

5. The Baku-Tbilisi-Ceyhan Pipeline: Implications for Georgia

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The Baku-Tbilisi-Ceyhan (BTC) pipeline project is primary importance for Georgia, both from economic and political standpoints. From the very beginning, when the question of building the BTC pipeline was raised, Georgia had numerous obstacles to overcome of both a domestic and international nature. These included the weakness of the state, corruption, and Russia's policy towards Georgia. Additional problems may be anticipated in the future too. However, the "Rose Revolution" that took place on 22-23 November 2003, gave rise to new challenges and opportunities for the country's successful development.¹ Against this background, the implementation of various investment projects, including that of the BTC oil pipeline, is expected to open new avenues for Georgia. This essay analyzes the current status of key economic, social and political problems associated with the construction and operation of the BTC pipeline on Georgian territory.

Economic and Social Importance of the BTC Pipeline for Georgia

At every historical stage of its existence, any country has to solve a set of problems related to its economic development, of which the primary and most important is the choice of strategy. Following from this, tactical steps are determined. This problem is an especially critical one for Georgia as the country is not enriched with

¹ Neal Ascherson, "After the Revolution", *London Review of Books*, Vol. 26, No. 5, 2004. http://lrb.verioovps.co.uk/v26/no5/aschoi_.html; Zeyno Baran, Removing the Thorn in Georgia's Rose Revolution. *Georgia in US Media*. Embassy of Georgia to the USA, Canada and Mexico. 2004, 24, March 2004; CSCE, "Georgia's "Rose Revolution." Report Prepared by the Staff of the Commission on Security and Cooperation in Europe. Commission on Security and Cooperation in Europe, 108th Congress, 2nd Session, http://files.csce.gov/Georgia_Revolution.pdf.; Cory Welt, Georgia: Consolidating the Revolution. *Russia and Eurasia Program*. Center for Strategic and International Studies, April 2004, http://www.csis.org/ruseura/pubs/Agenda/040406_welt.pdf; Zurab Zhvania, "After the Rose Revolution: Building Georgia's Future", *CSIS Statesmen's Forum*. Center for Strategic and International Studies, April 26, 2004, http://www.csis.org/ruseura/040426_zhvania_report.pdf.

substantial mineral resources² and, therefore, this factor has no material influence on the national economy.³

In geo-economic terms, Georgia is situated along the quickest route linking Europe with Asia, a fact that has naturally led to the emergence of the idea of reviving the ancient Silk Road.⁴ Ultimately, this translated into projects like TRACECA (Transport Corridor Europe Caucasus Asia) and INOGATE (Interstate Oil and Gas Transport to Europe) both of which are of greatest importance not only for Georgia's economy, but also that for the entire Caucasus.⁵ It is exactly on these projects that Georgia's international economic function rests, and its economic development depends.⁶

The great energy potential of the Caspian basin⁷ requires its energy resources to be transported by means of a ramified pipeline system,⁸ one branch of which will cross Georgian territory.⁹ At present, Georgia has two sea terminals from which Caspian oil is transported to the rest of the world. One is situated in Supsa, with a capacity of 200,000 barrels/day (b/d), and another in the seaport of Batumi, with a capacity of 200,000 b/d. However, their benefit (like that of the Russian port of Novorossiysk, 680,000 b/d), and particularly their potential of expansion is limited by the straits of the Bosphorus.

No such constraints are associated with the BTC pipeline, however, which links Baku with the Turkish Mediterranean seaport of Ceyhan. The overall length of the pipeline is 1,760 km of which a 248-km-long section runs through Georgia, including nearby its capital Tbilisi. It is worth noting that before the commencement of the project, appropriate and detailed assessments of potential

² Alexander Tvalchrelidze, "Economic Evaluation of the Georgian Mineral Resources", *Mining Industry of Georgia in a Free Market Environment*, Proceedings of Seminar (Tbilisi, January 31 – February 1, 2002). Ed. Alexander G. Tvalchrelidze and Yuji Nishikiwa, Tbilisi: JICA, GRSD, 2002, pp. 34-72.

³ Alexander Tvalchrelidze, and George Loladze, 2002. Mining Industry and its Role for Economic Development of Georgia. In: *Mining Industry of Georgia in a Free Market Environment*. Proceedings of the Seminar (Tbilisi, January 31 – February 1, 2002), ed. Alexander G. Tvalchrelidze and Yuji Nishikiwa, Tbilisi: JICA, GRSD, pp. 10-16.

⁴ Eduard Shevardnadze, *Great Silk Route. TRACECA-PETRA. Transport Corridor Europe-Caucasus-Asia. The Eurasian Common Market. Political and Economic Aspects*, Tbilisi: Georgian Transport System Ltd, 1999.

⁵ Archil M. Gegeshidze, "The South Caucasus: Getting Close to Europe?" *Marco Polo Magazine*, No. 1, 1999, pp. 7-9. Alexander Rondeli, "TRACECA: a Tool for Regional Cooperation in the Caucasus", *Marco Polo Magazine*, No. 1, 1999, pp. 24-27. Alexander Rondeli, "The South Caucasus: Pipeline Politics and Regional Economic Interests", *The South Caucasus: Promoting Values Through Cooperation*. Seminar Report Series No. 20, Helsinki, 12-15 May 2004. Rome, NATO Defense College, Academic Research Branch, 2004.

⁶ Vladimer Papava, "On the Special Features of Georgia's International Economic Function", *Central Asia and the Caucasus*, No. 2, 2002, pp. 143-147.

⁷ John Roberts, "Energy Reserves, Pipeline Routs and the Legal Regime in the Caspian Sea". *The Security of the Caspian Sea Region*, ed. Gennady Chufirin, New York: Oxford University Press, 2001, pp. 33-44. There is a well-known expression that "The Caspian is more comparable in oil resources to the North Sea, than to the Persian Gulf" (e.g. Paul F. Hueper, "The Energy Locomotive" *Russian-Eurasian Renaissance? U.S. Trade and Investment in Russia and Eurasia*, ed. Jan H. Kalicki and Eugene K. Lawson, Washington: Woodrow Wilson Center Press, 2003, p. 184).

⁸ e.g. Jan H. Kalicki "Caspian Energy at the Crossroads", *Foreign Affairs*, Vol. 80, No. 5, 2001, pp. 120-134.; Roberts, "Energy Reserves", pp. 44-64.

⁹ Zurab Tevzadze, "Caspian Oil: Its Export Routes and Transportation Problems", *Central Asia and the Caucasus*, No. 1, 2004, pp. 88-101.

environmental and social impacts of the BTC pipeline at both construction and operation phases were completed.¹⁰

According to the corporate policy of the BTC Company, the company will generate “economic benefits and opportunities for an enhanced quality of life for those whom our business impacts”.¹¹ Bearing this in mind, specific goals of investment programs in Georgia are as follows:

- Improved economic opportunities and increased incomes;
- A developed and improved agricultural sector;
- Enhancement of the quality of life by means of revitalized social infrastructure;
- Improved ability of communities to take independent initiatives, organize and manage social development.¹²

The BTC pipeline’s impact on the Georgian economy can be considered at two levels, the microeconomic and the macroeconomic.¹³ In accordance with this approach, at the microeconomic level the economic effect of the BTC pipeline may be measured by means of maximum net profit index (which is the difference between profit and expense), whereas at the macroeconomic level, it can be measured by means of multiplier of investment costs. Obviously, the first indicator demonstrates the direct economic effect of the BTC pipeline on the national budget, whereas the other one shows its indirect effect.

Bearing in mind the fact that oil transportation tariffs in the territory of Georgia will grow from US\$0.89 to US\$1.86 per ton,¹⁴ the range of expected revenue for the Georgian government for 2005 to 2024 will be significant.¹⁵ Overall, during 40 years, the national budget of Georgia will be filled by US \$2.5 billion, i.e. at an average of US\$62.5 million per year.¹⁶ The direct effect on employment, i.e. the total direct employment in connection to the BTC pipeline in Georgia, amounts to 2,500 for the construction phase and 250 for the operation phase.¹⁷

¹⁰ AETC Ltd / ERM, “Social Impacts and Mitigation. BTC Pipeline ESIA, Georgia”, *Environmental and Social Impact Assessment. Baku-Tbilisi-Ceyhan Oil Pipeline*, 2002.

<http://www.caspiandevlopmentandexport.com/Files/BTC/English/ESIAs/Azerbaijan/Content/Statement/BTC%20ESIA%20Statement%20Section%2011%20Social%20Impacts%20and%20Mitigation.pdf>.

¹¹ CSR Network, *Environmental, Land, Community and Social Overview. Baku-Tbilisi-Ceyhan Pipeline Project*, 2003. http://www.caspiandevlopmentandexport.com/ASP/dd_BTC_Detail.asp?PID=10362&LegendOR=True&NotesOR=True.p. 182)

¹² CSR Network, *Environmental, Land, Community and Social Overview*, p. 182.

¹³ Tevzadze, “Caspian Oil” pp. 98-99.

¹⁴ George Eradze, Mark Hudson, David Jinjolia, et al., “Economic Trends”, *Georgian Economic Trends*, No. 3, 2002, pp. 5-84, p. 10.

¹⁵ Tevzadze, “Caspian Oil”, p. 99.

¹⁶ Caglayan et. al., p. 89; Eradze et. al., p. 10.

¹⁷ CSR Network, p. 79.

From the very beginning, a total investment of US \$514.670 million was budgeted for the construction of the Georgian section of the BTC pipeline, of which no less than US\$221 million will be spent on construction as such, US\$120 million on the payment of compensations to land owners (including for harvests), more than US \$88 million on the purchase of pipes, and more than US \$85 million on other capital costs.¹⁸ The breakdown of investments for the period 2002-2004 is shown in the table below (Table 1):

Construction of the Georgian Section of the BTC Pipeline (Million US \$)¹⁹

	2002	2003	2004
1. BTC pipeline construction expenditures directly in Georgia	60,338.0	179,971.8	215,855.8
o/w			
– materials and equipment	27,385.0	104,929.4	55,531.3
– office costs	0,585	4,454.3	2,980.9
– payments to Georgian contractor firms	0,770	15,299.7	18,346.0
2. Construction expenditures of the Georgian section of BTC pipeline outside Georgia	0,126	0,743	1,479.6
3. Costs for the construction of schools, health facilities, etc.	0	2,094.0	0,888
Total	60,464.0	182,809.2	218,223.7

When calculating the indirect effect, of particular importance is to determine the multiplier of investments to be made during the construction and operation phases of the BTC pipeline. According to conservative assessments, for Azerbaijan this indicator amounts to 1.43, and it is believed that for Georgia the indicator will be the same;²⁰ a very similar indicator is quoted in another paper.²¹ According to other estimates, this indicator ranges between 1.5 and slightly more than 3.²² Special estimates aimed to determine indirect effects of the BTC pipeline for the Georgian economy showed that the construction of the BTC pipeline would diminish the level of unemployment by 33.3%, whereas employment, self-employment, household earnings and spending, and gross domestic product (GDP) rates would

¹⁸ e.g. Eradze et al., p. 10.

¹⁹ Information was provided by the State Statistics Department of Georgia.

²⁰ Caglayan et. al., p. 105.

²¹ CSR Network, p. 79.

²² Tevzadze, "Caspian Oil", p. 99.

grow by 7.3, 7.0, 7.1, 7.1 and 6.6 percent.²³ All these indicators clearly point at a significant indirect effect of the BTC pipeline for the Georgian economy.

For the comparative analysis of the BTC pipeline's influence on economies where it will make its way, one must take into account the differences that exist between Azerbaijan and Georgia, which are economies in transition, on the one hand, and Turkey, which is a large emerging economy, on the other hand. This feature was emphasized from the very beginning by those experts who had tried to make economic evaluations of the BTC project.²⁴

Undoubtedly, it would be worthy of interest to include also Armenia in a regional comparative economic analysis, even though the pipeline is not going to cross this country. This enable the presentation of rather clear results in assessing the project's impact on economic development of the relevant countries.

Gross National Income (GNI) of the South Caucasian Countries and Turkey,
Atlas Method (Current US\$, World Bank)

	1999		2002		2003	
	GNI	GNI per capita	GNI	GNI per capita	GNI	GNI per capita
Armenia	1.9 billion	630.0	2.4 billion	810.0	2.9 billion	950.0
Azerbaijan	4.6 billion	570.0	5.9 billion	720.0	6.7 billion	810.0
Georgia	3.5 billion	750.0	3.3 billion	720.0	3.8 billion	830.0
Turkey	185.4 billion	2,800.0	174.5 billion	2,510.0	197.2 billion	2,790.0

Table 2 illustrates the differences in economic development of the countries of the South Caucasus and Turkey. Turkey's per capita GNI is higher than those of all the three South Caucasian countries taken together. Consequently, Turkey's economy is by far more developed than those of the South Caucasus. At the same time, Table 2 shows that by per capita GNI, all the three economies of the South Caucasus are almost at the same level.

For a number of reasons, it is of particular interest to compare the economic development parameters of Georgia with those of Armenia: firstly, both countries are economies in transition, which means that to a certain degree both face the same economic problems; secondly, neither of them possess significant oil and gas deposits.

²³ Alexander G. Tvalchrelidze, *International Economic Projects in the Southern Caucasus and Trends of Sustainable Economic Development*. The Center for New Institutional Social Sciences. The International Research Workshop, May 28-June 1, 2003, Washington University in St. Louis, St. Louis, Missouri, USA. <http://cniss.wustl.edu/internationalresearchworkshoppapers/santo.pdf>.

²⁴ Caglayan et. al., p. 54.

It must be noted that governments of both countries have developed poverty reduction and economic development programs. Above all, differences between the two programs consist in the fact that the program for Georgia includes the construction and operation of the BTC and the South Caucasus Gas Pipeline (SCP) pipelines, whereas in the Armenian program such a factor is clearly absent.

According to the Armenian poverty alleviation program, annual growth rates of real GDP in 2005 and 2006 will amount to 6%, in 2009 to 5.5%, and in 2012 and 2015 to 5.0%. As for the Georgian poverty alleviation and economic development program, it has been developed based on two macroeconomic scenarios – realistic and optimistic ones. According to the first one, annual growth rate of real GDP in 2005-2015 will amount to 5%; according to the second one, to 8%. At the same time, in the optimistic scenario the importance of the construction and operation of the BTC and SCP pipelines are emphasized. Additionally, one should bear in mind that the implementation of the poverty reduction program and the accomplishment of projected goals will depend on many factors, including those which have little (or nothing) to do with the implementation of the pipeline projects.

Of particular importance are social investments envisaged within the framework of the BTC pipeline construction project. In aggregate (for all countries where the BTC pipeline will be laid), to this end US \$25 million have been budgeted, of which US\$8 million will be invested in Georgia.²⁵ According to Table 1, over the period of 2003-2004, US\$3 million were spent out of the BTC pipeline project funds for the construction of schools, medical facilities, and the like in Georgia.

Of no less importance are the efforts taken for the protection of cultural heritage objects located along the BTC pipeline route. Field research operations implemented along the Georgian section of the pipeline route identified 51 archaeological sites and more than 200 cultural monuments.

Based on the foregoing, it may be stated that the BTC pipeline will have a considerable influence on the economy and social sphere of Georgia at both its construction and operation phases.

“Dutch Disease”, Corruption, and Fostered Governmentalism

Countries suffering from the “Dutch Disease” are those, where, because of significant growth of exports in one or another raw material sector, the national currency is being revaluated, leading to the growth of export prices (and, therefore, decrease in exports) (of other commodities) and decrease in import prices (and, therefore, increase in exports). Historically, this economic phenomenon was first marked in the Netherlands after the discovery of gas deposits in 1960s. Since then,

²⁵ CSR Network, p. 191.

as a rule, the phrase the “Dutch Disease” has primarily been used in the context of significant growth of exports of oil and/or gas in a given country. A number of post-Soviet oil and gas exporting countries have, to a certain extent, been “infected” with this disease.²⁶ The study of the reasons, treatment and cures of the disease has become the subject of many prominent modern scholars.²⁷ Some of them invented certain mechanisms of disease management by which it could be modified into a rather “optimal” mode.²⁸

There have in other places been known examples of the emergence of the “Dutch Disease” due to the growth of exports of any kinds of commodities (and not only of oil and gas). In this context, depending on which materials have caused the effects of the “Dutch Disease”, it has been proposed that the name of the relevant country is inserted in the name of the disease; in particular, the disease is proposed to be referred to as Indonesian, Nigerian, Mexican or Venezuelan, if it is caused by the growth of exports of petroleum; Thai, if it caused by rice, rubber and tin; Malaysian if it is rubber and tin; Brazilian if it is coffee and sugar; Colombian if it is coffee; Ivory Coast if it is coffee, cocoa and wood; Bangladesh if it is because of foreign aid inflows; Egyptian if it is for tourism, remittances and foreign aid inflows; Jordanian if caused by remittances; Zambian, Zairian if it is for copper; Ghanaian if it is about cocoa; or Kenyan if it is caused by tourism and coffee.²⁹ In other words, all the above “diseases” are variations of the “Dutch Disease”.

The question that arises from the foregoing, therefore, is this: is Georgia under threat of being infected with the “Dutch Disease”, whether in its classical form or any of its variations?

Russian experts predict that Georgia can not avoid the “Dutch Disease” and that the BTC pipeline is going to be the key reason for it.³⁰ At the same time, it has quite rightly been believed that if the maximum profit from the project (about US

²⁶ See e.g. Ariel Cohen, “Confronting Kazakhstan’s ‘Dutch Disease.’” Press Room, Commentary, 26 March 2003, The Heritage Foundation. <http://www.heritage.org/Press/Commentary/032603c.cfm>; Akexei Moiseev, “Analysis of Influence of the “Dutch Disease” and Taxation on Economic Welfare. Example of the Russian Economy” Research Program on “Transforming Government on Economies in Transition” Working Paper # BSP/99/030, 1999. <http://www.nes.ru/english/research/pdf/Moiseev.pdf>; Christoph B. Rosenberg and Tapio O. Saavalainen, “Dealing with Azerbaijan’s Oil Boom”, *Finance & Development: A Quarterly Magazine of the IMF*, Vol. 35, No. 3, 1998. <http://www.imf.org/external/pubs/ft/fandd/1998/09/rosenber.htm>; Joseph Stiglitz, Presentation in Baku on 20 November 2003 at the Initiative for Policy Dialogue/Public Monitor Center Workshop “Covering Resource Wealth.”, 1998. <http://www2.gsb.columbia.edu/ipd/bakutranscript.pdf>.

²⁷ See e.g. Thorvaldur Gylfason, “Lessons from the Dutch Disease: Causes, Treatment, and Cures.” Working Papers Series W01:06, Institute of Economic Studies, University of Iceland, 2001. <http://www.ioes.hi.is/publications/wp/w0106.pdf>; Stiglitz Joseph, 2004. We Can Now Cure Dutch Disease. *Guardian*, August 18, 2004. http://www2.gsb.columbia.edu/faculty/jstiglitz/download/opeds/We_Can_Now_Cure_Dutch_Disease.htm.

²⁸ See e.g. Egil Matsen and Ragnar Torvik, “Optimal Dutch Disease”, Working Paper Series No. 1/2003. Department of Economics. Norwegian University of Science and Technology, 2003. http://www.svt.ntnu.no/iso/WP/2003/1ODD_sep_02.pdf.

²⁹ E. Wayne Nafziger, *The Economics of Developing Countries*. Upper Saddle River, Prentice-Hall. 1997, p. 335.

³⁰ Anna Agababyan, “The Role of the Baku-Tbilisi-Ceyhan Oil Pipeline in the Formation of Regional Policy”, *News of CIS, Analytics*, 2004. <http://www.mpa.ru/analytics/issue.php?id=319>. (In Russian).

\$60 million per year) is collected, Georgia will be at no risk of contracting the “Dutch Disease”.³¹ In the meantime, during the implementing the BTC construction project in 2004, some symptoms of the “Dutch Disease” did appear in Georgia. In particular, while after overcoming negative consequences of the Russian default in 1998, the exchange rate of Georgian lari stayed stable³² due to maintaining a floating exchange rate,³³ in 2004, according to the information provided by the National Bank of Georgia the real exchange rate of lari strengthened by 13%. Furthermore, the Georgian national currency strengthened not only against the US dollar and the Euro, but also against the Russian ruble and the Turkish lira.³⁴

In this connection, one needs to take into account the fact that one of the special features of the Georgian economy is its large-scale dollarization;³⁵ although in 2004 it went down to 74.32% from 85.52%, it still stays at a quite high level.³⁶

Construction of the Georgian Sections of the BTC and SCP Pipelines
(Million US \$)³⁷

	2002	2003	2004
BTC and SCP pipelines construction expenditures directly in Georgia (million \$)	60,338	227,607	356,149
o/w			
– materials and equipment	27,385	135,428	93,696
– office costs	0,585	4,946	4,898
– payments to international contractors	31,598	78,777	229,976
– payments to Georgian contractor firms	0,770	18,456	27,580
2. Construction expenditures of the Georgian section of BTC and SCP pipelines outside Georgia	0,126	0,909	2,421
3. Costs for the construction of schools, health facilities, etc.	0	2,094	1,131
Total	60,464	230,610	359,701

³¹ Caglayan et. al., p. 89.

³² Vladimir Papava, *Splendours and Miseries of the IMF in Post-Communist Georgia*, Laredo: We-publish.com, 2003, pp. 45-46.

³³ See e.g. Merab Kakulia, “Composition of the Domestic Foreign Exchange Market in Georgia”, National Bank of Georgia, 2002. http://www.nbg.gov.ge/eng/publication_report/shida%20sav-bazr-struqt-kakulia.htm.

³⁴ NBG, 2004. *Bulletin of Monetary and Banking Statistics*, No. 4 (70), January-December. Tbilisi, National Bank of Georgia, pp. 100-103.

³⁵ Kakulia Merab, and Nana Aslamazishvili, “Dollarization in Georgia: Size of the Problem. Factors and the Ways of Solution”, 2000, http://www.nbg.gov.ge/eng/publication_report/1a.html; Kakulia and Aslamazishvili, “Dollarization in Georgia: How Sustainable is it’s Trends for a Country?”, 2002, http://www.nbg.gov.ge/eng/publication_report/pdf/dolar_1_e.pdf.

³⁶ NBG, p. 10.

³⁷ Information was provided by the State Statistics Department of Georgia.

At the same time, one must bear in mind the fact that Russia and Turkey remain Georgia's most important trade partners: in 2004, these countries accounted for 14.5% and 12.9% of Georgia's whole foreign trade turnover.³⁸

Out of all possible causes of the revaluation of lari, is the effect of the construction of the BTC pipeline not the most self-evident one? Furthermore, parallel to the BTC developments another major pipeline project, namely the SCP (Shah Deniz-Baku-Tbilisi-Erzurum) has been implemented. Table 3 above provides aggregate figures of investments implemented in 2002-2004 during the construction of the Georgian sections of the BTC and SCP pipelines:

According to Table 3, in 2004, US\$127,588 more was invested in the implementation of the two pipeline projects in Georgia than in 2003 (in 2003, the exchange rate of Georgian lari stayed basically stable). This information is not enough to assert that the key reason for the revaluation of lari was the growth of investments in the BTC and SCP pipelines projects. One must also take into account other factors which may have influenced the exchange rate and which by nature were associated with the post-revolutionary situation in the country.³⁹

Immediately after the "Rose Revolution," the Government of Georgia took decisive steps against corruption: former government officials and their relatives (especially those of the former president of Georgia, Eduard Shevardnadze) were arrested and later released after having paid a so-called "price of liberty" to the government. Officially, this was proclaimed as paying back to the State money and properties that had been stolen from it. It must be noted, however, that nobody has ever proven whether that "price of liberty" in each particular case really matched the actual amount of stolen funds.

Despite this, the government stated that during the first post-revolutionary year some US\$200 million was returned to Georgia's national budget.⁴⁰ In reality, however, new functionaries, so-called "fighters against corruption", have recovered much more than this from those charged of corruption, although it is hard to specify the exact amounts so recovered. The reason is that the government, specifically for this purpose, established extra-budgetary "law-enforcement development accounts" where those suspected of corrupt practices were compelled to transfer payments to buy their liberty. In other words, a new form of corruption

³⁸ SDS, 2005. *Georgia: Statistical Review, 2004*. Tbilisi, State Department for Statistics of Georgia. (In Georgian), p. 59)

³⁹ See e.g. Jaba Devdariani, "Georgia's Rose Revolution Grapples with Dilemma: Do Ends Justify Means" *Eurasia Insight*, 26 October 2004, <http://www.eurasianet.org/departments/insight/articles/eavio26o4.shtml>; Mark McDonald, "Democracy Flourishes a Year After Georgia's Rose Revolution", *Knight Ridder Newspapers*, 8 March 2005. <http://www.realcities.com/mld/krwashington/11082999.htm>; David Sands, "Georgia on a Wild Ride to Democracy", *The Washington Times*, 20 November 2004. <http://www.georgiaemb.org/DisplayMedia.asp?id=363&from=media>.

⁴⁰ E.g. McDonald, "Democracy Flourishes a Year After Georgia's Rose Revolution".

has developed in Georgia based on a special institutional foundation⁴¹ which has taken the form of “extra-budgetary accounts”.⁴² As those suspected of corruption had accumulated their capital in US dollars (rarely in Euros), whereas recovery of those accumulations have taken place in Georgian lari, which is the only legal tender in this country, the demand for lari grew even further which obviously is another factor for its revaluation.

With the intensification of the fight against corruption, taxpayers have improved in performing their tax obligations to the State. Specifically, in 2004, compared to 2003, tax and non-tax revenues of the summary national budget grew by a factor of 1.5 and 3.2 times.⁴³

One of the most important features of the Georgian economy consists of huge money transfers from Georgian nationals that have emigrated to other countries in search of employment. In 2004, compared to 2003, the inflow of overseas transfers grew by US\$52.4 million; although the outflow of money also increased by US\$15 million, the balance remained positive and, in aggregate, in 2004, compared to 2003, the foreign currency inflow grew by US \$37.4.⁴⁴ In fact, however, this index must be even higher as many money transfers, especially those from the Commonwealth of Independent States (CIS) take place outside the banking system.

Another factor influencing the growth of cash flow in 2004 was the fact that after the “Rose Revolution” many representatives of the old government left the country. Their share of money transfers from abroad to their relatives has been significant. Many of them have sought refuge in Russia and other CIS countries. As a result, in 2004, money transfers from Russia to Georgia accounted for 37.57% of all inflows into Georgia and grew by 39.65% compared to 2003.⁴⁵

The emergence of the “Dutch Disease” and the revaluation of lari as its manifestation in 2004 was the result of the joint influence of all the above factors, namely: construction of the Georgian sections of the BTC and SCP pipelines, fight against corruption and increased money transfers. It must be noted that in 2004, compared to 2003, Georgia’s negative trade balance grew by 77.30%.⁴⁶

On the other hand, the revaluation of lari did not have any negative impact on the exports of products of industrial processing, the reason for which lies in a low competitive capacity of Georgian manufacturers in international markets. In other words, the inflation mechanism of export fostering either is non-existent or

⁴¹ Vladimer Papava, “Economic Approach to the Restriction of Corruption in Georgia” *Georgian Economic Trends*, no 3-46, 2000. 51-55.

⁴² Davit Usupashvili, “Rose Revolution – A Year After”. *Advocacy Magazine*, October 2005. <http://www.advocacy.ge/magazine/RoseRevolution-AYearAfter.shtml>.

⁴³ SDS, p. 32.

⁴⁴ NBG, p. 115.

⁴⁵ NBG, p. 115.

⁴⁶ SDS, p. 57.

underdeveloped in Georgia (and other post-Communist countries like Georgia).⁴⁷ This can be proved by the structure of Georgia's exports, in which over the recent year scrap metal has constituted the biggest share (in particular, in 2004, it amounted to 14.8%); although, second place in this list has been held by the export of aircraft (12.9%),⁴⁸ it is largely conditioned by the manufacturing and repairing of military jets at the Tbilisi Aviation Plant, the proceeds of which are entirely used to pay off Georgia's debt to Turkmenistan.⁴⁹

Nevertheless, the process of revaluating the lari is a negative signal for those who might be willing to invest in the export-oriented businesses of Georgia which, in turn, will lead to the negative effects of the "Dutch Disease". Practically, all the above factors (construction of the Georgian sections of the BTC and SCP pipelines, fight against corruption and increased money transfers) have continued acting in 2005 too. In addition to this, in 2005, the Government of Georgia is going to implement a large-scale privatization program with the involvement of foreign investors. This may also have a negative impact on Georgia's economy.

The attractive international post-revolutionary image of Georgia, as a country that has opted for democratic development, enables the Government of Georgia to count on more than US \$256 million as a national budget revenue from the privatization of large industrial and transport (e.g. Georgia's ocean vessels) enterprises of Georgia to foreign investors.

Contrary to international practice of using significant inflows of international currency into the country,⁵⁰ the Government of Georgia could not resist the temptation of spending significant portions of national budget revenues from the privatization program for domestic needs. To avoid a potential rise in the inflation rate, the National Bank of Georgia will have to use all available monetary tools to reduce the amount of cash in circulation, as a result of which free monetary resources will tend to move from the private sector to the Government. This, in turn, will negatively affect economic growth in Georgia.

Having said all the foregoing, it may be concluded that post-revolutionary Georgia has been in the process of contracting the "Dutch Disease," although symptoms of the disease (first of all, trends of changing exports) are quite different from its classical model. Most of the above factors (fight against corruption, money transfers and large-scale privatization, except construction of the Georgian sections of the BTC and SCP pipelines), are by nature political ones. Nevertheless, it would

⁴⁷ Vladimer Papava and Vepkhia Chocheli, *Financial Globalization and Post-Communist Georgia. Global Exchange Rate Instability and its Implications for Georgia*. New York, iUniverse, 2003. pp. 10-17.

⁴⁸ SDS, p. 60.

⁴⁹ Helen Saradova, "Commercial News Update for Georgia", no. 5, 2004.
<http://www.bisnis.doc.gov/bisnis/bisdoc/0405newsge.htm>.

⁵⁰ Gylfason; Matsen and Torvik; and Stiglitz, "We Can Now Cure the Dutch Disease".

be unfair to classify the ongoing development in Georgia as a “Political Dutch Disease” as this expression has already acquired a different connotation.⁵¹

What happens in Georgia may be explained, first of all, by the fight against corruption and mistakes made by the Government in spending funds raised from the large-scale privatization program. It could, therefore, be concluded that what we are facing now is a Georgian version of the “Dutch Disease.” To the same extent as the above-mentioned tradition defines the word “disease” by the name of the country where it takes place, we are allowed to say that what Georgia suffers from is the “Georgian Disease,” which has occurred as the result of the joint influence of the construction of the Georgian sections of the BTC and SCP pipelines, the fight against corruption, money transfers and the large-scale privatization program.

Experience of post-revolutionary Georgia teaches us that fostered governmentalism and reduced corruption depends not only and not much on the implementation of large-scale pipeline construction and operation projects, but also on political will and qualifications of government officers that can make appropriate decisions. This is the reason why, despite the successful completion of the BTC pipeline construction project and the continuation of the construction of the SCP pipeline, post-revolutionary Georgia still has some problems associated with human rights and democratic development in Georgian society.⁵² In this connection, Georgia is not an exception; quite the contrary: unfortunately, Georgia could not avoid the mistakes in the process of development of national statehood that are characteristic of many countries with rich oil deposits and well-developed pipeline grids.⁵³ As a matter of fact, not all hopes associated with oil regarding help to overcome the economic and political problems of the post-Communist transformations⁵⁴ come true at all times (neither in Georgia, nor elsewhere).

The BTC Pipeline and Georgia's Relations with USA, Europe, Russia and Iran

In a geopolitical sense, Georgia's location is of key importance for the whole South Caucasus, especially if one takes into account the conflict between the two other

⁵¹ Ricky Lam and Leonard Wantchekon, *Political Dutch Disease*, <http://www.nyu.edu/gsas/dept/politics/faculty/wantchekon/research/lr-04-10.pdf>.

⁵² Devdariani, “Georgia's Rose Revolution Grapples with Dilemma”; HRIDC, “One Step Forward, Two Steps Back: Human Rights in Georgia After the ‘Rose Revolution’” *Human Rights Information and Documentation Center*. <http://66.116.100.86/humanrights.ge/eng/files/REPORT.pdf>; Sands, “Georgia on a Wild Ride to Democracy”; Usupashvili, “Rose Revolution”.

⁵³ Terry Karl, *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley, University of California Press.1997; Terry Karl and Ian Gary, “The Global Record”, *FPIF-Petro Politics Special Report*, January 2004. http://www.fpif.org/papers/03petropol/development_body.html.2004

⁵⁴ Terry Karl, “State Building and Petro Revenues”, *The Geopolitics of Oil, Gas, and Ecology in the Caucasus and Caspian Basin*. Conference Report, 1998, pp. 3-8. http://ist-socrates.berkeley.edu/~bsp/publications/1998_02-conf.pdf.

nations of the region, Armenia and Azerbaijan. Georgia made her strategic, pro-Western choice almost immediately after the restoration of independence.⁵⁵

The beginning of this essay focused on Georgia's international economic function, the fulfillment of which is of vital importance for the maintenance and strengthening of the country's independence. It was also pointed out that one of the constituent elements of the international INOGATE project was the construction of the BTC pipeline, one of the key vehicles by which the Caspian oil could be transported to the West.

Due to its location in the midst of nations with systemic risk factors, such as flourishing corruption,⁵⁶ Georgia's attractiveness from the standpoint of potential investors is very low, although the implementation of the BTC pipeline and other related projects have opened new avenues for the extension of investment projects outside the energy sector.⁵⁷ As was pointed out above, the situation drastically improved after the "Rose Revolution" as a result of growing international confidence in the country that has proclaimed its loyalty to democratic values and willingness to boost post-revolutionary transformations.

Almost immediately after the emergence of the idea of transportation of the Caspian oil to the West and the construction of the BTC pipeline (by avoiding the territories of Russia and Iran), Azerbaijan, Georgia and Turkey formed one "team" that has enjoyed significant support from the United States.⁵⁸ This proved to be in perfect harmony with the key political objectives of the United States in the region: the isolation of Iran; the prevention of the re-establishment of Russia's monopolistic position in the region; encouraging Turkey in her efforts to increase her influence in the region; and supporting U.S. companies to invest in the region.⁵⁹

After the tragic events of September 11, 2001, these objectives were supplemented with another, consisting in the U.S. support to such development of the countries

⁵⁵ Alexander Rondeli, "The Choice of Independent Georgia" *The Security of the Caspian Sea Region*. Ed. by Gennady Chufrin. New York, Oxford University Press, 2001, pp. 195-211.

⁵⁶ Mark F. Brzezinski and Joseph C. Bell, "Systemic Risk Factors in Russia and Eurasia" *Russian-Eurasian Renaissance? U.S. Trade and Investment in Russia and Eurasia*. Ed. by, Jan H. Kalicki, and Eugene K. Lawson. Washington, Woodrow Wilson Center Press, 2003, pp. 284-285.

⁵⁷ S. Frederick Starr, "The Investment Climate in Central Asia and the Caucasus". *Russian-Eurasian Renaissance? U.S. Trade and Investment in Russia and Eurasia*, eds. Jan H. Kalicki and Eugene K. Lawson, Washington: Woodrow Wilson Center Press, 2003, p. 87.

⁵⁸ E.g. Kalicki, p. 122; Sergej Mahnovski, "Natural Resources and Potential Conflict in the Caspian Sea Region", *Faultlines of Conflict in Central Asia and the South Caucasus. Implications for the U.S. Army*, eds. Olga Olikier and Thomas S. Szayna, Santa Monica: RAND, 2003, pp. 116-117.

⁵⁹ Friedemann Müller, "Energy Development and Transport Network Cooperation in Central Asia and the South Caucasus", *Building Security in the New States of Eurasia. Subregional Cooperation in the Former Soviet Space*, eds. Renata Dwan, and Oleksandr Pavliuk, Armonk, M.E. Sharpe, 2000, p. 189.

of the region that could help the United States avoid new terrorist threats and promote the successful completion of the war on terrorism.⁶⁰

At the same time, one needs to bear in mind the fact that the U.S. Government has raised the nation's energy security to the level of top priority which means that the U.S. international policy in the energy sector, including in the Caspian region, has become one of extraordinary importance.⁶¹ The U.S. strategy in the region could be defined as the availability of "multiple pipelines", which means that the already existent pipelines should be supplemented with new ones.⁶²

Nevertheless, the U.S. interests in the region are not limited to the energy sector.⁶³ The U.S. aim to support the former Soviet republics of the region in overcoming characteristic features of Soviet economy, developing market-based economy and private sector, laying a robust foundation for sustainable economic growth, establishing the rule of law, addressing social and environmental problems, and availing themselves of energy resources and multiple export pipeline routes.⁶⁴ It comes as no surprise that the U.S. policy in the Caspian region aimed at preventing the re-establishment of the Russian monopoly in the region is perceived as an anti-Russian policy. However, in fact, that is not true.⁶⁵ According to the official position of the U.S. Government, the Caspian energy resources are regarded as an area of potential cooperation with Russia.⁶⁶ In addition, potential cooperation between the U.S. and Russia may expand to include a number of spheres, such as the fostering of economic developments of the region's countries, and the prevention of religious and political extremism and international terrorism.⁶⁷

It is cooperation and partnership, rather than conflict of interests between the U.S. and Russia,⁶⁸ that can ensure the achievement of maximum positive results in the exploitation of Caspian energy resources.

⁶⁰ Toby T. Gati and Tapio L. Christiansen, "The Political Dynamic" *Russian-Eurasian Renaissance? U.S. Trade and Investment in Russia and Eurasia*, eds. Jan H. Kalicki and Eugene K. Lawson. Washington, Woodrow Wilson Center Press, 2003, pp. 450-451, 456-457.

⁶¹ Kalicki 2001, p. 120.

⁶² A. Necdet Pamir, "Is There a Future of the Eurasian Corridor?", *Insight Turkey*, Vol. 2, No 3, 2000, p. 40.

⁶³ Amy Jaffe, "US Policy Towards the Caspian Region: Can the Wish-List be Realized?" *The Security of the Caspian Sea Region*, Ed. Gennady Chufirin, New York: Oxford University Press, 2001, pp. 136-150.

⁶⁴ Steven R. Mann, "Caspian Futures", *Russian-Eurasian Renaissance? U.S. Trade and Investment in Russia and Eurasia*, ed. Jan H. Kalicki, and Eugene K. Lawson. Washington, Woodrow Wilson Center Press, 2003, pp. 159-160.

⁶⁵ Zeyno Baran, "Developing a Euro-Atlantic Strategy Towards Black Sea Energy: The Example of the Caspian", *A New Euro-Atlantic Strategy for the Black Sea Region*, eds. Ronald D. Asmus, Konstantin Dimitrov, Joerg Forbrig, Washington: The German Marshall Fund of the United States, 2004, p. 117.

⁶⁶ F. Stephen Larrabee, "The Russian Factor in Western Strategy Toward the Black Sea Region", *A New Euro-Atlantic Strategy for the Black Sea Region*, eds. Ronald D. Asmus, Konstantin Dimitrov, Joerg Forbrig, Washington: The German Marshall Fund of the United States, 2004, p. 152; Mann, "Caspian Futures", pp. 152-153.

⁶⁷ Gennady Chufirin, "The Caspian Sea Region: Towards an Unstable Future", *The Security of the Caspian Sea Region*, ed. Gennady Chufirin, New York: Oxford University Press, 2001, pp. 342-343.

⁶⁸ Vitaly Naumkin, "Russia's National Security Interests in the Caspian Region", *The Security of the Caspian Sea Region*, ed. Gennady Chufirin, New York: Oxford University Press, 2001, pp. 126-128.

The application of the principles of cooperation and partnership is within the best interests of the countries of the region too. Unfortunately, Russia has greater problems with the realization and practical application of those principles than anybody else in the region.⁶⁹ At the same time, well-known, so-called “frozen” conflicts in the territories of the countries of the South Caucasus region have significantly prevented those countries from developing economic (and not only economic) cooperation with each other.⁷⁰ However, this does not exclude the possibility of looking for ways of such cooperation.⁷¹

Recently, the Black Sea region has increasingly become an area of focus of the European Union.⁷² In this connection, it must be emphasized that the TRACECA and INOGATE projects completely correspond to the European perception of the development of the South Caucasus.⁷³ The implementation of the BTC pipeline is considered an important constituent element of Europe’s energy security.⁷⁴ Moreover, the Black Sea pipeline grid may be used as a significant ingredient of the EU’s “Wider Europe” strategy and, in this context, the significance of Georgia and Azerbaijan, as potential candidates for membership of the European and Transatlantic structures is especially significant.⁷⁵

Caspian energy resources may not only produce benefits to the South Caucasian countries, but may also threaten the region’s stability. The latter may be predetermined by Russia’s fear of the West’s growing influence in the region, which allegedly may endanger Russia’s national security and come into conflict with its interests.⁷⁶ What are the key economic interests of Russia in the region as far as the Caspian energy resources are concerned? These interests might be formulated in the following way: development of mutually advantageous trade and economic relationships with the countries of the region; using their transport capacities; participation in the production and shipment of energy resources.⁷⁷

⁶⁹ Vladimer Papava, “Strategic Economic Partnership in Caucasus”. *Caucasica. The Journal of Caucasian Studies*, Vol. 2, 1998, pp. 189-197; Vladimer Papava, “On the Possibilities and Prospects for the Formation of an Economic System in the Southern Caucasus”, *Central Asia and South Caucasus Affairs: 2002*, ed. Boris Rumer and Lau SimYee, Tokyo: The Sasakawa Peace Foundation, 2002, pp. 205-212; Vladimer Papava and Nino Gogatadze, “Prospects for Foreign Investments and Strategic Economic Partnership in the Caucasus”, *Problems of Economic Transition*, Vol. 41, No. 5, 1998, pp. 79-88.

⁷⁰ Arif Yunusov, “The Southern Caucasus: Cooperation or Conflict?” *Building Security in Europe’s New Borderlands: Subregional Cooperation in the Wider Europe*, ed. Renata Dwan, Armonk: M.E. Sharpe, 1999, pp. 147-172.

⁷¹ Phil Champain, Diana Klein, and Natalia Mirimanova, eds, *From War Economies to Peace Economies in the South Caucasus*. London: International Alert, 2004.

⁷² Heather Grabbe, “Towards a More Ambitious EU Policy for the Black Sea Region”. *A New Euro-Atlantic Strategy for the Black Sea Region*, ed. Ronald D. Asmus, Konstantin Dimitrov, Joerg Forbrig, Washington: The German Marshall Fund of the United States, 2004, pp. 106-115.

⁷³ Rondeli, “The South Caucasus: Pipeline Politics and Regional Economic Interests”, p. 52.

⁷⁴ Howard Chase, “Future Prospects of Caucasian Energy and Transportation Corridor: The Role of the Caucasian Energy Corridor in European Energy Security”, *Georgian Economic Trends*, No 3, 2002, pp. 85-87.

⁷⁵ Baran, “Developing a Euro-Atlantic Strategy Towards Black Sea Energy: The Example of the Caspian”, p. 120.

⁷⁶ Alexander Rondeli, “Pipelines and Security Dynamics in the Caucasus”, *Insight Turkey*, Vol. 4, No 1, 2002, p. 13.

⁷⁷ Vitaly Naumkin, “Russia’s National Security Interests in the Caspian Region”, *The Security of the Caspian Sea Region*, ed. Gennady Chufurin, New York: Oxford University Press, p. 122.

One needs to take into account the fact that Russia generates roughly 50% of the country's total hard currency revenues from the oil and gas exports.⁷⁸ Naturally, Russia is not interested in letting other countries benefit from the Caspian energy resources without her control.

As the Russian experts have admitted, the construction of the BTC pipeline comes into conflict with Russia's interests.⁷⁹ To be fair, it must be noted that the pro-Russian and anti-American criticism of Georgia, including the implementation of pipeline projects within its territory, has been proclaimed by some western experts too.⁸⁰ However, these can by no means affect realistic evaluations of ongoing developments in the region, including the official attitudes of western governments.

Russian politicians have been having a hard time giving up the idea of restoring the old empire, at least in its modern shape, which was manifested in the concept of the so-called "liberal empire;" by expanding Russia's economic influence the latter was proposed to restore economic control over the whole post-Soviet space.⁸¹

Having said this, it comes as no surprise that the Russian party not only had no interest in the development of the transport corridor through the Georgian territory, including by the construction of pipelines in Georgia, but also used all possible mechanisms to prevent the fulfillment of those projects.⁸²

Many experts in Russia share the belief that the Georgian public has allegedly exaggerated Russia's role in destabilizing the political situation in Georgia through pursuing the discontinuation of the pipelines construction projects linking Baku with the Black and Mediterranean seas; however, even those experts have admitted that Russia has taken negative actions against Georgia.⁸³

In this context, certain amount of attention could be paid to a viewpoint according to which the future of the West's relations with Russia depends highly on the outcomes of the Russian-Georgian relations; more specifically, on what Russia

⁷⁸ Pamir, "Is There a Future of the Eurasian Corridor?", p. 34.

⁷⁹ V.S. Zagashvili, "Oil, Transport Policy, Russia's Interests", *Russia and the Transcaucasus: Realities of Independence and new Partnership*, ed. P.M. Avakov and A.G. Lisov, Moscow: Finstatinform, (In Russian), pp. 189, 192.

⁸⁰ Michel Collon, *Monopoly. L'OTAN à la conquête du monde*. Bruxelles, EPO, 2000; Simon Wheelan, "Georgia: 'Rose Revolution' Destabilises Southern Caucasus", *World Socialist Web Site*, 2003. International Committee of the Fourth International (ICFI) <http://www.wsws.org/articles/2003/dec2003/geor-d29.shtml>.

⁸¹ Anatoliy Chubais, "Russia's Mission in the 21st Century", *Nezavisimaya Gazeta*, 1 October 2003. http://www.ng.ru/printed/ideas/2003-10-01/1_mission.html. (In Russian). Igor Torbakov, "Russian Policymakers Air Notion of 'Liberal Empire' in Caucasus, Central Asia", *Eurasia Insight*. Eurasianet, 27 October 2003. <http://www.eurasianet.org/departments/insight/articles/eav102703.shtml>.

⁸² Rondeli, "Pipelines and Security Dynamics in the Caucasus"

⁸³ Natalia V. Zubarevich and Yuri E. Fedorov, "Russian-Southern Economic Interaction: Partners or Competitors?" *Russia, the Caucasus, and Central Asia: The 21st Century Security Environment*, ed. Rajan Menon, Yuri E. Fedorov, and Ghia Nodia, Armonk: M.E. Sharpe, 1999, pp. 138-139.

would like to see in Georgia – a prosperous and stable neighbor or still “a prisoner of its imperial past”.⁸⁴

As Russian experts have admitted, Russia’s strategic partners that have been opposing to the formation of the transport corridor of Europe-Caucasus-Asia include Iran and Armenia.⁸⁵

The coincidence of the Russian and Iranian interests with respect to the Caspian energy resources (and not only in that, but also in some other respects) has been reported by Russian⁸⁶ and Iranian⁸⁷ experts. Both almost entirely share skepticism about the economic aspects of the BTC pipeline.⁸⁸

According to common belief, Iran has a geographic disadvantage as the key customers of the Caspian energy resources are mostly interested in the east-west infrastructure rather than the unnecessary extension of the oil transportation route through the Persian Gulf.⁸⁹

In this connection, it must be underlined that with respect to Georgia Iran does have some realistic interests: Georgia represents a significant section of the transport corridor that links Iran with Europe.⁹⁰

At the same time, we cannot agree with those who argue that oil and, in general, energy resources of the Caspian region will inevitably pave the way for the progress of the region’s nations and that the US by their exclusion of Iran from the oil pipeline schemes have set up obstacles to that progress.⁹¹ First of all, a number of nations serve as examples that oil and energy resources do not necessarily ensure such progress,⁹² which has already been mentioned above; secondly, it cannot be taken for granted that the exclusion of Iran from and the inclusion of new nations in the pipeline routs will prevent the progress of these latter.

It must be noted that Iran has welcomed regional cooperation as a tool for peace and stability in the region, which, by itself, is a positive sign.⁹³

⁸⁴ Baran, “Developing a Euro-Atlantic Strategy Towards Black Sea Energy: The Example of the Caspian”, p. 118.

⁸⁵ Zagashvili, “Oil, Transport Policy, Russia’s Interests”, p. 188.

⁸⁶ D.B. Malysheva, “Turkey and Iran: The Transcaucasus – Object of Old Rivalry”; *Russia and the Transcaucasus: Realities of Independence and new Partnership*, ed. P.M. Avakov and A.G. Lisov, Moscow: Finstatinform, 2000, pp. 63-74. (In Russian).

⁸⁷ Abbas Maleki, “Does the Caspian Remain Important to All Actors?” *Amu Darya. The Iranian Journal of Central Asian Studies*, Vol. 8, No. 16/17, 2003/2004, pp. 47-76.

⁸⁸ Zagashvili, “Oil, Transport Policy, Russia’s Interests”, pp. 193-194; Maleki, “Does the Caspian Remain Important to All Actors?”, p. 56.

⁸⁹ Muller, “Energy Development and Transport Network Cooperation in Central Asia and the South Caucasus “, p. 192.

⁹⁰ Malysheva, “Turkey and Iran: The Transcaucasus – Object of Old Rivalry”, p. 67.

⁹¹ Mehrdad M. Mohsenin, “The Evolving Security Role of Iran in the Caspian Region”, *The Security of the Caspian Sea Region*, ed. Gennady Chuftrin, New York: Oxford University Press, 2001, p. 176.

⁹² Karl, *The Paradox of Plenty*; Karl, and Gary, “The Global Record”.

⁹³ Mohsenin, “The Evolving Security Role of Iran in the Caspian Region”, 174.

In conclusion, it may be stated without any doubt that the implementation of the BTC pipeline contributes to the growth of Georgia's role in both the Black Sea and the Caspian regions. At the same time, successful exploitation of its transitional function in the future will depend on irreversibility of democratic transformations, and consistent pursuance of the strategy of integration with the European and Transatlantic organizations.