

The Armenian-Georgian Window of Cooperation from the Economic and Geopolitical Viewpoint

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Keywords: Armenia, Georgia, EEC, EU, economic cooperation, geopolitical barriers

Abstract:

After the formation of the EEC, the trends in regional development started to change and the previous setup of cooperation between Georgia and Armenia shifted. The environment of uncertainty that was created and short-term expectations led to a recession in the economic cooperation between the two countries.

The current trends in the political context indicate the intention of both countries to foster cooperation. Meanwhile the “geopolitical barriers” require commitment and investments from Armenia and Georgia to keep this mutually beneficiary cooperation at the level of 2013. However, Armenia and Georgia are still in the same boat given the geopolitical location of both countries. Even if the two countries chose to move in different directions, a need for mutual cooperation will make them look for opportunities.

Introduction

The drastic change in the regionalization¹ tendencies in the South Caucasus started back in 1991 after the decline of the Soviet Union. Since then, on various occasions, the newly-independent states have faced the

¹ *Regionalization* here is defined as a “process of forming regions as geopolitical units, as organized political cooperation within a particular group of states, and/or as regional communities such as pluralistic security communities”

dilemma of choosing between closer cooperation with the Western or Eastern power blocs.² Some post-Soviet states still make considerable efforts trying to balance relations between the East and the West: yet the balance seems unrealistic and the consequences of a choice between the EU and Russia can be quite traumatic, especially for the Eastern Partnership countries³.

With time, the choice became more straightforward: either fostering relations with the EU or with Russia. Wars in Georgia and Ukraine are part of the “ENP story”⁴ that had a vital role for other countries in the same boat to weigh the possible alternatives of their foreign policies. A new milestone for ENP countries was the Vilnius Summit,⁵ where the countries restated their priorities and defined the continuation of the pathway with the EU.

This article focuses on some major tendencies in the economic and political environment in Armenia and Georgia after the 2013 Vilnius Summit. More specifically, it looks at the development of economic relations of Armenia and Georgia and the expectations for the near future.

As claimed by some researchers, Georgia’s choice of moving towards economic integration with the EU and the fact that Armenia is a member of the EEU creates a wall in the economic relations of both countries. As part of the present paper, we would like to see whether there is a window of

² Here *Eastern power blocs* refers to Russia-led unions - the Commonwealth of Independent States (CIS), Eurasian Customs Union (ECU) and Eurasian Economic Union (EEU). Mesropyan H. (2014). European Union or Eurasian Union, Eastern Partnership Countries Dilemma: Comparative Case Studies of Armenia and Moldova regarding the Initialisation of the Association Agreement. unpublished

³ The Eastern Partnership (EaP) is a joint initiative of the EU and its Eastern European partners: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine, launched in 2009 at the EU Prague Summit. (source: www.eeas.europa.eu/eastern/index_en.htm)

⁴ *ENP - European Neighborhood Policy* is defined as a platform through which “[...] the EU works with its southern and eastern neighbors to achieve the closest possible political association and the greatest possible degree of economic integration.” More at: www.eeas.europa.eu/enp/

⁵ *2013 Vilnius Summit* refers to the Eastern Partnership Summit, Vilnius, 28-29 November 2013. More at: www.eu2013.lt/en/news/-joint-declaration-of-the-eastern-partnership-summit-vilnius-28-29-november-2013

opportunity to develop and strengthen the economic relations and what the key leveraging factors and challenges are for cooperation⁶.

We start with the description of the current situation of regional development from the Armenian and Georgian perspectives. Afterwards, we analyze the role and the approach of the EU in fostering Armenia-Georgia relations. The last heading of this article is dedicated to an analysis of the short-term challenges and opportunities in bilateral relations.

1: The Current Cross-Border Cooperation Trends for Georgia and Armenia

Armenian and Georgia share a common history, which lays the basis for the current relations between the two nations. While analyzing their bilateral relations, there is little to say about the economic or political relations; instead we can start mostly with historical developments. Their common “Soviet” past and the economic relations that were set up afterwards are still issues that remain to be considered⁷.

A shift in Armenia-Georgia relations was caused by the creation of the Eurasian Economic Union. The EEU was formed on the foundation of the previously formed Eurasian Customs Union of Russia, Belarus and Kazakhstan, which is sometimes given the name “Soviet Union 2.0.” On its path of becoming a member of the EEC, Armenia gave up the nearly completed negotiations with the EU over the signing of the AA and DCFTA.⁸ Thus, Armenia ended up refusing closer relations with the EU.⁹

In order to analyze the possible benefits of the DCFTA for Armenia, we can refer to the opinions of a number of researchers¹⁰: the key argument

⁶ Minasyan, S. *Armenia and Georgia: A New Pivotal Relationship in the South Caucasus?* // PONARS Eurasia Policy Memo No. 292, September, 2013.

⁷ Policy Forum Armenia. *Armenia and the West: A New Vision for the Caucasus*. Washington, DC, 2014 (www.pf-armenia.org)

⁸ *DCFTA* (Deep and Comprehensive Free Trade Area) is part of the AA (Association Agreement). More at: www.euractiv.com/topics/dcfta

⁹ Mesropyan H. *European Union or Eurasian Union, Eastern Partnership Countries Dilemma: Comparative Case Studies of Armenia and Moldova regarding the Initialisation of the Association Agreement*, 2014, unpublished.

¹⁰ Dinan, D., *Ever Closer Union: An Introduction to European Integration*, 2010; Archick, K., *European Union Enlargement* (Vols. 7-5700). USA: Congressional

is that if a country has no real chances for EU membership, in the long run it will hardly reap significant economic benefits, or get the positive effects of access to EU infrastructure or build a democracy based on European values. In fact the South Caucasian countries, i.e. namely Armenia, Azerbaijan and Georgia are in the club of the counties that can gradually forge closer and closer economic and political relations with the EU without actually becoming a member¹¹.

Let us consider two aspects of Armenia–Georgia relations: geopolitical and economic. The geopolitical dimension mostly refers to the roles of the EU and Russia in this region, while economic cooperation is mostly determined by the trade between the two countries given the fact that the flows of capital and workforce are not considerable¹². Meanwhile, the geopolitical context is a determinant for economic relations. That is why we briefly discuss the developments in a geopolitical context and link the trends with economic indicators.

Armenia

Armenia is a landlocked country with quite a specific economic structure; a number of experts have stated that the country does not have many options but to foster economic and political relations with Russia. But these “relations” can be objectively replaced with “economic and political dependency” which becomes more dangerous with every year¹³.

Armenia had a balanced political strategy, cooperating with Russia in security-related spheres and with the European Union in the economic

Research Service, 2013; Zahorka, Sargsyan, *The Eurasian Customs Union, an Alternative to the EU’s Association Agreements?*, Wilfried Martens Centre for European Studies, 2014.

¹¹ Dinan, D., *Ever Closer Union: An Introduction to European Integration*, 2010.

¹² Mesropyan H. *European Union or Eurasian Union, Eastern Partnership Countries Dilemma: Comparative Case Studies of Armenia and Moldova regarding the Initialisation of the Association Agreement*, 2014, unpublished.

¹³ Delcour L., Wolczuk K., *Armenia is becoming an important test-case for relations between the EU and the Eurasian Economic Union*, May 15, 2015. Retrieved July 4, 2015, from LSE EUROPP: European Politics and Policy: <http://bit.ly/1cwsgEO>

sphere¹⁴. But these political priorities were redefined following the abandonment of the Association Agreement with the EU in 2013¹⁵.

After its long journey to a deeper economic integration with the EU, almost at the end of the road, Armenia changed its direction, deciding to join the Russian-led Eurasian Customs Union (ECU). The impact of joining the Customs Union from the point of view of the economic dimension is ambiguous¹⁶. Without going through the reasons and the roots of this issue, we consider it reasonable not to compare with other countries in the South Caucasus. Rather, it is more constructive to find channels and incentives for regional cooperation given the current challenges created by the regionalization.

According to current trends¹⁷ we can assess the immediate impact of membership in the EEU. Statistical analyses indicate declines for major economic indicators: the growth of the economic activity by 1.3% since last year is explained by an increase in services (3.8%), construction (2.2%) and agriculture (1.8%). But these results are impeded by the decline in industry (6.7) and energy generation (19.7%). Determined by economic activity, private consumption has also been affected by the entailing negative expectation¹⁸.

In turn, export has also suffered and the economic predictions show negative trends, as illustrated in Figure 1.

¹⁴ Kambeck M., *Between the Big Blocs: Armenian Foreign Policy Untangled*, Wilfried Martens Centre for European Studies, June, 2014.

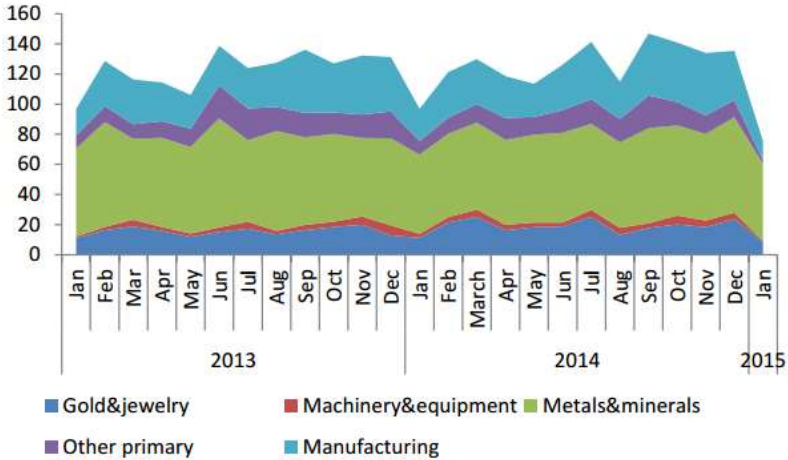
¹⁵ Giragosian R., *Armenia and the Eurasian Economic Union: The view from Yerevan*, Yerevan: European Council on Foreign Relations, January 8, 2015.

¹⁶ Mesropyan H. *European Union or Eurasian Union, Eastern Partnership Countries Dilemma: Comparative Case Studies of Armenia and Moldova regarding the Initialisation of the Association Agreement*, 2014, unpublished.

¹⁷ Here, the *current trends* refer to officially published economic indicators as for 30/06/2015

¹⁸ Armenia Monthly Economic Update. WorldBank, March 2015. <http://www.worldbank.org/content/dam/Worldbank/document/eca/armenia/armenia-economic-update.pdf>.

Figure 1 Merchandise exports in Armenia (US\$ million)



Source: NSS, WB – March 17, 2015

This statistical brief aims at demonstrating that, in the short run, EEU accession has not brought any significant economic improvement and the economic expectations do not have any promise for amelioration. Thus, for the country, it is vital to foster relations with its neighbors¹⁹.

Georgia

The analyses of the Georgian foreign policy currently indicate that the Bidzina Ivanishvili government is trying to balance relations with different power blocs: i.e. Russia, the EU and NATO. In recent years, Georgia was making firm steps towards the EU with a notably worsening relationship with Russia. Ivanishvili's policy made some significant steps towards better relations with Russia²⁰.

¹⁹ Giragosian, R. Armenia's Role of Balancing Interests. Richard Giragosian on Armenia's Role of Balancing Interests. (© C. University, Interviewer), 2 June, 2015). www.ceu.edu/article/2015-06-02/richard-giragosian-armenias-role-balancing-interests#sthash.YlqZKIFs.3Fd5Rbau.dpufv.

²⁰ Minasyan, S. *Armenia and Georgia: A New Pivotal Relationship in the South Caucasus?* // PONARS Eurasia Policy Memo No. 292, September, 2013.

“We Georgians want to have good relations with Russia but without detriment to our own sovereignty and independence, for which we have fought so hard [...]” said Georgian Prime Minister Irakli Garibashvili during a meeting with the RA Prime Minister²¹. That is to say, there is no way to neglect the determinant role of Russia in Armenia-Georgia relations.

The projections of Georgia’s foreign policy can be found in the developments of EU-Georgia relations. For the near future (2014-2020), the key goal has been bilaterally defined as “to bring Georgia closer to the EU”²².

Once economic indicators are evaluated, we should highlight the growth of GDP by 4.7% in 2014 and 3.3% in 2013. Along with this, the overall economic activity level has improved. Meanwhile, the predictions indicate slowdowns in 2015 given the economic trends in the European Union and neighboring Azerbaijan as well as the projected recession in the Russian Federation²³. Thus, the Georgian economy is linked with the regional and Russian economic trends: and this is the major similarity that Armenian and Georgian economies have in common.

2: The Challenges of Cooperation

Geopolitical dimension

The EU is a considerable power bloc for this region as the support of the Union has a considerable role in promoting peace, stability and growth in the region along with the fact that it promotes democracy, human rights and freedom of speech. Thus, it is important to evaluate the possible

²¹ ITAR-TASS: Russian News Agency, September 28, 2014. Retrieved June 26, 2015, from www.tass.ru/en/world/751695

²² Implementation of the European Neighborhood Policy in Armenia : Progress in 2014 and recommendations for actions . High Representative of The European Union For Foreign Affairs And Security Policy. Brussels: SWD, 2015, 63 final.

²³ Asian Development Outlook: Georgia 2015 //Asian Development Bank and Georgia: Fact Sheet Publication. April 2015.

contribution of the EU in the development of Armenian-Georgian cooperation²⁴.

The Eastern Partnership countries have become separate study cases, where the “one solution fits all” approach cannot be applied. Though Armenia and Georgia are still in this same group called “Eastern Partnership,” experts and researchers refer to these countries as “test-cases”²⁵. Cooperation with the EU was among the priorities for Armenia and for Georgia. Political will and economic cooperation interests determine a number of efforts including legislative approximations and changes in government practices²⁶.

Georgia will now pull more efforts to increase the pace towards better and closer relations with the EU. In turn, the EU, in accordance with its “more for more” approach, will give more privilege and resources than before in comparison with the countries which did not opt for EU integration²⁷. In light of this, Georgia’s attitude towards EU integration is rated “overly optimistic” as estimated by the public opinion polls²⁸. There are still a number of efforts to be made in order to attain the “visa-free regime with the EU,” which is yet not an end result, but rather a step forward to “Europeanization”²⁹.

²⁴ Implementation of the European Neighborhood Policy in Armenia : Progress in 2014 and recommendations for actions . High Representative of The European Union For Foreign Affairs And Security Policy. Brussels: SWD, 2015, 63 final.

²⁵ Delcour L., Wolczuk K., Armenia is becoming an important test-case for relations between the EU and the Eurasian Economic Union, May 15, 2015. Retrieved July 4, 2015, from LSE EUROPP: European Politics and Policy: <http://bit.ly/1cwsGEO>.

²⁶ Zahorka, Sargsyan, The Eurasian Customs Union, an Alternative to the EU’s Association Agreements?, Wilfried Martens Centre for European Studies, 2014.

²⁷ Press release "Eastern Partnership: progress in deep democracy and human rights rewarded with additional funding". European Commission, Brussels, December 12, 2013.

²⁸ Morari C., *European Integration of Georgia and The Republic Of Moldova: Evolution And Prospects* // People. International Research Staff Exchange Scheme, Seventh Framework Programme, Marie Curie Actions. 2013

²⁹ Puiu et al, Georgia, Moldova, Ukraine: EU-Dreaming despite the Difficulties, May 27, 2015. Retrieved June 5, 2015, from Eurasianet: <http://www.eurasianet.org/node/73611>

When it comes to the EU perspective of cooperation with Armenia, here we see that the key interest point is civil society empowerment followed by public administration reforms³⁰. However, Armenia is making efforts and demonstrating political will for further engagement with the EU, even after the “U-turn” and its accession to the EEU³¹.

Economic dimension

Georgia-Armenia economic cooperation mainly refers to trade and energy transit through Georgia. Some experts identify a “small but growing” tendency, which is determined by the transit trade from Georgia and the flow of Armenian capital to the more business-friendly market in Georgia (Minasyan 2013). This situation seems to be more or less the same since the 90s, mainly because of the fact that bilateral relations have always depended on different power blocs to which each of the countries had chosen to be affiliated. Thus, there have always been a number of challenges, such that the countries were not strategic partners for each other.

Though it is hard to definitely identify all the challenges, on general terms, we name them “geopolitical barriers” that result in a so called “bilateral agenda” of both countries aiming to maintain good relations within the created constraints³².

As it was previously stated, there is limited economic cooperation. An almost negligible amount of export of electricity from Armenia to Georgia does not serve as an indicator of considerable economic relations. The

³⁰ Hristea T., *Armenia-EU Relations: Charting a New Course*. The EU has been encouraging Armenian Government to undertake and implement more ambitious reforms... and I believe that the focus of our financial and technical support will be further placed on those values, Yerevan: EU Delegation to Armenia, 2015.

³¹ Delcour L., Wolczuk K., *Armenia is becoming an important test-case for relations between the EU and the Eurasian Economic Union*, May 15, 2015. Retrieved July 4, 2015, from LSE EUROPP: European Politics and Policy: <http://bit.ly/1cwsgEO>.

³² Menabde G., *Georgia and Armenia Try to Maintain Friendship Across Geopolitical Barriers* // *Eurasia Daily Monitor*, vol., 11 Issue: 225, 2014, http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=43212&cHash=6fa05adae027a8d6809001fc8a7dab23#.VajD-KSqqko:

transit of Armenian cargo through the Georgian Black Sea ports is the key interest of both countries³³.

Some experts have suggested considerable cooperation potential in the energy sphere, as well as in transportation and tourism, but there is always a need to consider the political and economic framework of the EEU that limits Armenia in negotiating the terms of cooperation. In addition to what has been said, an important aspect is the incentive of Armenia to keep strong ties with Georgia – as only through Georgia can Armenia access the EEU and reap the benefits of its membership³⁴. Meanwhile there does not seem to be an equivalent incentive for Georgia to foster relations with Armenia. The Georgian business sector is more oriented towards EU and the EEU market is not among its strategic priorities³⁵.

The analysis shows that an important factor to consider is the business expansion trends and the export destinations for Armenian companies including SMEs. In fact, Georgia is the only near-shore export for a number of Armenian companies, when they set up to expand their businesses. Given the economic zones and business-friendly environment of Georgia, some businesses either migrate or open a branch in Georgia. These flows of capital and labor have great potential in terms of investments in the Georgian economy³⁶.

One can estimate the short term impact of the EEC on Armenian-Georgian relations by simply looking at the dynamics of export from Georgia to Armenia. Although, there can be a number of factors that might

³³ Policy Forum Armenia. Armenia and the West: A New Vision for the Caucasus. Washington, DC, 2014 (www.pf-armenia.org).

³⁴ Kalandarishvili, Iskandaryan et al, The Economic Dimension of Cooperation between Armenia and Georgia: Facing New Challenges and Opportunities, Yerevan – Tbilisi: Yerevan, Collage, 2015.

³⁵ Barker A., *EU Offers Stronger Ties to Eastern Nations — but Cautiously* // Financial Times, May 2015

³⁶ Iskandaryan A., Barkhudaryan L. et al. *The South Caucasus 2018: Facts, Trends, Future Scenarios* // Regional Program South Caucasus for the Konrad-Adenauer-Stiftung (KAS), 2015

have entailed this change, the accession of Armenia to the EEC has been considered as the key determinant factor³⁷.

Figure 2 illustrates the development of export from Georgia to Armenia. It is vital to observe only this economic indicator, as it is of key interest to both countries, since we are considering the mutually beneficiary aspects of Armenia–Georgia relations.

Figure 2 Export from Georgia to Armenia from 2000-2014



Source: National Statistics office of Georgia³⁸

Export from Georgia to Armenia has drastically grown since 2009 and the most fruitful period was the end of the 2013³⁹. In 2014, and later in 2015 the growth rate of the economic activity of Armenia declined⁴⁰. This is one of the reasons why there was a decline in 2014, though some experts claim that this is the result of the economic instability in the region as result of the

³⁷ Kalandarishvili, Iskandaryan et al, *The Economic Dimension of Cooperation between Armenia and Georgia: Facing New Challenges and Opportunities*, Yerevan – Tbilisi: Yerevan, Collage, 2015

³⁸ National Statistics office of Georgia: GEOSTAT http://geostat.ge/index.php?action=page&p_id=137&lang=eng (downloaded 01.08.2015)

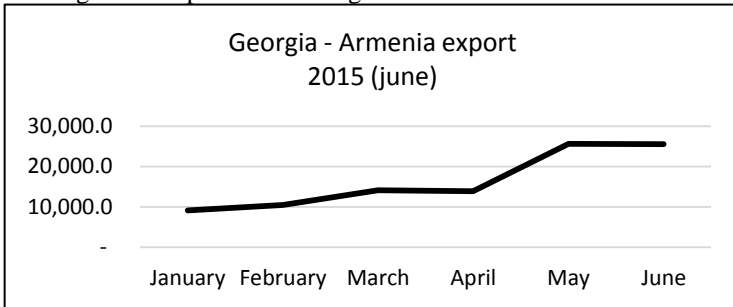
³⁹ Armenian National Statistical Service: www.armstat.am (downloaded on 4.06.2015)

⁴⁰ Ibid

formation of EEC (i.e. unformatted institutions, unclear rules and undetermined, economic expectations etc.)⁴¹.

Figure 3 shows that the mentioned effects of the uncertainties are continuous for the beginning of 2015 and thus, the export volumes are estimated to be less or equal to the ones for 2014⁴².

Figure 3. Export from Georgia to Armenia as for June 2015



Source: National Statistics office of Georgia⁴³

The EEC causes Armenia to increase trade and non-trade barriers with non-member states, and these changes will have negative results on the economic activity level of Armenia, as well as on economic cooperation between Armenia and Georgia⁴⁴.

Conclusion

Since 2015, Armenia is a fully-fledged member of the EEC, which costed the country its refusal to sign the DCFTA with the EU. This move will have its consequences not only in terms of Armenia EU-relations but

⁴¹ Kalandarishvili, Iskandaryan et al, *The Economic Dimension of Cooperation between Armenia and Georgia: Facing New Challenges and Opportunities*, Yerevan – Tbilisi: Yerevan, Collage, 2015

⁴² National Statistics office of Georgia: GEOSTAT http://geostat.ge/index.php?action=page&p_id=137&lang=eng (downloaded 01.08.2015)

⁴³ Ibid.

⁴⁴ Kalandarishvili, Iskandaryan et al, *The Economic Dimension of Cooperation between Armenia and Georgia: Facing New Challenges and Opportunities*, Yerevan – Tbilisi: Yerevan, Collage, 2015

also in Armenia–Georgia relations. Along with this, Georgia seeks stronger ties with the EU, which results in even more uncertainties for the future of Armenia–Georgia cooperation⁴⁵.

The key influential power blocs in the region are Russia and EU. Given that Russia has prevented Armenia’s European integration and “forced” the country to declare its intention to join the EEC⁴⁶, Armenian–Georgian cooperation to a great extent will depend on the quality of Russia–Georgia relations.

In turn, Georgia will continue its approximation to the EU, even though this entails a number of legislative changes and trade barriers that will affect Armenia–Georgia trade. The first short term effects already evaluated indicate a decline in Georgia–Armenia export.

The current trends in the political context indicate the intention of both countries to foster cooperation. Meanwhile, the “geopolitical barriers” require commitment and investments from Armenia and Georgia to keep this mutually beneficiary cooperation at the level of 2013. However, Armenia and Georgia are still in the same boat given the geopolitical location of both countries. Even if the two countries chose to move in different directions, a need for mutual cooperation will make them to look for opportunities.

⁴⁵ Iskandaryan A., Barkhudaryan L. et al. *The South Caucasus 2018: Facts, Trends, Future Scenarios* // Regional Program South Caucasus for the Konrad-Adenauer-Stiftung (KAS), 2015; Barker A., *EU Offers Stronger Ties to Eastern Nations — but Cautiously* // Financial Times, May 2015

⁴⁶ Minasyan, S. *Armenia and Georgia: A New Pivotal Relationship in the South Caucasus?* // PONARS Eurasia Policy Memo No. 292, September, 2013.

**Հայ-վրացական համագործակցության պատուհանը
(հնարավորությունները) տնտեսական և
աշխարհաքաղաքական տեսանկյունից**

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Հայաստանի՝ Եվրասիական Տնտեսական Միությանը անդամակցությունից հետո, տարածաշրջանային զարգացման միտումները սկսեցին փոխվել՝ ազդելով հայ-վրացական համագործակցության նախապայմանների վրա: Ստեղծված անորոշության միջավայրը բացասաբար անդրադարձավ հատկապես երկու երկրների տնտեսական կապերի վրա:

Սույն հոդվածը հակիրճ անդրադարձ է կարճաժամկետում Հայաստանի և Վրաստանի միջև տնտեսական և քաղաքական հարաբերությունների փոփոխություններին և հնարավոր հետագա զարգացումներին: Փորձ է արվել վերլուծել հայ-վրացական կապերի զարգացման խոչընդոտներն ու հնարավորությունները, որ ձևավորվել են 2013թ-ի Վիլնյուսի Գազաթաժողովից հետո: