned for the second quarter of 1998.

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Marketing Homepage goes East!

<http://bicc.uni-bonn.de/bmarket/>

Over six months ago BICC launched a new service for communities: a homepage for marketing former military installations which are available for new uses. The homepage is located on BICC's Internet site, ConverNet, and contains information important to potential investors around the world. All information is in English and German, and provides a prospective real estate developer with the facts he/she needs, such as location and quality of regional infrastructure, existing structures, planned and potential re-use, and contact information for the municipality. Since most communities are not currently able to present information via Internet, BICC's reputation as a clearinghouse for conversion issues makes ConverNet the ideal location for base-redevelopment marketing.

Initially tailored for use by municipalities in Germany, BICC is pleased to report that in addition to sites in the State of North Rhine-Westphalia and the eastern German States of Brandenburg and Saxony, former bases in central and eastern Europe will soon also be included. In October, BICC presented this service at a meeting of NATO's Committee on the Challenges of Modern Society on the environmental aspects of reusing former military lands. Local leaders from the countries of eastern Europe expressed sincere interest in having their sites presented in this way.

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BICC Publications

In addition to its annual *conversion survey* and other books, BICC publishes series such as *reports*, *briefs*, and *papers* which analyze the international conversion process, report on conversion projects and experiences, and offer scientific as well as practical know-how. Recent and planned publications include:

brief 10: Yitzhak Shichor, *Peaceful Fallout: The Conversion of China's Military Nuclear Complex to Civilian Use*, November 1997

Forthcoming:

brief 11: Judith Kiss, *Industrial Conversion in Hungary*, Spring 1998

John Hart and Cynthia Miller, *Chemical Weapon Destruction in Russia: Political, Legal and Technical Aspects*, Oxford University Press, Spring 1998 (a joint BICC and SIPRI publication)

BICC Notes

BICC's International Board met in Bonn on November 9th. Highlights of the meeting included a review of the Center's work and a discussion of possible new projects. Prof. Thomas Odhiambo (RANDFORUM, Kenya) suggested that BICC examine both conflict prevention issues as well as the role of the armed forces in African societies. Dr. Mahbub ul-Haq (Human Development Centre, Pakistan) gave several examples of issues in South Asia where BICC could make a contribution, such as military transfers to the South—especially where social and human development concerns converge.

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On December 1st, BICC formally launched its new "**Surplus News and Events**" Internet page designed as a service to the international policy and research communities. Included are summaries of events relating to the transfer, storage, destruction, or conversion of weaponry deemed excess or surplus to a military's requirements, as well as declarations of policy relating to such activities and material. Events are also included relating to the collection, seizure, or buy-back of weaponry in post-conflict or force downsizing situations. The site can be accessed at:

<http://bicc.uni-bonn.de/weapons/weapons.html>
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Upcoming Events

February 16: Lecture "**Conventional Arms Transfer Control**" by Dr. Herbert Wulf at the Geneva Center for Security Policy.

March 27-29: **CONVERSION: Challenge for Enterprises and Regions in East and West**, Kiel, Germany. Info: <http://bicc.uni-bonn.de/archive/schiff1.html> / e-mail: schiff@schiff.uni-kiel.de

April 15-18: **Globalization, State and Violence**, University of Sussex, Brighton UK. Info: <http://www.sussex.ac.uk/Units/IRPol/RIPE/gsv.html>

June 5-6: **Defence Economics and Security in Mediterranean and Sub-Saharan Countries**, Lisbon, Portugal. Info: http://bicc.uni-bonn.de/archive/dev_ec.html

June 10 -12: **Addressing Environmental Consequences of War: Legal, Economic and Scientific Perspectives**, Washington, D.C. Info: <http://www.eli.org/ecw/home.htm> email: bruch@eli.org

July 16-19: **The Evolution of Diplomacy: The 350th Anniversary of the Peace of Westphalia**, Münster, Germany. Info: <http://www.le.ac.uk/csd/dsp/callpapr.htm#evol>

In Fall 1997, the competition *ConverArt - The art of disarmament* was launched. Seventeen art and design universities and vocational schools in North Rhine-Westphalia, and Brandenburg—including the Academies of Art in Düsseldorf and Münster as well as the film and media universities in Cologne and Potsdam-Babelsberg—have been invited to participate. International partner institutions are encouraged to participate as well. Young artists are asked to interpret "conversion" in their work in a medium of their choice. **Application deadline for object descriptions, drafts, photos, and exposés is 17 April 1998.**

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In November **BICC presented its work to decision-makers in Brussels**. On the 19th, the State of North Rhine-Westphalia hosted a reception for members of the EU's "Committee on Regions" and Brussels-based policy-makers. NRW profiled some of its most successful base re-use projects. Minister Manfred Dammeyer spoke of the positive developments in the field of conversion, and Dr. Herbert Wulf gave an introduction to BICC's activities.

On the 20th, BICC held a workshop with representatives from the EU, NATO, and other Brussels-based organizations. The group discussed the restructuring and reorientation of defense industries and research institutions in Russia and central and eastern Europe, demobilization and reintegration as development tools, and the challenge of regional development and base closure as an opportunity for structural change.

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BICC is working with vocational schools in Cologne, Aachen, and Sittard (Holland) on the EU's TEMPUS/TACIS project to conduct six seminars in the Russian Oblast of **Nishny Novgorod** for managers from former defense industries to help in the re-structuring process.

The first seminar was held December 1-5, and focused on small business development. It was tailored to the interests of the public and private sector participants. Specific topics included: organizational structure, personnel, financing, marketing working with banks, economic development, and incentive programs.

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BICC staff wish the readers of the bulletin all the best for 1998 !!