

Divergent classification of economic integration (A case of Azerbaijan and Turkey relations)

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ABSTRACT:

There have been many economic integration efforts in 20th Century. Their main goals are to achieve economic union as seen in the stages of EU at the first step and finally political union. In each phase all countries should harmonize their economic, financial and social policies for final target of political union. At the end, they built the stronger economic and political structure and take an advantage in highly competitive global market. This article looks into the major economic integrations from the divergent classification of compulsorily (socialist economic integration) and voluntarily basis (capitalist economic integration) such as respectively the USSR, the EU economic integrations. It focuses on the similarities and differences of two divergent economic integrations from technical perspective, not ethical or moral. It also analyses recent economic developments between Azerbaijan, Turkey and Georgia in South Caucasus.

Keywords: Economic Integration, Socialist Economic Integration, Azerbaijan

INTRODUCTION

There have been many economic integration efforts in 20th Century. Their main goals are to achieve economic union as seen in the stages of EU at the first step and finally political union. In each phase all countries should harmonize their economic, financial and social policies for final target of political union. At the end, they make the stronger economic and political structure and take an advantage in highly competitive global market. This article looks into the major economic integrations from the divergent classification of compulsorily (socialist economic integration) and voluntarily basis (capitalist economic integration) such as respectively the USSR, the EU economic integrations.

The very basic information from the fundamental books of economics indicates that Economists never looked at the ethical aspect of economic issues and thus, this article also does not examine whether or not the achieving way of economic integration is based on ethical and moral values. Instead, it is completely approaching and analyzing the types of economic integrations from technical and theoretical side of economic integration.

This definition was firstly used by Jozef M. Van Brabant but with this definition, he mentioned the common economic organization- the Counsel of Mutual Economic Assistance (CMEA) between the centrally planned economic of Eastern Europe (CPEs). (Jozef M. Van Brabant (1980), pp.1) But this research is considering the USSR as completed economic integration movement.

THE STATEMENT OF PROBLEM

Economic integration theories are developed based on liberal economic values such as international trade and cooperation. It is required the different aspects to examine the issue. The research is designed to analyze the implementation of socialist economic integration in the context of federal structure of the USSR. The researcher also designed a model indicating the similarities and differences of socialist economic integration and liberal economic integration.

Due to the central planned characteristics of the previous command economic system and its strong cultural and economic impact on the bureaucratic mechanism and administration inherited from the USSR is still so effective in the behaviors of Azerbaijani elites.

THE OBJECTIVES OF THE RESEARCH

The main goal of this research is to analyze the federal structure of the USSR under the context of the EU economic integration such as free-trade area, common market, financial and economic union, political union, and determine the similarities and differences of socialist and capitalist economic integrations from theoretical perspective, from not ethical or moral aspect. This research is also designed to investigate whether or not the economic relationship between Azerbaijan and Turkey could be evolve to the economic integration and political union considering the fact that their strong historical, cultural, linguistic and ethnical ties. It is expected that this classification will contribute to the literature.

Methodology

In order to study the features of the implementation of socialist economic integration in the USSR from the different aspect, the researcher adopted a descriptive and qualitative method and in this regard, developed a perspective chart according to the context of the liberal economic integration and used it to analyze and determine, the structure, the similarities and the differences of the socialist economic integration.

The researcher also developed an interview guide and interviewed senior academicians and professors of different universities and the randomly selected people from the public in Azerbaijan to investigate the idea of the economic and political union between Azerbaijan and Turkey.

THE CLASSIFICATION IN MODEL

This article analyzes three different integration models from different perspective such as compulsorily and voluntarily basis under this category.

1. **Socialist Economic Integration Model** (The USSR Example) it occurred in the last century through the building of the USSR. The fundamentalist characteristic of socialist economic integration is a kind of compulsory integration model, not an optional, which means that it is not moral or ethical ways which are always ignored from economics view. This fact is the very basic information from the elementary books of economics that Economist never looked at the ethical side of issue and thus, this article does not analyze whether or not the achieving way of economic integration. It is approaching and analyzing from technical and theoretical side of economic integration. Previous Soviet Union regime forced the other countries to integrate the Russia in the December of 1922 just after the collapse of monarchic Regime. Forced countries to integrate the Russia never had the own independent army while they were considered an independent republic by the Russia. For instance, Lithuania, Latvia and Estonia were forcibly taken part in the USSR even they were independent countries at that time. If we ignore the coercive side of the USSR, it can be regarded as the example of integration model in terms of characteristics of the USSR explained below.

- No visa application and custom procedure between member countries and thus, free movement of goods and services and labor. (Custom Union);
- Full labor mobility without any obstacle between the member republics of Soviet Union and no passport regime. (Common Labor Market);
- Common Exchange Regime;
- Centralized management and government for the member republic states (Political Union);
- Defense alliance (Unitary Army).
- Common language (Russian language is extensively dominant in the member republics of Soviet Union; the language of education, the language of trade and the language of communication)

2. **Capitalist or Liberal Economic Integration Model** They occurred especially after the Second World War and it can be categorized under two different groups.

- Developed capitalist countries (For example, European Union Countries, USA, Canada, Japan, etc.)
- Developing Countries and third world countries“(colonies such as Africa, South Asia and South American countries).

3. **Regional Integration Model** Most developed one is the EU (European Union) which its historical reasons of development is explained below.

- The leading role of the EU in the economic development of the World and global political issues.
- All member counties were a part of European Commission and had the very close relationship with European Union.
- Priority of the member countries has become an economic and political integration with the EU during the process.

- Other regional integration movements are based on the EU experience.
- The EU was founded based on the willingness structure of candidate countries which makes the strength and durability of the Union possible, which was the one of the main target of it, in this way, the importance of its theoretical and practical experience has increased.
- The EU has very much expanded after the collapse of the Soviet Union, which caused some problematic between member countries, which should be taking an account for analyzing.

The EU, which is the most spread and practical integration model, exist in many different regional locations all over the world. In this model, regional integration is mostly available among geographically close countries with the cultural and similar ties. There are some difficulties between the member countries under this model as follows:

REGIONAL PROBLEMS FOR ECONOMIC INTEGRATION

There are many of integration efforts and models all over the World in history some of which are compulsory integration models built in way which the one is forcibly occupied by the stronger one and they lost their independency. Integration model we offer and analyze here is that all countries are willing to integrate each other. The main reason for this is taking an economic and social development advantage and increasing the welfare.

We should analyze the economic integration possibilities between Azerbaijan, Turkey and Georgia. It is necessary to see the whole picture regarding what is going on in the region.

There are, in appearance, no economic and political major obstacles or reasons for the economic integration between Azerbaijan and Turkey. It is absolutely ordinary that they can have the economic integration because of their strong historical and cultural ties and relations. They have been regarded as “one nation and two countries”, which has been very strong slogan used by political leaders’ speech from both side, especially since the independence of Azerbaijan in 1991. However, the relationship between the two countries had been very limited because of Russian hegemony on Azerbaijan since 1918 to 1991, when was the date that Azerbaijan received its independency. Russian hegemony has influenced in weakening the relationship between the two countries and has played the dominant role in the constitution of culture and way of thinking for Azerbaijan.

In the late 20th Century, after Azerbaijan became an independent country, the economic and social relations between Azerbaijan and Turkey got stronger and have been largely developed in very broader fields of education, culture, trade, etc., for the last 18 years after the date of independency. Since that date, Azerbaijan has been one of the most important economic partners for Turkey in very short time.

The relationship between Turkey and Georgia should differ from the one between Azerbaijan and Turkey for some reasons.

1. First, Turkey which is very influential and powerful country in the region, therefore, this might be a negative effect on the integration for Georgia in some way for the future because they should partially sacrifice from their independency in the further step of integration. In that situation, for Georgia is very small country in the region and has not big energy resources, they absolutely need to take an advantage of integration but might be a sensitive to the integration for the same reason in considering the fact that if the integration will be against the some security issues.

2. Second, the some partial negative relationship between Turkey and Georgia in history can be used as a problem against the possible integration by some administrators and bureaucrats in Georgia which are purposely taking a side against Turkey.

3. The other reason, different religions of countries might be negatively effective on the integration between Turkey and Georgia. As known, for this reason, the EU are not really willing to accept Turkey as a member even if Turkey is 16th biggest economy in the world and playing very influential role of the international diplomacy in its region and other part of the world recently. For scientific analysis, this can not be omitted and ignored or interpreted in different form. Turkey has never touched a kind of sensitive issues and also is not willing in the economic relations with other countries and thus, approaching the integration from an economic development and benefit perspective. It means that how they will take an advantage of economic integration with their neighbors in the globalization process.

There are also many positive factors to bolster the economic and social relations between Turkey and Georgia.

1. First, the international mega energy project such as BTC, BTE, has been realized by together Turkey and Georgia.

2. Second, the conflict between Georgia and Russia is another important factor to strength the relationship between Turkey and Georgia. This stimulates and forces Georgia to integrate with Turkey, which is the second powerful country in the region after Russia.

The Governments of Turkey and Georgia facilitated visa issues for their citizens by removing reciprocally the visa requirements at least for three months. The agreement has gone into effect as of February 10, 2006. (Altay Atli, 2006)

- That visa procedures had been lifted between Turkey and Georgia mutually, is to bring the favorable condition for business and trade between the two countries.

(<http://www.rusnet.nl/news/2006/12/22/businesseconomics04.shtml>) This might be regarded as very important step toward the regional integration in South Caucasus.

- Trade turnover between Georgia and Turkey increased 1.2-1.3 million dollars in very short time and also expected to reach 5 billion dollars in the coming years.

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Important Steps For The Economic Integration Implementation

First, as analyzed earlier, positive political will of each country is reciprocally required for putting the economic integration model in practice and taking a step in that way. Once both sides have decided to do that, then they should take the following further steps for moving forward.

1. They should determine the deadline for signing the agreement about custom union and common market. Before that, they also should make the free trade agreement.

2. For the next step:

- Legal regulation of one country should be harmonized with the others for taking step toward rapid integration.

- First minimize all custom duties and eliminate all custom procedures in further step.

- Mutual institutional regulations should be made for custom union.

3. For building the common market, they should establish the supranational international institutions.

4. For taking comparative advantage:

- They should determine the production sector in which they are taking an advantage.

- Based on the comparative production advantage, they should realize the structural regulations and modification.

5. Making plan for forwarding to common market.

6. Stimulating the reciprocal investments.

7. Vertical and horizontal integration possibilities should be analyzed for each country.

8. Foreign and domestic policy should be jointly harmonized for the integration.

From above, energy sector will be the first and basic sector for the regional economic integration, which has already been materialized as “*de facto*” through the energy pipeline projects such as BTC, BTE, etc., in practice. For the sustainability of the regional integration in energy sector:

Privatization in energy sector is very important step in order to realize the economic integration, however:

- The objects of electricity (hydro power) energy production– water, heating and other hydro power terminals and mineral resources should belong to the ownership of the states.
- They might be temporarily allowed to administer by private companies. But in this situation, all agreements should be strictly checked and controlled by the authority not to unfairly distribute national income.

As mentioned earlier, there might occur some obstacles for the integration between Azerbaijan, Turkey and Georgia. Experiences from other regional integration efforts indicate that many of integration agreements have been signed but just remained as a joint declaration or a memorandum of understanding agreements, thus, not gone further in depth. There are many reasons for this. Most generalized reason for this is the conflict between foreign relationships of some countries. Conversely, we think that, since there is no such a conflict and opposite relations or incompatibility between the three countries, the rapid integration possibilities between those countries can not be regarded as just theoretic and utopian. “*De facto*” energy integration practices through the pipelines are bolstering and stimulating the broader economic integration between those countries in reality.

Rapid economic integration is possible between those three countries when looking at the conditions and other realities for integration. Even, in further step some other countries in the region such as Russia, Iran, can participate in economic integration, which Turkey already starts to foster the economic relations with Russia by removing visa requirements reciprocally and signing the 17 different agreements. Moreover, Armenia, which isolated itself from many economic and social opportunities in the region, can participate in the economic integration later if they abandon their present viewpoints and the land they occupied, and also agree with Turkey and Azerbaijan regarding Nagorno-Karabakh conflict. Looking at the EU members, they were enemies against each other during the Second World War, but they became a very close partner through the integration in very short time.

It is necessary to explain why Azerbaijan and Turkey should build up an economic integration and ask if it is really essential? Azerbaijan and Turkey have had a very close relationship in history in terms of culture, ethnicity and language for a very long time even if Azerbaijan had not been an independent state for it was a republic of previous Soviet Regime (the USSR) since 1918. On the other hand, Azerbaijan lost 20 % of its land because of Armenian occupation almost 19 years ago. For supporting Azerbaijan, Turkey reacted rapidly and closed the border with Armenia and froze all kind of the economic relationship just after the occupation.

Economists express the positive results from integration based on energy sector as follow:

- Cooperation in energy sector will stimulate and strengthen economic development of member countries.
- Productivity in other real sectors will rise through the cooperation in energy sector.
- Vertical integration between companies will decrease transportation cost and provide time saving and also cause to decrease the price of energy product. [4].

- Recent legislation reforms done by Turkey towards to become the member of EU might be a good example for Azerbaijan and Georgia and they can get a support from Turkey in the time of reforms. In “*De facto*” energy integration corridor through the pipelines between Azerbaijan-Georgia and Turkey, in further step it can be benefited from the BSEC (Black Sea Economic Corporation) experience which is a kind of important economic partnership organization in the region. Experiences from the BSEC will help to find capital for needed on infrastructure investment based on Energy Corporation, and also the exchange and sharing of mutual information and experience will increase the importance of the region and the productivity and effectiveness of integration.

CONCLUSION

Azerbaijan and Georgia were involuntarily part of the USSR (the Union of Soviet Socialist Republics) in history if looking at this is a economic integration and they became independent country after the collapse of Soviet Union which was the one of the most elevated economic and political union in economic integration history. These countries had an economic and even political union experience, thanks to the USSR, now western countries push them to integrate the dominant liberal free market economies in the world. But, they are very anxious and frustrated about the internationally accepted and sanctified values in economic relations which are totally acceptable and understandable in the wide range of the world. Especially policy makers of Azerbaijan are anxious to leave the sovereignty they just received in 1993 after the demise of the USSR. Although Azerbaijan and Turkey have had a very close relationship in history in terms of culture, ethnicity and language for a very long time, today, Azerbaijan never wants to build up the political union with Turkey. Currently, Azerbaijan is an independent country and trying to attentively integrate with the dominant global economic system. They reached sovereignty after 70 years of hegemonic administration under the USSR and they do not want to lose it anymore in different ways.

The research indicates that Azerbaijan received very powerful heritage from the USSR and it is still effective on the bureaucratic administration domestic country in each level of life. It is also strongly effecting and shaping their economic and trade relations with the rest of the World. It is completely understandable that it is not easy for them to give up their non-capitalist economic culture and behavior in the short time.

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