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The South Caucasus: A Future Vision for Development and Regionalism

My birth came two years after the disintegration of the USSR, an event which ended political polarization around the globe. The demise of the Socialist camp and the failure of economic central planning raised expectations of hitherto unexperienced economic prosperity and political liberalism. However, the expectations proved over-optimistic in many newly-independent countries, including my birthplace, Azerbaijan, a post-Soviet state in the south Caucasus.

This geopolitical region, which includes Armenia and Georgia, is a bridge between Europe and Asia. The initial post-independence experience of Azerbaijan and the region was unfortunate, marred by internal political chaos, unsmooth economic transition, sweeping ethno-territorial conflicts. Subsequently, regional turmoil declined, and the countries of the south Caucasus set themselves on different paths of development. Having successfully undergone some awkward stages of state building, these three nations still remain challenged by various country-specific political and economic problems, and especially protracted territorial conflicts. Notwithstanding what seem like daunting obstacles, there are grounds for optimism on the south Caucasus future as a region free of conflict, with democratic countries and strong economies.

The initial years of independence thrust Azerbaijan into a frenzy of political chaos, with a stagnant and shrinking economy and a war with Armenia. Towards the late 90s, political stability was restored and the early 2000s brought an oil windfall, revealing a positive socio-economic and political picture for the country for decades to come. With petroleum revenues pumped into the economy, poverty rates plunged and economic growth rates soared.¹ New, glitzy high-rises appeared on the Baku skyline and traffic started growing heavy. However, not all the changes were fuelled by oil and gas sales. Today’s Azerbaijan is heavily reliant on oil and gas revenues, with inadequately developed non-resource sectors.² The vulnerability of natural resource prices as demonstrated by the current price slide, the predicted depletion of oil reserves in a decade, the lesser profitability of gas sales than oil, smaller revenues from TAP/TANAP projects compared to the BTC pipeline, the competition from shale gas – all of this translates into the urgent necessity to rapidly diversify the economy.

Though there has been little progress on the economic diversification front, the future promises further progress. Currently flagging oil prices challenge economic stability by decreasing foreign currency reserves; on the other hand, they expose the vulnerability of all resource-reliant countries. At Davos this year, Azerbaijan’s President Ilham Aliyev noted that the slide in oil prices will make the government reinforce its commitment to diversify the economy.³

The state intends to fund Azerbaijani young people who want to study abroad – another reason to be optimistic. The program envisions funding 5,000 students in the first stage – an invaluable asset to build the country’s future.⁴ As an Azerbaijani young person wishing to be part of this group, there remains the daunting task of bringing to life the non-resource sector of the economy, which will require a highly-skilled labour force, a requirement the state program hopes to satisfy with thousands of graduates from universities in the West and elsewhere. This human capital will ensure the economic development.

As for the country’s future economic prospects, the potential role of Azerbaijan as a Caucasian transit hub to Central Asia and beyond should also be mentioned. East Asia and
increasingly South Asia are centres of global economic gravity which could be better joined up to Western countries. Located between these two economic mega-spheres, the south Caucasus can become a transit hub by revitalizing the historical Silk Road. The BTK (Baku-Tbilisi-Kars) railway could become be a stepping-stone on this Road.

In the region, Armenia faces emigration, widespread unemployment and poverty, as does Georgia, though the latter has become one of the most business-friendly countries in the world thanks to exemplary economic reforms which in turn have attracted FDI. Maximizing the potential of the south Caucasus as a transit hub, thus, can prove an additional source of future economic growth for Armenia and Georgia, the region’s emerging IT hub and a quickly developing tourist destination.

Needless to say, any future vision of regional integration in the South Caucasus is conditional upon resolution of three territorial conflicts which hinder intra-regional mobility. Here, the Nagorno-Karabakh conflict looming large, as this dispute has put an impenetrable wall between two of the three states in the South Caucasian and is the major stumbling block to regional integration. The 2008 Russia-Georgia war is evidence of just how tenuous the situation is – and all three regional conflicts continually lock the south Caucasus into latent instability, reducing the economic potential of individual countries and the whole region. This is why there is an urgent need to settle these territorial conflicts. As for the Nagorno-Karabakh conflict specifically, the peace process in this dispute has long been at a stalemate. But since a ceasefire was declared, a new young generation, born after independence, has grown up with the heritage of war – and has grown frustrated with the protracted conflict.

This new generation is influenced by many Western-educated young people, people with liberal views, who have taken part in cross-cultural projects; their vision of a peaceful Caucasus raises hopes for the future. Additionally, recent years have shown that prospects for rapprochement between Armenia and Turkey are more likely than normalization of Armenian-Azerbaijani relations. A future thaw in Armenian-Turkish relations could potentially serve as a trigger for rapprochement between Armenia and Azerbaijan as well, decreasing tension in the region. Additionally, Russia’s political power seems to be ebbing; the country is frequently blamed for blocking the peace process. Less Russia on the scene would leave more space for Armenia and Azerbaijan to manoeuvre and arrive at an agreement. Resolution of this conflict can unlock potential opportunities for regional cooperation by integrating Armenia into the projects; resolution of this conflict will revitalize the south Caucasus as a region.

As for conflicts in Abkhazia and South Ossetia, including Abkhazia’s new military and economic deal with Russia and the latter’s occupation of the Crimea – these are certainly not encouraging developments. They raise fears of South Ossetia and Abkhazia being annexed, though, if maintained, the more pragmatic foreign policy of the incumbent Georgian government may help to decrease Russian belligerence. Additionally, unblocking the Abkhaz section of the Transcaucasia railway is currently under discussion. If achieved, this will not only open a vital communication channel with Abkhazia for Georgia, but will importantly set up a railway link with Armenia as well, thus giving a further impulse to the regional integration. Resolution of all three conflicts will open chances for regional cooperation and for South Caucasus’ integration into future intercontinental transit routes – the Silk Road.

Apart from economic issues, the South Caucasus faces challenges in developing viable political institutions. With the political turbulence of the 90s behind them, the three countries still need progress to ensuring the rule of law and further progress in democratizing society. Soviet political heritage has caused the region challenges similar to those faced by many other former socialist countries, specifically: ensuring transparency; building-up, from the
grassroots, civil society; and a development of a liberal state based on a constitution. In this connection, the establishment of the ASAN state agency in Azerbaijan has been remarkable. Its simple goal is to deliver transparent, fast, centralized public services. The agency offers an effective model to fight corruption and promises the evolution of a new, modern, political culture for the future.

Georgia’s success in eliminating petty corruption, the peaceful transfer of political power in the 2013 elections, and the shift in the executive branch to more reliance on a constitution and a system of checks and balances, as well as strengthening civil society, bode well for the future political development of the South Caucasus.12 These events inspire and convince many of us that current problems, believed to be deeply entrenched in the political system, such as corruption, can be reversed.

Finally, as mentioned above, the evolution of a younger generation exposed to a liberal, democratic western education, raises hopes. These young people aspire to bring their experience back to their countries. These young people remain united in their desire to see their respective country integrate more into European and Atlantic institutions. This is a vision inspired by Western ideals of democracy, liberalism and pluralism. Notably, the Association Agreement with the EU made Georgia a pioneer of Euro-integration in the region, raising expectations for a common European future and a democratic, liberal south Caucasus.

The next few decades will distance the south Caucasus from its current challenges and make it a region devoid of conflict, with strong economies and advanced democracies. As a young person from the South Caucasus, it is fulfilling and demanding to know that I am among those steering the region to a far better destination.

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