

## Opinion

# The South Caucasus: Rethinking Development and Democracy

By Vartan Oskanian, Yerevan

## Abstract

Just when formerly communist countries had begun to accept that capitalism brings with it inequalities and harsh competition, the financial meltdown that turned into a global economic crisis pushed the developed world itself to question the premises, excesses and dangers of laissez-faire capitalism. The crisis brought on soul-searching everywhere. The key question to consider here in the Caucasus is whether the crisis is, at its core, solely economic or actually political.

## The International Context

The G20 first tackled the global economic crisis through a summit aimed at developing a unified strategic vision for addressing the problems in the world's real and financial sectors, discouraging the growth of national protectionism through a recommitment to free-trade, tightening banking and financial regulation, and creating aid packages for poorer countries.

This holistic approach offers hope to our new free market economies because we continue to be seriously impacted by the G20 countries' journey from boom to bust and hopefully to boom again. In the Caucasus, we are greatly dependent on Russia, Europe and the US, and we would welcome their efforts to shore up devalued currencies and fallen stock prices, enable competitiveness to prevent a rise in protectionism, strengthen banks and regulate excesses.

But relying on international review and restructuring won't save us in the Caucasus, or in other former east bloc countries. If we had the strong democratic institutions of the G20, we could dare the tough questions and grasp the tough answers about our own development paths. If we had the initiative or the opportunity for a G20 type conclave for our own transitional, dependent, fragile, often unstable countries, we would benefit from strength in numbers and shared experiences. If we had the political courage to sit together, we could look at each other's systems to address our internal crises, to help ameliorate consequences, and to prescribe long-term and even similar solutions.

From development to democratization, this crisis offers the opportunity and imposes the imperative to rethink essential – and erroneous – premises upon which our political and economic evolution has been based. In other words, we could use the crisis, as the G20 has done, to pinpoint the weak points in our individual systems, and in our regional economic system, and to consider taking the risky, responsible steps to eradicate them. In our developing countries, we have fundamental premises

to rethink. After all, we were the subjects of an unprecedented experiment, and two decades later, we have something to say about that experiment.

## Rethinking Development and Democracy

Even before the crisis, in the countries of the former Soviet Union, it was becoming clear that the challenge to our growth is not just economic. Today, in the midst of the crisis, economic problems are not the only threats. It is the other crisis – a crisis of ideology and outlook – that is actually more consequential and that has been brought to the fore because of the stresses of the economic meltdown. There are four fundamental premises to rethink if we are to benefit from this crisis.

First, we who have embarked on new, liberal, free-market development have misunderstood “development” and its ensuing challenges and seen them as merely economic in nature. Development is a political process, not an economic one. It requires political changes in society and an organized process of engaging both elites and public, without threatening one or discouraging the other. Development doesn't mean spending money on infrastructure alone; it means infrastructures that are designed and maintained by a responsive state apparatus with functioning governance systems. Developing into a modern economy requires the provision of fair, transparent public services. Access to the sea, and endless barrels of oil do not add up to a functioning economy. Only political will and a change in political thinking can bring that about. Our countries must develop politically in order to develop economically.

Second, pretense at democratization is dangerous and counterproductive. It distorts the relationship between government and the governed, raising expectations that can't be met, obstructing progress that could be taking place elsewhere in society. There are many prosperous countries in the world which are not democratic, and don't pretend to be. Singapore is one example of a thriving country where democratic rights are largely sus-

pended; the United Arab Emirates is another. If the elites in our countries really only want economic development, then there should not be a show about democratization. Governments who repeat the predictable democratic formulations but don't have sufficient trust in their people to respect the electoral process, or to govern openly, force citizens onto the streets – either episodically as in Armenia, or chronically as it seems in Georgia.

The frustrations born of fake elections persist and draw a wedge between segments of society and between government and society. Such explosions divert energy and resources from all sectors, including the economy. Citizens avoid paying taxes to a government they don't trust; government refuses to loosen the tax burden on rebellious citizens. The alternative, an autocracy – not unlike what Azerbaijan seems to have institutionalized with its recent constitutional amendment removing term limits for the inherited presidency of the current president – is after all, much more predictable, transparent and direct. This may be a cynical conclusion, but it remains an option for some. On the other hand, if the peoples of our countries really want democratization, which I believe is the unquestionable choice, then they must actively, genuinely, patiently, consistently work to make that happen. It will not come with repeated revolutions as in Georgia, or with petulant street protests as in Armenia.

Third, the Soviet-era definition of power continues to distort the modern concept of legitimate authority. World leaders like Mahatma Gandhi and Nelson Mandela had no power but operated from a position of authority. They accomplished things that changed the world. Except for a brief period immediately after independence, our societies have not experienced governments who enjoy the consent of the governed. Hard power, exclusive and brute power, hereditary power, can continue to be exercised, but that will not assure our leaders the authority they require to bring about significant, lasting political or economic change. Economic growth, and change, depends foremost on confidence and trust. The greatest threats to confidence are silence and untruthfulness. In times of economic upheaval, silence leads to speculation, aggravates insecurity and further deteriorates trust. Unfortunately, the leadership in all three countries has chosen either not to talk about the causes and effects of this global challenge, or to talk about it in rosy, general, superficial terms. Even in societies where the government controls the major broadcast media, however, rising unemployment, weakened currencies, decreased investments, falling remittances and inevitable inflation are realities that no amount of “spinning” can mask.

Finally, even before the crisis we could see that our adherence to the wild, textbook capitalism that we adopted as we tore away from communism is not working. We can, and must consider a more modern, compassionate form of public-private partnership that will allow the state to intervene where necessary to support strategically important sectors and enable economic growth, and not just in a time of crisis. Unfortunately, in the absence of unshakable rule of law, public-private has sometimes come to mean using public resources to help private friends. Instead, it must become government offering individuals and businesses a hand up, not a handout. In other words, if certain entities in the private sector sink rather than swim, it must not be because the government has not done its part to create an enabling economic environment. If Armenian or Georgian or Azerbaijani farmers are unable to earn a living, it cannot be because governments in the Caucasus have shirked their responsibility to share costs and risks, while governments in France and the US have not.

### **Bottlenecks to Democratization and Economic Growth**

The fundamental bottleneck that impedes change in all these spheres is the absence of institutions and an across-the-board acceptance of rule of law. Although the developed world has been able to transfer support and assistance, it has not succeeded in transferring strong institutions. All three countries in the South Caucasus lack strong institutions, although the reasons are different in Armenia, Georgia and Azerbaijan.

Economist Milton Friedman, just a decade after the fall of the Soviet Union, explained that if in the early days of independence, his appeal to all the new states was before and above all else, to privatize, a decade later, he had come to the realization that possibly it is rule of law that is more basic. Frances Fukuyama, in his *State Building* refers to this conclusion of Friedman's as an important consideration for governments seeking economic growth and efficiency.

Armenia was the first to privatize on a massive scale, but it did not succeed in equally spreading the rule of law. Thus, the firm, integrated personal networks of power centers in government and in big business are a huge roadblock to the country's development. Regardless of who is the country's political leader, power continues to be shared among the business-government elite. Over three presidents and three administrations, the elites have remained more or less the same – in make-up and in the way they work. Government agencies – from tax and customs to courts – develop policies and

implement programs always looking over their shoulder for direction. In normal times, this prevents public engagement in the reform and perfection of public institutions for fear of stepping on important toes. In times of crisis, this thwarts the will and necessity to act. If the public were willing to go along with massive, radical change in one or another area – in income tax, educational requirements, land ownership – the existence of such an interdependent and reciprocated power network stands in the way of risky, innovative changes since the elite's interests are sure to be affected. Those making the decisions – about monopolies, taxation, personal property, access to services – would be the ones whose personal and political power would be affected. Thus where the presence of strong institutions should have buffered the shock of major but essential change, instead, institutions remain personalized and partisan, and block, rather than enable, change.

In Georgia, the same roadblock exists. There, too, consistent, predictable state institutions are absent, but for another reason. The Rose Revolution tore down old institutions, but did not replace them with new ones. Although reformed government agencies have become more responsive in matters of everyday life, nearly eliminated petty corruption, and provide tangible benefits and visible improvements in infrastructure, at the state level, personal power networks, allegiances and political dependencies have replaced neutral, continuous, independent state institutions. The new government's revolutionary mindset seems to prefer immediate results and change over time-consuming, and often unpredictable

(and uncontrollable) legislative and institutional processes. The ruling team came to power by revolution and when its legitimacy and power are under threat, it continues to promise not gradual, difficult and pervasive evolution, but a second revolution.

In Azerbaijan, the ruling regime appears to have decided that just as it doesn't need a diversified economy, it also doesn't need democratic institutions. Checks and balances, transparency, accountability and predictability are not associated with oil-centric economies, with one or two notable exceptions. According to international indexes, Azerbaijan is not one of them. The hereditary presidency and an entitled government have substituted for the continuity, accountability and even-handed governance that institutions provide. Oil income causes economic growth numbers to rise, but the real picture in Azerbaijan's chemical, aluminum and metallurgical industries demonstrate that the economic institutions are not at all solid. This will become a crucial problem as oil revenues decline within a decade. Until then, oil wealth funds the personal institution of the president, but not the social institutions necessary for a viable state, and especially one in a time of crisis.

Unless the economic crisis and its twin political crisis lead to substantive, public debate on these fundamental issues of political direction and social and economic responsibility, we will veer further from the already-difficult path toward stability, development and democracy, regardless of what the G20 says and does, or how much assistance our friends offer.

*About the author*

Vartan Oskanian, Armenia's Minister of Foreign Affairs from 1998 to April 2008, is the founder and president of the board of the Yerevan-based Civilitas Foundation.