

Economy and the Balance of Power:

The Economic Trends in the South Caucasus Countries

Status quo

A nearly decade old cease-fire in the Nagorno Karabakh conflict is differently commented on by the Armenians and Azerbaijanis. The situation is more perceived as a “bonus” by both sides. The Armenian side makes a positive assessment of the situation, conditioned with the fact that this new generation of Nagorno Karabakh has no idea of how it is to live as a part of Azerbaijan. Eventually, as a new state progresses, it will have its definite role in a possible resolution while, at the same time, realizing that Azerbaijan takes all possible steps to mitigate it.

On the other hand, the situation is assessed as positive by Azerbaijan. It enjoys potential economic prosperity predominantly owing to the expected billions of dollars in oil revenue. How realistic is the Azerbaijani calculation? How seriously is it being analyzed in Armenia? What steps should be taken and what is being done to mitigate it? One thing is obvious enough – all these are questions that frequently fail to become an appropriate topic of discussion.

Today: what about tomorrow...?

The South Caucasus countries have demonstrated impressive results on the general indicators of economic development over the past 2-3 years. Though Armenia is at the top due to the results of thirteen years of cumulative growth, the same is hard to assert in the context of possible future scenarios. It's hard to make “ceteris paribus” assumptions here: either the Georgian “roses” or the Azeri oil can play an essential role, while the economic factor named “Armenian Diaspora” is quite incompatible.

Georgia

The conclusions frequently made up in the framework of discussions on various development scenarios are stated here:

- Georgia will become the fastest developing country in our region;
- This year will mark for Georgia a country with a sharp decrease in the level of corruption;
- Georgia gained such a competitive advantage in respect to Armenia and Azerbaijan that the prospect of its development should no longer be conditioned with transit transportation and the end of the blockade - as the worst scenario (for Georgia).

Although certain parity has been established between the three South Caucasus countries as a result of their Western-oriented policies, today those trends are being openly changed in favor of Georgia (it's worth mentioning the recent developments regarding NATO membership). Accordingly, a challenge has been presented to Armenia and Azerbaijan: to solve the common problem or become “backward echelons”.

Armenia-Azerbaijan

Durable democracy, straight line, economic development ... Legitimate Democracy is definitely an important factor, nonetheless, not a decisive one. In case of Armenia it's worth analyzing the link between democracy and the economy since:

- From the parity perspective, Azerbaijani oil profits will become comparable to the achievements in the Armenian economy in the near future;
- Armenia is a country with an open, yet fragile, economy;
- Today the economy of Azerbaijan sets up more solid bases of its future development because:
 1. Investments made in the Azerbaijani economy are directed at the sources of economic development and accumulation of free resources, that is oil sector;
 2. The primary target of foreign investments in Armenia is the privatization of large-scale enterprises, and the domestic direction of it is passive construction projects.

The Approach

If Baku-Tbilisi-Cheyhan oil pipeline can operate as a guarantor of the status quo in political and military aspects, the balance of power, conditioned with economic potential, would most likely be changed when considering a long-term perspective.

What to do?

- Assure accepted and reproductive democracy;
- Avoid the race of keeping the planned rate of economic growth for each particular year and instead focus on new, more prospective and "competitive" approaches.

In the context of strategic importance of Armenia's economic growth, most people think first about investment promotion and collaboration with the Diaspora. Perhaps both are technocratic solutions since the problem isn't observed under the "systemic microscope". And, if in the case of investment promotion, system thinking necessitates democracy, and not merely negotiations with investors, then the systemic approach of economic relations with the Diaspora hasn't been revealed yet. Currently Diaspora relations in the economic field have a general character and are mainly limited to negotiations with a few wealthy people. The "Diaspora" externality for Armenia can work only when sinking.

Today the war has been moved from the battlefield to the information field. Tomorrow, the avoidance of the escalation of the conflict motivated by economic factors will require completely new approaches, "high-quality" investments, modern mechanisms of financial and economic security, etc.

The paper is elaborated based on the opinions passed by the participants of the discussion on "Economy and the Balance of Power: The Economic Trends in the South Caucasus Countries" held in December 21, 2004, in the International Center for Human Development. The participants of the round-table were freelance analysts, government officials, members of the media and representatives of international institutions.