

## IS THE REGIONAL ECONOMIC COOPERATION IN SOUTH CAUCASUS MYTH OR REALITY?

### GÜNEY KAFKASYA'DA BÖLGESEL EKONOMİK ENTEGRASYON EFSANE Mİ, GERÇEK Mİ?

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#### ABSTRACT

*This article analyzes and discusses the possibilities of economic cooperation in South Caucasus within the framework of the economic partnership between Azerbaijan, Georgia and Turkey in particular in terms of economic cooperation in transportation and energy and regional trade.*

*There are various motivating factors for economic cooperation between countries in South Caucasus. Energy relations, historical links, cultural ties and social factors are stimulating and necessitating economic cooperation between countries. In addition to this, the geographical proximity and unity of the countries in the region is conducive to and an encouraging factor for the formation of economic co-operation agreements. Recent vital energy projects and other developments in the region such as BTC, BTE and BTK etc, which are huge infrastructure investments in transportation, have already been the motivating factors and played the determining role with regards to the regional cooperation between Azerbaijan, Turkey and Georgia in South Caucasus.*

*However, since there are no sufficient economic and diplomatic relations between Turkey-Armenia and Azerbaijan-Armenia due to several issues such as the Nagorno-Karabakh conflict and Armenia's genocide claims against Turkey, Azerbaijan and thus, Georgia has become a vital transit link between East and West as a network of major transportation corridors. The Turkish/Armenian border has been closed since 1992 and although both sides have signed the protocol recently to open the border under some conditions, no serious economic or trade developments with regards to regional cooperation between those countries in South Caucasus have been made so far.*

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**ÖZET**

*Bu makalede, Güney Kafkasya Bölgesi'nde konumlanan Azerbaycan, Gürcistan ve Türkiye arasında enerji, ulaşım ve bölgesel ticaret açısından ekonomik entegrasyon olasılıkları analiz edilmektedir.*

*Bu ülkeleri kendi arasında ekonomik işbirliğine ve entegrasyona sevkeden çok sayıda motive edici faktörler bulunmaktadır. Coğrafi yakınlık ve ülkeler arasındaki tarihi ve kültürel bağlar, sosyo-ekonomik faktörler ve “de facto” olarak gelişen enerji işbirliği ekonomik entegrasyonu daha güçlü kılmakta ve cesaretlendirici faktörler olarak rol oynamaktadır. Bu bağlamda BTC, BTE ve BTK gibi dev enerji projeleri, alt-yapı yatırımları ve diğer sosyo-ekonomik gelişmeler bölgede ekonomik işbirliğine yönelik adımlarda tetikleyici ve hızlandırıcı faktörler olmuşlardır.*

*Bunlarla birlikte ekonomik entegrasyona engel teşkil eden bir takım problemler de bulunmaktadır. Türkiye-Ermenistan arasında devam eden “sözde soykırım iddiaları” ve Azerbaycan-Ermenistan arasında son yirmi yıldır devam eden “Dağlık-Karabağ” sorunu nedeniyle yeterli seviyede diplomatik ve ekonomik ilişkiler mevcut değildir. Bu sebeplere bağlı olarak Gürcistan önemli bir aktör olarak belirmiş ve uluslararası enerji projelerinde transit ülke olarak stratejik önem kazanmıştır. Bu anlamda Azerbaycan-Gürcistan-Türkiye ulaşım hattı Batı-Doğu ekseninde stratejik öneme haiz oldukça önemli alternatif koridor haline gelmiştir.*

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Economic Cooperation, Energy Projects, South Caucasus,  
Ekonomik İşbirliği, Enerji Projeleri, Güney Kafkasya,

**1. INTRODUCTION:**

The globalization process has played an important role in the fostering of regional economic cooperation attempts all over the world through international organizations of GATT(General Agreement on Tariffs and Trade), which has conducted world trade since 1947, and WTO ( the World Trade Organization), which was established in 1995 and replaced GATT, IMF, etc.. Many international organizations for economic cooperation and integration since GATT negotiations (1947) were launched just after the Second World War in 1944. The most important and advanced form of the present economic integrations in the world is the European Union which commenced as the European Economic Community (EEC), and evolved into the European Community (EC), before it finally became the EU in 1993, as well as some popular economic integration attempts by the North American Free Trade Association (NAFTA), the Latin American Free Trade Association (LAFTA), Australia and New Zealand Closer Economic Relations Agreement (ANZCERTA) (Kalaycıoğlu, 2010:1). All international organizations have been founded with the aim of reducing barriers to international trade and foreign direct investments. This has resulted in the emergence of a number of multinational companies and corporations which are operating in different sectors, in various countries all over the world and taking a largest part of World GDP, such as BP, Mc Donald's, Coca Cola, and Microsoft.

In this article, I am analyzing and discussing economic cooperation possibilities in South Caucasus within the framework of economic partnership between Azerbaijan, Georgia and Turkey in terms of economic cooperation in transportation and regional trade, instead of examining the mostly proposed and sought after traditional regional cooperation between Azerbaijan, Armenia and Georgia.

The economic cooperation between Azerbaijan, Turkey and Georgia has been developed through mega projects in transportation, but there is still no free trade agreement between Azerbaijan and Turkey. There are, however, free trade agreement attempts between Turkey and Georgia now. At least they took reciprocal visa requirements out and facilitated visa issues for their citizens. The Georgian Government opened Batumi airport for Turkish citizens, and thus, Turkish investors who operate mainly in Georgia as small and medium sized companies, might be considered as great potential for future development in economic cooperation.

On the other hand, although further relations are expected between Turkey and Azerbaijan in terms of economic cooperation and integration, there is no single concrete progress so far. Azerbaijan officials will need to display a more serious political will to expand bilateral economic cooperation because of several reasons. Firstly, economic cooperation will bring with it a certain amount of risk and more competition to the present market structure which is of a monopolistic nature for the time being, something which the current beneficiaries wouldn't be willing to lose share of, due to there being big profit. Therefore they look as though they are blocking and slowing down economic cooperation attempts. On the other hand, although Turkey has decided to remove visa requirements for all Turkish countries, Azerbaijan is still applying visas for Turkish citizens. However, Georgia is standing very closely beside economic cooperation and integration with Turkey and is ready to take steps towards a bi-lateral economic agreement. Georgia is identifying itself as a European country and watching developments between Turkey and the EU very closely, as Turkey is planning and struggling to become a member of the EU in the near future or at least proceeding through negotiations with the EU. That's why Georgia does not want to fall behind these developments in the region and would like to participate in the EU by having a good economic relationship with the Turkish Government as well as a variety of other social, political relations.

There are various motivations for economic cooperation between countries in South Caucasus. Economic factors, historical links, cultural ties and social factors are stimulating and necessitating economic cooperation between countries. In addition to this, the geographical proximity and unity of the countries in the region is a conducive and encouraging factor for the formation of economic co-operation agreements (Kalaycıoğlu, 2010:1). Recent vital economic projects and developments in the region such as BTC, BTE and BTK, etc, which are huge infrastructure investments in transportation, have already been the motivating factors for the regional cooperation between Azerbaijan, Turkey and Georgia in South Caucasus.

From the view of a theoretical approach, landlocked countries such as Georgia and Azerbaijan are completely dependent on their transit neighbors' infrastructure to transport their goods to international markets. Inadequate infrastructures in transit neighboring countries put a direct cost on regional and international trade for landlocked countries and thus restrict the ability of landlocked country products to compete in global markets. Here infrastructures such as BTC and BTE to transport oil and natural gas from Azerbaijan, respectively, to international markets have been built by joint multi-national companies.

Although Azerbaijan and Armenia are located at the bridge of the traditional east–west Silk Route connecting Central Asia to Europe, there are no economic or diplomatic relations between the two countries because of the Noghorno-Karabakh conflict, which has resulted in a new East-West Silk Road through Georgia to Europe via Turkey. As a network of major present transportation corridors, Azerbaijan and Georgia are becoming vital transit links between East and West.

In the South Caucasus region, Azerbaijan is the only country that has rich natural resources such as oil and natural gas. For multinational corporations and Western countries, Azerbaijan and Georgia were the option as transit country for pipeline projects with regards to the transportation of natural resources from Azerbaijan to European markets. This is since the US placed sanctions against Iran and doesn't want any relationship with Iran and since there are no economic or diplomatic relations between Azerbaijan and Armenia over the Noghorno-Karabakh Conflict since the cease-fire agreement in 1993.

Since there are no economic or diplomatic relations between Turkey-Azerbaijan and Armenia due to several issues and as the Turkish/Armenian border has been closed since 1992, no serious developments towards regional cooperation in the context of trilateral agreements among countries in South Caucasus have been made so far (BP, 2007). Armenia's borders with Turkey and Azerbaijan are completely closed, and are not likely to be opened in the near future. As there are no economic activities between those three countries in the region; each individual country is striving to integrate into the broad regional economic cooperation organizations and global organizations such as WTO, ECO, BSCE, etc. Therefore, with the participation of one of the neighboring countries of the Caucasus region, alternative developments are being developed and recorded in the framework of multi-and-international projects and trade agreements in South Caucasus. I think that the three-most significant attempts in parallel to economic cooperation developments in the region are among Turkey-Georgia-Azerbaijan, Armenia-Russia and Iran- Armenia.

## **2. REGIONAL PROJECTS IN TRANSPORTATION AND ENERGY**

In this section, I need to discuss recent economic developments among Azerbaijan, Georgia and Turkey in the context of international organizations such as BSEC, TRASECA, INOGATE, and also analyze the development when considering a move towards economic cooperation in transportation through mega-projects such as BTC, BTE, BTK, etc.

### **2.1. The Transport Corridor Europe Caucasus-Asia (TRACECA)**

The historical Silk Road linking Central Asia to Europe through the South Caucasus Countries, Azerbaijan and Armenia, has been a significant trade road and transportation corridor for years. The Transport Corridor Europe Caucasus-Asia (TRACECA) Project, which is seen as a new Silk Road Project, was initiated in Brussels in 1993 with the participation of three South Caucasus Countries (Azerbaijan, Georgia and Armenia) and five Central Asia Countries (Kazakhstan, Kirgizstan, Tajikistan, Turkmenistan and Uzbekistan) and constituted a visionary project aimed at building a network of roads, railroads and ferry connections, linking Europe and Central Asia through Turkey and the Caucasus (Erdal, 2004). Regional cooperation has been one of the primary goals of the TRACECA Project as well. In this respect regional cooperation attempts between Turkey, Georgia and Azerbaijan are supporting and bolstering TRACECA projects in a very tangible manner. For instance, Georgia, Azerbaijan, and Turkey have already applied to the European Commission to include the new railway line in the TRACECA transport corridor (Anjaparidze, 2005).

### **2.2. The Interstate Oil and Gas Transport to Europe (INOGATE)**

The Interstate Oil and Gas Transport to Europe (INOGATE) is another regional cooperation initiative which provides technical assistance and some investment support for the building of new pipelines in the region; aimed at facilitating oil and natural gas transportation from the Caspian Base and Central Asia to Europe integrating oil and gas pipeline systems in Eastern Europe and Central Asia for enhancing European energy security of supply. INOGATE was launched by the EU in 1995 and encompasses 21 countries in Eastern Europe, the Caucasus and Central Asia; however Russia is not included among these countries.

Europe is striving to secure the needs of the increasing energy imports for coming years from alternative energy resources in order to reduce the dependence on Russia for of energy supply. However regional economic cooperation attempts in South Caucasus are supported by INOGATE and may also be viewed as part of the INOGATE Program.

Recent developments in transportation towards regional economic cooperation between Azerbaijan, Georgia and Turkey started with BTC (Baku-Tbilisi-Ceyhan) oil-pipeline project, and BTC has played a very

important role in accelerating some other big projects in the region such as BTE (Baku-Tbilisi-Erzurum) Natural gas pipeline and BTK (Baku-Tbilisi-Kars) railway projects, which are making the new East-West transportation corridor from Europe to Central Asia. This transportation corridor is usually called and defined as “Silk Road Corridor” by Western Countries. Up to 10 years ago, this could only be a dream for the regional countries, but after the mega- project BTC was built up, the dream came true in a short time and stimulated the other big transportation projects of strategic importance and, is still strengthening the relations through bilateral-trilateral agreements between the neighboring countries of Azerbaijan, Georgia and Turkey.

I think that this new corridor in transportation cooperation will help to solve the socio-economic and ethnic conflict problems in the region.

### **2.3. BTC (Baku-Tbilisi-Ceyhan) Oil Pipeline**

The BTC is one of the longest pipelines in the world and is considered as the highest profile strategic investment by authorities in the region. The BTC pipeline will be able to transport up to a million barrels of crude oil a day, 50 million tons a year, traversing 1,760km of often remote and challenging terrain from the Sangachal terminal in Azerbaijan to a newly constructed marine oil terminal in Ceyhan on the Turkish Mediterranean coast. After the 1,768 kilometer pipeline was officially opened on 13 July 2006, during February 2007, the volume transported through BTC has reached 600,000 barrels per day (CEC, 2007; BP, 2005). By the end of 2008 this volume will have increased to one million barrels per day (BP, 2007).

The Baku-Tbilisi-Ceyhan (BTC) project is a \$2.9 billion investment to unlock a vast store of energy from the Caspian Sea by providing a new crude oil pipeline from Azerbaijan to Turkey via Georgia for onward delivery to world markets.

BTC Pipeline has fostered economic relations between countries, and been a keystone and most important step for bilateral agreements in order to increase and consolidate economic cooperation in the transportation of overland, railway, and airway route connections between countries, making possible the realization of the East-West Trade corridor. It also provides a good opportunity for the strengthening of economic relations which will help to eliminate some of the ethnic conflicts in those countries (Güney, 2007:3). However, regional economic cooperation should be viewed as a long-term investment in the peace process, rather than a quick fix for extracting immediate political concessions (Oksana, 2006:9)

By creating the first direct pipeline link between the landlocked Caspian Sea and the Mediterranean, the BTC project will bring positive economic advantage to the region and avoid increasing oil traffic through the vulnerable Turkish Straits. A programme of social and environmental investment ensures that the people of the three host nations also share in the benefits (CEC, 2007).

BTC and BTE Pipeline project proves that Eastern countries and multinational corporations wanted and supported the partnership between Azerbaijan, Georgia and Turkey by realizing the mega-dream project in a short time. Because it is not likely that the western countries have planned that these projects will lead to strengthening the economic and political relationship between Azerbaijan, Georgia and Turkey. They should envision that these projects would shift the route of the historical Silk Road in South Caucasus making a new Silk Road transportation corridor.

These projects reshaped the three-countries' economic relations with regards to the structuring of the regional cooperation in South Caucasus by triggering a variety of new parallel partnerships and cooperation attempts between countries in the region such as Azerbaijan, Georgia and Turkey, Iran-Armenia and Greece, etc.

#### **2.4. BTE (Baku-Tbilisi-Erzurum) Natural Gas Pipeline**

The Shah Deniz Natural Gas reserves were discovered in 1999 and are estimated to contain more than 400 billion cubic meters of gas reserves. The 692 m South Caucasus Pipeline Project aims to transport the natural gas produced in the Shah Deniz, which lies under the seabed of the Caspian Sea, 100 kilometers south of Baku in Azerbaijan, via Georgia to Turkey (CEC, 2007). It will be capable of carrying up to seven billion cubic meters of gas each year by 2006. At full capacity, and after additional stages of development, the pipeline will be able to export up to 16 billion cubic meters a year.

Negotiations which started in October 2000 for the supply of natural gas from Shah Sea in Azerbaijan were finalized in March 2001 and the Intergovernmental Agreement was signed by the Ministry of Energy and Natural Resources of Turkey and the Deputy Prime Minister of Azerbaijan on 12 March 2001. The Natural Gas Sales and Purchase Contract was signed by BOTAS and SOCAR on the same date. According to the Contract; natural gas delivery for 15 years is going to start with 2 Bcm and reach 6.6 Bcm on the plateau period.

The South Caucasus Gas Pipeline (SCP) will carry gas from the Shah Deniz field to customers in Azerbaijan, Georgia, Turkey and other countries. It is planned that it will follow the route of the BTC crude oil pipeline through Azerbaijan and Georgia to Turkey, where it will be linked to the Turkish gas distribution system (CEC, 2007)

#### **2.5. The Baku-Tbilisi-Kars Railway Project**

The Baku-Tbilisi-Akhalkalaki-Kars railway link is a strategic route whereby Azerbaijan and Georgia will connect the railways of China, Central Asia, the South Caucasus, Turkey and the EU. It will boost annual continental trade between Asia and Europe by rail to 10 million tons in a few years (Ziyadov, 2006).

The Prime Minister of Turkey, Tayyip Erdoğan, said in the official ceremony on the skeletal agreement of Kars-Tbilisi-Baku railway project that

both parties, Turkey and Georgia, are going to reciprocally open Trabzon and Batumi Airports very soon, and especially those people in the North-East of Turkey and people in Georgia will gain from the mutually beneficial service, and such developments will increase the mobility of labor and, goods and services trade between the two countries, and stimulate the trade developments among those countries of Turkey, Georgia, and Azerbaijan. Erdoğan also said that Turkey is in favor of the resolution of the problems going on in South Caucasus and that it is ready to give wide support for this. Turkey has also committed to provide 800 million meter cups of natural gas to Georgia, which will decrease the dependence of Georgia on Russia. BTK (Baku-Tbilisi-Kars) Railway has many economic implications for the three countries.

The construction of the Kars-Tbilisi-Baku railway line is also a very important step for regional economic cooperation among the three countries by taking Armenia out of the international transport corridor with all of its ensuing economic and political consequences (Anjaparidze, 2005). Such partnership projects will bring more economic stability into the South Caucasus, and will help to eliminate some ethnic problems. The BTK railway project is providing economical, secure, shortcut access from West to East revitalizing the historical Silk Road and making the project more significant in terms of regional cooperation in transportation between the West-East Corridor. Besides, the President of Georgia, Saakaşvili, said that the negotiations on the Highway Road project linking Istanbul with Batumi is in process at the moment. This is also other significant development for the regional economic cooperation in transportation.

This Project will also bring more mobility for commodity and service transportation as well as labor mobility, rather than specifically cooperation in the field of oil transportation. The unity of railway connections between the countries in the region will stimulate movements towards economic partnership and integration.

### **3. RECENT DEVELOPMENTS TOWARDS ECONOMIC INTEGRATION IN SOUTH CAUCASUS**

By regional economic integration it means various agreements in a geographic region to reduce and finally remove tariff and non-tariff barriers for the free flow of goods, services and factors of production between each other. A further phase in the context of regional economic integration is to provide labor mobility.

The Governments of Turkey and Georgia facilitated visa issues for their citizens by removing reciprocally the visa requirements at least for three months. The agreement came into effect as of February 10, 2006 (Atlı, 2006). That visa procedure had been lifted between Turkey and Georgia mutually, in order to bring favorable conditions for business and trade between the two countries (RUSNET, 2006). This might be regarded as a very important step towards the regional integration in South Caucasus.

One of the most recent developments between Turkey and Georgia is the airways agreement which is linking Istanbul Ataturk Airport in Istanbul in Turkey to Batumi, a coastal city of Georgia which is 20 km away to Turkish-Georgian border. According to the agreement, the Turkish citizens can travel from Istanbul to Batumi without getting a passport and will be transported to the coastal city of Turkey, Rize, by bus and also people living in the northern east of Turkey will be able to travel directly to Istanbul through Batumi Airport because there is no airport in Rize. This agreement is a very significant development in the region in terms of regional economic cooperation and integration since it might be regarded as the free flow of one of the production factors in the framework of regional economic integration despite there being no regional economic integration agreements between the two countries. These two developments will increase labor mobility among two countries, and stimulate the trade flow among those countries and foster the economic cooperation towards the regional economic integration between countries, linking Istanbul to Baku through Batumi by airway and roadway connections.

Another recent development with regards to regional cooperation between Turkey, Azerbaijan and Georgia is the cooperation and partnership agreement, which was signed between Azerbaijani and Turkish governments on November 6, 2007, the long-term trade and economic cooperation program and executive plan between Azerbaijani and Turkish governments and the joint Declaration on strategic partnership between Azerbaijani and Turkish Presidents. The visit by the Turkish President, Abdullah Gül, to Azerbaijan on November 6, 2007, was one of most recent significant developments in regional cooperation and integration in South Caucasus. The signing ceremony of the documents was held with the participation of Azerbaijani President Ilham Aliyev and Turkish President Abdullah Gül in Baku, Azerbaijan (APA, 2007). They decided to form a common economic area for custom facilitation and trade liberalization between Turkey, Azerbaijan and Georgia. This might be considered a very important development towards regional economic integration in South Caucasus nowadays. I think that it will be possible to observe how this agreement will affect the trade flows and volume in the region in the coming years.

Georgia became a member of WTO (World Trade Organization) on June 14, 2000, which proved the recognition of Georgia's success in economic reform (WTO, 2000:1), however, Azerbaijan is considering becoming a member of the World Trade Organization and submitted a formal application to join the WTO in July 1997, and it just maintains its observer status for 10 years (Teymorov, 2005). The admission into WTO is a very significant step for the integration into the global economy because the WTO accounts for more than 90 percent of the value of global trade (W.L. Hill, 2003). Georgia must already follow the principles of WTO but there is no responsibility for Azerbaijan in terms of reducing tariffs and non-tariff barriers and other restrictions. Thus, this might be seen as an obstacle for regional economic integration. However, the bilateral trade agreements

among the neighboring countries of Azerbaijan, Turkey and Georgia will foster the steps towards regional economic cooperation in South Caucasus.

### **3.1. Regional Trade in South Caucasus**

Trade liberalization for those landlocked countries (Azerbaijan and Georgia) is very important and will make regional cooperation possible for them. Neighboring countries; Turkey and Georgia have has relatively limited economic ties for a long time. In consideration of economic reform as now a priority for Georgia, the increased economic cooperation with Turkey and Azerbaijan is significant for Georgia's own economic development because of the ongoing conflict issue with Armenia and Russia. After the independence of Georgia, since the premise of Soviet Block, BTC and BTE Projects has been a crucial opportunity for Georgia in order to increase the bilateral economic and trade relations with Turkey and Azerbaijan.

Georgian President Mikhail Saakashvili said at the meeting with businessmen that a free trade agreement between Georgia and Turkey would be signed in March 2007. Such an agreement would substantially increase trade between the two countries and simplify its procedure. Turkey is very central for Georgia since it is the second-largest trade partner of Georgia, after Russia, since the 1990s. Trade between Georgia and Russia has significantly dwindled, while trade with Turkey has been increasing, which can bring it into first place. In 2006, Russia had a 17.9 percent proportion of Georgia's foreign trade while Turkey had 15.2 percent and Azerbaijan had 9.3 percent (Livejournal, 2007).

Turkey's current direct investment in Georgia is \$165 million, which can be viewed as a simple flake compared to the \$2 billion it has placed in Russia, and \$1.5 billion invested in Azerbaijan. Bilateral trade for 2005, though double its size from three years ago, stands at \$570 million, a relatively low figure compared with the country's trade with neighbors Azerbaijan (\$800 million), Greece (\$1.8 billion), Bulgaria (\$2.4 billion) and, the largest of all, Russia (\$15 billion). Turkish Prime Minister Recep Tayyip Erdoğan, joining Noghaideli at the Turkish-Georgian Business Council, pledged to increase Turkish-Georgian trade to \$2 billion by 2009 (Atl, 2006).

The 4th meeting of the Azerbaijan-Georgia Intergovernmental Commission for Economic Cooperation was held in Baku in October, 2007. As the Azerbaijani Prime Minister Arthur Rasizade mentioned, such a meeting will be an incentive for taking steps towards regional economic cooperation. At the meeting, the two neighboring countries, Azerbaijan and Georgia revealed that they plan to increase the number of flights and reconstruct the power transmission line from Azerbaijan to Georgia and extend it onward to Turkey. In this meeting the Georgian Prime Minister underscored the fact that the construction of the Georgian part of the Baku-Tbilisi-Kars Railway Project will soon commence. A short time after the meeting, the ceremony was held for the ground cornerstone of the Georgian

part of the Baku-Akhalkalaki-Kars railway project on 21 November, 2007 (APA, 2007).

There was another meeting between Turkey and Azerbaijan in Baku on October, 2007 for economic relations and to extend cooperation between Azerbaijan and Turkey. The head of Ankara Chamber of Commerce said that 3000 Turkish companies are operating in Azerbaijan (APA, 2007). All of these developments mention the strong potential for economic cooperation in the region is becoming a reality.

#### 4. CONCLUSION

It can be inferred that if a kind of regional cooperation in South Caucasus which will function as a bridge between Europe and Central Asia that has improved the strategic importance through Mega Pipeline projects recently completed connecting the pipelines in transporting crude oil and natural gas from Central Asia and Europe, it will be possible to create partnership with Georgia but not Armenia because of the ongoing problems among Azerbaijan, Turkey and Armenia basically over Naghorno-Karabagh conflict and some other issues. Turkey is trying to better its relationship with Armenia and therefore they signed an agreement to open the borders but Turkey stressed that the NK conflict would have to be settled before relations could improve, therefore setting preconditions on the normalization of ties.

Considering the recent economic developments and attempts towards economic integration between Azerbaijan, Turkey and Georgia and other mega projects from Central Asia to Europe making the South Caucasus a transit region, showed that this transportation corridor is a new strategic and significant one for Western and European countries in energy security and related policies.

Also, for long-term economic relations between countries and for sustainable development in the South Caucasus, the infrastructure of transportation and ICT (information and communication technologies) must be rebuilt and redesigned according to international standards. ICT has been a priority issue in Georgia and Azerbaijan for a while, taking into account the "Dutch Disease" risk or possibility, particularly for Azerbaijan, the development of the ICT sector must be the key to future economic development.

Trade volume between the three countries is not satisfactory as of 2007 because there are a number of restrictions and barriers to regional trade. Strengthening the regional economic cooperation between the countries requires some vital progress in democratization, in competition within the market structure and in transparency, in order to form a secure economic, political and social environment for attracting foreign investments.

The three significant definitions of democratization, competition and transparency should be focused on in terms of the increased importance of

regional cooperation and the trade between the three countries, since there are stumbling blocks to regional cooperation in the South Caucasus.

Regional cooperation will bring more democratization through the development of harmonization of the free market economy for Azerbaijan and Georgia. Reciprocal free trade agreements will combine markets in the South Caucasus (Azerbaijan, Georgia and Turkey) and lead to lowering the monopoly power by opening the doors to the competition for different companies from other countries to invest. Certainly, regional cooperation will reshape the market structures of the countries in transition economies of the South Caucasus towards free-market economies. If ‘co-operation’ means only that between Azerbaijan, Georgia and Armenia in the South Caucasus, some other gains and benefits resulting from alternative cooperation possibilities for these countries will have been lost.

Regional cooperation also needs increased transparency, developments to attract potential foreign investors and to eliminate corruption possibilities. Since Turkey has made a wide range of modifications in its whole legislative system with a view to becoming a member of the EU, I believe that Turkey is, in this respect, setting a good example to the countries in South Caucasus.

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