

REGIONAL COOPERATION BETWEEN THE SOUTH CAUCASIAN COUNTRIES AND THEIR ECONOMIC DEVELOPMENT

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Abstract

The article reviews the issues of the geopolitical priorities in the development of the South Caucasus countries. The article provides a general assessment of the situation in the countries of the region, economic aspects of interaction in the context of extraction, processing and transportation of the energy resources along the energy corridors. Several other aspects of the economic and political relations between Azerbaijan and Georgia, as well as with Armenia, are reviewed as well. The article provides an assessment of the subsequent development of relations in terms of international programs implemented by Germany, the countries of the European Union, as well as by an international bank, and defines their common prospects.

Keywords: countries of the South Caucasus, economic cooperation, oil and gas pipelines, geopolitical interests.

1. Introduction

Being a historical center of political and religious struggle, the South Caucasus has historically been the area of development of Zoroastrianism and Christianity, and also Islam since the 7th century, which unites the Achaemenid, Parthian and Sassanian empires. Due to its strategic and geopolitical significance, rich energy resources, location on the historical

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Silk Road, Azerbaijan has attracted the attention of the great powers throughout its history, at the same time maintaining its importance as an energy corridor. Since the end of the twentieth century South Caucasus, which Brzezinski considered "the Balkans of Eurasia", became a battleground for countries that aspired to become the regional and world powers. "This region between the Black and Caspian seas is the intersection of the north-south and east-west energy and transport lines; the Caspian basin in this respect is of great importance from the point of view of the availability of energy sources".¹

2. Main directions of geopolitical development of South Caucasian countries

Almost 17 million people live in South Caucasus, of which 9 million (53%) live in Azerbaijan, 4.4 million (26%) in Georgia and 3.2 million in Armenia (21%). The average population density in the territory of South Caucasian republics is 91 people per km². In Azerbaijan, the density is 100 people per km², in Georgia - 63 people per km², and the average population in Armenia is 107 people per km² (distributed unevenly).

The cooperation in South Caucasus takes place in two directions: the Russian-Iranian-Armenian line and the Turkey-Azerbaijan-Georgia line. With regard to energy, the construction of transport lines and cooperation opportunities for regional security, the format of Turkey-Azerbaijan-Georgia is of great importance.

In order to establish economic cooperation and build the "Azerbaijan-Georgia-Armenia" conceptual relations in the countries of South Caucasus, the work is carried out in different directions. Since 1994, these countries have been cooperating with NATO in the framework of the Partnership for Peace and the European Neighborhood Policy – the Eastern Partnership. In the late twentieth and early twenty-first centuries, the South Caucasus and Central Asia became a platform for the geopolitical and geo-economic struggle between countries. The rich energy resources of the

¹ Kh Jabbarli, "Geopolitical situation and security of the South Caucasus", in *Newtimes*, 20 July 2017, Available: <http://newtimes.az/az/politics/344/> (in the Azerbaijani language)

region, the geographic location in the relations between East and West, the closest, most favorable and geopolitically reliable transport, communication and energy export centers that connect the two continents make it the center of world politics. The geopolitical struggle that arose in South Caucasus and Central Asia actually became part of the fight for control over even larger territories in Eurasia".²

The integration of the countries of the South Caucasus into the European Council in the 21st century established stability in the region and became the basis for the creation of new cooperation programs for economic development and security. The purpose of the "Caucasus Initiative program", established by the Ministry of Economic Cooperation and Development of Germany in 2001, was to strengthen and develop economic relations between the countries of South Caucasus.

South Caucasus, which attracts the attention of the Federal Republic of Germany, is the most important region from the point of view of the geopolitical, ecological and economic ties, and this is the reason of establishing "Caucasus Initiative". "South Caucasus, through the use of the experience of bilateral projects, focused on an integrated approach. This program also presupposes the economic and social development of the three countries of the region".³

The projects which are implemented within the framework of South Caucasus and have a regional character, cover separate areas. This can be seen from the table below.

Table 1. Development of various sectors of South Caucasus countries

Azerbaijan	Development of private sectors	Stable economic development and power engineering	Reforms	Demographics and new development	Reforms in government structures
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² A. Hasanov, "The environment of the regional security of the Caspian and Black Sea basin: the realities of the formation of military blocs and forecasts, the classification of geostrategic forces", in *Strategiya*, 20 July 2017 // <http://az.strategiya.az>.

³ Kh. Ismayilova, "Caucasus Initiative", in *The Renaissance-XX century journal*, Nr. 164-165, 2012, p. 238.

Georgia	Demographics and new development	Assistance to control sector	Development of private sectors	Natural resources	Stable economic development and power engineering
Armenia	Environment and natural resources	Demographics and new development	Stable economic development	Budget issues implementation	Biodiversity management

It is not accidental that this year, 2017, marks the 200th anniversary of the German settlement of South Caucasus. This event is part of UNESCO program "The program of anniversaries of outstanding personalities and significant events in 2016-2017". The visit of Azerbaijani President Heydar Aliyev to Germany on July 1-4, 1996 played an important role in the development of economic relations between Azerbaijan and Germany. In Cologne, Germany, Heydar Aliyev met with the businessmen and senior management of the German banking sector, and invited them to make deposits for investing in Azerbaijan. Currently, there are about 100 German companies, such as Siemens, Ferrosstal, Interselekt and Mercedes Bens. Of course, the organization of such programs and the conclusion of treaties between countries contribute to the strengthening of economic relations.

3. Oil factor in the politics of the region's countries

In the beginning of the XXI century (2004-2012) due to the extraction of oil and gas, the economic development of Azerbaijan was particularly noticeable. A lot of work has been done in this direction, the most important of which is the creation of South Caucasus gas pipeline. Ilham Aliyev, the President of the Republic of Azerbaijan emphasized in his speech in France that

"among the strategic projects that we implemented, the Southern Gas Corridor was the most important one. At present, it is the largest infrastructure project in Europe. The cost of the project is about 40 billion dollars. It is an integrated tape system connecting Azerbaijan and Baku to the Italian coast, passing through 6 countries. The European Commission strongly supports this project, and Azerbaijan plays a leading role in this

project. This project will change the energy map of Europe and bring new alternative sources of natural gas to European consumers. Of course, many companies participate in the implementation of this project. This project is a diversification of energy, energy security, and this is the project of the twenty-first century".⁴

The South Caucasus Pipeline (SCP) was built to transport gas from the Shah Deniz gas field to Georgia and Turkey. Starting from the Sangachal terminal near Baku and out to the Turkish border, Azerbaijan joined the gas distribution system of Georgia and Turkey. In order to reduce the operational costs, this pipeline was built in the same corridor with the Baku-Tbilisi-Ceyhan oil export pipeline. 443 km of a pipeline of 691 km in length and 42 inches in diameter passes through the territory of Azerbaijan, the length of the pipeline in Georgia is 248 km. The pipeline was put into operation in 2006 in Azerbaijan and Georgia, and since July 2007 it was put into operation in Turkey, thanks to the operation of the stage 1 of the Shah Deniz gas well. In the first half of 2017, operating expenses of \$14 million and basic expenses in the amount of \$413 million were directed to activities related to the South Caucasus Pipeline. As it was noted by the President of the country, the Southern Gas Corridor is very attractive from the point of view of the format of cooperation. Besides Azerbaijan, Georgia, Turkey, there are other participating members, such as Greece, Italy, Bulgaria and Albania. During last three years, these seven countries periodically meet in Baku for an advisory council on the operation of the gas corridor, to strengthen cooperation. It's not just about gas, but also about business, investment, employment, forecasting and cooperation.

The development indicators of South Caucasus countries, and namely, the elements of the sustainable development and the problems of the military-strategic situation from the point of view of geo-economics are similar, while the priorities for economic development are different. Located on the World Trade Corridor, they form the basis for the formation of a market economy and a law state.

⁴ D. Aliyev, "President Ilham Aliyev met with French President Francois Hollande", in *Azvision*, 02 July 2016, Available:<https://en.azvision.az/news/42208/president-ilham-aliyev-met-with-french-president-francois-hollande.html> <https://news.day.az/1>.

"Countries with the almost identical natural and geographical conditions have different rates of socio-economic development. What is the reason? The answer to this question is not simple: to answer it, it is necessary to analyze the development models chosen by the countries. Each country in the world develops according to its chosen model, carried out by its structural changes. If we look at the problem from this point of view, then the role of the state in the development of society must constantly grow. The state must always be strong. This is truly the number one problem for the successful implementation of reforms ".⁵

The "Contract of the Century", which is considered to be the economic basis of an independent Azerbaijani state, and the privatization and reforms covering the main spheres of the economy led to the development of entrepreneurial activities, in particular in the creation and regulation of the financial, monetary and credit systems. "As a result, investment in the economy has grown dramatically. The total volume of the investments in 2002 was 5.7 times more than in 1995. More than 80 percent of total investments in 2002 were related to foreign investment, in connection with the launch of oil contracts. During this period, the domestic investment increased every year due to the gradual revival of the country's economy. Thus, the volume of domestic investment in 2002 increased 3.7 times compared with 1995 and amounted to about 20% of the total amount of attracted investments in the country ".⁶ Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) are the bridge for access to natural energy resources in Central Asia.

The globalization of the entrepreneurial activity among the countries of the South Caucasus has a positive impact on the economic development of countries. Thanks to this process, economies of scale are achieved, production capacities are located more efficiently in the region, and opportunities for access to science and technology are growing. Azerbaijan, as an oil producing country, ranks second in the Caspian region.

⁵ A. Aliyev, A. Shakaraliyev, I. Dadashev, *World economics: problems of the contemporary period. A Monography*, Baku: Baku University Press, 2003, p. 455.

⁶ N. Mamedova, *Geopolitical aspects of the regional development in teh South Caucasus and Central Asia*, Baku: BUP, 2015, p. 134.

Table 2. Extraction and export of oil by the Caspian states (a thousand barrels a day)

Countries	Oil extraction		Net export volume	
	1990	1997	1990	1997
Azerbaijan	259,3	192,9	76,8	54,8
Kazakhstan	602,1	573, 3	109,2	310, 9
Turkmenistan	24,8	107,3	69,0	39,2
Russia	144, 0	60, 0	x	x
Total	1130,2	933, 5	255	404,9

Since the first years of independence, Azerbaijan has paid special attention to the growth of oil and gas production in order to eliminate the country's economic and social problems. The transformation of Azerbaijan into one of the most influential states of the region is based on the model of development of the national economy.

4. Relationships between Azerbaijan and Georgia

One of the first countries that recognized Azerbaijan after gaining independence was the Georgian state, which led to the development of economic and political relations between the two countries. According to Shahin Mustafayev, the Minister of Economy, Georgia allocated to the economy of Azerbaijan 72 million US dollars on the basis of economic cooperation between Azerbaijan and Georgia. Azerbaijan, according to the volume of investments invested in Georgia, has been ranked first in the list of investors for this country for several years.

During the meetings of the presidents of these two countries, there are constantly discussed the bilateral relations and cooperation with international organizations. Tariffs for border transportation are regularly reviewed. The largest state taxpayer in Georgia, as a major investor and lender, is the State Oil Company of Azerbaijan (SOCAR). There have been signed hundreds of agreements between the two countries: the Agreement on Cooperation in the Field of Education, the Agreement on Cooperation in the Information Sphere between the Government of the Republic of Azerbaijan and the Government of Georgia. In the field of international and regional cooperation, our republic plays a leading role in the South Caucasus.

"Since the end of the 20th century, the Caspian-Black Sea basin and the South Caucasus have become one of the centers of transcontinental coordination on energy, transport and communication with the international energy security system. All of this had a significant impact on the overall geopolitical situation in the region, as well as on the international, regional and national policies of local countries".⁷

One of the priorities of Azerbaijan's economic development is closely linked not only with the oil sector, but also with the rapid development of the non-oil sector.

5. Correlation of the development of industry and agriculture

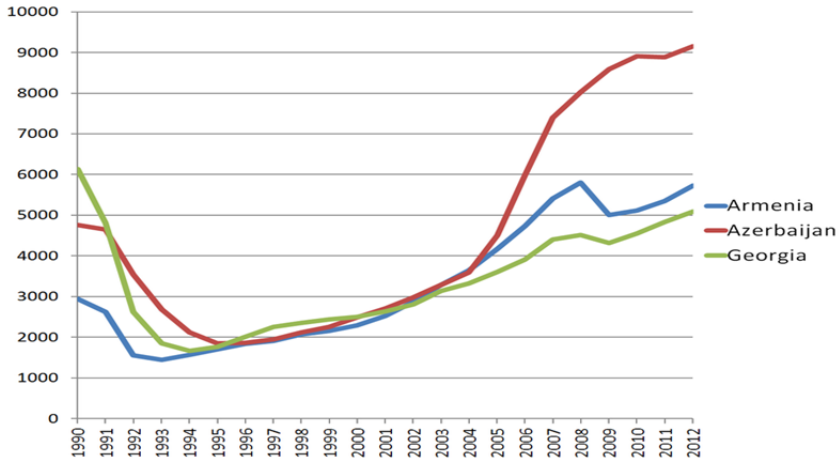
In January-July this year, there were exported of non-oil products worth \$855 million, which is 29.7% more than in January-July of the previous year, and 27% more in real terms.

"Today, the Islamic Development Bank and the Islamic Corporation for the Development of the Private Sector are paying more attention to the foreign institutions investing in the non-oil sector of the Azerbaijani economy. Both structures actively participate in a number of new projects in our country and provide financial support to the development of the non-oil sectors. According to the Ministry of Economy, the Islamic Development Bank has allocated about 1 billion dollars to our country in various economic projects. The Islamic Corporation for the Development of the Private Sector has invested \$130 million to support small and medium-sized businesses in Azerbaijan"⁸

⁷ A. Nadirova, "The amazing stage of development of the Azerbaijani economy in the last two centuries", in *Republic*, 12 October 2013, p. 7.

⁸ N. Gregory Mankiw, *Macroeconomics*, Boston: Worth Publisher, 5th ed., 2009, p. 65.

Table 3. Dynamics of development of the investment deposits in the countries of South Caucasus



Alongside with industrial sector, agriculture is also intensively developing in the regions of the South Caucasus. In Georgia, wine production, processing of tea and vegetable oil is especially developed. In recent years, special attention has been paid to fishing and tea processing in Azerbaijan, along with viticulture and wine-making. The achievements of the scientific and technological progress in the South Caucasus region, as well as all over the world, are reflected in the agrarian sector. Technological progress does not cause the actual number of workers to increase, but because each worker in effect comes with more units of labor over time, technological progress causes the effective number of workers to increase.⁹

Ensuring the provision of the material base for production creates realistic conditions for improving technological processes and applying technical innovations in all areas. In addition to processing and maintaining the production of goods, especially in rural areas, advertising is one of the factors that contributes to the cross-border activities to increase the exports of goods. In this regard, the GIZ program on "Sustainable Biodiversity Management in the South Caucasus" created the conditions for close cooperation with local stakeholders at various political levels, and reported on this in a relevant report.

⁹ N. Gregory Mankiw, *op.cit.*, p. 45.

The GIZ works closely with ETSN, local NGOs and other international organizations to improve biodiversity in Azerbaijan in the frames of its Sustainable Biodiversity Management Program in the Southern Caucasus (SBMP, October 2011 – September 2015). One of the objectives of the SBMP is to consider a number of approaches to protect agrobiodiversity by encouraging the development of incentives and raising public awareness (BMZ indicator H: "Creating two incentives for protecting agrobiodiversity"), as defined in IFC Articles 11 and 13. Both approaches, creating incentives and raising public awareness, are the most important measures to protect biodiversity".¹⁰

In comparison with the security, integration and geostrategic issues in the South Caucasus, the issues of economic transformation are of secondary importance. In the economic context of security in the region, it is extremely important to determine the prospects of the current situation and determine the policy for the future of the region. "This presents great interest for studying the transitional processes in the countries of the South Caucasus and the existence of a global financial crisis. Thus, the problems of economic transformation in the South Caucasus are no less important than the issues of security, integration and geostrategy. In the economic context of security in the region it is extremely important to determine the prospects of the current situation and determine the policy for the future of the region.

6. Conclusion

Having used the achievements of science and technology as the main tool of the market economy system, the government of Azerbaijan ensures the economic development of the country, considering the domestic and foreign opportunities. One of the important directions of the economic policy is the attraction of foreign investments, advanced technologies, and experience. Political and macroeconomic stability in Azerbaijan, protection of investors' rights, favorable geographical position, rich natural resources make our republic one of the most attractive countries. Thus, these

¹⁰ M. Ibrakhimov, "Report on evaluation of pilot projects on protection of agrobiodiversity in Azerbaijan", in *Sustainable Management of Biodiversity, South Caucasus Program*, 2014, Available: <http://biodivers-southcaucasus.org/> 17 July 2017.

achievements will provide a solid basis for the realization of the goal of transforming Azerbaijan into a developed state. The world's leading financial and economic institutions, including influential rating agencies that specialize in the processes of the geo-economic space of the South Caucasus, characterize Azerbaijan as a country with high investment attractiveness and macroeconomic stability in the region.

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