

**MARKET TERRITORIES:  
NEOLIBERALISM AND SPATIAL FRAGMENTATION  
IN THE SOUTH CAUCASUS**

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Over 20 years ago, Marody (1997: 13) stated that: '[t]he societies of the former Soviet bloc were departing from Communism and starting a journey westward.' Instead, '[t]heir goal was a democratic political system with a free market economy'. With the benefit of hindsight, such a statement raises deep questions about how the desires of these 'societies' are known, their territorial existence, and the economic transformations that were administered. In considering such questions, this article focuses on the pursuit of liberalisation in light of geopolitical fragmentation among the states of Armenia, Georgia and Azerbaijan. These states have had varied experiences but, in each case, have been conditioned by externally derived political economic interests and capitalist processes of integration into the global market economy. This has arguably left them open to the destructive effects of stunted long-term economic growth and democratic processes on a local level.

The South Caucasus continues to form one of the most militarised and geopolitically dense regions in the world. This has led to perpetual outbreaks of violence, most recently witnessed in the resumption of war between Azerbaijani and Armenian forces in September 2020. Moreover, in all three states, liberalisation has seen the advancement of either ruling elite interests or external transnational capital interests or both, disconnected from the material needs of the general populace and most vulnerable groups within each respective society. Here, neoliberalisation and democratisation have come into conflict. The latter has the capacity

**Shouha, M. (2020)**  
**'Market Territories':**  
**Neoliberalism and Spatial Fragmentation in the South Caucasus**  
*Journal of Australian Political Economy*  
**No. 86, pp. 178-203.**

to be employed for ideological ends removed from supposed goals of representation, equality, human rights and equal opportunity. Neoliberalisation has undermined democratisation in so far as this process is made to abide by dictates of free-market policy and transnational capital, as opposed to socio-economic betterment. Lack of democratisation can also be deemed preferable in this regard, as the presence of resource wealth in the Caspian Peninsula has seen Western states uphold the authoritarian neoliberal government of Azerbaijan to further economic interests.

In this article, it is argued that there has been a cyclical causal relationship between territorial fragmentation and neoliberalisation in the South Caucasus, which has also perpetuated undemocratic governance domestically and uneven development across the region. This is explored through a historical account of the region, followed by an analysis of the post-Soviet development of Armenia, Azerbaijan and Georgia. Finally, the discussion turns to critically consider possibilities for regional integration and future developmental strategies.

### **Historical context**

The introduction of capitalism into the South Caucasus region has inflamed irredentist claims to territory and created a new impetus for competitive pursuits over resources. This has arguably entrenched fragmentation in the region, with states adopting divergent measures of neoliberalisation, manifesting in uneven development. In order to understand this process, it is valuable to look at the region's past. The Caucasus region has a history of decentralisation dating back hundreds of years (DeWaal 2010: 14). The area previously consisted of a single regional entity, with ethnic Azerbaijanis, Georgians, Armenians and other minorities living amongst each other and sharing customs and places of worship, despite distinct religious affiliations (whether they be variants of Christianity, in the case of Georgians and Armenians, or Islam, in the case of Azerbaijanis) (DeWaal 2010: 14).

This region came under the rulership of empires including the Safavids and Ottomans and, in 1827, by Imperial Russia. By the early-Twentieth Century, the South Caucasus became a theatre for competing empires in decline, as the Russian and Ottoman Empires were battling for control of the region. Amidst the political transition of the Russian state, in March

1918, the Bolshevik regime signed the *Treaty of Brest-Litovsk*, ceding large parts of Eastern Anatolia to Ottoman Turkey (DeWaal 2010: 63). The region subsequently broke into disparate state bodies for the first time, with Georgia declaring its independence first in May 1918, followed by Armenia and Azerbaijan. However, all three states would become part of the Soviet Union roughly three years later. This history forms the backdrop of present-day nationalism and territorial tensions.

Regional boundaries can be fluid and porous. However, there are interlocking flows within territory which produce a 'structured coherence' and mark a geographical area as distinct (Harvey 2003: 102). Structural economic coherence of the South Caucasus has been eroded in recent history, though the imperialist pressures from surrounding powers and their ramifications, as well as post-Soviet neoliberalisation. The break-away movements of Nagorno Karabakh, Abkhazia and South Ossetia are based on the initial border drawing of 1918. However, once the region came under Soviet control, the republics and autonomous zones were imbued into an integrated economy and development was principally based on the equal allotment of resources. Within this system, separate irredentist claims to territory were denounced as overt nationalism and against the dominant Soviet ideology. This changed in the 1980s with the policies of Perestroika and Glasnost, which saw a relaxation of Soviet control and increased transparency in political and economic information released to the public, and a rise in expressions of nationalism which had previously been overtly suppressed.

### **Post-Soviet borders and conflict**

Since 1991, there has been a reorientation from space premised on locality to a need to forge territorial control and state integrity. The fall of the USSR ignited the historical dispute between Armenia and Azerbaijan over the province of Nagorno-Karabakh. In the early 1920s, the two states fought for control of the territory but, despite its Armenian demographic majority, the Bolsheviks headed transferred the region to Azerbaijan in a long-term strategy of appeasement to Turkey (Dragadze 1989: 56). In 1988, Perestroika had given rise to nationalist sentiments. The Armenian majority in Nagorno-Karabakh acted on this and partitioned the Kremlin for the territory to be unified with Armenia, which culminated in direct conflict (Dudwick 1997: 482). In 1991, the

war between Azerbaijan and Armenia began over the disputed territory of Nagorno-Karabakh. While Azerbaijan was in the throes of political infighting, the Armenian side had consensus on the issue of Nagorno-Karabakh and was eager to retrieve this land, which had been allocated to the Azerbaijani state in the early-Twentieth Century partitioning of the South Caucasus by Russian governance.

By 1994, a cease-fire had been reached, though Armenia had control of the territory of Nagorno-Karabakh, also known as Artsakh. Azerbaijan responded by imposing a blockade of Armenia's eastern border, resulting in an economic stronghold with Turkey's own closure of Armenia's western border (Radnitz 2018: 158). These conditions have persisted and shaped the states' outward trajectory in trade, alliances and transnational relations in the post-Soviet transition period. This has also reaffirmed the precariousness of the region as trade relations, developmental policy prescriptions and integration have unfolded in a manner disconnected from the ongoing militarism and looming threats of violence. In April 2016, tensions between Azerbaijan and Armenia led to the largest military clashes since 1994 (Meissner 2018: 232). Again, violence broke out in July and September of 2020 over the disputed territory, as well as the proper Armenian-Azerbaijani border, removed from Nagorno-Karabakh. This emphasises the fact that failures to attenuate glaring realities of territorial disputes and blockade have seen territorial hostility cemented into contemporary processes of economic development and pursuits of growth.

Once again, the institutional and socio-economic outcomes of liberalisation have a strong basis in the spatial configuration of the South Caucasus over time and through the changing nature of market integration. Georgia has constantly experienced tension between liberalism and nationalism, rooted in the freedoms introduced through Perestroika, the breakdown of central control, and ongoing territorial disputes in South Ossetia and Abkhazia. These territories have held autonomous region and autonomous republic status since 1922 and 1931, respectively, due to their popular reluctance to join Menshevik Georgia after the dissolution of Tsarist Russia (DeWaal 2010: 137). In 1990, this challenge was revisited as, while the Georgian government fought for the territorial integrity of the new state, it viewed ethnic minorities' incursions in spheres of cultural or economic sovereignty as challenges to spatial and social homogeneity (Jones 1997: 512). The government under Georgian President Gamsakhurdia failed to incorporate minorities

into the new political system, introducing a Constitution in 1991 which 'devoted only 10 short articles to the autonomous republics and restricted their rights' (Jones 1997: 513). Post-Soviet structural burdens had transformed into pillars of populist authoritarianism under Gamsakhurdia, and wide social divisions across spectrums of class and ethnicity were exploited, fragmenting the country into regions and nationalities (Jones 1997: 523). South Ossetia declared its independence on 21 December, 1991, and Abkhazia on July 23rd, 1992, in moves that were reactive and considered necessary, but further distorted the potential functionality of economic and geographical links which could be utilised in the developmental process.

Through the process of post-Soviet liberalisation, the incursion of private interests has been complemented with pursuits of overt militarism and power accumulation. Discrimination and separatist ambitions of Abkhazia and South Ossetia manifested into all-out war in 1992 and 1993, which saw Georgia defeated largely due to Russian military aid to the secessionist groups, leaving a bitter legacy (Jones 1997: 513). This history arguably represents the militaristic projection of economic imperatives of competition, territorial control and capital. However, in this instance, asymmetries in exchange over space also reinforce spatial fragmentation (Harvey 2003: 32). Georgia has spatial significance as a neighbour of Russia and a corridor to the Caspian Sea, thus Europe and the US have an inherent stake in the economic and geopolitical alignment of the state. Based on these factors, the state has been exploring the path of NATO membership (Wade 2016), which would further entrench the states in disparate spatial landscapes from an economic and geographic lens.

Therefore, the concept of nationhood within these states bears inherent irredentist views of surrounding territories, which are overlooked in questions of economic outlook and development. The violence of this history of state-formation and continued precariousness of state relations in the South Caucasus manifests in battles for territorial control, economic competition and capital gain. Tensions surrounding resources, such as water, oil and land, are ingrained in the border structure and conception of space in the South Caucasus. The adoption of capitalism builds on relatively newly formed state systems and ethno-nationalist divides, which made the region 'vulnerable to the manipulation of external forces seeking to control its evolution' (Hunter 1997: 437). The territorial tensions of the region pushed these three states to look outward

and embark on divergent paths of development, though all rooted in universalisation of the global economy. The conditions for compliance with this framework do little to remedy the historical woes that have forged the current fragmentation of the South Caucasus and have shaped domestic democratic processes alongside development.

To better understand the contemporary significance of these trends, the article now turns to explore recent political economic trends taking place in all three countries.

## **Political economic developments in Armenia**

### **Neoliberalism and globalisation**

Neoliberalism entails a multi-dimensional class project which attempts to universalise the self-regulating market, as opposed to nationally instituted markets (McMichael 2000: 687). The internal contradictions of this framework can arguably work against the achievement of socio-economic development through free-market economic processes, due to the nature of such policy facilitating economic gain for core countries at the expense of aid recipient states on the periphery (Przeworski 1992). Additionally, international financial institutions (IFIs), including the International Monetary Fund (IMF), the World Bank (WB), the World Trade Organisation (WTO) and the European Union (EU), have codified policies of privatisation, liberalisation and financial deregulation as binding in exchange for assistance in economic restructuring (Cahill 2014). A structural and regulatory bias in favour of such policy prescriptions has seen a 'constitutionalisation' of neoliberalism and, in turn, its institutional embeddedness in the practices of international lending agencies (Cahill 2014: 108). As such, structural adjustment programs for developing countries have employed elements of coercion on an international scale, which have eroded the autonomy and agency of states in their capacity to enact regulations and non-neoliberal policy.

The pressures of the dissolution of the USSR brought Armenia to the table of international organisations to address the crippling condition which the transition had set in motion (Babjanian 2008: 387). In 1996 and 1997, the WB approved two Structural Adjustment Credit programs, each worth the equivalent of US\$60 million. In return for credit

allowance, the WB called for the reorientation of the state away from direct management of the economy, restructuring of the banking system to facilitate private sector growth, integration into global market processes, and the mass privatisation of state resources and services (WB 1996: 12-4). Central planning in the Soviet-era prioritised industry and self-sufficiency through import substitution policy (Popov 2019: 8), and open-ended subsidisation of enterprises (Babajanian 2008: 392). Contrastingly, Armenia's post-Soviet reforms implemented vast privatisation and liquidation of former enterprises, leading to wide-scale deindustrialisation. This has seen a reorientation towards the service sector. While the share of industry represented 47 percent of GDP in 1991, this has fallen significantly to 25 percent in 2017; while the share of services in national economic activity grew from 20-30 percent in the late 1980s and early 1990s, to over 50 percent in 2017 (Popov 2019: 8).

As a general trend within post-Soviet states, neoliberal policy-makers posited that 'the pains of adjustment were both transitory and necessary in order to achieve macroeconomic stabilisation and respectable rates of growth' (Ishkanian 2002: 390). This includes the choice of privatisation or liquidation of enterprises to overcome debt, as well as the acceptance of social consequences of adjustment to new market conditions, such as higher unemployment during the transition period (WB 1996: 22; WB 1999: iii). However, the emerging competition resulting from privatisation in this field led to a decline in the number of available jobs and an increase in the vulnerability of employment available (Babajanian 2008: 392). Armenia's unemployment rate totalled 1.6 percent in 1991 (WB 2019a) compared to the most recent figure of 21.90 percent in 2019 (CEIC Data 2019a). The pursuit of driving states to partake in globalization processes has led to internal economic planning increasingly being based on the external prescriptions made by IFIs. Rates of GDP per capita have gradually increased since 1992, reaching US\$4,187.694 in December 2018, from US\$3,869.040 in 2017 (CEIC Data 2019b). Armenia's Gini coefficient has gradually risen from 30 in 2010 to 33.6 in 2017. This points to greater material and social hardship, with 25.7 percent of Armenia's population living below the national poverty line in 2018 (ADB 2019). Poor socio-economic outcomes persist despite promises of development through neoliberalisation, as exemplified by such ongoing poverty and inequality.

The precariousness of the resulting economic system was predicted and enshrined in the policy prescriptions. Transnational capital influx was

deemed crucial due to a risk of stabilisation and structural reforms being undermined by sociopolitical opposition arising from the protracted time-span of economic recovery (WB 1996: i-ii). This would 'be mitigated by continued assistance from donors and the Armenian diaspora through remittances' (WB 1996: i-ii). Coupled with the shrinking of the state through reductions in public expenditure, this saw an influx of external foreign capital and the flow of remittances (resulting from abnormally high levels of emigration) normalised in the functioning of the economy. Remittances from abroad constituted 12 percent of GDP in 2018 (WB 2019c). Armenia's rate of growth has been dependent on foreign investment, aid and remittances. This has rendered the state more susceptible to fluctuations in the performance of the global economy and experiences of crisis, which has had lasting consequences since the 2008 GFC, precipitating a 15 percent dip in Armenia's real GDP growth (CEIC Data 2019c).

The universalisation of the market economy and tug-of-war involving resources and regional configurations of the South Caucasus have been heavily shaped by Europe and the US. From 2014 to 2018, the EU provided Armenia with €120 million worth of financial aid, mostly devoted to governance, private sector developments and education (EU 2018). This remains a mechanism through which the EU can reshape the private sector to prioritise freedom of capital interests. Non-Government Organisations (NGOs), such as US Aid, have also played a role in this process. However, such interventions have not compensated for prescribed government service withdrawals. Instead, conditions dictated by the World Bank and other donors have left NGOs to 'pick up the pieces' or 'fill the gaps' in the pursuit of higher efficiency (Lewis and Kanji 2009: 92). These factors have, collectively, seen the Armenian state overwhelmingly subject to the whims of transnational capital and surrounding powers, as spatial mobility is employed in overcoming fragmentation within the immediate region.

### **Challenges to democratisation**

Neoliberalism encompasses methodological individualism and the concept of markets forming morally superior spheres of voluntary exchange (Cahill 2014). Here, capacities for internal processes of democracy can be shaped by external economic coercion, as externally



conditioned financialisation in less developed states can lead to domination through economic power. In 2017, Armenia transformed from a semi-presidential to a parliamentary republic, which has been seen as an attempt by then-President, Serzh Sarkissian, to retain power by becoming Prime Minister after fulfilling his second Presidential term (Ishkanian 2017). In 2018, Armenia experienced a momentous shift in its governing structure in which opposition leader, Nikol Pashinyan, gained favourability against the ruling Republican Party of Armenia, headed by Sarkissian. The uprising against the then-government was the result of ongoing poor conditions within the country – by 2017, over 30 percent of Armenians lived under the poverty line and 47 percent of those aged over 15 years were unemployed (Ishkanian 2017: 1). The previous government was branded a ‘semi-consolidated authoritarian’ regime by Freedom House in 2014, and was seen to be controlled by pro-government oligarchs, who had the capacity to manipulate legislation to serve their economic interests.

Under the Pashinyan government, Armenian oligarchic figures have been investigated for crimes of bribery and corruption, including the former Armenian president, Robert Kocharyan, and businessman and politician, Gagik Tsarukyan (Elliott 2020). With regards to the institutional development of Armenia, PM Pashinyan was dubbed a democratic beacon in the country and pledged to enforce measures to increase business transparency. However, the PM also met with foreign investors and described Armenia’s tax code as an ‘open-door policy for foreign investors with plans to drastically decrease economic regulations and restrictions in Armenia’ (Armenian Weekly 2019). Relations with Iran and Russia have also been carefully prioritised as governance continues to be dictated by geopolitical constraints.

### **Fragmentation and resource competition**

The contestation of Armenia’s borders has seemingly driven the nature of Armenia’s foreign policy measures, as well as the economic and political development of the South Caucasus region more generally. While mismanagement of resources has been a theme in the failure of Armenia to progress socio-economically, regional constraints – including war, land-locked geography and blockades – have been a large contributing factor. Indeed, due to its geopolitical significance, Armenia’s domestic

issues are inseparable from its geopolitical context of trade blockade and conflicting claims of territorial control.

Armenia continues to be excluded from energy and transit routes linking Azerbaijan, Georgia, Turkey and Europe, due to a conscious effort by Azerbaijan to isolate Armenia until it relinquishes its claim to Nagorno-Karabakh and withdraws its forces. Arguably, neoliberal reforms notionally seeking to engender sustainable economic growth and the alleviation of social hardship, must also address the geopolitical fragmentation of the region. Factors preventing this will be explored further along. In the absence of regional cohesion, the state has looked to greater integration within the global market economy. However, this has been shown to reverberate negatively through overreliance on foreign capital inflows and, consequently, heightened vulnerability to external factors, as well as dispossession through the implementation of externally derived liberalisation measures.

## **Political economic developments in Azerbaijan**

### **Neoliberalism and globalisation**

Azerbaijan emerged from the Soviet Union with many obstacles hindering development, including chronic instability, inter-ethnic and territorial disputes, and a major decline in economic conditions (Hunter 1997: 457). Azerbaijan's post-Soviet development has been largely conditioned by the appeasement of Western states and the business interests of the ruling class, leading to the extractive industry being prioritised to neglect of the real economy. This has engendered extreme macroeconomic growth since 1991, however it has rendered the state vulnerable to fluctuating oil prices whilst predominantly benefiting shareholders largely concentrated in the EU and US. The State Oil Fund of Azerbaijan (SOFAZ) was established in 1999 as a public sector organisation to manage revenue from oil and gas production, and has led the country's public finance system since (Aslanli 2015: 114). Beginning in 2005, the state experienced an oil boom, resulting in revenue of US\$125 billion (Tiwari *et al.* 2018).

By 2011, the boom was over, and a commodity crash in 2014 saw the Azerbaijani Manat rapidly depreciate and consumer prices increase by

10.4 percent the following year, leading an estimated million people to fall into poverty (Tiwari *et al.* 2018). Nevertheless, the extractive sector continues to dominate the economy – in 2018, oil exports rose by 44 percent year-on-year compared to non-oil sector exports which increased by only 12 percent (WB 2019b). Meanwhile, macroeconomic growth has been moderate, with real GDP growing by 1.4 percent and no significant growth expected until 2022 (WB 2019b). Thus, Azerbaijan has steadily emerged from its 2014 economic crisis, but has experienced marginal GDP growth in its aftermath, and faces real challenges to its future economic sustainability.

Azerbaijan's current economic woes demonstrate the long-term effects of structural adjustment decisions made under the directions of external IFIs, including the IMF, in the immediate post-Soviet period. The IMF issued a *1997-2000 Policy Framework Paper* that stipulated the continued goals of capital account transactions and trade liberalization, as well as a comparative advantage policy of specialising in the export of oil (Rzayeva 2013: 52). Azerbaijan subsequently shifted to a petroleum-based development strategy, which accommodates external capital interests and the hegemony of the global economy, but which has also engendered an imbalance in the state's productive capacity and instability of the domestic economy. This mirrors the Armenian case of contradiction, where IFI prescriptions open-up a state to greater instability through policy prescription, without appropriate means for addressing periods of crisis.

State expenditure has not been used to address social struggles over the long term, while regional inequality persists relative to the state's vast accumulation of oil wealth. 2019 oil revenues formed 60 percent of the government budget. Of the total budget, 39.9 percent was allocated to construction, while 4.2 percent was allocated to healthcare and 0.06 percent to environmental protection (Ibadoghlu 2019). Unlike the case of Armenia and Georgia, Azerbaijan was not paralysed by fiscal constraints. Between 1995 and 2003, there was a steady decline in the budget share allocated to health spending. Meanwhile, in 2005, oil-rich Azerbaijan spent the second least on health care amongst all former Soviet countries, above only Tajikistan (Rzayeva 2013: 36). In 2010, the WHO also noted a lack of plans or priorities, as well as a lack of government response to the deteriorating health and medical needs of the population (Ibrahimov *et al.* 2010: 25).

### Challenges to democratisation

Regarding the institutional structure of Azerbaijan today, the polity has come to adopt a petrostate model, with control of market reform, political decision making and long-term economic planning in the hands of a small and interconnected elite. Following independence, Azerbaijan experienced intense instability, social unrest and political in-fighting, which saw the state resort to governance under the old elite and which has largely not been conducive to capitalist transition, despite changes in the motives of economic planning. Heydar Aliyev governed Soviet Azerbaijan from 1969 to 1982, and returned via a coup d'état in 1993. This government re-established authoritarianism, but also manipulated market reforms in accordance with the financial interests of the oligarchic ruling elite (Meissner 2018: 227). Aliyev promoted specific networks, which came to control much of the economy and have appropriated national wealth (Meissner 2018: 228).

In 2003, Illham Aliyev succeeded his father and is currently in his fourth term as President through a series of elections widely deemed fraudulent (Meissner 2018: 228). Business interests have increasingly eclipsed the predominance of clan loyalties; however, these remain the two dominant mechanisms of Azerbaijani governance and are enmeshed in the social structure of the state (Meissner 2018: 226). A US cable released by Wikileaks has likened Azerbaijani governance to the feudalism of the Middle Ages, as a 'handful of well-connected families control certain geographic areas, as well as certain sectors of the economy' (Wikileaks 2010 quoted in Meissner 2018: 229).

The WB and IMF do not monitor the state's budgetary activities, and constraints on civil society limit the amount of information which citizens are afforded (Aslanli 2015: 119). IFIs fund Azerbaijani state hydrocarbon projects, despite their not fulfilling institutional mandates of business transparency (HRW 2019). The European Bank for Reconstruction and Development (EBRD) approved a US\$500 million loan for construction of the Trans-Anatolian Natural Gas Pipeline (TANAP) in October 2017, a project which would supply natural gas to Western Europe via Turkey (HRW 2019). This sets Azerbaijan apart from Georgia and Armenia, which have both experienced quite robust civil movements – heralded as 'progress' by western governments. In Azerbaijan's case, economic actors – including the EU and the US – have sidestepped issues of domestic human rights abuses, ongoing territorial

disputes and uneven development in the pursuit of regional 'stability' guaranteed by Aliyev, which secures their interests in oil and gas resources (Simão 2018: 189). This has necessarily been facilitated by a geopolitical scramble for Azerbaijan's oil and the regional pressures of territorial conflict, which have caused the state to look for economic and political allegiances outside of the region. Such contradictions and democratisation incapacities adhere to the cyclical nature of neoliberalism, spatial fragmentation and uneven development in the South Caucasus.

### **Fragmentation and resource competition**

Azerbaijan's post-Soviet transition has seen the state's growth conditioned by the economic interests of external powers, coinciding with spatial imbalances in the region. In 1998, US congressman, Doug Bereuter, made the claim that, 'The collapse of the Soviet Union has unleashed a new great game' (DeWaal 2010: 174). The Caspian basin became of major interest for US foreign policy as a component of energy security, as well as a means to contain the regional influence of Russia and Iran (DeWaal 2010: 174). An overt Western influence came into play through the logistical challenge of efficient transportation of oil to the European market.

The distribution of resources, including oil and gas, continues to be immensely important in the development of the South Caucasus states. In 1994, the Aliyev government signed a 30-year deal that was worth US\$10 billion with nine foreign companies from six different countries, including BP, Unocal, Amoco, and the Russian company, Lukoil (DeWaal 2010: 172). This deal founded the new Azerbaijan International Operating Company (AIOC), which would have major stakes in the developing oil fields after the State Oil Company of Azerbaijan Republic (SOCAR) (DeWaal 2010: 172). These international agreements were created not solely for the purpose of gaining mass revenue from oil output, as the Azerbaijani government wanted to give 'Western governments a stake in Azerbaijan's statehood', in the wake of Armenia's military occupation of Nagorno-Karabakh (DeWaal 2010: 172). However, here the high concentration of wealth and power in Azerbaijan has established patterns of asymmetry in exchanges over space within the South Caucasus, which ultimately benefit Western transnational capital

and interlink regional economies into patterns of uneven geographical development (Harvey 2003).

Externally-created concentrations of wealth and power have given way to uneven development and asymmetrical exchange relations, intensifying the fragmentation of the region. An example of this is the 2006 Baku-Tbilisi-Ceyhan (BTC) pipeline. The pipeline excluded Armenia, whilst 'binding three of its four neighbours more closely together' (DeWaal 2010: 178). Proposals for a 'peace pipeline' were drafted and these would arguably form the foundation for a Nagorno Karabakh peace agreement, but this project lacked political will on the part of Azerbaijan and the project's foreign shareholder (DeWaal 2010: 178). Energy expert Robert Ebel said of the project, 'Peace can bring a pipeline, but a pipeline can't bring peace' (USPO 1996: 20). Such a project would have imbued the states in a process of combined economic reproduction, lessening the intensity of capitalist competition for resources and leading to potentially fixed regional cohesion. It was, instead, subject to a risk assessment by the AIOC and shareholders, inherently driven by a profit motive. To this end, Gershon argues that the use of means-ends calculus – balancing responsibility, alliances and risk – constitute the corporate form of agency inherent in the universalisation of neoliberalism (2011: 539). Here, other forms of agency are discounted.

## **Political economic developments in Georgia**

### **Neoliberalism and globalisation**

The process of neoliberal reform in Georgia was largely state-directed and ideologically driven. The Shevardnadze government, from 1995 to 2003, pursued Washington-consensus style liberalisation, but in the context of institutions and social structures which were inherited from the Soviet era. In turn, the Saakashvili government came into power in 2003 through a civil movement arising from social hardship that had plagued the population since 1991. Through faith in the *laissez-faire* rationale of unbridled free trade, the Saakashvili government sought to alleviate the state's stunted aggregate growth by implementing one of the most radically neoliberal sets of policies ever documented – including mass privatisation, the downsizing of the public sector, deregulation, reduced taxes, liberalisation of trade, and labour market deregulation

(Gugushvili 2017: 11). The preference for domestic business class interests, thereby, shifted to an overt preference for neoliberal policies favouring transnational capital.

This economic process has exponentially enhanced tensions between domestic labour standards and conditions favouring external investors. In 2006, a new labour code limited the rights of workers by giving employers full freedom in hiring and firing, abolishing the minimum wage and overtime pay, and limiting occupational health and safety regulations (Gugushvili 2017: 3). Moreover, prior restrictions on the private acquisition of public assets and limitations on selling assets to offshore companies and foreign state-owned enterprises were revoked, while the government privatised 3966 assets worth US\$1.4 billion by 2010 (Gugushvili 2017: 3). The government maintains an aversion to industrial policy and national enterprises have been exposed to international competition with minimal competitive advantage (Gugushvili 2017: 8). In 2016, manufacturing saw a net reduction of 9,000 jobs, while mining added 17,000 and hotels and restaurants added 6,000 (Gugushvili 2017: 8). Therefore, despite making strides in aggregate economic growth, there remains a concentration of investment and productivity in sectors which require low skill sets, capital-intensive technologies and/or largely short-term or precarious employment.

Further cementing this liberalising shift, Georgia signed an Association Agreement with the EU, establishing a Deep and Comprehensive Free Trade Area (DCFTA), which came into effect on 1 July, 2016 (European Commission 2019). This aimed to achieve greater economic integration between the EU and Georgia by removing import duties on goods and services, and allowing foreign companies to benefit from equal treatment in the Georgian economy, based on the principles of the WTO (European Commission 2019). This included the abolition of tariffs in trade, causing considerable hardship to small business sectors which employ a large share of the population. Meanwhile, multinational corporations have gained exponentially as patterns of foreign direct investment have engendered persistent trade balance deficits, limited composition of exports relative to imports, and a lack of trade diversification (Gevorkyan 2018). This has made the country more vulnerable to external shocks and subject to the changing projections of external investors.

High levels of unemployment, downward socio-economic mobility and economic migration have resulted from these reform measures. At the

end of 2018, the unemployment rate amounted to 12.7 percent. However, of the total employment data, those listed as self-employed amounted to 48.7 percent (Agenda 2019). A large portion of this group engages in subsistence farming and, if listed as unemployed, the unemployment figure would rise considerably (Wade 2016). Policies which saw immense social deprivation alongside the opening of the domestic market facilitated a movement of dispossession through capital accumulation. Meanwhile, liberalisation has accommodated the dominance of transnational capital in the domestic economy. This has led to an increase in economic vulnerability through dependence on the global economy, deteriorating domestic industry and low regulatory standards.

Agreements with IFI and other transnational capital entities, made without resolutions to land disputes, have perpetuated fragmentation as a reoccurring cycle. A recent report by Crisis Group International has found an increase in informal trade between Georgia and the territories of Abkhazia and South Ossetia, with economic strain being caused by inflated prices of imports due to the depreciation of the Russian rouble (used in the territories) (Crisis Group 2018: 5). Such economic activity challenges the restrictive and isolating trade regulations on the territories, imposed by Tbilisi, governments of Abkhazia and South Ossetia, and local communities living across conflict divides (Crisis Group 2018: 10). This represents a reversal of the dominance of relative conceptions of space, as goals of economic integration here are localised and based on community support. However, one major obstacle to this is the need for formal trade with the territories to comply with European standards, as outlined through the DCFTA in Georgia's EU agreement (Crisis Group 2018: 12). Here, globalisation has embedded the region in a state of fragmentation, as Georgia is simultaneously wedged in a case of constrained territorial fixity and universalised integration with the global economy. The overt integration with the latter arguably leaves localised spatial relations subject to externally-imposed economic standards, resulting in an impasse in overall development and growth.

### **Challenges to democratisation**

Georgia has a multi-party system, with major political parties consisting of the Georgian Dream coalition, the United National Movement and the 'Our Georgia' Free Democrats. On a state level, the government has



attempted to 'level the playing field' between foreign and domestic businesses, which has overwhelmingly privileged external investors, thereby perpetuating domestic disadvantage and inequality (Wade 2016; Christophe 2007: 195). These links generally become enmeshed in elite political dealings, cementing tendencies towards 'corruption' among elite circles (Christophe 2007: 195). While corruption in post-Soviet states is often seen in class relations, external standards of economic freedom and the management of inequality, globalised class relations resulting from this are often unacknowledged.

In 2003, Edward Shevardnadze was deposed in a protest movement after having presided over a decade of 'economic stagnation, territorial tension, corruption, human rights violations and widespread unemployment and poverty' (Gugushvili 2017: 1). The following government headed by the United National Movement (UNM), led by Mikheil Saakashvili, implemented anti-corruption reforms with favourable outcomes in areas of traffic policing, infrastructural projects, the electrical industry and budgetary spending (Papava 2013: 57). However, the potential for corrupt practices remained ever-present.

A changeover of economic power between domestic elites and transnational capital was the outcome of this governing shift. Mechanisms for reducing poverty entailed rapid economic growth through 'improved governance, tackling corruption, establishing a business-friendly environment, attracting foreign direct investment (FDI), privatisation and large-scale infrastructure projects' (Gugushvili 2017: 2). This saw, the public sector significantly downsized due to its allegedly inefficient and corrupt public service, with the whole staff of the public registry (2200 people) being dismissed in a single day; staff who remained had their wages increased to avoid potential bribery (Gugushvili 2017: 3). Moreover, the government attempted to regulate the domestic business elite by collecting 'voluntary' donations of assets and property for the state through intimidation by law-enforcement agencies (Papava 2013: 57; Gugushvili 2017: 4). This arguably amounted to forceful expropriation and deprivatisation. The same government revoked restrictions on land acquisition by foreign investors. While the state sought to establish democratic institutions and market economic processes – designated as the 'Western path' – in practice, this has produced exploitative relations with Western states and corporate practices incompatible with the immediate social and economic challenges of the state and its citizenry.

### **Fragmentation and resource competition**

The aforementioned BTC pipeline cemented Georgia as being of significant geopolitical interest to the US and Europe as a corridor to Caspian oil, in conjunction with its military importance in placating both Russia and Iran. For Georgia, the pipeline posed issues of environmental safety, which were over-ruled, and then proved to be less economically beneficial than expected, as construction created few jobs and would earn the state modest annual transit fees of roughly \$50-60 million (DeWaal 2010: 179). Overall, the BTC pipeline supplied only 1 percent of the world's output, but had immense implications for the spatial landscape and absorption into the global market. This illustrates the fact that liberalisation since 1990 has been a process of layered geopolitical orientation with hegemonic transnational capital motives and external questions of financial risk hampering the potential for regional integration. This extension of regional incoherence upholds Harvey's notion of opposing 'distributive' and 'collective' power, establishing a zero-sum game in which 'competition can improve the position of the hegemony by taking power away from others' (2003: 37).

Georgia's ongoing territorial dispute with Russia has seen the state become a staunch ally of the US as a counterbalancing force. In 2007 Georgian forces in Iraq amounted to 2000 soldiers, thereby becoming the US' second-largest ally in the campaign after Britain (Kramer 2007). In 2008, president Saakashvili 'blundered into a war' with South Ossetia, with Russia intervening on behalf of the latter (DeWaal 2010: 4). The expectation was that Georgia's allies in the West would provide support, but this didn't eventuate; leading, in turn, to defeat and Russian military occupation of South Ossetia ever since. Moreover, Georgia's application to join NATO has been stalled as of 2019 (Gallihier 2019). The integration of Georgia in campaigns of US hegemony has seen relatively small-scale regional disputes over territory extrapolated onto a global scale and subject to broader movements of capital accumulation through militarism, originally triggered by economic transformation and the influence of competitive capitalist logic.

### **Future trajectories and paths for integration**

For the South Caucasus region as a whole, IMF data predicted a rate of growth from 5 percent in 2018 to 4.5 percent in 2019, with the latter projected to remain consistent from 2020 to 2023 (IMF 2019a). In response to this, the IMF reaffirmed the need for integration into the global economy and urged that 'structural reform should be accelerated to foster diversification and private-sector-led inclusive growth' (IMF 2019b: 13). Most significantly, the report stated that, '[g]radually reducing the role of the state in the economy would level the playing field and lay the foundation for a more market-based economic system' (IMF 2019b: 13). Such prescriptions hark back to the largely detrimental neoliberal structural adjustment conditions imposed during the 1990s. Arguably, the region has more to gain from local economic cohesion, and economic and political incentives for peaceful relations and combined economic reproduction. This could aid in alleviating intra-state tensions and militarism, domestic challenges to democratisation and uneven development.

### **Internal models for development**

Domestic governing modes of development can be implemented to further the creation of social institutions and overall socio-economic growth and equality. These require political autonomy and political will, as well as transparency in foreign trade, resource exports and revenue. An example of this is partial privatisation, in which case privatised assets in transition countries are maintained through non-controlling ownership of the state (Schmitz 2003). This ownership model can mitigate the disadvantages of public ownership, such as minimum managerial improvements, and full privatisation, including exploitation by transnational firms and damaging incentives to minimise costs (Schmitz 2003).

Partial privatisation can manifest in various ways, such as where managers have full control of investment decisions and perhaps prioritise cost reduction in production process, or where the government bears control too and signs-off on quality improvement and considers externalities (Schmitz 2003). This would provide flexibility for the incorporation of such ownership structures to various enterprises, from

resource extraction, to firms and banks. Partial privatisation has been argued to have positive outcomes of increased management efficiency and labour productivity without layoffs. However, these outcomes depend on political will and stated government objectives, such as maintaining or increasing employment levels (Gupta 2002).

The developmental state model entails another means through which further growth can be achieved sustainably and alongside socioeconomic betterment. The developmental state model allows for more state independence and autonomy as well as economic control, such as through state intervention and regulation. These measures go against the stated prescriptions of IFIS and structural adjustment programs previously discussed and are, instead, geared towards increased industrialisation (Singh and Ovardia 2018). It is argued that, 'the state is central to the development process and bears the capability to resolve market failures, capital scarcity and lack of coordination between governments and industrial elites' (Singh and Ovardia 2018: 1035).

Such development can be promoted through the creation of a professionalised bureaucracy and employment of domestic technocrats to determine state capacity, as well as pro-business policy which can create mutually-beneficial projects (Singh and Ovardia 2018). Structural vulnerabilities are also said to support developmental state models, as governing bodies and industrial elites base their political legitimacy on socioeconomic measures (Singh and Ovardia 2018). Future development trajectories on a national level continue to depend on the political will and geopolitical constraints of the state. This has inherently given rise to forms of governed internationalisation, through particular blocs of political and economic cooperation. These have been beneficial in strengthening more localised economic flows in the region and incentivising regional stability and cohesion.

### **Regional cohesion**

At a regional level, the territorial disputes and consequential fragmentation of the South Caucasus have arguably determined the states' conflicting developmental paths. The inability of Europe, the US or the OSCE Minsk group to determine concrete solutions to the Karabakh issue, and strained relations between Turkey and Azerbaijan, have seen Armenia maintain close ties with Russia. Armenia joined the

Eurasian Economic Union (EAEU) – a union of fellow Post-soviet states including Russia, Belarus, Kyrgyzstan and Kazakhstan – allowing free trade between the five with common customs regulations (Oskanian 2014). Armenia is the only country to not share a border with any other of the trade bloc's members, and relies on Georgia providing a free transit corridor for exporting its goods (Asbarez 2014). However, impending membership of Iran to the EAEU was announced in October 2019, representing a positive step in localised, regional integration of Armenia and Iran, as an immediate neighbour (Mehr News 2019).

Azerbaijan's need to reduce dependence on oil exports has also seen the country slowly align itself with Iran for mutual economic and political benefit. This has included increased bilateral relations, military cooperation, increased trade and the completion of a North-South corridor (Hodaei 2019). The two signed the Caspian Sea Deal in August 2018, reiterating the spatial control of the sea between them (Hodaei 2019). In 2019, plans were announced for the creation of a joint industrial zone on the Iranian-Azerbaijani border (Mammadova 2019). However, these initiatives contradict the geopolitical outlook of the US in the region and may become problematic if they conflict with the interests of Azerbaijan's allies in the South Caucasus, such as the Turkey and Israel.

Russia has often had tense relations with neighbouring Georgia, while remaining Armenia's largest trade partner, biggest investor and main supplier of nuclear fuel and gas. In disputes over the pricing of gas supplied by Gazprom, Armenia has considered diversification of the gas market and notions of a 'tripartite project', including Iran and Georgia. Such a project may be met with resistance from US interests in the region and fall under the sanctions regime which the US has imposed on Iran (Konarzewska 2019). Azerbaijan has also acted to diversify its real economy and increase its alliances outside of Russian influence.

The GUAM (Georgia, Ukraine, Azerbaijan and Moldova) Organisation for Democracy and Economic Development, established in 1997, was a step towards integration and has aims of strengthening economic ties and effective cooperation (GUAM 2019). The group engages in joint economic and transport projects, and is seen as a movement of counterbalance against the dominance of Russia in the region through the benefit of the Caspian Basin (Goble 2018). Despite these developments, the unresolved regional disputes have overwhelming dictated the

developmental trajectories of these states and continue to do so. Overlaying the tense regional fixity with strides of liberalisation has arguably strengthened regional asymmetrical exchange relations. This has occurred through concentrations of wealth and power-based advantages to capital markets and external economic actors. Debates over state integrity and persistent threats of war between Russia and Georgia, and between Azerbaijan and Armenia, have also served to entrench processes of disintegration.

### **Conclusion**

This article has argued that the vastly divergent developmental trajectories of Armenia, Azerbaijan and Georgia are based on the unresolved territorial disputes that came with independence. The spatial fragmentation and ongoing militarisation which have resulted from this have caused the states to look outward, beyond the region, for economic and political ties that can facilitate growth. In the case of Armenia, this has seen recent trends of liberalisation and strengthening alliances with Russia and Iran. Azerbaijan has utilised its immense resource wealth to collaborate with Turkey for the sale of energy resources to Europe. Finally, Georgia has sought to increasingly align itself with the EU, NATO and the US. Each state attempts to adhere to external policy prescriptions based on the predominance of commodity exchange, neoliberal policy and adherence to transnational capital interests to secure trends of aggregate growth and development. Social regulation and localised forms of economic integration are, thereby, subordinate to international capital flows, as prescribed by the neoliberal processes favoured by external IFIs.

This stark economic transition has led to severe challenges to the state's capacities for democratisation. Regional tensions reverberate and manifest on a domestic level between citizenry, their governing institutions, national elites and transnational capital entities. Processes of democratisation have been either stunted or unfolded in a manner favouring transnational capital. Moreover, the fragmentation of the region maintains a cycle of regional discord and perpetuates the most pernicious effects of neoliberal measures through uneven development, continued hostility and militarisation. There is potential to break these

cycles only if the states can adopt internally directed models for sustainable economic development and greater regional cohesion.

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