

## THE IMPACT OF POLITICAL SITUATION ON ECONOMIC DEVELOPMENT IN THE SOUTHERN CAUCASUS

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Modern world development is characterized by expansion of process of the globalization, creating unprecedented opportunities for overall development of peoples in all continents and regions. Liberalization of international trade, economic integration, deleting of borders between countries, planetary distribution of high technologies, international mobility of production factors create new bases of international cooperation, intensifying relations, and make possible integrative interactions between nations belonging to various civilizations. Today the world has historical circumstances for universal prosperity and development.

However, the solving of the global social and economic problems, which was put in the United Nations Declaration of the Millennium in 2000, was braked by new factors and barriers, representing direct threat to mankind. Those factors are global terrorism, religious extremism, separatism, absence of democracy and human rights, and corruption. The terrorist attack in September 11, 2000 was directed not only to the United States, but also to progress and civilization, democracy and human rights, economic freedom and development. That's why Georgia and Azerbaijan actively have been joined the antiterrorist coalition.

The country I'm representing here - Azerbaijan, is a Muslim state, which has supported efforts of the USA and the coalition countries. We have given the territory, air space, and a military contingent for peace-keeping activity in post-war Iraq. This support was dictated by high understanding of historical importance of struggle against world terrorism, uncontrollable, aggressive political regimes. I want to mention here, that Azerbaijan itself is one of the countries injured of the Armenian terror-

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ism, and in our territory over 30 acts of terrorism for last years has been carried out, and the number of victims has exceeded 2000 person. In our region the terrorist state is only one – Armenia.

The countries of Southern Caucasus (Azerbaijan, Georgia, Armenia), being until recently in unified political space of the USSR, today became the arena of a rigid opposition and collision of various geo-political, strategic and economic interests. It is because of exclusive geo-strategic position and presence of the richest energetic resources in Azerbaijan.

In contrast to three Baltic republics, which rather smoothly survived the disintegration process of the Soviet Union, the three countries of the Southern Caucasus have passed and now is passing the extremely painful, tragically way to independence, integration into the world economic system, creation of equal cooperation with all countries of region and the world.

The spectrum of modern political-economical problems of the region should be considered in a context of historical development of Southern-Caucasian nations to independence and joining to progressive flows of world development. The beginnings of the 1990's is characterized for economy of the countries of region by a catastrophic collapse of industrial systems, and its scales and depth were much more than well-known "Great Depression" in the United States. So, in comparison with 1989 the volume of a total product of Azerbaijan in 1997 was 37,3%; in Georgia - 19,5%; Armenia - 53,6%. The same picture was shown in all CIS countries. By opinion of UN experts, production slump in the countries with transitive economy was the most significant and long economic crisis in the whole world history. Despite of achievements in macroeconomic regulation in the last years, the countries of the Southern Caucasus could restore their GDP only to 2010.

Up to the mid-90's huge hyperinflationary explosion in the countries of the Southern Caucasus has been fixed: Nations which had not known what was price rising in planned economy, have tested themselves 500 % and 1000 % increase in all prices within one year. And as a result, hundred thousands of people from the many social groups have lost their personal savings and assets. The significant part of the middle class has turned to the lowest incomes part of population, which by the World Bank methodology are considered as paupers. According to the researches carried out by the World Bank in 1997 to this category belongs over 55 % of families in Armenia, 33 % - in Georgia, and 68 % - in Azerbaijan. Jinni coefficient (a parameter of an inequality of incomes) in Armenia has grown up to 0,65; in Georgia - 0,58; Azerbaijan - 0,31.

At the same time, economic problems of transitive countries, particularly in the Southern Caucasus, were accompanied by explosions of the political contradictions, which were initiated by the distinction of the chosen geopolitical strategy. Besides an aggravation of political strike for promotion of ideas of democracy and the human rights in the region, Georgia and Azerbaijan have faced to the same political problems, which were extremely complicated, in the way to achieve stable economic growth. We can say that peoples of these two countries in their unshakable aspiration to integration with the western values have gone the most complicated tests through the 90's, and they threatened the very existence of these nations.

Georgia and Azerbaijan have chosen full political and economical independence and gradual integration into the Euro-Atlantic structures; Armenia had chosen geo-strategical and military-industrial cooperation with Russia. These strategies have initiated the whole complex of both inner and foreign policy contradictions, which had been led to military situation in some cases. So, the problem of separatism in Georgia and Azerbaijan was practically simultaneously sharpened; the uncontrollable gray zones, which contained threat to the whole region, have appeared and extended; the latent and open pressure of the neighboring countries, Russia and Iran, had intensified. Azerbaijan, consistently supporting demilitarization of the region, has become the first country on Southern Caucasus, where the Russian military bases were called off. However these military units were located in Armenia, which has impertinent territorial claims to Azerbaijan and Georgia. Similar processes were observed in Georgia, from where the removed military bases were transferred to Armenia.

Azerbaijan is the most injured country of the region. As a result of unequal struggle with the separatists of Nagorno-Karabakh, who had been receiving direct support of the Armenian regular army and the military-industrial complex of Russia, more than 20% of territory of our country was occupied. Seven adjacent administrative regions were occupied as well.

Azerbaijan became the "leader" in the world by the number of refugees – more than 1 million persons of the 8 million of the total population. The cumulative damage is estimated as 22 billions dollars.

Georgia has also considerably suffered from separatism - some autonomies have declared direct joining to Russia, borders with the center have been closed, uncontrollable military divisions were created, the country actually came about total disintegration.

Unfortunately, the idea of creation of "the Caucasian house", which was putting forward right after the disintegration of the USSR, was torpedoed by the realization of out-of-date model of geopolitical relations, which were entirely based on strategic domination of Russia in the region. However, despite of it, being within the framework of the inefficient geopolitical model, which is not adequate to vital interests of the Southern Caucasus states, a new approach started. This gives new conditions and opportunities for the solution of political and economical problems of region, and increases regional security.

Proposed at the end of the 1980's by Edward Luttwak (adviser to the USA State Department) the doctrine of geo-economic rivalry is essentially realized in the Southern Caucasus thanks to the efforts of Azerbaijan and Georgia. Since 1994, political changes in these countries passed on by influence of a combination of spatial-geographical and resource-economical forces. It has allowed achieving really impressing successes in mutual cooperation and to generate demonstration model for intercivilizational interactions.

As a matter of fact, in September 1994 "the Contract of the Century" has been signed. This contract has opened a new page in the modern history not only for the Azerbaijani people, but also for all peoples of the Southern Caucasus. Heydar Aliyev, being president of Azerbaijan in 1993, has stopped the war, and signed a cease-fire between Azerbaijan and Armenia. He declared the readiness of Azerbaijan to solve problems by peaceful means. Such a change of strategy created a new political and social situation in the Southern Caucasus, and it was a starting point in the realization of the new geo-economical model of cooperation. At the moment, Azerbaijan has signed 21 contracts by the 60 billion US dollars in total. Predicted oil production is estimated more than 3 billion tons for 40 years.

Just after the signing of "the Contract of the Century" the Azerbaijan-Georgian declaration "About the world safety, and cooperation in the Caucasian region" was accepted. It is necessary to point out, that the high-grade realization of geo-economic model of cooperation was promoted also by a lot of factors, which strengthen the integration process. There are a common experience of historical development, comparability of natural-geographical and socio-demographic parameters, absence of inter-ethnic conflicts, religious tolerance, and identity in a cultural level, aspiration to democracy and economic freedom. More than 500 thousand Azeris live compactly in Georgia, and they are freely submitted in the political and economic life of this republic. Ethnic Georgians and other

non-Azerbaijani nationalities living on territory of Azerbaijan enjoy the same rights. All these factors promote not only the expansion of trade and economic relations, but first of all integrative participation in realization of great transnational projects. Azerbaijan and Georgia create transport corridor between the Caspian and Black seas, which is of determining significance for the "West-East" and "North-South" routes.

The cumulative oil supplies of Caspian Sea are estimated in 200 billion barrels, and this put it on the second place in the world after Saudi Arabia (260 billion barrels). Adding to it the gas supply, one of the biggest in the world, it is obvious why the Southern Caucasus are important for the USA and the rest of the world.

I have to note that despite of different positions in realization of energy projects (Azerbaijan is the biggest manufacturer and the supplier of hydro-carbonic raw materials, Georgia is a transit route), peering relations between our countries have developed. So, discussing tariffs for transportation of oil pipeline Baku-Tbilissi-Ceyhan, official Baku has made a concession aside Georgia (2,8 US dollars per barrel), and this testifies the high level of our mutual relations. This pipeline is vital for the both countries, and also particularly significant for the European countries, which are dependent on Russian oil and gas. Cost of the project is estimated in 3,2 billion US dollars. At the moment we can affirm that it will be fully completed by the schedule, because practically construction is over in Azerbaijan part on 70%, in Georgia - almost on 50%, and in Turkey - on 40%. Despite of long self-repayment (approximately 17-20 years), the annual transfer of 50 million tons of oil will allow Georgia to get 12 billion US dollars for 30 years from transit. I want to point out here that some time there was oil transfer variant via Armenia. But they didn't want to cooperate and due refusing it, Armenia stay out from the BTC pipeline.

At the same time, Azerbaijan considers that the potential of full regional cooperation is not exhausted. Opening of large gas fields "Shakh-Deniz" in Azerbaijan (700 billion m<sup>3</sup>) has considerably increased the geo-economical importance of the region. There was working out the project of a gas pipeline through Baku-Tbilisi-Erzurum, which I consider as a sample of good neighborhood cooperation. Georgia will receive up to 7 billion US dollars. Georgia also will get free-of-charge 5% of natural gas transported. They also will have of more additional advantages in form of discounts and special prices. I think, if Armenia renounces of its aggressive expansionist position, and make restitution of the pertinent territory of Azerbaijan, it has possibility to join these regional projects.

Despite of the geo-economic importance, I consider that these energy projects are only a part of forming Eurasian economic space. The fifth expansion of the European Union shifts traditional geographical definition "the South of Europe" to the countries of the Southern Caucasus. There is time to consider this region as new European neighbors, which can be the strongest impulse in the solving of many political and economic problems of our countries. The matter is that the extending geo-economic model of cooperation between Georgia and Azerbaijan objectively creates requirement for activation of relations with the European Union. And it is already shown in practice. Azerbaijan and Georgia actively participate in transport and telecommunication projects of the European Union. Within the framework of TRACECA (Transport Corridor Europe Caucasus Asia), 12 investment projects (8 of them were already completed) and 28 projects of the technical cooperation (21 projects were completed) since 1993 are financed. As a whole, the budget of all 40 projects is 88,1 million Euros. And almost third of TRACECA budget falls on Georgia.

TRACECA is already recognized as one of the most commercially attractive projects. Therefore it has received objectively additional dynamics at the conference 'Revival of the Great Silk Way', which was held in Baku in 1998, where heads of 34 states representing America, Europe, the Caucasus, Central Asia were participated.

In the region also are actively realized a number of other pride projects of EU-TASIS, such as INOGATE (Interstate Oil and Gas To Europe), projects of the European bank, a cabining of the intercontinental optic-fiber communication line extending to 24000 km's from Frankfurt-on-Main up to Shanghai. All these organically enter the Southern Caucasus into creating global Eurasian economic infrastructure.

That's why the countries of the Southern Caucasus, and first of all, Georgia and Azerbaijan, actively participate in a number of the international economic organizations – GUUAM and BSEC.

Certainly, expansion of geo-economic cooperation would have affects on economic development. Since 1997 high rates of GDP were observed in Azerbaijan at 8-10 %, in Georgia - 4 %. By the index of human potential development in 2001 Armenia was displaced on the 100<sup>th</sup> place (0,729), and Georgia and Azerbaijan consistently 88<sup>th</sup> (0,746) and 89<sup>th</sup> (0,744) places. Slowly, but consistently the social and economic indices have been improving. And the most important is that the region has significant economic prospects, based on steady economic growth and a deepening of mutual integration.

Armenia, having remained in self-isolation due to its expansionist aggressive foreign policy, had withdrawn from large transnational projects and from regional integration. Some increasing of economic growth rates in Armenia can be explained with the fact that majority of the industrial enterprises of this country is handed by the Russian capital in expense of external debt payment to Russia. Besides, Armenia had become the recipient of an official US aid, whereas concerning to Azerbaijan the restrictive 907 amendment (see the table №9 and № 10) was operated over 10 years.

Armenia for this period has received free of charge military techniques from Russia for the sum more than 1 billion US dollars. And this seriously strengthens the military balance in the region. Today it imports arms from other countries, in particular from Belarus. Having remained in isolation, Armenia actively develops trade, economic, and according to some information, military-technological cooperation with Iran.

Thus, remaining within the framework of the overcame model of geopolitical and strategic development, and carrying out aggressive foreign policy, having territorial claims to Turkey, unavailability of Armenia to mutual cooperation is a major factor, braking expansion of economic integration on Southern Caucasus. It is obvious why Armenia is out of antiterrorist coalition and doesn't want to join the global struggle against international terrorism. I can say that Armenian people suffer from a destructive position of their leaders. According sources from Armenia, more than 50 % of able-bodied citizens had left this country, having lost hope on a worthy life, whereas in Georgia and especially Azerbaijan growth of labor activity and attraction of local population to regional projects is observed. It is indicative that around Russian military bases in Armenia, service of these military units is the only source of subsistence for local residents.

In the beginning of my article I mentioned that we are passing through a very dynamic and active time of history. Old settled approaches and doctrines do not anymore justify themselves. Struggle of progressive forces of mankind above reactionary, destructive forces becomes today aggravated, and the end of this struggle depends on our common efforts. Peoples living in our region show devotion to the western values: democracy and human rights, market economy and personal liberty. I think these values have universal character; they create conditions for high development of individual and society as a whole.

Struggle for progressive development is occurring in many regions, including the Southern Caucasus. Therefore our region is strategically

significant for destinies of the world in a certain sense. And as far as this understanding of political problems would come in true, the future of the Southern Caucasian peoples will be depended. There is time to put in force transformation of the Southern Caucasus from a region of geo-political and military confrontation to a region of geo-economic cooperation, where the model of interstate interactions can be approved successfully.

New leaders have come to guidance in Azerbaijan and Georgia. They had received European education, and were supported by the majority of the population. The new leaders carry out the real actions for expansion of democratization and the strengthening of human rights. They want to conduct uncompromising struggle against corruption, bureaucracy and the inefficient management, and all these create historical conditions for progress in the region.

At the same time, I think it is necessary to note that valuable realization of these problems is impossible without existence of external terms and, first of all, the forced full-scale support from the progressive countries. It may be similar to Marshall plan in the 1950's. Besides, the large countries of the region (Iran and Russia) should show their readiness to equal political-economical cooperation with all countries of the Southern Caucasus.

Indicators	in	Report 2002	Report 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007
<b>AZERBAIJAN</b>							
GDP	Bln. \$	6,11	6,80	7,23	8,39	10,48	11,89
Real grow.	%	110,6	109,6	109,0	114,3	123,4	114,1
GDP per capita	\$	764,5	846,6	917,1	1058,4	1313,4	1477,3
Investment to capital	Bln. \$	2596,6	3461,6	3699,6	3102,7	2844,0	2863,7
Average wages	\$	64,9	88,6	102,9	122,3	145,6	171,4
Export	Bln. \$	2167,5	2150,0	2251,6	2832,3	3931,0	4356,8
Import	Bln. \$	1665,3	2200,0	2230,0	2050,0	2000,0	1800,0
For. Trade Turnover	Bln. \$	3832,8	4350,0	4481,6	4882,3	5931,0	6156,8
Balance of For. Trade	Bln. \$	502,2	-50,0	21,6	782,3	1931,0	2556,8
Inflation level	%	102,8	102,5	102,5	102,5	102,5	102,5



GEORGIA							
GDP	Bln. \$	3,36	3,42	3,93	4,21	4,45	4,70
Real grow.	%	105,3	106,4	107,5	108,7	109,9	111,1
GDP per capita	\$	768,8	828,6	914,0	935,6	968,0	1020,0
Investment to capital	Bln. USD	215,9	407,8	600,0	882,8	973,5	974,4
Average wages	\$	56,5	71,8	91,3	116,1	125,7	138,8
Export	Bln.	931,7	1052,7	1217,8	1356,0	1537,0	1742,2
Import	Bln.	1318,5	1414,4	1722,8	1928,0	2122,9	2337,5
For. Trade Turnover	Bln. \$	2250,2	2467,1	2940,6	3284,0	3659,9	2337,5
Balance of For. Trade	Bln. \$	-386,8	-361,7	-505,0	-572	-585,9	-595,3
Inflation level	%	105,6	105,4	105,2	104,9	104,7	104,6
ARMENIA							
GDP	Bln. USD	2,37	2,58	2,81	3,06	3,32	3,63
Real growth	%	112,9	108,7	108,9	109	110,1	111,9
GDP per capita	\$	736,9	824,8	923,4	1033,6	1157,2	1295
Investment to capital	Bln. \$	290,5	340,2	398,5	466,7	546,6	640,1
Average wages	\$	46,1	51,1	56,0	59,9	63,8	70,9
Export	Bln. \$	604,1	663,6	728,9	800,6	879,4	966,1
Import	Bln. \$	1038,9	1075,9	1114,4	1154,2	1195,3	1238,2
For. Trade Turnover	Bln. \$	1643,0	1739,5	1843,3	1954,8	2074,7	2204,3
Balance of For. Trade	Bln. USD	-434,8	-412,3	-385,5	-353,6	-315,9	-272,1
Inflation level	%	102	102,8	102,8	102,9	103,1	103,8





