

THE LINK BETWEEN ECONOMICS, SECURITY AND STABILITY IN THE SOUTHERN CAUCASUS

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Today we are discussing very important issues concerning the link between economics, security and stability. In this context, the main question is how security and stability can ensure economic development and how economic development can promote peace and security in certain regions. Consideration of the link between these three factors can help decision-makers to take the necessary steps in order to provide co-operation and economic integration.

The link between economics, security and stability becomes more crucial when applied to the region of the Southern Caucasus. During recent years this region has become very important due to a number of factors. One of the main factors is the existence of considerable energy resources in the Caspian region that creates good opportunities for rapid economic development through the attraction of foreign investment. The other major factor is that this region has significant transit opportunities that could provide the necessary co-operative links between East and West.

On the other hand, the difficulties of transition from command to the market economy and the consequences of existing military conflicts remain an impediment to economic development. Moreover, useless competition, rivalry and potential conflicts that derive from geopolitical interests in the region continue to threaten the possibilities of exploring substantial natural resources for the world economy. Thus, the region of the Southern Caucasus is both very attractive and complicated at the same time.

Azerbaijan, which is situated in the heart of the region of Caucasus and Central Asia, has experienced extremely difficult conditions in its early years of post-communist political and economic transition. Following the collapse of the Soviet Union, Azerbaijan inherited an ineffective command economy and broken productive, financial and trade links. As a result, the economy suffered from serious macroeconomic imbalances.

A new leadership of Azerbaijan in 1993 brought new legislation concerning different aspects of development. New governmental structures have also been established. The general economic policy of Azerbaijan was based on liberalisation,

private sector development and moving the country to a market economy as quickly as possible. As a result, substantial progress was achieved in not only stabilisation of the macroeconomic situation in the country but also in the attraction of considerable foreign investment. In 1994-1998, a total sum of US\$5.7 billion was invested in Azerbaijan, including US\$4 billion of foreign investments. In 1998, more than US\$1.4 billion was invested into the economy, which is 1.13 times more than in 1997. The foreign investment prognosis for 1999 is estimated at US\$1.8 billion.

This inflow of large foreign investments into the economy of Azerbaijan could be explained by the following reasons:

- Potentially rich oil and gas reserves in the Caspian Sea basin.
- The government of Azerbaijan created good opportunities for investment: the law “On the protection of Foreign Investments” was adopted in 1992, tax privileges were offered, local documentation requirements were simplified.
- Availability of skilled labour power at competitive costs.
- Global competition in the oil industry and the possibility of risk-sharing among big multi-national companies.

This last reason has special importance. In the context of globalisation, the large multinational corporations invest in the new potentially rich markets not only for the purpose of future profit, but also due to the philosophy of competition in order not to lose competitiveness in industry. In potentially rich but politically unstable regions, the multinational companies have to compete and to co-operate at the same time in order to reduce the risk of possible losses. Risk-sharing contracts are being considered as a very good opportunity for that purpose. As for the host country, Azerbaijan can through diversification of investors make incoming capital more internationalised which expands the common political and economic interest in the exploration of Caspian oil. The diversification of investors can also increase the total volume of foreign investments.

Here we come to the very important proof of linkage between economics, stability and security. The more foreign investment the countries in the region receive, the more stability and security is needed. Implementation of oil projects requires stability and co-operation. Otherwise, the huge investments could be lost as a result of instability and conflict. This means that existing conflicts in the region should be settled as soon as possible on the basis of international law.

The history of commercial production of oil and gas in Azerbaijan extends back for more than 120 years. By 1901, Azerbaijan was producing half of the world’s oil and the industry had attracted such legendary business names as Rothschild, Rockefeller, Siemens and the Nobel brothers. To date, 68 oil and gas fields have been discovered (43 onshore and 25 offshore). More than 1.35 billion tons of oil have been produced.

The real development of the oil sector in the post Soviet period began in 1994, when the government signed a contract with a consortium of international

oil companies to begin a programme for rehabilitation and development of Azerbaijan's oil fields, namely Azeri, Chirag and Guneshli. The oil reserves of these fields are estimated at 500 million tonnes. Since then, Azerbaijan has signed 19 contracts with the participation of large oil companies from various countries. Today, 33 oil companies from 14 countries are taking part in the implementation of these contracts. These countries are the US, UK, France, Italy, Norway, Russia, Turkey, Japan, Saudi Arabia, Belgium, Germany, Iran, Spain, and Canada. Projected investment in the development of the energy sector by multinational oil companies is estimated at about US\$40 billion.

In 1997, Azerbaijan produced 9.1 million tonnes of oil and 6 billion cubic meters of gas. In 1998, oil production amounted to 11.6 million tonnes and expectations for 1999 are 14.4 million tonnes. The prognosis for the year 2010 is 46.9 million tonnes of oil. Recently, huge gas reserves have been discovered in the Shakhdeniz oil field. This allows us to cover internal consumption and export to the world market 20 billion cubic meters of natural gas annually.

One of the issues which has been discussed during recent years was the legal status of the Caspian Sea. The opponents of rapid development of oil and gas fields in the Caspian region refer to the unsettled problem of the status of Caspian Sea. They consider the condominium solution as the only possibility to protect the Caspian Sea ecologically. But in reality, their purpose is to postpone the implementation of energy projects that can substantively improve the economic position of the newly independent states in the region, ensuring their security and stable growth.

Azerbaijan is opposed to the condominium solution and the idea of joint exploitation of the offshore oil fields. The position of Azerbaijan is that the Caspian Sea is divided into its respective sectors, over which the littoral states have full sovereignty. Each coastal state has the exclusive rights in its sector on biological resources, water surface, shipping, exploration of the bottom of the sea, mineral wealth, etc., in accordance with the generally recognised rules and principles of international law and formed practice. Azerbaijan is for the full division of the Caspian Sea, which presupposes the division of the seabed as well as the water surface and its depth.

Another important issue for the countries in the region is the transportation of energy resources to world markets. Large investments in oil exploration require a sound and reliable system of transportation of energy resources. The necessity of such a system derives from the fact that the oil-rich countries of the Caspian region are land-locked and the existing or future oil and gas pipelines should pass through the territories of several newly independent states.

Consequently, in such a complicated region as the Caucasus, success in stable transportation of energy resources requires the existence of more than one pipeline. Diversification of transport routes allows not only for the transport of growing amounts of oil and gas, but also minimises the risk of existing and potential conflicts in the region. This was a reason why Azerbaijan insisted on

the transportation of “early oil” using two pipelines. In October 1995, the decision to use pipelines Baku-Supsa and Baku-Novorossiysk has been adopted. In 1996, the government of Azerbaijan signed relevant agreements with the governments of Russia and Georgia.

Today, Azerbaijan uses the newly constructed oil pipeline Baku-Supsa and the existing pipeline Baku-Novorossiysk. Both pipelines lead to the Black Sea. The pipeline Baku-Supsa came into operation on April 17th 1999. The capacity of this pipeline is 6 million tonnes a year. The Baku-Novorossiysk pipeline has been renovated and has operated since November 1997 with a capacity of 5 million tonnes a year. Unfortunately, recent developments in Chechnya and Dagestan again raised the question of stability in this part of Russia that makes oil transportation questionable. Thus, diversification of transport routes is one of the ways to ensure stability in exploration and transportation of energy resources.

As for the construction of the Main Export Pipeline, the government of Azerbaijan has chosen as a priority the pipeline linking Baku with the Mediterranean port of Ceyhan in Turkey. The negotiations on this pipeline came to fruition with the signing of the Ankara Declaration on 29th October 1998 by the US, Turkey, Azerbaijan, Georgia, Kazakhstan and Uzbekistan. This pipeline is expected to have a capacity of 45 million tonnes per year.

Of special importance for Azerbaijan has been the issue of the transport of hydrocarbons from Kazakhstan and Central Asia. Today, Kazakh oil is already being transported through Azerbaijani territory. The future prospective is for the construction of Transcaspiian oil and gas pipelines that could substantively improve the transportation issue for the land-locked Central Asian countries.

As a state located at the cross-roads between Europe and Asia, Azerbaijan is keenly interested in securing access to the Trans-European and Trans-Asian transport networks that would facilitate development of industrial and trade links between the countries of the region, improving access to markets and increasing integration links. A crucial place in the realisation of this concept of an East/West corridor lies with the implementation of the TRACECA and INOGATE programmes.

In this context, the “Baku Declaration”, which was adopted at the international conference held in Baku in September 1998 and devoted to the restoration of the Great Silk Road, has great significance. The European Union, the initiator of the TRACECA programme, estimates that annual freight turnover via the New Silk Road will rise from 4 million tonnes in 1998 to 34 million by 2010. This project could be considered as an effective instrument for the assurance of security and stability in the region of Caucasus and Central Asia.

The discovery of considerable energy resources in the Caspian region creates possibilities for development and prosperity not only in the countries of Caucasus and Central Asia, but also in the countries whose companies are currently actively involved in the exploration and transportation of these resources. Azerbaijan

considers the exploration of its energy resources to be an important tool for the strengthening of Azeri sovereignty, security and independence. Such activity fosters regional security as well. But the secure and full implementation of energy projects in the southern Caucasus is dependent upon conflicts in the region being resolved on the basis of international law.

Finally, allow me to express the hope that the exploration and exploitation of the energy resources in the Caspian region will soon enable the newly independent countries of the region to further strengthen their economic position and to make substantive moves toward creating a market economy. This will benefit all partners involved in the implementation of energy projects.