

# **SOUTHERN CAUCASUS: PROSPECTS FOR REGIONAL ECONOMIC COOPERATION PROMOTING SECURITY AND STABILITY**

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At the outset, I would like to express my cordial gratitude to the leadership of the NATO Economics Directorate and Ministry of Foreign Affairs of Romania for the organisation of such a representative meeting. I am honoured to be here and to deliver to your attention some comments on Georgia's present economic development as well as our conceptual views towards regional cooperation.

The last NATO Economics Colloquium unfolded before us an excellent opportunity to take part in the deliberation of such a burning question as promoting security and stability in the South Caucasus region. Today this issue is even more important and we have a good chance to continue dialogue on this subject. Recent and current trends in the South Caucasus as well as in Europe as a whole prove the following: it is difficult to expect successful economic development without the proper addressing of political and security concerns that significantly overshadow sub-regional, regional and inter-regional relations. Since our last meeting, we have gone further not only in the clear understanding of the high importance of security issues but concrete steps have been taken in order to promote stability throughout Europe. At the same time it should be recognised that this process is a very contradictive one.

After ten years following the dissolution of the former Soviet Union we are still facing the following dilemma: "Will any of the countries of the NIS area be able to make the transition to a market economy in such a way that it will be able to compete with the West?"

During the period since our last meeting, Georgia adopted a new conception of its further development: "A vision and strategy for the future". This comprehensive document was discussed at the High

Level International Conference - "Georgia and its Partners: Directions for New Millennium", held in Tbilisi on October 5-6th 2000. One of the key items on the agenda of that meeting was to share opinions concerning the interaction between economic cooperation and security issues.

Today, we also think that it is extremely important to find an optimal balance between internal and external factors and risks in our country's development. But the search for the best ratio is really a hard process. This can be explained by the fact that when economic reforms in the countries in transition are simultaneously followed by institutional reforms, the latter can be considered as additional burdens.

Speaking about the role and degree of internal factors in Georgia's economic development, some achievements and setbacks need to be mentioned.

Compared with double digit GDP growth rates experienced in 1996-97, growth continued at a modest pace in 1999-2000, at around 2%. Georgia's national currency is quite stable. Throughout 1999-2000, the National Bank has followed a policy that allows the exchange rate of the Lari to float freely. In general, structural reforms are successfully continuing in such areas as energy sector privatisation, land title allocation and judicial reform. In 2000 the total amount of shipped goods was 15% more than in 1999 and twice the level of 1995.

Nonetheless, the reform agenda remains long, especially in the fields of social safety net, poverty reduction, judicial system, and tax and customs administration. Weak revenue performance led to a situation of increased arrears on core expenditures, including wages and pensions, minimal levels of spending on health, education and infrastructure rehabilitation, thus making conditions for investment and economic growth more difficult.

But risks that threaten market reforms in Georgia should be defined. These are corruption, a substantial "shadow economy", weak tax revenues, and excessive bureaucracy. It should be specifically underlined that Georgia's government is trying to do its best in order to tackle these various diseases in its socio-economic life. In this regard, the significance of the "Program on anti-corruption measures in Georgia" has to be underlined. In accordance with the opinion of

international experts and officials, proper implementation of the provisions of this document should be foreseen as the backbone in coping with the above mentioned risks.

It seems to be expedient to stress the growing and long-term anxiety of the countries of the former Soviet Union concerning "the brain drain". In this regard, the following may be very strong, but anyway the appropriate phrase can possibly be used: "... the effect of losing all of these people could be just as devastating in terms of our country's future as another Chernobyl".

Touching upon the importance of external factors in our country's development, we do believe that increasing globalisation of the world economy calls for the stepping up of cooperation at all levels, namely sub-regional, regional and inter-regional. There is an uneasy balance between regionalism and multilateralism today. The logic of regionalism alone, without complementary multilateral institutions, leads not towards an open world economy, but to an unbalanced system of hub and spokes, uncertainty and marginalisation. Our multilateral goals must remain as ambitious as our regional efforts. This means above all to find a proper way to ensure that regional and global interests converge. We also need to find creative ways to channel the energy of regional arrangements into multilateral negotiations. More and more, regionalism's success will be measured by its ability to manage global challenges. In this regard, we can assume that the small and vulnerable economies, as in Georgia, should define their role simultaneously both at sub-regional, regional and international levels. They need stronger coherent regional and global rules - not weaker ones. Wider markets, not more restricted. We consider our country's participation in international economic relations at such levels of cooperation as the best guarantee for our sustainable development and security.

With respect to Georgia's participation in sub-regional formations, allow me first of all to underline the significance of GUAAM and the South Caucasus. By continuing such cooperation, a future development of relations with SECI has to be considered. This sub-regional scheme of cooperation has an agenda rather tailored to the needs of the countries of the South Caucasus, at least for Georgia, in particular in the field of economic security environment.

Successful economic cooperation could ultimately lead not only to commercial benefits but also to the solution of conflicts in some areas

of the South Caucasus region. In this regard, "The Stability Pact for the Caucasus" is called to enhance stability in the region. Moreover, the contribution of the EC to the determination of a concrete model of multilateral cooperation in the South Caucasus area seems to be very important in order to meet the present challenges. This direction acquires a high priority, keeping in mind the fact that access to the world market for all the countries in this region strongly depends on the Georgia link. We guess that the following areas might form the current economic agenda of the countries of the South Caucasus: trade, elimination of the blockade, new business climate, participation in international programs like TRACECA, INOGATE, Europe Energy Charter, and pipeline networks.

Some events that took place since the last NATO Economics Colloquium clearly demonstrate the fact that there are a number of fields in which the countries of South Caucasus can jointly cooperate. For example, we have already started collaboration on the economic aspects of national military policy. A conference on this subject was held in Tbilisi last year on June 5-6th. A "Training Course in Security and Defence Economics in the South Caucasus Countries" was also organised in Tbilisi on December 18-19th 2000 under the guidance and assistance of the NATO Economics Directorate.

The importance of these events is characterised by the fact that the three South Caucasus countries for first time discussed together questions concerning their armed forces. Moreover, they also had a good opportunity to discuss a number of aspects with regard to regional cooperation in a wider dimension. We are deeply convinced that activities in such directions should be strengthened. The Georgian governmental officials, parliamentarians, business executives and others benefited from meetings organised by the Marshall Centre and US support within the program of the so-called SENSE seminars. The main goal was to launch dialogue among the major players in Georgian international life, and by this interaction, to reach consensus and eliminate internal risks on the way towards national economic and social success. We think it was very helpful. We invite our partners in the region to join this extremely exciting program.

Turning now to the participation of Georgia in regional structures, let me stress that we attach major importance to the full-fledged organisation of the BSEC - keeping in mind the fact that the BSEC is primarily called to contribute to the promotion of economic prosperity and stability in the whole region.

In order to realise its potential, the Black Sea region needs to successfully cope with many challenges. The necessity of introducing soft security measures within the framework of BSEC was put forward for the first time during the Georgian Presidency two years ago. Today this issue is even more crucial because of the many threats that blight this region, such as illegal trafficking, the substantial "shadow" economy, illegal migration and so on. These risks are more dangerous for the countries involved in conflicts and have vulnerable economic borders. Just recently in Moscow, at the 4th BSEC Council of Foreign Affairs Ministers, Georgia proposed that this issue urgently needs the elaboration of a Special BSEC Program of Action. We consider that the time has come to develop this cooperation with other international organisations as well, in particular the European Union and NATO. We also believe that the BSEC should elaborate a special agenda of cooperation for the countries of the South Caucasus.

We regard the participation of Georgia in global processes as one of the tangible steps towards the activation of our comparative advantages. It means first of all the country's direct involvement in the implementation of global programs. As you are aware, the restoration of the "Great Silk Road" is one such program. It is an excellent opportunity to utilise jointly the South Caucasus region's advantages with regard to its geo-strategic location. The significance of this program may be underlined by the fact that it is called to integrate transport infrastructures in several directions.

Georgia actively strives to harness and harmonise the efforts of its international partners to promote the development of this strategic transportation corridor. These efforts are focused on the following three fields: the Transport Corridor Europe-Caucasus-Asia (TRACECA), a strategic energy corridor, and a telecommunication network.

We consider the "Great Silk Road" as an instrument for ensuring national economic security and strengthening economic borders. It is a route towards global or common security. Within the context of securing energy independence, we attach much importance to the development of the Eurasian Corridor. This fact can be justified by one vivid example; nowadays Georgia is dependent upon a single source of natural gas supply that underpins the country's energy system. Keeping in mind Georgia's huge transit potential, an alternative energy transportation system will significantly strengthen the energy security of our country.

A majority of countries in the region are participating in a number of projects and programs related to the energy and transport sectors. There are also many pipeline projects in which our states are involved. Georgia supports a multiplicity of these projects and related transit routes. But these routes should meet the challenges towards the securing of independence and sovereignty of the states, facilitate their democratic reforms and market oriented transformations, as well as create a stable energy security environment.

Concerning relations at the global level, allow me to propose that the goals of countries in transition are best served by such strong and forward-moving international organisations like UN, OSCE, WTO, NATO, and the EU. This argument can be explained by the following: assistance rendered by these organisations, the United States, European countries and partners from Asia is an essential element for the promotion of security and stability in our region.

A few words about the UN role in promoting security and sustainable economic development. There are two separate directions. What we need is a new model of interaction and inter-coordination between these two crucial issues. Keeping in mind the universal character of the UN, it could substantially contribute to the elaboration and implementation of such a model of stability and prosperity on this basis.

Within the context of inter-regional relations, collaboration between the economic structures of Europe and Asia is supposed to be very progressive. Undoubtedly, by close interaction with such structures as UN/ECE, UN/ESCAP, ECO and others, the countries in transition have a good chance to be really involved in global economic processes, enlarge their financial opportunities and, especially important, to set up a sustainable environment of cooperation. It is obvious that Eurasian economic cooperation is not only a need of small countries in transition but also a need of the developed countries. The countries in transition need investment, while the developed ones are interested in new markets and the utilisation of local natural wealth. The developed countries are also interested in the "export" of democracy and market economics to the Newly Independent States, which in turn will strengthen stability and the spirit of partnership in our region.

These observations lead to the following conclusion in accordance with Georgia's participation in the integration process at all levels: **Georgia considers its fully-fledged integration into sub-regional,**

**regional and inter-regional organisations and initiatives both as a core necessity to meet today's challenges and, above all, to secure the future economic growth of the country.**