

**David PEIKRISHVILI<sup>1</sup>**  
*Georgia*

**ANALYSIS OF THE DYNAMICS OF ECONOMIC DEVELOPMENT  
OF THE SOUTH CAUCASUS COUNTRIES AND THEIR IMPACT  
ON NATIONAL SECURITY POLICY PLANNING**

***Abstract:***

*The discussion on national security is very relevant for actors in the Caucasus region. Today, security has a wide range, and in security studies, we find the five main sectors by which security can affect the population. These sectors are military, economic, political, public and environmental issues. We can see that security is everywhere and affects our lives daily. The purpose of this article is to study the development dynamics of economic factors in the planning of national security policy and to analyze its impact. Also, a comparison of the determinants of this influence. To achieve this comparison, a general and specific analysis will be done. The general analysis will focus on contextual analysis to examine which theoretical approach it is based on. A specific analysis is made of security threats and investigates each threat based on their key factors. By comparing the countries of the South Caucasus region, I am going to find out the similarities and differences between them and which theoretical approach was most distinctive for each. The need for this type of research is clear, which is a scientific novelty, as it scientifically substantiates and empirically examines the importance of economic factors in the development of national security policy and threats in the Caucasus region. At the same time, based on the research, we will be able to better assess the threats and challenges that actors in the Caucasus region may face in the international arena based on the study of economic development dynamics, for example, in the countries of the Caucasus region.*

***Keywords:***

*Regional Security, Economic Development, Georgia, Armenia, Azerbaijan*

---

<sup>1</sup> David Peikrishvili, Senior Specialist at LEPL – Public Service Hall, Email: david.peikrishvili@ciu.edu.ge

## Introduction

The Caucasus region is both geopolitically and in many ways unique in the modern world. The uniqueness of the Caucasus is also because it is the main strategic gateway between East and West. The uniqueness of the Caucasus region is reflected in its geographical location – as a strategic link between East and West. All three countries in the South Caucasus – Georgia, Azerbaijan and Armenia – are given different positions by a very complex political dimension, which on the one hand is an accompanying and conditional process of economic integration, and on the other hand, guarantees political security to the countries. It also implies the political transformation of this country towards democracy. Clearly, given the above reality, all three countries of the South Caucasus do not respond equally to this challenge of economic integration with Europe. Given that Azerbaijan is rich in energy and oil resources and it is the only supplier of the European energy market, and its dependence on its resources will not decrease in Europe soon, the EU is in no hurry to adopt market regulations or democratize the political system<sup>2</sup>.

It should be noted that the situation in the region is not very favourable from a political point of view, in particular: the conflicts between Azerbaijan and Armenia, the possible resumption of which will significantly weaken the security of all South Caucasus countries. Lack of balance of power and instability, fear of terrorism, arbitrary occupation of Georgian territories, etc., indicate the serious security challenges of the country and the need to respond immediately. A prerequisite for managing the country's security policy wisely is to identify its visible or invisible threats and to use already proven, civilized, Western methods of influencing them.

The purpose of this article is to analyze the dynamics of economic development in the South Caucasus and to study its impact on national security policy planning, for which a general and specific analysis will be made. The general analysis will focus on contextual analysis to examine which theoretical approach it is based on. A specific analysis is made of security threats and investigates each threat based on their key factors.

Research Methodology: Scientific methods defining comparative analysis will be used in the research.

To get comprehensive information on the research question I decided to use the qualitative research method. The main method of research is case

---

<sup>2</sup> *Development in Eastern Europe and the South Caucasus: Armenia, Azerbaijan, Georgia, Republic of Moldova and Ukraine*, OECD Publishing, <[https://read.oecd-ilibrary.org/development/development-in-eastern-europe-and-the-south-caucasus\\_9789264113039-en#page1](https://read.oecd-ilibrary.org/development/development-in-eastern-europe-and-the-south-caucasus_9789264113039-en#page1)> (30.06.2021).

studies, although different and independent variables will be used for operationalization and measurement. First of all, the relevant literature will be analyzed: books, articles, publications.

### **The economic situation in the South Caucasus region – current realities, challenges and prospects**

The Caucasus has fought for political and economic independence throughout its history. Given its favourable geographical location, its regional role has never been on such a scale. Numerous large-scale energy projects are planned to pass through the region, which is of great importance for the region. It will be able to strengthen the regional forces and defend its positions more firmly and will not allow gross interference by external forces. It will also help create economic wealth that will attract international companies and generate the investment needed for regional independence in the region. Once the role of regional importance is strengthened, it will no longer be alone in the face of specific threats and will have active support from actors around the world<sup>3</sup>.

It should be noted that Azerbaijan and Georgia can become an important part of the European corridor. This means that Europe offers support to these countries to expand oil and gas production – the scale of transportation in Europe and at the same time comply with EU standards and regulations in national legislation. However, the concept of Europeanization does not imply rapid and full alignment of existing laws and regulations in the country with European norms and policies, but it allows specific member states of the corridor to choose European norms and comply with them soon. In this regard, it depends on Georgia and Azerbaijan to what extent they want to become countries that meet European norms<sup>4</sup>.

Maintaining long-term economic growth is one of the important components of the stable and secure development of the country. This can be achieved through integration into free markets and sound economic policies. Open, coherent and result-oriented trade and economic relations with both Western and Eastern countries and international associations are the main and most important choices of the country<sup>5</sup>.

---

<sup>3</sup> E. Herzig, *The New Caucasus. Armenia, Azerbaijan and Georgia*, Royal Institute of International Affairs, London 1999.

<sup>4</sup> V. Papava, *Georgia's Economic Role in the South Caucasus*, "Problems of Economic Transition", Vol. 48, No. 4, August 2005, pp-84-92.

<sup>5</sup> N. Grdzlishvili, *Perspectives for the development of cross-border regional tourism in Georgia*, Materials from V International Scientific-Practical Conference "Tourism: Economy and Business", 2014, Batumi Shota Rustaveli State University, Department of Tourism and Resorts of Adjara.

Figure 1. Merchandise Export and Import.



Source: *The World Bank open data*, <<https://data.worldbank.org/>> (30.06.2021).

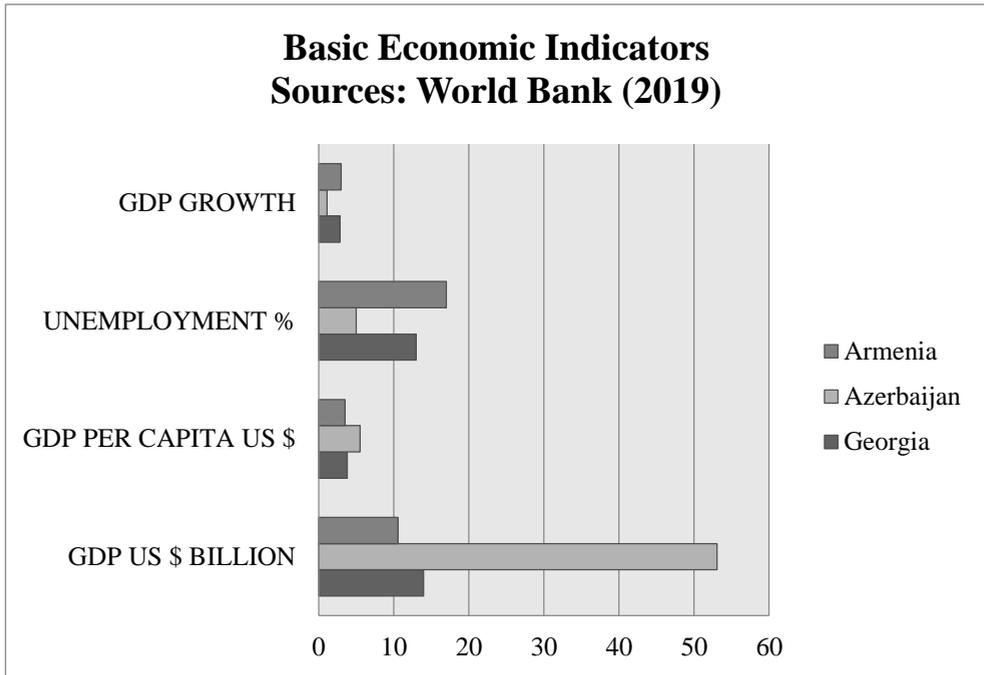
All three countries in the South Caucasus are given different positions by a very complex political dimension, which on the one hand is an accompanying and conditional process of economic integration and, on the other hand, guarantees political security to the countries. It also implies the political transformation of this country towards democracy<sup>6</sup>.

Clearly, given the above reality, all three countries of the South Caucasus do not respond equally to this challenge of economic integration with Europe. Given that Azerbaijan is rich in energy and oil resources and it is the only supplier of the European energy market, and its dependence on its resources will not decrease in Europe shortly, the EU is in no hurry to adopt market regulations or democratize the political system<sup>7</sup>.

<sup>6</sup> E. Baratashvili, L. Kalandadze, N. Grdzlishvili, *Business Competitiveness and Administration*, Tbilisi 2010.

<sup>7</sup> I. Gurbanov, *Southern Gas Corridor Gains New Momentum*, "Eurasia Daily Monitor", Vol. 13, Issue 108, 2016.

Figure 2. Basic Economic Indicators.



Source: *The World Bank open data*, <<https://data.worldbank.org/>> (30.06.2021).

The unsustainable state of political development in the South Caucasus naturally raises the question of how transit security and a stable transit policy can be maintained in the face of differing positions between the EU and Russia. What reality do the countries of the region face now and what political choices can they face if the direction of policy in the transit market changes?

### South Caucasus Energy Security System

Ensuring energy security in the region began in 1995 after Georgia joined the Energy Charter, which was joined by Azerbaijan and Armenia in 1997-1998. The Energy Charter aims to develop energy prospects for interstate cooperation and to discuss all of its processes from the beneficiary states to the consumers. In recent years, the EU has developed new interests in the region

and promoted oil production in the region. Western countries in turn are finding a diversification path to defeat monopolies in the region<sup>8</sup>.

The introduction of diverse security systems in this region is a new challenge to create an attractive transportation area for shipments. ‘Baku-Tbilisi-Kars’ railway – it is a regional project, where the agreement was reached on January 7, 2007, and is still not completed. Its goals include the transportation of natural resources from Azerbaijan to Georgia via Turkey, as well as TRACECA (Transport Corridor Europe-Caucasus-Asia), Central Asian cargo and the Caspian Sea route from Turkey. According to long-term calculations of the line, its cargo turnover should reach 17 million tons<sup>9</sup>.

It is noteworthy that the use of domestic energy resources is considered as one of the systems for the development of energy security in the Caucasus. Given its potential, it has a fairly large stock. Electricity generated through hydropower plants will allow it to reduce energy imports to individual countries and increase exports. This will also be one of the guarantees of security for this region. A good example of this is the ongoing construction of hydropower plants in Georgia, which will be able to export the generated energy to other countries that will depend on it, increase the potential for economic development and create a stable environment at the regional level<sup>10</sup>.

The fact is that the energy security of the Caucasus depends on world geopolitical processes. It does not have the power to make its space stable and secure, because its neighbour's energy policy is against diversification, it tries, by all means, to prevent alternative projects and processes without it. The main guarantor of its security is the West. It seeks to create a stable political and economic environment in the region. It is at their initiative that the countries of the region join the regional blocs as association agreements – a new type of agreement aimed at integration with the EU countries with its eastern partners, economic development and all-important areas. By doing so, the U.S. is trying to develop the countries of this region to achieve the ability to secure their own and transit communications<sup>11</sup>.

In terms of international relations, regionalism is often used when common interests, policies and certain agreements for regional prosperity are introduced

---

<sup>8</sup> T. Pataraiia, *Asymmetry of energy transit and security in the South Caucasus: the road between Russia and the EU*, pp. 1-8, <[http://ge.boell.org/sites/default/files/uploads/2015/03/energy\\_geo-final.pdf](http://ge.boell.org/sites/default/files/uploads/2015/03/energy_geo-final.pdf)> (30.06.2021).

<sup>9</sup> M. Komakhia, *Pipeline policy in the post-Soviet space (Part I)*, “Postsoviet Watch”, April 2015, <<https://tiny.pl/9pvdr>> (30.06.2021).

<sup>10</sup> E. Baratashvili, N. Grdzlishvili, N. Galakhvaridze, N. Nadirashvili, *Regional Economy*, Tbilisi 2010.

<sup>11</sup> *Association Agreement*, <[http://www.eu-nato.gov.ge/sites/default/files/AA\\_BodyText%20%2810%29.pdf](http://www.eu-nato.gov.ge/sites/default/files/AA_BodyText%20%2810%29.pdf)> (30.06.2021).

between countries, such as NAFTA (North American Free Trade Agreement) and the European Union<sup>12</sup>.

The EU is a clear result of regionalism. When a region becomes more economically integrated, it inevitably means that it will also be politically integrated. The goal of the new regionalization is the transformation of the state towards economic change, globalization and European integration, which is a prerequisite for political and economic strength<sup>13</sup>.

After the conflict between Ukraine and Russia, EU member states again intensified their attention to the Caucasus. Their main interest in finding an alternative route is the political and economic stability of the transit region – whether the Caucasus region will be able to function as a corridor. Connection with Central Asia will be possible first with the development of the Caucasus, therefore energy security in the region must be strengthened. The TAP (Trans Adriatic Pipeline) and TANAP (Trans-Anatolian Natural Gas Pipeline) pipeline projects in Europe, as well as the Nabucco project, which aims to compete with Russian pipelines. These pipelines are connected by flows from Central Asia, which, together with the energy security of the Caucasus, will bring energy independence to the EU member states.

## Conclusion

Regional security is a prerequisite for stability and a sound regional, economic as well as political development. With the right regional security in place, EU member states will be able to tackle problems such as smuggling prevention, customs and excise controls, such as simplifying sea, air and land transportation, strengthening borders, improving immigration control, improving cyber security, and improving cyber security projects. Environmental control, the establishment of both financial assistance funds and military rescue links.

The security of the Black Sea region helps the Caucasus to develop a new regional model and allows it to be the regional space of the continent. In a reality where the current pursues different interests of different actors in the region, it is difficult to maintain its stable background. Therefore, it is necessary to determine its regional position to work out the threats to the common region. The Caucasus is far from developing a common spatial dimension, as each state has a different position. They assess the threats in the interests of the state. This is not only a problem of regional self-consciousness

---

<sup>12</sup> W. J. Ethier, *The International Commercial System*, “Essays in International Finance”, No. 210, September 1998, p. 11.

<sup>13</sup> M. Grigalashvili, *Intermarium – the new life of a centuries-old Polish project*; May 2017 <<https://tiny.pl/9pvd8>> (30.06.2021).

in the Caucasus, it is also quite common in the Black Sea region, in NATO and the EU. That is why the security role of the Black Sea region is crucial in the regionalization of the Caucasus region. Passive foreign policy from Western European countries to the East is not enough to solve the problems. The lack of security in the region also poses a problem for European states and allows them to depend on the intentions of the opposition.

Given the current political processes, the EU will not be able to gain energy independence, as Russia is leveraging alternative energy projects with artificial levers, posing a threat to the sovereignty of states: Central Asia and the Caucasus region. It tries to create a destabilizing situation, as well as actively appeals to dangerous risks in environmental organizations. Meanwhile, it is laying new pipelines at a fast pace: 'North Stream 2' and 'Blue Stream'. Both projects will run along the seabed (in the Baltic and Black Seas). Pipelines are prepared to pass through the Caspian energy pipeline again from Russia. Colossal sums of money are spent on the construction of such large-scale gas pipelines and create such a certain deficit in the financing of these projects, against the background of a stable environment in the transit region. Through Russia, ethnic conflicts in the Caucasus region (Abkhazia, Samachablo, Karabakh) are being intensified as needed. These threats threaten the entry of investors into the region, as well as external actors, who have not yet been able to resolve and resolve conflicts in the area.

### **Bibliography:**

1. *Association Agreement*, <[http://www.eu-nato.gov.ge/sites/default/files/AA\\_BodyText%20%2810%29.pdf](http://www.eu-nato.gov.ge/sites/default/files/AA_BodyText%20%2810%29.pdf)>
2. Baratashvili E., Kalandadze L., Grdzlishvili N., *Business Competitiveness and Administration*, Tbilisi 2010
3. Baratashvili E., Grdzlishvili N., Galakhvaridze N., Nadirashvili N., *Regional Economy*, Tbilisi 2010
4. *Development in Eastern Europe and the South Caucasus: Armenia, Azerbaijan, Georgia, Republic of Moldova and Ukraine*, OECD Publishing, <[https://read.oecd-ilibrary.org/development/development-in-eastern-europe-and-the-south-caucasus\\_9789264113039-en#page1](https://read.oecd-ilibrary.org/development/development-in-eastern-europe-and-the-south-caucasus_9789264113039-en#page1)>
5. Ethier W. J., *The International Commercial System*, "Essays in International Finance", No. 210, September 1998
6. Grdzlishvili N., *Perspectives for the development of cross-border regional tourism in Georgia*, Materials from V International Scientific-Practical Conference „Tourism: Economy and Business”, 2014, Batumi Shota Rustaveli State University, Department of Tourism and Resorts of Adjara

7. Grigalashvili M., *Intermarium – the new life of a centuries-old Polish project*; May 2017 <<https://tiny.pl/9pvd8>>
8. Gurbanov I., *Southern Gas Corridor Gains New Momentum*, “Eurasia Daily Monitor”, Vol. 13, Issue 108, 2016
9. Herzig E., *The New Caucasus. Armenia, Azerbaijan and Georgia*, Royal Institute of International Affairs, London 1999
10. Komakhia M., *Pipeline policy in the post-Soviet space (Part I)*, “Postsoviet Watch”, April 2015, <<https://tiny.pl/9pvdr>>
11. Papava V., *Georgia's Economic Role in the South Caucasus*, “Problems of Economic Transition”, Vol. 48, No. 4, August 2005
12. Pataraiia T., *Asymmetry of energy transit and security in the South Caucasus: the road between Russia and the EU*, pp. 1-8 <[http://ge.boell.org/sites/default/files/uploads/2015/03/energy\\_geo-final.pdf](http://ge.boell.org/sites/default/files/uploads/2015/03/energy_geo-final.pdf)>
13. *The World Bank open data*, <<https://data.worldbank.org/>>