



BULLETIN

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Business and Democracy: V4 Policy on South Caucasus

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The South Caucasus has aroused the interest of the Visegrad Group (V4) mainly due to the pro-European policy of Georgia during the presidency of Mikheil Saakashvili and the opportunities for access to Azerbaijani gas through the Nabucco pipeline. However, after the changes on the Georgian political scene and the resignation of Baku from participation in the Nabucco project, there is a risk that the role the region plays in the V4 agenda will be reduced. To avoid this, it is recommended that more diversified actions be taken for each of the Caucasus countries, focusing mainly on making development assistance more efficient, strengthening economic relations, and better coordinating Visegrad initiatives within the EU forum.

South Caucasus in V4 Policy. To date, the importance of the South Caucasus for the Visegrad Group (V4) has been heavily connected with energy issues. The Nabucco gas pipeline, co-financed by the EU and designed to deliver Azerbaijani natural gas to Central Europe, was considered as an alternative to the Russian monopoly. Additionally, the V4 actively supported the political transformation of Georgia and its pro-European efforts under President Mikheil Saakashvili (2004–2013); it was no coincidence that Georgia was the largest recipient among the Caucasus countries of total development aid from all of the Visegrad governments (\$9.27 million in 2011). However, in general, South Caucasus has never played as large a role as Belarus, Ukraine and Moldova in the V4 agenda, mainly due to the geographical distance and much weaker historical and cultural ties and people-to-people contacts. The limited involvement of the V4 in the region was manifest in at least three ways.

First, although the Caucasus countries are recipients of development aid from the V4 governments, the amount of funds is modest compared with what other Eastern Partnership states receive. The total amount spent by the V4 on South Caucasus (\$11.21 million in 2011) is less than half of what was allocated to Belarus and about one third lower than what was received by Ukraine. The leaders in support from the V4 are Poland and the Czech Republic, which give Georgia high priority, spending \$6.58 million and \$2.05 million, respectively. Armenia and Azerbaijan give the least, outside of Slovakia, which offers no support at all. This is due not only to the limited importance of the region for the V4 but also is connected with the general problems with Visegrad development aid (few financial resources, lack of coordination at the regional and EU levels, and other factors)

Second, the results of trade and investment cooperation between the V4 and the South Caucasus—despite the growing trends—are not impressive. The region enjoys very moderate interest from exporters and investors from the V4, even from Poland, with which the balance of trade with the three Caucasus states is less than that of Moldova. The only country that seems to be successful on the Caucasus markets is the Czech Republic. Its balance of trade with Azerbaijan is very large (\$1.3 billion in 2011, according to Czech data). However, this is mainly because of the fact that the Czechs import Azerbaijani oil, which accounts for about 25% of their oil demands. When it comes to exports of goods and investments, entrepreneurs from all of the V4 countries still have to struggle with the lack of transparency and high level of business dependence on political power, particularly in Azerbaijan and Armenia.

Third, the V4 is not able to speak with one voice about the future of the region. That was proved during the war in Georgia in August 2008, when the V4 members split into two camps: on one side were states sympathetic to the Russian position, while on the other were the supporters of Saakashvili and Georgia. It seems that if the V4 would

today face a similar challenge, its reaction would be as equally inconsistent. This is partly because of the V4's desire to maintain its neutrality in regional ethnic conflicts, as well as acknowledgment of the key role played by Russia, which places pressure on individual V4 countries to not become more engaged in Caucasus affairs.

The V4 Agenda for Georgia. As the South Caucasus countries are strongly differentiated in terms of European aspirations, economic potential, and the status of their democracy, the V4 does not have to develop a single programme for the entire region. On the contrary, diverse activities are recommended, especially ones that take into account the specificities of the three countries. The V4's particular interest should still be concentrated on Georgia, which at the November Eastern Partnership summit in Vilnius, together with Moldova, initialled an EU Association Agreement, including a Deep and Comprehensive Free Trade Agreement.

It is therefore recommended that the V4 initiate a discussion in the EU on setting up separate pathways for cooperation with Georgia and Moldova as well as providing both with a clear EU membership perspective. The V4 may use two crucial arguments in this debate. The first one would be to emphasise that the current coalition under the Georgian Dream party has been continuing Saakashvili's efforts to get the country closer to European and Euro-Atlantic institutions.¹ Second, it seems reasonable to build a track for Georgia that mirrors that of the Western Balkan countries, which are more advanced in accession negotiations. They share not only a similar difficult legacy of ethnic conflict but also huge public support for integration with the EU. As in the case of the Balkans, the EU's involvement may be crucial to the stability of the entire region. In terms of short-term actions, the V4 must more intensively touch upon the subject of visa liberalisation and emphasise the need for continuation of the EU Monitoring Mission (EUMM) in Abkhazia and South Ossetia, countering some European politicians who find it unnecessary.

In addition, the development assistance offered to Georgia should be tied to a wider programme of modernisation of the state implemented by the government in Tbilisi with the support of the EU. Key reforms are needed in the economy (including in the agriculture sector), justice, security sector, and in building and developing democratic institutions at the local government level. The V4 countries can engage on these changes, both through financial assistance and bilateral consultations with ministries and NGOs, expert exchanges, and using grants and scholarships from the International Visegrad Fund, whose budget for 2014 has recently expanded to €8 million. Therefore, it seems necessary to consider the establishment of a special Visegrad development aid programme exclusively for Georgia and Moldova.

In addition, Georgia should become a regional centre for the promotion of Visegrad cooperation. It is the Caucasian country most visited by tourists from the V4 and the only country in the region that will soon have diplomatic representation of all members of the group. It would therefore be worthwhile to consider opening a Visegrad House in Tbilisi, the main objective of which would be to strengthen cultural ties and facilitate business contacts. This intensification is highly desirable because of the friendly investment climate in Georgia, which for several years now has been highly evaluated in the Doing Business rankings.

V4 Agenda for Azerbaijan and Armenia. The success of the political and economic transformation of Georgia will be a good tool for promoting European values in Azerbaijan and Armenia. However, concentrating V4 activities on Georgia should not mean collaboration with these two other countries in the Caucasus should be ignored.

Azerbaijan is the largest and most populous country in the region and, on the one hand, could be an important area of economic expansion, and on the other hand, due to the lack of satisfactory results in the implementation of the rule of law and protections for human rights, is a challenge for the democratisation agenda of the group. Therefore, the V4 countries should more vigorously support a business presence in the region, especially in areas such as oil extraction, infrastructure development, and food exports. The promotion of Baku along the road to membership in the WTO will be helpful in this respect. At the same time, the V4 cannot give up the promotion of democracy in the country, especially in the context of the EU–Azerbaijan rapprochement, which is conditioned on progress in reform efforts in the country. The third area of V4 interest must remain energy issues. Despite Azerbaijan's withdrawal from the Nabucco project, the country is still a prospective partner due to its oil and natural gas resources. At the end of the decade, the latter will begin to flow from the coasts of the Caspian Sea to the EU.

The biggest challenge with Armenia, which in September decided to join the Russia-led Customs Union, is in building people-to-people contacts, for example, by expanding scholarship and grant offers. As for the Armenian–Azerbaijani conflict over Nagorno-Karabakh, the V4 countries should propose the establishment of an EU monitoring mission similar to EUMM in Georgia. It is not advisable, however, to engage openly into delicate relations between the two countries. This could lead to negative consequences, as in the case of Hungary, which in the autumn of 2012 released an Azerbaijani officer convicted of killing an Armenian soldier during NATO training. This decision led to the suspension of diplomatic relations between Yerevan and Budapest.²

¹ K. Zasztowt, "Georgian Dream's Foreign Policies: An Attempt to Change the Paradigm?," *PISM Policy Paper*, no. 3 (51), February 2013.

² D. Katan, "The Crisis in Hungarian-Armenian Relations", *PISM Bulletin*, no. 85 (418), 18 September 2012.