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### **Strategic Economic Partnership in Caucasus**

The former Soviet Union economy was characterized by a high degree of economic integration between the national economies of all the republics, and was based on accurate division of labour in public production. This explains the fact that the coexistence of the republics of the union as a single family of Soviet people during long 70 years helped their economic systems, making them oriented as a single national economy. After the disintegration of this, the newly created states faced the necessity to form practically new independent national economies, each representing separate elements of the complex, previously united economy. These elements remained interrelated due to their structure, allocation of productive forces, used technologies, principles of production organization.

After the disintegration of the USSR the situation was aggravated by the crisis that had already started in the Soviet era, which clearly revealed the awkwardness of command-administrative structures, which were incapable of reacting quickly and efficiently to innovations. The prolonged mobilization of natural, labour and capital resources on an extensive basis, the increasing the non-economic burden and (related to this) the constant fall of economic efficiency in 80s, led to the situation where even to maintain production demanded a higher rate of accumulation. At the same time this led towards destabilization and crisis of financial system.

The course of the crisis also made political factors more active in the period of 1989- 1991. This led to the disintegration of the Union, a fall

in production and investment activity, the destruction of economic relations of enterprises, the breakdown of the financial system and the loss of monetary control, the bankruptcy of foreign policy and foreign currency, the disintegration of state's political and economic structures.

In addition, a variety of natural climatic conditions, a high level of natural and human resources, and some external factors caused relative closeness of soviet economy towards the world market. the resource base of the USSR economy in comparison with advanced international standards as a whole deteriorated. The disintegration of the single national economy and the appearance of financial difficulties, on a level of a newly created states and separate enterprises as well, led to a the situation where their own potential of technological renovation were practically zero.

As a result equipment also depreciated physically. This is the main reason why most of the goods produced in post-soviet countries appear to be uncompetitive (because of low quantity and (or) high cost of production), which makes it impossible to enter world markets and active integration into the world economic system.

In some way or other all above mentioned refers to former republics of the union and in particular to the Caucasian Region.

On the relatively small territory of the Caucasus, characterized by the variety of the landscape and geographical conditions, there are three sovereign states and ten subjects of the Russian Federation (including Chechnia), were 50 nationalities live. The Caucasus always was and still is the conglomerate of contradictions. In recent years this was confirmed by political processes occurring in the region and by the quantity of periodic national and ethnical conflicts in various parts of Caucasus, rather than again becoming united. These problems of the socio-political life of the Caucasian peoples are so global due to their significance that they should be referred not only to political, social and ethical, but also to a lesser degree to economics as well. Military operations, resulting in destruction, victims, social problems, connected with the great number of refugees, blockade of transport arteries greatly affect the economic situation, realization of productive potential in the states and administrative territorial formation of Caucasus.

As a result of the political, economic and other factors mentioned above, all Caucasian countries in some way or other appeared to be in-

involved in deep crisis, embracing all the spheres of their activities, which led them to slump in production, high rate of inflation, decrease in standard of living. In Georgia for example GDP output was cut down 4, 5 times in 1989-1994, the inflation rate reached 68 percent per month, the ratio of the minimal wage, the living minimum was no more than 2 percent in 1994, and the foreign debt of the country was over \$US 1 billion. In Azerbaijan GNP output was only 42 percent in 1996, to 1990 level, since 1991 oil extraction fell abruptly, agricultural production fell to the minimum, prices of agricultural products were increased 566 times in 1996, in comparison with 1992, economic resources 976 times. The Armenian economy was in decline till 1994, GDP was one-third of 1989, about 80 percent of the population in the republic was below the poverty level, and foreign debt was nearly \$US 550 billion.

Since 1994-1995 the efficient policy of reforms enabled the Trans Caucasus republics to, stabilize and revive their economies, but the results of the crisis are so profound that it takes much time to overcome them and it is necessary to carry out radical constructive economic policy, optimal coincidence of state interests and territorial formations of the region, and the active attraction of foreign investments.

The economic growth of any country greatly depends on how economic factors are taken into consideration to form their economic policy. Taking into account the main trends in international relations and finding their own place in the world economy are of great significance. This statement should become basic in the determination of the strategic trends of economic growths and the priorities of economic reforms in the states of Caucasus.

The economic progress of the sovereign states of Caucasus and of the subjects of the Russian Federation located in North Caucasus depends significantly on the quality and rate of their integration with the civilized world. Taking into account the current situation of the economy and the productive potential of the Caucasus, the problem of integration does not seem to be easily soluble. It should be noted that despite the political difficulties the Caucasian region was not isolated from the rest of the world. First it is the part of CIS, second, Azerbaijan, Armenia, Georgia and Russian Federation are the members of the Black Sea Economic Alliance, third – all three states of Caucasus practically simultaneously signed the

agreement with EU on cooperation and partnership, and mutual trade economic relations with many countries of the world community are being regulated. However all these trends of integration should not be perceived as the only necessary and sufficient reason for the region to enter the world market. At present CIS is experiencing a stagnation in integration processes and besides, by some known reasons it is not able to provide the implementation of international standards of production: on the contrary it promotes the creation of limits of integration processes under CIS similarly to production cooperation, which was characterized by the structure of the Soviet Union.

The Black Sea Alliance requires special interest. It is a relatively new interstate regional formation and yet does not possess a sufficient level of integrity or active relations to influence economic development of the – its participant states. Collaboration with EU and other developed European countries can not be fulfilled on equal partnership. Most likely we face the process of supporting democratic principles for the purpose to build social political life and market mechanisms of management. Besides this developed countries in the world still are keeping wait-and-see policy, observing current events in Caucasus. From their point of view Caucasus is still considered to be “hot point” without enough political and economic stability, for the purpose to attract economic partners.

Therefore we must take into account that relatively small size of the Caucasian countries and administrative-territorial units of the North Caucasus determine corresponding small sizes of their markets. If we abstractize from existing conflicts in this region and theoretically imagine existence of the Caucasian single market, even in this ideal case the size of the mentioned market would be still small and would not attract powerful countries.

This all proves that interaction of the Caucasian countries concerning the issue of prerequisites for quick and steady development of their economy and deepening of the strategic economic partnership in Caucasus is inevitable. Joint efforts will give opportunity to compensate the “damage” caused by unattractiveness of the region for foreign partners and find new possibilities to attract foreign investments.

According to last year’s data Caucasian region does not distinguish for its investment activity either from the viewpoint of the private invest-

years 18,9, 20,5 and 18,9 million US dollars; import from Armenia to Georgia – 11,1, 15,7, 20,8 million US dollars.

As for drawing broad-scale investment to the Caucasian region, the main problem is the reduction of high long-run investment risk, because it is for this reason that investment in the Caucasian region still remain unattractive. Correspondingly there are some spheres in the region that can attract foreign investors. Here we can underline oil in Caspian basin, and Trans-Caucasian transport corridor, connecting Europe with Asia, to prove that Caucasus is obtaining special function to strengthen its existence in this region for many countries and leading companies of the world and that is its strategic target.

An increase in the economic growth of Azerbaijan is mainly stipulated by the increase in the oil-extracting and development in oil-processing industry. The growth in Azerbaijan's export to 850 million US dollars (in 1996) was attained mainly by exporting oil, and direct foreign investments to Azerbaijan that increased up to 1 billion US dollars, are destined mainly for oil industry development.

Simultaneously both the problem of oil industry and future economic growth of the whole Caucasian region depend on the organization of transport corridor "Europe-Caucasus-Asia". The practical implementation of this plan has begun with the implementation of the project known as TRACECA that is mainly sponsored by EU.

Nowadays TRACECA is regarded as transport corridor, that will supplement already existing route, first of all European. In connection with this there appears opportunity to unite the Black Sea, the Caspian Sea, the Adriatic Sea and the Mediterranean Sea transport systems.

In favour of attractiveness of the project TRACECA indicates that fact, that at present within its limits 35 projects are being carried. Total value only of the programs with Georgia's participation (contribute one's share to the work), some of which amount to 16, exceeds 500 million ECU. General project includes in itself also programs on rehabilitation of main roads in Armenia, reconstruction of the sea port in Baku, ports in Turcmenbashi and the port Actau in Kazakhstan and etc.

No less important is the solution of the issue on transportation of power carriers by pipe-lines. Particularly, the Azerbaijan-Georgia route of the early oil is one of the priorities of the large-scale projects in Georgia,

ments of the Caucasian countries or for its investments from foreign countries.

In 1996 in Georgia the share of investments in GDP was only 3 percent, investment in the basic capital was 5 percent from the 1990 level; 56,9 percent of investments were invested in non productive sphere industrial investment percentage correlation in resource-producing and resource-processing branches compiled 77,2 percent to 22,6 percent. In Azerbaijan investment activity is characterized by then following figures: the share of capital investments in GDP – 23 percent (mainly at the expense of the oil-processing branches) investment share in the non-productive sphere is 44,7 percent, industrial investments in resource-producing branches – 90 percent, in resource-processing – 4,6 percent. In Armenia the share of investments in GDP is 7 percent, investment share in non-productive sphere is 55,7 percent, investment correlation in resource-producing and resource-processing branches – 99 percent to 0,9 percent.

These data prove that investment activity is extremely low and the economical situation in Caucasian countries is unsatisfactory. Structural changes arouse special anxiety characterized by reduction of the goods production share in and rise of service share in reduction of the share in branches with the high level of processing products, an increase in the specific gravity in the branches of raw materials and semi-raw materials and finally, a reduction in investment's share of GDP compared with the share of the demand.

These all again prove that it is essential to stimulate economic cooperation among Caucasian states and to find general sphere for the whole region as to attract foreign investments.

The mutual interest of the Caucasian countries in developing economic relations are proved by the trade relations between Georgia, Azerbaijan and Armenia. Import of goods from Azerbaijan to Georgia is steadily increasing. If in 1995 it was \$US 47,7 million, in 1996 it was \$US 71,2 million and in 1997 – \$105,9 million. Data for export amount from Georgia to Azerbaijan is rather scarce, but has tendency to increase: in 1995 – \$US 12,7 million, 1996 – \$US 24,8 million, in 1997 – \$ US 25,1 million. Export-import relations between Georgia and Armenia are the following: export from Georgia to Armenia are accordingly to the

ity level of each separate country in practice would not be dependent on the conditions of other countries, whereas international movement of goods and capital raises factor productivity and removes the need to produce all goods and services independently thus enables specialization in economic sectors where the country is relatively efficient. Hence, in practice we can conclude that, from an economic point of view, the countries of the Caucasian region are not strategic competitors. For example, Azerbaijan has got oil, and Georgia has got access to the sea, and both countries are situated along the "Route" of the Caucasian Corridor, each of them possessing its own, in a number of cases, unique productivity potential. All this means that Azerbaijan and Georgia can not be regarded as competitors; rather, they are economic partners.

Georgia is interested in the transportation of Caspian (and other) oil to the West through its territory. Just the same appears to be the economic interest of Azerbaijan simultaneously, for in this case all possible loads from East to West and vice versa will pass through its territory too.

In principle, the same conclusions can be drawn regarding the other subjects of the Caucasus region. From the economic viewpoint we can and must be partners, and not opposite parties in a competitive struggle. At the same time the absence of international economic competition in the Caucasus cannot be perceived as the reason for the absence of market incentives for development. Each country of the Caucasus is in competition with other countries and they should generally be regarded as economic partners in interregional competition. For example, economic partnership between Azerbaijan and Georgia can become (as experience shows) "a magnet" for attracting other countries of the Caucasus too.

The process of economic integration in the Caucasus is most important in bringing the economies of each country of the region into a regional system and then into the world market too. The main trends of economic partnership in the Caucasus should be: establishing stable cooperative relations in fuel energy complex, machine-building, food production, the production of consumers' goods, transport; application of common efforts for rational use of the advantageous geopolitical location of the Caucasus and its economic potential, promoting economic reform in the region, and establishing an efficient system of managing these processes. The Caucasus region as a whole appears to be a unique territo-

rial productive complex with significant potential, allowing its problems of economic development to be solved, which is why the cooperation of the countries of the Caucasus depends in many respects on the further economic progress of all the countries of the region.