

## REGIONAL POLITICS

**THE INTEGRATION-ORIENTED FORCES  
IN THE MAKING OF  
THE NEW SOUTH CAUCASUS ORDER****Dr. Vahram SOGHOMONYAN**

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While economic interdependence and security divergence are shaping the regional political agenda of the Southern Caucasus, the European Union expands its policy measures in the way of supporting a multilevel regional cooperation model. In its turn, the expansion of the European integration process favors especially the integration-oriented actors in the Southern Caucasus and describes its policy character. I may describe it as a process of "double integration": the integration of the Southern Caucasus itself and the transregional integration of the Southern Caucasus into Europe.

The enlargement of the European Union toward East was the result of a reconfiguration of

power relations in the world as an outcome of globalization. The Southern Caucasus stands also in the centre of capital interests and interests of supranational actors. The penetration of the transnational capital in new geographic areas and the European ambitions of a neighboring region, in this case Southern Caucasus, characterize the geostrategic dimension of this integration. The strengthening of the EU positions is in no small part connected with the establishment of a certain social-political model in the countries of the Southern Caucasus.

Considering the existing accents of the economic development models of Armenia, Azerbaijan and Georgia several options, like elements of

neomercantilistic and neoliberal approaches, as well as social-democratic trends can be observed. Meanwhile, the primary interest of the European

Union lies in security issues and overcoming the socioeconomic asymmetries to stop migration streams from the region.

## Major Capital Factions in the Region

Two capital factions, the transnational oil companies in Azerbaijan and the capital of the Armenian Diaspora, are the main non-state integration-oriented actors in the region. Consequently, the economic success of the national governments depends on their ability to carry out an effective geo-economically reasonable regulation policy. In this context, the Armenian state has to ensure a balanced economic policy with regard to the acting different capital factions: the transnational enterprises, the Diaspora capital, the newly forming national bourgeoisie and the oligarchy.

In each case, there are typical national factors, which coinfluence the preferences of these countries' geopolitical orientation. Armenia sees its Diaspora, which resides in more than 90 countries, "as a possible integration means, as well as an Europeanization and globalization instrument, which is unique in its kind in the whole Black Sea region."<sup>1</sup> The political participation possibilities of the Diaspora will be even more extended with the abolition of the ban on the double citizenship. On the other hand, Azerbaijan's orientation to the West is mainly conditioned by the developments in the oil industry. Since independence, more than 15 billion USD were invested by the oil companies in Azerbaijan. These investments remained largely concentrated in the oil sector and were mainly directed to the attainment of oil drilling technologies. The involvement of transnational capital has its positive impact also in social life, but it also launches a new challenge within the redistribution policy. The dominant player in Azerbaijan is British Petroleum, which is represented in both oil and gas consortiums. Its power in the domestic politics of Azerbaijan is typically described in the following quotation: "Azerbaijan is known as 'BP country,' as the company wields a budget of \$15 billion to be invested off the Azeri coast over the coming years. If we pulled out of Baku," a former BP spokesman once told, "the country would collapse overnight."<sup>2</sup> BP, Statoil and other companies influence strongly the government decisions.

A more diversified picture appears in Armenia considering the areas, which attracted the most investments of the Armenian Diaspora and other foreign companies in diamond processing, information technologies, mining sectors, etc. These investments counted more than 2 billion USD and increased rapidly during the last two years. The largest investments in Armenia came from Germany and are mainly concentrated in the mining industry. According to this growing heterogeneity of market players, a strong fragmentation of interest groups and correspondingly the political landscape is on its way in Armenia.<sup>3</sup> This demonstrates the character of the Armenian model, as well as the representation of interests, which are shaping the social transformation and the role of the state in the country. As an important precondition in this regard is the fight against oligarchic structures and the strengthening of the legal awareness, without which an uninterrupted circulation and accumulation of the production capital will be hindered.

<sup>1</sup> R. Shugarian, "From the Near Abroad to the New Neighborhood..." in: *Armenia on the Way to Europe*, MFA RA, FES, ACHS, Erevan, 2005.

<sup>2</sup> L. Kleveman, "Oil and the New 'Great Game'," *The Nation* (New York), 16 February, 2004.

<sup>3</sup> See: M. Sarkisyan, "The Armenian Opposition: Time is Demanding the End of the Authoritarians," *Lragir.am*, 12 October, 2005.

## A Functionalist Perspective: Regional Mergers

The cooperation between the nation states of the Southern Caucasus in selective areas allows me to take into consideration the functionalist perspective of the regional integration as a compromise structure tolerating the "status quo." For example, the lucrative transit function of Georgia is partly ensured by the crisis of the Armenian-Azerbaijani or Armenian-Turkish relations because of which Armenia cannot take over transit on the East-West direction. On the other hand, the BTC pipeline is a decisive source of income for Azerbaijan, so that a renewed outbreak of the conflict in immediate nearness of the pipeline might not lie anymore in the interest of the government in Baku. Furthermore significant is the option of the Georgian government to balance its controversial relations with Russia with the help of the Armenian side and to avoid thereby a strong dependence on the Turkish-Azerbaijani axis. Consequently, in view of the interdependence between the regional states and subregions the national governments have arrived at a turning point in which they continuously follow the requirements of a so-called spill over process after the formula: "form follows function." This process is accompanied by regional civil society actors as well as enterprises and trade associations.

In the case of Southern Caucasus the negative integration is expressed in bilateral agreements signed by Georgia with Armenia and Azerbaijan. These refer to the reduction of custom duties and transit fees as well as to arrangements for concrete projects of economic collaboration. Since 1992 between Georgia and Armenia were signed more than 70 bilateral agreements. This number stays only behind the Armenian-Russian contractual framework.<sup>4</sup> Azerbaijan and Georgia have signed up to now 90 bilateral agreements.<sup>5</sup>

A great number of Georgian-Azeri and Georgian-Armenian joint-ventures were created in the last years. Some mergers are already observed also in the financial markets. Especially during the last years a number of takeovers took place. Such takeovers have the aim to strengthen positions at the finance markets of Georgia and Armenia as well as positively affect the interstate regulations in the financial sector.<sup>6</sup>

The condition for the successful expansion of the European common market is the realization of the idea of a common market or a free trade zone of the South Caucasian states. This was also brought up for discussion by the former German foreign minister Fischer as a proposal for a customs union. As the *Frankfurter Allgemeine Zeitung* (FAZ) describes, it has to work in a way of "an attraction of the EU-neighborhood program."<sup>7</sup> A gradual liberalization of trade between the countries of the Southern Caucasus may promote the growth as well as create a complementary system in the regional economy.

## National Models and Regional Coordination

In the course of the consolidation process at the national and regional level, Armenia, Azerbaijan and Georgia are confronted with the effects of a neoliberal restructuring and overcoming the dras-

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<sup>4</sup> See: *Aib Fe*, 30 October, 2004.

<sup>5</sup> See: *Echo*, 20 July, 2005.

<sup>6</sup> See: "Cascade Bank Takes over the Emporiki Bank," *Delovoy Express*, 19 January, 2006.

<sup>7</sup> J. Leithäuser, "Fischer-Reise: Zupfen am kaukasischen Knoten," *FAZ*, No. 96, 24 April, 2004, S. 6.

tic income polarization. In contrast with the investments in energy sector and transit infrastructures in Georgia and Azerbaijan the investment boom has begun in Armenia only in the final phase of the liberalization and restructuring reforms. The coexistence of the national production structures and the new Diaspora capital decisively initiated the process of the internationalization of the capital. Both most important capital factions, the transnational oil companies and the Diaspora capital, appeared as essential transforming forces within the state and influence the formation of national bourgeoisie. At the same time, a preferable environment for the growing activity of the Diaspora investors has to be understood by the inclusion of Armenia in the common European framework and the adoption of the European legal base.

The phenomenon of the Colour Revolutions, which resulted from the persistent social mobilization and was connected with certain external factors, showed that a “change in the elite” without a basic shift in values is not a sufficient precondition for modernization of the post-Soviet states. In case of avoiding a “top-down” strategy with a rapid “change in the elite” in Georgia as a result of a revolution, the Armenian model could be simplified as a gradual Europeanization of the social and political life. This political consciousness exists in the circles of the ruling coalition, as well as in the Armenian opposition, in particular in their reformist factions. Besides this, both political camps are meeting the challenge of an undelayable qualitative change.

As a result of a developing multiple pipeline system the meaning of energy and transport infrastructures as pressure means in the regional geopolitics decreases. For the creation and diversification of energy supplies numerous pipeline infrastructures are promoted by the European Union. The Southeastern dimension covers the construction of several oil and gas pipelines which should supply Europe either through the Southern Caucasus and Turkey, or through the Southern Caucasus and Ukraine. These are the new oil pipelines Baku-Tbilisi-Ceyhan and Odessa-Brody (Ukraine-Poland) as well as the South Caucasian gas pipeline (Baku-Erzurum) and the Iran-Armenia gas pipeline. The last one should deliver Iranian gas to Europe in case of its continuation bypassing Georgia and Ukraine.

Clarifying the regional economic structure outlines of the Southern Caucasus the following signs can be ascertained as starting points with regard to the regional coordination: The economic positions of Azerbaijan increase along the regional energy-political projects, while these stand in connection with Russian and Iranian activities and contribute to the development or diversification of the energy infrastructure of the region. Nevertheless, as a negative impact the Azerbaijani oil prevents the development of other branches of the country’s economy that creates a substitution necessity. Under these conditions Georgia ensures its geo-economic advantages from intermediary trade of Azerbaijani energy sources and Armenian production goods.

## “Geopolitics by Integration”

The common strategy of the European Union is based on the special interests of its member states and non-state actors. It promotes the deepening of mutual dependences and networks between the regional states. As it has been mentioned above there are two integration processes complementing each other, in other words “double integration.” A distinctive characteristic of the European policy in the region of the Southern Caucasus is an integration concept, which promotes indirectly the regional cooperation framework and solves concrete geopolitical tasks creating structural advantages. The European Union integration patterns that have been used up to now are transforming its policy to a new geostrategy, which I would simplify in a form of “geopolitics by integration.” The European strat-

egy in the hegemonic environment of the Southern Caucasus, like the regional concepts of the U.S. and Russia, is also related to the objectives of “conquering markets, control over geographic areas and political involvement of elites.”<sup>8</sup>

From a perspective of concentric circles,<sup>9</sup> the regional impacts of the European integration process are based not only on the resources related branches, but also, on the development of diversified production structures in the Southern Caucasus to realize its bridgehead function towards the East. The relevance of the Southern Caucasus could be discussed with regard to the constitutional process in the EU and arises in connection with the identity debate on the borders of Europe. As a

Table 1

The Integration Framework of the Southern Caucasus: “Double Integration” Model

			<b>Integration Framework of the Southern Caucasus</b>		<b>European Neighborhood policy</b>
<b>A R M E N I A</b>	diaspora capital	diamond processing, IT, mining, finances	bilateral agreements  functional interdependence  reduction of custom duties and transit fees  (negative integration)  regional mergers, joint-ventures  trade associations  civil society networks  cooperation in environmental issues	legal adjustment, institutional reforms	stability and a ring of friendly countries  geopolitical considerations  oil and gas supplies  balancing factor in the relations with Turkey and Russia  special interests of EU member states  transit routes to Iran, India and China (“Silk way”)  traditional and cultural relations  EU enlargement (special relations with the new member states)  3+3 initiative with Baltic states
	national capital or oligarchic factions	finances, services, mining, etc.		implementation of Individual Action Plans	
	transnational companies	diamond processing, IT, etc.		conflict resolution	
	<b>Main investor country</b>	<b>Germany</b>		advantages of the common market	
<b>A Z E R B A I J A N</b>	national capital and oligarchic factions	oil and gas, services, etc.	trade associations  civil society networks  cooperation in environmental issues	deepening of mutual dependences	transit routes to Iran, India and China (“Silk way”)  traditional and cultural relations  EU enlargement (special relations with the new member states)  3+3 initiative with Baltic states
	transnational oil companies	oil and gas		“Mini EU”-model	
	<b>Main investor country</b>	<b>Great Britain</b>		infrastructure development	
<b>G E O R G I A</b>	transnational and other foreign capital	transit of resources, finance	civil society networks  cooperation in environmental issues	geo-economic bridge	traditional and cultural relations  EU enlargement (special relations with the new member states)  3+3 initiative with Baltic states
	oligarchic factions	transit, transportation, services etc.		reduction of social polarization	
	<b>Main investor country</b>	<b>Kazakhstan</b>		European values and identity policy	

<sup>8</sup> F. Deppe, *Stürzt das europäische Haus ein? Zur Krise der Europäischen Union*, FEI, Marburg, 2005.

<sup>9</sup> According to the pattern of concentric circles, as soon as an old periphery is fully integrated in the EU, it develops a strong interest in the calculated inclusion or integration of its own periphery (see: G. Vobruba, *Die Dynamik Europas*, Verlag für Sozialwissenschaften, 2005).

region with European aspirations, appears the Southern Caucasus to fulfill certain functions for the unified Europe. The upcoming transformation of the European Union from a project pushed forward by the élites to a more public policy will make the European public, including non-member states, which identify themselves with Europe, more important. This is relevant for the Southern Caucasus as the European orientation appears to be one of the central tasks of the identity policy in Armenia and Georgia. Meanwhile, the European policy in the Southern Caucasus is based on the following special priorities of the EU member states: Germany—extension of the common market, France—political presence of the EU and Great Britain—transatlantic geopolitics or support for oil and gas projects. The leading French-German tandem puts new special accents in achieving a greater European role in the region.

- Firstly, the modernization of Turkey is an essential aspect for decisive widening of the European presence. This modernization process in no small part presupposes the Armenian-Turkish reconciliation and recognition of the Armenian Genocide.
- Secondly, a new German initiative named “European neighborhood policy +” is planned to be discussed during Germany’s EU presidency in 2007 and is aimed to provide for the European Neighbors Ukraine, Moldova and the three countries of the Southern Caucasus—Armenia, Georgia and Azerbaijan a “tangible integration within European structures, which whilst not including membership would not completely exclude it.”<sup>10</sup> The objective of this initiative is also to avoid a security vacuum between the EU and Russia.<sup>11</sup> With the inclusion of the South Caucasian republics in the ENP, the European Union showed its big interest in the developments in this region. The three states struggle already through their regulation policies and legal adjustment plans to increase the regional competitiveness. “At the same time, as far as Europe is concerned, Armenia is a horse that runs really fast. Erivan is a good pupil, where the European Union’s new neighborhood policies are concerned. Compared to Georgians, Armenians respond more easily to the demands established by the European Commission.”<sup>12</sup>

The European Union already supports a common regional energy policy and different infrastructure projects. In the strategy planning of the European Union a distribution of certain policy areas or priorities for each of the regional states is intended. Therefore, Georgia has become a regional environmental center through the EU-funded environment protection organization in Tbilisi with its affiliated offices in two other countries. Armenia is on a good way to realize its claim to develop into a regional center for information technologies with European support. The role of Azerbaijan is emphasized as a regional location for energy supplies.

## *C o n c l u s i o n*

Due to the delay of the final formulation of a common Southern Caucasus agenda and the antagonistic character of each country’s particular interests as a result of the existing conflicts, the inter-governmental issues move increasingly to the European level, particularly to the structures of the

<sup>10</sup> L. di Pippo, “Will Germany’s New Initiative Answer the Aspirations of its ‘European neighbours?’” *Caucas.com*, 9 October, 2006.

<sup>11</sup> According to the *Frankfurter Allgemeine Zeitung*, observer status would be conferred on these countries, which would be consulted on EU decisions in Foreign and Security Policy (CSFP) matters (see: “Berlin entwickelt neue Nachbarschaftspolitik,” *FAZ*, 3 July, 2006, p. 1).

<sup>12</sup> C. Chaffour, “Three Myths Undermined by Two Revolutions. Interview with Dov Lynch,” *Caucas.com*, 20 June, 2006.

Council of Europe. In contrast with this, the functionalist approach is expressed in a bilateral framework of interstate relations at the regional level. Eventually, the European structures indirectly influence the internal transformation dynamics of the Southern Caucasus.

With regard to the geostrategic objectives, the European policy is provided not only by the capital expansion, but also by social forces and civil society actors and is pushing forward a corresponding socialization mode. From a theoretical perspective, predominantly the social mediation is considered to be important, by which these actors succeed in anchoring the appropriate social structure, the values and identities at the regional level. Consequently, the main outcome of their adoption is the formation of a new regional order in the Southern Caucasus, which links the European integration project to the East. This geopolitical role of the region depends on the formation of effective national and regional capital accumulation structures. The above-mentioned two capital factions are the key transforming forces in the region. By summarizing, the European policy in the Southern Caucasus relies on the interests of regional integration-oriented forces, on the identity policy motivated behavior of national élites and on the existing civil society networks.

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