

**THE PERSPECTIVES OF ECONOMIC INTEGRATION IN
THE SOUTH CAUCASUS: THE IMPACT OF ARMENIA'S
ACCESSION TO THE EURASIAN CUSTOMS UNION**

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Abstract

The research aims to show economic, political and other perspectives of integration initiative in the South Caucasus. Particularly, the project of the Eurasian Customs Union and its impact on Armenia, Georgia, and Azerbaijan under the conditions of Armenia's accession is viewed. As today there is no single assessment about positive or negative outcomes of accession, the research aims to deliver both perspectives, using Neofunctionalist approach, Historical Institutionalism and other theories for a comprehensive study, as well as observation of the survey conducted by the Eurasian Development Bank for presenting the opinion of regional peoples of those three mentioned states about the Union. As the research finds, understanding of outcomes of Armenia's accession requires differentiation of corresponding economic, political and cultural-ideological dimensions. Respectively, for Armenia the accession promises dual economic effects, and no changes in the political freedom in the realm of international relations. Armenia's accession might be beneficial also for Georgia under some particular circumstances, whereas for Azerbaijan there is not much room for cooperation given the conflict over Nagorno Karabakh Republic. With regard to the opinion of regional peoples, the research confirms initial expectation, that is, Armenians to be more positive about the Eurasian Customs Union integration project than Georgians and Azerbaijanis.

To my grandparents

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Introduction

Integration as a way of close cooperation between countries with possible creation of common economic, political or any other sphere of interaction¹ has appeared in the South Caucasus very peculiarly. According to some estimations² the South Caucasus has always presented one of the most unique world regions where integration projects have constantly failed. The causes of those failures were seen and explained differently by different authors, however the most obvious reasons for pessimistic conclusion about integration were tied with the inability of Armenia, Georgia, and Azerbaijan to put off their political and territorial tensions in order to enjoy prosperity from economic cooperation. As history evidences, those countries largely mitigated their strifes only when a third side took a direct economic, political or military control over the region, establishing own project of integration and giving the South Caucasian states a choice of joining it either voluntarily or integrating them forcibly.

Today there is still no common political, or economic agreement among Armenia, Georgia, and Azerbaijan (as one of the reasons scholars usually mention a state of cold war between Armenia and Azerbaijan, who have no diplomatic relationship with each other)³. Additionally, nowadays the South Caucasus represents a region with special interest for foreign international and regional powers who are directly involved in a number of regional processes with several aims and objectives: not only states but also various institutions, organizations, shaped by those states, such as the Eastern Partnership, the Collective Security Treaty Organization, the Eurasian Customs Union, and some others evince an interest in the

¹ Author finds the given notion of *integration* as the most appropriate and comprehensive for the work. Understanding integration through this definition will ease corresponding understanding of the issue itself.

² Thomas De Waal, "A Broken Region: The Persistent Failure of Integration Projects in the South Caucasus", *Europe-Asia Studies* 64, no.9. Routledge, (2012): 1709 – 1723; Senate Document No. 266, *Conditions In the Near East: Report of the American Military Mission to Armenia*. By Maj. Gen. James G. Harbord. 66th Congress, 2d Session. (Washington. Government Printing Office, 1920)

³ De Waal, *A Broken Region*.

region, pursuing various goals. The given work specializes exactly on the last mentioned initiative through observing of which the current integration opportunities of the South Caucasus will be delivered to a reader below.

In respect to the previous periods of history, the given work aims to show wrongness of one-legged vision and explanation of the regional situation characterized as a constant failure. The thorough observation of the past experience will provide a reader with deeper understanding of the region and integration projects which had multi-dimensional nature and should be scrutinized respectively with those dimensions. As to the general aim, the work seeks to present a picture of the South Caucasus mainly from economic perspective of integration, other dimensions such as political or ideological also will be examined, albeit saving the priority to the economic issue. At the same time, particular regional specifics makes the author to consider economic issues inseparably from political, cultural and ideological aspects of integration. Hence, if one is to talk about the economic benefits of Armenia's joining the Eurasian Customs Union, it inevitably leads to consider political and ideological ties between Armenia and Russia, and imposition of Russia's interest in the region through Armenian accession to the Customs Union, leading to the discussion about the consequences of that accession for other countries. If one considers Georgia's recent decision of deepening its ties with the European Union by initialing Association Agreement, it leads to considering not only economic impact of that decision on Georgia, but a change which that decision can trigger in the foreign policy agenda of two other regional states.

In this regard, the general aim of this research is to trace the path of sundry South Caucasian integration projects from the beginning of the twentieth century until now, scrutinizing the conditions and aftermaths of those projects in terms of economic benefits for each of the three South Caucasian states. Based on that historical observation, the work pays more attention to the current juncture, examining the Russian-led Eurasian Customs Union

(hereinafter – the ECU), and its impact on the region, especially given the fact that Armenia already declared own readiness and desire to join the Union and to make corresponding steps aimed at accelerating accession.⁴ The research will demonstrate if there is any economic benefit for Armenia from that accession, and how the other two countries, Georgia and Azerbaijan, reflect on that decision in terms of pursuing own economic development.

Hence based on all aforementioned the research question of the work is formulated as follows: *what kind of economic, political, and ideological impact can Armenia's accession to the Eurasian Customs Union have on that country particularly and on Georgia and Azerbaijan more generally?* This question presents a twofold importance especially in conditions of constant foreign interest of other great powers⁵ in the region, when each of these powers permanently tries to establish own dominance. On the one hand, it is Russia which as a regional great power perpetually considers the South Caucasus as a zone of own privileged interest.⁶ The Russian-led Customs Union in that respect has been gradually gaining momentum through the involvement of new member-states, including the latest decision of Armenia to enter the Union. On the other hand, there is European Union whose policy of Eastern Partnership for the last 5 years has been perceived by all three South Caucasian states as a sufficiently attractive proposal toward economic opulence and rise of

⁴Radio Free Europe, Radio Liberty. "Armenia Ready to Join Russia's Customs Union by Mid-April". [rferl.org. http://www.rferl.org/content/armenia-ready-customs-union/25281668.html](http://www.rferl.org/content/armenia-ready-customs-union/25281668.html) (accessed 14 March, 2014)

⁵ The notion of informal status of "great power", which some countries hold today, requires clarification. The literature gives a distinction of those fundamental criteria which help to understand this term. In a broad sense, those criteria are the indicators of a country's notable success in certain areas, showing its capability associated with strength in political, military, economic and other spheres. The success in maintaining strength in those spheres leads to the attainment of corresponding status. For instance, if we scrutiny under those criteria Russia of the 21st century, it's territorial size, vast resource base, military heritage from the Soviet past and foreground rights in different institutions on international level (being a member of the UN Security Council with the right of veto) suggests that the country still retains a status of great power if not globally, albeit locally (Thomas Remington, "The Soviet System and Its Demise", *Politics in Russia*, Ch. 9, Pearson Education: United States, (2007): 253- 271) in the regions like the South Caucasus or Middle Asia, where one cannot simply ignore Russia's opinion and position on several issues. There are different interpretations given to the term of great power which usually vary. For more peculiar explanations see: Asle Toje. *The European Union as a small power: After the post-Cold War*. (New York: Palgrave Macmillan, 2010); Abramo Fimo, Kenneth Organski. *World Politics*, (New York, 1958).

⁶Tracey German, "Securing the South Caucasus: Military Aspects of Russian Policy towards the Region since 2008", *Europe-Asia Studies*, 64 no.9 Routledge, (2012): 1650 - 1666

democratic polity, aimed at corresponding consolidation of the region with a purpose of further close integration with, or maybe for some countries within, the EU. There are also the United States, Turkey, Iran, and China whose interests and positions regarding their status of great or regional powers make them to interfere. However, for the sake of preciseness, in order not to deviate from the main object of the research, the following chapters will concentrate mainly on the ECU, albeit other relevant projects also will not be neglected.

From these perspectives the work explains why and how the introduction of the Customs Union project in the South Caucasus can shape mutually profitable economic environment not exclusively for Armenia and other CU states (mainly Russia, but also Belarus and Kazakhstan) but for Georgia, and even Azerbaijan, disregard to the latter's absence of diplomatic relations with Armenia. Furthermore, in order to provide more comprehensive and clear picture of the ECU project and its impact not only on the "official" level, the work will explore the opinion of domestic people of Armenia, Georgia, and Azerbaijan about their attitude toward the ECU. This comparison of opinions will ease reader's understanding of to what extent the official position of national governments and other officials in very deed represents the real will, hope, and expectations of state populations about the ECU, and whether these expectations are the same, or they vary across countries.

In this matter, rigorous description and qualitative understanding of regional historical background with simultaneous analysis of respective data will eventually enable reader to answer the primary hypotheses of the research which can be stated in a form of three basic expectations: 1) *–Armenia's accession to the Eurasian Customs Union will have a positive impact on the country's economic development, albeit having negative or no impact on the political freedom in international affairs of that country;* 2) *- introduction of the Customs Union project in the South Caucasus region can possibly bring economic benefits not*

exclusively to Armenia, but also to Georgia, and Azerbaijan, even though the countries have not expressed their willingness to join the ECU; 3) – People of Armenia should be generally more positive about the Customs Union project, comparing with Georgians or Azerbaijani people.

Finally, taking into consideration the recent researches in this field⁷, the work additionally examines several issues which are believed to help answering on the main research question and hypotheses: why the previous attempts of integration were fragile in reality and found no luck in a long term perspective; why particularly the Russian influence and not any other great power's impact has lasted so long and continues to be predominant in the region; to what extent the perspectives of economic benefits from the Armenia's inclusion into the ECU can be estimated as plausible for Georgia, and Azerbaijan. Answers on all these questions will be delivered in the following chapters respectively.

Turning to the theoretical framework of this research, it must be said that in order to tackle the difficulties which are related to the overall number of questions that the author seeks to address, as well as the absence of common approach to these questions among other authors, qualitative methodology of explanation is used largely, also not to mention quantitative surveys which represent general opinion of domestic people about the ECU integration project in each of the three regional states. The given versatile approach of using both qualitative and quantitative techniques in this research will ease the obtainment of comprehensive answer, presenting regional relationship specifics pegged to integration perspectives.

⁷Kavus Abushov. "Policing the near abroad: Russian foreign policy in the South Caucasus", in *Australian Journal of International Affairs*, 63 no.2, (2009): 187-212; Gayane Novikova, "The South Caucasus: Regional Security and Stability", (Conference Paper, "Amrots Group", Yerevan, 2004); Elkhan Nuriyev, *The South Caucasus at the Crossroads: Conflicts, Caspian Oil and Great Power Politics*, (LIT Verlag, Berlin, 2006)

Thus, recalling the qualitative approach author appeals to the most fundamental schools of political thought that have been dominant in political theory since the second half of the previous century, namely Neofunctionalism and Historical Institutionalism. As a qualitative way of understanding the regional specifics, historical institutionalism draws particular attention to the concept of path dependency, which aims to define "the contextual features of a given situation often inherited from the past".⁸ Hence, path dependency is taken to construct a retrospective image of the previous integration projects in the South Caucasus, showing that the institutional design of those projects, and their overall performance and success are pegged today to the Soviet institutional heritage. The eclectic methodology of this theory perfectly fulfills the main objectives of the given work: it will be shown through the cultural and calculus approaches how past regional institutions and structures have tried to maximize the economic benefit from their cooperation whilst not forgetting to provide "moral and cognitive templates for interpretation and action".⁹ In turn, neofunctionalism is used in order to show precisely how the real integration politics correspond with those major theoretical factors that any integration initiative presumes. One of the main representatives of the neofunctionalism school Ernst Haas distinguishes five essential factors: growing economic interdependence between the engaged sides; organizational capacity of the sides to resolve disputes which might originate before and during the process of integration; building international legal framework of cooperation; creating supranational market regulations

⁸ Peter A. Hall and Taylor C. R. Rosemary, "Political science and the three new institutionalisms". *Political Studies*, 44 no 4, 1996: 936-957. Additionally, see Anthony Giddens, *Central Problems in Social Theory*, (London, Macmillan, 1978); James Mahoney, Dietrich Rueschemeyer, *Comparative Historical Analysis in the Social Sciences*. (Cambridge: Cambridge University Press, 2003); Giovanni R. Capoccia, Daniel Kelemen, "The Study of Critical Junctures. Theory, Narrative, and Counterfactuals in Historical Institutionalism", *World Politics*, 59 no.3 (2007): 341-369

⁹ Meaning the observance of ideological and political dimensions too. Hall et al. "Political science and the three new institutionalisms"

which aim to replace some of the national regulatory rules.¹⁰ Respectively, the research will present to what degree the ECU initiative matches with those factors.

Regarding the second task, namely, in order to have a clear understanding of regional peoples' vision about the ECU, the research includes different surveys and interviews. The interviews include opinion of several former and current regional high professionals and officials who occupy various positions in the governmental, public or private spheres, i.e. with people who directly or indirectly represent the official position of the country. The interviews are selected from the different informational sources, including media articles. The surveys and survey results are taken from the Integration barometer designed by the Eurasian Development Bank (EDB).¹¹

Thus, the first chapter after introduction will conduct a historical survey, familiarizing a reader with the previous attempts of integration in the South Caucasus starting from the first half of the twentieth century. The second chapter aims to show the current economic performance of the three South Caucasian states, dwelling on the interest of foreign powers in the region. The third chapter explains the general meaning of the ECU, the core principles of its working, as well as the perspectives which opens the accession to that organization for Armenia. Introduction of the opinion of domestic people will be delivered in the fourth chapter, following the conclusion as the final part of the given work which will summarize the findings and will derive the main inferences.

¹⁰ Ernst Haas, "International Integration: The European and the Universal Process" *International Organization*, the MIT press, 15 no.3 (1961): 366-392

¹¹ As it was already hinted, it was particularly the desire to make the work more empirically-oriented and to familiarize a reader with the general opinion on integration perspectives which can additionally shed some light on the particular country's perception of its neighbor that prompted the author of the research to include the surveys and their results.

Chapter 1 - The South Caucasus integration projects in the 20th century

1.1. Retrospective observation of the integration projects in the South Caucasus: historical examples of short-term cooperation

From the very beginning it must be clarified why the given work focuses mainly on Armenia, Georgia, and Azerbaijan, although the South Caucasus region includes other three (some partially recognized, some unrecognized) states – the Nagorno-Karabakh Republic, South Ossetia, and Abkhazia. Although most of these last three realms represent an important particle to create a complete image and understand at least economic specifics of the region without considering their legal and political status, however, the given work covers the issue of them only within the framework of the general aim of the research without addressing them specially. This decision can be acquitted by recalling the foreign interests of international actors in the region, as De Waal ably notices, "most policy makers in foreign ministries tend to see their relationship with the region as three bilateral official relationships with Baku, Tbilisi and Yerevan, paying little attention to the three *de facto* breakaway states of Abkhazia, South Ossetia and Nagorno-Karabakh".¹² This lack of attention from the rest of the world toward the three *de facto* states occurs not because these states do not deserve this attention, rather the contrary: the question about their formal statuses, their international rights as the subjects of international law has been always very sensibly and delicately discussed in Yerevan, Tbilisi, and Baku. Hence, it is exactly the complexity of those three *de facto* states' role and status that requires very deep analysis and should be observed separately from this research. Also, neither Nagorno Karabakh Republic (NKR), nor South Ossetia, or Abkhazia can pretend today to have the same high level of integration possibilities as Armenia, Georgia, and Azerbaijan do. The high level of integration into international structure (including into such as the ECU) seems impossible for all of these three states

¹²De Waal, "A Broken Region", 1710

largely due to geopolitical factors of their unrecognized/partially recognized statuses. Therefore, the current work examines NKR, South Ossetia, and Abkhazia only in particular historical background and in association with integration possibilities of Tbilisi, Yerevan, and Baku.

The first essential condition to talk about any possibility for integration in the South Caucasus is the perception of the region as a whole. In spite of a wide scope of political, geopolitical, and ideological controversies in the official positions of Baku, Yerevan, and Tbilisi, yet, there are several determinants which make the South Caucasus perceivable as a whole today, as well as in the past. De Waal in his work suggests particular elements of that perception: geography of the region, i.e. natural barriers of the South Caucasus which separate it from the North Caucasus and its southern, south-western neighbors as of Turkey and Iran; a broad understanding of shared culture between Armenians, Georgians, and Azerbaijanis visible in a number of language, music, national cooking, family behavior, and other tradition similarities; economic ties, trade, and transport connections with bigger surrounding neighbors - Turkey, Russia, and Iran.¹³ At the same time, De Waal's approach is by no means entirely new. The manner to perceive the South Caucasus as a whole is a Soviet-style tradition, which used to consider the regional states in a common way, appealing to all of them simultaneously. However, the Soviet approach to judge the region as a whole is not tied exclusively to a number of tradition similarities that the South Caucasian states inherently share (as De Waal suggests), but rather to the specific manner of common perception. Namely, it was the Soviet governors' decisions to draw and apply the same laws simultaneously for Armenia, Georgia, and Azerbaijan, disregarding their national peculiarities. The vindication for such policy has been seen in a fact that for many reasons the issues of one South Caucasian country are noticeable for the other and can directly effect on

¹³De Waal, "A Broken Region", 1711 - 1712

their interrelationship (from the protection of rights of national minorities in one state, to the question of maintaining vital transport corridors in the other).¹⁴ Hence, De Waal's approach, and the Soviet tradition both perceive the region as a whole, assuming that the regional countries are, indeed, tied with each other very heavily. Simultaneously, one might notice that the countries' contradictions by their nature are reminiscent of a force of opposing magnetic poles - contradictions attract the countries to each other, force them, even despite their willingness, to reckon with the geographically closest neighbor's opinion and position on some regional issues. From this perspective, any decision made by one South Caucasian state inevitably echoes in the other. Hence position of a state there cannot be simply neglected, because the aftermath of that neglecting might be very costly for the other state.¹⁵ On the other hand, however, as De Waal rightfully notices, "the South Caucasus [*due to the same controversies in politics and especially because of exacerbated ethnic tensions - my interpretation*] has persistently failed to work as a region".¹⁶ Note, that here De Waal particularly stressed out not the foreign vision of the region, but the importance of domestic perception, countries' ability to work, to cooperate, and to function as a whole, serving firstly to ordinary people who inhabit the South Caucasus.

In the aforementioned sense the first enthusiastic attempts to work as a whole can be attributed to the beginning of the twentieth century history of the South Caucasus (then-Transcaucasia). More precisely, after the collapse of the Russian Empire, the Russian

¹⁴ The issues with national minorities are very salient in each country. For instance, there is a large Armenian community in Georgia. The Republic of Armenia is very sensitive in respect to those Armenians who live there, and to all decisions that the Georgian government applies to those Armenians. Very often the discussions of overall bettering Armenians' life conditions in Georgia become important agenda for bilateral negotiations. See: Sopho Bukia, "Armenians Seek Language Rights in Georgia". Institute for War & Peace Reporting. <http://iwpr.net/report-news/armenians-seek-language-rights-georgia> (accessed 15 April 2014).

¹⁵ For example, in Armenian territory there are several rivers which stem in the country and flow into Azerbaijan. One of the recent Armenia's decision was to stop the flow of one of the rivers, Voskepar, and turn its direction for the sake of irrigation of Armenian border lands. Needless to say, that such decision will have an effect on Azerbaijani border-close villages. For more information, see: Yerkrmas, "Reka Voskeparbolshe ne budet tech' iz Armenii v Azerbaijan" [Voskepar river will no longer flow from Armenia to Azerbaijan]. Yerkrmas.org. <http://www.yerkrmas.org/2011/09/01/reka-voskepar-bolshe-ne-budet-tech-iz-armenii-v-azerbajdzhan/> (accessed 10 October, 2013).

¹⁶ De Waal, "A Broken Region", 1712

Provisional Government tried to keep together Armenians, Georgians, and Azerbaijanis in the new-shaped Transcaucasian Democratic Federative Republic in 1918. The very creation of such supranational union became possible after the declaration of Armistice of Erzincan, which ceased active hostilities on a whole stretch of the Transcaucasian front after the First World War, where the Ottoman Empire was amongst the losers, fighting on the Quadruple Alliance side. However that attempt of integration was doomed to failure, because fragile peace, holding together Tbilisi, Baku, and Yerevan for several months was broken by a new war unleashed by the Turkish government which did not agree to reckon with the consequences of the Great war, and whose geopolitical and military appetite prompted the country to continue hostilities on the entire West (Turkish) Armenian (East Anatolian) frontline in the newly emerged conditions of revolution and civil war in Russia. The second reason to speak about inevitable collapse and impossibility to sustain the Transcaucasian Federation for a long period was those ethnic and territorial tensions that raised among three ethnic groups who constituted the backbone of that Federation. These tensions were so enormous by their nature and unconcealed that further existence of the Federation was impossible from the practical point of view. In May 1918 Georgia, Armenia, and Azerbaijan declared separately their independence from the former Russian Empire, *de facto* rejecting the very possibility to coexist in the Transcaucasian Federation, proven by the fact of two territorial wars between Armenia and Georgia, and Armenia and Azerbaijan, which occurred almost immediately after the independence declaration. Needless to say that the short-term existence of the Transcaucasian Federation did not trigger any significant positive impact for economic development of those three newborn post-Empire states.

If one tries to express the general regional situation of those years, she will feasibly notice that the image of territorial wars and unceasing ethnic clashes was supplemented by starvation of the populations, devastation, poverty, institutional dysfunctionality, and overall

uncertainty about the future. That unoptimistic evidence was illustrative for the entire regional situation and can be attributed to all three Transcaucasian states. A witness of those years American general G. Harbord, having had a special mission in the region, gave the following assessment:

Alone each [*meant the governments of the three states* - my note] faces inextricable financial difficulties. Religious differences, added to racial, threaten to embroil them unless brought under a common control. ... They have no present intermonetary, postal, or customs union, and, as stated, no definite agreement for common control and use of the railroad, and are in continual squabbles over boundaries. Azarbaijan has no educated class capable of well administering a government; Georgia is threatened by bolshevism; Armenia is in ruins, and partial starvation. All our investigation brings conviction that the people in each would welcome a mandatory by a trustworthy outside power.¹⁷

It was exactly those conditions of uncertainty about the future of the region that made other great powers interested in deepening own presence in the South Caucasus: even after the formal end of the First World War in November 1918, the imminence of forthcoming struggle among great powers for a redistribution of their influence in various regions across the globe was almost clear for most of them. The South Caucasus was not an exception in that sense: Great Britain, the United States, Turkey (Ottoman and Kemalist later on), Weimar Germany, France, Iran, Russia (under partial power of Provisional Government and afterwards a full Bolsheviks' control) were competing with each other for the newly appeared free and uncontrolled realms and territories. Simultaneously, it was becoming gradually obvious that the hastily signed peace agreements between great powers and their coalitions failed the test of time and would not last forever, as most of them did not tolerate a loss of their former colonies and areas of influence. In that sense, the South Caucasus has always attracted aforementioned countries with a number of incentives: Armenian highland geostrategic location allows to exercise strategic preside over the entire region. It presents an

¹⁷*Conditions in the Near East*, 14

important direct upright transport corridor from the North to the South¹⁸. Georgian access to the sea with its famous trading center in Poti port also offers prospects of huge benefits from trade. Finally, Azerbaijan with its vast petroleum resources also attracted great powers and presented another, yet if not the main, reason for foreign penetration.

In that respect, Harbord's statement shows a real situation of those years, when 'acting as a whole' was impossible in newly emerged conditions, and, as he notices, the only way to cease squabbles and stop violations and austerity was to introduce "a trustworthy outside power". Paraphrasing this affirmation, one can assert that, indeed, it did not take too long from "a trustworthy outside power" to appear again after Tsarist Russia's collapse. Notwithstanding of internal political changes and domestic social implosions, the quickest reaction to reestablish control over the former territories showed the countries who seemed not to have sufficient amount of time for examination of external influence, but whose geographical borders were closer to the South Caucasus.¹⁹ These countries were Turkey and Russia. The former was continuing its military invasion in the region despite many international cease-fire agreements. In fact, the invasion and total conquest of the region by Turkey was stopped because of three particular circumstances: heroic self-defense of Armenian guerrillas in the battle of Sardarapat in 1918, who made impossible further Turkish quick onslaught directly into the depth of the Transcaucasia;²⁰ inner dangerous and highly volatile situation within the Turkish Empire, related to the overall dissatisfaction of

¹⁸The fact which is perfectly examined by the current Armenian government and some officials who usually appeal to the country with high transit potential for international transportation. See in this respect: Vahan Dilanyan, "Armenia Safest Route for Transit of Energy Resources", Vahan Dilanyan Website. <http://vahand.wordpress.com/2009/02/16/armenia-safest-route-for-transit-of-energy-resources/> (accessed: 5 May, 2014); Lragir. "Armenia May Become A Transit Country For Iranian Gas", [lragir.am](http://www.lragir.am/index/eng/0/politics/66192/30484) <http://www.lragir.am/index/eng/0/politics/66192/30484>, (accessed 23 August, 2013)

¹⁹ Obviously, the fact of geographical closeness and association played a crucial role in the epoch when global processes and fast logistic technological development have been only emerging.

²⁰ Ashot Harutunyan, *Sardarapati Chakatamarty, 1918* [The Battle of Sardarapat, 1918]. (Yerevan: Armenian Soviet Encyclopedia vol.10, Armenian Academy of Sciences, 1984)

population for a number of reasons;²¹ finally, moral exhaustion and military inability of Turkey to begin a new war against newly established Russian government of Bolsheviks and, as a result, to stop Bolshevetization (*bolshevetizatsia*) process of Armenia, Georgia, and Azerbaijan, whose national governments and weak forces were also unable to stand against the Red Army's onrush.²² Thus, the only power who "was willing and able to assume a mandate to govern the Transcaucasus as a single whole, but very much on its own terms... was Bolshevik Russia".²³

1.2. The South Caucasus as a part of the Soviet Union: the Bolsheviks' model of integration

The Bolsheviks' eventual coming to power at the beginning of the 1920s was distinguished by a new try to reshape and resurrect the failed attempt of the Russian Provisional Government to handle without mittens the South Caucasus as a whole, giving it a status of a unified subject. In the context of constant struggles among the Caucasian peoples which very often led to the bloody consequences for all included sides, the second attempt to stop those struggles, imposed by Moscow, giving more rights and creating the autonomous republics for local minorities like the Abkhazs, Karabakh Armenians, Ossetians and Ajarians can be considered not only as ideologically important, but also as partially successful experience to give a try and at least temporarily to damp the conflicts.²⁴ This noticeable fact is often underestimated in history, meanwhile it has to be said that in both 1918 and 1922 the

²¹*Conditions in the Near East*

²²*Conditions in the Near East, 1709-1723.*

Interesting fact related to the current issue: Azerbaijanis government probably was the only one who voluntarily agreed on bolshevetization of the country and on accessing into the new emerging Soviet state. The Georgian menshevik and the Armenian dashnak national governments were resisting the process of sovietization till the moment when it became literally inevitable.

²³De Waal, "A Broken Region", 1714

²⁴De Waal, "A Broken Region", 1715

integration process was started from the top, by active patronage and influence of the new Russian Bolshevik establishment which was directly interested in a regional unification and tried to shape the rules of common coexistence for the South Caucasian peoples. The Soviet idea to unite three Transcaucasian states into one supra-state body found its realization with a light hand of “the chief Bolshevik in the Caucasus”, Sergo Orjonikidze, whose project of the Transcaucasian Socialist Federative Soviet Republic (hereinafter - TSFSR²⁵), was established in 1922, and unlike its precursor Transcaucasian Democratic Federative Republic, TSFSR existed longer - until 1937.

Economically, TSFSR aimed at creating a new level of inter-state cooperation. Regional unification eased the very process of control over Transcaucasian territories and made the process of resource transportation from there much easier under the absence of interstate custom borders. Also as it was evidenced above, apart from seeking benefits for own purpose in terms of gaining geopolitical advantages from the integration projects, overall the political attempts of the Soviet Russian government can be estimated as positive, because those attempts relatively success fully mitigated temporarily the tensions and ethnic clashes between regional peoples. In this respect, important policy aimed at reducing tensions was the appointment of all ethnic major representatives (Armenians, Georgians, and Azerbaijanis) to head and govern TSFSR replacing one another without any specific priority to the representative of one particular ethnic group.

However, together with political changes that the Bolshevik government tried to realize, there were also economic “innovations”. Abolition of custom difficulties on borders between the states of TSFSR did not have much sense and guarantee per se economic enhancement. Especially because before that, at the very beginning of the Bolshevization process, all-Soviet ‘experimental’ economic politics of *prodrazverstka* literally devastated

²⁵In Russian initials - ZSFSR, *Zakavkazskaya Federativnaya Sotsialisticheskaya Respublika*

national economies: perhaps, within the frame of *prodrazverstka*, the most deadly effect had the reduction of sown areas for approximately 20% in the early 1920s.²⁶ It led to the partial starvation and malnutrition not only in the South Caucasus but also in a number of other Soviet regions and republics. Even the united Transcaucasian economy has been hardly moving forward under such tough circumstances, if there were any move at all. To tackle the issues emerged after devastating *prodrazverstka*, in 1922 the newly established supreme body of TSFSR, the United Council of People's Commissars,²⁷ introduced a new decree with a purpose of creating a united monetary system and one-for-all type of banknotes within TSFSR. Under rigid circumstances of the 1920s hyper-inflation it had very peculiar effect which also can be hardly estimated as positive: banknotes rapidly depreciated, permanent emission of new moneys did not give the expected positive outcome.

According to some estimations²⁸ by the mid-April 1924 more than 15 quadrillion TSFSR rubles were a subject of emission in order to handle with economic stagnation which was thundering the region. By the end of that year, the Soviet government decided to remove TSFSR banknotes and stamps, understanding their fatuity and moving to the single standard of the Soviet Union stamps. At the same time, since 1925 with a gradual implementation of new economic reforms and incentives for growth and development, such as the New Economic Policy (NEP), economic situation in TSFSR has improved. *Prodrazverstka* was replaced by *prodnalog*; taxation became payable through natural products, including raw agricultural products; the Bolshevik government tried to attract foreign investments. In spite of overall tough conditions and often harvest failures during those years, the NEP policy eventually born some fruits. Especially, the outcome was palpable in the sphere of

²⁶ Silvana Malle, *The Economic Organization of War Communism 1918-1921* (Cambridge: Cambridge University Press, 1985), 426

²⁷ In Russian - *Soyuzni Sovet Narodnikh Kommissarov*

²⁸ Rostislav Nikolaev, "Milliardi Na Zakavkazskiy Vetr" [Billions On Transcaucasian Wind], *Vodyanoy Znak*, 6 no.14, 2004.

agricultural production. “By 1928, agricultural and industrial production had been restored to the 1913 (pre-World War I) level”.²⁹ Armenia, Georgia and Azerbaijan at least temporarily gained an opportunity to spur the growth and to take the road of fast industrialization and agricultural prosperity (Table 1, Table 2). Albeit due to largely political reasons, the Bolshevik government decided to abandon NEP policy which was considered as a threat toward socialism and communism ideas, taken for granted by the Bolsheviks. At the same time, in the realm of official ideology the Bolshevik government was relatively consistent in mitigating ethnic and national tensions.

Here one can argue that the positive outcomes of TSFSR existence are exhausted. However, even after the reduction of TSFSR in 1937, three Transcaucasian countries co-existed in relatively peaceful conditions with each other under the Moscow’s patronage and care. In this regard, although the second integration project in the South Caucasus, TSFSR, did not last too long, several facts do not arise any doubts: 1) -ethnic tensions have been temporary damped by a respective political readiness and willingness to do that from the top; 2) –the NEP policy shaped a basis for further economic improvement, and it was a backbone for future versatile development of the Soviet republics. As a result, the republics’ forthcoming economic development (especially when it came to the heavy industry, see Table 2) positively affected on their cooperation abilities in trade and bargaining with each other, giving an impetus for economic growth (Table 3). In that matter, what these Transcaucasian states materially have today constructed on their territories (factories, various facilities, and enterprises) is to a certain degree a consequence of wide industrialization that did take place in the Soviet Union.

²⁹Robert Service, *A History of Twentieth-Century Russia*. (Cambridge, MA: Harvard University Press, 1997), 124–125

Meanwhile as some authors argue, the Soviet industrialization (or over-industrialization) had an ambiguous effect for all member-states, because it covered mainly heavy industry, paying less attention to the light industry and other sectors, and creating a sort of dependency of economic actors from the Center's subsidies.³⁰ In turn that dependence from external feed proved further inability of future independent states to stabilize and increase their output production right after the collapse of the USSR during the period of economic and political transition which was accompanied by recession (Table 4). Additionally to the post-Soviet period, unleashed war between Armenia and Azerbaijan, ethnic clashes in Georgia also to be added as the reasons of downfall in economic performance, because in newly emerged conditions most of national resources were substantially steered to the military needs. However even with all those following features of recession, interstate and domestic wars, in imagined alternative universe none of the three South Caucasian states would have been able to obtain such level of industrialization without any outward aid, coming from external source. Indeed, all of them were to a large extent dependent from the Soviet money and investment inflows, but all of them undoubtedly benefited from those investments.

At the same time, going back to the Soviet period of integration, the Soviet policy of Transcaucasian unification was not just Moscow's whims, but rather necessity aimed at achieving two specific objectives. The first aim can be defined as ideological *raison d'être* of the Soviet state's existence (at least, how it was expected to be during the first decades). The Soviet ideology of unification addressed wide masses and presented the utopian idea of

³⁰ Laszlo Csaba, *The Capitalist Revolution in Eastern Europe* (Cheltenham/UK and Northampton/USA: Edward Elgar Publishing Co, 1995), 3-50; Laszlo Csaba, "A comparative overview of empirical evidence" in Csaba, Laszlo *The New Political Economy of Emerging Europe-2d revised and extended edition*. (Akadémiai Kluwer, 2007), 25-62 (especially, see: Table 2); Michael Keren, Gur Ofer, "Are transition economies normal developing countries? The burden of the socialist past" in *Transition and Beyond*. ed. Estrin, Saul (Basingstoke: Palgrave. Macmillan, 2007), 58-88 (especially, see the Figure 3.1).

integrating the South Caucasian peoples (and, more generally, all nations and ethnic groups of the USSR) into a unique supranational organism that would not put any kind of difference in nations and would equalize everyone in a new communist order. In that order a new, i.e. Soviet, identity shall appear instead of national ones. The second task was relatively less ambitious, and more practical, and related to a long-term goal: namely, it aimed at entrenching Moscow's influence in the Transcaucasian region, establishing strong order and respect for the single-for-all authority of the Center through creating economic, political and ideological ties and leverages of influence. That order was supposed to make more noticeable the Centre's power in appealing regional issues, proving and making everyone believe that it would be impossible to solve any issue without the Centre's interposition, as the latter, so to say, would presumably know better, what is right and what is wrong.

As history evidenced the first ideological goal failed, being impossible to realization despite any proclaimed mottos of the Soviet leaders that socialism and communism either had been already achieved or would be achieved in the foreseeable future. However, the second goal, namely, Moscow's efforts to re-/entrench her dominance in the South Caucasus as deeply as it was possible, was sufficiently successful and allowed her to examine a broad influence even after the collapse of the Soviet Union, especially because due to a number of reasons post-Soviet Russia still holds the informal status of great power.³¹

Thus today Russia still maintains its deep geopolitical positions in the entire former Soviet Union area (FSU) in general, and in the South Caucasus particularly: the country deeply understands that the loss of influence might be too costly for itself. In this respect, in spite of own external geopolitical weakness, all negative political, economic, and any other

³¹ To prove corresponding evidence it seems enough to remember such organizations and international institutions as UN, SCO, CIS, WTO, OSCE, ODIR, CSTO, BRICS, WSI etc., where the Russia's role can be judged in accordance to the country's tools, leverages, and mechanisms, which it keeps to protect own rights and interests.

severities which came right after the collapse of the Union, Moscow yet attempted to attract FSU states through the new integration projects such as creating the Commonwealth of Independent States in 1991. Being an organization for regional integration, from the very moment of its appearance the CIS very often receives absolutely controversial estimations of its success. Some scholars affirm that the Organization failed to provide real integration incentives for FSU area³², and “its capacity to reintegrate and coordinate its member states over areas of common interests remains elusive”,³³ yet another experts assert that the CIS has been successfully enhancing regional cooperation for more than twenty years.³⁴

All in all, in spite of relatively long time that has passed since the CIS creation, a proper understanding of integration success of that organization and its preceding other regional projects still remains a matter of discourse in particular dimension (economic, political, ideological) which is taken under consideration. Hence, perhaps the most appropriate approach in judging today success of integration projects in the FSU area is to avoid polarized, i.e. solely black-or-white estimation of achievements, as such views usually “tend to distract the attention from the functional value of actual developments, obscure the understanding of the learning processes taking place, and can easily overestimate the applicability of selected normative models”.³⁵ This vision proposed by Dragneva and De Kort seems helpful especially because it demystifies a number of political and ideological superstitions which are usually related to people’s biased understanding of integration, considering mainly one aspect, or dimension of integration and paying less attention to the

³²Anders Aslund et al. *Getting It Wrong: Regional Cooperation and the Commonwealth of Independent States* (Carnegie Endowment Washington DC 1999)

³³Raymond Abou-Mansour Pelekanos, “The Commonwealth of Independent States”, *Transitional Crisis Project*, (2012). <http://crisisproject.org/the-commonwealth-of-independent-states-translatio-imperii-or-a-mensa-et-thoro/>. Last (accessed 16 April, 2014)

³⁴Tatiana Solopova, “SNG Sozdalo Predposilki Dlya Uspeshnogo Razvitiya Integracionnix Processov” [CIS created prerequisites for the successful development of integration processes]. CIS Internet Portal. <http://www.e-cis.info/news.php?id=1944>. (accessed 16 April, 2014)

³⁵Rilka Dragneva, Joop De Kort, “Legal Regime For Free Trade In The Commonwealth Of Independent States”. <http://media.leidenuniv.nl/legacy/jdk-2007-02.pdf>. (2007). (accessed 10 April, 2014)

other. In this respect, gradually coming to the major integration project under consideration of this research, namely the ECU, one should notice that although the ECU represents a community where the role of first violin is being played by Russia, yet the very idea of architecting such economic structure belongs to the Kazakh president N. Nazarbayev who was the first to introduce the concept of the Eurasian Union in 1994.³⁶ But before turning to correspondent analysis of the ECU integration initiative, it is essential to address the current juncture of economic and political performance by the three South Caucasian states. Viewing today state of affairs in the South Caucasus is purposeful in order to understand what exactly shapes the regional states' policy and perception toward the ECU. Simultaneously, decent understanding of the current foreign policy agenda of those three states is inherently tied with other international actors who show interest in the region, allowing regional states to maneuver between different foreign forces. The following chapter is devoted to the purpose of analyzing aspects of current both geopolitical and economic situation around the South Caucasus.

³⁶ James Kilner, "Kazakhstan welcomes Putin's Eurasian Union concept" <http://www.telegraph.co.uk/news/worldnews/asia/kazakhstan/8808500/Kazakhstan-welcomes-Putins-Eurasian-Union-concept.html>. The Telegraph. (accessed, 4 April, 2014).

TABLE 1: USSR PER CAPITA INVESTMENT INTO THE ECONOMICS OF GEORGIAN SSR AND ARMENIAN SSR, 1940-1977. SOURCE: LUCERO, BERNISE, 2001. ECONOMIC HISTORY OF GEORGIA. ONLINE AT: [HTTP://ECONC10.BU.EDU/ECONOMIC_SYSTEMS/ECONOMICS/ECONOMIC_HISTORY/FSU/ECONOMIC_HISTORY_OF_GEORGIA__BY_.HTM](http://econc10.bu.edu/economic_systems/economics/economic_history/fsu/economic_history_of_georgia__by_.htm).

Year:	Georgian SSR	Armenian SSR
1940	37	38
1965	171	239
1970	235	327
1975	264	344
1977	310	347
	As Percentage of the USSR	
1940	112.1	115.2
1965	70.1	98
1970	70.4	97.9
1975	59.3	77.3
1977	65.4	73.2

TABLE 2: GROWTH RATES OF TOTAL INDUSTRIAL OUTPUT: GEORGIAN SSR, ARMENIAN SSR, 1913-1977. SOURCE: LUCERO, BERNISE, 2001. ECONOMIC HISTORY OF GEORGIA. ONLINE AT: [HTTP://ECONC10.BU.EDU/ECONOMIC_SYSTEMS/ECONOMICS/ECONOMIC_HISTORY/FSU/ECONOMIC_HISTORY_OF_GEORGIA__BY_.HTM](http://econc10.bu.edu/economic_systems/economics/economic_history/fsu/economic_history_of_georgia__by_.htm)

Year:	Georgian SSR	Armenian SSR
1913	1	1
1940	10	8.7
1965	56	107
1970	85	184
1975	118	266
1977	134	312

TABLE 3: INDEXES OF AGRICULTURAL PRODUCTION: GEORGIAN SSR, ARMENIAN SSR, 1913-1977. SOURCE: B. LUCERO, 2001. ECONOMIC HISTORY OF GEORGIA. ONLINE AT: [HTTP://ECONC10.BU.EDU/ECONOMIC_SYSTEMS/ECONOMICS/ECONOMIC_HISTORY/FSU/ECONOMIC_HISTORY_OF_GEORGIA__BY_.HTM](http://econc10.bu.edu/economic_systems/economics/economic_history/fsu/economic_history_of_georgia__by_.htm)

Year:	Georgian SSR	Armenian SSR
1913	100	100
1940	252	156
1965	551	428
1970	709	541
1975	829	636
1977	951	713

TABLE 4: NATIONAL ACCOUNTS, NET MATERIAL PRODUCT. AVERAGE ANNUAL GROWTH OF NMP BY SECTOR (PERCENTAGE) IN ARMENIA, GEORGIA, AZERBAIJAN FROM 1990 TILL 1992.

SOURCE: STATISTICAL HANDBOOK 1993. STATES OF THE FORMER USSR. THE WORLD BANK, 1993. P. 8

Average annual growth of NMP by sector, percent				
Year:	Sector	Armenia	Georgia	Azerbaijan
1990	Agriculture	-13.0	7.7	2.2
1991		8.0	-10.3	-2.6
1992		-8.5	-28.6	-22.9
1990	Industry	-7.3	-18.6	-23.1
1991		-16.2	-27.1	-6.5
1992		-62.0	-42.1	-29.2
1990	Other	-26.4	-18.2	18.2
1991		-13.0	-25.5	14.0
1992		-52.4	-55.3	-48.3

Chapter 2 - The modern economic and political image of the South Caucasus

2.1. Armenia, Georgia, and Azerbaijan as the post-Soviet economic performers

Notwithstanding to the issue which was described in the first chapter, namely, that a sensible amount of material products which the three South Caucasian states own today to a certain degree is pegged to those industrial achievements that they inherited from the Soviet period, nonetheless, to understand the current economic performance of Armenia, Georgia, and Azerbaijan, the economic development that occurred after the Soviet part of their national history is the one to be considered in the following subsections of this chapter.

Almost the entire first decade after declaring independence, the South Caucasus states have struggled against the negative aftermaths of the Soviet Union's decay. Economic and political transition (which is still not over yet if one takes as the ultimate goal the achievement of fully-fledged market economy guided by democratic principles of governance) was accompanied by the following recession, which in turn was characterized by a number of features. Thus with several exceptions in particular fields, during the first years of independence roughly all three states suffered from the decrease of general economic activity, decrease of foreign capital inflows, downfall of labor productivity, and mass privatization which had mostly spontaneous nature. As mostly everywhere in the post-Soviet realm, the South Caucasus transformation was followed by a struggle between old and new elites for allocation of newly emerged private assets and distribution of wealth.

In respect of those features, although it is difficult to affirm whether during the first decade of independence the South Caucasus states followed either entirely the Washington Consensus prescriptions for rapid economic recovery, or used more gradual, consequent and systematic mechanisms of improvement, overall economic performance of these states can be

described more within the frame of shock therapy aimed at fast reformism.³⁷ Besides, economic performance in the South Caucasus was not dependent exclusively from domestic economic regulations. As the Swedish economist A. Aslund notices, economic downfall of those states was also a large consequence of geopolitical factor, namely, comparing to those post-Socialist Central and Eastern European states, the FSU countries (including of those in the South Caucasus) did not receive much support from the Western liberal democracies. Azerbaijan can be viewed as the only exception in that matter, as the country largely enjoyed benefits from investments attributed to the vast petroleum reserves that it owns.³⁸ As Aslund states, "only the future EU accession countries received timely Western assistance. ... The former Soviet Union received neither financial assistance for reform nor market access during its first year of economic reform... The West ignored the post-Soviet countries. The sin of omission caused a lasting rupture that is still to be mended".³⁹ In this respect, the success of transition to a certain degree can be also attributed to the deepness of geographical, political and economic ties of transition countries with the fully-fledged liberal Western economies. Thus the important factor of foreign support, including those of unequal financial, institutional, advisory and other aid distribution did play a role in terms of shaping unequal conditions for economic improvement of the states during the transition.

Additionally to those pure economic features following the recession, the South Caucasian countries like Georgia suffered from centrifugal tendencies, while a real war was unleashed between Armenia and Azerbaijan over Nagorno Karabakh. Economically, these important concomitant geopolitical and ethno-territorial issues of the South Caucasian

³⁷ For understanding the main principles of the Washington Consensus, and gradualism approaches, see: John Marangos, "Was shock therapy consistent with the Washington Consensus?" *Comparative Economic Studies*, 49 no.1 (2007):32-58; Roberto Dell'Anno, Stephania Villa, "Growth in transition countries: big bang vs gradualism", *Economics of Transition*, 21. no.3 (2013): 381-417

³⁸ Ara Sanjian, *The Negotiation of "The Contract of the Century" And the Political Background to the Revival of Azerbaijan's Oil Industry*. (Yerevan: Armenian Center for National and International Studies, 1997).

³⁹ Anders Aslund, *How Capitalism Was Built. The Transformation of Central and Eastern Europe, Russia, the Caucasus, and Central Asia*, (Cambridge: Cambridge University Press, 2013), 8-10

transition originated necessity to reallocate budget, including more expenditures related to the military needs. Today the question of proper military security stands focal for the three South Caucasian states, as the very fragile and wonky piece in the region is in constant threat of falling if one side attempts to impose an arms race.

Obviously, under such circumstances it has been impossible to talk about any deep cooperation, especially between Armenia and Azerbaijan: therefore, when one talks about the countries' membership in the common CIS integration project, he should understand that Armenia and Azerbaijan cooperate within the CIS with other sides, but do not cooperate with each other. Each of them is keen to achieve something politically and economically for itself, but bilateral cooperation (understood in a way as it was described at the beginning of this work) between these sides still does not leave much room for optimism. This is also a case in other international organizations and structures where Armenia and Azerbaijan hold membership. Unlike the Soviet strict control that mitigated conflicts from the top, the CIS democratic structure and rules do not impose ethno-political obligations on countries as long as those states and their people do not want to do it voluntarily. Hence it is quite clear, that politically and ethno-territorially Azerbaijan and Armenia have very little to share with each other. At the same time, economically, the countries are interrelated to a certain degree, as their people exist in the same region. Even without sharing something with each other directly, nowadays the issues of one country can have certain impact on the other state (as it was stated recalling T. De Waal at the introductory part and the first chapter of this research).

Hence, appealing to the modern economic development of the South Caucasus, this section takes the period starting from the 2000s when the countries gradually improved their domestic economic performance, showing some senses of real betterment compared to the 1990s (Figure 1). Comparing economies of Armenia, Georgia, and Azerbaijan, the following subsections appeal to several particular indicators, seeking to shape a general vision and

understanding of how effective the countries have been during the last decade in bettering own economic environment and obtaining success in terms of building sustainable basis for regional/international cooperation. These indicators are: the real GDP growth rates; inflows of foreign direct investment; current account balances; goods and services import and export rates for Armenia specifically; registered unemployment rates. Additionally, the following subsections compare the main similarities and differences viewed through those indicators.

2.1.1. Armenia

As Figure 1 perfectly illustrates, since the beginning of the new Millennium Armenian economy alike Georgian and Azerbaijani ones, has experienced fabulous GDP takeoff. It managed not only to maintain, but also to accelerate growth which lasted right until the financial crisis of 2008. The pinnacle of that performance became the 2005-2007 period, when the annual real GDP growth rate was above 13% (Table 5). This achievement has been largely attributed to the house-building boom that the country enjoyed for those years, speedily increasing real estate construction, and creating incentives for FDI. According to UNECE and IMF estimations, Armenia was ranked among the top world countries with increased share of construction sector in GDP – 25% in 2008 respectively.⁴⁰ The country was clearly a frontrunner by this indicator, leaving far behind both Georgia and Azerbaijan. Additionally, real estate construction was not the only feature of Armenia's positive economic performance during the 2000s. Money transfers (including those of not direct investments: private household transfers, passive investments) had huge impact on the

⁴⁰ United Nations Economic Commission for Europe. *Share of construction in GDP, %, year 2010*. Online Map. http://w3.unece.org/pxweb/quickstatistics/readtable.asp?qs_id=8 (accessed 20 April, 2014); Armineh Manookian, Guillermo Tolosa, "Armenia's Housing Boom-Bust Cycle", International Monetary Fund Online external report (2011). <https://www.imf.org/external/country/arm/r/2011/112811.pdf> (accessed 21 April, 2014).

country's economy, constituting 13-14% of GDP yearly.⁴¹ Simultaneously with this, the country established good fiscal discipline and attempted to keep relatively low inflation level, managing stable current account balance (Table 7).

However, the last financial crisis and some of the pre-crisis challenges substantially changed the country's performance, seen in corresponding changes of austerity measures, cutting public expenditures, increasing budget deficit. Real estate construction economically had a turnover effect seen especially vivid prior and during the crisis. "The boom in Armenia turned into a bust in the wake of the global crisis. Real estate construction output collapsed to almost one third from its peak in 2008, although to a level similar to 2005".⁴² The country was caught in the classical form of Dutch disease, preconditions of which had been gained for several years before the crisis: the increased inflows of foreign investments negatively affected on a competition and development level of manufacturing sector. Armenia found itself in a difficulty of not being capable to absorb smoothly foreign investments and remittances flowing in the country because of permanent rise of the exchange rate, leaving more vulnerable non-exporting sectors of economy which lacked inflows compared to the house-building. Eventually, the institutions of economic regulation were not capable to respond adequately and defend market and average consumer from the influence of excessive inflow of foreign currency in money supply. As the result, inflation expectations of population raised, because the Central Bank used traditional mechanisms of economic sterilization of money supply under circumstances of traditionally low level of real income of population.⁴³ As the country's former Deputy Minister of Finance stated, "Armenia ... received huge funds as money transfers, mainly from Russia, which indirectly provoked

⁴¹News.Am. "Money transfers provoked Dutch disease in Armenia" news.am. <http://news.am/eng/news/11120.html> (accessed 19 April, 2014)

⁴² Manookian, Guillermo, "Armenia's Housing Boom-Bust Cycle", 2-3

⁴³ Edward Sandoyan, Irina Petrosyan. "Chastnie Inostrannie Denezhnye Transferti Kak Prichina "Golandskoy Bolezni" V Ekonomike Armenii" ("Private Foreign Remittances as a Cause of the Dutch Disease in the Economy of Armenia"), *Izvestiya URGEU*, 5 no.37, (2011): 87-95

Dutch disease in the Armenian economy. Businessmen saw that the construction and services sectors were highly profitable. Instead of thinking of manufacturing export products, they rushed to the construction and services sectors and made them engines of our economy.”⁴⁴

Indeed, due to a small domestic market, the country’s economic vulnerability is also a matter of its import-dependency which exceeds export rates almost for a half (Table 8). The fact gives additional food for thought because the country is a member of just few trade zones (the most famous and big one operates within the CIS realm), having closed borders with its two geographical neighbors (Turkey, Azerbaijan) and still being relatively far geopolitically and economically from both world and regional trade centers. In this respect, the whole transitional potential which the country possesses is very limited: direct ground transition of goods and services within the country is mostly exercised by the South Caucasus Railway, yet having no established communicational infrastructure with Iran mostly because of lack of state resource capacities to do that. Under such circumstances it is not surprising that the country sees the accession to the ECU as a particular way of enhancing own export possibilities, creating more incentives for business activities and general development. Additionally, Armenia has the highest unemployment rate compared to neighboring Georgia and Azerbaijan (Table 9). The way to improve that rate is seen in creating additional job places which will hopefully appear when more sophisticated model of economic cooperation can be introduced in the country, incentivizing local companies to increase their trade and export potential under the circumstances of new huge outlets appearing within the ECU framework.

At the same time, estimating Armenia’s foreign policy exercises for the last decade, one can state that the country both economically and geopolitically performed in a flexible and complimentary way, attempting to establish strong economic ties with all interested sides

⁴⁴ News.Am. “Money transfers provoked Dutch disease in Armenia” news.am.
<http://news.am/eng/news/11120.html> (accessed 19 April, 2014).

from both the West and the East. However, the question of a full accession to the EU has never been considered seriously either as a short- or even mid-term objective. Firstly, because the EU has not considered Armenia as a potential member of the Union, given the fact that the country's gradual convergence with the EU requires not only adherence to its economic, but also to geopolitical and democratic requirements of cohesion. Unlike that, the decision to join the ECU, which is viewed as the strongest integration process led by Russia since the Soviet Union collapse, practically has more chances to be implemented in the nearest future. This assumption comes not only from the aforementioned fact the Armenian government has confirmed its readiness to cooperate within the ECU, but also from the perspectives of entrenched economic and political links that Armenia and Russia share: the countries exercise bilateral support commercially and governmentally, Russia is the leading export-import partner for Armenia,⁴⁵ Armenian infrastructure has been largely developing by Russian-owned and/or managed companies. Thus, it is rational to expect further convergence of Armenia with Russian-led new integration project in the form of the ECU.

2.1.2. Georgia

Compared to the Armenian case, Georgian real GDP growth before the crisis looks really modest, although after 2008 annual increase was higher than in Armenia. The apex of GDP growth in Georgia came a year before the crisis together with FDI increase, presenting very prominent indicator of the country's gradual improvement, shaping some positive expectations about further overall economic enhancement (Table 5, Table 6).

Georgian pre-crisis economic performance formally can be divided and considered as of two parts, separated by the political change brought up by the Rose Revolution in 2003

⁴⁵National Statistical Service of the Republic of Armenia, *Foreign Trade of the Republic of Armenia 2009-2012*. Report (2012). http://www.armstat.am/file/article/ft_2nish_12_3.pdf (accessed 1 May, 2014)

when the country's president Eduard Shevarnadze was forcibly replaced by Mikheil Saakashvili after announcement of notorious parliamentary election results which were largely recognized as unfair by both home population of the country and international observers.⁴⁶ As many believed, economic improvement of the country was tied and went hand in hand with democratic transition which the Revolution promised to bring "together with the nongovernmental Soros Foundation funding for NGOs, study trips and training, U.S. aid".⁴⁷ In that sense, it is quite illustrative that those foreign investments and support increased especially during and after the Rose Revolution with the coming of new "pro-Western" president, Saakashvili. Indeed, in some particular fields the country significantly improved its economic positions, culminated at ranking in the world top ten of states with the most ease of doing business.⁴⁸

At the same time, although financial crisis of 2008 and war against Russia had an obvious detrimental effect for the country's economy and internal socio-political stability, they did not undermine its overall capacity to continue further economic development also because of those huge foreign investments which were coming while Saakashvili was in office. In related literature this period of Georgian history is usually considered as paradoxical situation, when the war and crisis did not harm the country as they might done, but also triggered further investments. "The negative effects of the Georgian economic crisis might have been far more distressing had the international community not extended a helping hand ... Although war by essence is a negative phenomenon, it had a positive implication for Georgia, to a certain degree, to the extent that the country received an enormous amount of international financial assistance. This creates, therefore, a so-called "Paradox of War" or a

⁴⁶Stephen Jones, "Georgia's "Rose Revolution" of 2003: Enforcing Peaceful Change", in Adam Roberts and Timothy Garton Ash (eds.), *Civil Resistance and Power Politics: The Experience of Non-violent Action from Gandhi to the Present*. (Oxford & New York: Oxford University Press, 2009), 317-334

⁴⁷Cory Welt, *Georgia's Rose Revolution: From Regime Weakness to Regime Collapse*. (Center for Strategic and International Studies. 2006), 40

⁴⁸ The World Bank Group. *Doing Business Measuring Business Regulations. Ranking*. Online at: <http://www.doingbusiness.org/rankings> (accessed 5 May, 2014)

situation wherein aggressive entails not only negative consequences but some positive ones, too.”⁴⁹

At the same time, during the last 2-3 years a thaw has evinced in the relationship of Georgia and Russia. The Ministries of Foreign Affairs of both states send signals to each other, showing readiness to gradually normalize relationship at least creating incentives for trade and civil contacts resumption. The relatively successful evidence of normalization is seen in the renewal of dialogue among official and non-official Georgian and Russian economic, political, religious, and cultural experts who annually meet in the cities of both states to share their views and opinions about further possibilities of bettering the bilateral relationship. The initiative of organizing those events basically belongs to both sides and finds success especially in the sphere of non-governmental communications: attraction of young generation to peace talks that are largely conducted by the NGO sector is viewed as important component for improving current situation.⁵⁰ Nonetheless, both sides are still reluctant to agree on the major point of the issue between them, namely, about the people and two *de facto* states of South Ossetia and Abkhazia. As the Georgian minister of foreign affairs, M. Panjikidze, stated "Georgia's territorial integrity is "a red line" which Tbilisi will "never" cross in its relationship with Moscow".⁵¹

With regard to other neighboring countries especially in the South Caucasus, here Georgia does not have any special problems for disquiet: the country increases its trade turnover with Azerbaijan within the established frame of economic cooperation especially

⁴⁹Vladimer Papava, "Economic Transformation and the Impacts of the Global Financial Crisis in the Southern Caucasus", *Non-Traditional Security Threats and Regional Cooperation in the Southern Caucasus*. ed. Aydin, Mustafa (Amsterdam: IOS Press, 2011), 24.

⁵⁰For instance, one of the latest events aimed at bettering dialogue among the sides was organized by the NGO sector with invitation of his holiness Catholicos-Patriarch of All Georgiallia II. See: The A. Gorchakov Public Diplomacy Fund. *Russian Georgian Dialogue 2013* <http://gorchakovfund.ru/project/6211/> Gorchakov Fund. (accessed 28 April, 2014)

⁵¹Civil Georgia. *Lavrov Comments on relations with Georgia*. Civil.ge. <http://www.civil.ge/eng/article.php?id=26877> (accessed 22 April, 2014)

when it comes to the gas and oil supplies, meanwhile traditional warm relations with Armenia have not originated any concerns in the modern history of two states.

All in all, if it is still early to talk about Georgia as if it has overcome all the effects of post-communist transition, yet the country's economic and political performance is very promising. The country gradually moves toward more democratic and representative formation, changing constitution in favor of parliamentary system of governance; it is attractive for foreign business, creating free trade zones (such as the ports of Adjara and Batumi) and transiting gas and oil from the East to the West; it has tolerable relations with all its neighbors, improving affairs also with Russia. Thus, for now it seems that Georgian further economic improvement will not find any obstacle unless unforeseeable drastic changes appear.

Meanwhile geopolitically, the current agenda in Georgian foreign policy does not include any alternative to deepening relations with the EU. European path of democratization through the programs of Eastern Partnership, including Association Agreement, is seen in Georgia as the main ways of development, confirmed by the famous post-latest-election statement of the country's president G. Margvelashvili that "Europe is our choice".⁵²

2.1.3. Azerbaijan

Since the downfall of the Soviet system, independent republic of Azerbaijan economically managed to achieve very successful results. Appealing to the official statistics of the country, it would not be exaggeration to allege that among the South Caucasian states Azerbaijan has been playing a leading role in economic development for the last twenty

⁵²Euronews, "'Europe is our choice' – Georgia's president-elect Margvelashvili" Euronews.com. <http://www.euronews.com/2013/10/28/europe-is-our-choice-georgia-s-president-elect-margvelashvili/> (accessed 3 May, 2014)

years, seen in the corresponding improvement of a number of indicators such as GDP growth, FDIs, unemployment rates, state account balance (see the cross-country compared tables). According to some particular indicators such as unemployment rate, account balance, foreign investments, Azerbaijan economically grows faster and performs better than even Georgia and Armenia taken together.

Indeed, at first glance those numbers look quite impressive. At the same time, in the case of Azerbaijan a proper understanding of the country's economy goes hand in hand with the state's political conjuncture. This assumption is easy to verify, appealing to two important facts. First, extrapolating those statistical numbers, it is very difficult to measure preciseness of the given data presented by the country's internal national sources, because the current state ruling elite would hardly tolerate any unsatisfactory evidence of its performance which could undermine the mighty power of established strict system of state control in Azerbaijan. To measure trustworthiness of sources is not the aim of this research, but as long as Azerbaijan is internationally considered as authoritarian and not free regime⁵³, authenticity of those indicators of economic performance about Azerbaijan gives us the same amount of reliable information as probably any authoritarian state source would give. In other words, in the case of Azerbaijan, compared to Armenia and Georgia, it is hard to have a clear picture of the country's economic performance simply relying on its domestic sources and services. Secondly, it is difficult to identify to what extent Azerbaijani economic successes are the pure results of economic betterment and not dependent from the country's resource base which is also tied to the political regime of that country: privatization of natural resources, their distribution, selling are under strict control of the current political dynasty.

Therefore those two important facts to be born in mind while addressing economic performance of modern Azerbaijan. It is true that the country is very attractive to foreign

⁵³ Freedom House Report. *Nations in Transit 2013*. http://www.freedomhouse.org/report/nations-transit/2013/azerbaijan#.U2onsvl_tW4 (accessed 9 May, 2014)

investors who want to benefit from the resource extraction, but how much those extractions and investments in resource sector guarantee the overall development of the entire economic system of the country is a matter of doubt. As long as institutional improvement does not occur and political system is not designed in a democratic way, it is problematic to foresee Azerbaijan's economic performance in a long-term perspective. "Not surprisingly, foreign companies that specialize in resource extraction often invest in even the most brutal of dictatorships, while their counterparts in banking and manufacturing stay away".⁵⁴ Hence, the lack of economic diversification and underdevelopment of other sectors allows one to talk about quantitative economic betterment, but certainly not about its quality. "Investors do not choose Azerbaijan as a destination for efficiency-seeking investments, but predominantly as a place to sell goods (market-seeking investments)".⁵⁵

At the same time, the country still continues spending billions on own militarization in light of the conflict with Armenia. In spite of the fact that nearly 20 years passed since the ceasefire agreement was signed between Armenia and Azerbaijan, the latter still does not want to reckon with the *de facto* situation of the region. Azerbaijan unilaterally tries to impose own willingness and gain back Nagorno Karabakh which was a one-sided grant to the country by the Soviet rulers in 1921 who were obsessed with an idea of the world revolution and feared by the Turkey's invasion into the South Caucasus. Describing bolshevization of the Transcaucasia, the British historian and specialist of the Soviet history Robert Service assumes that the artificial inclusion of Nagorno Karabakh into the part of Azerbaijan would have been impossible, if Stalin had not seen a direct threat from Turkey to the Soviet interests in the region, trying to cajole it. "Armies of Turks ... continued to pose a threat to Soviet security: the appeasement of Azerbaijan was thought an effective way of keeping Istanbul

⁵⁴ Stephen Haber, "Authoritarian Government", in Wittman, Donald. A. and Barry R. Weingast, (eds.) *The Oxford Handbook of Political Economy*, (Oxford: Oxford University Press, 2009), 10

⁵⁵ Gerald Hübner, "Foreign Direct Investment in Azerbaijan—the Quality of Quantity", *Caucasus Analytical Digest*. no.28, 21 June 2011

quiet”.⁵⁶ Nonetheless, even today Azerbaijani officials alternately declare some destructive opinions which obviously do not only facilitate chances for a final peaceful resolution of the conflict, but rather undermine the current stability, threatening the shaky peace by some attempts to impose arms race.⁵⁷

Thus, in light of the ongoing crisis in relations with Armenia, needless to say that there is no long-term potential for either peaceful or foreseeable cooperation between states within the framework of one single project. Respectively, Azerbaijan refers relatively cold to any initiative where Armenia is engaged in, including the ECU project. But unlike the Georgian case, where the country clearly identifies its future development path, heading for closer convergence with Europe, Azerbaijan still remains in between those two integration initiatives, having neither decent achievements (first of all because of notable internal problems with civil rights and political liberties) to rely on more sophisticated European integration scenario (unless if one considers something apart from pure economic trade-offs), nor any sensible ambitions to join the ECU if the conflict over Nagorno Karabakh remains unsettled in favor of Azerbaijan. From the other side, practically Azerbaijan has to a different degrees well-established business relationship with almost all its neighbors except Armenia: from brotherhood with Turkey, being consonant to mostly all the question which appear in the foreign policy agenda of the two states, to the mentioned gas and oil supplies and constructing pipelines through Georgia. In a more global dimension, Azerbaijan also tries to play equally in both Western European-American and Eastern-European-Russian-Asian pitches, hence having decent room for international maneuvering. Nevertheless, for now it is difficult and unrealistic to predict where exactly the Azerbaijan's final choice will align, as

⁵⁶Robert Service, *Stalin: a Biography* (Cambridge: Harvard University Press, 2006), 204

⁵⁷ Andrew Osborn, “Azerbaijan military threat to Armenia”

<http://www.telegraph.co.uk/news/worldnews/middleeast/azerbaijan/6631572/Azerbaijan-military-threat-to-Armenia.html> The Telegraph. (accessed 24 April, 2014); Regnum. “Azerbaijani president: Armenians are guests in Yerevan”, Regnum.ru <http://www.regnum.ru/english/943595.html> (accessed 24 April, 2014)

the question of foreign political conjuncture of this country very depends on what international side will most cajole it in the question of Nagorno Karabakh.

2.2. International interests in the South Caucasus: multidimensional nature of "the Great Game"

Before turning to the description and understanding of the Russian-led ECU integration project, it would be crucial to refer at least briefly to some of those other international initiatives which also play a vital role in shaping the future of the South Caucasus.

The theory of competition among different great powers for the expansion of own influence across the globe is usually named in literature as "the Great Game". The term, developed by A. Conolly⁵⁸ and J.R. Kipling⁵⁹, was initially attributed to the geopolitical competition of Great Britain and Russian Empire for the supremacy in the Central Asia and Caucasus (the regions, named later as "the Heartland" based on the concept of "geographical pivot of history", introduced by H. Mackinder⁶⁰). Today the idea of Great Game enjoys its rebirth, under the conditions of a new loop of competition between Russia and the United States, also with participation of the other global/regional great powers such as China, Turkey, Iran, etc.

Rigorous description of the US, the EU, Turkish, Iranian, and Chinese interests in the South Caucasus will obviously require a whole book in order to present those interests in depth. Nonetheless, the author assumes that without understanding at least basic causes behind their interest in the region, it would be incorrect to address the ECU, as those

⁵⁸ For more information in this regard see directly: Shareen Brysac, Karl Meyer, *Tournament of Shadows: The Great Game and the Race for Empire in Asia*. (Basic Books, 2006); Peter Hopkirk, *The Great Game: The Struggle for Empire in Central Asia* (Kodansha International, 1992).

⁵⁹ Rudyard Kipling, *Kim*. (The Project Gutenberg: EBook of Kim, 2009).

⁶⁰ Sir John Halford Mackinder, "Democratic Ideals and Reality", *The Geographical Pivot of History*, National Defense University Press. (1996): 175–193

alternative to each other international initiatives coming from the great powers usually have direct impact on the regional future and predetermine the potency of each other in a sense of affecting the fastness and the way of realization. The very fact of that predetermination is largely a result of considering each other more as rivals who compete for saving or obtaining own dominance in the South Caucasus through military, economic, political and other means. In other words, those great powers who have interest in the region see the establishment of own projects there as the way of increasing own influence and reducing the influence of other global contestants, as those latter also seek to broaden own influence through similar initiatives. Hence, the 21st century South Caucasus is a region where mentioned great powers of international process are keen to defend own geopolitical interests in relation to which they attempt to affect the countries of the region.

Those interests are a subject of protection not only via establishing particular models of integration as Russia or the EU do as in the case of the Eastern Partnership or the Customs Union, but also a matter of increasing political and economic presence through corresponding leverages on a national level such as through large business investments. If a country wants to increase and entrench own positions in the region, it does not necessarily attract the local states to some geopolitical integration initiative: for instance, a country can deepen own positions through economic impact, introducing on a local market own corporation which will become a majority shareholder of the local resource extraction business, directly affecting on the economy of the local state, making the latter a subject of economic manipulations.

Thus, the following section will shed some light on how the interests of some great powers meet and overlap in the South Caucasus, and why it is important for them not to leave the region under the protection of only one controlling power.

2.2.1. The great powers for the competition in the South Caucasus

The South Caucasus has been always perceived as a connecting link between Europe and Asia. This perception is reflected in the development of such famous programs as the TRACECA or the Silk Road Strategy Act, passed in the US Congress in 1999.⁶¹ One of the major reasons for that is the general Caucasian energetic, oil and trade attractiveness for the great powers.

To understand what exact countries have an interest in the South Caucasus we must refer to the concepts of Great Game and Heartland, adapting them to the conditions of modern century. As it was mentioned, essentially both ideas assume competition of great powers for proliferation of dominance in the world. In the previous two centuries this competition had generally a nature of strategic bilateral rivalry between two powers: Great Britain and then the USA from one side, and Russia from the other. Other states performed only as minor actors in that game, whereas in the 21st century after the collapse of the Soviet Union the nature of Great Game has been altered under the changing conditions of globalizing world which is largely characterized today as multipolar.

For example, looking at the map of regional ethnic diffusion, geopolitical interests of Turkey can be viewed in relationship with those ethno-territorial proliferation of local people that takes place today. Control over the South Caucasus for Turkey is first and foremost a geopolitical possibility to realize pan-Turkic plans of direct unification of Turkic-speaking peoples of the Caucasus and Central Asia. That is why, for example, Armenia as a country which stays the only geographic "obstacle" for the direct connection between Turkey and Azerbaijan and further to the East with Turkmenistan, has such importance for Turkey itself, as well as for the other actors, including Russia and China. The latter has serious concerns

⁶¹ Those two cases are brought as illustrative examples of the South Caucasus' importance considered by the rest of the world. For more information see: *Silk Road Strategy Act of 1999*. 106th Congress 1st Session. <https://www.eso.org/gen-fac/pubs/astclim/espas/maidanak/silkroad.html> (accessed 14 May, 2014)

and issues with the Uighur ethnic group living in the North-East of the PRC. Hence, strengthening at the South Caucasus for China is primarily an attempt to prevent hypothetical unification of the Turkic peoples, which would promise not minor geostrategic problems to that country.

From a military-strategic point of view, it is hard to underestimate the importance of same Armenia for Russia to maintain its influence in the region. Absence of formal diplomatic relationship between Armenia and Turkey due to the deep historical tensions and genocide issue makes the former country to agree on the establishment of Russia's military base on own territory, becoming military dependent from the latter. Not the best current political relationship between Georgia and Russia as an aftermath of notorious war makes the former to address the European Union and the United States as to the counterbalance great powers. Azerbaijan's strained relations with Iran and frozen conflict with Armenia over the Nagorno-Karabakh independent state induce the country to refer to its most valuable ally, Turkey, to find possible solutions for those issues. So this ravel of complicated and simultaneously interrelated relationships varying from geostrategic honeymoon to the complete absence of diplomatic relationship is something that to different extent makes the South Caucasian states dependent of the regional military power distribution of those great actors, but at the same time leaves an opportunity for them to benefit from geo-strategic contradictions which those great powers have among each other.

At the same time, attempts of political and military domination in the region are accompanied by economic aspects of influence. In the case of Azerbaijan, the famous "Contract of the Century" proves a deep economic interest that the biggest European, American, Russian oil companies has in terms of deepening and entrenching own positions within that country which is vastly rich of natural resources. Azerbaijan exports resources to other countries, serving both as a raw supplier and as a transit zone (as it is case with gas

export corridors from Caspian region, mainly from Turkmenistan and Kazakhstan through Azerbaijan to Turkey, Georgia and Europe). At the same time, Azerbaijan does not produce high-tech and import it generally as an exchange for own raw materials. The same can be said about both Georgia and Armenia too. After the conflict in 2008, Georgia receives vast financial aid from the West, serving alongside with Azerbaijan an important transit corridor for gas and crude oil supplies (Baku-Tbilisi-Ceyhan) to Europe and creating a specific alternative by own pipelines to the Russian monopoly on these supplies. Armenian case is slightly different but, yet, fits within the general framework of the same logic. The country lacks natural resources compared to those enormous amounts that Azerbaijan owns but, still, it produces electricity and serves as an important transit country for electricity supplies to Georgia and Iran. To a different degree of shareholding, Iranian, Chinese, American, Russian, European firms and companies are present in the Armenian market, whereas Georgian and Azerbaijani economies additionally feel the influence and impact of Turkish corporations.

As it can be seen, today competition of the great powers in the South Caucasus has a multidimensional nature and should not be equated simply to the factor of military potential increase in the region. Lack of geopolitical influence is often tried to be fulfilled by economic penetration into domestic market of a country. This in turn is sometimes accompanied by cultural initiatives and programs. Thus considering those interrelationships of the South Caucasian states with the great powers and combining them with the theory of Heartland, one can state that unique geopolitical location of Armenia, Georgia, Azerbaijan, indeed, shapes perfect conditions and theoretically leaves them a large room for manoeuvring vis-a-vis those great powers.

Hence, basic economic cooperation can be manageable for any side which, as Armenia, sees it as a part of both European and Eurasian cultural and economic hemispheres. From the other side, if one takes the question of political convergence, indeed, a state can

very hardly be imagined as a member of two alliances where the economic element of integration is only the basis for further spill over into more sophisticated model of political and military collaboration. That is why even if flexible cooperation with both sides is possible at the first stages, further engagement into one of those sides practically shuts the door for political proximity with the other side, because those sides (meaning integration initiatives) are generally led by some great powers who usually represent globally competitive forces. This was the case with the 19th century imperial competition within the scope of traditional Great Game; it remained as a case during the Cold war period when countries were forced or voluntarily joined one of the competing sides; and this is still the case today when both geographically and geopolitically the European Union (the most members of which are simultaneously the members of NATO) and the Eurasian Union (the latter on the basis of the ECU) have points of juxtaposition on a global scale where their interests overlap, like in the South Caucasus. When it happens, both sides usually try to displace the competitor from that region, establishing own hegemony. Illustrative example regarding this assumption is the post-socialist hemisphere, where countries spent more than 40 years under the communist rule, but once it collapsed, most of them declared their readiness to join the NATO alliance and the European Union.

Again, understanding of the great powers' competition and their attempt to establish own hegemony should not lead the reader to conclude that if a country joins one great power's integration initiative, it immediately severs all the links with the other great power. This logic works only under some particular circumstances, such as the Cold War presented, when the iron curtain restrained almost any connections between the competing sides. However, in more "normal" conditions of international coexistence, economic, cultural and even ideological connections often works in both sides as long as the country does not want to be integrated with one of the sides in a more compound way. This assumption can be

verified easily appealing to both official documents of the integration initiatives, and the statements of officials who represent those initiatives respectively.⁶² Thus, if Armenia is to exercise further not only economic, but also military and political convergence with Russia and the Russian-led Eurasian Customs Union, it means that the country will not be able to integrate with the EU and its projects in a similar close way as Georgia can, but at the same time it is wrong to infer that the country will allegedly break up all its ties with the EU.

⁶² Derek Averre, “Russia and the European Union: Convergence or Divergence?”, *European Security*, 14 no. 2, (2005); Hiski Haukkala, “The European Union as a Regional Normative Hegemon: The Case of European Neighbourhood Policy”, *Europe-Asia Studies*, 60, no.9, (2008): 601–622; Hiski Haukkala, *The EU–Russia Strategic Partnership: The Limits of Post-Sovereignty in International Relations* (London and New York: Routledge, 2010); Katarzyna Wolczuk, “Perceptions of, and Attitudes towards, the Eastern Partnership amongst the Partner Countries’ Political Elites”, *Eastern Partnership Review, Estonian Centre of the Eastern Partnership*, no. 5, (2011); Vladimir Putin, “New integration project for Eurasia: a future which is being born today”, *Izvestiya*, <http://www.russianmission.eu/en/news/article-prime-minister-vladimir-putin-new-integration-project-eurasia-future-making-izvestia-3-> (accessed: 9 May 2014).

TABLE 5: CROSS-COUNTRY COMPARED REAL GDP GROWTH RATES ADJUSTED TO PREVIOUS YEAR, PERCENT. 2001-2013
 SOURCES: NATIONAL STATISTICAL SERVICE OF THE REPUBLIC OF ARMENIA; THE STATE STATISTICAL COMMITTEE OF THE REPUBLIC OF AZERBAIJAN; NATIONAL STATISTICS OFFICE OF GEORGIA.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Armenia	109.6	113.2	114.04	110.5	113.9	113.2	113.7	106.9	85.9	102.2	104.7	107.2	103.5
Georgia	104.8	105.5	111.1	105.9	109.6	109.4	112.3	102.3	96.2	106.3	107.2	106.2	103.2
Azerbaijan	109.9	110.6	111.2	110.2	126.4	134.5	125.0	110.8	109.3	105.0	100.1	102.2	N/A

TABLE 6: CROSS-COUNTRY COMPARED FOREIGN DIRECT INVESTMENT, NET INFLOWS IN CURRENT U.S. MILLION DOLLARS. 2001-2012
 SOURCE: THE WORLD BANK

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Armenia	69	110	120	247	239	453	698	935	777	570	663	489
Georgia	109	160	334	492	453	1170	1877	1591	652	869	1084	831
Azerbaijan	226	1392	3284	3556	4476	4485	4594	3986	2900	3352	4485	5293

TABLE 7: CROSS-COUNTRY COMPARED CURRENT ACCOUNT BALANCES IN U.S. MILLION DOLLARS. 2004-2011
 SOURCE: INDEX MUNDI

	2004	2005	2006	2007	2008	2009	2010	2011
Armenia	-240.4	-118	N/A	-571.4	-1355	-1326	-1300	-1258
Georgia	-632.9	-625	-735	-2044	-3170	-1259	-1247	-1845
Azerbaijan	-2899	167.3	2737	9019	16450	10180	15040	17150

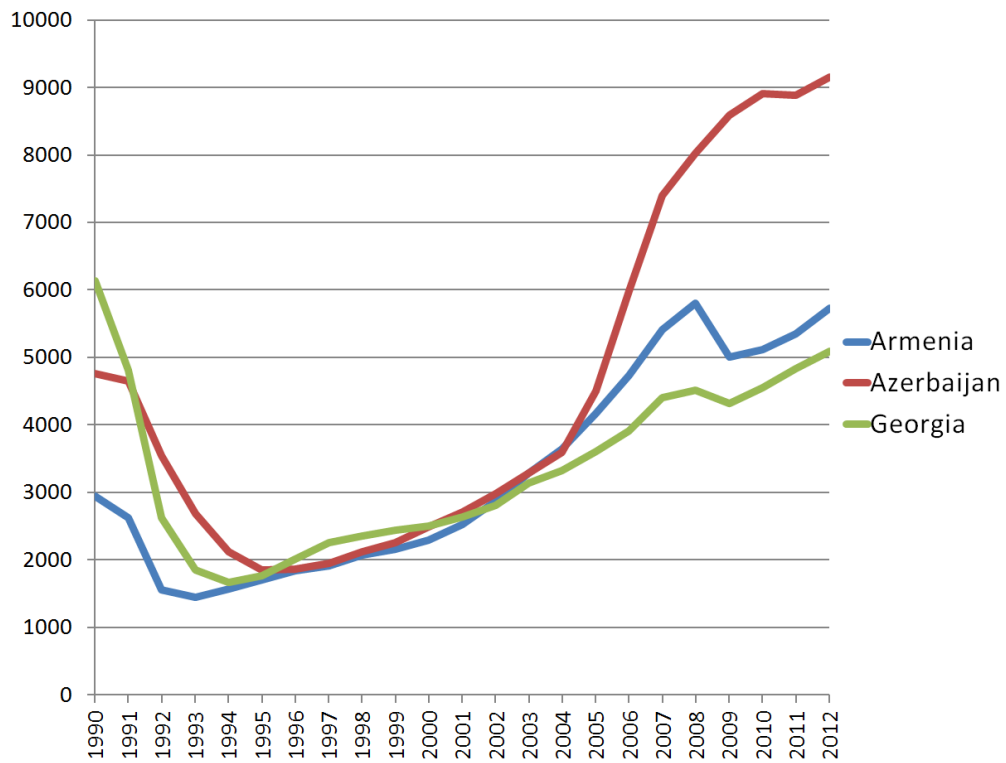
TABLE 8: ARMENIA'S NET EXPORTS AND IMPORTS OF GOODS AND SERVICES
(PERCENT AS OF TOTAL GDP). 2001-2013
SOURCE: NATIONAL STATISTICAL SERVICE OF THE REPUBLIC OF ARMENIA

		EXP	IMP
Armenia's net exports and imports of goods and services (percent as of total GDP)	2001	25.5	46.1
	2002	29.4	46.6
	2003	32.2	50.0
	2004	29.7	45.3
	2005	28.8	43.2
	2006	23.4	39.3
	2007	19.2	39.2
	2008	15.0	40.7
	2009	15.5	43.0
	2010	20.8	45.3
	2011	23.8	47.4
	2012	24.6	49.4
	2013	27.0	50.7

TABLE 9: CROSS-COUNTRY COMPARED UNEMPLOYMENT RATE IN ABSOLUTE VALUE, PERCENT. 2001-2013.
SOURCES: NATIONAL STATISTICAL SERVICE OF THE REPUBLIC OF ARMENIA; NATIONAL STATISTICS OFFICE OF GEORGIA.
THE ONLINE SOURCE OF THE STATE STATISTICAL COMMITTEE OF THE REPUBLIC OF AZERBAIJAN DOES NOT CONTAIN INFORMATION ABOUT UNEMPLOYMENT RATE IN PERCENTAGE. THE AZERBAIJAN'S UNEMPLOYMENT RATE, PRESENTED ABOVE, IS THE RESULT OF THE AUTHOR'S COMPUTATION, BASED ON THE FOLLOWING FORMULA: THE NUMBER OF UNEMPLOYED POPULATION PER YEAR DIVIDED BY THE NUMBER OF ECONOMICALLY ACTIVE POPULATION PER YEAR MULTIPLIED BY 100%. THE NUMBER OF UNEMPLOYED POPULATION, AS WELL AS THE NUMBER OF ECONOMICALLY ACTIVE PEOPLE ARE TAKEN FROM THE ONLINE DOWNLOADABLE SOURCES OF THE STATE STATISTICAL COMMITTEE OF THE REPUBLIC OF AZERBAIJAN. [HTTP://WWW.STAT.GOV.AZ/SEARCH/INDEXEN.PHP?Q=UNEMPLOYMENT&SUBMIT=](http://www.stat.gov.az/search/indexen.php?q=unemployment&submit=)
AT THE SAME TIME, THE DOWNLOADABLE SOURCES PROVIDE ONLY NUMBERS TRUNCATED TO DECIMAL DEGREE, HENCE IT IS PROBLEMATIC TO MEASURE A REAL DEGREE OF ACCURACY REGARDING THOSE NUMBERS.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Armenia	38.4	35.3	31.2	31.6	31.2	27.8	28.7	16.4	18.7	19.0	18.4	17.3	16.2
Georgia	11.1	12.6	11.5	12.6	13.8	13.6	13.3	16.5	16.9	16.3	15.1	15.0	N/A
Azerbaijan	N/A	N/A	N/A	N/A	7.25	6.6	6.3	5.8	5.7	5.6	5.4	5.1	N/A

FIGURE 1 DYNAMICS OF THE GDP PER CAPITA (PPP) GROWTH RATE IN ARMENIA, GEORGIA, AND AZERBAIJAN FOR THE 1990-2012 PERIOD (IN FIXED 2005 U.S. DOLLAR PRICES). SOURCE: THE WORLD BANK



Chapter 3 - The Eurasian Customs Union: realities and prospects

3.1. The Eurasian Customs Union and its distinctive features

The Eurasian Customs Union is a trade-economic integration initiative of Russia, Belarus and Kazakhstan. The main governing bodies of the ECU are the Supreme Eurasian Economic Council, which takes decisions at the level of heads of the member-states, and the Eurasian Economic Commission – a supranational regulatory body that aims to enhance integration of the ECU members and ensure provision of necessary macroeconomic conditions for its stable existence. The Council decisions are taken consensually and become mandatory for all member-states once being approved.

Although talks about the ECU creation had been in the air for a quite long time, it was officially shaped only in 2010 by corresponding decision of those three states engaged in its forming. Since the very moment of its creation, the ECU has received a very broad range of assessment which in many cases simply exaggerated its real objectives. Thus it has been largely considered as either an attempt of the FSU states (Russia particularly) to directly contract own initiative to the EU successful story of integration in a sort of a rivalry⁶³, or as a pure Russian try to reestablish the past empire glory and rebuild the Soviet Union.⁶⁴ In the author's view, those evaluations are as far from the real meaning of the ECU, as the ECU itself is far from being the "second" Soviet Union, although it indeed presumes further political convergence for its members, arguing that "the ECU is clearly seen by Russia as a vehicle for reintegrating the post-Soviet space, including the countries that fall within the sphere of the EU's eastern neighborhood".⁶⁵ Membership of a country in the Customs Union

⁶³ Rilka Dragneva and Kataryna Wolczuk, *Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry?* Chatham House. Briefing Paper. 2012

⁶⁴ Charles Clover, "Clinton vows to thwart new Soviet Union" Financial Times. <http://www.ft.com/cms/s/0/a5b15b14-3fcf-11e2-9f71-00144feabdc0.html#axzz32Lzwwnpv> (accessed 3 April, 2014)

⁶⁵ Dragneva and Wolczuk, "Russia, the Eurasian Customs Union and the EU", 2

de facto means its readiness to participate in the further more profound integration projects which may not be restricted only to the frame of economic cooperation – in other words, inclusion into the ECU means a country's readiness for possible more sophisticated, including political, integration with the Union member-states which in this case presumes inclusion into the future Eurasian Economic Union that is planning to be shaped on the basis of the ECU in 2015.⁶⁶

In order to show clearly the idea behind the ECU and its main features, the following subsections will factually present the Union based on the scrutiny of its operation in three dimensions: economic, political, and ideological.

3.1.1. Economic dimension

The ECU official codex (Customs Code Of The Customs Union) is aimed at purely economic development: it includes a united customs order on a territory of member-states, where the countries can freely move, transport, use and store goods and capital, and do not apply economic restrictions and custom duties on each other with an exception of special anti-dumping measures.⁶⁷ The ECU also implies a one for all customs tariffs, including a single tariff for bargaining adjustment with a third side.⁶⁸ To be able to use and benefit from these options, each prospect member-state must be capable of meeting technical regulations of the ECU which presumes national approvals – “certificate of conformity and declaration of compliance” to be approved by the governments of those states. Those certificates ensure

⁶⁶Nikolay Surkov, “Eurasian Economic Union to replace Customs Union”, Russia Beyond the Headlines. http://rbth.co.uk/international/2013/10/28/eurasian_economic_union_to_replace_customs_union_31237.html (accessed 14 February, 2014); InoCMИ.RU. “Infographics of the Customs Union of Belarus, Kazakhstan, and Russia”. RIA.ru <http://inosmi.ru/infographic/20130926/214339958.html> (accessed 14 May, 2014)

⁶⁷ Customs Code of the Customs Union. Ch.1, Article 1-3. <http://www.tsouz.ru/Docs/Kodeks3/Pages/default.aspx> (Unofficial translated English version: <http://www.tsouz.ru/Docs/kodeks/Documents/TRANSLATION%20CUC.pdf>) (accessed 12 May, 2014); RIANovosti. “Customs Union”, <http://ria.ru/spravka/20111019/464457877.html> (accessed 14 May, 2014)

⁶⁸Customs Code of the Customs Union. Ch.31, Article 213. English Version

complete ability of a state to meet those necessary economic criteria to enter the Union.⁶⁹ Additional support in prompting closer conditions for inter-state economic cooperation both among current member-states and potential candidates for inclusion comes from the Eurasian Development Bank which was established in 2006 and aims to create better investment environment and facilitate economic growth for the Bank members-countries (Armenia, Russia, Kazakhstan, Belarus, Kyrgyzstan, Tajikistan) through helping country and regional economic structures to improve their performance.

At the same time, ease of trade presumes creating a free-trade zone not only for the members-states of the Union, but also encompassing those countries and their structures, who are interested in bilateral cooperation and bargaining with the ECU as a whole (in this matter, it is Egypt, BRICS group, Serbia, Israel, Vietnam who are usually mentioned), as well as potential future members (Kirgizstan, Tajikistan). Nonetheless, so far overall efficacy of the ECU countries to implement the designed rules in practice originates controversial estimations. On the one hand it is usually said that the creation of a single economic space already boosted mutual direct investments between the states in a number of sectors: from finance, manufacturing, transport complexes to chemical and information technologies. More interestingly, as Russian economist Alexey Kuznetsov shows in his work, gradual increase of FDI over the last years has been a tendency not only within the ECU, but among all CIS states and Georgia which speaks of strong corporate ties and business interrelation between the economies of the post-Soviet realm, as well as of their gravity to economically attract neighboring companies. “Despite the outbreak of the global economic crisis, which struck many post-Soviet companies, in 2009-2012 there was gradual build-up of mutual FDI. Their stock increased by 53.5% over four years. This indicates a certain stability of corporate integration processes in the CIS against external shocks. Moreover, the involvement in

⁶⁹ Gosstandart. State Committee for Standardization of the Republic of Belarus. *On mandatory conformity attestation under conditions of the Customs union*, (2010), 1

corporate integration of business representatives from different countries of the CIS accelerated.”⁷⁰ On the other hand, there are some concerns regarding regulations of mutual investments within the ECU which are still far from perfection, allowing experts to voice their skepticism. “Though the CU introduced a number of common requirements, only the terms and conditions of the initial investor’s access to the market of the CU member states have been standardized after all, while the business environment, taxation schemes, preferences, etc. are still being determined by national regulatory enactments. Consequently, the investment climate is not uniform: given the difference in tax assessment and conditions offered to investors, separate “climate zones” remain within the territory of the CU.”⁷¹

Yet, the current macroeconomic features of the ECU member-states are quite promising and allow the states to positively look forward, heading for deepening inter-state economic bonds and attracting prospect members. Perhaps, the biggest positive change has been registered in a trade turnover of the ECU states, which according to some estimations, raised by 70% until 2011, annually expanding for more than 15.5% since 2012 and reaching in total more than 15 billion dollars for the first quarter of 2013.⁷² Although the biggest overall share in that trade turnover comes to Russia (62.2%), Belarus and Kazakhstan also expand their shares, even leaving Russia behind in some particular fields like Kazakhstan does in trading products of agriculture, forestry and fisheries.⁷³

⁷⁰ Alexey Kuznetsov, “Shifts in Sector Structure of Mutual Direct Investments of the CIS Countries”, *Eurasian Integration Yearbook 2013*, Eurasian Development Bank. (2013): 153

⁷¹ Natalia, Maqsimchuk “Chronicle of Eurasian Regional Integration 2012” *Eurasian Integration Yearbook 2013*, Eurasian Development Bank. (2013): 288

⁷² Maqsimchuk, “Chronicle of Eurasian Regional Integration 2012”, 279; Official website of the Eurasian Economic Commission. “Mutual trade of CU and SES Member States by types of economic activity for January-March 2013 (thousands of U.S. dollars)”, Table.

http://www.tsouz.ru/db/stat/iCU201303/Documents/i201303_12.pdf (accessed 12 May, 2014)

⁷³ Official website of the Eurasian Economic Commission. “Mutual trade of CU and SES Member States in percentage to the total volume of trade by types of economic activity for January-March 2013”, Table. http://www.tsouz.ru/db/stat/iCU201303/Documents/i201303_14.pdf (accessed 12 May, 2014)

In the nearest future as well as in the mid-term perspective macroeconomic cooperation of the states will only deepen, and according to some forecasts further collaboration of Belarus, Russia and Kazakhstan will have a number of distinctive positive features. Thus by 2015 it is expected that Belarus will have the highest growth of national economy, 11-12%, which is mainly planned due to the increase of industrial production (up to 9-10.5% in 2015) and agricultural products, whereas Kazakhstan will be able to successfully stabilize and moderate inflation at 6-8% in 2013-2017, and Russia to slow down inflation to 4.5% by 2015.⁷⁴ Everything being equal, until 2020 the ECU economies define their key priorities of development in three particular paradigms: a) provision and establishment of sustainable innovative development program; b) acceleration of diversification through industrialization and infrastructural development; c) gradual transition towards a new innovative model of economic growth instead of the current export-raw model.⁷⁵ Needless to say that the future members of the ECU like Armenia, or Kirgizstan also will be able to have their own impact in achieving of those mentioned goals, simultaneously creating positive incentives for development of their domestic markets and national economy. At the same time, the ECU states do not create delusive positivism and do not shape currently unrealistic goals, such as the creation of a single monetary system with a single currency, yet discussions about that quite intriguing possibility are considered as relevant for the future⁷⁶ and will presumably come on a more sophisticated level of integration, such as the political one proposes.

⁷⁴Eurasian Economic Commission. *Information on the comparative analysis forecasts (programs) of socio-economic development of the Customs Union and Single Economic Space member-states in the short-, medium-, and long-term perspective* (2012): 4

⁷⁵Eurasian Economic Commission. *Information on the comparative analysis forecasts*, 9

⁷⁶ Grigori Marchenko, "Customs Union single currency to appear within decade"
<http://azh.kz/en/news/view/1585> (accessed 19 May, 2014)

3.1.2. Political dimension

Although the Customs Union codex does not imply any program of political convergence for the member-states, the very logic of profound economic collaboration presupposes broadening of that process including on the level of political integration. After all, close economic cooperation *per se* requires sufficient political willingness of the sides to establish it. This is proved by the fact that the ECU project is just a step towards a new degree of cooperation in the form of the Eurasian Economic Union which is supposed to be shaped by 2015.

The Eurasian Integration Barometer, a project developed by the EDB to measure public attitudes about the attraction of the ECU, names political dimension of integration as "the crown of the integration process, when countries create common political institutions (parliament, court), and work closely together in the military-political sphere."⁷⁷ As the Report states, this political level of attraction is evident in most of the CIS countries towards an idea of creating united form of cooperation within the realm of FSU with an exception of Georgia and Azerbaijan, who, according to the results of public poll, more oriented to the convergence with the United States and Europe, and Turkey respectively. At the same time, according to the same Report, integration policy preferences of people prove general attraction of Russia as of the country which occupies the central position in terms of economic and political gravity for the FSU (including current and prospect ECU member-) states (Figure 1). The results of the given poll are quite illustrative, however they speak rather against the idea of already existing deep political integration of the ECU project and attraction of that integration, than in favor of the latter. This inference comes from the fact that political attraction is viewed mostly as a corresponding reliability on different countries

⁷⁷ Eurasian Development Bank, *EDB Integration Barometer. (Second Wave of Survey). Analytical Summary*. Centre for Integration Studies, Rep. 16, (2013): 17

separately (according to the Report and Figure 1 particularly), rather than on the ECU project generally. In other words, it is Russia, Belarus, Kazakhstan that considered separately each as a subject of political attraction rather than their joint ECU initiative. In turn, this can be viewed in light of the fact described above: political dimension of cooperation is neither a core subject, nor a major priority for the framework of the ECU. Political interaction occurs separately either on a level of bilateral political processes between the countries but not on a level of the ECU as a whole, or as a concomitant, auxiliary process aimed at supporting the main economic dimension of integration. Hence, perhaps respective more vivid evidence of political integration will come when the ECU will give the floor to the more sophisticated initiative, such as the Eurasian Economic Union.

3.1.3. Ideological dimension

As the Russian scholars Zadorin and Moysov accurately state, “integration has other facets besides the economic, military or political. “Top-down” integration in the form of various political alliances or intergovernmental agreements cannot be efficient unless based on support from the “bottom”, i.e. the general population’s integration preferences (orientation) and assessment of the processes which take place at the top level. Moreover, certain aspects of integration cannot be formalised or institutionalised at all, since they belong to the sphere of intercultural interaction.”⁷⁸ From the first sight this deep observation can be viewed as contradictory to the major definition of "integration" given at the very beginning of this research which states that integration can be forced, i.e. a country can be forced to integrate own economy within the economy of some other state or organization. Nonetheless, this seeming contradiction is delusive and can be easily refused by appealing to some

⁷⁸ Igor Zadorin, Victor Moysov, “Integration Sentiment in post-Soviet Countries: Status and Dynamics”, *Eurasian Integration Yearbook 2013*, Eurasian Development Bank (2013):128

historical example. As it was already described before, bolshevetization of Armenia and Georgia in the early 1920s of the previous century was not a voluntary act coming from those states and their people, but rather inevitability which had been predetermined by geopolitical situation of the region. There was hardly someone who asked Armenian and Georgian people about their willingness and readiness to join the Soviet Union, nonetheless both states were integrated in the Union as because they had no geopolitical alternative in the forthcoming future. The same was the case with people living in Azerbaijan, although as it was said, most of their officials and national government were in favor of bolshevetization. At the same time, history also evinces rightness of Zadorin and Moysov affirmation which is meaningful and correct if one considers a creation of deep and sustainable integration initiative such as the European Union, where the idea of mutual coexistence has been largely supported from the "bottom", although European initiative had been initially designed just in the framework of economic cooperation, and only afterwards became a basis for cultural and ideological convergence. In that matter, modern European high degree of cooperation is first and foremost a consequence of substantial "bottom" support based on voluntarily sharing of the same cultural and ideological set of values, but which had been imposed artificially in the case of the Soviet Union by the Soviet command elite. Although in both cases "integration" worked (i.e. the final goal was achieved - countries were joined into supranational organization), however ideological background of the Soviet Union failed, leaving instead only economic, political and to a certain degree cultural ties between the former Soviet people and countries on the basis of which today integration initiative is supposed to be shaped. Hence, the author's statement and Zadorin and Moysov affirmation do not contradict each other: rather, they look at the same question from different angles.

Thus as a reader can see, the ideological dimension (which in a broader way constitutes a part of socio-cultural paradigm) is also an important aspect in shaping necessary

environment for sustainable coexistence of the states. In the case of the Soviet Union the ideological justification of its existence was doomed to a failure, however it seems that the shapers of the ECU initiative learned from the lessons of the past, trying to allure perspective members of attractive benefits of shared economic space and big trading potential, and to a lesser extent appealing to the political questions of convergence. At the same time, it is difficult to affirm that the ECU has a clearly defined ideology alike the Soviet Union had. It rather seems that the proponents of the ECU are still in a search of ideology which would consist a power to unite people not exclusively on the basis of economic profits from cooperation, though the latter also presents considerable incentive.

3.2. The Impact of Armenia's Accession to the Eurasian Customs Union

To give a precise answer of what the ECU integration project can give to Armenia one should consider this initiative and related Armenia's recent decision of accession through the perspective of *neofunctionalist approach*, which in its essence aims to shed light on the process of regional integration through several particular factors that any integration initiative originates. As it was stated in the Methodology part, those factors are: growing economic interdependence between the engaged sides; organizational capacity of the sides to resolve disputes which might originate before and during the process of integration; building international legal framework of cooperation; creating supranational market regulations which aim to replace some of the national regulatory rules. Considering Armenia's accession through these factors can show how efficient that decision is for the South Caucasian state economically, and what are its political implications.

Armenia is expected to join the Union in the nearest future, after finishing the process of creating a normative basis for accession, presumably, in May 2014, as the current

president of the country Serj Sargsyan announced the respective decision during his meeting with the Russian colleague Vladimir Putin.⁷⁹ On 23 December 2013 the sides accepted a "road map" of forthcoming accession which constitutes the basic principles and timeframes of that act. According to the Armenian president, joining the ECU will allow the country to hugely benefit economically, which is seen mostly in the ability to create necessary environment for business development and to increase significantly the country's export volumes, entering the market with a shared population of 200 million people, i.e. into the economic space with free move of labor force and capital.⁸⁰ Free move of labor force is considered as especially important advantage of the ECU initiative which is not provided, for example, by signing Association Agreement with the EU. In fact, Armenia has been already benefiting since announcing corresponding readiness of joining the ECU: almost immediately after announcement, Russia decreased the prices on gas and oil for the Union future member state for roughly 30%. That is truly a relief for the Armenia's economy which is still struggling with negative aftermath of the last financial crisis.

On an expert-scholar level the decision is also explained by those large economic benefits that Armenia can enjoy after accession. There is believed to be a whole set of economic advantages that the country will gain after accession. The EDB experts, who examined those advantages using a regression model, distinguish them by respective spheres: possibility to obtain higher GDP growth level; access to a substantial and protected single market; investment inflows into the export-oriented sectors of Armenia's economy; sophistication of the Armenia's transport system; strategic development of energetic system.⁸¹

The regression model, used by the EDB authors, examines the impact of integration effect on

⁷⁹The Moscow Times. "Armenia Will Join Customs Union", <http://www.themoscowtimes.com/business/article/armenia-will-join-customs-union/485525.html>. (accessed 10 February, 2014)

⁸⁰ Serj Sargsyan, "Armenia's membership in the Customs Union will significantly increase the volume of export" Novosti Armenia. <http://newsarmenia.ru/economy/20140215/43015429.html> (accessed 20 May, 2014)

⁸¹ Eurasian Development Bank. *Armenia and the Customs Union: Impact of Economic Integration*. Center for Integration Studies, Rep. 20, (2013): 6

the Armenia's GDP dynamics, taking the period of 2000-2012 and creating regression scenario for 2014 and onwards. Including in the model a set of variables as '*trade costs of Armenia*', '*protectionist measure*', '*customs duty*', '*measure for non-tariff regulation established by i-union for trade with Armenia*' which all in common constitute the backbone of "integration" concept, the EDB authors' computation allows to presume how and to what extent the accession to the ECU will impact the Armenian economy in five mentioned spheres.⁸²

The results of the model are quite promising, although comparing some particular economic aspects of Armenia's development before and after possible accession seems to suggest that the latter will bring not exclusively positive and serene changes for the country's economy. On the positive side, firstly it is expected that the accession will stimulate additional 2% growth of GDP by 2015, expanding up to 4% in the next two years by the capital growth rate acceleration. Economic growth will be also increased by corresponding increase of commodity turnover, as according to the scenario developed via regression model, the growth rate of 1% in the commodity turnover will result in economic growth of 1.1%. Secondly, access to the common ECU market will significantly facilitate export of goods, and ease utilization of Armenian production. Third, in the proposed EDB scenario, investments rate is directly related to the level of Armenia's integration with the ECU. As the analysis shows, the investment rate of 1% affects in the economic growth of 0,2%. In turn, as it states, "if the integration level (estimated using a specific index) is increased by 1% (for example, through various preferential agreements), then, under all other conditions being equal, in two quarters economic growth rate will increase by 5%"⁸³ which means that the higher is integration level of Armenia, the more is potential for economic growth, therefore the more is

⁸² For the detailed description of the EDB methodology, i.e. multiple regression model with its corresponding formula of calculation proposed by the authors see: Eurasian Development Bank. *Armenia and the Customs Union*, 20-24

⁸³ Eurasian Development Bank. *Armenia and the Customs Union*, 27

potential for investments increase. Fourth, created growth and investments from accession can be directed to the solution of the transport deadlock issue that Armenia faces having closed borders with Turkey and Azerbaijan: mainly, construction of railway to Iran (as a result - opening markets of Persian Gulf and South Eastern Asia), and opening of Armenia-Georgia-Russia railway will help the country to integrate into the international Eurasian logistic system. Finally, energetic security of the country and corresponding development of that sector becomes possible once Armenia, supported by the ECU member states, will invest in a construction of a new NPP which will make the country less dependent from external energy supplies. Additionally, in order to realize the last two points, a number of workplaces will be opened in a country, which means that the rate of unemployment will be hopefully reduced.

However, the accession also requires some "sacrifices" or costs which the Armenian economy will bear once it becomes integrated into the ECU. Those costs are first and foremost related to the unification of customs tariffs: as Table 10 suggests, in several categories standardization of customs tariffs to the ECU level will originate additional expenditures for the Armenian economy, as some of the current tariffs are lower than the standardized ECU system requires. In turn, increase of the tariffs and their equating to the necessary ECU degree will force Armenia to "increase the level of protection" which might be quite costly for some of the most "sensitive tariff lines" of the country. Moreover, "the increase of customs duty rates will result in deficit reduction and trade reorientation; however this might cause problems with the WTO. The applied average weighted import duty rate in Armenia is one of the lowest rates used by WTO members."⁸⁴ Secondly, as the ECU codex implies, the major support will mainly go to the export-oriented sectors. However, in the case

⁸⁴ Eurasian Development Bank. *Armenia and the Customs Union*, 18-19

of Armenia they are not so many, which means that those sectors who are more directed to the domestic market and internal utilization will not be able to benefit so much.

The given detailed analysis of both advantages and disadvantages from joining the ECU for Armenia moves us to answering the question of economic necessity for the country to join that Union. As it can be seen, accession presumes a number of positive economic outcomes which hopefully will not take too long to appear, giving the Armenian economy a possibility to recover after the last crisis of 2008. Perhaps, one of the most important of them alongside with mentioned is the fact that unlike Association Agreement and the Action Plan proposed by the European Union, the ECU initiative does not require political concessions from Armenia.⁸⁵ At the same time, some of the proposed initiatives (like the ambitious plan of Armenia-Iran railway construction) are still on paper and it is difficult to estimate if their realization indeed can begin once the agreement of accession is signed. Simultaneously, the same analysis suggests that the mentioned railway project economically is not of much benefit for Armenia, "due to small volumes of and one-sided (about 80% of the total freight traffic falls on import from Iran to Armenia) Armenian-Iranian commodity turnover",⁸⁶ however its importance cannot be underestimated from the geopolitical point of view: the country will eventually have a real opportunity to get out of communication transport stalemate where it is in now. At the same time, increase of customs tariffs and exclusive support to the export-oriented sectors might endanger those domestic companies which are not sufficiently capable of presenting own production on international market. Simultaneously, free move of labor force can stimulate large human outflow (especially of workforce who are not satisfied with general working conditions and want to move somewhere else) which is neither a positive sign for the country with 2.8 million population.

⁸⁵ European Union External Action. *The ENP action plans (or Association Agendas for Eastern partner countries)*. EU/Armenia Action Plan.

http://eeas.europa.eu/enp/pdf/pdf/action_plans/armenia_enp_ap_final_en.pdf (accessed: 23 May, 2014).

⁸⁶ Eurasian Development Bank. *Armenia and the Customs Union*, p.35

Lastly, examining the question of Armenia's accession through the given economic, political and ideological aspects now will allow a reader to answer how that decision echoes with those four factors of neofunctionalist approach which were mentioned at the beginning of this section.

Firstly, Armenia will become much more dependent economically from the proposed external support. However, the mentioned "growing economic interdependence between the engaged sides" in the case of Armenia's inclusion has obvious unequal nature: Russian, Kazakh, or Belarus dependence from the integration perspectives are obviously lesser than Armenian. As the latter is weaker economically, entrusting a part of own "economic" sovereignty to the Union will certainly have an effect on the country. The crucial point in this respect is to guarantee that the effect will not have detrimental nature which in turn depends on the extent of rational and gradual implementation of those ECU measures.

Secondly, regarding "organizational capacity of the sides to resolve disputes which might originate before and during the process of integration", it should be noted that Armenia's accession geopolitically has some obstacles for full implementation, because in the case of joining, the country will not have a common border with any of the ECU member states. This in turn can complicate transportation of goods, services and capital especially because the only terrestrial connection goes through Georgia which is in little expectancy to support the initiative in the case of further convergence with the EU and especially given the current situation over Abkhazia and South Ossetia. Additionally, it is unclear how the conflict over independent republic of Nagorno Karabakh will be settled if it can be settled at all, given the obvious fact that Armenia will not be willing to establish custom border with NKR. From the pure economic point of view, leaving aside political issues which are not so much entrenched as it is in Armenia and Azerbaijan, Georgia indeed can harvest some fruits from Armenia's accession, especially if it agrees to re-open the railway line through Abkhazia. In

fact, re-opening is really possible under the latest agreements between Russia and Georgia to shape through the territory of Abkhazia and South Ossetia a "transport corridor" that can resume railway communications,⁸⁷ however much will also depend from political readiness and willingness of the parties. As to the last two factors mentioned in the neofunctionalist approach, they must not originate any complications while being implemented.

Withal appealing again to the political aspect of integration and considering it through the prism of neofunctionalist approach, it must be said that Armenia still keeps the faith to promote complimentary policy in its foreign relations with the other foreign actors which are not directly related to the Customs Union. First and foremost, this includes the European direction of Armenian foreign policy where the country presented a genuine interest in not to stop association with Europe in the frame of the Eastern Partnership program. However, it seems that the Armenian complementarism faces with geopolitical stalemate, as the European officials claimed impossibility for Armenia to become a member of both European and Russian integration projects simultaneously as “the compatibility of obligations to the Customs Union with those under an Association Agreement/DCFTA with the EU looks problematic”.⁸⁸ Armenia’s neighbors Georgia and Azerbaijan have more room for maneuvering, compared to the former; hence, it is rational to expect that their foreign policy will be more flexible in relation to the great powers who show interest in the region.

Given all aforementioned till this point, the author finds possible to answer two of the initial hypotheses raised at the beginning of the work, subsequently appealing to the last hypothesis and the general research question. Firstly, resulting from the logic of the given analysis, estimations and interpretation, Armenia's accession to the Eurasian Customs Union

⁸⁷ BBC Russian Service. “MFA of Georgia: Russia accepted the Swiss offer of WTO”, http://www.bbc.co.uk/russian/russia/2011/11/111104_georgia_russia.shtml (accessed 28 May, 2014)

⁸⁸ Stefan Fule, “EU-Armenia: About Decision to Join the Customs Union”. European Commission, http://ec.europa.eu/commission_2010-2014/fule/headlines/news/2013/09/20130906_en.htm (accessed 28 May, 2014)

will certainly have a positive impact on the economy of the country. However, alongside with the stated advantages, conditions of accession also presume some economic changes, such as standardization of customs tariffs and mainly export-oriented support, which will supposedly become a quite expensive burden for the country's economy. Hence, economic impact of accession can have both negative and positive consequences. At the same time, politically Armenia's freedom in international affairs, meaning capability to stay flexible and to be able to exercise complementarism, cannot not be harmed and/or endangered only because of the decision to join the ECU - however, it can be decreased once the country will express a desire to integrate into more sophisticated model of cooperation, such as the Eurasian Union. Therefore, according to the conducted analysis the first initial hypothesis is proved.

With regard to the second hypothesis, namely, that the ECU initiative can bring economic benefits not exclusively to Armenia but also to Georgia and Azerbaijan who are not members of that Union and are neither expected to become, answer of this question requires some provisos: indeed, economic benefits from cooperation with the ECU can be attainable for Georgia if the sides do not stick exclusively to the political aspects of the issue. That sort of cooperation will presume bilateral relationship not on the level of Georgia-Russia, but rather of Georgia-ECU. The last form of relationship could supposedly ease a possibility to find common language. This is especially related to the transport-communication sphere that includes a possibility of re-opening the Abkhazian portion of the railway which will boost economic development of all the sides integrated in that initiative, especially those who have transit potential, so does Georgia. As to the question whether the ECU introduction in the South Caucasus through Armenia can bring economic benefits to Azerbaijan, the answer seems to be rather negative than positive. In light of the ongoing crisis between Armenia and Azerbaijan, it is very difficult to distinguish the economic aspects of that potential cooperation from those political issues that detain it, especially as long as the conflict

regarding NKR remains unsettled. Hence, cooperation of Azerbaijan is more likely to be continued on a state level, i.e. with Russia, Kazakhstan, Belarus, but not on the level of with the ECU, if Armenia gains membership in the latter.

Therefore, answering correctly the second hypothesis requires differentiation of approaches between Georgia and Azerbaijan. Distinguishing of the economic degree of cooperation from the political components of the latter is more likely to affect on the relationship with Georgia, than on Azerbaijan, as for the later economic cooperation will be limited as long as geopolitical issues with Armenia are unsolved. The following section will address the last hypothesis of this research, simultaneously summarizing some of the inferences and answering directly the general research question of the work.

3.3. Similarities and differences of official and non-official positions on the ECU: regional approach and peoples' view on the initiative

Russian practice to consider the South Caucasus as a crucial geopolitical region where the interests of the country should be always defended is by no means something new. Neither new is the historical traditional support that Russia enjoys in the region from Azerbaijani, Georgian and especially Armenian sides. Nonetheless, bilateral relations of Russia with the regional states should be distinguished from those relations that will be formed as a part of the dialogue with the Eurasian Customs Union, member of which Armenia will become shortly. Correspondingly, traditional warm perception of Russia by Armenia should be conceptually distinguished from the perception of the ECU, where Russia is only a part. Naturally, Armenia has no substantial problems in relations with Belarus or Kazakhstan, however, the very fact of accession to the ECU rises some doubts among some Armenians, who mistakenly see it either as a restoration of the Soviet rule, or as a full

divergence from the European way of development with corresponding severance of all the ties with Europe. Arguments, presented below, already evinced why that sort of opinion has commonly nothing with the real state of affairs, nonetheless, it would be useful to refer to the opinion of regional people to understand if they indeed support the process that their country is engaged in, and if they do, to what extent their own position differs from the position of those officials who lead that process of accession. To accomplish this task, the author refers to the independent survey, conducted by the Center for Integration Studies of the EDB.

It must be initially noted that the support of accession is not a universal phenomenon in Armenia, even among the officials. Thus the protest against joining the Union has been declared by the parliamentary opposition Heritage Party, whose leader R. Hovhannisyan positioned his strict disagreement about Armenia's perspective to enter the ECU.⁸⁹ The same can be said of those Armenians who in light of the forthcoming accession organized an in compliance action on the streets of the capital Yerevan to stop or at least postpone the famous decision.⁹⁰ Nonetheless, neither those official disagreement nor street actions have a nature of mass in compliance, evidenced by the statistical record proved by the EDB sources whose main aim was to "monitoring and research of integration preferences of the population of countries of the post-Soviet space (citizens of eleven countries of the CIS and Georgia)."⁹¹ Thus the recent surveys conducted in the frame of Integration Barometer 2013 program roughly among 2000 respondents in each country evidenced that the majority (67%) among asked during the poll in Armenia had "absolutely positive/rather positive" attitude toward the ECU, finding the latter "desirable to join" (Figure 2). Only 5% among the respondents

⁸⁹ Lurer.com "Raffi Hovhannisyan against Armenia's possible membership in the Eurasian Union" Lurer.COM <http://lurer.com/?p=84171&l=ru> (accessed 29 May, 2014)

⁹⁰ Radio Free Europe "Putin Arrives In Armenia Amid Protests Against Customs Union" rferl.org. <http://www.rferl.org/content/putin-yerevan/25186637.html> (accessed 29 May, 2014)

⁹¹ Eurasian Development Bank, *EDB Integration Barometer. (Second Wave of Survey). Analytical Summary*. Centre for Integration Studies, Rep. 16, (2013): 4. For the survey methodology see the same source.

presented "absolutely negative/rather negative" answer, whereas 19% confirmed their indifference to that issue.

Interestingly, the results of the poll are even more impressive in the neighboring Georgia and Azerbaijan. Despite the war between Georgia and Russia in 2008, 59% of the respondents confirmed their attraction by the ECU, and only 16% stated objection. The most surprising result was registered among Azerbaijani respondents 53% of whom were "rather/absolutely negative" to the idea of even hypothetical joining the Union. This result is quite interesting, especially considering the fact that unlike Georgia Azerbaijan openly did not have a real trouble issue with Russia or any of the ECU member-states. From that perspective, it seems that the Azerbaijani respondents are generally consonant to the official position of their MFA who also do not see the ECU as a sufficiently attractive initiative for joining, considering that possibility as "inexpedient".⁹² At the same time, in the author's view in the case of Georgia that quite unexpectedly large support of the ECU can be in a way explained by the recent betterment of Georgia's bilateral relations with Russia, especially after Bidzina Ivanishvili occupied the prime-minister office in 2012. Plus, similar to Armenian population it can be said that Georgians also traditionally have had quite good attitude to Russia which have not been broken by the short war. Yet again, the given result also can be interpreted in a way that it seems in minds of ordinary people the ECU first and foremost is associated with Russia and their homeland's relationship to Russia, through the prism of which the given poll question is answered. However, disregard to the interpretation, the result is quite illustrative *per se*, proving the fact that the initiative of coexistence within a new integration project in the FSU realm can do find support among people, which perhaps is not a case in any other part of the former communist order. This in turn simply proves important necessity of differentiation among post-Communist countries and their regions,

⁹² Interfax. "Azerbaijan does not plan to join the Eurasian Union", <http://www.interfax.ru/world/335932> (accessed 29 May, 2014)

simultaneously proving scientific and factual wrongness of the "one fits all" approach in international affairs when scholars approach the same economic, political, cultural or any other estimation to the entire former Soviet space. Hereby, the third initial hypothesis is confirmed, meaning that the author's initial expectations are correct, although the degree of difference in "positivism" toward the ECU between Armenians and Georgians is not that much, compared to Azerbaijani people.

In light of all mentioned, the author finds possible to answer decisively the research question of this work which was the following: *what kind of economic, political, and ideological impact can the Armenia's accession to the Eurasian Customs Union have on that country particularly and on Georgia and Azerbaijan more generally?* For Armenia itself accession holds out big economic promises, seen in corresponding development and growth in a number of sectors. At the same time, the state's government must be aware of those costs, including and especially of customs tariffs, which are necessary for accession and cannot be avoided, hence which will become a burden for the national economy. Politically, the decision to join the ECU will not bear any tangible change as the ECU integration itself is not a political initiative and does not require any political concession. Meanwhile, possibility to integrate in the "more advanced" Eurasian Economic Union may lead to some shifts in the foreign policy of Armenia, and affect the degree of external political freedom of the country, seen in corresponding possibility to exercise versatile international politics. Ideologically, accession can be considered as of the country's desire to integrate in a project that promises economic benefits and as a rational consistency to strengthen its international positions and ties, seen also in the public support in that regard.

For Azerbaijan Armenia's accession will create probably nothing but additional headache, as being one of the states, who are currently enrolled in a harsh conflict against each other, Azerbaijan will face a neighbor who will have entered the project which promises

several advantages, including but by no means limited to economic prerogatives. Ideologically, Armenia's accession will probably be worse even more than the designed EDB survey suggests the relationship of Azerbaijan if not with all ECU member-states, but with Russia certainly. Therefore, politically it is generally expected that Azerbaijan will attempt to deepen its ties with traditional allies such as Turkey, as well as will try to flirt with the United States who are largely considered as a counter balance great power to Russia, especially in light of the recent Ukrainian crisis. Economically it is very difficult to imagine that Azerbaijan will cooperate with the Union, member of which is in a state of ceasefire with Azerbaijan, which in fact is broken every week by the shots on the border. Hence, it is more rational to expect cooperation on a current, i.e. national level.

For Georgia the economic impact from Armenia's decision can have several political and economic implications and less ideological changes, as it seems the country decided finally for closer convergence with the European Union and with all or almost all the values the EU proposes. At the same time, attitude of ordinary Georgians toward the ECU is quite positive, which means that there is no mass hatred to Russia or Russian-led initiatives as it might have seemed after the war. Therefore, politically Georgia is the country that keeps, perhaps, the largest open room for international maneuvering between the great powers' interests, at the same time maintaining also large space for economic flexibility regarding the decision to cooperate or not to cooperate with the ECU-proposed initiatives, especially in the transport area.

TABLE 10: AVERAGE RATES IN ARMENIA AND THE CU COMMON CUSTOMS TARIFF PER COMMODITY GROUPS AS OF SEPTEMBER 2012

SOURCE: EURASIAN DEVELOPMENT BANK. CENTER FOR INTEGRATION STUDIES. ARMENIA AND THE CUSTOMS UNION: IMPACT OF ECONOMIC INTEGRATION. REP. 20 (2013): 19

Categories	CU	RA	Categories	CU	RA
Animals	12.2	6.7	Chemicals	7.7	0
Fish and fish products	9.99	10	Plastics products	9.8	0
Dairy products	15.64	10	Leather, footwear	9	6.7
Fruit, vegetables, plants	10.8	10	Timber, paper	13.9	0
Tea, coffee	5.63	10	Cotton	10.7	0
Cereals	7.15	0	Textile	11	2
Other plant products	7	3.3	Clothing	13.1	10
Fats, olive oil	10.3	10	Stone, ceramic and glass items	14.9	6.7
Finished products	13.1	6	Pearls	17.8	0
Sugar, confectionery	6.3	10	Metals	9.8	2.5
Beverages, tobacco	22.4	5	Electric machinery	5.4	5
Mineral products (including fuel)	4.7	0	Transport	9.7	10
Pharmaceuticals	7	0	Devices	5	0

FIGURE 2 THE LEVEL OF MUTUAL POLITICAL ATTRACTION ACROSS THE FSU STATES ACCORDING TO THE 2013 SURVEY. "WHICH OF THE FOLLOWING COUNTRIES, IN YOUR OPINION, ARE FRIENDLY TO OUR COUNTRY (ON WHOSE SUPPORT IN HARD TIMES WE CAN COUNT)? [PREFERENCES WITHIN THE FORMER USSR, 2013]". SOURCE: EURASIAN DEVELOPMENT BANK, CENTRE FOR INTEGRATION STUDIES, EDB INTEGRATION BAROMETER. (SECOND WAVE OF SURVEY). ANALYTICAL SUMMARY. REP. 16. (2013): 19

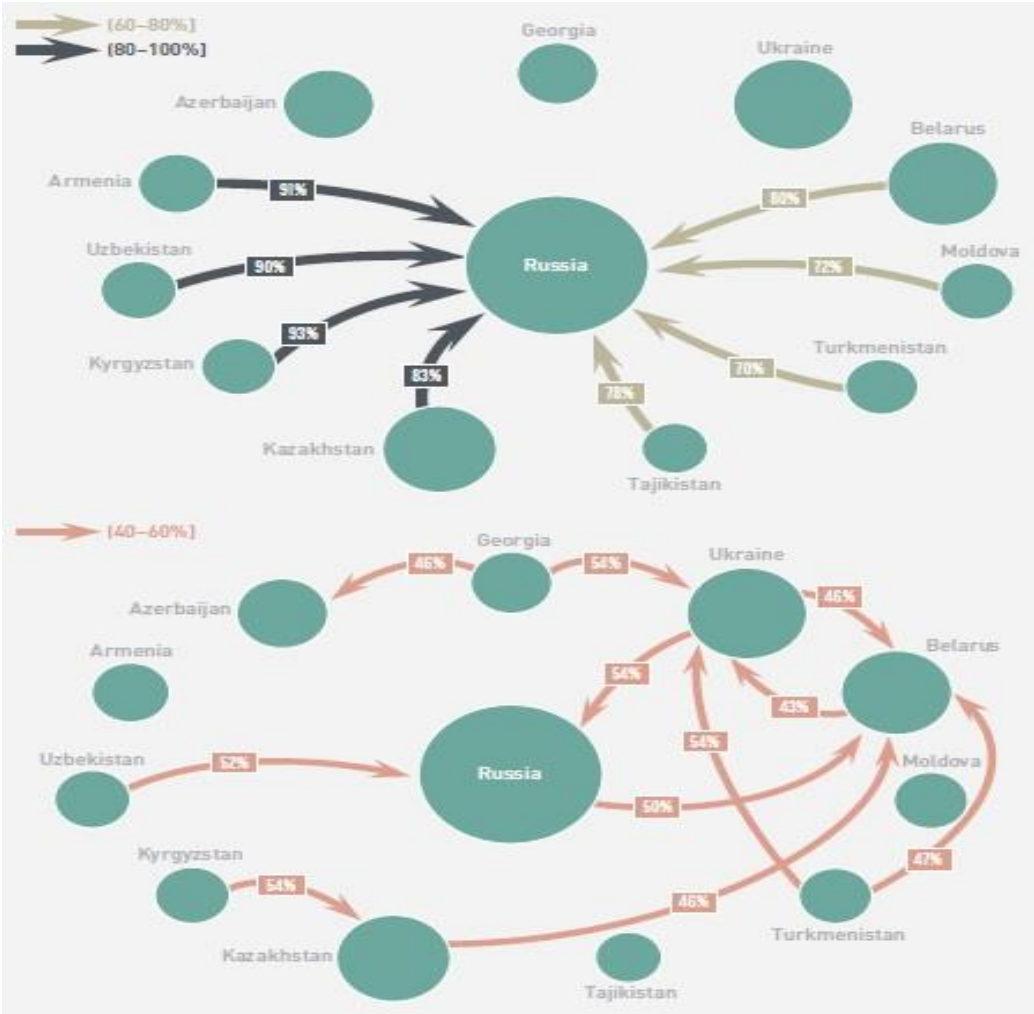
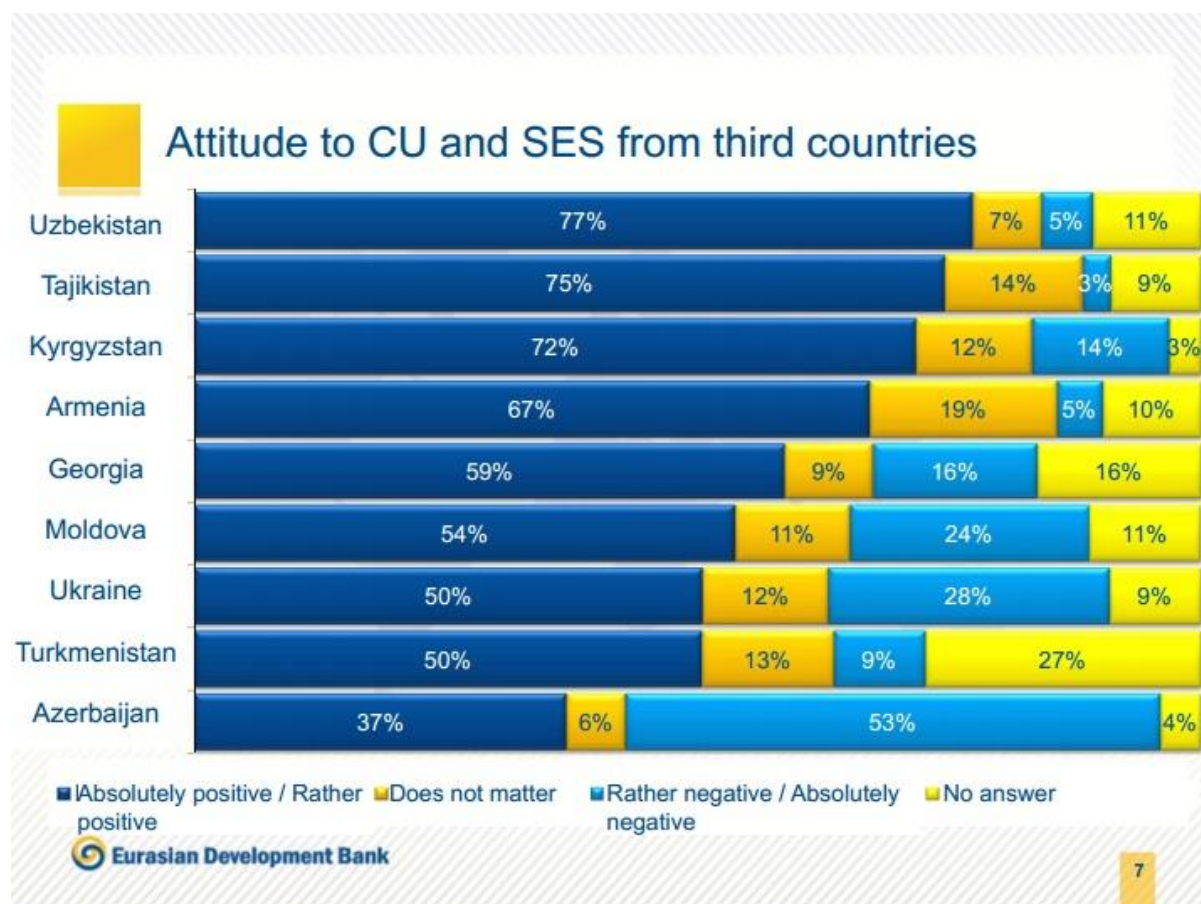


FIGURE 3 ATTITUDE TO THE ECU AND SINGLE ECONOMIC SPACE FROM THE THIRD COUNTRIES (POLL RESULTS). INITIAL QUESTION STATED AS FOLLOWS: "BELARUS, KAZAKHSTAN AND RUSSIA JOINED AS THE CUSTOMS UNION, WHICH FREED UP TRADE BETWEEN THE THREE COUNTRIES FROM DUTIES AND CREATED A SINGLE ECONOMIC SPACE (IN FACT — THE SINGLE MARKET OF THE THREE COUNTRIES). DO YOU THINK THAT IT IS DESIRABLE FOR OUR COUNTRY TO JOIN THE UNION?". SOURCE: IMAGE - EURASIAN DEVELOPMENT BANK, CENTRE FOR INTEGRATION STUDIES, 2013. EDB INTEGRATION BAROMETER. PRESENTATION. SLIDE N7; QUESTION - EURASIAN DEVELOPMENT BANK, CENTRE FOR INTEGRATION STUDIES, EDB INTEGRATION



Conclusion

At the beginning the author appealed to T. De Waal, who questioned possibility of considering the region as a whole. The important inference in that matter assumes that even if the South Caucasus is perceived externally as a whole, a quick glance from inside the region suggests that apart from sharing some cultural and traditional similarities, perception of "as a whole" in fact works not so well, considering Armenian, Georgian, and Azerbaijani differences in economic and political paths of current development.

Historically countries were able to mitigate their tensions in order to enjoy economic prosperity from cooperation within a single initiative like it occurred in the case with TSFSR, although success in cooperation can be largely attributed to the fact that the parties were pacified from the top, i.e. being regulated by the strong fist of a single Center - Moscow. Nonetheless, that approach brought to a certain degree not only political and ethnic conciliation, but also possibility for economic growth under the programs of industrialization. In that respect, the macroeconomic features that the states had in the 1990s and some of the current economic characteristics are the results of the Soviet policy of industrialization, heritage of which the three independent South Caucasian states have used for their purpose.

Initial independent development after the Communist collapse was a painful experience for all of the states, but also and especially for those who had some geopolitical and military problems with neighboring countries, simultaneously trying to solve economic issues. Nonetheless, the current economic achievements of Yerevan, Tbilisi, and Baku are quite remarkable from the purely statistical (read quantitative) point of view, as the countries found themselves able to reorganize their economies in a quite short period of time without large external financial support from the Western liberal democracies (perhaps with the only exception of Azerbaijan), afterwards being capable of acting as almost mature market

economies. Economic maturation of the three South Caucasian states in the 2000s also attracted foreign capital which flowed in the states consistently until the last financial crisis drastically changed the paradigm of investments. Some countries like Armenia suffered the most, also because the crisis was accompanied by the Dutch decrease that smote the house-building sector, whereas some states like Azerbaijan *de jure* were not influenced by the crisis that much, having vast reserves of natural resources which supported their economy.

Simultaneously with economic maturation, politically the South Caucasian three states became fully-fledged actors of international process. Compared to the beginning of the last century when Armenia, Georgia, Azerbaijan had no other alternative but to accept bolshevetization and to join the communist states, current international conjuncture allows them to exercise complementarity, trying to play on the interests of those great powers who see the region as a part of their realm of real/potential influence, each to a different degree. At the same time, international conjuncture prompted Armenia, Georgia, and Azerbaijan to clarify more explicitly their positions regarding different integration initiatives proposed by those great powers. In light of the conflict over NKR, of different political-economic conditions of relationship between each of the regional states with each of the great powers, eventually Georgia and Azerbaijan found themselves oriented more toward the West, whereas Armenia consistently preserves its utmost strong economic and political ties with its geostrategic ally Russia, correspondingly entering the Eurasian Customs Union that guarantees maintenance of that relationship and gives a number of economic benefits for the country, although not without compensation.

The Eurasian Customs Union can be generally viewed as a springboard toward a more diversified form of integration that can also bring political changes to the prospect member states, apart from those named macroeconomic modifications. Clearly, the ECU has a number of advantages from the pure economic point of view, but the whole issue is that a country

which positions itself with the Union is obliged to reconsider its economic ties with other similar initiatives, coming from some of the rest of the world. The same degree of profound economic integration simultaneously within both ECU and, for example, the Eastern Partnership Association initiative is impossible not only because custom and general economic requirements and demands of those initiatives differ, but also because those initiatives represent the interest of different international forces who in a broad scale compete with each other seeking proliferation of their own influence across the globe, including the South Caucasian realm.

For Armenia the decision of accession leaves less room for maneuvering, albeit the very decision to join the ECU does not mean that the country will cut all its political, economic, cultural, military ties with Europe and, more broadly, with the West. Compared to Armenia, Georgia has more room for international flexibility in its foreign affairs, whereas Azerbaijan will rather consider alternative to the ECU options of external cooperation. Meanwhile as the research evidenced, there are a number of opinions, trying to give proper assessment of Armenia's decision and of consequences of that choice.

The same wide range of estimations about the ECU in general is present once a reader would address to the opinion of ordinary people who live in the three South Caucasian states and who to a different extent find the idea behind creating the Union attractive. As it was expected, Armenians are the most positive about it, whereas people living in Azerbaijan are the least respectively.

All in all, despite those public views and assessment, it seems still too early to talk about particular aftermath that the accession can give on a regional level in a long term perspective. However in a short-and mid-term perspectives, under the conditions of necessary political willingness, Georgia also can become a beneficiary of the ECU initiative, whereas

seemingly Azerbaijan will not cooperate with the ECU as a whole, preferring direct national talks. Howbeit, the author hopes that the issues regarding the impact of accession can be a subject of further investigation, including and especially because the process of integration is ongoing, and because the ECU will open a door for the next level of integration in the form of the Eurasian Economic Union, which hopefully will be also researched.

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