

THE  
GEOPOLITICAL  
SCENE  
OF THE  
CAUCASUS

A DECADE OF PERSPECTIVES

Edited by Diba Nigâr Göksel & Zaur Shiriyev

# **THE GEOPOLITICAL SCENE OF THE CAUCASUS**

## **A Decade of Perspectives**



Bandrol Uygulamasına İlişkin Usul ve Esaslar Hakkında Yönetmeliğin 5 inci maddesinin ikinci fikrası çerçevesinde bandrol taşıması zorunlu değildir

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# **THE GEOPOLITICAL SCENE OF THE CAUCASUS**

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**The Geopolitical Scene of the Caucasus: A Decade of Perspectives**

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## **Turkish Policy Quarterly (TPQ)**

Turkish Policy Quarterly (TPQ) is an Istanbul-based journal aiming to foster original thinking and constructive policy debates on Turkey and its neighborhood. The journal has been published on a quarterly basis since 2002. TPQ has a 10-year track record of providing its global audience with balanced, inter-disciplinary, and independent coverage of developments in Turkey and its neighborhood. All the content, articles and information can be accessed at [www.turkishpolicy.com](http://www.turkishpolicy.com)

## **Caucasus International (CI)**

Caucasus International ([www.cijournal.org](http://www.cijournal.org)) is a foreign policy journal with offices in Baku and Ankara. Published quarterly since 2011, the journal covers the politics, society, and economy of the Caucasus. CI is the first region-based journal of the Caucasus to foster debate among scholars on Azerbaijan, Armenia, Georgia, and Turkey. The goal of the journal is to encourage high-quality academic debate on a wide range of issues pertaining to each country of the Caucasus, as well as the region as a whole. CI's focus on the region and its neighborhood is informed and guided by a strong awareness of the global context.





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# Preface

Spanning the last decade, this collection of articles was originally published in *Turkish Policy Quarterly* (TPQ) and *Caucasus International* (CI). The selections intend to trace the geostrategic course of the South Caucasus region from different perspectives, and to stimulate new thinking about where the region might be headed.

For centuries, diverging powers and cultures have met and have influenced each other in this region. For this reason, the contemporary geopolitical dynamic of the Caucasus poses particular challenges to understanding and engagement. As one tries to keep pace with rapid change, one often loses sight of the general trajectory for the region. Thus there is value in remembering some of the viewpoints that have evolved in the past decade.

The articles have been included in their original form, with the date of publication noted. To provide some temporal context, following the preface you will find a list of the contributors' titles – including the title held when the articles were submitted and the current position each author holds. This allows the reader to consider the views expressed within the context of the authors' career paths.

For over a decade, TPQ has been covering Turkey and its neighborhood. It has always attached particular importance to the Caucasus in its scope. The launching of CI in 2011 was met with enthusiasm and support by TPQ, with its potential to enrich the intellectual debate pertaining to the Caucasus. Committed to providing a forum for open, productive, and respectful dialogue, both journals have tried to include a wide range of voices in analyzing the Caucasus. The two journals have complemented each other in other initiatives as well such as the joint organization of a conference in Baku in Summer 2012, which featured three of the most influential politicians of the 1990's from each of the South Caucasus countries.

We observed that American, Russian, Turkish, and European approaches to the Caucasus rarely habit the same pages. For this collection, we have selected

those articles that reflect a timeline and complement one another in terms of portraying a range of standpoints. We have made an effort to be balanced and thorough, but acknowledge that some legitimate and significant perspectives are not included. TPQ and CI contain many additional articles that can help foster a stronger understanding of the systemic dynamics experienced in the Caucasus and its adjacent regions – Central Asia, the Black Sea, and the Middle East. For more articles on related topics, we invite all readers to visit [www.turkishpolicy.com](http://www.turkishpolicy.com) and [www.cijournal.org](http://www.cijournal.org)

We would like to thank the Baku-based Center for Strategic Studies (SAM) for giving us the initial idea for this project and for their support in making it possible. We are especially grateful to its director, Farhad Mammadov.

We thank Acar Erdoğan for his hard work in coordinating all aspects of the preparation of this compilation for print. His knowledge of the publication industry and meticulous oversight of design and formatting have been critical to this project. Ali Cihan Sarıkaya provided administrative and formatting support throughout the process of readying the content for print. Cemile Çetin's logistical supervision of institutional affairs at TPQ is, as always, much appreciated. We are grateful to all the past employees and volunteers of the two journals who helped shape the institutional identity and credibility we enjoy today.

A special thanks to the authors themselves, all of whom enthusiastically embraced the idea of their essays being included in this publication. We are honored by their confidence in our work. Their rich analytical contributions have made this compilation a worthwhile project.

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*April 2013*

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# Introduction

These selections were compiled with the conviction that investing in a deeper understanding of the South Caucasus region is no less important today than it was a decade ago. Quite the contrary, this is a particularly critical juncture that calls for clarity in ideas to positively influence the future of the region.

Section one lays out the various policies of external players –neighboring states and global powers– towards the South Caucasus. For centuries, influence over the Caucasus has been a means through which great powers have affected the balance of power in Eurasia. The story of the Caucasus is often one of the South Caucasus nations aligning with rival external powers for patronage and protection.

For all the power brokering, no external power has managed to cement its influence across the whole region. The Caucasus, ridden with contradictions, rivalries, and historical controversies has, at times, projected the shortcomings of its neighbors and the global players competing for influence in the region.

The three South Caucasus countries –Armenia, Azerbaijan, and Georgia– regained independence in the early 1990s, following the fall of the Soviet Union. Since then, the region has served as a stage, particularly for Russia and Turkey, to build on their regional power credentials and to leverage this regional status into a larger, global role.

All three South Caucasus countries have played a balancing game, leveraging relations with one external power against the other. The U.S. has been an important actor in this sense. For two decades, Washington has expressed an interest in the South Caucasus states being strong, independent, and pro-Western. Turkey also had a lot to gain from this vision. The eastern enlargement of the EU and expansion of NATO has also increased European involvement in the Caucasus.

However the regional geopolitics since the turn of the century has challenged the vision of Euro-Atlantic integration for the South Caucasus. The interplay between Russia's strengthened position, uncertainty about Turkey's future alignment, the weakening of U.S.'s resolve, and economic and political crisis in the EU, has brought about a new geopolitical scene in the Caucasus.

The rise of Russian aspirations in the region since the beginning of new millennium, has arguably been the leading stumbling block in the Westward march of the South Caucasus. Corresponding with the Eurozone crisis and EU internal political struggles, Russian progress in outlining a new vision for the region –the “Eurasian Union” project– has been noteworthy.

Another factor complicating Euro-Atlantic integration has been Turkey's rifts with its Western partners. Turkey's growing sense of exclusion from the EU in the past 7-8 years and friction with the U.S. after the Iraq War in 2003 cast shadows on potential foreign policy synergies in the region. Ankara's deepening ties to Russia and Tehran in the 2008-2010 period affected strategic calculations in Baku, Tbilisi, and Yerevan. Though today there is a conjectural realignment between Turkey and its Western allies, Ankara's foreign policy ambitions revolve around its own strategic depth, and may not consistently overlap with its Western allies.

Meanwhile, Turkey's foreign policy portfolio has enlarged, and the Arab Awakening has shifted strategic focus to this geography. While Turkey's global mission was articulated as being central to the Eurasian order a decade ago, today, the entire Middle East and North Africa (MENA) region is also in the scope of Turkey's expressed centrality. Still, the interests of Turkey and the EU *vis-à-vis* the evolution of the South Caucasus countries overlap: better governance, the peaceful resolution of conflicts, and the establishment of the Southern Corridor for Caspian natural gas.

Another central factor in the Western vocation of the South Caucasus is the normative and strategic power of the Euro-Atlantic. The August War already served as a reality check for those who relied on U.S. strategic reassurance in the region. The so-called U.S. policy shift to Asia-Pacific is heightening related concerns.

Since 2003, the EU has developed policies towards the region under the general aim of promoting a well-governed ring of countries in its neighborhood and to prevent the emergence of new dividing lines in Europe. While some expected the EU to be more resolute in the region, the process has been gradual, at best. The EU preoccupation with its internal issues has meant that the South Caucasus is attended to only in extraordinary circumstances – war, revolution, or mass protests.

Since many of these articles were written, the European economic crisis has rendered this reality even more pronounced. Whether deeper integration with the EU is a carrot strong enough to induce political reform among EU neighbors, is also yet to be seen. Lacking a coherent foreign policy, the geopolitical relevance of the EU in the South Caucasus is weak. However, in terms of governance, welfare, and peace, it still remains the leading model for the Caucasus countries. The normative power of Europe is important – and also arguably on shaky ground.

Overcoming conflict in the region may be the single most important factor in bringing in constructive engagement from the West. When a relatively small region is mired in conflict, world leaders tend to disengage, to protect themselves from getting drawn in. The fading of the region from global priority lists also heightens the need for the countries of the region to seek new cooperation models amongst themselves.

Section two of this collection examines dynamics of regional integration in the South Caucasus. Despite the Caucasian capitals' recognition of the benefits of integration, achievements to this end have been limited to economic infrastructure projects involving Azerbaijan, Georgia, and Turkey.

Conflicts within the region are the leading obstacle to regional integration. Across the board, these conflicts appear as intractable as they did a decade ago despite flare-ups, official negotiations, and partial efforts to forge people-to-people contact. There is also no simple answer to the question of whether the region today is more or less volatile than it was a decade ago.

The *status quo* over the Armenian-Azerbaijani Nagorno-Karabakh conflict, and the South Ossetian and Abkhazian conflicts in Georgia is preventing positive visions to be put into action. In addition, the August 2008 War between Russia and Georgia revealed the region's fundamental strategic reality: that unresolved conflicts can, in a flash, transform into all-out war.

There is also a risk that sinking into complacency regarding the various conflicts diminishes the drive to solve them. It appears that unless the South Caucasus accept resolutions that solidify Russia's regional preeminence, or are willing to take the political risk of making compromises, the *status quo* will prevail. While the case of Turkey and Armenia does not fit into this mold neatly, here too mutually satisfying solutions have proven evasive.

Despite conflicts and limited regional cooperation, the South Caucasus countries have been developing on a range of fronts, moving from being pawns in larger power games to being independent actors. Perhaps the foremost reason the South Caucasus does not fade on the global strategic map is the vast energy resources concentrated in Azerbaijan. The critical location of the region as a crossroads and the potential as a transportation corridor is also important. Section three offers perspectives on these dimensions.

Azerbaijan's diversification strategies and its ability to transport its energy resources to the West without antagonizing Russia and Iran have been critical for the geostrategic balance of the region. A replica of the success of the Baku-Tbilisi-Ceyhan oil pipeline is now in the works regarding natural gas. For Azerbaijan to send its natural gas through Georgia and Turkey *via* the Trans-Anatolian natural gas pipeline project (TANAP) will have further geostrategic implications, possibly also by increasing the relative empowerment of Turkey in the region. Thus, Turkey's political trajectory is critical.

Another issue that will define the regional dynamics is Iran. Continuing controversies around this country risk jeopardizing both commercial interests of the South Caucasus countries and stability in the wider region. The evolution of strategic thinking in Moscow is critical. Efforts to positively engage Russia –by Washington, Ankara, and various European capitals– have had mixed implications for the South Caucasus.

Despite official insistence that Russia continues to view the post-Soviet space as one whole, there is growing racism and rejection towards migrants from the Caucasus within the country. With the long-term sustainability of Putin's personalized power system in doubt, a sudden break could bring a different understanding of Russia's relationship to the Caucasus to the fore.

As the international community focuses on the Arab Spring, and relations between key players for the Caucasus cool, the sense of a "Caucasian Winter" is spreading. Concerns about renewed conflicts in the Caucasus have also been mounting.

Amidst prevailing concern, there are also positive elements emanating from the region. Engagement and exchange with the West has contributed to stronger articulation of expectations and mobilization for a better future in all three countries of the South Caucasus. The development of human capital, increased mobility, and exposure to different ideas are other sources of optimism.

While U.S. involvement is indispensable in terms of balances of power, it is critical that European capitals also own up to the South Caucasus. Visa-free travel for people of the region to the *Schengen* area can reinforce the European identity of the region, with other far-reaching effects. Enabling Turkey's integration to the EU is also central to avoiding new dividing lines in the region and to incentivize a European conduct by Ankara towards the Caucasus. Effective European attention to frozen conflicts in the region, as well as support in overcoming historical biases could be invaluable. A Europe that is perceived to be fair will be ever more influential.

We hope this collection, which seeks to illuminate a wide range of perspectives, will contribute to deeper strategic thinking and improved policymaking on the affairs of the South Caucasus. In sharing analysis from over the past decade, we hope that the coming decades will bring recognition of a shared fate, improved dialogue, and stronger cooperation.

D. Nigâr Göksel & Zaur Shiriyev



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# **Chapter I:**

## **Global and Regional Players’ Positions Towards the Caucasus**

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# TURKISH FOREIGN POLICY: OPENING NEW HORIZONS FOR TURKEY AT THE BEGINNING OF A NEW MILLENNIUM\*

Ismail Cem



If foreign policy is built upon a balance of power, the nature of this balance is certainly changing: we no longer live in a world where sheer military force is the major determinant of a country's international status. The new paradigm sets the stage for a new kind of power – one that rests on economic vitality and persistence. As the world is becoming a truly global marketplace, economic factors coupled with historical, cultural, and political assets shape a country's role for the new millennium.

Given these attributes of the contemporary power game, the decisive element is a country's ability to make optimal use of its comparative advantages. Turkey, with a multitude of opportunities, is poised to become a significant player in the coming decades. Contemporary Turkey aspires to join the EU as a full member and to be a leading economic and political actor in Eurasia. We envisage an international mission that is no longer peripheral and confined to the outskirts of Europe. Our mission envisions a pivotal role in the emerging Eurasian reality.

I will elaborate on this later in the article. However, it would be useful if we first examine the current global realities and challenges that form the backdrop against which Turkey is trying to realize its vision for the future.

\* This article was published in Spring 2002 (Vol.1 No.1) issue of the Turkish Policy Quarterly (TPQ) Journal.

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Perhaps the single biggest challenge facing the world today is the fact that threats to peace and security are becoming increasingly more sophisticated and unpredictable. Freedoms of the open society and technological progress can be easily exploited by stealthy crime networks with nefarious goals. Invisible, asymmetric threats are forcing the world nations to reevaluate their strategies for defending their homeland. Among the clear and present dangers we face, terrorism stands out as the most destructive and sinister evil.

The September 11 attacks painfully demonstrated that this scourge has taken on global dimensions in every way. Accordingly, dealing a decisive blow to sources of terror has become the humankind's collective priority. Turkey herself has suffered a great deal from this scourge, and is still a target. Naturally, we have always advocated strong international cooperation in combating terrorism, in a comprehensive and non-selective manner. In the period ahead, we will, as before, remain at the forefront of the global efforts to eliminate this mortal threat. We will also continue to make vigorous efforts to ensure that terrorism is not equated with a particular religion or geography.

Unfortunately, there are also many other sources of instability and threats in our troubled world. While globalization proceeds at a brisk pace, vast areas of the world still suffer from poverty and underdevelopment. Unless we launch a conscious effort to reverse the trend, the ever-widening chasm between the richest and the poorest nations may cause further problems for world peace. While the steady expansion of democracy, rule of law, and human rights around the world is a welcome development, we cannot ignore the existence of dark forces like xenophobia, racism, and fundamentalism. In addition, ongoing regional conflicts and the proliferation of weapons of mass destruction also pose a constant threat to international peace and stability.

In such a volatile environment, Turkey has been actively using its diplomatic, political and economic assets for the improvement of the human condition and containment of deadly conflicts. This will be more clear when we take a look at the key issues shaping the current agenda of our foreign policy.

First, Turkey is doing its best to help preserve peace, security, and stability in a triangle formed by the Balkans, the Middle East and the Caucasus.

We strongly support conflict prevention and resolution efforts in a number of areas ranging from Bosnia and Herzegovina, and Macedonia to Georgia, through diplomatic initiatives, troops and observers. Turkish-led initiatives like the creation of a multinational peacekeeping force for the Balkans and a naval task force for the Black Sea have already materialized. We are closely monitoring the unresolved conflicts in southern Caucasus and proposed a stability pact for the region. We have also made significant contributions to the Middle East peace process as a facilitator. Our former President is a member of the Mitchell Committee which came up with a plan designed to reduce the existing tensions in the region and put the peace process back on track.

Secondly, we believe economic cooperation can be an effective way of enhancing regional dialogue and paving the way for long-term resolution of political problems. This is why we pioneered successful cooperative efforts like the Black Sea Economic Cooperation Zone. Our central position between Europe and Asia is a major asset enabling us to launch inter-regional initiatives. Despite our temporary economic difficulties, we are also doing our utmost to alleviate the difficulties of the less fortunate nations. As a percentage of Gross National Product (GNP), Turkey is among the leading donors of humanitarian and development assistance on a global scale.

The dramatic events that unfolded in Afghanistan over the recent months showed us all that our own security and well-being are closely dependent on improving the lot of others. With this conviction, Turkey is taking an active part in every international mechanism geared towards rebuilding Afghanistan. In addition to contributing troops to the newly formed International Security Assistance Force (ISAF), Turkey will also be helping with the establishment of a national Afghan army and police force. This is central to the success of the effort to forge a national Afghan identity and to enable the Afghans to thwart the encroachment of foreign elements like Al Qaeda.

Last but not least, we feel one of Turkey's major functions is to show that different cultural, religious or ethnic identities can exist together in peace and harmony. Especially in the post-September 11 period, this is perhaps the most important mission Turkey has been entrusted with. By its very form of

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government and way of life, Turkey demonstrates that pluralist democracy, secularism, human rights and the rule of law can take root and flourish in a predominantly Muslim society.

In this connection, the Joint Forum recently held in Istanbul between the EU and the Organization of Islamic Conference (OIC) has been an important step towards building new interfaith and intercultural bridges of cooperation. The event, titled “Civilization and Harmony: the Political Dimension”, brought together around 70 Foreign and other Ministers from both organizations as well as hundreds of officials, press members, and prominent scholars. I believe such direct institutional contacts are the best way of strengthening the global dialogue on issues of common concern and advancing the cause of peace.

This is how Turkey is embracing the 21st century. In the aftermath of the Cold War, changing circumstances have bestowed upon Turkey a special responsibility to make active contributions to the preservation of regional and global peace and stability. Turkey is doing its best to live up to this historic task, with a clear vision for the future.

There are two major objectives that drive our vision for the future. The first goal is to make Turkey an integral part of the European integration process. Historically, geographically, and economically, Turkey is already a European country. It is therefore quite natural that it should become a full member of the EU, sooner rather than later. The substantial progress we have made in our relations with the EU since the Helsinki Summit, and the outcome of the latest Summit in Laeken, give us further optimism in that regard.

There is no question that Turkey needs Europe. For us, the greatest benefit of the membership will be the consolidation of our place within the European family of nations on the basis of such common values as democracy, rule of law, and human rights. But with its unique historical experience, cultural wealth, young population, dynamic economy as well as strong defense capability, Turkey also has much to offer to the Union.

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When Turkey becomes a member, the Union will be transformed into a truly multicultural and multi-religious geography. This may well herald the beginning of a new era of increased mutual understanding, respect, and cooperation between different faiths and cultures. I believe such inclusive –as opposed to exclusive– attitudes is exactly what the world needs at this critical juncture.

The second, but equally important goal, is to transform Turkey into a pivotal and prosperous country at the center of the vast geography we call Eurasia. Turkey already enjoys the most diversified industrial base, has the best trained and equipped army and is one of the few deep-rooted democracies between the Balkans and Central Asia. The political, economic and security initiatives Turkey has launched, which encompass diverse regions, will also be instrumental in attaining this target. A much stronger Turkey capable of creating a constantly growing zone of stability and welfare around it is certainly in everyone's best interest.

These two goals are not at all contradictory: in fact, they complement and reinforce one another. They are also realistic goals that Turkey can achieve by using its historical/cultural assets as an axis of its development. Let me be more specific about how we see the Eurasian reality evolving in the coming years and our role in this fast changing landscape.

The central stage of this millennium, many observers agree, will be Eurasia, broadly defined as the geography stretching from Western Europe to Western China. Given the trends in production, communication, and information technologies, Europe and Asia will form an integrated whole, interlinked and interdependent. Both will gain substantially by being part of the same entity. Furthermore, much of this millennium's economic development will take place in Asia. The advent of new energy resources and communication corridors bears witness to this emerging reality.

The post-Cold War political framework witnessed the reappearance or reconfirmation of many new independent states. Almost all these “new” states –in the Balkans, in the Caucasus or in Central Asia– are those with whom Turkey shares a mutual history, religion or language. This provides Turkey with a new

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international environment of historic and cultural dimensions. Furthermore, these new nation states quickly embarked upon the task of rebuilding their economies as well as opening them to foreign investment and competition. Turkey, as a longstanding actor in these geographies, has become a vital partner in their economic restructuring.

This strategic change corresponds with a new consciousness in Turkey. The role of a shared history and of parallel cultural characteristics is highlighted and put into practice in all spheres of our foreign policy. It is worth noting that there are 26 countries with which we have shared a common history, a common state, and a common fate for centuries. This background provides for strong economic relationships and a unique platform for political cooperation. In this vast socio-political geography, Turkey has the optimal conditions and the required assets to become a provider of peace, stability and welfare, and to enjoy the opportunities presented by the new “Eurasian Order”. By virtue of its historical and cultural attributes and its privileged identity, European as well as Asian, Turkey is firmly positioned to become the strategic “center” of Eurasia.

Whereas in the past, Turkey was mainly recognized for its strategic contribution to NATO, it now distinguishes itself through its economic vibrancy, its entrepreneurship and foreign trade. Coupled with a new foreign policy combining economic progressivism with historical and cultural affinities, Turkey is riding the wave of a new economic momentum, transforming its former regional role into a global one.

Consequently, Turkey is embarking upon the 21st century with a new sense of its global mission. Turkey’s function as a “bridge” to which we historically and justifiably attached so much importance, will become a thing of the past in the 2000s: it is moving away from being simply a “transit corridor” or a “bridge over which Asia and Europe trade with one another and move their goods.” Instead, Turkey in the 2000s will increasingly become a “*terminus*” and a “destination” country. In other words, Turkey’s basic function ceases to be that of transporting or delivering energy, raw materials, and goods after

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receiving them from East and West. It becomes more and more a country that consumes, processes and with its added value, exports such inputs.

The 21st century began by giving signals that a large part of the Caspian-origin energy will be processed in Turkey, consumed in Turkey, and delivered to the West through Turkey. The eastern Mediterranean coast of Turkey, with the existing Kerkük-Yumurtalık and the prospective Baku-Tbilisi-Ceyhan links, will provide a major energy terminal and outlet for Middle Eastern, Central Asian, and Caspian oil. These developments, coupled with peace and stability in the region, will provide Turkey with a role as a world-class state situated at strategic crossroads.

If Turkey takes proper advantage of the years ahead; if it clearly identifies its goals, sets out with policies that have philosophical and ideological depth, and makes courageous choices, then the distance it must travel will certainly be shorter than what is anticipated.

Conditions and realities are changing in Turkey and around the world. Continent-spanning new geostrategic balances are emerging. In this new age, information and communications technologies make it possible to compress into a few years developments that it took others centuries to achieve. This is a confluence of factors, which, if properly understood and insightfully exploited, will impart tremendous momentum to Turkey. Turkey is the representative of a historical experience that is centuries –indeed, millennia– old; of a geography that has given birth to civilizations; of a republican revolution that serves as a paradigm of modernization for developing nations. As Turkish society becomes more politically and historically aware, and as its economy develops, it will see ever-expanding horizons in front of it.

Turkey's influence already extends over a broad region. The Turkish society and foreign policy institution today have realized what an immense advantage it is to share a common history with more than 20 independent countries and their peoples. It is becoming more and more clear how cultural and confessional affinities add *impetus* to every sphere of human activity from economics to the arts. Furthermore, there is a growing awareness that Turkey

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is uniquely poised to serve as a genuine model for modernization in societies with Islamic traditions, and that there is great benefit in discarding outmoded complexes into the trash can of history and enjoying the privilege of being both European and Asian.

We are at a juncture in time when these realities are being related, debated and their value reassessed. Through a very dynamic process of self-questioning, Turkey is renewing its democracy, economy and its foreign policy. With the redefining of its foreign policy, Turkey is now able to stand out in the international arena as a genuine and influential actor, as a player with an identity that is unique and strong. Within this promising environment, the dynamics of Turkey's aspiration to be a Eurasian power center are taking shape.

When I became Foreign Minister in 1997, I outlined our vision for Turkey in simple terms: to transform it into a "world state". A world state positioned among the major centers of the world and representing a unique blend of civilizational assets, historical experiences and strategic attributes. A world state that is not a sole importer of foreign science and technology but actively contributes to science and technology. One that is not a mere observer of others' success stories but has its own achievements that sometimes make them envious as well. One that consistently develops its special relations with the regions with which it shares a common history. One that, in line with Atatürk's legacy, constitutes a role model for nations with parallel cultural backgrounds.

We will achieve these goals, and more, to the extent that we acknowledge the 21st century as an age of democracy, human rights, and the rule of law. These will be the fundamental criteria by which success and progress are measured. To the extent that we develop rationalism, productivity and social justice as elements that complement one another and to the degree that we mobilize all the advantages that history, culture, and economics bestow upon Turkey, these goals will become more attainable. I believe that Turkey has the will and the capacity to make this vision come true, and is, indeed, on a sound course towards becoming a truly "world state" in the 21st century.

# THE SOUTH CAUCASUS: WHERE THE U.S. AND TURKEY SUCCEEDED TOGETHER\*

Elin Suleymanov



Formerly a Soviet backyard, the South Caucasus is increasingly emerging as a vital part of the extended European space. Sandwiched between the Black and the Caspian seas, the Caucasus also stands as a key juncture of Eurasia. Living up to its historic reputation, the South Caucasus, especially the Republic of Azerbaijan, is now literally at the crossroads of the East-West and North-South transport corridors. Additionally, the Caucasus has been included concurrently into a rather vague “European Neighborhood” and an even vaguer “greater Middle East”. This represents both the world’s growing realization of the region’s importance and the lack of a clear immediate plan to address the rising significance of the Caucasus.

Not that the Caucasus has lacked visionaries. On the contrary, it was the vision and pragmatism of Azerbaijan’s late leader Heydar Aliyev, Turkey’s late President Turgut Özal and his successor Süleyman Demirel, and Georgia’s former President Eduard Shevardnadze as well as the strong support of the United States that brought about historic changes to the region. In fact, that vision soon exceeded the bounds of energy cooperation which it had been initially based on. It may also have exceeded the cautious expectations of observing European countries.

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The promise and the potential of the South Caucasus region are best realized when the nations of the region work in close partnership with Turkey, the U.S. and the European nations. As the experience of the past decade shows, a strong alliance between Turkey and the U.S. can be an effective external presence in transforming the present and shaping the future of the Caucasus. Without such cooperative arrangements, the transformation would not have been so successful and wide reaching. The same holds true for its future progress. This experience has also demonstrated that both Turkey and the U.S., along with Europe, are most welcome external players, at least in Azerbaijan and Georgia. Symbolically, in the megacity of Istanbul, a hub and gateway for all of Eurasia, visitors from the region find themselves in a comfortable and familiar environment that includes characteristics of their own culture, in contrast to the distant beauty of Europe's other urban centers.

With the Caucasus gradually more integrated into the Euro-Atlantic space, the role of Turkey, once the only NATO member in the neighborhood, as the main conduit of Western influence may be perceived as declining. The U.S. focus on Iraq and Turkey's changing internal dynamics, which shifted focus away from the Caucasus, has served only to reinforce this perception. Certainly, the realities of the region have changed as well. Azerbaijan stands firmly on its own feet and Georgia is working hard to solidify its statehood. Calls to engage neighbors in more than perpetual hostility are now heard in Armenia; Europe's profile has increased; the re-emerging Russia's presence, although at times still excessive, is becoming more positive and less confrontational, and Iran's Defense Minister, in contrast to the days when he used to order his Navy to point guns at civilian Azerbaijani vessels, pontificates on cooperation.

Far from decreasing U.S. and Turkish prospects in the region, these new realities open much greater opportunities for expanding their presence. That is if both the U.S. and Turkey engage in deeper, more complex and multifaceted relations with the Caucasian states, which go beyond the existing cooperation in energy and security areas. As the realities on the ground change, so should

the perceptions in Ankara and Washington. As the new realities were built by the efforts of the previous decade, this expanded involvement should build on the kind of policies that have a successful track record.

For instance, the nearly completed Baku-Tbilisi-Ceyhan oil, and Baku-Tbilisi-Erzurum gas pipelines not only provide a major access to Caspian hydrocarbons and lay the foundation for the East-West transportation corridor, but they also put Turkey firmly on the world's map as an important transit hub for energy resources. The East-West corridor served the U.S.'s interests well because it was looking for security partners along Eurasia's southern rim. Notably, Turkey's ongoing security and defense cooperation with the Eurasian nations provided the necessary seeds of interoperability. Certainly, a more comprehensive view of strategic interests requires expanding and deepening regional engagement in all spheres by Turkey and the U.S. alike. Greater co-operation in spreading information technologies, working together to utilize the comprehensive opportunities provided by the Transport Corridor Europe-Caucasus-Asia (TRACECA ) project, helping to develop basic elements of a single information space, significantly boosting educational and professional exchanges, enhanced productive support for civil society and economic reforms, are but a few examples of the most obvious possibilities to explore.

While Turkey's general vision with regard to the region, championed by Özal and Demirel, has been a sound one, Ankara's actions were not always consistent with this vision. The domestic debate sometimes led to a zigzagging regional policy. Either because of stronger conviction or simply out of necessity, Turkey's partners in the Caucasus, Azerbaijan, and Georgia, seemed more consistent. In spite of the overall strong commitment to the region, the U.S., too, acted erratically at times. Most notable has been the juggling of requirements to appease domestic pressure from the ethnic Armenian lobby and advancing U.S.'s strategic interests through cooperation with Azerbaijan and Turkey. In fact, if there is popular frustration with and disappointment in the U.S., one need not look farther than the lack of progress in the Armenia-Azerbaijan conflict and inconsistencies of the U.S. approach. The waived

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and yet to be repealed Section 907 of the Freedom Support Act enacted by Congress in 1992 is among the most obvious examples of Washington's self-inflicted hindrances.<sup>1</sup>

Similar to the pattern of close and direct partnerships enjoyed by both Central and Eastern European countries with U.S., at some point Baku and Tbilisi developed strong bilateral relationships with Washington and rather than diminishing Turkey's role, this, in fact, strengthened its regional presence. Baku and Tbilisi are traditional advocates of Ankara's stronger Caucasian engagement. Azerbaijan and Georgia, the acknowledged leaders of Euro-Atlantic integration in the post-Soviet space, can now make this case directly to their Western partners.

Furthermore, as demonstrated by the European experience, the continent's security, stability, and prosperity can only be achieved through a comprehensive transatlantic relationship encompassing Western and Eastern European nations alike. For true European security, Western Europe must be an integral part even though the U.S. relies more on Eastern Europeans for certain specific issues. The long-term security and stability of the Black Sea-Caspian region, too, very much depends on U.S.-backed Turkish leadership as a key part of the regional architecture. Even if the U.S. builds direct links to the Caucasus, Turkey is essential for solid regional security. Incidentally, a proposal for the South Caucasus Stability Pact, which would reinforce the basis for such architecture, was voiced by Presidents Aliyev, Demirel, and Shevardnadze at the 1999 Organization for Security and Co-operation in Europe (OSCE) Summit in Istanbul. Had the proposal received a warmer welcome from the region's external partners, the decisions of the 1999 OSCE Summit would have been implemented in a timely manner, ensuring security and development in the South Caucasus.

Turkey's shifting focus, both regarding the Middle East and the EU, in different ways, reflects its search for a major foreign policy success. Strangely, the success –hunters these days do not frequently mention the very obvious

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<sup>1</sup> Section 907 of the Freedom Support Act, which banned U.S. assistance to the government of Azerbaijan, was enacted by Congress in 1992 under pressure from the Armenian lobby. Opposed by the Clinton and both Bush administrations as counterproductive, it was waived by President George W. Bush in the wake of 9/11.

area, where Turkish efforts have worked out rather well— the South Caucasus. Whether it is no longer fashionable to speak of the oft-repeated examples of the Caspian pipelines or whether there is a certain reluctance to accept that the Caspian project has been the most successful, one does not often hear recognition of this positive development.

If in the early 1990s, Ankara and Washington saw the much trumpeted “Turkish Model” as the *panacea* for the Turkic nations of Eurasia. Today there is a rush to discard the “model” as a failure. Both conclusions, apparently, require more caution, because in areas as complex as the Caucasus and Central Asia any simplistic, black-and-white approach, is not likely to work. The early promoters of the “Turkish Model” did not consider that, while intimately bound to Turkey by language, culture and such major blocks of identity, the recent historical experience of the emerging nations of Eurasia has been dramatically different from Turkey and has a distinct socio-political dynamic.

To the extent that the notion of “model” means following the exact blueprint, this would never have produced the desired result. However, if regarding Turkey as a model means learning from Turkey’s experiences and incorporating lessons from its struggles, as well as adapting the most efficient and successful elements of the existing Turkish system, then the “model” has generally been successful in the region. The ongoing dialogue with Brussels can prove especially helpful in this respect. In addition, those who rush to declare “failure” are forgetting that, as trivial as it sounds, political, and social processes take time.

The “Turkish Model” has succeeded also in another way and that is by setting an example as a strong and yet supportive, constructive major player genuinely seeking the stability, security, and prosperity of its neighbors. Such a neighborly presence has been important over the last decade because the region’s current political systems and practices emerged in the turmoil of a collapsing superpower and have been deeply affected by this. If in the Baltic States, home to another troika of former Soviet republics, the surrounding environment of established European civil societies helped to mitigate the negative consequences of the post-Soviet transition to sustainable independence,

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in the Caucasus the externalities mostly acted to make the transition harder. It should be noted that Turkish success in the Caucasus is built on the recognition that she is a positive contributor to the regional dynamic. This is not about taking sides but rather about promoting a secure, integrated and prosperous Caucasus, where citizens are motivated by a vision of the future rather than by fears of the past.

Turkey's cultural and linguistic closeness to Azerbaijan establishes a solid basis for a welcome Turkish presence in the Caucasus. Yet, it is a gross oversimplification to see this fraternal partnership only in cultural terms. Rather, the Azerbaijani-Turkish partnership is based on common interests. However, many Azerbaijanis still mistakenly think that there is no need to work as hard on making their case to Turkey because the two nations are so close, and among the Turks, the cultural affinity argument often championed by a specific part of the Turkish political spectrum, at times, dominates and obscures the vision of the vital national interests in the region. The intimate partnership Turkey and Azerbaijan share with Georgia, a non-Turkic, non-Muslim nation, is based on similar interests. Taking the risk of using another *cliché*, one can safely argue that at the end of the day, Turkey has developed its Caucasian partnerships with national and regional interests in mind, rather than with an outburst of ethnic emotions.

Such interest-based partnerships are vital for the development and security of Eurasia as a whole, a major objective of the U.S. regional strategy. Hence, one must exercise caution in offering Turkey as a model for the Arab nations of the Middle East. Secular, modern, and democratic, Turkey is indeed an example to follow. Nevertheless, the potential for being an example cannot be based solely on the Islamic aspect of Turkish identity. Overemphasizing Turkism as the sole basis for Turkey being a model in Eurasia was to a certain extent counterproductive, as will be the case with any other mono-dimensional model. Rather, Turkey and her neighbors should work to identify common interests. With so many layers of identity, including European and Middle Eastern ones, Turkey is uniquely suited to the role of communicator between cultural entities. Speaking of models, Ankara's insistent knocking on Europe's door provides a test as to whether the EU's own model is tolerant enough to

actually allow diversity or is inherently inward looking. The U.S. interest in this case is clear and has been pursued with admirable consistency.

Inevitably, the success of U.S. support and Turkey's regional role combined with the failures of Moscow's initial abrasive hardball policy in the Caucasus led to growing pragmatism in Kremlin. Even if still suspicious, Russia progressed from seeing Turkey in antagonistic terms to contemplating the benefits of becoming regional partners. Interestingly, Turkey has been open for a partnership with Russia all along, waiting for Moscow to overcome the illusions of a teenage post-imperial independence. Ankara's pragmatic and constructive partnership with Moscow is helpful for the U.S. and is important for the South Caucasian states. Turkey's developing relationship with Russia strengthens Ankara's regional role and should complement, not detract from its relations with Washington. Indeed, should Turkey manage to constructively combine its American and emerging Russian foreign policy dimensions, this too will serve U.S. interests in the region.

With this as the backdrop, it is clear that one nation of the South Caucasus, Armenia, is missing the train of regional development and integration. Described recently by the Russian Parliamentary Speaker Boris Gryzlov as "Russia's outpost in the Caucasus," Armenia seems to defend the archaic policies of Moscow, a relic of past centuries, more than the increasingly pragmatic Kremlin does itself. Although the three nations of the South Caucasus have much in common, differences in approach are rather significant for members of the same, small geographic neighborhood. This is due, in part, to different historical experiences; however, no less important are the choices each has made since achieving formal independence in 1991 and in the immediately preceding years. Therefore, while history is important, the situation in the region today is a product of contemporary decision-making in the three regional capitals, as well as a result of influences by the relevant external actors.

Already in the early 1990s with Presidents Heydar Aliyev and Eduard Shevardnadze coming to power in Azerbaijan and Georgia, respectively, following a brief nationalist interlude, pragmatism became a trademark policy for Baku and Tbilisi. The shift to pragmatic politics was, arguably, a crucial

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and defining point for the Caucasus. The Azerbaijan-Georgia-Turkey partnership backed by the U.S. forced the world to look at the Caucasus in a new different way. In spite of all the challenges, the area was no longer known solely for bloody conflicts and incompetent leaders.

Today, young, reform-minded leaders lead the two nations. Azerbaijan has recently become a pilot nation with regard to the implementation of the Extractive Industries Transparency Initiative, a revolutionary international mechanism to monitor oil revenues, and the development led by the energy sector is spreading to other sectors of the economy as well. Characteristically, Azerbaijan and Georgia kept out of the Moscow-led joint Commonwealth of Independent States (CIS) condemnation of OSCE's democratization field work in the post-Soviet space. Unlike their neighbor Armenia and number of other CIS member states, who rushed to congratulate the former Ukrainian Prime Minister Yanukovich on his alleged election victory, Azerbaijan and Georgia understood that the people of Ukraine needed to choose their leadership in a legitimate democratic process. Helping to deepen and solidify the already strong relationship between Azerbaijan and Georgia, a key to Eurasia's promise, is undoubtedly in the interests of Europe, Turkey, and the U.S.

Just as such pragmatism allowed Azerbaijan and Georgia to move ahead with rebuilding the Caucasus when the active phase of warfare was over, it seems that the failure of pragmatist forces in Armenia has kept the country self-contained and relatively isolated in the region. Yerevan's approach to national security is more reflective of ideology than of a realistic assessment of the regional situation. Armenia has significantly exaggerated the threat posed by neighboring Turkey and has become excessively dependent on Russia. Although predictable, the dynamic of Armenia's self-imposed dependency could have been different if Yerevan had a more realistic attitude to Armenia's own needs and the realities faced by an emerging state in a complex and interdependent region. After the assassination, in October of 1999, of the parliamentary speaker Karen Demirchian, along with another popular politician, Prime Minister Vazgen Sarkisian, political pragmatism in Yerevan, which was already badly injured in the past by the forced resignation of former President Ter-Petrosian, was in a comatose state.

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Calls for normalization between Turkey and Armenia are frequently heard these days. However, Armenia's isolation is self-imposed. The Armenian ideologues are simply living in a different century from the rest of the Caucasus, a charge which is also frequently leveled against Yerevan's close strategic partner, Iran. By urging Turkey to open its border with Armenia unilaterally and without any even symbolically constructive mutual steps, Ankara's American and European partners are, in fact, asking it to appease a highly nationalistic, militant regime in a country, which openly occupies its neighbor, conducts ethnic cleansing and stands in violation of international norms as well as several UN Security Council resolutions. Is this a precedent which should be encouraged in Eurasia?

As Turkey is coming under increasing pressure motivated by domestic political lobbying in Western nations, it is worth remembering that, contrary to propaganda-induced *clichés*, the complexity of the Caucasus is manifested, among other things, through Europe insisting on bending the very European basic norms of coexistence and Turkey, actually, acting very "European" in its defense of such norms. Also disturbing is that instead of allowing historians to study the past, many Europeans and some in the U.S. use the issue of the tragic events of 1915 as leverage against Turkey. Sadly, both the Armenian diaspora and its friends around the world are less interested in helping to bring about a just and fair solution to the Armenia-Azerbaijan conflict, which would truly benefit the entire region, including Armenia. This would, of course, require thinking about the future of the Armenian people rather than just their myths of the past, which has so far proved to be an insurmountable challenge for the diaspora.

Therefore, Turkey's engagement with Armenia can be productive only should Yerevan choose to move from a paradigm based on hostility towards one of integration with its neighbors. Should Turkey choose a superficial approach of condoning aggression this would only strengthen the nationalists in power in Armenia and remove Yerevan's major incentive for peace. Although, it is true that the South Caucasus is not likely to fully realize its potential with Armenia as an "absentee Caucasian nation," the ball is in Armenia's court.

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Both Azerbaijan and Georgia have benefited from the joint U.S.-Turkey approach to the South Caucasus and have risen to meet the challenge of the new century. In turn, the U.S. has established an important presence in the region and Turkey leads a strong partnership in the South Caucasus. The future of this success depends on deepening direct bilateral ties between the Eurasian nations and the U.S., as well as Turkey's realization that it is a major Caucasian player, in spite of its European obsession and sudden upsurges of the Middle Eastern dimension of its identity. Conversely, with the competing influences of other regional powers growing in Eurasia, lack of vitality of the Turkish-American alliance and sufficient commitment of neither Turkey nor the U.S. to commit to the region fully on a unilateral basis are hardly conducive for advancing either U.S. or Turkish interests.

Symbols, however, should not be forgotten in the region. We were reminded of that as Turkish President Ahmet Necdet Sezer accompanied by Prime Minister Erdoğan and top military brass walked along with President Ilham Aliyev at the funeral of the veteran leader Heydar Aliyev in December 2003. Also present were the presidents of Georgia, Kazakhstan, Russia, and Ukraine, as well as leading figures from Iran, France, and other nations. The absence of a sufficiently high-ranking American delegation at the funeral of Heydar Aliyev, who made pro-Western orientation a cornerstone of his presidency and turned Azerbaijan into one of U.S.'s most reliable partners, passing away in a Midwestern hospital, did not pass unnoticed. It was reminiscent of the American President's conspicuous absence a decade earlier at the funeral of Turkey's Turgut Özal, a friend and a staunch ally, who was instrumental in helping the U.S. with the Gulf War.

Still, the newly established joint foreign ministry initiative, the U.S.-Turkish bilateral group on Eurasia, would do well to remind both Ankara and Washington, that however distracted the two capitals may be by other issues and however emotional they may be due to the ups and downs in their relationship, cooperation in the South Caucasus is one U.S.-Turkish cooperative model that has been a true success.

# TURKISH FOREIGN POLICY AND THE EU IN 2010\*

Ahmet Davutoğlu



**A**s the EU took a long-awaited step forward as of 1 December 2009 with the entry into force of the Lisbon Treaty, the time has also come to take stock of the current state of affairs in Turkey-EU relations. This discussion is more relevant when evaluated from different perspectives, in particular through the lens of the orientation of Turkish foreign policy.

The key objective of Turkish foreign policy has been to contribute to peace, stability, and prosperity in the world. By the same token, we spare no effort to develop our relations with our neighborhood and beyond. As demonstrated by the recent increase in the initiatives Turkish foreign policy has embarked upon, especially in the adjacent regions and beyond, we are deploying every possible effort to encourage the consolidation of democracy as well as the settlement of disputes, which directly or indirectly concern Turkey. Two fundamental tenets constitute the rationale behind this effort.

Firstly, from our vantage point, there is a clear need to pursue a proactive diplomacy with the aim of strengthening prosperity, stability, and security in a neighborhood which spans the Balkans, the Caucasus, and the Caspian basin, the Black Sea, the Eastern Mediterranean, the Middle East, from the Gulf to North Africa, not void of tension but also abundant with unfulfilled

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potential. With stronger political will on the part of the countries of the region and coordinated encouragement by the international community, I am convinced that poverty and conflict can be replaced in time with prosperity and cooperation.

Secondly, Turkey enjoys multiple regional identities and thus has the capability as well as the responsibility to follow an integrated and multidimensional foreign policy. The unique combination of our history and geography brings with it a sense of responsibility. To contribute actively towards conflict resolution and international peace and security in all these areas is a call of duty arising from the depths of a multidimensional history for Turkey.

Committed to being a force for peace, Turkey today is much more result-oriented and proactive. The enlarged portfolio of our foreign policy now encompasses a wide spectrum of geographical areas, organizations and issues, without a fundamental change in its priorities. This multifaceted platform of Turkish foreign policy rests on four pillars.

The first pillar consists of indivisibility of security. Security is not a zero-sum game whereby the safety of “country A” can develop at the expense of the well-being of “country B”. The second pillar advocates dialogue; all issues and problems should and can be resolved through diplomacy and political interaction. Economic interdependence is the third pillar. This is essential if we are to achieve and ensure sustainable peace. The fourth pillar is about cultural harmony and mutual respect. The recent minaret referendum in Switzerland reminded us of how much more we need to dwell on this concept to improve understanding and cooperative relations among nations and peoples of different cultures and faith.

Our goal is to achieve utmost integration and full cooperation with all of our neighbors based on these four principles. Our approach aims to eliminate the existing disputes and tension and to increase stability in the region by seeking innovative mechanisms and channels to resolve conflicts, by encouraging positive deeds and by building cross-cultural bridges of dialogue and understanding.

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Turkey is not reorienting its foreign policy, as some argue nowadays. While Turkey pursues a policy of constructive engagement in its neighborhood and beyond, full integration with the EU is and will remain the priority. I want to make it clear: Membership in the EU is Turkey's strategic choice and this objective is one of the most important projects of the Republican era. As stated in the EU documents that compose our *acquis* with the Union, the aim of negotiations is membership.

Turkey is already an integral part of the EU. We have completed a customs union 15 years ago and the EU is our largest trade partner. In security policies, Turkey and the EU have an extensive cooperation record. Turkey is the leading non-member contributor to the ESDP missions and operations from Bosnia-Herzegovina to Congo. Turkish military and civilian personnel work shoulder to shoulder with their colleagues from the EU in a wide geography to establish and strengthen peace, stability and security. By far the largest component of the Turkish diaspora lives in EU member states. Since my appointment as Foreign Minister last May, I paid 93 overseas visits in 2009. Forty seven were destined to European capitals. So intertwined are the relations between Turkey and the EU, which it is also my responsibility not only as Minister of Foreign Affairs, but also as a European, to evaluate what kind of a Europe we will be bequeathing to our children and grandchildren in 2057, a century after the EU started on this historical path.

The paths of Turkey and the EU cannot be considered as two distinct and divergent vectors. On the contrary they almost always converge. Turkey seeks to establish peace, stability, and security in the Middle East; to further integrate the Balkans with the Euro-Atlantic community; to bolster democracy and peaceful resolution of conflicts in the Caucasus and Central Asia; to contribute to enhanced energy supply and security of Europe; to strengthen security and stability in Afghanistan and South Asia. So does the EU. The proactive diplomacy pursued by Turkey to attain these objectives in fact complements the EU's policies to the same ends. Expanding the area of peace, stability, and prosperity can only affect positively Europe's broader neighborhood and international community. The linkage is clear: As we strive to consolidate freedom, security, and prosperity at home, our neighborhood inevitably garners the

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dividends. Our common agenda is lavished with many more tasks for today and the future. Henceforth, our regional and global roles and responsibilities urge us to cooperate on these issues with a clear vision for the future. We share the same history. We share the same geography. We share the same vision. We share the same values: democracy, human rights, rule of law. Turkey and the EU row in the same boat, through tough waters at times but surely towards the same direction of global peace and stability.

Today's multifold challenges such as the financial crisis, energy security, illegal migration, epidemic diseases, climate change, organized crime, cross cultural and religious intolerance, extremism, and terrorism can only be addressed through genuine and effective solidarity in the Eurasian space. If we are to eradicate all forms of intolerance and discrimination based on religion or creed, to promote a democratic and equitable international order, to obtain robust economic growth and to achieve sustainable development, then Turkey's membership in the EU will only help render the latter a leading global player in the 21st century.

Yet, 50 years on since the beginning of the contractual relationship between Turkey and the EU, the debate on Turkey's European vocation has not waned. These views, also nourished by the politics of identity, disregard Turkey's well established place in European history. The last 200 years of Turkish history are marked by various struggles, both internally and externally. The most important was fought for political, economic, and social modernization, and it transcended generations. Both the transformers in the Ottoman Empire and the founding fathers of modern Turkey were influenced by the cornerstones of European history like the Renaissance, Reformation, Enlightenment, and the French Revolution. Atatürk's reforms towards solidifying the modernization of Turkey are the ramifications of this revolutionary mindset. The next stop in this journey of transformation and modernization is Turkey's membership in the EU.

With significant challenges and opportunities before us, we must now put the tiresome debates on Turkey's European vocation to rest and focus on the added value inherent in this accession: Turkey, seeking membership in the

EU, generates peace at home, peace in the world. Turkey is the only country that is simultaneously a member of G-20, NATO and the OIC. We are also a non-permanent member of the UN Security Council. It is the world's 17th, and Europe's sixth largest economy. Turkey is a bulwark for democracy, rule of law, respect for human rights and fundamental freedoms; that is, European ideals and values.

In this new era ushered in by the Lisbon Treaty, the EU is preparing to emerge stronger on the world stage through a new institutional structure. At this juncture in time, I also see a new opportunity to bring in a fresh wind of optimism into Turkish-EU relations. It is a time for new ideas, new ways of thinking. We must seize this opportunity to move our relations into an ever closer Union.

The EU is the successful outcome of a dynamic integration process. Through the EU, Europe has been able to leave behind past conflicts. Thanks to the culture of dialogue and compromise it has become a beacon of liberty, stability, and peace. The Lisbon Treaty will further solidify the political unity of the EU. An internally stronger EU is tantamount to a more effective and visible EU on the global stage. The smooth implementation of the Lisbon Treaty and mobilizing popular support for enlargement in general, and Turkey's membership in particular appear to be two strategic tasks that lie ahead in this respect. We hope that with the entry into force of the Treaty, the argument that was put forward by some countries that enlargement could not proceed without institutional reform will finally be buried. At this new juncture where the EU is in search of a new soul, it is exceptionally important that a positive style and substance prevail in Turkey-EU relations.

The process of accession negotiations is lengthy and difficult. We were aware of this fact before we set out on this journey. Yet, we face several political obstacles in stark contradiction to the commonly agreed framework for the negotiations.

This serves only to undermine the credibility of the EU. As membership will not happen overnight, the ultimate decision on this issue should not be

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prejudged from today. By that day, Turkey will have attained the same standards and norms as that of the EU, and this will definitely be in the interest of all sides concerned.

Turkey's accession process follows an irreversible course. The negotiations continue to advance at the technical level. No single week goes by without an expert meeting taking place in Brussels, Ankara or elsewhere. Our legislation in every field –from environment to food safety to education– is being revised. The massive work carried out by the Turkish and EU officials has brought about a silent revolution. There is a consistent quality to this side of the picture *vis-à-vis* the political rhetoric on the other side.

Let me repeat that membership in the EU is the strategic objective of our foreign policy. We will undertake whatever is necessary. My government is determined to advance its comprehensive reform agenda with this aim in mind. The components of our “homework” are clearly and extensively stated in regular reports of the European Commission. We take good note of these to-do lists and undertake to accomplish whatever necessary. On the other hand, we also believe that the EU should do more to preserve the credibility and consistency of political Europe. Our list would be shorter, comprised of only three items:

- 1- The EU should abide by the principle of *pacta sunt servanda*;
- 2- The EU should not allow bilateral issues to hold back the accession negotiations and;
- 3- It should not let Turkey's accession process be manipulated for domestic politics.

I am of the opinion that there are basically two paths the EU can take. Either it will be a global power with a dynamic economy or remain a continental power with a more inward-looking perception. The starting point should be to focus on a functioning and productive relationship between Turkey and the EU. At present, Europe is going through a transformation in many ways. With the adoption of the Lisbon Treaty, Europe will undertake new responsibilities on a global scale. European leaders now have a chance to demonstrate

their resolve in preparing the EU for the challenges of the 21st century, both internally and, even more decisively on the global stage.

We are fully committed to the EU process and determined to advance our reform agenda. Indeed, in the last seven years my government launched and implemented an ambitious reform campaign. Our reforms aim not only to comply with the Copenhagen political criteria but also to respond to the aspirations and expectations of the Turkish people for the highest standards of democracy and rule of law. Turkey will pass this test successfully, no matter how demanding it will be. We see this process as a formidable challenge, which presents Turkey an opportunity to reinvigorate its strong potential. I firmly believe that this will be a road of remarkable achievement.



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# THE CAUCASUS REGION: FROM THE GEOPOLITICAL PERIPHERY TO AN ARENA OF COMPETITIVE INTERESTS\*

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Sergey Markedonov



The dissolution of the Soviet Union brought new challenges to the Caucasus. The former republics of Soviet Transcaucasia immediately became international actors who identified their own national interests and foreign policy priorities. The formation of independent states in the South Caucasus has been accompanied by a search for new mechanisms to ensure regional security and enshrine new formats of international cooperation. All of these developments have led to what can be called the return of the Caucasus to the “Major League” of international politics.

While the countries of the region have passed through their second decade as independent states, the general situation in this region is neither stable nor predictable. Six of the eight ethno-political conflicts in the former Soviet Union (FSU) have taken place in the Caucasus and three of the four *de facto* entities in the FSU are found in this region. These turbulent conditions provoke the interest and engagement of both regional and global actors. The geopolitical situation in the Caucasus is well studied; at the same time, however, it has been considered primarily through the prism of the U.S.-Russia rivalry. This approach is constrained by perspectives rooted in the Cold War period. In reality the geopolitics of the Caucasus boast much more

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complicated parameters, and greater attention must be paid to the role of the closest neighbors of Georgia, Armenia, and Azerbaijan, namely Turkey and Iran. Furthermore, the role of the European Union, especially after pursuing enlargement in the Black Sea direction, should not be overlooked. This study represents an attempt to re-energize the strategic dimensions of the geopolitics of the whole region and to redefine its meaning for both the Eurasia region and the international security agenda.

### ***Controversial Historical Legacy***

As it is an integral geopolitical and socio-economic region, the Big Caucasus has traditionally found itself of the object of special attention from both regional and world actors, each of which has promoted its own interests and vision for the Caucasus. For centuries, the balance of power periodically changed, and, as a rule, the dominant role in the region belonged to one or two powers. During the 16th through 18th centuries we can discuss the Persian-Ottoman domination of the Caucasus, while from the first quarter of the 19th century through the early 20th century, we can talk about Russian domination. After the collapse of the Russian Empire its role was challenged by the late Ottoman Empire (and later the Turkish Republic that arose from its ashes), Germany, and the Entente countries (primarily the United Kingdom). However the failure of the nation-state projects as well as the further Sovietization of the three Caucasus republics led to the practical abandonment of the region from the perspective of the international political agenda.

Throughout the Soviet period, as the American historian Charles King has rightly observed, the Caucasus experienced a time of relative peace and isolation. The Western diplomats and journalists who visited the region during the time of the “iron curtain” created records full of romantic impressions of the region, reminiscent in style of the writings of 18th century travelers.<sup>1</sup> A visit to Tbilisi, the capital city of Georgia, was usually included in the standard “tourist package” for foreigners, especially for the distinguished writers and artists. In this respect the view expressed by John Steinbeck, the

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<sup>1</sup> Charles King, *The Ghost of Freedom. A History of the Caucasus* (Oxford: Oxford University Press, 2008), p. 199.

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Nobel laureate in literature who visited Tbilisi in the late 1940s, was rather indicative: “Georgia, what is a magical place becoming a dream where you are leaving it.”<sup>2</sup>

Although during this seemingly stable period the region witnessed the process of complex political and socio-economic transformation, this remained largely unknown to outsiders. Events in the Caucasus were examined only through the prism of the domestic and geopolitical dynamics of the USSR. For example, in 1978, a group of U.S. Congressmen proposed that the famous dissidents Zviad Gamsakhurdia and Merab Kostava be considered for the Nobel Peace Prize. However, their initiative was dictated not by any possible sympathy for the Georgian national independence movement (in the U.S. this was not seriously considered) but rather by a desire to improve the general state of human and political rights in the USSR.

In 1991, the situation changed rapidly. Three independent states (Georgia, Azerbaijan and Armenia) and three unrecognized entities in breakaway regions (Nagorno-Karabakh, South Ossetia and Abkhazia) appeared. From that time through to the present day, the Caucasus region has remained one of the most unstable areas in the FSU. To date, all of the ethnic conflicts in the Caucasus remain unresolved. The Caucasus has also become one of the most militarized regions not only in the FSU but, in fact, in the whole world, as the independent states of the South Caucasus possess military capabilities comparable to those of an ordinary European state. Those confrontations (with the active involvement of Russia, the largest post-Soviet successor state) as well as rich natural resources and advantageous geographical location have made the Caucasus region an important subject of world politics. Today we may well consider the problems of the Caucasus in the context of European and even transatlantic security.

In August 2008, the Caucasus region became the focal point of international relations. This is true, even if it seems like an overstatement. Following the disintegration of the Soviet Union in December 1991, borders between the former USSR republics were recognized as interstate ones. In 2008 the

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<sup>2</sup> John Steinbeck, *A Russian Journal* (New York: Viking, 1948), p. 195.

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principles of the Belavezha Agreement on the dissolution of the USSR were violated.<sup>3</sup> Thus, a precedent on the revision of borders between the former USSR republics was established in the South Caucasus. As a result, for the first time in Eurasia, and particularly in the Caucasus region, “partially recognized” states emerged: Abkhazia and South Ossetia. Their independence is denied by the UN but is recognized by the Russian Federation, a permanent member of the UN Security Council.

After the “Five-Day War” in August 2008, Moscow demonstrated its willingness to play the role of a revisionist state for the first time since 1991. Before 2008, Russia’s foreign policy was motivated primarily by the country’s top priority: the maintenance and defense of the existing regional *status quo*. Moscow’s attempt in 2008 to change this approach prompted changes in its relations with the West, namely the U.S. and the EU. The events of that year led to the suspension of NATO expansion to the East, that is, into the post-Soviet space. Although in contrast to the discourse popular in Russian media, the prospect of Georgian integration into NATO has not been struck off from the NATO agenda, even as the process itself has become very slow. Georgia was listed as an aspirant state at NATO Chicago Summit of 2012. However no concrete dates of obtaining higher status were defined.

Despite the fact that the relationship between Russia and the West has gradually improved following the “hot August”, the disputed status of South Ossetia and Abkhazia still stands as a major area of contention between Moscow and Washington/Brussels. The White House’s U.S.-Russia Relations “Reset” Fact Sheet states: “The Obama Administration continues to have serious disagreements with the Russian government over Georgia. We continue to call for Russia to end its occupation of the Georgian territories of Abkhazia and South Ossetia, and in parallel have worked with the Russian government to prevent further military escalations in the region.”<sup>4</sup> On 29 July 2011 the U.S. Senate passed a resolution in support of territorial integrity of Georgia, which included the requirement for Russia to end the occupation (Senator Lindsey Graham,

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<sup>3</sup> The Article 5 of the Belavezha Agreement proclaimed recognition of the territorial integrity and inviolability of the borders of newly independent states (former USSR republics).

<sup>4</sup> “U.S.-Russia Relations: ‘Reset’ Fact Sheet,” <http://www.whitehouse.gov/the-press-office/us-russia-relations-reset-fact-sheet>

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Republican and Senator Jeanne Shaheen, Democrat were co-authors of the resolution). In 2010-2011 some European countries (Lithuania, Romania) and the European Parliament as well as the NATO Parliamentary Assembly also chose to recognize the fact of the Russian “occupation” of Georgian territory.

Thus, the main purpose of this paper is to analyze the transformation of these peripheral regions to arenas of competitive interests. This transition has been a distinctly non-linear process. As such, the perception of the region as a primary competitive geopolitical area was formed not in 1991 but much later. In 1996, a prominent American diplomat David Mark (who served from 1994-95 in Tbilisi both as a member and later as a deputy chief of the OSCE Mission in Georgia) wrote that it was necessary to “implement policies that would strengthen the stability in the Caucasus not disputing the obvious dominance of Russia and not taking serious political commitments.”<sup>5</sup> Similarly, Georgia’s present Euro-Atlantic orientation was not proclaimed immediately following its independence. The policies of the U.S., EU, Russia, Turkey, and Iran in the Caucasus region have not been constant in the post-Soviet period. Their various policies have not followed “one line” so to speak; rather, they have been very changeable, adjusting in response to a variety of factors.

Despite the *plethora* of publications concerning the various aspects of the American, Russian, Turkish, or European approaches to the Caucasus, these issues are rarely covered together within one study. As a result, there is a dearth of understanding of the regional and international security dynamics of the Caucasus. As for the practical value of this study, it must be noted that the problems of the region have been “privatized” by journalists who actively reproduce *clichés* and stereotypes that are divorced from the complicated and controversial dynamics that prevail in the Caucasus. This paper is a modest attempt to systematize the most important trends and stages in the development of the Caucasus policies of key stakeholders in the region (Russia, the U.S., the EU, Turkey, and Iran).

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5 David Mark, “Eurasia Letter: Russia and the New Transcaucasus,” *Foreign Policy*, No.105 (1996/1997), pp. 141-159. It is necessary to pay a special attention to the term “Transcaucasus” used by this author. Thus he was ready to share the Soviet and Imperial terminology that would not be used later by the American experts and diplomats. Instead of it they will speak about the South Caucasus.

### *Russia: Foreign Policy as the Continuation of the Domestic Security Agenda*

Many Western experts are perplexed by Moscow's persistence in preserving its domination in this part of the post-Soviet space. Indeed, in the early 1990s, Russia readily abandoned territorial claims to Ukraine and Kazakhstan, although with respect to ethno-cultural ties, northern and eastern Kazakhstan and the Crimea and Donbass in Ukraine remain considerably closer to Russia than does Georgia. The Kremlin's Baltic policy seemed far more passive than its policy in the Caucasus, even though Latvia and Estonia have large ethnic Russian communities. Moscow is involved in Central Asian political processes to a much lesser degree than it is in the South Caucasus.

In 2001, Russia gave the go-ahead for U.S.'s penetration into the region, and today the decision makers in the Kremlin do not particularly object to the "development" of the region by the Chinese. Although Russian-Moldovan relations also leave much to be desired, Moscow, at least according to its rhetoric, is ready to cooperate with the West on the resolution of the Transnistrian conflict. The South Caucasus stands as an utterly different case. Since the first days following the dissolution of the USSR, Russia pointed to the importance of the South Caucasus as an area crucial for its central strategic interests. The Russian Federation has claimed a special role in the geopolitics of the Caucasus not just—and at the same time not so much—in its capacity as the successor of the USSR. Despite the absence of any relevant official policy formulations on the South Caucasus, Russia's policy clearly suggests a desire to assert regional leadership. It has demonstrated its readiness to amend borders (in the cases of Abkhazia and South Ossetia), prevent outside penetration in the region (in the case of its opposition to NATO and the U.S.) and to maintain a central role in managing the resolution of the Nagorno-Karabakh conflict. In this way, Moscow follows a policy of "selective revisionism". While it has recognized the independence of Abkhazia and South Ossetia, Kremlin has chosen not to support the aspirations of the so-called "Nagorno-Karabakh Republic" and even blames any electoral campaigns provided there by the *de facto* authorities.<sup>6</sup>

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<sup>6</sup> "RF podverdila podderzhku territorial'noi tselostnosti Azerbajjana," [RF Recognized Its Support Territorial Integrity of Azerbaijan], 24 May 2010, <http://www.rian.ru/politics/20100524/237860555.html>

Strengthening its position as a regional leader, Russia actively cooperates with the West within the framework of the OSCE Minsk Group. Unlike Georgia, the positions of Moscow and Washington on this issue have seen much more common ground. As American expert Jeffrey Mankoff rightly notes, “Russia’s mediating role undertaken in the context of the Minsk group, is strongly backed by the United States and France, the group’s other co-chairs, and it is an example of the U.S.-Russian cooperation in the post-Soviet region.”<sup>7</sup> Although Armenia remains a strategic partner of Russia (due to its Collective Security Treaty Organization membership and Russia’s engagement with its military and border guard), Russia is interested in the constructive relationship with Azerbaijan. In September 2010 Russia became the first neighboring country of independent Azerbaijan to successfully agree upon the delimitation and demarcation of their inter-state border.

However, Russia’s geopolitical ambitions in the South Caucasus are not intended to produce an “imperial resurgence.” Ensuring stability in the former Soviet Republics of Transcaucasia is a prerequisite for Russia’s peaceful domestic development and for the preservation of its territorial integrity. Although this may sound exaggerated, Russia is a Caucasian state. Seven constituencies of the Russian Federation (Adygeya, Ingushetia, Dagestan, Kabardino-Balkaria, Karachay-Cherkessia, North Ossetia and Chechnya) are immediately situated on the territory of the North Caucasus and four other subjects (the Krasnodar and Stavropol territories, the Rostov region and Kalmykia) are situated in the steppe foothills of the Caucasus. Additionally, the Black Sea shore of the Krasnodar territory and the region of the Caucasian Mineral Waters of the Stavropol territory are also part of the Caucasus region. The territory of the Russian North Caucasus is bigger than the three South Caucasus independent states put together.

Furthermore, as a practical matter, the ethno-political tensions that have arisen in Russia’s regions have been closely connected with conflicts under way in the South Caucasus. The dynamics of the Georgian-Ossetian conflict have had a serious impact on the Ossetian-Ingush conflict in Russia’s North

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<sup>7</sup> Jeffrey Mankoff, “The Big Caucasus Between Fragmentation and Integration,” *Center for International and Strategic Studies Report*, (March 2012), pp. 10-11.

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Ossetia and the Georgian-Abkhaz situation has exacted influence on the development of the Circassian population within Russia.<sup>8</sup> The security environment in Chechnya and Dagestan has also been connected with the developments in Georgia's Pankisi Gorge. As they share a common border, Russia and Azerbaijan have faced the issue of divided ethnic groups (Lezgins and Avars). It is important to understand that it is in Russia's interests to have a positive relationship with Baku regardless of its strategic military partnership with Armenia. Thus, ensuring stability in the Russian Caucasus is indivisible from the achievement of stability in Georgia, Armenia and Azerbaijan. It is for this reason that, since 1991, the Russian Federation has taken the burden of geopolitical leadership in the South Caucasus upon itself. However, despite its significant advantage in the region over the U.S., the EU, Turkey, and Iran (as a result of the language factor, the Soviet past, long-standing social and economic ties, and personal contacts between political representatives) Russia has been unable to offer any attractive modernization project to the South Caucasian states and has thus been forced to confine itself to a "stabilizing" role. In the "hot spots", such a role could have been justified; however, Moscow made a serious strategic mistake by concentrating only on seeking the "freezing" of these conflicts and leaving the socio-economic and socio-cultural spheres, as well as the problems of modernization, unaddressed.

In reality, Kremlin's policy focused entirely on the consolidation of the political regime through support for the ruling powers in the South Caucasus. As a result, the South Caucasus has, since the late 1990s, ceased to be the Russian Federation's exclusive geopolitical "property". Both regional and extra-regional actors (although for different reasons) have stopped considering Russia as a source of legitimacy for the newly independent South Caucasian states, as an exclusive peacemaker or as the lone political center of gravity for Armenia, Georgia, and Azerbaijan. The South Caucasus has been intensively internationalized, and it should be noted that this process was not only in the interests of the U.S., the EU, Iran and Turkey, but also in the interests of the

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<sup>8</sup> On May 2011 Georgia formally acknowledged the alleged "Circassian genocide" that took place under the Russian Empire and as a result the issue quickly turned into an international incident. There are several arguments that suggest this approach could potentially complicate relations between Circassians and the Abkhaz people, with whom they share blood ties and whom they supported for the Georgian-Abkhaz clash of 1992-93.

South Caucasus states. In recent years, Moscow has managed to minimize challenges to its regional dominance. Plans for further NATO expansion in the region remain frozen and Russia has strengthened its role as a power broker in the Nagorno-Karabakh process. However the fact that Moscow has recognized the independence of the breakaway regions has created an ethno-political precedent in the region. Importantly, there are no guarantees that this very precedent could not be used against the creator itself in the future, though right now the chances of such an outcome appear rather minimal. Thus, the cost of geopolitical success looks rather high due to the unpredictable and unforeseeable consequences that have followed, and that seem likely to continue over time.

### ***U.S. Policy in the Caucasus: From Observation to Active Participation***

Currently, U.S. interests in the South Caucasus are of great concern to Russian diplomats and policymakers. Over the last decade, American involvement in the region has intensified through the development of a strategic cooperation framework (the U.S.-Georgia Strategic Partnership Charter of 2009, as well as U.S.'s active promotion of Tbilisi's NATO aspirations), contributions to regional conflict resolution (specifically as regards the Nagorno-Karabakh peacemaking process and Armenian-Turkish rapprochement) and involvement in energy projects (support of the Baku-Tbilisi-Ceyhan pipeline and a number of other East-West pipeline projects originating in the Caspian Sea). Following the collapse of the USSR, Washington has supported the principle of territorial integrity for all of the newly independent states of the Caucasus and it has rejected the recognition of *de facto* states as sovereign countries.<sup>9</sup>

During the first half of the 1990s, U.S. interest in the region was fairly minimal. Washington reacted calmly and positively to Moscow's pursuit of a continued dominant role in the region, supported its peacemaking activity (Abkhazia, South Ossetia) and even chose not to reject the deployment of Russian military bases in Georgia (even outside the two conflict zones).

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<sup>9</sup> There is only minor exclusion from this general rule. Due to the Armenian lobby activity since 1998 USAID and other U.S. agencies have been providing funds for humanitarian and other assistance programs in the so-called Nagorno-Karabakh Republic.

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However active U.S. economic engagement (Azerbaijan's "Contract of the Century" with the Western oil Consortium signed in 1994),<sup>10</sup> peacemaking activity under the auspices of the OSCE Minsk Group (the format of three co-chairs with U.S. participation was established in 1997) and the Caucasus independent states' interests furthered U.S. penetration in the region. Each country, however, had its own motivations for increasing its engagement with the U.S. Both Georgia and Azerbaijan lost conflicts with their separatist provinces, calling their territorial viability into question. As a result of these national security questions, there was interest from both states in promoting the U.S. as a geopolitical counterweight to Russia. Those aspirations became especially strong in Georgia following the Rose Revolution in 2003. Armenia has not wanted to lose the initiative and give Azerbaijan a chance to monopolize the issue of Euro-Atlantic integration in their favor. As a result, Armenia pursues cooperation with Washington and participation in NATO projects in an effort to ensure that the U.S. does not make the alleged "final choice" between the two Caucasian republics involved in the conflict over Nagorno-Karabakh. Other factors have also fueled interest in the Caucasus, foremost among them the numerous unresolved ethno-political conflicts and the region's proximity to three major and ambitious Eurasian states: Russia, Turkey, and Iran, as well as its crucial new role as a transport and energy corridor. The tragedy of September 11 and the subsequent military operations in Afghanistan and Iraq (2001-3) increased the geopolitical importance of the Caucasus for U.S. foreign policy.

While the geopolitics of the Caucasus are seen as central from the perspective of the various Eurasian stakeholders, Caucasus issues are considered to be much more remote problems for the U.S. In this sense, U.S. policy towards the Caucasus has another primary motivation that is tied to the fact that, from the U.S. perspective, the region is not valuable in isolation. Rather, it is essential as a forum through which the U.S. can work on a number of broader security and foreign policy conundrums. Georgia, for example, is seen by U.S. policy makers as the weak link among the former Soviet states that Moscow

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10 The U.S. oil companies "Amoco", "Pennzoil", "Unocal", and "McDermott International" became Consortium members; dividing 20 % of profits between themselves (80 % was retained by the Azerbaijani government).

could use as a tool to establish its dominance in Eurasia. Meanwhile, Russia's dominance in the post-Soviet area is seen to be part of a larger project of reintegration, a sort of "USSR-lite". The increasingly strategic activity of Moscow in its "near abroad" is often identified with the strengthening of authoritarian tendencies in Russia itself. Whether such activity constitutes a challenge to the United States –and perhaps symbolic return to the geopolitics of the Cold War– is disputable. Regardless of the validity of this notion, it is a part of the American political discourse and is often echoed by experts and academics. Thus, there remains the perception that Abkhazia and South Ossetia are neither the results of the ethno-political self-determination of small nations from the former Georgian Soviet Socialist Republic nor a precedent for the total revision of the borders established between the former Soviet republics prior to 1991 – which would later become the official interstate borders after the dissolution of the Soviet Union. As such, the U.S. has actively supported Georgia in the international arena (at the UN, in NATO, and in the OSCE) and cooperated with Georgia on military and security issues. At the same time Georgia, amongst all the non-NATO countries, provided one of the largest troop contingents for participation in the war in Afghanistan.

Traditional diplomatic rhetoric aside, one could say that Armenia and Azerbaijan play an important role in the broader context of U.S. Middle East policy. Boasting an extremely low (if not negative) rating in the Islamic world, Washington remains interested in strengthening ties with the secular regime in Azerbaijan. It certainly will not replace Turkey (which in recent years has become distant from the U.S. on many issues) but Azerbaijan could be considered as a geopolitical counterweight to Iran. The post-Soviet nation-building experience of Azerbaijan also stands as an example of an ideological and political model that could be applied to other Muslim republics. The very particular rhetoric utilized in statements made by the White House and State Department towards Baku is notable given that human-rights issues, though mentioned, have ultimately overshadowed by two issues of higher priority: energy and military-technical partnerships. While the issue of democratization is addressed, it has been relegated to the periphery of bilateral relations with Azerbaijan, especially when compared to the tenor of U.S. relations with other Eurasian states.

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Armenia occupies a different position of importance. It is considered an instrument of pressure on Ankara, which in recent years has turned away from the general foreign policy course of the U.S. and Israel. In this regard, Secretary of State Clinton's visit to the Armenian genocide memorial in Yerevan during her 2010 tour can hardly be considered random or innocuous.

Then there is the issue of the longstanding Nagorno-Karabakh conflict between Baku and Yerevan. Unlike in Georgia, Washington sees this conflict as a potential opening for broad cooperation with Moscow, which is considered to be beneficial for other policy goals –such as Afghanistan and Iran– for which Russia's support is very important. In fact, Russian policy *vis-à-vis* the Nagorno-Karabakh peace process has been focused on mediation, in stark contrast to its one-sided support for the breakaway republics in Georgia. Not seeing in this situation any threat of future neo-Soviet reintegration, Washington is prepared to share the responsibilities of assisting in the resolution of the Armenian-Azerbaijani confrontation with Moscow. The same approach has been utilized in the context of Armenian-Turkish rapprochement, as Washington and Moscow continue to jointly support the normalization of the bilateral relationship.

## ***The European Union: Spreading the Positive Political Experience***

Since the dissolution of the USSR, the European Community (after 1993, the European Union) has also intensified its participation in the political and economic development of the Caucasus, though even with such an increase there is still only a minimal level of EU engagement on the whole. The EU has worked in parallel with the U.S. and NATO in a number of areas. Like Washington, Europe has kept a low profile in the South Caucasus. As the French scholar Laure Delcour noted, “this area remained *terra incognita* to many EU stakeholders.”<sup>11</sup> The focal point issue for Brussels during that period was the situation in the Balkans that was provoked by the collapse

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<sup>11</sup> Laure Delcour, “The European Union’s Policy in the South Caucasus: in Search of a Strategy”, in Annie Jafalian (ed.), *Reassessing Security in the South Caucasus: Regional Conflicts and Transformations* (Farnham: Ashgate, 2011), p. 179.

of Yugoslavia. Among the EU members only a few states (France, the UK, Germany, Greece and the Netherlands) opened embassies in all the newly independent countries of the region. The same held true in the case of the European Commission delegation opened in Tbilisi, as it alone was responsible for the whole South Caucasus.

Nevertheless, Europe collectively recognized the independence of the states of the South Caucasus in December 1991. In 1994 the Parliamentary Assembly of the Council of Europe (a kind of preparatory lab for the European integration project) included in its agenda the issue of cooperation with Armenia, Azerbaijan, and Georgia. In 1995, the Council of Europe adopted a project on a common approach to the South Caucasus. Then, following a few waves of enlargement, EU became much more attentive to the post-Soviet space, including the Caucasus countries. In 2004, Armenia, Georgia, and Azerbaijan were included in the European Neighborhood Policy (ENP) project. The adoption of the ENP Action Plans by the South Caucasian states on 14 November 2006 marked the beginning of a new stage of “Europeanization” in the region. From then on, European policy towards the Caucasus has become much more coordinated and “integrated”.

Since January 2007, the Black Sea region has become a border region of the EU with the inclusion of Bulgaria and Romania; as a result; as Turkish analyst Mustafa Aydin noted, the EU, unlike the U.S., has become a regional actor both in the Black Sea and the South Caucasus.<sup>12</sup> In 2008, the EU initiated the Eastern Partnership project for the six post-Soviet republics including the South Caucasus states, which was launched in 2009. The most recent of the aforementioned initiatives was a Swedish-Polish initiative which came about as a result of the growing influence of newcomers to the EU (specifically the former Communist bloc countries). However, the global financial crisis, a dearth of truly effective mechanisms for wholesale effective integration and the inability of the Caucasus countries to fully meet EU requirements has seriously hampered the realization of the Eastern Partnership concept.

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12 Mustafa Aydin, “Europe’s New Region: The Black Sea in the Wider European Neighborhood,” *Journal of Southeast European and Black Sea Studies*, Vol.5, No.2 (2005), pp. 257–283.

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Despite their strong integration within the joint American and Euro-Atlantic policy for the region, the EU's policy on the Caucasus is unlike the U.S. approach in the sense that it places greater emphasis on the social and economic spheres than on military and political issues. The primary second-order priorities for the EU are stability in the region and regional compliance with European standards for the protection of human rights and democratic freedoms. As American expert Jeffrey Mankoff stressed: "given Europe's own unique experience in using economic and political integration as a tool for overcoming deep-seated political conflicts (such as between France and Germany), the EU is uniquely placed to encourage regional cooperation with the politically fragmented Caucasus. It has developed a variety of tools for promoting both intraregional cooperation and integration with the wider European community."<sup>13</sup> In 2008 Europe pretended to play a role of the honest broker with the "Medvedev-Sarkozy Agreement" and the engagement of then-French President (presiding over the EU those times) on the ceasefire in Georgia, which was a crucial step in stopping the "Five-Day War" of 2008.<sup>14</sup> Since October 2008, the EU monitoring mission in Georgia has remained the only international organization observing the situation around these conflict zones.<sup>15</sup>

Unlike the U.S., the EU is more flexible in its approaches to the *de facto* states (Abkhazia and South Ossetia), stressing the necessity of engagement with them without full political and legal recognition. At the same time, the EU has remained distinctly passive on the issue of the Nagorno-Karabakh conflict. Its involvement has been limited to the role of France as one of the OSCE Minsk Group co-chairs. In this case, as well as on a number of other issues, many of the EU's traditional advantages have become disadvantages. The most glaring deficiency is the EU's lack of hard security resources, despite the fact that the EU has focused its energies on soft power approaches. This deficit makes the regional position of Europe rather vulnerable and dependent on the policy courses of the U.S. and NATO.

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13 Jeffrey Mankoff (2012), p. 18.

14 "Press Release by Dmitry Medvedev and Nicholas Sarkozy," *Russian Presidency*, 12 August 2008, [http://www.kremlin.ru/appears/2008/08/12/2004\\_type63374type63377type63380type82634\\_205199.shtml](http://www.kremlin.ru/appears/2008/08/12/2004_type63374type63377type63380type82634_205199.shtml)

15 This Mission due to the Moscow's position has had no access to the territories of Abkhazia and South Ossetia.

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*Turkey: Rediscovery of the Caucasus*

The August War of 2008 increased Turkey's role in the Caucasus on the whole. Ankara emerged from it as a possible arbitrator and mediator for the settlement of the conflicts in the region. The "Caucasus Platform for Stability and Cooperation" initiated by Turkish Prime Minister Recep Erdogan became one of the first reactions to the uncertainty provoked by the Russo-Georgian confrontation. Almost at the same time, the historic visit of Turkish President Abdullah Gül to Yerevan in September 2008 (known as "the football diplomacy") marked the beginning of an Armenia-Turkey interstate dialogue. Although this impressive and promising start was replaced by stagnation and frozen negotiations, the fact that such rapprochement was even proposed promoted perceptions of a Turkish "return" to the geopolitics of the Caucasus.

But unlike the U.S. or the EU member states, Turkey is not a "freshman" in the "big game" taking place in the Caucasus. Between the 16th and 18th centuries, the Ottoman Empire, the predecessor of the Turkish Republic, fought for domination over the Caucasus, first against Persia and later with the Russian Empire. Large swathes of the South Caucasus used to belong to the Ottoman Empire or were within its military or political orbit during some period in the past. The Ottoman Empire became a second home to many immigrants from the Caucasus who left their homeland as a result of the numerous military campaigns and ethnic transfers of that period. Nowadays it is estimated that as many as 3-5 million people from the North Caucasus, 3 million Azerbaijanis and 2-3 million Georgians can be found in the territory of present day Turkey. One of the most topical issues for the contemporary Turkish republic is the "Armenian issue" and the ongoing debates around the events of 1915. According to the data of the Turkish experts Mustafa Aydin, Mitat Çelikpala and Fuat Dündar, Turkey currently hosts approximately 70,000 Armenians.<sup>16</sup>

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<sup>16</sup> Mustafa Aydin, "Changing Dynamics of Turkish Foreign and Security Policies in the Caucasus," in Annie Jafalian (ed.), *Reassessing Security in the South Caucasus: Regional Conflicts and Transformations* (Farnham: Ashgate, 2011), p. 118; Mitat Celikpala, "Caucasian Diaspora in Turkey and Its Effects on Turkish Foreign Policy," in Mustafa Aydin (ed.), *Turkey's Eurasian Adventure, 1989-2006* (Ankara: Nobel, 2008), pp. 35-37; Fuat Dündar, *Minorities in Population Censuses in Turkey* (Istanbul: Chiviyazilar, 2000).

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However, for many decades after the establishment of the Turkish Republic, its elite ignored the Caucasus. Inspired by the ideas of Kemal Atatürk that Islam perpetuates underdevelopment and hinders modernization, Turkish ambitions were directed towards Europe (and after 1945 to the United States), assuming that the Caucasian direction along with the Middle East and the Balkans were closely associated with the legacy of the Ottoman Empire. As a result, the issues of the Caucasus were pushed to the back of Turkish foreign policy. During the Cold War, Turkey stood as a NATO outpost along the southern part of the Soviet Union, the enemy of the West.

After the collapse of the Soviet Union in 1991, Turkey began to reconsider its previous policy approach to the Caucasus. This was facilitated by several factors. First, the formation of an independent Turkic state –the Republic of Azerbaijan– whose independence Turkey recognized on 9 December 1991, the day after the dissolution of the USSR. Second, the ethno-national self-determination that began in the North Caucasus exacted a heavy influence on Turkish policy. Third, a number of regional conflicts emerged on the state borders of Turkey. Fourth, Armenian independence revitalized a topical issue for Ankara, transforming it from the state-diaspora to the interstate format. As such, it is better to speak about the Turkish rediscovery of the region. Nowadays, Turkey stands as one of the 20 largest economies in the world and it remains one of the most economically advanced countries in the Islamic world. Those conditions facilitate its involvement in regional politics and increase its ability to effectively promote its national interests in the Caucasus.

As was the case in 1918-20, Azerbaijan has once again become Turkey's primary strategic partner in the South Caucasus. The two countries have realized a number of common projects in the energy, military and security spheres. The Georgian direction is also important for Ankara, although Turkish policy towards Georgia is full of paradoxes. On the one hand, Turkey has continued to support the territorial integrity of Georgia, ensuring huge investments in and military cooperation with this country. On the other hand, Ankara has kept the “Abkhaz window” open, as it has not interfered with either economic or humanitarian ties with this *de facto* state. The Abkhaz diaspora has been very active promoting this cooperation. In 2009 Ünal Çeviköz, the Deputy

Undersecretary for Political Affairs in the Turkish Foreign Ministry (who is of Circassian descent), even visited Sukhumi, raising great hopes among the Abkhaz people on the issue of recognition.<sup>17</sup>

The particular concern for Ankara in the Caucasus is Armenia. In the two decades since the collapse of the Soviet Union, Ankara and Yerevan have repeatedly put the issue of normalization on the agenda. Back in the early 1990s (before the sharp deterioration of the military situation in Nagorno-Karabakh), Armenia and Turkey tried to find some common ground to overcome their tragic political legacy. However neither then, nor during the period of 2008-12, has a breakthrough been achieved. Neither the hopes of the Armenian side that the “divorce” of Turkish goals and the Nagorno-Karabakh conflict were not justified nor Turkey’s aspirations that the issue of 1915 would be sacrificed in the name of pragmatism have been realized. The two parties have reached the high point of their political relations, as protocols on normalization and the establishment of diplomatic relations were signed, but not ratified, by the national Parliaments while the negotiations process remains frozen.<sup>18</sup>

However the developments around the Middle East (known as the “Arab Spring”) have become the focus of Turkish foreign policy in 2011 and 2012, pushing the Caucasus to the background especially following the beginning of the civil war in Turkey’s neighbor Syria. The involvement of Turkey in the Syrian crisis and its over-active and even obsessive attempts to play the role of mediator in the multilateral negotiations over Iran’s nuclear program have demonstrated the limits of its diplomatic, military, and political resources. Despite the support of the West, Turkey, in its policy towards Syria, especially after the open involvement of Iran and Russia to save the Assad regime, has been in a very difficult position. It is not interested in increasing tensions with Russia over Syria, as Moscow has become one of Ankara’s largest trading partners. At the same time, however, ever-increasing destabilization in its fragile neighbor and the prospect of a messy political transformation, what some have called a potential “second Afghanistan”, does not provide Ankara

<sup>17</sup> Emrullah Uslu, “Turkey Considers the Status of Abkhazia,” [http://dev.jamestown.org/118/?tx\\_ttnews%5Btt\\_news%5D=35581&tx\\_ttnews%5BbackPid%5D=485&no\\_cache=1](http://dev.jamestown.org/118/?tx_ttnews%5Btt_news%5D=35581&tx_ttnews%5BbackPid%5D=485&no_cache=1)

<sup>18</sup> See more detailed observation: Sergey Markedonov, “A Nonlinear Reconciliation,” <http://eng.globalaffairs.ru/number/A-Nonlinear-Reconciliation-15148>

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with any chance to back off. All of these factors reduce the importance and relevance of the Caucasus region for Turkish foreign policy today.

### ***Iran: Rhetoric and Reason***

The Iranian issue stands out as a major problem on the international agenda. Although, today, Iran demonstrates a desire to play a role in the international geopolitical game, it remains primarily a regional power with a significant presence in the Middle East, Central Asia and the South Caucasus.

The Caucasus vector in Iranian foreign policy is of particular interest because it exhibits a contradictory combination of pragmatic *realpolitik* policies and strictly ideological approaches. More so than in other regions, the “realist” elements of Iranian policy are much more noticeable and influential, despite the religious nature of the Islamic Republic of Iran. The significance of the Caucasus region has traditionally been very high for Iran and it remains so today. Even now, the loss of the territories that once belonged to the Persian Empire (including Northern Azerbaijan, Eastern Armenia, and Southern Dagestan) still resounds tragically for many Iranians. Many Iranian experts consider the prerequisites of the current instability in the Caucasus to have developed as a direct result of the historical defeat of Persia in the 16th to 18th centuries.

Currently Tehran remains extremely sensitive about the appearance or influence of any non-regional actors in the neighborhood, due to the fact that they consider the affairs of the Caucasus to be the legitimate domain of the countries of the region (Georgia, Azerbaijan, and Armenia) as well as the three primary regional stakeholders (Iran, Turkey, and Russia). This deeply held position helps to explain the Iranian position in the discussion of the resolution of the Nagorno-Karabakh conflict. Iran has developed a number of proposals that might be considered as an alternative to the “Updated Madrid principles.” Though they have not yet been published, Tehran treats them as an integral part of its foreign policy discourse. Iran is not interested in seeing a resolution of the conflict that would involve the placement of international peacekeeping forces in the region, no matter under which flag they might be

deployed. Tehran is especially aggrieved by the growing penetration of the Caucasus by Israel. As a result, we have observed some attempts by Iran to transfer the Middle East disagreements and tensions between Tehran and Tel Aviv onto the Caucasus stage.

Despite its loud and sometimes militant rhetoric, Tehran clearly favors the preservation of the *status quo* in the South Caucasus. In stark contrast to its hostile attitude toward the various non-regional actors, in particular the various Western actors, Iran can be considered an opponent of Moscow in its approaches to the ethno-political conflicts in Georgia. The Islamic Republic is not prepared to recognize the independence of Abkhazia and South Ossetia due to the fact that Iran is a multi-ethnic country that is home to millions of Azeris amongst others. As a result, Tehran is not interested in creating a precedent on the issue of ethnic self-determination that could have negative effects on a domestic level.

In building its bilateral efforts with the Caucasus states, Iran prefers to rely more on national egoism than on the appeal of religious dogma. It is necessary to note that nominally Shiite Muslims make up the majority of the population of Azerbaijan. However, the issue of religious solidarity has not been a dominant factor in Iranian-Azerbaijani bilateral relations. In fact, government officials in Baku have regularly criticized Iran for supporting radical Islamist forces inside Azerbaijan. The Iranian clergy (the key political element within the Islamic Republic) claims for itself the role of supranational spiritual leadership over all Shiite Muslims. The question of Southern (Iranian) Azerbaijan is the other sore point of the bilateral relationship. Another important problem is the status of the Caspian Sea, where Baku and Tehran hold very different views about how territory should be divided amongst the littoral states. Nevertheless, for the whole period since the collapse of the USSR, Iranian-Azerbaijani relations have not only survived crises and challenges but also experienced periods of “thaw”.

Armenian-Iranian relations in the post-Soviet period have been much more cooperative. In this case the religious factor has not played a deterministic role and it could be said that this direction of Iranian foreign policy can be regarded

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as the most purely pragmatic. The Christian communities in Armenia have been important partners for an Islamic Republic of Iran that is interested in counterbalancing the growth of Turkish power in the region. While the two protocols on the normalization of relations signed by Ankara and Yerevan in Zurich did not lead to real results, Iran has continued to work towards the consummation of a number of energy and transportation projects in an effort to minimize Armenia's geopolitical isolation.

Even Georgia, despite its actively pro-NATO foreign policy remains interested in maintaining positive relations with Tehran, in spite of the virulent anti-Americanism espoused in Tehran. Since 2010, bilateral relations between Tbilisi and Tehran have become more intense. The two countries have mutually abolished their visa regimes, an Iranian Consulate was opened in Batumi and direct flights between Tehran and Tbilisi have resumed. Most importantly, however, the Georgian political class has reached almost universal understanding on the necessity of establishing meaningful relations and a strong partnership with Iran. Hence in the case of Iranian foreign policy in the Caucasus, revolutionary rhetoric and a realist foreign policy are not fully in sync, though they do coexist. On the one hand, when considering Tehran, we are reminded of their anti-Semitic and anti-American rhetoric, as well as the populist appeals to stop the penetration of the Caucasus and the Caspian Basin by Israel and the U.S.; but at the same time the Iranians have repeatedly proven their ability to pursue a pragmatic policy in the region, and to effectively play the geopolitical game.

### ***Conclusion***

Since 1991, the Caucasus region has undergone many complex transformations. First, this region has experienced the largest number of incidents and conflicts related to ethno-political self-determination, many of which have spread out to include both sides of the Caucasus. Second, within the past two decades, the Caucasus has undergone a transformation; once a distinctly peripheral region, it is now one of the major problem areas and focal points of international politics. It is worth noting that on the first day of the “Five-Day War” in 2008, the situation in the Caucasus was discussed three times

in the UN Security Council and the quarrels between the Russian and U.S. diplomats during that period were reminiscent of the partially forgotten duels of the Cold War. Third, since the dissolution of the USSR, both the political elites of the Caucasus countries and a whole host of international actors have failed to stabilize this volatile region. Some armed conflicts, many of which had appeared “frozen” in the mid-1990s, have resumed.

Today the Caucasus is experiencing a reshuffle of the *status quo*, as the region is in the midst of a serious regrouping of force. The original post-Soviet Caucasus shaped by the conflicts of the early 1990s has changed dramatically. The old rules of the game and the international missions in the region (the UN or the OSCE in Georgia) are either ineffective or unsuited to addressing the current situation. The first precedent on the issue of Eurasian interstate borders was created in the Caucasus. The process of internationalization has only intensified, both through the involvement of “veteran” regional actors (Turkey and Iran) and the “newcomers” (the United States and the European Union). Russia continues to retain its exclusive role but, for the sake of its national interest, Moscow is ready to cooperate with other actors on a number of issues. Of course, such readiness does not in and of itself constitute strategic partnership, as the lack of meaningful compromises remains a strong determinant of the regional agenda. It is in these competitive conditions that the goal of the pacification of this turbulent region will be realized. In any case, this task can only be achieved through multi-dimensional approaches to regional peace and security that take into account both regional and international security interests, the salience of the region’s history legacy and the importance of both tradition and contemporary realities.



# AZERBAIJAN AND U.S. INTERESTS IN THE SOUTH CAUCASUS: TWENTY YEARS AFTER INDEPENDENCE\*

Ariel Cohen



**S**ince the fall of the Soviet Union, the South Caucasus has become an area of key strategic concern for both regional and global powers. After the collapse of the Soviet Union in 1992, the United States was quick to cultivate ties with the new independent states. Within months, the first Bush administration had opened embassies in all 11 non-Russian new independent states, including the three countries of the South Caucasus – Armenia, Azerbaijan, and Georgia. The first Bush administration clearly recognized the energy wealth of the Caspian Sea and the geopolitical importance of the land bridge between the Middle East, Turkey, and Russia, which also connected Europe with Central Asia along the ancient Silk Road. U.S. involvement in the region has intensified since, under the Clinton and second Bush administrations through military cooperation, economic exchange and the development of energy infrastructure.

Washington put a particular emphasis on developing relations with Azerbaijan – a fast growing, energy-rich economy in a strategic nexus between Russia, Iran, and Turkey. The Russian Federation has also demonstrated a continued interest in the South Caucasus, the USSR's "soft underbelly". Today, Russia, a hydrocarbon producer, retains its power thanks to the region's energy exports. Under President Obama, efforts to resuscitate a friendly relationship with

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Russia have compelled the U.S. to move away from such close engagement with the South Caucasus states. It would be mutually beneficial for Azerbaijan and the Euro-Atlantic community to rekindle these close ties.

U.S. interests in the South Caucasus are a function of the region's strategic location at the crossroads of Europe, Russia, the Middle East, and Central Asia. Strong, independent, pro-Western states in the South Caucasus contain the expansionary anti-American regimes ruling in Russia and Iran; enable the secure passage of energy resources from the Caspian to the Black Sea and the Mediterranean *via* Turkey; and encourage the expansion of democratic and free-market principles and institutions in Eurasia.

Despite numerous strategic concerns, the South Caucasus is generally perceived as a secondary consideration for U.S. interests, in comparison with the region's larger, more important neighbors such as Russia, Turkey and Iran. As a result, the policy toward the South Caucasus risks taking a backseat to other U.S. priorities. For example, critics blamed the Clinton administration, especially during its first term, for following a "Russia first" policy, allegedly pursued under Strobe Talbott (special advisor to the Secretary of State on the former Soviet states and later Deputy Secretary of State), rather than engaging with interests in the South Caucasus.<sup>1</sup> Greater emphasis on the region, particularly the promotion of a strategic East-West energy corridor, was seen during Clinton's second term and intensified under George W. Bush's administration, which developed close relations with all of the South Caucasus countries, particularly Georgia. However, U.S. policy toward the South Caucasus has shifted under the Obama administration, which has prioritized "resetting" frayed relations with Russia in order to gain its help and cooperation on such issues as Afghanistan, Iran, and arms control. This policy has led to fears that the Obama administration may be diminishing ties with allies in the South Caucasus in favor of strengthening relations with Moscow.

Vice President Joe Biden's July 2009 trip to war-ravaged Georgia did little to reassure the region of American support. Although Biden correctly rejected

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<sup>1</sup> Fiona Hill, "A Not-So-Grand Strategy: U.S. Policy in the Caucasus and Central Asia Since 1991," *Foreign Policy, Asia*, February 2001, [http://www.brookings.edu/articles/2001/02foreignpolicy\\_hill.aspx](http://www.brookings.edu/articles/2001/02foreignpolicy_hill.aspx)

Russia's claims of what President Dmitri Medvedev has called an "exclusive sphere of interests,"<sup>2</sup> he fell short of offering the nation a "physical security guarantee" from America; nor did he offer any concrete road map for the restoration of Georgian sovereignty over Abkhazia and South Ossetia, or for holding Moscow to its commitments in the Medvedev-Sarkozy peace accord of August 2008, which requires Russia to pull back to its pre-war positions.<sup>3</sup> These two breakaway regions have since remained unrecognized by the West, and are sustained by their patrons in the Kremlin.

The absence of a developed and engaged U.S. foreign policy in the South Caucasus puts U.S. security and commercial interests, along with the sovereignty and independence of U.S. regional allies, at risk. Weakened ties between the South Caucasus and the U.S., NATO, EU, and other principal transatlantic institutions, embolden Russia and Iran to extend their influence, jeopardizes the reliability of energy transit and new pipeline projects, and threatens the development of democratic and free market institutions. The Turkish-Armenian rapprochement, which has taken place against the background of increasing Turkish-Russian security and energy cooperation, alongside the simmering security conflicts in the South Caucasus –the breakaway Georgian provinces of Abkhazia and South Ossetia and the Nagorno-Karabakh dispute, for instance– make strong U.S. engagement in the region essential. The Obama administration needs to understand the strategic importance of the South Caucasus and to provide its allies with the same firm support as its predecessors did.

### ***Azerbaijan and U.S. Interests in the South Caucasus***

U.S. interests in the South Caucasus can be divided into three broad and interrelated categories: security, energy, and democracy. These strategic interests shape U.S. foreign policy toward the region. The coordination and integration of these occasionally conflicting priorities is the main challenge facing the U.S. policy in the region.

2 "Interview given by Dmitri Medvedev" *Television Channel One, Rossiya, NTV*, 31 August 2008, <http://www.un.int/russia/new/MainRoot/docs/warfare/statement310808en.htm>

3 "Biden Pledges Support for Georgia," *BBC News*, 22 July 2009, <http://news.bbc.co.uk/2/hi/8163876.stm>

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### *International Security Priorities*

Security in the South Caucasus is of great importance to the U.S. in that it affects the balance of power in Eurasia and the Middle East. Central to this concern is the desire to check the power of the increasingly anti-American regimes in Russia and Iran. Strong, independent states in the South Caucasus can prevent Moscow and Tehran from running roughshod over the region provide access to the Caspian and Central Asian energy resources, and create opportunities for electronic and other intelligence gathering capabilities.

Azerbaijan has also been a vital trading and strategic partner for Israel, an important American ally. After the Soviet collapse, Israel developed close ties with the post-Soviet states, and particularly with Azerbaijan, a secular Islamic country with substantial oil riches but initially weak economic and military capabilities.

The relationship is based on military and economic foundations, with Israel investing in Azerbaijani infrastructure and markets and importing Azerbaijani oil. Israel and Azerbaijan also share strategic objectives, including their mutual mistrust and fear of Iran. Israel has been a significant weapons supplier for the Azerbaijani army, starting with arms sales during the Nagorno-Karabakh war.<sup>4</sup> In September 2008, a major weapons deal was signed between Israel and Azerbaijan.<sup>5</sup> Azad Systems, an Unmanned Aerial Vehicle (UAV) manufacturer that will make Azerbaijan an important arms producer, is a joint venture between Azerbaijan and the Israeli defense industry.<sup>6</sup>

Israel and Azerbaijan also have close security relations. For example, Israeli diplomats publicly stated their support for Azerbaijan's position in the Nagorno-Karabakh conflict. Israel and Azerbaijan also share intelligence about Iran, with Soner Çağaptay –director of the Turkish Research Program at The Washington Institute for Near East Policy– even suggesting that Israel

4 Soner Çağaptay and Alexander Murinson, Good Relations Between Azerbaijan and Israel: A Model for Other Muslim States in Eurasia?; Washington Institute for Near East Policy, 30 March 2005, <http://www.washingtoninstitute.org/policy-analysis/view/good-relations-between-azerbaijan-and-israel-a-model-for-other-muslim-state>

5 “Azeri-Israel Ties ‘Discreet’ but Close,” *Azernews.az*, 23 February 2011, [http://www.azernews.az/en/Nation/30104-Azeri-Israeli\\_ties\\_%60discreet\\_but\\_close%60:\\_WikiLeaks](http://www.azernews.az/en/Nation/30104-Azeri-Israeli_ties_%60discreet_but_close%60:_WikiLeaks)

6 “Azerbaijan Starts Production of Israeli Drones,” *News.Az*, 10 March 2011, <http://www.news.az/articles/politics/32639>

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has listening posts on the Azerbaijani-Iranian border.<sup>7</sup> While Baku is suspicious of Iran's support of Armenia, Jerusalem fears Iran's confrontational rhetoric towards Israel and Tehran's deep involvement with and sponsorship of global terrorist networks.

From the perspective of the Russian Federation, the South Caucasus remained a priority for Moscow even after the collapse of the Soviet Union disabled or weakened Russian influence elsewhere along the Russian periphery. Political leadership, senior experts, and military top brass laid down plans to reintegrate parts of the former USSR as early as 1993, when Moscow supported Abkhaz separatists, and even allowed Chechen separatists to fight on the side of Sukhumi secessionists against Georgia.

The expansion of Russian power and influence in the South Caucasus is a major security concern for the U.S. Since the mid-1990s, Russia has endorsed a "multi-polar" world view, as articulated by the then-Foreign Minister and Prime Minister Yevgeny Primakov, and has launched a thinly veiled attempt to dilute American influence in international affairs since the Iraq war. Under the banner of multi-polarity, Moscow seeks to legitimize its efforts to restore its "privileged sphere of influence" in the post-Soviet space. To this end, a resurgent Russia is actively seeking to reverse the Western shift of its former satellite states by influencing their domestic political processes and threatening their security and territorial integrity. These actions run counter to U.S. interests, which seek independent and sovereign countries along Russia's borders, combining Western orientation with good relations with Moscow, if possible. This conflict between U.S. and Russian interests was brought to the forefront of international relations during the August 2008 War.

Despite the Obama administration's attempt to "reset" frayed U.S.-Russian relations, the security interests of the two powers are likely to continue to clash in the South Caucasus. Observing the lack of a forceful U.S. response to the Georgia conflict, Russia has been emboldened to exercise its strength in that the area it considers its backyard. Future U.S.-Russian conflicts in the South Caucasus may involve Georgia's breakaway republics and the status of

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<sup>7</sup> Soner Çağaptay and Alexander Murinson (2005).

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Nagorno-Karabakh, which is officially part of Azerbaijan but under Armenian occupation. The U.S., preoccupied with Afghanistan, Pakistan, Iran, Iraq, and the Arab revolutions, in addition to the global war on terrorism, has neither the attention span nor resources to deploy sufficient diplomatic power and foreign assistance to counter aggressive moves by Moscow in the South Caucasus, or to prevent proxy conflicts. Instead, the Obama administration will employ diplomatic measures, and seek help from European allies and Turkey to resolve future conflicts. Kremlin strategists, who view geopolitics as a zero-sum game, will read a lukewarm U.S. response to Russian encroachment and aggression as a sign of weakness, and push harder to expand its power in the post-Soviet space. Moreover, the Turkish-Russian rapprochement, based on growing energy trade and construction contracts, is evolving into a strategic relationship, and both countries are maintaining good relations with Tehran, America's arch-rival.<sup>8</sup>

### *Iran's Rising Power*

America's second security concern in the South Caucasus is Iran. For decades, Iran vied for power in the Middle East against Saddam Hussein's tyrannical regime in Iraq. In the 1980s, Tehran sought Moscow's support against U.S.-allied Iraq. In the 1990s, Iran's priority for its relationship with Russia was obtaining technical assistance for its missile and nuclear sectors, and arms deals. The latter included modern fighter aircraft and missile systems, including the S-300 long range anti-aircraft missiles. Iran has suggested that it has deployed S-300s;<sup>9</sup> however, Russia promised not to sell them to Iran in 2010 in response to the START talks with the U.S.,<sup>10</sup> and Tehran was not interested in upsetting the apple cart and meddling in either Central Asia or the Caucasus in conflict with Russian interests – even when hundreds of thousands of Muslim Chechens were killed during two wars (1994-96 and 2000-4).

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8 "Interview with Ariel Cohen, "Карабах Должен Оставаться под Суверенитетом Азербайджана," [Karabakh Must Remain Under Azerbaijani Sovereignty], *AzeriToday.com*, 2 December 2009, <http://azeritoday.com/archives/9317>

9 Nicholas Kreuger, "Iran Announces Acquisition of S-300 Air Defense Systems," *The Foundry, Heritage Foundation*, 5 August 2010, <http://blog.heritage.org/2010/08/05/iran-announces-acquisition-of-s-300-air-defense-systems/>

10 "Kremlin Bans Sale of S-300 Missile Systems to Iran," *BBC World News*, 22 September 2010.

This balance was upset by the U.S.-led Operation Iraqi Freedom in 2003, which is now in its concluding stages. The eventual withdrawal of U.S. troops from Iraq and the somewhat fragile Iraqi government that remains in place, as well as the strength of the Shiite in Iraq, provides Iran with a strategic opening to increase its influence in the Middle East. Iran already has a considerable military advantage over its neighbors in the Gulf, and its intelligence services have an active presence in Shiite areas of Lebanon, Saudi Arabia's eastern province, Iraq, and Azerbaijan. If Iran manages to develop nuclear weapons, it could emerge as a regional hegemony in the Middle East, with the capacity to threaten U.S. allies as far away as Israel, Egypt, and southern Europe. Iran can already threaten the world economy by shutting off oil tanker traffic in the Strait of Hormuz. Were the U.S. to contemplate military action against Iran, the countries of the South Caucasus, particularly Azerbaijan, would be needed as a staging ground for U.S. intelligence gathering, military pressure, or contingencies (centers from which U.S. military and civil operations can observe Iran's activities), in order to contain Iran or implement nuclear disarmament.

The U.S. can help contain the threat posed by Iran by promoting peace in the disputed territory of Nagorno-Karabakh. Officially, Iran holds a neutral position on the Nagorno-Karabakh conflict between Armenia and Azerbaijan, its two Caucasian neighbors to the north. Unofficially, however, Iran is keen for Azerbaijan to remain embroiled in the dispute, thus making the nation less attractive to Iran's Azerbaijani minority and diverting resources from a campaign for South Azerbaijan's autonomy or even independence, which could cause the Azerbaijani-populated territory in northwest Iran to demand independence.<sup>11</sup> By helping Azerbaijan and Armenia reach a peaceful settlement in the Nagorno-Karabakh conflict, the U.S. could help both Azerbaijan and Armenia, and weaken the anti-American regime in Tehran.

A final security consideration for the U.S. is the threat of Islamist terrorism in the South Caucasus. Since the attacks on 11 September 2001, the U.S.

<sup>11</sup> Brenda Schaffer, "Iran's Role in the South Caucasus and Caspian Region: Diverging Views of the U.S. and Europe," in Eugene Whitlock (ed.), *Iran and Its Neighbors: Diverging Views on a Strategic Region* (Berlin: Stiftung Wissenschaft und Politik, July 2003), p. 19, [http://belfercenter.ksg.harvard.edu/files/tfpd\\_divergingviews\\_whitlock.pdf](http://belfercenter.ksg.harvard.edu/files/tfpd_divergingviews_whitlock.pdf)

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has prioritized intervention in activities of terrorist groups that could endanger the U.S. and its allies. The risk of Islamic radicals gaining a foothold in the South Caucasus is less acute than in the North Caucasus, where *jamaats* are active throughout the region, especially in Dagestan and Ingushetia, or in Central Asia. The only predominantly Muslim nation among the South Caucasus is Azerbaijan, and the country's traditionally tolerant population makes it an unlikely breeding ground for Islamic radicalism, for now at least. Nonetheless, some Muslim activists in the Sunni north of Azerbaijan belong to the Salafi (also known as Wahhabi) sect of Islam, one of the strictest forms of the faith, whose adherents include Al Qaeda and the 9/11 attackers. Iranian-controlled Shiite groups in southern Azerbaijan are also a growing concern. Russia shares this particular anxiety, and the Global War on Terror (or "Overseas Contingency Operations" as the Obama administration has renamed it) can provide a platform for the convergence of U.S. and Russian interests, facilitating cooperation between the two powers and the regional states in the South Caucasus.

### *Oil and Gas Priorities*

Energy is a critical U.S. interest in the South Caucasus because of the region's role as a strategic transit corridor for energy from Azerbaijan and Central Asia (Kazakhstan and Turkmenistan in particular) to Western markets. Non-OPEC oil supply has been flat-lining in recent years and many, including Fatih Birol, the chief economist at the International Energy Agency (IEA), believe that conventional non-OPEC oil production will peak in the next few years if it has not already.<sup>12</sup> As a result, world oil markets are expected to become increasingly dependent on OPEC oil supply (found primarily in the Middle East) to meet growing demand. Greater dependence on OPEC is risky for the U.S. and its allies; in the past, OPEC has used its oil exports as a political and economic weapon. Moreover, OPEC is a cartel that sets production quotas in order to maintain high prices, thereby harming Western consumers.

The non-Russian, non-Iranian Caspian region, which includes Azerbaijan and the Central Asian nations of Kazakhstan and Turkmenistan, has moderate

12 "IEA Warns Non-OPEC Oil Could Peak in Two Years," *The Times*, 21 July 2008, [http://business.timesonline.co.uk/tol/business/industry\\_sectors/natural\\_resources/article4368523.ece#](http://business.timesonline.co.uk/tol/business/industry_sectors/natural_resources/article4368523.ece#)

proven oil reserves of about 38 billion barrels. Azerbaijan, by EIA's 2010 estimates, has reserves of seven billion barrels.<sup>13</sup> However, estimates of this region's possible reserves –a less precise measure of in-ground resources that includes reserves found through new discoveries– indicate that the Caspian could hold as much as 162 billion barrels of crude oil, making it a potential energy superpower (See: Table 1).

**Table 1. Proven and Possible Crude Oil Reserves (billion barrels)<sup>14</sup>**

	Proven Reserves	Possible Reserves
Azerbaijan	7.00	32.00
Kazakhstan	30.00	92.00
Turkmenistan	0.60	38.00
Caspian 3	37.60	162.00
Russia	60.00	

In addition to oil, the Caspian region also holds significant proven and possible natural gas reserves, which can be tapped to diversify Europe's natural gas supply sources (See: Table 2). Dependence on Russian natural gas is a key energy security concern for U.S. allies in Europe. Russia is Europe's single largest source of natural gas, supplying more than 40 percent of total EU natural gas imports in 2006, or about 25 percent of total EU gas consumption.<sup>15</sup> Russia's state-controlled Gazprom is the monopoly supplier to many Eastern, Central, and Southern European countries. Many Western European countries rely on Russia for a substantial proportion of their net natural gas requirements, and their dependence is growing.

13 "Azerbaijan: Country Analysis Brief," *Energy Information Agency, U.S. Department of Energy*, November 2010, <http://www.eia.gov/countries/cab.cfm?fips=AJ>

14 Proved Reserves as of 2009 from "International Energy Statistics," *U.S. Energy Information Administration*, <http://tonto.eia.doe.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=5&pid=57&aid=6>; Possible Reserves as of 2005 from "Caspian Sea Region: Survey of Key Oil and Gas Statistics and Forecasts," *U.S. Energy Information Administration*, July 2005, [http://www.eia.doe.gov/emeu/cabs/caspian\\_balances.htm](http://www.eia.doe.gov/emeu/cabs/caspian_balances.htm)

15 "EU Energy in Figures 2009," *Directorate-General for Energy and Transport, European Commission*, [http://ec.europa.eu/energy/publications/doc/statistics/part\\_2\\_energy\\_pocket\\_book\\_2009.pdf](http://ec.europa.eu/energy/publications/doc/statistics/part_2_energy_pocket_book_2009.pdf)

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**Table 2. Proved Natural Gas Reserves (billion cubic meters)<sup>16</sup>**

Azerbaijan	850
Kazakhstan	2,408
Turkmenistan	2,663
Caspian 3	5,921

Russian gas pipelines already reach deep into Europe *via* Ukraine and with additional large pipeline projects such as the North Stream, Russia hopes to consolidate its hold on the European gas market. This dependence on Russian natural gas is worrisome, not only because of the magnitude of this dependence, but also because of Moscow's deployment of energy exports as a foreign policy tool. New natural gas exports from the Caspian region have the potential to diversify Europe's natural gas supply away from Russia and enhance the continent's energy security.

The U.S. has a strategic interest in developing the Caspian region's oil and gas resources and bringing those resources to Western markets without traversing Russian or Iranian territory. The key export route for these resources is a path through friendly countries –Azerbaijan, Georgia, and Turkey– which can bring the Caspian gas supply to Europe and the Mediterranean Sea. This route, known as the “Southern Corridor”, already has two key pipeline systems: the Baku-Tbilisi-Ceyhan (BTC) pipeline, which can carry up to one million barrels per day of oil to the Turkish port of Ceyhan on the Mediterranean Sea, and the South Caucasus Pipeline, which can deliver up to 8.8 billion cubic meters per year of natural gas to the Turkish pipeline system at Erzurum.<sup>17</sup> Begun in November 2007, an extension of the South Caucasus Pipeline is now operational, transporting natural gas from Turkey to Greece.<sup>18</sup> The U.S. and its European allies hope to expand exports along the Southern Corridor to bring more Caspian energy to Western markets. Integral to this goal is the proposed 7.9 billion Euro (11.5 billion dollars) Nabucco gas pipeline that

16 U.S. Energy Information Administration, <http://www.eia.gov/>

17 “Azerbaijan Country Analysis Brief,” U.S. Energy Information Administration, <http://www.eia.doe.gov/emeu/cabs/Azerbaijan/Background.html>

18 “Turkey-Greece Pipeline Delivering Azerbaijani Gas to Europe Inaugurated,” APA News Agency, UNDP Azerbaijan Development Bulletin, 19 November 2007, <http://www.un-az.org/undp/bulnews54/rg1.php>

would expand and extend the South Caucasus Pipeline and transport up to 31 billion cubic meters of natural gas from the Caspian to Europe.<sup>19</sup>

The Nabucco project has progressed extremely slowly, with pricing disputes involving Turkey, disorganization among the European consumer states, a lack of commitment from suppliers, and strong competition from the Gazprom-managed South Stream pipeline. For years, Nabucco's future has been uncertain. However, in 2010, Azerbaijan, Romania, and Georgia signed a memorandum on the implementation of the Azerbaijan-Georgia-Romania interconnector (AGRI), which would move liquefied natural gas (LNG) from the Caucasus to the Southeastern Europe through pipelines and tankers.<sup>20</sup> Other important projects include the proposed Transcaspian oil and gas pipelines that would bring energy resources from Turkmenistan and Kazakhstan to the BTC and Nabucco through pipelines running beneath the Caspian Sea.

Russia allowed the BTC pipeline to break up its monopoly on Caspian oil resources, and does not want to see Nabucco do the same for natural gas – despite the statements to the contrary by captains of the Russian gas industry. Russia is aggressively contracting Caspian gas; recent measures include agreements to export Azerbaijani gas along Russian pipeline systems, in order to starve the Nabucco project of needed volumes.<sup>21</sup> Turkey's demands for higher transit tariffs and lower gas prices have forced Azerbaijan to look for alternative routes.

By increasing presence in the Caucasus, Russia has managed to acquire gas export agreements with Azerbaijan: in 2009, Gazprom leadership signed a contract with Azerbaijan to import 500 million cubic meters,<sup>22</sup> which will

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19 "Project Description - Pipeline Route," *Nabucco Gas Pipeline International GmbH*, 1 October 2009, <http://www.nabucco-pipeline.com/project/project-description-pipeline-route/project-description.html>

20 Ariel Cohen and Gulmira Rzayeva, "The Baku Summit Launches a Breakthrough LNG Project;" *CACI Analyst*, 17 September 2010, <http://www.cacianalyst.org/?q=node/5407>

21 Erkan Oz, "Azerbaijan Looks for Gas Routes to Europe Bypassing Turkey," *The Wall Street Journal*, 17 October 2009, <http://online.wsj.com/article/BT-CO-20091017-701339.html>

22 Vladimir Socor, "Azerbaijan-Russia Gas Agreement: Implications for Nabucco Project," *Eurasia Daily Monitor*, Vol.6, No.189, 15 October 2009, [http://www.jamestown.org/programs/edm/single/?tx\\_ttnews\[tt\\_news\]=35615&tx\\_ttnews\[backPid\]=27&cHash=efe96da8f4](http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=35615&tx_ttnews[backPid]=27&cHash=efe96da8f4)

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be increased to two billion cubic meters in 2011, according to bilateral agreements.<sup>23</sup>

Moscow has also proposed a competing project –the South Stream pipeline– which would supply gas to Europe from essentially the same sources (plus Russian gas) and along the same route as Nabucco. U.S. and EU energy security interests will continue to clash with Russia’s desire to control energy flows in Eurasia. The energy “chess game” that has played out between Russia and the West will continue to intensify over the next decade.

### *Supporting Freedom*

The promotion of democracy and free market principles in the South Caucasus is an important component of U.S. policy in the South Caucasus. There was a longstanding belief in U.S. foreign policy circles during the Clinton and George W. Bush administrations that democracy and free trade bring stability and economic growth. There is less commitment to democracy promotion under the prevailing “neo-realism” of the Obama administration.

Empirical evidence shows that democracies go to war with each other considerably less often and are internally more stable than brittle autocratic regimes.<sup>24</sup> Liberal theory also predicts that trade creates common interests for countries, thus raising the costs of going to war and reducing its frequency.<sup>25</sup> Furthermore, strong, independent democracies in the South Caucasus would help to ward off external attempts to influence and control relatively new and weak states. Strong democracies in the South Caucasus would also bolster U.S.’s broader strategy to bring peace and stability to the turbulent greater Middle East.

The U.S. strongly supported Georgia’s 2003 “Rose Revolution” that replaced President Eduard Shevardnadze with a government led by President Mikheil

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<sup>23</sup> “Russia’s Gazprom CEO Makes Number of Company Announcements,” *Ria Novosti*, 19 June 2010, <http://en.rian.ru/russia/20100619/159494608.html>

<sup>24</sup> Rudolph J. Rummel, “Democracies Don’t Fight Democracies,” *Peace Magazine*, May-June 1999, <http://archive.peacemagazine.org/v15n3p10.htm>

<sup>25</sup> Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Farrar, Straus, and Giroux, 1999), p. 240.

Saakashvili. During the 2008 Georgia War, Russia sought not only to create conditions to the Abkhaz and South Ossetian independence, which is likely to lead to an *Anschluss* by Russia in the future, but also to undermine the Rose Revolution by forcing out President Saakashvili. This conflict over democracy (and independence) in the South Caucasus will continue to be a source of tension between the U.S. and Russia. The U.S. was particularly pleased with Baku's decision in late 2010 to release Adnan Hajizade, a youth activist and blogger critical of the Aliyev administration. Hajizade and his associate Emin Milli were imprisoned on charges of hooliganism and sentenced to two years imprisonment until the Baku Court of Appeals overturned the decision and released both Hajizade and Milli from prison.<sup>26</sup> The U.S. will likely show even more support to Azerbaijan if its leadership further liberalizes its political system.

### ***U.S. Security Challenges in the South Caucasus***

U.S. interests in the South Caucasus are threatened by the region's simmering insecurity, including the conflict between Russia and Georgia over the latter's breakaway provinces, the ongoing dispute between Armenia and Azerbaijan over Nagorno-Karabakh and the occupation of Azerbaijani territories, and the worrying emergence of Islamic fundamentalism in Azerbaijan.

#### *The August War*

Who started the war between Russia and Georgia in August 2008 is subject to debate between the parties directly involved in the conflict as well as experts around the globe. It seems clear that Russia had been preparing for this war for years, and deliberately provoked Georgia through the shooting and shelling of Georgian-controlled villages in South Ossetia. There is no question that the brief but intense events that unfolded in the summer of 2008 damaged U.S. interests regarding security, energy, and democracy in the South Caucasus. Although the conflict was formally ended by the peace plan brokered by French President Nicolas Sarkozy, Russia failed to implement many of the fundamental components of the plan, and the debate over the

<sup>26</sup> Khadija Ismayilova, "Azerbaijan: Blogger Adnan Hajizade Released from Prison," *EurasiaNet*, 18 November 2010, <http://www.eurasianet.org/node/62401>

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self-proclaimed “independence” of the Georgian provinces of South Ossetia and Abkhazia remains unresolved. At the time of the writing, only Russia, Nicaragua, and Venezuela recognize the secessionist territories, with Belarus promising to follow suit. The simmering conflict is liable to flare up again, and there is a high probability that the issue will further impact U.S. interests in the region.

During the August War, Moscow’s response went beyond the fighting in South Ossetia when Russian forces destroyed key military and civilian infrastructure in Georgia, and caused thousands of casualties. Russia’s systematic attacks on Georgia’s military bases and capabilities have weakened the country’s ability to defend itself in future conflicts. More importantly, the obliteration of Georgia’s nascent military power and the heightened insecurity of its borders have made some NATO member countries –particularly those in Western Europe– less willing to extend a Membership Action Plan (MAP) to Georgia, and have also raised questions about NATO membership for Ukraine.<sup>27</sup> MAP is the last formal step on the path to possible future membership in NATO. By keeping NATO out of the South Caucasus, Russia reserves the right to military intervention in the region without fear of a treaty-obligated allied response under Article 5 of the NATO Charter. In a recapitulation of the principle of collective defense, NATO announced that:

Article 5 is at the basis of a fundamental principle of the NATO. It provides that if a NATO Ally is the victim of an armed attack, each and every other member of the Alliance will consider this act of violence as an armed attack against all members and will take the actions it deems necessary to assist the Ally attacked.<sup>28</sup>

For now, this principle will not apply to Georgia. As Vice President Joe Biden stated during his visit in July 2009, the U.S. will not provide a “physical security guarantee” to Tbilisi.<sup>29</sup> Future instability in Georgia’s breakaway provinces or another war could further strengthen Russia’s hand in the region at

<sup>27</sup> Joshua Kucera, “Georgia: No Discussion of MAP for Tbilisi During NATO Meeting,” *Eurasia Insight*, 4 December 2008, <http://www.eurasianet.org/departments/insightb/articles/eav120408c.shtml>

<sup>28</sup> “What is Article 5?,” *NATO*, <http://www.nato.int/terrorism/five.htm>

<sup>29</sup> Ariel Cohen, “Biden Should Treat Poland with Respect,” *The Heritage Foundation*, 21 October 2009, <http://blog.heritage.org/2009/10/21/biden-should-treat-poland-with-respect/>

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the direct expense of Georgia's sovereignty and the interests of the U.S. and its Western allies.

Security and energy in the Caucasus are inextricably linked. The August War between Russia and Georgia was ostensibly fought over the breakaway province of South Ossetia. However, it also affected the security of Armenia and Azerbaijan. Many speculate that Russia's disproportionate use of force in Georgia was designed to cast doubt on the security of the strategic pipeline corridor linking the energy resources of the Caspian with Western markets. The BTC oil pipeline, which runs from Azerbaijan through Georgia to Ceyhan, a Turkish port on the Mediterranean Sea, was shut prior to the start of the August War due to an explosion at a pump station in eastern Turkey. However, this did not stop Russian forces from targeting the pipeline. Media sources reported that Russian jets dropped more than 50 bombs in the vicinity of the BTC pipeline but failed to damage the buried line.<sup>30</sup>

Overall, the BTC shutdown had a minimal effect on world oil markets. Despite the restriction of oil flows from Azerbaijan during the August War, oil prices continued to fall due to the bursting of the financial bubble, the drop in energy prices and a steadily worsening global economic outlook. The real long-term effect of the August War has been to cast doubt on the security of future energy projects in the South Caucasus, particularly the proposed Nabucco gas pipeline, which the U.S. and EU see as a necessity for meeting Europe's growing demand for natural gas, and for diversifying gas supply sources away from Russia. By causing instability in the South Caucasus, Russia has effectively increased Nabucco's security risk, making the project less appealing to investors and giving an advantage to Gazprom's competing South Stream pipeline.

The August War also threatened democracy in the South Caucasus. Russia's leadership has publicly expressed its disdain for pro-Western Georgian President Mikheil Saakashvili, who came to power during the "Rose Revolution" of 2003. Toward the end of the August War, Russia's UN

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<sup>30</sup> "Georgia: Russia Targets Key Oil Pipeline with Over 50 Missiles," *The Telegraph*, 10 August 2008, <http://www.telegraph.co.uk/news/worldnews/europe/georgia/2534767/Georgia-Russia-targets-key-oil-pipeline-with-over-50-missiles.html>

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ambassador reportedly told then U.S. Secretary of State Condoleezza Rice that Saakashvili “must go.”<sup>31</sup> Russia’s heavy-handed response to the relatively low-level dispute between Georgia and South Ossetia was partly designed to embarrass Saakashvili and force a change in the country’s leadership. Russia would like nothing more than to replace Saakashvili’s pro-Western government with a more Russian-leaning leadership.

In January 2009, the outgoing Bush administration showed strong support for Georgia by signing the “U.S.-Georgia Charter on Strategic Partnership,” which states that: “our two countries share a vital interest in a strong, independent, sovereign, unified, and democratic Georgia.”<sup>32</sup> The charter, among other things, emphasized cooperation on defense and security matters to defeat threats and to “promote peace and stability” in the South Caucasus and to increase “the physical security of energy transit through Georgia to European markets.” The Obama administration’s support for Georgia has been more muted and Obama’s push to “reset” relations with Moscow has raised fears in some quarters that the U.S. is abandoning its Georgian ally.<sup>33</sup>

### *Nagorno-Karabakh Conflict*

The Armenian-occupied disputed territory of Nagorno-Karabakh is another potential issue in the South Caucasus that could threaten U.S. interests. Azerbaijan and Armenia are still technically at war over Nagorno-Karabakh and the seven adjacent regions, but a ceasefire has kept the region under Armenian control since 1994. In the short-term, the risk of the conflict resuming is low. Armenia, which has been heavily armed with Russia’s help, still has a significant military advantage over Azerbaijan, despite Baku’s significant increases in its military spending, which has been fueled by surging oil and gas income over the past several years (See Table 3).<sup>34</sup>

31 “U.S.: Russia Trying to Topple Georgian Government,” *CNN.com*, 11 August 2008, <http://www.cnn.com/2008/WORLD/europe/08/10/un.georgia/>

32 “United States-Georgia Charter on Strategic Partnership,” *U.S. State Department*, 9 January 2009, <http://www.america.gov/st/texttrans-english/2009/January/20090109145313eaifas0.2139093.html>

33 “Diplomacy ‘Reset’ Worries Some U.S. Allies,” *Wall Street Journal*, 9 March 2009, <http://online.wsj.com/article/SB123655154931965237.html>

34 John C. K. Daly, “Growing Azeri Defense Budget Buildup - In Earnest or for Show?,” *Eurasia Daily Monitor*, Vol.5, No.209 (31 October 2008), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=34069](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=34069); Richard Giragosian, “The Military Balance of Power in the South Caucasus,” *ACNIS Policy Brief Number Two*, April 2009, <http://www.acnis.am/publications/2009/THE%20MILITARY%20BALANCE%20OF%20POWER%20IN%20THE%20SOUTH%20CAUCASUS.pdf>

**Table 3. Military Expenditures by Country, 2000-8<sup>35</sup>**

(Constant 2005 US dollars)

	Armenia	Azerbaijan	Georgia
2000	94.3	[141]	[27.2]
2001	91.5	[160]	[34.5]
2002	90.5	[172]	49.3
2003	104	[215]	57.7
2004	115	[260]	80.6
2005	141	305	214
2006	166	625	363
2007	195	680	720
2008	[217]	697	651

[] = uncertain number

Nevertheless, violations of the 1994 ceasefire increased in 2008-9, and the departure of the U.S. and Russian envoys from the OSCE Minsk Group – the Organization for Security and Cooperation in Europe, the body responsible for Nagorno-Karabakh negotiations in 2009– has further clouded the prospects for peace.<sup>36</sup> The reopening of the conflict between Azerbaijan and Armenia would affect U.S. interests in the Caucasus.

In the meantime, both the Turkish-Armenian and Azerbaijani-Russian rapprochement open new grounds for the Karabakh settlement. In October 2009, Turkey and Armenia signed a protocol to establish diplomatic relations, re-open their shared border (which has been shut since the Armenian occupation of Nagorno-Karabakh in 1994), and establish a joint historical commission to investigate the massacre of Armenians by Ottoman Turks during the First World War. The accords were supported by both Washington and Moscow, but under pressure from domestic public opinion and Azerbaijan, Turkey and Armenia froze the rapprochement. Turkey has returned to its prior position, under which Armenian rapprochement can proceed only after the

<sup>35</sup> “SIPRI Military Expenditure Database,” Stockholm International Peace Research Institute, <http://www.sipri.org/databases/milex>

<sup>36</sup> Shahin Abbasov, “Azerbaijan: With Departure of Two Karabakh Mediators, Future of Talks Unclear,” Eurasianet.org, 6 August 2009, <http://www.eurasianet.org/departments/insightb/articles/eav080609a.shtml>

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resolution of the Karabakh conflict.<sup>37</sup> In Armenia, the rapprochement faces vehement opposition from nationalists at home and from the Armenian diaspora abroad, while Turkey is facing pressure from Azerbaijan to make the deal conditional on the withdrawal of Armenian troops from the occupied territories and the return of displaced Azerbaijanis.<sup>38</sup> Though some in Baku felt betrayed by Ankara, many international analysts saw the Turkish-Armenian rapprochement as a positive factor that could finally lead to a breakthrough in the Nagorno-Karabakh dispute.<sup>39</sup>

Moscow's support of the Turkish-Armenian agreement is curious, and there is doubt concerning to what extent Moscow actually supports the rapprochement. A resumed conflict between Azerbaijan and Armenia would benefit both Russia and Iran at the expense of the U.S. Russia would benefit if Russian "peacekeepers" are called in to mediate a ceasefire between Baku and Yerevan, and an increased Russian military presence would further increase Moscow's leverage and influence in the region.<sup>40</sup> Moscow already enjoys powerful influence in Armenia due to the latter's political and economic isolation from its neighbors. In 1995, Armenia and Russia signed an agreement allowing Russian military presence at Gyumri for 25 years, until 2020. In 2010, Yerevan agreed with Moscow to extend this to 49 years, meaning that they will not withdraw until 2044.<sup>41</sup> Russia not only dominates Armenia's political and military infrastructures, but actually have its own troops stationed in Armenia for the next 33 years. Similarly, Russia controls Armenia's nuclear and hydrocarbon energy infrastructure.

Meanwhile, Iran stands to gain if Azerbaijan remains preoccupied with Nagorno-Karabakh – as opposed to turning its attention towards Iran's

<sup>37</sup> Tigran Avetisian and Suren Musayelyan, "One Year On, Turkey-Armenia Rapprochement Stalled," *Radio Free Europe/Radio Liberty*, 10 October 2010, [http://www.rferl.org/content/One\\_Year\\_On\\_TurkeyArmenia\\_Rapprochement\\_Stalled/2186246.html](http://www.rferl.org/content/One_Year_On_TurkeyArmenia_Rapprochement_Stalled/2186246.html)

<sup>38</sup> "Statement of the Ministry of Foreign Affairs of the Republic of Azerbaijan," *Ministry of Foreign Affairs of the Republic of Azerbaijan*, 10 October 2009, [http://mfa.gov.az/eng/index.php?option=com\\_content&task=view&id=580&Itemid=1](http://mfa.gov.az/eng/index.php?option=com_content&task=view&id=580&Itemid=1); "Turkey-Armenia Rapprochement far from Guaranteed," *Reuters*, 12 October 2009, <http://www.reuters.com/article/vcCandidateFeed1/idUSTRE59B3GY20091012>

<sup>39</sup> "Turkish-Armenian Rapprochement Might Cause Breakthrough in Nagorno-Karabakh," *Sunday's Zaman*, 29 October 2009, <http://www.sundayszaman.com/sunday/detaylar.do?load=detay&link=182043>

<sup>40</sup> "Russia Steps up Efforts on Nagorno-Karabakh," *Radio Free Europe/Radio Liberty*, 29 October 2008, [http://www.rferl.org/content/Russia\\_Steps\\_Up\\_Efforts\\_On\\_NagornoKarabakh/1336149.html](http://www.rferl.org/content/Russia_Steps_Up_Efforts_On_NagornoKarabakh/1336149.html)

<sup>41</sup> "Armenia to Extend Gyumri Base Lease for 49 Years," *Voice of Russia*, 18 August 2010, <http://english.ruvr.ru/2010/08/18/16224474.html>

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Azerbaijani minority, which reportedly numbers 25 million and has complained of rights abuses.<sup>42</sup>

Much like a second Georgian war, a resumed conflict between Azerbaijan and Armenia would cast doubt upon the ability of the U.S. to protect its allies, in addition to jeopardizing the security of U.S. and EU-backed energy projects in the South Caucasus. If the conflict were to resume, and Armenia were to attack Azerbaijan, it would likely target the BTC pipeline or Azerbaijan's Sangachal Terminal – where oil and gas from Azerbaijan's offshore fields are stored and processed before export.<sup>43</sup> A successful attack on the processing plants at Sangachal would shut down Azerbaijani exports for much longer than a direct attack on the pipeline would, putting billions of dollars of Western investments at risk. An attack on the BTC or Sangachal would also increase the political risk of the proposed Nabucco gas pipeline and other future energy projects in the region. If the Nagorno-Karabakh conflict were to erupt into all-out war between Azerbaijan and Armenia, Azerbaijan's energy exports (its source of currency revenues) would become a strategic target for Armenia.<sup>44</sup> Thus, The U.S. would rather see Armenia and Azerbaijan reach a peaceful compromise over Nagorno-Karabakh, limiting Moscow and Tehran's leverage in the region and allowing the countries of the South Caucasus to integrate economically with the West.

### *Terrorist Threats*

Controlling the spread of Islamic terrorism in the South Caucasus is another important foreign policy concern for the U.S. to date, there has been some evidence of international terrorist groups operating in the South Caucasus. Azerbaijan is the only country in the region with a majority Islamic population, but its traditionally secular government and elites make it less prone to radicalism. Nevertheless, Islamist ideology has gained ground in recent years due to internal factors, such as disillusionment with the current government

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<sup>42</sup> Alex Vatanka, "Azerbaijan-Iran Tensions Create Obstacle to Caspian Resolution," *Eurasianet.org Eurasia Insight*, 29 January 2003, <http://www.eurasianet.org/departments/business/articles/eav012903.shtml>

<sup>43</sup> "BP Caspian - Sangachal Terminal," *BP*, <http://www.bp.com/sectiongenericarticle.do?categoryId=9006674&contentId=7015100>

<sup>44</sup> Emmanuel Karagiannis, *Energy and Security in the Caucasus* (New York: RoutledgeCurzon, 2002), p. 45.

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and increased levels of poverty despite booming oil and gas revenues, as well as external factors, such as the penetration of Hezbollah and sponsorship of Islamic schools by Middle East donors and foundations connected with radical Sunni circles, which also support Al Qaeda and other terrorist organizations.

Radical Shiite groups sponsored by Iran and Hezbollah are an addition source of concern for Azerbaijan, particularly in the south, along the Iranian border. Baku has repeatedly accused Tehran of interfering in its internal affairs. In 2002, the Azerbaijani authorities shut down several Iranian-sponsored extremist Shiite madrasas (religious schools), whose curriculums glorify the theocratic regime in Tehran, but a large number of schools reportedly remain in operation.<sup>45</sup> In 2008, surveillance uncovered links between local militants and Hezbollah operatives, which enabled Azerbaijani security forces to foil a plot to blow up the Israeli Embassy in Azerbaijan. The plot was reportedly designed by Hezbollah and the Iranian intelligence as revenge for the alleged Israeli assassination of Imad Mughnayeh, chief operations officer of Hezbollah, who died in a car bomb in Damascus.<sup>46</sup> Due to strong Iranian pressure, the two arrested Hezbollah operatives were released after only a year and a half in Azerbaijani prison, despite their 15 year sentences.<sup>47</sup>

The rise of the violent variety of the Salafi branch of Islam among the country's Sunnis is a worrying phenomenon. In a country where the majority of the Muslim population is Shiite, Salafis face some wariness from Azerbaijani society.<sup>48</sup> Of particular concern is the radical Wahhabi movement that has taken hold among the ethnic Lezgin minority in northern Azerbaijan, sponsored by wealthy Saudis, Kuwaitis, and natives of other Gulf States.<sup>49</sup> The Wahhabi movement has been active in the North Caucasus –including Chechnya and Dagestan– for over a decade and has grown in Azerbaijan alongside Lezgin

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45 Arzu Geybullayeva, "Is Azerbaijan Becoming a Hub of Radical Islam?", *Turkish Policy Quarterly*, Spring 2007, p. 114, <http://www.turkishpolicy.com/images/stories/2007-03-caucasus/TPQ2007-3-geybullayeva.pdf>

46 "Azerbaijan Seen as a New Front in Mideast Conflict," *Los Angeles Times*, 30 May 2009, <http://articles.latimes.com/2009/may/30/world/fg-shadow30>

47 "Azerbaijan releases 2 Hizbullah Members from Prison," *Jerusalem Post*, 15 August 2010, <http://www.jpost.com/Headlines/Article.aspx?id=184782>

48 Shahla Sultanova, "Azerbaijan: Sunni Groups Viewed with Suspicion," *Institute for War and Peace Reporting*, 8 April 2011, <http://www.unhcr.org/refworld/country,,,AZE,,4da3f66a2c,0.html>

49 Arzu Geybullayeva (2009), p. 109.

nationalist sentiments.<sup>50</sup> In 2007, Azerbaijani security forces detained a group of Wahabbi militants armed with grenade launchers and automatic weapons. They had been planning to launch an attack on the U.S. and British embassies in Baku, as well as the Baku offices of several major oil companies.<sup>51</sup>

The rise of Wahhabi radicalism in Azerbaijan could endanger the region's energy infrastructure, particularly if violence is involved. Energy assets have become a popular target for Islamic terrorists in the Middle East because they are high-value Western investments with world-wide repercussions. In February 2006, Saudi forces foiled an Al Qaeda attack on the Abqaiq oil collection and processing plant, which handles two-thirds of the country's oil output.<sup>52</sup> More recently, in July 2009, Egyptian authorities arrested 26 men with Al Qaeda links, suspected of planning to attack oil pipelines and tankers transiting the Suez Canal with remote-controlled detonators and explosives.<sup>53</sup> In 2010, even Interpol got involved: four Azerbaijanis were listed as wanted for their links to terrorist organizations including Al Qaeda.<sup>54</sup> If Al Qaeda gains a foothold in Azerbaijan, oil and gas assets, such as the BTC pipeline and the Sangachal oil and gas terminal, could become potential targets.

### ***Developing Caspian Energy Exports***

The South Caucasus region is of great importance to the U.S. and its Western allies because it provides a corridor free of hostile influence for the export of oil and gas from the Caspian Basin – a region that includes Azerbaijan, Kazakhstan, and Turkmenistan. Historically, all energy exports from this landlocked region have flowed through the Russian Empire to markets in Europe, or, after the 1917 Bolshevik Revolution, into the Soviet Union.

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50 Abed Kotchikian, "Secular Nationalism Versus Political Islam in Azerbaijan," *Jamestown Foundation Terrorism Monitor*, Vol.3, No.3 (9 February 2005), [http://www.jamestown.org/single/?no\\_cache=1&ctx\\_ttnews%5Btt\\_news%5D=27525](http://www.jamestown.org/single/?no_cache=1&ctx_ttnews%5Btt_news%5D=27525)

51 Lada Yevgrashina, "Analysis: Azerbaijan Plot Shows Radicals' Threat Has Teeth," *Reuters*, 8 November 2007, <http://www.reuters.com/article/latestCrisis/idUSL08191665>; Ariel Cohen and Khrystyna Kushnir, "Azerbaijan," *World Almanac of Islamism* (2010, forthcoming).

52 "Saudi Arabia: Explosion Near Oil Refinery," *Stratfor*, 24 February 2006, [http://www.stratfor.com/saudi\\_arabia\\_explosion\\_near\\_oil\\_refinery](http://www.stratfor.com/saudi_arabia_explosion_near_oil_refinery)

53 "Egypt Arrests 26 Over Suspected Suez Canal Plot," *Al Arabiya*, 9 July 2009, <http://www.alarabiya.net/articles/2009/07/09/78285.html#>

54 "Interpol Declares Four Azerbaijani Citizens Wanted for Links with Al Qaeda," *Panorama Armenian News*, 11 March 2010, <http://www.panorama.am/en/law/2010/03/11/az-interpol/>

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This arrangement has benefited Russia in two ways. First, as the sole export route for Caspian energy until the mid-2000s, Russia has wielded significant economic and political leverage over the Caspian Basin countries. Secondly, Russia has been able to increase the total volume of energy resources under its control, allowing it to secure a monopoly over gas supply, consolidate its political leverage in Eastern and Southeastern Europe, and expand its market share and political clout in Western Europe.

Azerbaijan's energy resources and location became of particular importance as Russia's control over Caspian energy began to weaken with the opening of the Southern Corridor's BTC oil pipeline in 2005 and the South Caucasus Pipeline (SCP) gas line in 2006. The BTC pipeline in particular was heavily supported by the Clinton and Bush administrations (1993-2008). These projects allowed Azerbaijani oil and gas exports to bypass Russia on the way to consumer markets in the West. Other Caspian producers remain dependent on Russian oil and gas export routes, although this dynamic may change with the proposed Transcaspian oil and gas pipelines, which would run beneath the Caspian Sea, linking up with the BTC oil pipeline and the South Caucasus/Nabucco gas pipeline in Azerbaijan.

Russia has forcefully opposed the U.S. and EU-backed Nabucco gas pipeline. In recent years, Russia has offered to buy natural gas from Caspian producers, especially the key supplier Turkmenistan, and has proposed a competing project—the South Stream pipeline—designed to obviate the need for Nabucco.<sup>55</sup> Given the limited number of potential suppliers in the Caspian region, it is unlikely that there is enough gas to supply both Nabucco and Russian-proposed South Stream. Even Azerbaijan, though it remains committed to the Nabucco project, has begun to sell gas to the Russians and is pursuing other European export projects, such as AGRI, which would follow Early Oil pipeline route *via* Georgia to the Black Sea, as opposed to a trans-Turkey route.

Azerbaijan and Turkmenistan are the primary potential suppliers for the Nabucco project, and although supplies from Iraq and Iran could conceivably contribute to the pipeline, political and security concerns make their

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<sup>55</sup> "Russia to Increase Purchase Prices for Central Asian Gas: Outlook and Implications," *Eurasia Daily Monitor*, Vol.5, No.50 (16 March 2008), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=33464](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=33464)

participation extremely tentative. Iran is under U.S. sanctions, whereby foreign investment into the Iran's energy industry is seriously limited.<sup>56</sup> The security situation in Iraq, including relations between the Kurdistan Regional Government and the central government in Baghdad, are far from stable. Turkey is likely to oppose Iraqi gas for Nabucco.

Russia has acted assertively in order to ensure that its South Stream project, which would go from Russia across the length of the Black Sea to Bulgaria and on to Serbia, Hungary and Austria, has the upper hand over Nabucco. In 2007, Gazprom agreed to buy up new supplies of Kazakh and Turkmen gas at near European prices beginning in 2009 – a move that effectively doubled the price that Gazprom paid in 2008.<sup>57</sup> Likewise, 2009 marked the beginning of Azerbaijani gas exports to Russia, as mentioned above. In this way, Russia plans to eliminate the Southern Corridor pipelines by pulling supplier states away from European-designed transit projects.

Russia, Turkmenistan, and Kazakhstan have also agreed to expand the existing northbound Caspian coastal gas pipeline, the Prikaspischiy pipeline, which will increase its capacity to accommodate 10 billion cubic meters (bcm) per year of Turkmen gas and equivalent quantities of Kazakh gas. This move mean that there is not enough Central Asian gas available to sustain the Western-backed Nabucco pipeline, and will set up the framework for greater cooperation between Russia and Caspian producers to fulfill the South Stream project.<sup>58</sup> Gazprom's willingness to pay higher prices for Central Asian gas despite the resulting reduction in its profit margins on re-exports to Europe highlights the company's willingness to sacrifice short-term profits for long-term control of the Central Asian gas supply and its European market share, and its central goal of limiting the options of pipeline projects that avoid Russian territory.

Despite the financial crisis and the decline in energy prices, in May 2009, Gazprom announced with its Italian project partner Eni SPA that it was

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<sup>56</sup> Ariel Cohen et al., "Iran's Energy Sector: A Target Vulnerable to Sanctions," *The Heritage Foundation*, 14 February 2011, <http://www.heritage.org/research/reports/2011/02/irans-energy-sector-a-target-vulnerable-to-sanctions>

<sup>57</sup> Vladimir Socor "Russia to Increase Purchase Prices for Central Asian Gas: Outlook and Implications," *Eurasia Daily Monitor*, 17 March 2008, [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=33464](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=33464)

<sup>58</sup> "Turkmenistan to Launch Russia Gas Pipeline in 2010," *Reuters*, 15 July 2008, <http://uk.reuters.com/article/oilRpt/idUKL1563346520080715>

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planning to double the capacity of the South Stream pipeline to 63 bcm per year, up from the original capacity of 31 bcm per year.<sup>59</sup> Shortly before the plans were announced, Russian Energy Minister Sergei Shmatko told reporters that he thought that the South Stream project, currently slated to launch in 2015, would be realized before the 31 bcm per year Nabucco project, which has an in-service date of 2014.<sup>60</sup> The South Stream project scored a major victory in October 2009 when Russia announced that Turkey had granted all of the permits necessary for Gazprom to construct South Stream along the Turkish-controlled seabed beneath the Black Sea.<sup>61</sup> The agreement, which allows Gazprom to redirect the South Stream through Turkish rather than Ukrainian waters (at higher cost), follows recent deals signed with Italy, Bulgaria, Greece, Serbia, and Slovenia to start building the onshore European segments of the pipeline and gives the project a clear leg up over the Nabucco project. The agreement also caused speculation, fueled largely by Russian media outlets that Moscow was planning to bypass Bulgaria and run the pipeline onshore in Turkey. The rumors may have been designed to put pressure on Bulgaria, regarding both the pipeline and a Russian-built nuclear reactor.<sup>62</sup>

Russia is also seeking to poach potential Nabucco supply from Azerbaijan. In June 2009, Gazprom signed an agreement to import 500 million cubic meters per year of natural gas from Azerbaijan and transport it by pipeline to Europe starting in 2010.<sup>63</sup> Although the contracted amount is relatively small, Alexei Miller, Gazprom's CEO, said that Azerbaijan had also promised the company priority in buying gas during the second phase of Azerbaijan's Shah Deniz gas field – which the EU is hoping will be the main supply source for the Nabucco pipeline.<sup>64</sup> As mentioned before, this amount will quadrupled to two billion cubic meters per year by the end of 2011. Setting the framework for future Russian purchases from Shah Deniz II, the sale and purchase agreement for the Azerbaijani gas deal, signed in October 2009, indicated

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59 Uchenna Izundu, "South Stream Pipeline Capacity to be Doubled," *Oil & Gas Journal*, 21 May 2009.

60 Uchenna Izundu (2009).

61 "Russian Pipelines Win Key Approvals," *Wall Street Journal*, 21 October 2009, <http://online.wsj.com/article/SB125605250259596613.html>

62 "Ivan Kostov: The Publications in Russian Media About South Stream is a Tactic to Put Pressure on Bulgaria," *Focus Information Agency*, 21 October 2009, <http://www.focus-fen.net/index.php?id=n197893>

63 Eric Watkins, "Gazprom Seeks to Rattle EU with Azerbaijan Gas Agreement," *Oil & Gas Journal*, 30 June 2009, <http://www.ogj.com/articles/2009/06/gazprom-seeks-to-rattle.html>

64 Eric Watkins (2009).

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that initial purchase volumes would increase in proportion with increases in Azerbaijan's production.<sup>65</sup>

The U.S. and EU have not responded to Russia's assertive actions in the Caspian, although both have continued to give strong support for the Nabucco project, which has struggled to move forward amid numerous challenges. For Nabucco to succeed, a large number of actors need to be brought fully onboard, including multiple suppliers, transit nations, and customers across several regions, including Central Asia, the South Caucasus, and Europe. In September 2009, Joschka Fischer, a political communication adviser to Nabucco and a former German Vice Chancellor and Foreign Minister, said the project had not yet received the necessary political backing to move forward.<sup>66</sup> While the EU as a whole supports Nabucco, some European countries and companies have acted opportunistically, choosing to support both Nabucco and Gazprom's South Stream project. Turkey has also raised questions over pricing, and at one point hinted that Nabucco's success is related to its accession to the EU. Nonetheless, there has been progress. In 2010, European and Turkish governments ratified the intergovernmental agreement commissioning the Nabucco pipeline. Turkey was last to ratify the agreement, although there are still serious concerns about suppliers.

European concerns were partially assuaged in July 2009, when Azerbaijan, along with Turkmenistan, confirmed that they had enough gas available to fill Nabucco, although neither has signed a supply agreement with the project to date.<sup>67</sup> A few days later, the governments of participating EU countries signed an intergovernmental agreement with Turkey authorizing the Nabucco project. Following the agreement, Russian state television echoed earlier statements from Prime Minister Vladimir Putin that questioned the feasibility of the project. In May 2009, Putin derided the Nabucco initiative, saying: "Before putting millions of dollars into a pipeline and burying it in the ground, you have to know where the gas for this pipeline is going to come

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<sup>65</sup> "Gazprom and SOCAR Sign Purchase and Sale Contract for Azerbaijani Gas," *Gazprom Press Release*, 14 October 2009, <http://www.gazprom.com/press/news/2009/october/article69312/>

<sup>66</sup> "Nabucco Needs More Support, Fischer Says," *Hürriyet Daily News*, 8 September 2009, <http://www.hurriyetcailynews.com/n.php?n=nabucco-needs-more-support-fischer-says-2009-09-08#>

<sup>67</sup> Eric Watkins "Caspian Gas Producers Affirm Supplies for Nabucco," *Oil & Gas Journal*, 10 July 2009, <http://www.ogj.com/articles/2009/07/caspian-natural-gas.html>

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from.<sup>68</sup> Gazprom's head Alexei Miller voiced a similar sentiment at the meeting with the members of the Valday Club in September 2009.<sup>69</sup>

Russia's moves in the Caspian energy game constitute a direct challenge to U.S. energy interests in the South Caucasus. If Gazprom's South Stream project succeeds at the expense of Nabucco, Russia could consolidate its grasp on Caspian gas for decades to come and provide Moscow with enhanced energy clout and bargaining power *vis-à-vis* European capitals and Brussels. Given the strategic economic and political benefits at stake, Russia will continue to push South Stream regardless of the cost, which many experts expect to be at least double that of Nabucco. Russia will also continue to offer potential Nabucco suppliers, transit countries, and customers better terms than what the non-Russian routes are providing. The U.S. and EU are likely to stand firm in their support of Nabucco, but will have difficulty managing the myriad diplomatic and financial prerequisites necessary for its launch, particularly in the face of Russia's determination to kill the project.

If Russia is unable to derail the Nabucco and Transcaspian pipelines economically and politically, it may resort to violence –by stirring up the simmering territorial conflicts in Georgia, Nagorno-Karabakh, or even the Caspian Sea– as a means of increasing the security risk in the Southern Corridor. Iran, another Caspian littoral state, is Moscow's ally in this regard. In July 2009, Russia and Iran held a joint military exercise in the Caspian Sea involving some 30 vessels, a signal that the two nations' Caspian interests are beginning to align. Iran wants a greater stake in the Caspian's energy riches –up to 20 percent if the Caspian Sea is legally classified as a lake– while Russia would like to block the Transcaspian pipelines designed to bypass Russian territory.<sup>70</sup>

A more fundamental threat exists, too: the fragile political situation in Middle Eastern and African states devalue their natural gas supplies, because the pipelines are less secure.

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68 Eric Watkins, "EU Nations, Turkey Sign Nabucco Gas Line Treaty," *Oil & Gas Journal*, 14 July 2009, <http://www.ogj.com/articles/2009/07/eu-nations-turkey.html>

69 Ariel Cohen's personal notes, meeting with Alexei Miller, September 2009, Moscow.

70 Kaveh L. Afrasiabi, "Russia and Iran Join Hands," *Asia Times Online*, 30 July 2009, [http://www.atimes.com/atimes/Middle\\_East/KG30Ak01.html](http://www.atimes.com/atimes/Middle_East/KG30Ak01.html)

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*Policy Recommendations for the U.S. Administration*

Since the fall of the Soviet Union, the South Caucasus has been a region of great economic and strategic value. The U.S. has had significant strategic and economic interests in the South Caucasus, including the containment of revisionist anti-American regimes in Russia and Iran, securing the transit of oil and gas exports from the Caspian, and promoting democratic principles, transparency, good governance and markets based on property rights and the rule of law in Eurasia. These interests are threatened by region-wide security concerns, including Russia's actions –direct and indirect– against states perceived to be U.S.-friendly, such as Georgia and Azerbaijan. The August 2008 conflict between Russia and Georgia over Georgia's breakaway provinces and the conflict between Armenia and Azerbaijan over Nagorno-Karabakh should be viewed in terms of their individual merits, as well as through the prism of the Russian-American competition in the region.

President Barack Obama's "reset" policy with Russia has not changed the basic geopolitical facts, or U.S. interests in the region. U.S. energy interests are threatened by Moscow's determination to dominate the Caspian's oil and gas resources and to control key energy routes to European oil and gas markets. A careful approach is required in examining the roles of Iran and Turkey in the region, especially as Turkish society, government, and policy assume a more pronounced Islamic character and the country distances itself from the U.S., and as Iran teeters between religious dictatorship and popular revolution.

The rise of Islamic fundamentalism in Azerbaijan should be seen through the prism of the global rise of radicalism and the Sunni-Shiite confrontation. In the aftermath of the predominantly Sunni "Arab Spring", Iranian and Sunni interests are likely to clash in the greater Middle East and around the world, and Azerbaijan, the South Caucasus, and the Russian North Caucasus are no exception.

Energy security is another crucial point: Azerbaijan is a vital player in developing the potentially gigantic reserves of the Caspian Basin. Equally important is Baku's role in maintaining a clear line of energy production and

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transit for Europe. Through current pipelines like the BTC as well as future projects, Azerbaijan will be critical in maintaining Europe's energy security by providing an alternate supplier from the Russians, for whom energy trade and geopolitics are so closely linked. Azerbaijan is also a valued energy provider for U.S. ally Israel, which needs to import all of its oil from abroad, and generally gets its energy from the former Soviet Union.

Despite these strategic concerns, the Obama administration has reduced U.S. support for allies in the South Caucasus, seeking instead to prioritize relations with Russia. This is the “neorealism” of the Obama administration, and it will take time before the White House recognizes that this policy does not bear the desired fruit – or, perhaps, until it is a success. Nevertheless, this divergence from previous foreign policies is putting significant regional U.S. interests at risk. In order to defend U.S. interests regarding security, energy, and democracy in the South Caucasus, the Obama administration should: Apply pressure for a fair conclusion of the Nagorno-Karabakh Peace Process.

Settlement of the dispute over Nagorno-Karabakh would help bring stability to the South Caucasus, defuse the “frozen conflict” between Armenia and Azerbaijan, and reduce political risk in the strategic Southern Corridor. Provided Azerbaijani sovereignty over occupied lands is restored, Armenia and Azerbaijan would be able to forge closer relations with the West and eventually join NATO and/or the EU. The Obama administration should work inside and outside of the OSCE’s Minsk Group to negotiate a peace settlement between Baku and Yerevan. The Turkish-Armenian rapprochement and the September 2009 appointment of Robert Bradtke as envoy to the Minsk Group are a good start.<sup>71</sup> So is the appointment of Matthew J. Bryza as the U.S. ambassador to Baku. The U.S. will have to recognize that Russia has used its significant influence in the region to undermine the Minsk Group at times, hoping to make itself, rather than the international community, the pivotal player in resolving the frozen conflict. Russia has used its military capabilities to develop such a position, not only in the August War but also with its right-of-troops agreement at the Gyumri military base in Armenia.

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<sup>71</sup> “Armenia and Azerbaijan: Appointment of U.S. OSCE Minsk Group Co-Chair,” *U.S. Department of State*, 7 September 2009, <http://www.state.gov/r/pa/prs/ps/2009/sept/128680.htm>

Rethink the “Reset” Policy. The Obama administration should reassess its policy of “resetting” relations with Russia. Maintaining a working relationship with a country that still has enough nuclear weapons to destroy the world several times over should continue to be an important goal of the U.S. However, this goal should not come at the expense of U.S. allies in the South Caucasus or elsewhere in the former Soviet Union. Although the Cold War has long been over, strategists in the Kremlin still view the “near abroad” as Russia’s “zone of privileged interests”, and international politics as a zero-sum game. The post-Soviet *siloviki*<sup>72</sup> who direct Russia’s foreign policy will undoubtedly see friendly overtures and unilateral concessions by the U.S. (such as the cancellation of the missile defense program in Poland and the Czech Republic) as a sign of weakness, if not *naïveté*, and a signal that the U.S. may not seek to contain a resurgent Russia in the post-Soviet space. Georgia and, to a lesser degree, Ukraine have already felt the heavy hand of Moscow. The losers in this equation are the countries that belong in what Moscow considers its “sphere of interests”, including those in the Southern Caucasus. The Obama administration should show firm support for the nations of the South Caucasus, including by boosting political-military relations, and send a clear signal to Moscow that attacks on the integrity and independence of friendly nations will come at a price.

Cooperate on anti-terror measures with Azerbaijan. The Obama administration should continue to support bilateral and multilateral cooperation with Azerbaijan to combat the rise of Islamic fundamentalism and terrorism. Intelligence sharing between U.S. and Azerbaijan should be expanded, while Azerbaijan should further undertake financial measures to uncover and intercept terrorist financing. Azerbaijan’s close ties with Israel, and that country’s expertise in tracking terrorists, could be particularly useful in this venture. Although Azerbaijan is making progress in this realm, the Council of Europe, through its Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism mechanism, issued a negative assessment of Azerbaijan’s anti-money laundering reform effort in January 2009.<sup>73</sup>

72 Largely made up of former KGB men and military officers.

73 “MONEYVAL publishes its second report on Azerbaijan,” *Council of Europe*, <http://www.coe.int/Latest-News/123.html>

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Permanently waive Section 907 of the Freedom Support Act. In view of the Turkish-Armenian rapprochement and in order to continue anti-terror support that began under the Bush administration, the Obama administration must permanently waive the sanctions, i.e. “Section 907 of the Freedom Support Act of 1992,” levied against Azerbaijan in response to its blockade of Armenia. Section 907 bans any kind of direct U.S. aid to the Azerbaijani government. In October 2001, the Senate gave the president the ability to waive Section 907, and President Bush used this authority to provide counterterrorism support to Azerbaijan.

Secure Azerbaijan as transit state for Northern Distribution Network. Ensuring that a Georgia-Azerbaijan-Turkmenistan “leg” of the Northern Distribution Network is established is critical to the American war effort in Afghanistan. This route is important to sustain and expand, given that the Pakistani route is at risk, particularly in the aftermath of the elimination of Osama bin Laden; dependence on the Russia-Kazakhstan-Uzbekistan route alone is ill-advised.

Help Europe to Take a Leadership Role on Nabucco. The U.S. should help Europe push forward the Nabucco pipeline project, which will diversify Europe’s natural gas supplies away from Russia. The U.S., perhaps more than the EU, has a unified and coherent policy toward Nabucco, as well as the political leverage to bring all the necessary actors together. Nonetheless, it is a European project and should be run by and for European companies, consumers, and governments. Without sidetracking European actors, the Obama administration should boost U.S. involvement in Nabucco, encouraging all actors to cooperate in getting the project from the negotiating room onto the ground.

### ***Conclusion***

The South Caucasus will remain a crucial geopolitical area, where East-West and North-South interests intersect. The U.S. is involved in Iraq, Afghanistan, Pakistan, and the global war on terrorism. Washington is trying, with great care, to push the “reset button” in its relations with Moscow and has a confrontational and highly problematic relationship with the Islamic Republic

of Iran. The South Caucasus will continue to play sensitive and important roles in all these areas. In managing U.S. interests in the region, diplomatic, defense, energy and intelligence establishments will play an important role. As Russia, Iran, and Turkey increase their involvement in the South Caucasus, U.S. policy toward the region will also require appropriate resource allocation and ample executive time, understanding, compassion, and toughness at the highest level.



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# **WEAKNESS AS AN OPPORTUNITY: EU POLICY IN THE SOUTH CAUCASUS\***

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In 2006, all three countries of the South Caucasus –Georgia, Armenia, and Azerbaijan– were admitted into the European Neighborhood Policy (ENP). This was an important step, but one which came much too late. Until 2006, Europe could not be characterized as having a coherent strategy in this region. Today still there is not an acceptable and transparent solution to the problems that burden the future of the region and its relationship with the European Union. The EU neither has a master plan nor the geostrategic weight to enforce its plans against the will of individual countries or political groups. This can and should not be its objective, at least not in the region being discussed here.

This article will analyze to what extent the EU, within the framework of the Neighborhood Policy; can contribute to the development of the region, in a way which will also serve its own long term interests. The assessment is based on liberal principles that place the freedom of the individual and the institutions of the constitutional state, free market economy, and democracy at the forefront. Therefore, from a liberal perspective, it is not the goal to attain as much power and influence as possible but rather to support the people of the region in helping them solve their problems and to get them closer to living in security and freedom. Of course, this policy is not an end in and of itself. The EU has a great interest in its neighbors' peace and economic development.

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### *The Current Situation from the Perspective of the EU*

Only extraordinary events, such as the Rose Revolution in Georgia, large demonstrations against rigged elections, or the often heated exchanges between Russia and Georgia, have put the South Caucasus in the EU's radar. A factor contributing to this reality is the EU's preoccupation with the accession of the new EU member states. Concurrently, the countries in question lie just outside of Europe's borders, were a part of the Soviet Union for many years and, consequently, were removed from the European public eye. However, among political and economic experts the region has long been a topic of growing importance. This interest has been reinforced by the new security situation after September 11, as well as the search for relatively safe and diversified raw materials for Europe. Elkhan Nuriyev wrote: "Still, instability in the South Caucasus is a serious threat to the EU security. The region presents a number of challenges that characterize the post-September 11 geopolitical situation and more precisely, the young countries political behavior in the context of the U.S.-led war against terror, the risk of renewed hostilities in conflict-torn areas, the difficult processes of democratization in fragile societies, the security of oil and gas pipelines, risks of environmental degradation, and humanitarian crisis."<sup>1</sup>

Currently, the EU's perception of the South Caucasus is primarily characterized by the aggravating and still unresolved territorial conflicts –the secessionist areas of Abkhazia and South Ossetia– within Georgia and Nagorno-Karabakh, which concerns an intergovernmental conflict between Armenia and Azerbaijan as a result of which the former autonomous republic within Azerbaijan has unilaterally declared its independence. All these conflicts have claimed numerous victims on all sides and these existing wounds render all parties less willing to make compromises.

Unfortunately in recent years these conflicts have vanished from the view of the wider political public. Among other things this is due to them being

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<sup>1</sup> Elkhan Nuriyev, "The EU Policy in the South Caucasus: The Case of Post-Soviet Azerbaijan. New Opportunities and Future Prospects," *German Institute for International and Security Affairs Working Paper*, p. 31, [http://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/SWP\\_RP\\_Nuriyev\\_ks.pdf](http://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/SWP_RP_Nuriyev_ks.pdf)

so-called “frozen conflicts”, meaning they do not currently entail the use of military force. Though this article will not deal extensively with all of these conflicts, it must be noted that their solution is not likely in the immediate future. Therefore in parallel to the support of a peaceful solution of the conflicts, the internal development of the individual countries and regional cooperation needs to be promoted. The conflicts should not be used as an excuse not to move in other areas.

In reality, in at least two of the three countries –Armenia and Azerbaijan– a clear deceleration of reforms or an actual rollback can be observed. Moreover, not all dreams associated with the Rose Revolution have come true in Georgia. Contrary to the “European values” expressed by the political elite, a political reality exists in which corruption, weak constitutional institutions, and offenses against the democratic rule of law occur on a daily basis. At the same time, the economic growth in all three countries has been impressive for several years. However, it must be asked, especially in the case of Azerbaijan, whose economy is almost totally dependent on oil and gas, to what extent the current structures are sustainable.

A deeper underlying political problem is the question of whether the “South Caucasus” is a coherent region. Geographically, the context of a region is unquestionably present and there are many shared historical and cultural elements. However, history also consists of many differences that make finding a common identity very difficult. In an address to the Foreign Relations Committee of the European Parliament, Peter Semneby called the South Caucasus a “broken region.”<sup>2</sup> As the EU’s special representative, he is familiar with the various problems of Armenia, Azerbaijan, and Georgia. In order to reach a common identity as a region of peaceful cohabitation of different peoples, the “larger” European identity can make, as Semneby states, an important contribution. All peoples in the region –as well as in the contested areas– see themselves as Europeans. This is an advantage *vis-à-vis* all other actors, which are likely to muster up sympathy in only one country in the region. However, until now the EU is using this advantage inadequately.

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<sup>2</sup> “EU Envoy Calls South Caucasus a ‘Broken Region’,” *Radio Free Europe/Radio Liberty* <http://www.rferl.org/featuresarticle/2007/10/b9a6d173-75fd-41c2-a783-671415de0c94.html>

### *The European Neighborhood Policy*

#### *Relationships on the Shortlist*

The European Neighborhood Policy is an instrument that has bundled all the cooperation policies of the EU and covers countries that are either in Europe or in its close proximity, but do not have a membership prospect in the foreseeable future. This policy aims to promote a ring of well-governed countries to the east and south of the EU to enjoy close and cooperative relations. The EU offers its neighbors a privileged relationship, building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles, and sustainable development). The volume of financial aid for the years 2007-10 totals 5.6 billion Euros, from which the following have been earmarked: 120.4 million Euros for Georgia, 90 million for Armenia, and 92 million for Azerbaijan.

The strategic objectives of the European Neighborhood Policy with regard to the three countries of the South Caucasus are relatively similar to the goals of EU policy towards all other neighboring states of the EU. Moreover, all three South Caucasus republics are approached in a very similar manner. The following quote from the “ENPI Country Strategy Paper 2007-13” for Armenia can be found almost *verbatim* in all three Country Strategy Papers:

The objective of the ENP is to share the EU’s stability, security and prosperity with neighboring countries, including Armenia, in a way that is distinct from EU membership. The ENP is designed to prevent the emergence of new dividing lines in Europe, by offering neighboring countries closer political, security, economic and cultural cooperation. It also addresses one of the EU’s strategic objectives set out in the European Security Strategy of December 2003, namely bolstering security in the EU neighborhood. ENP partners are expected to benefit from closer cooperation with the EU, the chance to participate in EU programs and a stake in the EU’s internal market, which will strongly support their own political and economic reforms.<sup>3</sup>

<sup>3</sup> “European Neighbourhood and Partnership Instrument: Armenia,” *Country Strategy Paper 2007-13*, p. 5, [http://ec.europa.eu/world/emp/pdf/country/enpi\\_csp\\_armenia\\_en.pdf](http://ec.europa.eu/world/emp/pdf/country/enpi_csp_armenia_en.pdf); see also: “European Neighbourhood and Partnership Instrument: Azerbaijan,” *Country Strategy Paper 2007-13*, p.4, [http://ec.europa.eu/world/emp/pdf/country/enpi\\_csp\\_azerbaijan\\_en.pdf](http://ec.europa.eu/world/emp/pdf/country/enpi_csp_azerbaijan_en.pdf); “European Neighbourhood and Partnership Instrument: Georgia,” *Country Strategy Paper 2007-13*, p.5, [http://ec.europa.eu/world/emp/pdf/country/enpi\\_csp\\_georgia\\_en.pdf](http://ec.europa.eu/world/emp/pdf/country/enpi_csp_georgia_en.pdf)

The ENP is an important step forward to achieve the above-mentioned objectives, the countries are experiencing a larger recognition through the EU, which can have significant influence over their political development and reforms. The lack of membership prospects is a problem but it does not render the neighborhood policy ineffective as Leila Alieva commented: "Although ENP lacks one of the major advantages and incentives of the enlargement process –the clearly stated prospects of membership– it still has an incentive of deeper integration in EU for the states, included in this policy."<sup>4</sup> From a liberal point of view, this deeper integration should refer in particular to common principles and functioning institutions.

### ***Security and Stability***

Another focal point for the EU is the security and the political stability of the region. The EU is very much interested in containing the numerous conflicts and nearing resolutions. The EU is not trying to gain military or geostrategic influence. The EU is trying to mediate and participate in all international attempts to create peace. Admittedly, the efforts of the EU and individual member states have been just as unsuccessful as have attempts of other countries. However these efforts have no alternative and it is fitting that the EU has made the neighborhood policy a focal point for the solution of the conflicts. With regard to Nagorno-Karabakh: "In this context the EU aims to stabilize the whole Southern Caucasus region and attaches great importance to the peaceful resolution of the conflict over Nagorno-Karabakh. It is actively involved in ongoing efforts to achieve a settlement, amongst other things through the good offices of the EU's Special Representative (EUSR) for the Southern Caucasus."<sup>5</sup>

With regard to Georgia, the formulation is similar: "The EU attaches great importance to the resolution of conflicts in Georgia's two breakaway regions of Abkhazia and South Ossetia and is actively involved in ongoing efforts to achieve a peaceful settlement, partly through the offices of the EUSR for the Southern Caucasus and through providing financial assistance for

<sup>4</sup> Leila Alieva, "EU and South Caucasus," *Bertelsmann Group for Policy Research*, 2006, p. 6, [http://www.cap.lmu.de/download/2006/2006\\_Alieva.pdf](http://www.cap.lmu.de/download/2006/2006_Alieva.pdf)

<sup>5</sup> "European Neighbourhood and Partnership Instrument: Armenia" (2007-13), p. 6.

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reconstruction and rehabilitation projects in Georgia's conflict zones. The EU is also assisting Georgia in improving its border management capacity with a view to increasing security at Georgia's external borders.”<sup>6</sup>

The question of security has another dimension, e.g., the struggle against international terrorism. In this case, an international collaboration with all those concerned, including Russia, is necessary.

### ***Oil and Natural Gas Supply***

The oil and gas question plays a smaller role than is often claimed. Currently the region is playing only a secondary role in this context. Nevertheless, it is also one of the objectives of the ENP to contribute to the diversification of the European supply of oil and gas. The large and partially implemented pipeline project is an advantage for the countries of the European Union as well, and in the big “game for oil” in the Caspian region, European companies are by no means irrelevant. Azerbaijan is naturally playing a double role as an important supplier of oil and gas and, increasingly, as a transit country.

Therefore, there is a need for a coordinated European strategy. However, it would be a major mistake to consider the region mainly as a supplier of resources and to ignore the other issues. The catastrophic consequences that a policy of ignorance can have toward internal and intergovernmental problems in important oil and gas regions are clearly evident in the Gulf region.

### ***Other Actors***

States beyond the EU are also pursuing strategic interests in the region. Apart from the U.S. and Russia, Turkey, and Iran are also involved. In recent years, the South Caucasus has turned into a playing ground that is intensifying the ever-increasing competition between Russia and the U.S. In particular, the developments in Georgia after the Rose Revolution were perceived by Russia as a threat to its position. Recently, heated confrontations between Russia and Georgia have increased significantly. On the other hand, out of economic

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<sup>6</sup> “European Neighbourhood and Partnership Instrument: Georgia” (2007-13), p. 6

necessity, Armenia is leaning on Russia while Azerbaijan is pursuing a policy of equidistance toward both powers and simultaneously maintaining an intensive relationship with Turkey.

The countries of the EU share basic political values with the U.S. but are also interested for strategic purposes in having a good relationship with Russia. This balancing act demands a very careful and forward-thinking policy. However, it must be made clear that the EU stands for certain principles that it will not allow to be “sold”, neither for raw materials nor for would-be security. This applies particularly to its relationship with Russia which should be restricted to clearly defined common interests. Russia’s claims to possess rights over the governments of the former Soviet Republic should be rejected.

### ***Weakness as a Chance***

In all three countries of the region, the EU is perceived as a weak player. This is due, in particular, to the contrast with Russia and the U.S., both have strong influence over the region. From a European point of view this could be seen to be regrettable. In fact, in some cases, the lack of a real coherent foreign policy hinders Europe in enforcing its interests. However, this position could be a major advantage. Unlike the U.S. and Russia, EU is not suspected of trying to impose its power and economic interests in the region. Conversely, an attempt of the EU to construct its own “power position” against the U.S. would be unproductive and doomed for failure. Nevertheless, the struggle over spheres of influence can only offer short-term advantages, as long as it is not actually tied to social aid and political reform.

Although EU is unable to offer a formidable political sphere of influence, it can offer a model of peaceful cohabitation and the creation of prosperity, an approach that has been followed for decades. This makes the EU attractive for the people in the individual countries. While the public opinion in the three countries towards individual EU member states is often split. The EU in general, as a framework of peace and prosperity, enjoys a very good reputation. It is in the best interest of the EU and of all three countries to apply the basic principles of this political success to the South Caucasus. At the same

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time, the problems of the EU; namely over-bureaucratization or the massive subsidies given to unproductive economic industries, should not be copied.

### ***Liberal Options for the Future***

The promotion of institutions and values also has to extend to the regions in conflict, the *de facto* states. In this case, different instruments have to be applied in order to limit the tensions with the governments as much as possible. The EU has to involve itself even more intensively in South Ossetia, Abkhazia, and Nagorno-Karabakh. Bruno Coppievers is in agreement with this notion,

International isolation –in order to avoid any risk of legitimizing secessionist leaderships– will only encourage authoritarianism and the criminalization of *de facto* states, as well as increasing their unilateral economic dependence on outside forces. In order to overcome this real contradiction between the risk of legitimization and the risk of authoritarianism and the criminalization of *de facto* states, it may be advisable for the EU to combine political support for international organizations engaging in the *de facto* states (overcoming the political resistance of the central governments) with financial support for NGO programs in unrecognized republic.<sup>7</sup>

To solve the territorial conflicts, the EU can use the experience –good and bad– it has gained from other European conflicts.

In the long-term, stable democracies and market economies are the best guarantee for internal and external peace as well as prosperity.<sup>8</sup> In the future, the EU should particularly concentrate on two things; on the promotion of democratic and constitutional institutions and on a relaxation of the entrance requirements into the EU, for people as well as for products from the region. A relaxation of the visa requirements is just as important as the free trade agreement with the individual countries.

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7 Bruno Coppievers, "EU Policy on the Southern Caucasus," Policy paper at the request of the European Parliament Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, Brussels 2004, p. 6, <http://www.europarl.europa.eu/meetdocs/committees/afet/20040120/wider%20europe%20caucasus.pdf>

8 Erich Weede, *Balance of Power, Globalization and the Capitalist Peace* (Berlin: Liberal Verlag, 2005).

There is a seeming contradiction between economic and security interests on the one side, and the promotion of freedom and democracy on the other. From a liberal perspective, “influence” in a region cannot be an end in and of itself. The EU, therefore, should not make countries dependent but rather make itself so attractive and open to other countries that they will willingly want to draw closer. This style of “influence” is much more sustainable than what could be achieved from military or financial dependence.

For the success of the Neighborhood Policy, it is essential that a long-term prospect of membership can be demonstrated to the countries. Obviously, this cannot take place within the next decade but the possibility should be guaranteed. At the same time, the criteria for accession should be spelled out again and again. This can generate a political vigor in Armenia, Georgia, and Azerbaijan that will help solve the grave problems in the long-term. The European Neighborhood Policy can serve as an important building block in this context.



# INDEPENDENCE, DEMOCRACY AND THE RUSSIAN TABOO: A COMPARATIVE PERSPECTIVE\*

Tedo Japaridze & Ilia Roubanis



From the outset, it should be noted that this paper is not “a commemorative narrative,” celebrating Georgia’s 22 years of independence in the strict sense of the term. It is a paper inspired from analysts like Thomas de Waal and Neil MacFarlane, who have time and again been driving home the same message: for Georgia to advance along its path to democratization, we must come to face up to our “ghost”, which is none other than our relation to Moscow. Framing the question as such, the ambition of this article is to contrast “facts” with dominant notions of transition that have for long informed the analysis of post-Soviet polities. In this scheme, this paper attempts to use this historic occasion for a retrospective assessment of our immediate “transitional” past. Admittedly, it is hard to grasp that it is nearly a generation since Georgia declared its independence from what Ronald Reagan once called the “Evil Empire”. For those of us who lived through the turmoil of this seemingly open-ended process of “political transition”, this is a time for recollection, reflection and assessment. For those of us who observed this period as academic bystanders of yet another “transition”, this is a time for readdressing the validity of our assumptions, or indeed, the lens through which we look upon and evaluate the democratization process in this part of the world.

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By virtue of these preliminary notes, it is hard to claim impartiality, neutrality and emotional detachment when revisiting this occasion. Lack of objectivity renders methodological transparency all the more significant. We opt to pursue a comparative approach, precisely in order to achieve some degree of dispassionate analysis, thereby contributing to a discussion that is relevant to political theorists and policymakers. Thus we examine Georgia in comparison to Ukraine. Particularly, the theoretical focus of this paper is on the tendency to bundle together a number of *phenomena* within a super-concept of “transition”, including foreign policy orientation, market liberalization and, not least, democratization. This bundling, it is suggested, is often misguided. In sum, this article is written for this generation, which has not lived in the former USSR or through the confrontational charge of the Cold War experience, and should be allowed to carve its own self-referential future, without the baggage of our transitional prejudice.

### ***Methodology***

This paper focuses on the “framing” of domestic politics in Georgia and Ukraine in terms of an “East-West” binary juxtaposition. In this context, framing refers to the control of norms that moderate the communication of knowledge and the social relations that develop between the source and the target of the message.<sup>1</sup> This source-receiver relationship, it is suggested, has been constructed through layers of historical experiences in a period of political “transition”. Shedding light upon this process is one of the two objectives of this paper; the other is to demonstrate that this form of “framing” is currently counterproductive.

The selection of these two case studies, namely Georgia and Ukraine, is grounded on at least three significant similarities:

- Situated in the Black Sea region, these two former Soviet Republics have at one point or another perceived Russian involvement in the region as a clear

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<sup>1</sup> Basil Bernstein, *Pedagogy, Symbolic Control and Identity: Theory, Research, Critique* (London: Taylor & Francis, 1996).

threat to their territorial integrity. This has led to the bundling of these two states by international observers in a single geopolitical context of analysis, in which it is assumed that domestic politics are reflective of a “Moscow versus the West” cleavage.

- Both states have had the experience of a color-revolution, that is, “the Rose Revolution” in Georgia and the “Orange Revolution” in Ukraine, which cemented the dominant perception of domestic polities in these states as an “East versus West” encounter. This is probably because these strong, dispersed and powerful civic movements benefited from the OTPOR movement (resistance in Serbia), that is, the transfer of specific know-how and methodologies mobilized against Serbia’s Milosevic (2000), facilitated by international financing and capacity-building seminars. From that point onwards, the forces associated with these revolts were perceived as pro-Western, hence democratic, and struggling against pro-Russian, hence autarchic, political forces.
- Both states have been considered as candidates to join NATO, an objective that now seems to be fading, albeit remaining desirable.

Thus our comparison proceeds as following:

1. First, there is a summary of apparent drives for the perception of Georgian and Ukrainian political scene in binary, “East versus West” terms.
2. Second, we examine the validity of this perception, juxtaposing foreign policy orientation with the advancement of a substantive democratization agenda.
3. Finally, we pose the question of whether our generation’s notion of ‘transition’ is still relevant.

### ***Thesis: “Back to Europe” and the “East versus West” Binary***

Commemorating the birth, or rebirth of states, brings to mind the distinct role of identity politics. It should be remembered that in post-Soviet Republics the terms “democratization”, “liberalization”, and “independence” were used interchangeably.<sup>2</sup> For Western analysts too, regime change, or “transition”, was looked upon with great optimism. Despite socio-economic hardship and nationalist encounters, early transitional periods of post-Soviet regimes were greeted in the West with a sense of optimism, of the type one finds when hailing “the dawn of a new world.” At the time, the predominant narrative informing academic and political aspirations and expectations in the West was shaped by “the end of history” thesis, which suggested that liberal democracy is the sole remaining project of modernity by means of historical natural selection.<sup>3</sup> In this context, newly written constitutional texts were read as manifestos of a new political universe,<sup>4</sup> or indeed the reinstatement of a “state of nature” perceived as universal.<sup>5</sup> In celebrating independence, democracy, liberalization, or “transition”, the West was in fact celebrating its own historical, political and even cultural vindication.

Without fail, transition presupposes rupture, which in Ukraine and Georgia came initially with independence *referenda*. In Georgia, it should be recalled, voters in South Ossetia and Abkhazia voted for the preservation of Union in the referendum held prior to the collapse of the USSR in March 1991; incidentally, this was a referendum boycotted by the Round Table-Free Georgia, the New Democratic Party and the National Congress, the very political forces that less than a month later gained support from 93 percent of the electorate for independence. In Ukraine, the December 1991 independence referendum also delivered a 90 percent vote in favor of independence; but, it might also be recalled that this percentage was less convincing in areas such

2 See: Levent Gönenç, *Prospects for Constitutionalism in Post-Communist Countries* (London/New York: Martinus Nijhoff Publishers and Kuzio Taras (b), 2002); Taras Kuzio, “National Identity and Democratic Transition in Post-Soviet Ukraine and Belarus: A Theoretical and Comparative Perspective,” *East European Perspectives*, Vol.4, No.15, [http://www.taraskuzio.net/Economic%20Transition\\_files/economics-perspective.pdf](http://www.taraskuzio.net/Economic%20Transition_files/economics-perspective.pdf)

3 Francis Fukuyama, *The End of History and the Last Man* (New York: Avon Books INC, 1992).

4 Jiri Priban, “Reconstituting Paradise Lost: Temporality, Civility, and Ethnicity in Post-Communist Constitution-Making,” *Law & Society Review*, Vol.38, No.3 (September 2004), pp. 407-32.

5 S. L Elkin, “Citizenship and Constitutionalism in post-Communist Regimes,” *Political Science and Politics*, Vol.23, No.2 (January 1990), pp. 163- 6,

as the Crimean ASSR (54 percent) and Sevastopol (57 percent).<sup>6</sup> In sum, it has been noted that generally, people in eastern and southern Ukraine may often identify themselves as ethnically Russian, although hybrid identification is not uncommon.<sup>7</sup> In any event, regional or sub-national exceptions to “national identity” continued to haunt the political systems of both states. But in those early days, what mattered most was that substantial questions were being posed in on the basis of sound, free and fair electoral procedures, something previously unencountered.

These *referenda* were the domestic dimension of a greater spectrum of normative and political dilemmas that was unfolding in the early 1990s. The transition of states and transition of regimes are themes that are interwoven and simultaneously negotiated. It can be argued that in periods of domestic political flux, when there is no commonly accepted legal or political foundation, international law can offer an alternative legal *corpus* that is continuous and enduring, that is, if the international community is also willing to play a stabilizing role. If and when both legal and political conditions are met, the severity of domestic rupture can be tamed by the enduring presence of international norms. Thus in post-communist regimes it was often suggested that border settlement could have been founded on the *uti possedetis* principle which, based on the precedent of decolonization in Africa, would have allowed the gradual “upgrading” of former regional-republican administrative boundaries to international borders.<sup>8</sup>

But, of course, the international balance of power was changing at the time whilst international norms were being “revisited”. Clearly, Russia was never keen to detach itself from its status as a global power or from its former *lebensraum*. Either by evoking the image of a “motherland” or a “protector state”, Moscow continued to exert economic, cultural, and political influence

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<sup>6</sup> Chrystyna Lapychak, “Independence - over 90 % vote yes in referendum; Kravchuk Elected President of Ukraine,” *The Ukrainian Weekly*, 8 December 1991, [http://ukrweekly.com/archive/pdf3/1991/The\\_Ukrainian\\_Weekly\\_1991-49.pdf](http://ukrweekly.com/archive/pdf3/1991/The_Ukrainian_Weekly_1991-49.pdf)

<sup>7</sup> Paul D’Anieri, *Understanding Ukrainian Politics* (New York: M.E. Sharpe, 2007).

<sup>8</sup> Mark Weller, “The International Response to the Dissolution of the Socialist Federal Republic of Yugoslavia,” *The American Journal of International Law*, Vol.86, No.3 (July 1992). pp. 569-607; Ruti Teitel, “Transitional Jurisprudence: The Role of Law in Political Transformation,” *The Yale Law Journal*, Vol.106, No.7 (May 1997), pp. 2009-80.

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in post-Soviet polities, Georgia and Ukraine being no exception. And this continued involvement did affect domestic political processes, because even if ethno-nationalist cleavages in the Caucasus preceded, lived through and outlived the collapse of the USSR, the fact remains that there has been a continuous overlap between domestic and international policy agendas. In this context, Georgia and Ukraine differ significantly in how they dealt with their minorities and, coextensively, their relations to Moscow. But the effect was the same, for domestic politics were associated with a super-taxonomical concept of “transition” that is, a project of reform were each polity was evaluated in terms of its “Western versus Eastern” orientation.

In Ukraine, ethnic, linguistic, and national affiliation has been successfully blended into the political game, becoming a systemic factor, determining to a certain extent party affiliation. Incidentally, foreign observers often ignore the fact that this systemic aspect of the “East versus West” cleavage also allows room for a healthy degree of hybridity. Therefore, members of the electorate who do not neatly fit the *Procrustean* table of ethnic-linguistic-national-political affiliation can also find political expression.<sup>9</sup> Of course polarity also exists in Ukraine. Party affiliation often goes hand-in-hand with the perceived stance of the party in its relationship to Moscow; this is a fact that while several analysts might find objectionable, has time and again proved to defuse conflict, keeping polarity within the realms of intra-party contestation rather than giving rise to civil war.<sup>10</sup> But this is not to say that the influence of Moscow in Kiev was never a destabilizing force.

The Ukrainian economy was founded on industries organically linked with the former Soviet metropolis, namely: petrochemicals, defense, steel, coal, natural gas, etc. This huge industrial complex went hand-in-hand with a Russian speaking working class, residing in major urban centers in the East. In the early 1990s, Russians or Ukrainians with a Russian culture were estimated to comprise more than 35 percent of the population.<sup>11</sup> Thus the Ukrainian ver-

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<sup>9</sup> Taras Kuzio (2002).

<sup>10</sup> Lyuba Sorokina, “Ukraine’s Election Highlights the East-West Divide,” *Reuters*, 5 February 2010, <http://www.reuters.com/article/2010/02/05/us-ukraine-election-division-idUSTRE6143L620100205>

<sup>11</sup> Alexander J. Motyl, *Dilemmas of Independence: Ukraine after Totalitarianism* (New York: Council on Foreign Relations Press, 1993).

sus Russian nationalist cleavage, separating Galicia from the Crimea in terms of voting behavior, could also be seen as dangerously coinciding with other socioeconomic and political cleavages. And in producing a synthesis of this cleavage, which is after all the mission of every party system, it comes as no surprise that Kiev has since 1991 followed an almost uninterrupted “multi-vector” foreign policy dogma, striking a delicate balance between the U.S. and the EU on the one hand, and Russia on the other.<sup>12</sup>

Unlike Ukraine, in Georgia, the attempt to institutionalize ethnic cleavages largely failed, mostly because bloodshed overshadowed other forms of political negotiation, not unlike former Yugoslavia. As soon as Georgia proclaimed its independence, ethnic enclaves were swift to proclaim their own, which they commemorate in a symbolic battle with Tbilisi that can hardly go unnoticed.<sup>13</sup> Soon after independence, the uprisings in Abkhazia and South Ossetia (1992-1993), not without Moscow’s backing of militants, led to dramatic humanitarian tragedies, with tens of thousands in civilian casualties and hundreds of thousands of refugees. This tendency towards “final solutions” in the ethnic delineation of the polity was cemented in the summer of 2008, when Russia made a direct link between the case studies of Kosovo and the autonomous regions of Georgia. While there are a number of reasons to doubt the credibility of this equivalence,<sup>14</sup> the fact remains that international norms have not served as a stabilizing force for Georgia.

This is not to say that there have been no serious attempts to appease ethnic minorities in Georgia, or to address concerns and establish some room for negotiation. True, the autonomous republics of Abkhazia and South Ossetia were established during the Soviet regime, but they were also recognized by the modern Georgian Constitution. Moreover, Presidential Decrees from 1994 to 1996 established Abkhazia and South Ossetia as autonomous regions. In 2007, a commission to work on the South Ossetia status was established, headed by Prime Minister Zurab Nogaideli. However, precisely because this

<sup>12</sup> Rostislav Pavlenko, “Political Reform or a Game of Survival for President Kuchma?,” *PONARS Policy Memo*, No.294 (November 2003), [http://www.csis.org/media/cis/pubs/pm\\_0294.pdf](http://www.csis.org/media/cis/pubs/pm_0294.pdf)

<sup>13</sup> “South Ossetia Marks 20 Years of Independence,” *Moscow Times*, 20 September 2010, <http://rt.com/news/south-ossetia-independence-anniversary/>

<sup>14</sup> Hitchens Christopher, “South Ossetia Isn’t Kosovo,” *Slate*, 18 August 2008, [http://www.slate.com/articles/news\\_and\\_politics/fighting\\_words/2008/08/south\\_ossetia\\_isnt\\_kosovo.html](http://www.slate.com/articles/news_and_politics/fighting_words/2008/08/south_ossetia_isnt_kosovo.html)

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nexus of allegedly domestic conflicts often escalated into a war-by-proxy with Moscow, the relationship with the former Soviet metropolis has been marked by vitriolic rhetoric from both sides; Neil MacFarlane, for instance, has time and again spoken about the political capital invested in this conflict from both sides of the spectrum, gravitating on exhibitions of bravado and patriotic rhetoric.<sup>15</sup> In this scheme, the notion of systemic inclusion and conflict transformation remains an intellectual exercise.

The emblematic rift in Moscow-Kiev-Tbilisi relations, which also solidified the domestic nature of political cleavages, came with the Color Revolutions. A lot of ink has been used in conspiratorial theories about U.S./Soros Foundation involvement in these revolts. Conspiracy theories are of course one-sided exaggerations, which largely address the question of support in terms of “who and how” rather than “why”.<sup>16</sup> The answer can only be that whatever the Western involvement, it could only empower existing social forces willing to engage in civic activism. However, the use by Western analysts of the term “revolution” places an emphasis on rupture, which may also be considered a one-sided exaggeration, since foreign policy options are geopolitically and socioeconomically constrained in ways that can hardly be transcended by the resolve of a single administration. Doubtless in the context of Georgia and Ukraine, Color Revolutions clearly signified a determination to turn firmly westwards, partly in affirmation of sovereignty and resistance to the notion of belonging to a Russian “sphere of influence”, but also as a desire to entrench EU style-and-standard pluralistic democracies. And, as noted earlier, “independence” and “democratization” are terms which, in this part of the world, went hand-in-hand.

In Georgia, the Rose Revolution (2003) came at a time when Moscow was widely perceived –and with good reason– to be openly challenging Georgian independence. In 1992 it was clear that Russian financial backing, military equipment and logistical support had played a crucial role in supporting autonomist forces in 1992; moreover, in the midst of the civil war in 1993,

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15 Neil MacFarlane, “Russia-Georgia Relations,” *Politics in Spires*, 27 July 2011, <http://politicsinspires.org/tag/peace/>

16 Ian Traynor, “US Campaign Behind the Turmoil in Kiev,” *The Guardian*, 26 November 2004, <http://www.guardian.co.uk/world/2004/nov/26/ukraine.usa>

Russian troops were invited into Georgian territory to protect the government of President Shevardnadze *vis-a-vis* an attempted *coup*. This intervention had “strings attached”, since it involved Georgia joining the CIS and accepting Russian troops on the ground as peacekeeping forces that would guarantee the negotiated ceasefire.<sup>17</sup> From that point onwards, one might have assumed that Georgia was entrenched in the Russian sphere of influence. This was not the case. For instance, on 23 September 1999, the National Democratic Institute (NDI), which monitors global democratic development on behalf of the U.S. Democratic Party, awarded its prestigious Averell T. Harriman Medal of Freedom to President Eduard Shevardnadze, the very President ousted by the Rose Revolution.

It is often assumed that Georgia’s pro-Western orientation was cemented in the aftermath of the Rose Revolution, which is clearly not the case. One can hardly dispute the fact that the elections preceding the Rose Revolution (November 2003) left a lot to be desired; nevertheless, the award-winning Western credentials of Eduard Shevardnadze were impeccable.<sup>18</sup> This was the man who early on had carved the road for Georgia’s engagement in the Baku-Tbilisi-Ceyhan pipeline, anchoring Georgia in an emerging energy game that was clearly Western oriented.<sup>19</sup> Shevardnadze was also responsible for setting up the foundations of what would become a solid military structure, by cooperating with the U.S. *via* the Train and Equip Mission; incidentally, this program was initiated at the very time when Russia was putting pressure on Tbilisi to control the use of the Pankisi region which, allegedly, had become an operational base for jihadist groups.<sup>20</sup> He had significant moral credentials – this was the former Foreign Minister of the USSR, who had aided Gorbachev in putting an end to the Cold War. In terms of foreign policy, one could hardly say that the Rose Revolution constituted a “rupture”.

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17 “Georgia/Abkhazia: Violations of the Laws of War and Russia’s Role in the Conflict,” *Human Rights Watch Report*, Vol.7, No.7 (March 1995), <http://georgiaupdate.gov.ge/ru/tagliavini/15c7ac9f9e93192bc30fbeacc87c70b/d47fb18b456b1f8392cb799b18529463/5571e6e78bce130b77ef65c825303656>

18 “Post-Election Interim Report,” *OSCE/ODIHR Election Observation Mission*, 3-25 November 2003, <http://www.osce.org/odihr/elections/georgia/17822>

19 Zeyno Baran, “Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey,” in Frederick Starr and Svante Cronell (eds), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West* (Stockholm: Institute for Security and Development Policy, 2005).

20 Irakly G. Areshidze, “Helping Georgia,” *Perspectives*, Vol.12, No.4 (March-April 2002), <http://www.bu.edu/iscip/vol12/areshidze.html>

Similarly, the “Orange Revolution” (2004), came at a time when Russia seemed to be developing a “hands-on” approach in Ukrainian politics. Broadly speaking, the elections preceding the events of the Orange Revolution in November 2004 raised fears that the country could split in two. This fear became acute when the Donetsk Regional Council declared its willingness to proceed with a referendum on autonomy, that is, in a conference attended by the Mayor of Moscow (Yuri Luzhov). This immediately brought to mind the “Transnistiria precedent.” It is of course no accident that Donetsk was the Yanukovich’s home-base. Yanukovich was perceived as running a “Soviet-nostalgia” campaign, capitalizing on the fact that his opponent, Yushchenko, had an American wife and perceived U.S. support, raising old, Soviet-born fears of “the enemy from within.” But the fact, the event remained localized: many southern and eastern regions –including Crimea, Odesa, Mykolaiv, Kherson and Dnipropetrovsk– refused to back the movement.<sup>21</sup> Nevertheless, the effect was the same, for an East versus West frame of perception; it solidified how the outside world perceived domestic political cleavages.

But again, the neat East versus West cleavage is a one-sided exaggeration. For if it is admitted that Yanukovich was former President Kuchma’s favorite candidate, or *protégé*, then one should also remember that Kuchma was also the architect of Ukraine’s “open vector” foreign policy dogma.<sup>22</sup> True, Kuchma today is mostly remembered as a Russophile and, perhaps, with good reason: the emblematic gesture-exchanges between Moscow and Kiev pointed to this direction, such as Putin calling 2002 “the Year of Ukraine in Russia,” swiftly matched by Kuchma’s proclamation of 2003 as the “Year of Russia in Ukraine;” the Gazprom-Naftogas Ukrainy deal (2002) pointed to this direction; as did the declaration of Ukraine’s intention to join the Eurasian Economic Community pointed (2002). However, this was only one vector; there was another. Kuchma, along with Shevardnadze, was amongst the founders of the GUAM regional group (1997), which specified amongst its main aims the combat of separatism and the promotion of territorial integrity. It was under Kuchma’s Presidency that Ukraine first presented a plan for

21 Kuzio Taras, “Ukraine: East-West Break-up are Overdone,” *Oxford Analytica*, 2 December 2004, [http://www.taraskuzio.net/media14\\_files/27.pdf](http://www.taraskuzio.net/media14_files/27.pdf)

22 “Profile: Victor Yanukovich,” *BBC News*, 3 February 2010, <http://news.bbc.co.uk/2/hi/europe/4038803.stm>

meeting EU accession criteria (February 2002) and addressed the technical dimensions of a plan to join NATO (May 2002).<sup>23</sup>

Whether the coming to power of President Yushchenko and Prime Minister Yulia Tymoshenko constituted a simultaneous “clean break” with Russia is open for debate. But, there is little doubt that the Orange Revolution movement expressed concrete and sincere democratic grievances. International electoral monitors were in consensus over the fact that the first electoral encounters of October-November 2004 were fraudulent; whilst the independent verification of Yushchenko’s toxin poisoning clearly demonstrated that there was foul play. Moreover, it seems fairly widely acknowledged that the Yanukovich campaign was helped by favorable coverage in the Russian speaking media, Russian political support, and financing.<sup>24</sup>

### ***Antithesis: Unbundling Transitions (FP and Democratization)***

The legacy of Color Revolutions cemented the coupling of the political landscapes in Georgia and Ukraine in single “East versus West” frame; this perception was further reinforced by the fact that the interests and perceptions of Western allies in the region are shaped by the dynamic evolution of a geopolitically larger “game”: “Russia versus the West.” There are at least three examples bearing testament to this dominant frame of analysis, guiding Western engagement in the region.

First, following the Russo-Georgian War in 2008, media analysts speculated that Ukraine could or would be the next in line to have its territory challenged by Russia. Specifically, as events were unfolding in Georgia in 2008, Ukraine briefly stood up to Moscow over its Crimean port. As Russian warships were departing Sevastopol for Georgia, the Ukrainian administration announced restrictions on the fleet and threatened to ban its re-entry in Ukrainian territory. For certain analysts this was yet another play in the “East versus West”

<sup>23</sup> Olexiy Haran and Rostyslav Pavlenko, “The Paradoxes of Kuchma’s Foreign Policy,” *PONAR’s Policy Memo* (September 2003), [http://csis.org/files/media/csis/pubs/pm\\_0291.pdf](http://csis.org/files/media/csis/pubs/pm_0291.pdf)

<sup>24</sup> Steven Woehrel, “Ukraine’s Political Crisis and U.S. Policy Issues,” *CRS Report for Congress*, 1 February 2005, <https://www.hsdl.org/?search&collection=crs&sso=date&submitted=Search&creatormore=true&fct&page=1&creator=Woehrel%2C+Steven+J>

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grand narrative.<sup>25</sup> In this scheme, the fear of the proverbial domino effect was at play.

Secondly, it is anything but uncommon for energy-security analysts in the region to refer to these two countries as the major theatre of an “East versus West” encounter that Papava and Tokmazivilli have coined the “Pipeline Cold War”.<sup>26</sup> In this scheme, Ukraine and Georgia are often seen as pawns in a greater energy-security chess game.

Last but not least, one cannot help noticing that NATO engagement in the region also seems to be treating these two states as parts of a single equation, as evidenced by the fact that NATO’s door slammed simultaneously for both countries in 2008.<sup>27</sup> This decision was perhaps made in the fear that a proxy East-West encounter in the Caucasus could escalate into open confrontation with Russia, which would clearly be of global consequence if either of the two countries evoked article 5.

However, it requires a huge leap of faith in order to believe that this dominant perceptual frame of a geopolitical encounter corresponds neatly with a clash of norms, values and political beliefs of domestic political actors. It may be observed that political actors in either Ukraine or Georgia will customarily feed upon this underlying “East versus West” narrative for the purposes of their electoral campaigns. But this does not mean that this political rhetoric also bears testament to the democratic credentials of pro-Western leaders or proves beyond reasonable doubt the autarchic outlook of leaders employing a pro-Kremlin discourse. In sum, the East versus West frame of perception may not always serve international observers wishing to evaluate or monitor progress in democratization in either of the two states.

In Georgia as well as in the West, there have been those who questioned whether foreign policy orientation, which is fervently Western oriented,

25 Alastair Gee, “In Ukraine’s Crimea the Next Flash Point With Russia,” *USNews.com*, 26 August 2008, <http://www.usnews.com/topics/locations/ukraine>

26 Vladimer Papava and Michael Tokmazishvilli, “Russian Energy Politics and the EU,” *Caucasian Review of International Affairs*, Vol.4, No.2 (Spring 2010).

27 Steven Erlanger and Steven Lee Myers, “NATO Allies Oppose Bush on Georgia and Ukraine,” *New York Times*, 3 April 2008, <http://www.nytimes.com/2008/04/03/world/europe/03nato.html?pagewanted=all>

coincides with substantive progress in democratization. Early on, the grievances concerning Georgia's democratic deficit were domestic.<sup>28</sup> But, increasingly, international observers have also voiced their concerns.<sup>29</sup> Domestic or international, "transition" monitors of every ilk are swift to hail Georgia's decisive steps towards market liberalization, but then move on to point out that there is a lot to be desired in terms of democratization. Yet these remarks are often overshadowed, for whenever the prospect of elections comes to the fore, the "East-West" paradigm resurges to the detriment of the democratization agenda. For instance, the ruling party has recently made statements to the effect that one of the prime Presidential candidates, whose businesses are mainly in Russia, could be influenced by the Kremlin. The argument is that anyone who has managed to stay this wealthy in Putin's Russia must have Moscow's support.<sup>30</sup> The Russophobe card is also deployed against journalists.<sup>31</sup> The culminating effect is that whoever threatens incumbent power can swiftly and effectively be discredited by raising the specter of Russia, thus silencing or diminishing the effect of domestic and international concerns about the regime's democratic credentials. And, perhaps paradoxically, there is evidence to suggest that this type of Russophobia is not constructive in any sense whatsoever, including foreign policy orientation, since, at times, this risky exercise in domestic bravado makes the Georgian alliance seem like a liability.<sup>32</sup>

Conversely, despite full-circle lamentations on the recent Yanukovich victory, which was seen by certain analysts as the Kremlin's victory and, hence, a Western defeat,<sup>33</sup> Freedom House indicators fair better in Ukraine than in Georgia on issues such as electoral procedures.<sup>34</sup> Some analysts are in fact more generous with Ukraine, suggesting that it may even become a "regional

28 Tinatin Khidasheli, "Georgia: The Rose Revolution has Wilted," *New York Times*, 8 December 2004, [http://www.nytimes.com/2004/12/08/opinion/08iht-edkhidasheli\\_ed3\\_.html?\\_r=1](http://www.nytimes.com/2004/12/08/opinion/08iht-edkhidasheli_ed3_.html?_r=1)

29 Bodewig Kurt, "Economic and Political Transition in Georgia," *NATO Parliamentary Assembly*, <http://www.nato-pa.int/default.asp?SHORTCUT=1171> ;

"Freedom House Country Reports (Georgia/Ukraine)," <http://67.192.63.63/template.cfm?page=21&year>

30 McGuinness Damien, "Billionaire Tycoon Shakes up Georgia Politics," *BBC News*, 11 November 2011, <http://www.bbc.co.uk/news/mobile/world-europe-15682606>

31 Nino Tsagareishvili, "No Pictures, No Democracy," *Open Democracy*, 25 July 2011, <http://www.opendemocracy.net/od-russia/nino-tsagareishvili/georgia-no-pictures-no-democracy>

32 Thomas de Waal, "Georgia's Volatile Risk-Taker has Gone Over the Brik," *The Observer*, 10 August 2008, <http://www.guardian.co.uk/commentisfree/2008/aug/10/georgia.russia>

33 "Pro-Moscow Yanukovich to win Ukrainian Election," *BBC News*, 8 March 2010, <http://news.bbc.co.uk/2/hi/europe/8503177.stm>

34 "Freedom House Country Reports" (2010).

example” of cautious yet decisive steps towards democratization, despite the fact that Yulia Tymoshenko sought to portray her opponent as the destroyer of Ukraine’s European (i.e. Western) future;<sup>35</sup> and, given a tendency to embrace martyrdom, we should also bear in mind that political actors tend to often change role in this scene, with Tymoshenko herself once being hailed as the “dissident oligarch”.<sup>36</sup> Meanwhile, in a Kuchma-like tradition, Yanukovich seems to remain true to the “open vector” diplomatic culture and with good reason. His weak presidential office, unlike the super-strong presidential office in Georgia, does not allow him to pursue divisive issues in a decisive manner. He promised before elections to recognize the Georgian breakaway republics; but so far has not done so. He has made no advances towards joining NATO, but neither towards CSTO. Recently, quite dismayed with Ukraine, Dmitri Medvedev stated: “If Ukraine chooses the European vector, it will certainly be more difficult for it to find opportunities within the single economic area and customs union between Russia, Kazakhstan and Belarus, because this is a separate association. You can’t be everywhere at once and this is something that has to be understood by everyone, including my Ukrainian colleagues.”<sup>37</sup>

### ***Discussion – Synthesis: Moving Beyond the Russian Taboo***

There is no doubt that the Color Revolution experience was founded on the activism, perseverance and self-sacrifice of thousands of people longing for democracy and, to an extent, the desire for a foreign policy shift that would take Georgia and Ukraine beyond the Kremlin’s grasp. The problem at hand is that this experience did not automatically fulfill both objectives at once. The fear of Russia, which can hardly serve as a model for democratic evolution, has justifiably entrenched a dominant perceptual view that “Western foreign policy orientation equals democratic credentials.” This is not the case. A Western oriented foreign policy goes a long way in cementing a market-oriented economy; goes a long way perhaps in creating a balance of power which, under certain circumstances, may lead to viable security architecture

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35 Andrew Wilson, “Dealing with Yanuchovich’s Ukraine,” *Policy Brief*, 18 March 2010, [http://ecfr.eu/content/entry/commentary\\_dealing\\_with\\_yanukovychs\\_ukraine\\_a\\_policy\\_brief](http://ecfr.eu/content/entry/commentary_dealing_with_yanukovychs_ukraine_a_policy_brief)

36 Taras Kuzio, “How the Gas Issue Plays in Ukrainian Politics and How Ukrainian Politicians Play the Gas Issue,” *Paper Delivered at Harvard University*, 7 March 2008, [http://www.taraskuzio.net/conferences2\\_files/Ukrainian\\_Politics\\_Energy.pdf](http://www.taraskuzio.net/conferences2_files/Ukrainian_Politics_Energy.pdf)

37 “Ukraine Needs to Choose EU or CIS-Medvedev,” *EuroActiv*, 18 May 2011, <http://www.euractiv.com/ebs2011/special-report-russia-ukraine-eye-customs-union-eu-news-504944>

that keeps Russia expansionism at bay. But, so far, a Western foreign policy orientation falls short of securing a Western style-and-standard democratic process.

What is more, coupling the issue of foreign policy orientation and domestic democratization has, at times, been counterproductive. Clearly, the first priority of a democratic system is to achieve inclusiveness, even in the midst of extreme polarization on foreign policy issues. To this effect, a divisive line amongst traitors and patriots does not serve any purpose. Moreover, when anti-Russian rhetoric becomes the main instrument for boosting international legitimacy, the result may be that a country becomes a liability to its allies.

A second dilemma frequently encountered by political systems is the choice between effectiveness and inclusion. Now, in the context of a consolidated democracy, effectiveness can be the legitimate first priority, as it was in Italy, in the reform of the Italian electorate system in the 1990s, designed to create effective governance in a political landscape that is notoriously fragmented. But, in an environment where individual freedoms and the separation of powers have not been achieved, then inclusion should be the first objective; if not, underrepresented social demographics may seek extra-systemic political expression. Following this line of thinking, less strong executive offices, which are systemically forced to be more responsive to parliamentary cleavages, may also be more appropriate for political systems in transition, if the prime objective is to secure that all political actors remain systemically committed. In any event, if neither electorate processes nor constitutional designs are informed by the overarching priority of securing systemic inclusion, then the political system is conducive to extra-systemic forms of mobilization such as Color Revolutions.

Thus, to allow room for the emerging generation to enjoy and celebrate Georgian or Ukrainian independence, our generation must first transcend its “Russian Taboo”. This is not a proposal for a re-direction of foreign policy; it is merely a call for our generation to place its own fears second, focusing on the priorities of the next generation, who are clearly concerned with substantive democratization, longed for since 1989.



# SHIFTING GEARS: GEORGIA'S PERSIAN GAMBIT AND THE LOGIC OF REGIONAL GEOPOLITICS\*

Kornely K. Kakachia



**D**espite more favorable trends in international and regional politics related to globalization, small states are still precariously dependent on their ability to maintain their newly acquired sovereignty, territorial unity and autonomy in policymaking. The geographic location of a small state is an important factor in its relations with great powers and other international actors. Proximity to world powers has always entailed vulnerability to pressure from these larger neighbors, while control of strategic routes and resources has enhanced the strategic position of small states. Most small states also face disturbing external threats and heightened tension from a variety of internal ethnic forces.<sup>1</sup> Strategies that are available to small states facing shifts in the distribution of power or increased threats to national security are an important part of international relations discourse.<sup>2</sup> Drawing on the “balance of power” theory associated with classical realism, structural realism has set the debate.

The conventional view of the realist school conceives international relations as the arena for the interests and aspirations of the major powers.<sup>3</sup> Smaller nations

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1 Gabriel Sheffer, “The Security of Small Ethnic States: A Counter Neo-Realist Argument,” in Efraim Inbar and Gabriel Sheffer (eds.), *The National Security of Small States in a Changing World* (London: Franc Cass, 1997), p. 9.

2 Ulf Lindell and Stefan Persson, “The Paradox of Weak State Power: A Research and Literature Overview,” *Cooperation and Conflict*, Vol.21 (1986), pp. 79-97.

3 See: Kenneth Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979); Jack Donelly, *Realism and International Relations* (Cambridge: Cambridge University Press, 2000).

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are treated as objects of policy, statistical units in categories of states classified in terms of their relationship to their respective protectors or oppressors, as “ours” and “theirs” – pawns to be gained or lost in conflicts or deals between the great powers. Yet the survival of small Caucasian nations has illustrated, not for the first time in history, that in a conflict between a great power with international interests and commitments, and small nations with the single objective of survival, the balance of power cannot be calculated by simple arithmetic.<sup>4</sup> As observed by Hans Morgenthau: the “protection of rights of a weak nation, that is threatened by strong one is then determined by balance of power as it operates in particular situation.”

Over the two decades since it regained independence, Georgia, as a small, weak state has developed close relations with regional and international powers, and aligned with them in order to compensate for its weakness. Often considered to be “the darling of the West” in the post-Soviet space, enjoying significant Western support, Georgia’s recent move to establish closer political and economic links with the Islamic Republic of Iran has caused some bewilderment in Western capitals. Considering that Georgia is perceived as a close partner of the U.S. in the Caucasus, and has received roughly 4.5 billion dollars in Western aid over the past three years, these developments attracted intense scrutiny from policymakers and regional analysts alike. This paper aims to examine Georgia’s Iran strategy, and attempts to identify the key causes and motivations pushing Tbilisi towards Tehran.<sup>5</sup> It also examines Georgia’s international position in relation to pressing regional security issues, and the attendant risks.

### ***Limits of U.S. Power and Geopolitical Reality Check***

If geography determines the numerous aspects of state behavior and political options in countries or regions, so it does in Georgia too. Historical analysis of Georgian foreign relations since its independence reveals a trend.<sup>6</sup> Over the last two thousand years, Georgia has acted as a buffer state between various empires and invaders: the Romans, the pagan Persians, the Muslim Arabs, the

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<sup>4</sup> For further details see: Svante Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus* (London: Routledge, 2000).

<sup>5</sup> A shortened version of this paper was published as PONARS Eurasia Policy Memo in September 2011.

<sup>6</sup> See: David Marshall Lang, *A Modern History of Georgia* (London: Weidenfeld and Nicolson, 1962).

Mongols, the Seljuk Turks, the Byzantines, the Muslim Persians, the Ottoman Turks, as well as pre-revolutionary, post-revolutionary, and post-Soviet Russia.<sup>7</sup> At various points, Georgia has struggled, fought, and eventually evicted invading forces from its lands of the Caucasus; it could not otherwise have survived as a nation. In order to vanquish its more powerful enemies, Georgia historically was forced to form alliances with the enemies of its enemies, and such alliances almost always transcended religious boundaries.<sup>8</sup> As a result of these aforementioned factors, Georgia's foreign policy emerged as a classic product of geopolitical factors, where geographic location remains one of the central features of a country's political development. In order to examine the management of security in the South Caucasus and the nature of Georgia's policies towards Iran, the defining factors at play should be clearly understood.<sup>9</sup>

Georgia has been a small and weak state since it declared independence from the Soviet Union in 1991.<sup>10</sup> Its location –nestled between the Black Sea, Russia, and Turkey- gives it strategic importance far beyond its size, Georgia has had to rely on foreign policy as a means of establishing its presence on the international stage. Soon after independence, Georgia faced serious domestic and international problems that endangered its sovereignty. Georgia's fragile state structure and Russia's repeated attempts to subjugate and manipulate weaknesses of its small neighbor constituted the biggest challenge to national security. Georgia's problems have been aggravated by Moscow's policies, which have weakened and fragmented the country, aiming to curtail Georgia's Euro-Atlantic integration, or at least push it in the direction of "Finlandization".<sup>11</sup> When states are faced with an external threat, they tend to align with others in

<sup>7</sup> On detailed account on Georgia as a buffer state see: Tornike Turmanidze, *Buffer States: Power Policies, Foreign Policies and Concepts* (New York: Nova Science Pub Inc, 2009).

<sup>8</sup> Lasha Tchantouridze, "It Does not Take a Prophet: War and Peace in the Caucasus, Central Asia and the Caucasus," *Journal of Social and Political Studies*, Vol.55, No.1 (2009), p.10.

<sup>9</sup> Gocha Lordkipanidze, "The Main Actors in the South Caucasus-Introduction" in Michael Geistlinger et al. (eds.), *Security Identity and the Southern Caucasus The Role of the EU, the US and Russia* (Vien-Graz: Neuer Wissenschaftlicher Verlag, 2008), p. 86.

<sup>10</sup> Alexander Rondeli, "The Choice of Independent Georgia," in Gennady Chufrin (ed.), *The Security of the Caspian Sea Region* (Oxford: Oxford University Press, 2001), p. 195.

<sup>11</sup> Finlandization or "the policy of silence" has been defined as a process by which a democratic nation living in the shadow of a militarily powerful totalitarian state gradually submits to the political domination of its neighbor, and finally loses its internal freedom. For Georgians, Finlandization is believed to reveal a limitation of sovereignty, an abdication of the pursuit of national interests.

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order to oppose the states that pose the threat. Thus Georgia's foreign policy has been driven by a desire to ally with external powers, a strategy that appears either as balancing (checking the rising Russian power) or bandwagoning (i.e., joining with West and seeking the patronage of the U.S.). It has also made great efforts to court NATO, as well as other regional powers, including Iran. From the early 1990s, Georgia had no choice but to engage in a matrix of alliances, involving key regional powers, smaller powers within the region, and key international players.

Following the August 2008 War with Russia, part of Moscow's attempts to weaken and isolate Georgia, Tbilisi was eager to expand and deepen its relationships abroad.<sup>12</sup> The rapidly shifting power balance and new developments stemming from Russia's unilateral recognition of Abkhazia and South Ossetia have forced Georgia to re-evaluate and reshape its foreign policy strategy in the region. The war also demonstrated that the Western guarantees for Georgia lacked substance, and that the integrity of the oil and gas corridor was essentially dependent on Russia's good will.<sup>13</sup> The geopolitical dynamic become even more challenging as Obama's administration downgraded<sup>14</sup> security ties with Georgia after initiating the "reset" policy with Russia, under which rapprochement with Moscow was made a key foreign policy goal.<sup>15</sup> Moreover, although Georgia has closely allied itself with the U.S., and considers close relations with the U.S. and European Union as crucial to its future development, some U.S. foreign policy makers have questioned the importance of U.S. interests in this region, arguing that developments there are largely marginal to U.S. national interests.<sup>16</sup>

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12 For the analysis to back up this judgment, see: Kornely K. Kakachia, Between Russian Assertiveness and Insecurity: Georgia's Political Challenges and Prospect after the Conflict," *Uluslararası İlişkiler*, Vol.7, No.26 (Summer 2010), pp. 87-104.

13 Sergey Blagov, "Georgia: Pipeline Routes on a Powder Keg," *ISN Security Watch*, 20 August 2008, <http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?ots591=4888CAA0-B3DB-1461-98B9-E20E7B9C13D4&lng=en&id=90265>

14 For detailed account see: Jim Nichol, "Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests," *Congressional Research Service*, 15 April 2011, <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA543388>

15 "My friend's Enemy is...my Neighbor. Georgia, Geopolitics and Iran," *The Economist*, 8 November 2010, [http://www.economist.com/blogs/easternapproaches/2010/11/georgia\\_geopolitics\\_and\\_iran](http://www.economist.com/blogs/easternapproaches/2010/11/georgia_geopolitics_and_iran)

16 Owen Matthews, "The Tbilisi Squeeze. Washington's New Friendship with Moscow has One Very Clear Casualty: Georgia," *The Newsweek*, 29 June 2010, <http://www.thedailybeast.com/newsweek/2010/06/30/the-tbilisi-squeeze.html>

As argued by Zbigniew Brzezinski: “with the decline of America’s global preeminence, weaker countries will be more susceptible to the assertive influence of major regional powers [...] American decline would leave this tiny Caucasian state [Georgia] vulnerable to Russian political intimidation and military aggression [...] America’s decline would put new limitations on U.S. capabilities, and could by itself stir Russian desires to reclaim its old sphere of influence.”<sup>17</sup> According to him, as India and China are gaining ground on the international stage, Russia is becoming increasingly imperial-minded, while the Middle East is growing ever more unstable. The potential for regional conflict in the absence of an internationally active America is serious. “Get ready for a global reality characterized by the survival of the strongest,” concludes Brzezinski. While this critical re-evaluation of Georgia’s role of in regional geopolitics is not a major determinant of U.S. policy towards the region, and while cooperating with Russia does not necessarily entail condoning its policy in Georgia, it seems that Tbilisi has certainly taken note of these shifts, and adjusted its geostrategic calculations accordingly.<sup>18</sup>

The perceived decline of the role of Georgia specifically and the region in general within U.S. foreign policy has given rise to a situation in which it seems clear that Georgia cannot rely exclusively on Western backing to guarantee its security, and that it is essential to develop relations with neighboring countries.<sup>19</sup> In the wake of the conflict with Russia there was also a strong realization in Tbilisi that while close strategic links with Washington provide some legitimate security and defense needs, the U.S. cannot always protect Georgia’s vital security interests *vis-à-vis* Russia. In some cases, it may have the opposite effect, limiting Tbilisi’s bargaining power with rising regional powers to counter Russia’s *bellicose* diplomacy. As a consequence of this, in the current political climate, the goal of Georgian diplomacy has been to promote of sustainable balance of power in the region, and to diversify its foreign policy portfolio, including by enhancing relations with non-bordering Iran. At this point, it seems as if the Georgian knock on Iran’s door has been welcomed.

<sup>17</sup> Zbigniew Brzezinski, “8 Geopolitically Endangered Species; Meet the Weaker Countries That will Suffer from American Decline,” *Foreign Policy Magazine*, January/February 2012, [http://www.foreignpolicy.com/articles/2012/01/03/8\\_geopolitically\\_endangered\\_species?page=0\\_0](http://www.foreignpolicy.com/articles/2012/01/03/8_geopolitically_endangered_species?page=0_0)

<sup>18</sup> Zbigniew Brzezinski, “From Hope to Audacity, Appraising Obama’s Foreign Policy,” *Foreign Affairs*, January/February 2010, <http://www.foreignaffairs.com/articles/65720/zbigniew-brzezinski/from-hope-to-audacity>

<sup>19</sup> See: Alexander Cooley, “How the West Failed Georgia,” *Current History*, vol.107:711 (October 2008),pp. 342-344.

### *Tbilisi and Tehran: Shared Concerns vs. Conflicts of Interest*

As both a source of opportunity and threat the South Caucasus occupies an important place in Iran's multiregional foreign policy agenda. Having ignored the Caucasus for decades, Iran has decided to re-enter the region's geopolitical chess game, first of all by cultivating a new relationships with Georgia, hoping to regain its once-potent role as a regional power.<sup>20</sup> Domestic political tensions –primarily the presence of a significant Azerbaijani minority in Iran– and national interests and confrontations beyond the region, including with the U.S., also influence Iran's policies toward the region. While Georgia is not central to U.S.-Iran strategic competition, its close alignment with the U.S.<sup>21</sup> is a source of serious discomfort for Iran, plagued by Western sanctions and with its domestic politics in turmoil. A Georgian analyst has identified four major characteristics of Iran's policy towards Georgia:<sup>22</sup>

- Iran has no territorial dispute with Georgia and recognizes its territorial integrity;
- Iran opposes the U.S., NATO, and Israel strengthening their positions in Georgia and in the Southern Caucasus, and supports Russian interests;
- Building gas and oil pipelines which bypass Iran runs counter to Iran's economic interest, as it would reduce its importance as a transit corridor for gas and oil from the Caspian;
- Iran is interested in transit routes through Georgia towards the Black Sea and Europe.

Given Georgia's pro-Western orientation, Iran perceives Tbilisi as "Westoxicated" regime, subservient to U.S. global and regional interests. Although it has not brought this into public discourse, it is nonetheless true that Iran is anxious about the U.S.-Georgia strategic partnership. Tehran

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20 Edmund Herzig, "The New Caucasus Armenia, Azerbaijan and Georgia (Chatham House papers)," *Royal Institute of International Affairs* (Winter 2000).

21 For detailed account see: Varun Vira and Erin Fitzgerald, "The United States and Iran: Competition Involving Turkey and the South Caucasus," *Center for Strategic and International Studies* (August 2011), [http://csis.org/files/publication/110804\\_iran\\_chapter\\_8\\_turkey\\_casp.pdf](http://csis.org/files/publication/110804_iran_chapter_8_turkey_casp.pdf)

22 Mamuka Kurasbediani, "Possibilities for Reactivating Bilateral Relations between Georgia and Iran," *Policy Paper Series, GFSIS* (2010), p. 33.

fears in particular that Georgia could be used as a staging post for the West in the event of a military operation against Iran. The Iranian leadership has regularly raised its concern over the U.S.-Georgia security partnership with Tbilisi, claiming that “strengthening NATO’s position in the region is not good for the region’s population.”<sup>23</sup> Recognizing the limitations of its ability to influence Georgia, however, Tehran has increasingly adopted a pragmatic policy toward Tbilisi that better suits its limited political resources.<sup>24</sup>

Due to its geographical proximity and important political and geostrategic implications, the current Russia-Georgia conflict is being closely watched by Tehran. Given that the perceived Russian threat is on the top of Georgia’s foreign policy agenda, and has to date posed a major challenge to its sovereignty, Tehran has essentially tried to present itself as a protector of the weaker states in the region, and to promote anti-hegemonic policies. A good case in point is the statement by Iran’s ambassador to Georgia, Majid Saber on 21 May 2010. Speaking to Georgian journalists and questioning whether the U.S. was a reliable strategic partner for Georgia during the Russo-Georgian war, he said: “No U.S. help was there when you [Georgia] needed it most... Real friendship is demonstrated in hard times.”<sup>25</sup> He hinted that only Tehran could be a reliable friend to Georgia.

It is also worth pointing out that Tehran’s diplomatic activity in the Caucasus is by no means limited to Georgia. Iran has removed visa requirements for Azerbaijani citizens (November 2009), has been involved in key energy security projects in Armenia, and is planning to create a railway link with both countries. Iranian officials have also offered to help mediate the 24 year old Nagorno-Karabakh dispute between Azerbaijan and Armenia.<sup>26</sup>

At the same time, in order to maintain its tactical friendship with Moscow –to counterbalance U.S. influence in Caucasus– Tehran has been careful not to

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23 Kurasbediani (2010), p. 34.

24 Michael Cecire, “Iran’s Georgia Play,” *Evolutsia.net*, <http://www.evolutsia.net/irans-georgia-play/>

25 Salome Modebadze, “Georgia Deepens Cooperation with Iran, Despite Objections,” *The Messenger*, 25 May 2010, [http://www.messenger.com.ge/issues/2113\\_may\\_25\\_2010/2113\\_salome.html](http://www.messenger.com.ge/issues/2113_may_25_2010/2113_salome.html)

26 See: Abdollah Ramezanzadeh, “Iran’s Role as Mediator in the Nagorno-Karabakh Crisis,” in Bruno Coppiepers (ed.), *Contested Borders in the Caucasus* (Brussels: VUB University Press, 1996).

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antagonize Russia's security interests in the region. In addition to cooperating on energy deals, Iran has already proven an effective regional ally for Russia. It also recognizes that Russia's nuclear cooperation provides the Kremlin with leverage over Tehran. However, over the past few years, Tehran has also hinted that it may prioritize its own national interests. The cooling of relations between Tehran and Moscow over Russia's support for sanctions against Iran has further contributed to this belief. Under such circumstances, it seems that Tehran's policy is not aimed at forestalling the Westernization of the region, but is rather intended to keep the South Caucasus from becoming a base for U.S. military power. Overall, Iran seems to be pursuing a stability-based foreign policy, in order to promote its economic and strategic objectives, and to expand its regional influence.

Georgia's foreign policy follows a general trajectory of seeking support from regional and international powers; its interest in Iran is purely geopolitical. From Tbilisi's perspective, Iran as a "pragmatic radical" within the region has the potential to play a constructive role in countering Russia's geopolitical ambitions. Cautiously accepting Tehran's recent overtures of friendship, Georgia's geostrategic calculations assume that due to its internal dynamics Iran could potentially advocate for Georgian territorial integrity. Politicians in Tbilisi are cognizant of the balanced position Iran took during the 2008 conflict between Russia and Georgia, when it refrained from taking sides though Iran's relations with Georgia were at their lowest point. Although Iran did not condemn Russia's aggression, Tehran officially supported the sovereignty and territorial integrity of all states, stressing the importance of respecting international norms and agreements. Subsequently, based on this policy, Iran also refused to recognize the Russian-backed separatist regions of Georgia, a move that was crucial to Tbilisi. In doing so, Iran seemed to be reinvesting in its image and prestige in Georgia, which somewhat boosted its declining regional influence.

Despite professed partnerships, Tbilisi's dealings with Tehran have not been easy. While repeatedly emphasizing that bilateral relations are exclusively about trade and tourism, Georgian officials have to consider a number of

delicate international issues if they are to maintain strategic relations with Western countries, notably Iran's nuclear program. In 2008, Georgian-Iranian relations were frozen for nearly a year, after Georgia agreed to extradite an Iranian citizen<sup>27</sup> to Washington on charges of smuggling, money laundering, and conspiracy.<sup>28</sup> Washington failed to recognize that this was a matter of great sensitivity for Georgia, and took it for granted that Georgia would take such a risky step, and the whole incident raised hackles in Tehran. In order to stabilize the situation, Georgian Foreign Minister Grigol Vashadze visited Iran in January 2010 to meet with President Mahmoud Ahmadinejad.<sup>29</sup> It is not known whether Tbilisi apologized to Tehran for the extradition, or whether anything was offered to pacify Tehran, but since then Georgia's policy towards Iran has been quite successful and bilateral relations have stabilized. Indeed, Iran, buoyed by the prospect of making friends in the region, offered a reciprocal visit by President Ahmadinejad to Tbilisi. So far, however, Georgian officials have held off for fear of antagonizing the U.S. and its European allies.<sup>30</sup>

### ***Economic Cooperation, Investment and Bilateral Projects***

Many small states have recognized the need for economic diversification, and have attempted to achieve that objective by encouraging foreign investment.<sup>31</sup> Iran is a potentially important trading partner for Georgia, and the economic relationship between the two countries has shown promise, notably in the energy sector.<sup>32</sup> As Georgian and Iranian political contact has improved, both sides have sought to enhance economic cooperation as well. Desperately looking for a way to move away from its dependence on Russia, Georgia sees

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27 Carrie Johnson and Spencer S. Hsu, "Iranian to be Sentenced in Arms Smuggling Case," *Washington Post*, 3 December 2009, <http://www.washingtonpost.com/wpdyn/content/article/2009/12/02/AR2009120203728.html>

28 "Iran, Georgia: Washington Wary of Warming Ties Between Tehran and U.S. Ally," *Los Angeles Times*, 5 November 2010, <http://latimesblogs.latimes.com/babylonbeyond/2010/11/iran-georgia-washington-wary-of-warming-ties-between-tehran-and-us-ally.html>

29 "Iranian President Meets Georgian FM," *Civil Georgia*, 19 January 2010, <http://www.civil.ge/eng/article.php?id=21899>

30 Giorgi Lomsadze, "Tbilisi Woos Iran While Washington Watches," *Eurasianet.org*, 28 May 2010, <http://www.eurasianet.org/node/61179>

31 "A Future for Small States: Overcoming Vulnerability," *Commonwealth Secretariat*, 1997, p. 57.

32 Helena Bedwell, "Iran Plans Georgian Hydro Plant, Seeks to Import Electricity," *Business Week* (21 May 2010).

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Iran as an alternative energy supplier, and both sides have renewed the drive for an energy partnership. One of the best examples of energy cooperation is the support Tehran provided to Tbilisi during the winter of 2006, when Russia cut off gas supplies to Georgia. Despite major pressure from its erstwhile ally in Moscow, Iran supplied energy at a low price to Georgia. To accept cooperation with Iran was not easy for Georgia; it was warned by the U.S. that a long-term strategic partnership with Tehran was “unacceptable” to the U.S.<sup>33</sup> The Georgian political class certainly did not forget this, and learned a useful lesson regarding the political reality: Iran, which has the world’s second largest gas reserves<sup>34</sup> after Russia, is eager to find a new customer for its energy exports, and to expand its economic ties, even at the expense of straining relations with Russia. Georgia is also interested in Iran’s rich experience in alternative energy source, namely wind power, and has tried to encourage Iranian investment in this field.

Over the past decade, underlining longstanding historical and cultural ties between the two nations, Tehran has also signed agreements with Tbilisi on the elimination of double taxation, encouraging investment, air, surface and sea transportation, and customs and trade cooperation. The volume of trade transactions between the two countries has been going up steadily.

Seeking to diversify transit routes for its cargo shipments, Iran is interested in Georgia’s transit capacity, and considers the country to be a viable alternative for freight shipments to Europe. It is expected that the visa-free regime between Georgia and Iran, which entered into force on 26 January 2011, would help increase trade turnover even more.<sup>35</sup> As a result of this agreement, Tehran has offered to help Tbilisi build a new hydroelectric plant, made good on a plan to reopen a long-abandoned Iranian consulate in western Georgia,<sup>36</sup>

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33 “US Ambassador Warns Georgia Against Iran Gas Deal,” *Jerusalem Post*, 26 November 2006, <http://www.ipost.com/International/Article.aspx?id=42722>

34 See: “Table posted by Energy Information Administration,” 3 March 2009, <http://www.eia.gov/international/reserves.html>

35 Mzia Kupuria, “Georgia and Iran sign Visa Free Travel Agreement,” *The Messenger*, 5 November 2010, [http://www.messenger.com.ge/issues/2229\\_november\\_5\\_2010/2229\\_mzia.html](http://www.messenger.com.ge/issues/2229_november_5_2010/2229_mzia.html)

36 Incidentally, Iran had a consular service operating in Batumi since 1883 under the Russian empire which was open even during the Soviet era, until 1927.

and sent thousands of Iranian tourists on chartered planes to Georgia's Black Sea resorts.<sup>37</sup>

In comments on the 2011 visa liberalization, Moscow has expressed hopes that cooperation between Tbilisi and Tehran will not be directed against a "third party". An official Representative of the Russian Foreign Ministry, Andrey Nesterenko, declared that Georgia and Iran are located in a "complicated region". "I hope that the tightening of relations between these two countries will not be directed against any third country," he said, without specifying which third country he meant.<sup>38</sup>

Given that Moscow seems indifferent towards the Georgian-Iranian rapprochement, Washington has made no comment on the Tbilisi-Tehran love-in, stating that Georgia's economic relations are its own business. It is not entirely clear, however, whether or not the Georgian initiative had Washington's full support. But amid heightened global tension stemming from Iran's controversial nuclear program, the announcements coming out of Tbilisi have apparently caught Western observers off-guard; the concern there is that Iran might fill the power vacuum in the South Caucasus.

Yet despite further investment deals on transport and energy projects on the table and its location just over 300 kilometers to the south, Iran currently holds only a modest share of Georgia's imports. Notwithstanding the declared partnership, there remains a huge gap between the actual and potential economic relationship between the two countries. Iran is not on the list of Georgia's key trading partners. According to official Georgian statistics, trade turnover between Georgia and Iran declined by 41.5 percent in 2009, to 36.3 million dollars. The figure climbed again to 67.2 million dollars in 2010, but in spite of this increase, trade between the two nations still accounts for less than one percent of Georgian imports. (See Figure-1 below).

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<sup>37</sup> According to statistical data, in 2009, Ajaria was visited by 250 Iranian tourists. In 2010, there were more than 5000 Iranian tourists. Altogether, Georgia has been visited by more than 18 000 Iran citizens; presumably the visa free regime will further increase the number of Iranian tourists.

<sup>38</sup> "Andrei Nesterenko Talks About Georgia-Iran Ties," *Ivage*, 2 July 2010, <http://www.1tv.ge/News-View.aspx?Location=7223&LangID=2>

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**Figure 1.** Trade turnover between Georgia and the Islamic Republic of Iran (2000 - 2011) (Thousand USD)<sup>39</sup>

Year	Export	Import	Trade turnover
2000	6,801.5	5,879.8	12,681.3
2001	4,311.4	6,315.3	10,626.7
2002	3,316.4	8,096.8	11,413.2
2003	3,426.3	6,995.7	10,422.0
2004	4,500.7	15,157.9	19,658.6
2005	4,681.2	25,999.8	30,681.0
2006	2,699.4	40,301.8	43,001.2
2007	6,050.0	51,732.9	57,782.9
2008	10,060.0	52,080.0	62,140.0
2009	6,425.8	29,895.0	36,320.8
2010	12,140.7	55,079.5	67,220.2
2011 January - May	5,219.3	21,122.5	26,341.8

### **Conclusion**

The nature of existing threats and challenges, and the difficulty of anticipating new ones, requires Georgia to seek close security cooperation within the international community. Given that some observers are suspicious of the visa-free regime between Georgia and Iran, and anxious about its possible implications for the West, Georgia's current cooperative policy towards Iran is not irrational. Closer relations with Iran, despite the extremely tense relations between Washington and Tehran, are an indication of Tbilisi's disillusionment with what it sees as the West's weakening interest in Georgia, as well as its desire to expand the space for political maneuvering in the region. Though Georgia remains tied to the West due to the strong financial and political support it receives, the lack of a decisive U.S. and NATO response to the Russian invasion in 2008 has not been forgotten. It will color the extent to which Georgia believes it can rely on the U.S. for its security, and how far it will go in offering Iran an opening to expand its influence. However, while Georgia might be playing a shrewd game of *realpolitik* in the region, with

<sup>39</sup> See: Georgian Ministry of Foreign Affairs Website, [http://www.mfa.gov.ge/?lang\\_id=ENG](http://www.mfa.gov.ge/?lang_id=ENG); Geostat-National Statistics office of Georgia, <http://www.geostat.ge/index.php?lang=eng>

Tehran and Tbilisi's apparent newfound closeness, it seems unlikely that Iran will play a major role in the region anytime soon.

With its unstable relations with Azerbaijan and strategic links with Armenia, the real economic and geopolitical dividends of Iranian diplomacy in the South Caucasus are largely theoretical at this point, as Iran's ability to become an influential actor in Georgia is limited by geography (there is no direct border between the two countries) along with other key geopolitical factors such as the dominant Western and Turkish influence. Heavy dependence on Western economic and political support precludes Tbilisi crossing certain red lines in its dealings with Tehran. Policymakers in Tbilisi are likely to continue to see ties with the U.S. as the best bet against Russian aggression, which makes it unlikely that they will support Iran in any major security disputes with Washington. Consequently, Georgia, as a NATO-aspirant country, is unlikely to endanger its strategic relations with the U.S. or its prospects of Euro-Atlantic integration for the sake of improving relations with Iran.

On the whole, in terms of maintaining a balancing act, Georgia's new foreign policy towards Iran seems unequivocally pragmatic, driven by economic and to some extent security concerns. With its "small state" reflex, Georgia assessed the changing international political environment and determined that political dialogue with Iran would help strengthen mutual confidence between the two countries. While trying to maintain a high level of strategic cooperation with the West and simultaneously to profit by trading with Iran, the Georgian political leadership is aware that as a small state, Georgia's room for maneuver and ability to formulate foreign policy are relatively limited. From the Iranian perspective, the advantage of Georgian-Iranian rapprochement is that Tehran can assert itself more strongly in the neighborhood, particularly when Iran does not have unlimited outlets for trade. Within this context, also taking into consideration Russia's significantly weakened role in Georgia and Washington's cooling relations with Tbilisi, Iranian diplomacy has room for maneuver in the region. All this suggests that Iran's presence on the Caucasian chessboard could end up serving as a stabilizing force in

the volatile South Caucasus. As bilateral relations between Iran and Georgia enter a deep stage, it remains to be seen how far Iran and Georgia will benefit from their declared friendship.

# ZERO PROBLEMS WITH NEIGHBORS: THE CASE OF GEORGIA\*

Ivane Chkhikvadze



Turkey was one of the first states to recognize Georgia's independence after the collapse of the Soviet Union. Turkey became the first foreign state that most Georgian citizens visited in their lives. At the beginning of the 21st century Turkey and Georgia became linked to each other with energy infrastructure. Turkey could be seen as a bridge connecting Georgia with the EU. Turkey managed to replace Russia as Georgia's biggest trade partner and due to the liberal visa policy it became an attractive destination for labor migrants and vacationers.

At the political level both states enjoy close relations, however there are some issues that also limit the depth of this relationship. Namely, due its close partnership to Russia, consisting of economic links and energy dependence, Ankara maintains a low profile when it comes to Georgia-Russia relations as well as issues concerning the breakaway regions of Abkhazia and South Ossetia. This paper sheds light on the significant achievements in Georgia-Turkish bilateral relations, as well as the shortcomings. Particular attention is paid to political relations, economic links, and educational programs.

Although there remain some challenging issues, Georgia could be considered a clear success of Turkish foreign policy, which aims to promote "zero

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problems” with neighbors. The current Foreign Minister of Turkey, Ahmet Davutoğlu, stated that the most striking example of the success of Turkish foreign policy, besides Syria, was its relations with Georgia.<sup>1</sup> Sharing 252 kilometers of land border, Georgia and Turkey have been drawing closer in recent years.

During Shevardnadze’s presidency of Georgia, the two countries became closely linked with each other as a result of large-scale energy projects. Shevardnadze’s foreign policy was praised by Turkish political analysts who, in retrospect, stressed that he managed to “establish his policy on a very very careful line: with gradual steps that would not cause discomfort for his country, moving his country towards the West.”<sup>2</sup> Bilateral ties have strengthened further since the change of ruling elites in Turkey and Georgia. The Justice and Development Party (AKP) –led by current Prime Minister Recep Tayyip Erdoğan– came to power in November 2002, one year before the National Movement of Georgia –led by current President Mikheil Saakashvili– came to power as a result of the Rose Revolution.

Turkish foreign policy towards Georgia is based on strengthening political links and intensifying trade relations – as well as the related establishment of visa free travel. This article will provide an evaluation of these goals, and explore challenges ahead.

### ***Strengthening Political Ties***

The security doctrines of both Georgia and Turkey highlight the importance of bilateral cooperation. Georgia’s 2011 National Security Concept portrays Turkey as a leading regional partner. The document underlines that “Turkey, as a member of the NATO and one of the regional leaders, is also an important military partner.”<sup>3</sup> Meanwhile, the Turkish National Security Council removed Georgia from the list of countries that pose a threat to Turkey.<sup>4</sup>

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1 “Turkey’s Foreign Policy Vision: An Assessment of 2007,” *Insight Turkey*, Vol.10, No.1, p. 80.

2 İsmet Berkani, “The Man Who Lost his Country in Gamble,” *Radikal*, 12 August 2008.

3 “Draft of Georgia’s New National Security Concept,” *Civil Georgia*, 19 February 2011, <http://www.civil.ge/eng/print.php?id=23164>

4 “Turkey Declares Israel ‘Central Threat’,” *The Baltimore Jewish Times*, 1 November 2010, [http://www.jewishtimes.com/index.php/jewishtimes/news/jt/international\\_news/turkey\\_declares\\_israel\\_central\\_threat/21481](http://www.jewishtimes.com/index.php/jewishtimes/news/jt/international_news/turkey_declares_israel_central_threat/21481)

Turkey's foreign policy towards Georgia emphasizes stability over democracy, in other words, Turkey does not impose any conditionality relating to Georgia's democratization. Unlike many Western countries, Turkey maintained a distant approach towards Georgia's Rose Revolution and has never openly criticized Georgia for its democratic shortcomings. As the Turkish Foreign Minister put it: "If you want to contribute to regional and global peace, you have to speak from within. You should not impose. You should not dictate."<sup>5</sup>

Both leaders have given positive messages about each other's nation at various occasions. In his first visit to Georgia as the Prime Minister of Turkey on 12 August 2004, Erdoğan mentioned that he was Georgian because his family had migrated from Batumi to Rize, a Turkish town on the Black Sea. Mikheil Saakashvili, the President of Georgia, praised Turkey as "a great state, Georgia's close friend and a model state,"<sup>6</sup> and noted that Mustafa Kemal Atatürk's revolutions directed towards Turkey's unification and strengthening constituted a perfect example for him: "Georgia should become a modern, united, developed and successful state and in many issues we follow the example of our neighboring friend – Turkey."<sup>7</sup>

After Russia, Georgia is the top destination for Turkish Prime Minister among the Black Sea littoral states. During his tenure, Prime Minister Erdoğan made more ministerial trips to Georgia (six times from 2003 until May 2011) than to Bulgaria, Romania, or Ukraine.

Turkey has also been a valuable military partner for Georgia. Turkish assistance in training of Georgian troops, improving technical and logistical capabilities, and in modernizing military infrastructure has significantly contributed to the strengthening of Georgian Armed Forces. Turkey founded the military academy in Tbilisi and also modernized the military airbase in Marneuli (close to Tbilisi) as well as the military base in Vaziani, Georgia,

<sup>5</sup> "Mr. Zero Problems," *Foreign Policy*, Vol.89 No.6, [http://www.foreignpolicy.com/articles/2010/11/29/mr\\_zero\\_problems?page=0,1](http://www.foreignpolicy.com/articles/2010/11/29/mr_zero_problems?page=0,1)

<sup>6</sup> "Saakashvili Speaks of Importance of Close Ties with Turkey," *Civil Georgia*, 14 March 2006, <http://www.civil.ge/eng/article.php?id=12061>

<sup>7</sup> *Civil Georgia* (2006).

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starting from the withdrawal of Russian military forces from those bases in early 2001. Turkish military personnel also offered pre-deployment training for Georgian armed forces before they were dispatched to Kosovo, as well as training to Georgia's Kojori Special Forces brigade.

Both Turkey and Georgia pay special attention to maintaining close political ties and avoiding diplomatic tensions, however from time to time controversial topics surface. One source of tension in the relationship is Abkhazia –Georgia's breakaway region of 300,000 people– which has been recognized as a state only by the Russian Federation, Nicaragua, Venezuela, and Nauru. Currently there are more Abkhaz living in Turkey than in Abkhazia. The community of those with Abkhaz ethnic origin in Turkey numbers around 500,000, and they actively lobby for the establishment of close political and economic ties between Turkey and Abkhazia. As current Turkish Ambassador to Georgia Murat Buhran put it, Turkey hopes to “establish direct trade relations with Abkhazia” with the possibility that Turkish ferries could make a stopover in Batumi for customs clearance before continuing on to Abkhazia.<sup>8</sup>

Georgia has been asking the international community to isolate Abkhazia's ruling elite, not giving them the opportunity of meeting with the Abkhaz ethnic origin communities living in Turkey. Ankara refused to issue an entry visa to the Abkhaz leader, late Sergey Bagapsh, in 2007. However Bagapsh managed to visit Turkey with the invitation of the Federation of Abkhaz Associations and the Federation of Caucasus Associations on 7-10 April 2011. The Turkish Ministry of Foreign Affairs had to issue a press release clarifying that the visit had no official character.<sup>9</sup>

Moreover, Turkey and Georgia have different approaches towards the NATO's eastern enlargement. While Georgia advocated getting a NATO Membership Action Plan (MAP) at the NATO Bucharest summit in spring 2008; Turkey, together with France, Germany, and Italy was reluctant about

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8 Nick Clayton, “Turkish Investment and Trade Booms in Abkhazia,” *Weekly Journal Tabula*, 1 April 2011, <http://www.tabula.ge/article-3573.html>

9 “Press Release Regarding the Visit of Mr. Sergey Bagapsh to Turkey, No. 96,” *Ministry of Foreign Affairs of Republic of Turkey*, 7 April 2011, [http://www.mfa.gov.tr/no\\_96\\_-7-april-2011\\_-press-release-regarding-the-visit-of-mr\\_-sergey-bagapsh-to-turkey.en.mfa](http://www.mfa.gov.tr/no_96_-7-april-2011_-press-release-regarding-the-visit-of-mr_-sergey-bagapsh-to-turkey.en.mfa)

Georgia and Ukraine receiving MAP.<sup>10</sup> Turkish officials frequently stress that “they cannot understand why NATO and the U.S. want to penetrate the region.”<sup>11</sup>

The Georgian government was not happy with Ankara’s stance following the Russia-Georgia war. Russia, fearing they could transfer military equipment, pressured Ankara to prevent the passage of U.S. ships delivering humanitarian aid to Georgia. Turkey, referring to the Montreux Convention,<sup>12</sup> denied access to U.S. ships headed to Georgia though the Bosphorus. As one key Georgian government official put it, “this was not a nice page in Turkey-Georgian bilateral relations.”<sup>13</sup>

However, Georgia maintains an effort to avoid the deterioration of its relations with Turkey. In this regard, following the visit of Ahmet Davutoğlu in September 2009, Georgia released the captain of the Turkish-operated cargo vessel who was detained for violating Georgian law on Occupied Territories. Prior to his release, the captain was attempting to deliver fuel to breakaway Abkhazia and was accordingly sentenced to 24 years imprisonment.

Moreover, upon Turkey’s request, Georgia released 10 Turkish citizens in spring 2011 and 17 in summer, six of whom were serving life sentences. The Turkish Foreign Ministry welcomed the decision and stressed that Georgia’s move would “increase the friendship and neighborly ties between the two peoples, and this is an important part of humanitarian dimension of bilateral relations.”<sup>14</sup>

### ***Economic Cooperation and Trade***

The development of close economic ties between Georgia and Turkey goes back to the collapse of the Soviet Union. In the early 1990s, then President

10 Gaidz Minassian, “Turkey-Russia: A New Strategic Partnership?,” *Foundation of Strategic Research*, No.08/10.

11 Suat Kinkılıç, “The Anatomy of Turkish-Russian Relations,” *The Brookings Institution*, 2007, [http://www.brookings.edu/-/media/events/2006/5/23turkey/20060523sabanci\\_3a.pdf](http://www.brookings.edu/-/media/events/2006/5/23turkey/20060523sabanci_3a.pdf)

12 Montreux Convention sets the number and tonnage of ships willing to enter to the Black Sea. No more than 9 warships of non-Black Sea states, with a total tonnage of 45,000 tons, could be present at one time in the Black Sea and they are supposed to leave the sea in 21 days.

13 Author’s interview with a key Georgian government official, April 2011.

14 “Turkey Welcomes Georgian Decision to Release Turkish Prisoners,” *Today's Zaman*, 9 June 2011.

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of Turkey –late Turgut Özal– elaborated a policy of forming an alliance with the close neighbors of Turkey, viewing them as potential export markets. This policy was carried on by President Süleyman Demirel (holding office between 1993 and 2000) and the late Foreign Minister, İsmail Cem (1997-2002). The ruling Justice and Development Party (AKP) has pursued this trend even more actively. As a result, Turkey has signed free trade agreements (FTA) with many of its neighbors, such as Albania, Bosnia and Herzegovina, Croatia, Egypt, Georgia, Israel, Jordan, Macedonia, Montenegro, Morocco, the Palestinian Authority, Tunisia, Serbia, Syria, and Lebanon. Moreover, Turkey also has a customs union with the EU since 1995.

The AKP program outlines that: “moving from the fact that exports can be achieved most easily with neighboring countries, [Turkey] will take all types of measures aimed at implementation for the increase of exports to neighboring countries.”<sup>15</sup> The document also sets a target for the Turkish missions abroad, which is to intensify AKP’s activities towards increasing exports. As a Turkish government official noted: “today the success of an ambassador is often judged on the basis of the increase of Turkish exports to the country during his term of tenure.”<sup>16</sup>

Turkish foreign policy is broadly shaped by economic considerations – such as export markets, investment opportunities, tourism, energy supplies and the like. In line with this general approach, Turkish Ambassador to Georgia, Murat Burhan named economic and trade relations as Turkey’s most important priorities in Georgia-Turkish relations.<sup>17</sup>

Indeed, Turkey’s economic relations with Georgia have been deepening steadily, particularly since the mid-2000s. Turkey is Georgia’s biggest trade partner and the fifth biggest investor in Georgia. While Turkey’s policies played an important role in this progression, so did the Russia-Georgia crisis and the reforms within Georgia itself.

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15 “Justice and Development Party (AKP) Program,” <http://eng.akparti.org.tr/english/partyprogramme.html>

16 Kemal Kirişçi, “The Transformation of Turkish Foreign Policy: The Rise of the Trading State,” *New Perspectives on Turkey*, No.40 (2009), pp. 29-57.

17 “Interview with L. Murat Burhan, Turkish Ambassador to Georgia,” *The Messenger*, 29 October 2010.

Following the Rose Revolution, President Saakashvili and his team pursued a liberal economic policy aimed at cutting red tape and fighting corruption. It also marked the liberalization of Georgian tax and labor codes and an aggressive privatization process. Georgia has been trying to open its economy to the entire world and attract foreign direct investments (FDI). Such policies reaped results particularly before the war. In 2007 Georgia managed to attract more than two billion dollars.

Another reason Turkey successfully replaced Russia as Georgia's leading economic partner was the fact that Turkey offered Georgia what Russia refused to give: free trade and travel. Russia introduced an embargo on Georgian agricultural products and mineral water in 2006, whereas Turkey opened its market to Georgian goods with a free trade agreement (entering into force in 2008). Bilateral trade increased almost eightfold from 2002 to 2010. Export of Georgian products to Turkey augmented fourfold – from 53 million dollars in 2002 to 216 million dollars in 2010. Turkish import to Georgia amplified almost tenfold – from 89 million dollars in 2002 to 888 million dollars in 2010. Although a small market of approximately four million consumers, Turkish FDI to Georgia has been a growing since 2005, reaching a record 164 million dollars in 2008.

The main areas of the Georgian economy that are attracting Turkish investments are textile, agriculture and energy. There are several relatively small size textile companies operating in Ajaria (Ajaria Textile, Batumi Textile, BTM Textile, Georgian Bay Peri Textile, Georgian TeXtile Geofibre etc.), a region on the Black Sea Coast that is close to the Georgia-Turkish border. There are also some agro-processing companies (for example, ICON Group produces tomatoes in the same region). Currently, there are 83 construction projects that are being carried out by Turkish contractors in Georgia, with a total value of more than one billion dollars.<sup>18</sup>

Based on a mutual agreement signed in 2006, Batumi airport became part of Turkey's network of internal flights and its management rights were transferred to the Turkish company Tepe-Akfen-Vie (TAV) for 20 years, for a

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<sup>18</sup> Tina Shavadze, "Foreign Investors and the Government," *24 hours*, 10 April 2011.

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symbolic amount of one dollar. TAV has also acquired the management rights of Tbilisi airport for 15 years.<sup>19</sup> Turkcell, a Turkish telecommunications giant, holds large shares in the Georgian telecommunication system.

Turkish companies such as Kolin Construction, Tourism Industry and Trading Co. Inc. were put in charge of a 150 million dollar hydropower project. In early 2011 Georgia also signed a memorandum with a daughter company of Turkish Ağaoğlu Group on the construction of three hydropower plants in Samtskhe-Javakheti.

### **Visa-Free Travel**

Contrary to Russia's handling of the visa regime towards the citizens of Georgia, Turkey lifted its visa requirements in 2005. As an outcome, Turkey became the one of the main destinations for citizens of Georgia. According to *Today's Zaman* the number of Georgians entering Turkey increased from 161,687 in 2002 up to 830,184 in 2008. Turkey also became a favorite place for those planning vacations, reaching a record number of 101,146 Georgian tourists in 2010.<sup>20</sup> Many Georgian labor migrants, mainly coming from the impoverished countryside, are also benefiting from the abolishment of the visa requirement; the remittances sent from Turkey to Georgia by Georgian labor migrants increases annually. Compared to the remittances of two million dollars in 2002, the figure is 33 million dollars for 2010.<sup>21</sup> They are generally employed by small or medium sized enterprises in the Marmara region and the eastern Black Sea. The sectors where these workers are employed are: agriculture, walnut collecting, construction, carpentry, textile, house cleaning, and dish washing.<sup>22</sup>

There are a significant number of irregular Georgian migrants pursuing seasonal or permanent labor activities in Turkey. This could be a significant leverage in Turkey's hand. One only needs to recall the statement that Prime

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19 Ivane Chkhikvadze, "Black Sea Regional Cooperation from Georgia Perspective," May 2010, <http://www.bsyr.org/download/2010/Chkhikvadze-01.pdf>

20 "Turkey Sees Nearly 15 Percent Rise in Tourist Numbers in First Five Months," *Today's Zaman*, 28 June 2011.

21 *National Bank of Georgia*, [www.nbg.ge](http://www.nbg.ge)

22 "Denied Work Permit, 500,000 Foreigners Working Illegal in Turkey," *Today's Zaman*, 22 October 2010.

Minister Erdoğan made about Armenian irregular migrants employed in Turkey to see that these migrants provide Turkey with leverage. Erdoğan had said in March 2010: “Look, there are 170, 000 Armenians in my country – 70,000 of them are my citizens, but we are tolerating 100,000 of them illegally in our country. So what will we do tomorrow? If it is necessary, I will tell them ‘Come on; go back to your country.’”<sup>23</sup>

In addition to visa-free travel, Georgian and Turkish citizens benefit from the fact that both countries have good transport connections. In addition to direct land connections, there are three flights per day between Tbilisi and Istanbul and one between Istanbul and Batumi. This makes Turkey the country with most intense air-links with Georgia. On top of this, both states have reached an agreement on passport-free travel, meaning by 2012 the citizens of Turkey and Georgia may be able to cross the border by only showing their national identity cards.

### ***Other Fields of Cooperation***

Education is another field of Georgian-Turkish cooperation. There are Turkish middle schools as well as a Turkish university in Georgia, and Turkey offers scholarships to Georgian students who would like to continue their higher education in Turkey and learn the Turkish language.

However, according to the figures Georgia is low in the list of states whose citizens receive educational scholarships from the Turkish Ministry of Education. In the list, Georgia comes behind states like Mongolia, Afghanistan, China, Macedonia, Moldova, and Russia.<sup>24</sup> The number of Georgian students pursuing their studies at various Turkish universities is also very low compared to the students coming from other states. All in all there are 262 Georgian students in Turkey, whereas 899 students from Mongolia and 307 from Macedonia.

<sup>23</sup> Today's Zaman (2010).

<sup>24</sup> According to the data obtained from Turkish Ministry of Education, for the year 2011, Turkey granted 660 scholarships (for language school, pre-elementary, elementary, MA and PhD level) for the citizens of Azerbaijan, 659 for Turkmenistan, 649 for Krygyzstan, 530 for Kazakhstan, 525 for Kosovo, 339 for Iraq, 303 for Mongolia, 246 for Afghanistan, 132 for China, 137 for Iran, 167 for Macedonia, 154 for Moldova, 147 for Russia. However, only 58 scholarships were allocated for the students coming from Georgia.

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The Turkish Ministry of Education could overview the priorities of allocating the scholarships with the aim of increasing the rate of Georgian students in Turkey. Education programs and more scholarships are the biggest assets in Turkish hands and could become the most precious Turkish investment in Georgia.

Surprisingly, Georgia seems not to be an attractive place for Turkish non-governmental organizations (NGOs). There are British, American, German, and Czech NGOs operating in Georgia, but there are no Turkish NGOs carrying out projects. Like many other European states Turkey should create a cultural center in Georgia.<sup>25</sup>

In 2009 Georgia received up to 79 million dollars from Turkish International Development and Cooperation Agency (TIKA), preceded by such states as Albania, Montenegro, Macedonia, Bosnia and Herzegovina, Kazakhstan, and Ukraine.<sup>26</sup> In order to become a more important player, Ankara should prioritize Georgia in areas beyond trade and investment, including spheres such as education, cultural programs and civil society development.

### ***Conclusion***

Turkey-Georgia relations are broadly moving in the right direction though there are some shortcomings.

The Caucasus Stability and Cooperation Platform (CSCP) that Turkey proposed to the South Caucasus states after the Russia-Georgia war was inaugurated on 13 August 2008 in Moscow by Prime Minister Erdoan. At that time the Turkish Foreign Minister explained that the platform was the “framework to develop stability, confidence, and cooperation and become a forum for dialogue.”<sup>27</sup>

The CSCP can be assessed as a failure. After almost three years of its launching, it still misses common principles, structure and decision making mechanisms.

25 There are French, German, British, Italian cultural centers operating in Georgia under the auspices of these countries embassies.

26 Turkish International Cooperation and Development Agency (TIKA) report of 2009.

27 Ali Babacan, “Turkish Initiatives: Calming the Caucasus,” *International Herald Tribune*, 26 September 2008.

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Georgia keeps a distant approach towards the platform. President Saakashvili was not happy with the format since it lacked the participation of EU and other key regional actors.<sup>28</sup>

One of the reasons of the failure is that the platform excluded significant actors of the region such as NATO, the EU, the U.S., and even Iran. The U.S. state officials were surprised by “Turkey’s call for the formation of a CSCP, as they had not been informed in advance.”<sup>29</sup> Turkey needs to seek a win-win policy together with Russia, the U.S., NATO, and the EU in the region.

Turkey should formulate a more comprehensive policy towards Georgia (in harmonization with the policies of other players in the region) as well as towards the entire region. Trade relations and visa free travel is undoubtedly a great success of Georgia-Turkish relations but it needs to go beyond focusing only on those two and pay much more attention to the students exchange programs, cultural links, and civil society development.

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28 “Caucasus Platform not Feasible Yet,” *Hürriyet Daily News*, 24 March 2009.

29 Gareth Winrow, “Turkey, Russia and the Caucasus: Common and Diverging Interests,” *Chatham House Briefing Paper*, November 2009.



# AZERBAIJAN-RUSSIA RELATIONS AFTER THE FIVE-DAY WAR: FRIENDSHIP, ENMITY, OR PRAGMATISM? \*

Anar Valiyev



**O**ne can divide the past 20 years of relations between Azerbaijan and Russia into three stages. The first stage, spanning from 1992 to 2000, covers Boris Yeltsin's presidency, when the relations swung from neutral to near hostile. Several issues contributed to these fluctuations including the continued Russian arms supply and political support to Armenia, as well as heavy pressure from Russia on Azerbaijan to join the Collective Security Treaty Organization (CSTO) and halt cooperation with NATO. This first period was also characterized by the titanic efforts of Azerbaijan to build the Baku-Ceyhan pipeline to secure access to Western energy markets and Russia's continued hostility to any project bypassing Russia.

The second stage lasted from 2000 till 2008 and covered Vladimir Putin's two terms of presidency. The Russian government rapidly came to understand the fruitlessness of attempts to disrupt Azerbaijan's movement toward the West and chose a soft and pragmatic approach instead. First, the Putin administration secured Azerbaijan's support in the second Chechen war. Secondly, economic interests overtook political ones and the Russian business elite began to actively cooperate with Azerbaijan. Last but not least, Putin was able to find common ground with both former Azerbaijani President Heydar Aliyev and current President Ilham Aliyev, and break down negative stereotypes. This was

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a period of joint projects, economic opportunities, and mutual understanding. The Azerbaijani public slowly began to change its attitude and to see Russia as an unbiased broker in resolving the Karabakh conflict. Meanwhile, despite the centralization of power and several of Putin's hardline actions, Azerbaijan moved away from "fearing" an "unpredictable" and "unstable" Russia, which instead began to acquire the image of a pragmatic and constructive partner.

The last stage begins with the end of the Georgia-Russian Five-Day War and recognition of Abkhazia and Ossetia. This stage can be said to be still continuing, and represents a critical stage in Azerbaijan's policy toward Russia. For the Azerbaijani public, it was shocking to see acts of aggression against an independent neighboring state. The fact that Georgian actions were directed toward preservation of its territorial integrity and Russia was seen as acting in violation of international law played a very negative role in shaping the image of Russia in Azerbaijan. Despite the fact that Russia did not take any direct action against Azerbaijan and, in fact, tried to mitigate the impact of war through frequent visits by state representatives and frequent mediation in the Karabakh settlement, a "fear" of Russia re-emerged in the country.

The war also generated a new source of instability and forced most of the states of post-Soviet Eurasia to re-evaluate their foreign policies. Azerbaijan, for its part, has tried to avoid antagonizing Russia and has been cautious with regard to its ambitions for membership in either NATO or integration with the EU. Some might describe Azerbaijan's policy as a kind of "Finlandization", akin to the Finnish pursuit of neutrality after World War II in the face of a hostile Soviet Union.

In fact, Azerbaijan's policy toward Russia can be considered to be like "silent diplomacy," by which Baku is gradually developing Azerbaijan's role in the region using contradictions between powers. Despite the fact that after the Five-Day War, some Commonwealth of Independent States (CIS) countries such as Tajikistan, Armenia, and Kazakhstan adopted a pro-Russian strategy, Azerbaijan managed to preserve an independent foreign and domestic policy.

Nonetheless, a lack of progress in the Karabakh conflict and the possibility of a resumption of war continue to make Azerbaijan vulnerable. The conflict

remains the only factor limiting the actions of Azerbaijan's foreign policy, preventing it from intensifying its Euro-Atlantic integration plans. So far, Azerbaijan and, to a certain degree, Georgia remain among the few countries that can conduct independent policies in the post-Soviet space – along with the Baltic states. If the frozen conflicts of Azerbaijan and Georgia remain the same, or worsen, both states will exhaust their foreign policy opportunities and fall prey to growing Russian influence in the Caucasus.

### ***All Quiet on the Karabakh Front***

The Karabakh conflict remains the main topic in relations between Azerbaijan and Russia. Since their independence, Russia has been the main player in mediating between Azerbaijan and Armenia. However, the Russian policy in this conflict has never changed. The Russian establishment has continued to support its “outpost in the Caucasus” while trying not to antagonize belligerent Azerbaijan.

The *status quo* of the conflict benefited Russian interests more than those of Armenia and Azerbaijan. The conflict allows Moscow to keep both countries, to varying degrees, in the orbit of its influence. While Armenia has become totally dependent on the Russian economic and military aid, Azerbaijan's progress toward the West was limited and even halted. At the same time, Russia had been imitating mediating activity, pressing on both sides to keep ceasefire. All the while, for years, the Karabakh conflict continued to be an exchange coin in negotiations between Moscow and Baku. Whether it is the Nabucco project or Gabala radar station, the Russian side has always tried to use the conflict as leverage to get beneficial terms. Last, the threat of war resumption was also used by Russia to block the Western interests from actively penetrating the region. Thus, the resolution of the Karabakh conflict was successfully frozen by Russia for more than 14 years.

Since 2004, mediators and the foreign ministers of Armenia and Azerbaijan drafted a document entitled the Basic Principles, or Madrid Principles. This document has undergone further fine-tuning, and in late 2009, the co-chairs of Minsk Group unveiled a new, more explicit variant encompassing 14 points. Both presidents at various stages have agreed on the basic principles and analysts began to talk about the settlement of the conflict in the near future.

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However, neither side has been able to agree on three major issues. The first is the time frame and sequence in which Armenian forces will be withdrawn from seven districts of Azerbaijan, contiguous to Mountainous Karabakh. The second issue is the so-called Lachin Corridor that forms an overland bridge between Karabakh and Armenia. And, the third issues is the nature of the “*interim status*” to be accorded to the unrecognized republic pending an “expression of popular will” at some future juncture in which the region’s population will decide on its future status.

Nine meetings held between the presidents of Russia, Azerbaijan, and Armenia culminated in a meeting in Kazan on 24 June 2011. The public of both countries expected that documents defining the road map for conflict settlement would be signed. However, these hopes were not fulfilled and the presidents left the meetings without any signed declaration or document.

Many local and international analysts argued that it was Baku’s initiative to slow down the process and take time-out. As some media reported, President Aliyev came to the meeting with nine or 10 amendments to the Madrid principles that was objected to by Armenia and that were not expected by the Russian side.

The reason behind Azerbaijan’s sudden move was unfavorable timing and terms of agreement. It was *naïve* to expect that a peace solution document prepared under the *aegis* of the Russian establishment would take into consideration Azerbaijani interests. It is speculated that the draft the document proposed by Russians did not stipulate the sovereignty of Azerbaijan over the Lachin corridor, which is a vital piece of land.

Baku zealously opposes the return of Russian troops to Azerbaijan, in any form. It is not excluded that the Russian proposal had also envisioned deployment of Russian peacekeepers along the border between Azerbaijan and Karabakh, building up a new Russian strategy, cleverly called *Pax Russica*, by one analyst.<sup>1</sup> In this case, Russian mediation and Medvedev’s plan would bring Russian troops back to Azerbaijan. Exactly the same strategy was used by the Russian establishment in Ossetia and Abkhazia, eventually leading to their recognition. Deployment

<sup>1</sup> Thomas de Waal, “Can The ‘Medvedev Moment’ Be Saved for Karabakh?,” *Radio Free Europe*, 28 June 2011, [http://www.rferl.org/content/medvedev\\_moment\\_saved\\_nagorno\\_karabakh\\_kazan/24279692.html](http://www.rferl.org/content/medvedev_moment_saved_nagorno_karabakh_kazan/24279692.html)

of Russian troops in Azerbaijan would freeze the conflict and keep Azerbaijan and Armenia on a short rope for a longer period.

Azerbaijan was suspicious that Putin is behind the whole game. Meanwhile, the Baku leadership is fully aware that Medvedev's tenancy of the Kremlin may not last much longer and therefore he wants extra guarantees that his peace plan would be implementable. At the same time, by freezing negotiations, Baku wanted to send a signal to Washington and Brussels that the Russian mediation and Western abstinence from the resolution of conflict would lead to greater Russian role in the region.

Analysis of Russian actions shows that Russia, whether under Medvedev or Putin, is not genuinely interested in the solution of the Karabakh conflict. It goes against the Russian revivalist intentions to keep former Soviet republics in the orbit of its influence. Mediation is used by Russia to stall the resolution of conflict and to prolong the *status quo* that benefits the Russian side. Meanwhile, Russian monopoly on mediation does not allow other regional players such as Turkey to participate in the resolution of conflict. Example of Turkish-Armenian rapprochement, discussed further, is a very good example of how Russians took advantage of the contradictions between Turkey and Azerbaijan to gain additional benefits.

### ***Unholy Alliance: Turkish-Armenian Protocols and Russian-Azerbaijani Opposition***

On 10 October 2009, Foreign Minister of Turkey Ahmet Davutoğlu and his Armenian counterpart Edward Nalbandian signed Protocols on the Establishment of Diplomatic Relations between the two countries. Signing the Road Map between Armenia and Turkey in April of 2009 preceded the Protocols. The documents stipulated opening of the Armenian-Turkish border within two months after ratification in the parliaments.

However, the whole process deteriorated relations between Azerbaijan and Turkey; which was a situation skillfully used by the Russians to increase their influence in the region and to attempt to derail some regional projects.

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In negotiating border opening with Armenia, Turkey was hoping to achieve several goals. First, Ankara hoped to improve its relations with Yerevan. (Ankara and Yerevan have no diplomatic relations since 1993 when Armenian forces occupied the Kelbajar region of Azerbaijan). Second, Turkey wanted to play a more active role in regional affairs. By opening borders with Armenia, the Turkish government would be binding the Armenian economy to the Turkish economy. This would give Turkey more opportunities to influence Armenia through economic incentives. Armenia, then, would be softer on the Karabakh issue and the conflict would eventually be solved.

The major concern of the Azerbaijani side was the exclusion of the Karabakh issue from the protocols. The major argument that Azerbaijan makes against the protocols and the possible opening of borders is that such a move would make settlement of the Karabakh conflict impossible.

Analysts pointed out that Armenian rhetoric after the adoption of the “road map” became harsher. Turkey might have hoped that the road map and protocols would soften the Armenian position and spur Karabakh negotiations but it did not work out that way. Instead, the road map and protocols emboldened Armenia to take an unconstructive position.

With the protocols signed and the possibility of the border opening, Azerbaijan and Russia would lose one of their important levers over Armenia. For a certain period of time, relations between Azerbaijan and Turkey deteriorated – to the great benefit of Russia. Moscow’s policy in the wake of Armenian-Turkish rapprochement is understandable. Moscow tries to take maximum advantage of the divide between Turkey and Azerbaijan, seeking political and economic dividends from the situation. Moscow perfectly understands that, at the end, it could easily manipulate Armenia and prevent the opening of borders even if Turkey agreed to open them.

Azerbaijan’s disappointment served Russia well. With the strategic partnership between Azerbaijan and Turkey under threat, Russia seeks to utilize this unique opportunity to secure its position in the Caucasus.

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The deterioration of Azerbaijani-Turkish relations negatively affected the regional power balance and the Baku-Tbilisi-Ankara union came under threat. For years, these countries have been supportive of each other and most of the regional economic and political projects have involved all three.

If the Azerbaijani-Turkish alliance had drifted apart and Azerbaijan then relied more on Russia, Georgia's position would be significantly weakened. With increased Russian influence on Azerbaijan, Azerbaijani-Georgian relations eventually would have also been demoted from a strategic partnership to merely an average relation. In the absence of Azerbaijan's economic support to Georgia, Tbilisi would become an easy prey for Russian influence.

Ever since Azerbaijan's independence, Turkey was not only a staunch ally of Azerbaijan, but a link for the country to the West. With relations between the two countries severed, Azerbaijan would have left with the choices of having closer relations with Iran or Russia.

### ***Azerbaijan and Russia “Rivalry” in the Post-Soviet Space***

Ever since its inception, the CIS has been considered as a club of pro-Russian states that served Russian strategic and tactic interests. Kremlin summoned all summits, and other members of CIS approved all initiatives proposed by Russia, usually unanimously.

Baku tried to attend most of the formal meetings but restrained itself from signing useless declarations and statements. Thus, Azerbaijan abstained from joining CSTO, Eurasian Economic Union, and initiatives for the protection of common borders of CIS. Azerbaijan uses CIS forums for discussion of issues that cannot be solved through bilateral contact or negotiations. Baku uses the same policy officially towards other organizations such as GUAM.

Initially hailed and supported by the U.S. and the EU, GUAM later lost its attractiveness to the West. The absence of visible actions from the member states made this organization more like a club of countries dissatisfied with Russia. However, anti-Russian rhetoric was not enough to cement the weak military, economic, and political ties between the member countries.

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The last attempt to revive GUAM was made in July 2008 in Batumi, when the presidents of Azerbaijan, Georgia, and Ukraine urged the organization to become more active in resolving the so-called “frozen conflicts” existing in three member countries (Georgia, Azerbaijan, and Moldova) and adversely affecting Ukraine, the fourth GUAM member.

The Russian invasion of Georgia became the first test for the organization since its establishment. While Georgia and Ukraine took firm stands against the Russian invasion, Azerbaijan, and Moldova did not rush to support their Caucasian ally. There were a few reasons for that: Baku perfectly understood from the very start that the West was not going to intervene. It would have been *naïve* to believe in Western help after the Russian army captured Gori and other Georgian sites.

Azerbaijan’s siding with Georgia could inflict Russia’s wrath toward Azerbaijan. Of course, it would not lead to an invasion but it could result in border closures, persecution of Azerbaijani migrants, and the provoking of anti-Azerbaijani hysteria in Russia, as well as Russian support for Armenia in the resolution of the Karabakh conflict. All of these were considered in the assessments of the Azerbaijani government.

If Azerbaijan were to take Georgia’s side as Ukraine and other Eastern European countries did, it would not have helped Georgia but could have harmed Azerbaijan in many ways. Instead, Azerbaijan chose to support Georgia economically, and to do so, based on bilateral relations rather than within the GUAM framework.

It is likely that GUAM as an organization will not be active for a certain period of time. With a pro-Russian government in Ukraine, continued Russian occupation of Georgia’s territory, the unresolved Karabakh conflict, and the Transnistrian conflict in Moldova, it is difficult, if not impossible, to strengthen relations within GUAM.

Azerbaijan and Moldova will try to divert the anti-Russian direction of the organization, and make it more neutral. But all of this can change in the near future. It is easy to see that GUAM, as well as Azerbaijan’s aspiration to join NATO, is used by Baku as leverage in its relations with Moscow. If Azerbaijan could successfully

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“sell” these factors to Russia for a favorable outcome on the Karabakh conflict, then, Baku would ignore GUAM and would continue a soft policy toward Russia.

### ***Azerbaijani and Russian Caucasus: From Self Destruction to Mutual Benefit***

Azerbaijan continues to be one of the important elements for the security architecture of the turbulent Northern Caucasus. Russia clearly sees that a stable Azerbaijan is a guarantee for the stabilization of the diamond of the Caucasus-Dagestan. However, such understanding came after years of mutual distrust and enmity.

Among all Northern Caucasus republics, Azerbaijan traditionally had the tightest contacts and cooperation with Dagestan due to its proximity just across the border. Meanwhile, the presence of an Azerbaijani minority in Dagestan, and Lezgin and Avar minorities in Azerbaijan, combined with close trade relations, made Azerbaijani ties with Dagestan much more substantial than with any other North Caucasian republic.

The collapse of the Soviet Union in 1991 severed Azerbaijan’s contacts and relations with the republics of the Northern Caucasus, particularly Dagestan. The early years of independence for Azerbaijan were marred by the threat of separatism coming from its Lezgin minority living in the northern part of the country. Several nationalistic organizations, including *Sadval*, freely operating on the territory of Russia, instigated this separatism. Meanwhile, part of the Russian establishment played the separatism card in order to gain political leverage *vis-à-vis* Azerbaijan. Moreover, the terrorist attack in the Baku subway carried out by *Sadval* members in 1994 antagonized relations between Azerbaijan and Dagestan in particular.

The Russian-Chechen War was another factor that played a significant role in Azerbaijan’s contacts with the Northern Caucasus. Having understood that stability in the North Caucasus cannot be achieved without Azerbaijan’s cooperation, the Russian establishment started actively to seek ways to involve Azerbaijan

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in efforts to stabilize the North Caucasus. Leaders of the Northern Caucasus republics became frequent guests in Baku. At the same time, cross border trade and cooperation significantly intensified. Azerbaijan looks at relations with the Northern Caucasus through the prism of security and economics.

Baku also recognized that any instability in the Northern Caucasus would immediately provoke problems in Azerbaijan's north because of the flood of refugees, infiltration of guerrillas, emergence of religious radicals and eventually the spread of conflict into Azerbaijan.

The Azerbaijani government came around to the view that Russia played an overall positive role in the North Caucasus, even though it caused hardship for the population at the time. The perception was that a weakening of Russia in the region would not necessarily benefit Azerbaijan. To the contrary, Baku feared that a Russian withdrawal from Chechnya and Dagestan would immediately unleash a civil war between the different ethnic groups in the North Caucasus that could eventually spill over to Azerbaijan. In that case, Azerbaijan would face revived Avar or Lezgin separatism.

It was against this background that the Azerbaijani ruling establishment came to the view that a Russian success in Chechnya was necessary in order to maintain peace in Dagestan, and Baku, thus, would need to do everything possible to help Russia in this process. Despite the fact that Russian-backed Chechen President Ramzan Kadyrov faces heavy criticism in Europe and the U.S. for abusing human rights and repressing opposition to his rule, the Azerbaijani establishment has been helping Kadyrov to establish himself and win legitimization. The Azerbaijan government invited the Chechen president to Azerbaijan several times and Kadyrov visited Baku and met with its president in November 2009. Allahshukur Pashazade, Sheikh ul-Islam and Grand Mufti of the Caucasus, who is based in Baku, is also officially backing the current Chechen president, providing crucial support for legitimizing Kadyrov's rule.

The gas deal between Azerbaijan and Russia is another factor in cementing economic, as well as political, relations. Starting this year, Gazprom is buying

around two billion cubic meters of gas per year from Azerbaijan and planning to increase that volume. There are two factors driving gas cooperation between the two countries. First, Russia pursues a policy of trying to decrease the attractiveness of the EU-favored Nabucco project by demonstrating that the proposed pipeline from Azerbaijan to Europe would not have enough gas to fill it. Second, the Kremlin is trying to secure energy supplies to the North Caucasus. In bringing gas to this remote area, Russia wants to avoid transporting energy from its own heartland, which would be more expensive. Thus, by buying gas from Azerbaijan, Russia saves money on gas transportation. So, it is not surprising that Russia offers a price for Azerbaijani gas that is similar to the price at which it sells its own gas to Europe. Russia wins economically and politically in any case. For Azerbaijan, such cooperation is beneficial since the country can sell its gas at market prices. At the same time, the gas supply to Dagestan and other republics of the North Caucasus is making Azerbaijan an important player in providing economic security to the region.

Most of the time relations between Azerbaijan and the Russian South were hostage to overall relations between Baku and Moscow. However, recent developments suggest that the roles have changed. Today, with active cross-border cooperation and common security concerns, the Russian establishment is careful not to spoil relations with Azerbaijan, fearing that such actions would negatively affect the Northern Caucasus, and especially Dagestan. Azerbaijan was thus able to link its own interests with those of Russia, ensuring that Moscow is not only interested in maintaining good relations with Azerbaijan, but also in maintaining economic and political stability there.

### ***Conclusion***

Twenty years of independence demonstrates that relations between Azerbaijan and Russia are defined by misperceptions and bias. Russia continues to believe that if Karabakh conflict gets solved at all, Baku would immediately rush into anti-Russian alliances or NATO. The unresolved Karabakh conflict remains the only leverage that Russia can use against Azerbaijan in order to keep the latter from unfriendly actions.

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However, the Russian establishment does see that desires of Azerbaijan and Georgia for closer cooperation with NATO or EU is coming from the hope that these organizations would help them settle the conflicts based on the principles of international law.

Azerbaijan perfectly understands that a good and neighborly relation with Russia is the promise of prosperity for country. Russia is the largest trade partner of Azerbaijan (without counting oil export) and will remain so for a long period of time. Millions of Azerbaijanis live and work in Russia. Without exaggeration we can say that stability and prosperity of Azerbaijan is dependent on stability in Russia. However, Russian policy in the South Caucasus at this stage leads Azerbaijan to drift, with Georgia, toward the West with the hope that the U.S. and EU can be more reliable partners than their “great and mighty” northern neighbor.

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## **Chapter II:**

# **Trends in Regional Integration and Conflict Resolution**

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# CENTRAL ASIA, THE CAUCASUS, AND 21st CENTURY SECURITY\*

Ross Wilson



**G**reat conflicts and security challenges of the 20th century took place in Europe and Asia. Since 2001, Afghanistan and Iraq have been leading preoccupations for foreign policy and security planners of East and West. But other states in the region where Eurasia grinds up against South Asia and the Middle East –especially in Central Asia and the Caucasus—look vulnerable. No state in this region is really succeeding. They are variously burdened by inadequate and often authoritarian governance, immense economic problems, corruption, environmental, social, security, and other challenges. Institutions are weak and highly personalized. Only Armenia has recently witnessed anything akin to a transition of power through the ballot box, and even that was contested. Interstate and interethnic conflicts abound. Connections with the outside world remain limited aside from the energy ties that Azerbaijan and Kazakhstan have forged. Relations among regional states are limited as well, and not just because of interstate issues. Trade, investment, security cooperation, and genuine political dialogue –even after 20 years of independence— seem stunted. It is not unfair to say that long-term stability remains a goal, not a state of being for the Caucasus and Central Asia. This region could be a global nightmare, if not flashpoint, in 10, 20 or 30 years’ time.

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To address this region's failings and ensure that future world leaders do not find themselves obsessed with instabilities and conflicts in these out-of-the-way places –or, worse, find themselves drawn into them– greater engagement, cooperation and collaboration with and among these countries is urgently needed. These efforts should aim to create a new sense of community and common destiny, emphasize trade and economic ties as a way to put political legacies of the past into a better context, take advantage of the region's comparative advantages as the bridge between Europe and Asia, and otherwise develop practical ways of working together more. Turkey, Russia, China, the EU, and the U.S. should find supportive ways to work with the Caucasus/Central Asian countries – not in a domineering or “zero-sum” way, but in favor of prosperity, stability, security, and freedom.

The break up of the Soviet bloc 20 years ago was the 20th century's last cataclysm of global scope. It redefined international affairs just as developments coinciding with the end of World War II laid foundations for the following four decades. If East-Central Europe was affected in dramatic ways by the collapse of Soviet power, the republics of USSR –now independent states almost by a turn of fate– were completely upended. Only a quixotic few dreamed of independence before *perestroika* and then disorder in the Gorbachev years; now they were saddled with it. Completely new state systems had to be created out of nothing. Armenia, Azerbaijan, and Georgia had but extremely limited modern histories of independence after Russia's collapse in World War I. In Central Asia, the problem was worse, as not one of the new states had a modern history of independence at all. In both places, borders were little demarcated and problematic for ethnic and other reasons. Area countries' Soviet-based, centrally-planned economies collapsed when cut off from GOSPLAN and GOSSNAB;<sup>1</sup> they had no ready way, or even much conception of how, to convert to markets. From the start, interstate cooperation fell victim to these problems, personal grudges and rivalries among leaders, and the requirements of new statehood that for obvious reasons emphasized particular countries' interests, rather than what they might have in common. Twenty years on, the states of the Caucasus and Central Asia seem to have

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<sup>1</sup> GOSPLAN and GOSSNAB were the Soviet State Committees for Planning and Supply, respectively. They managed the Soviet economic system.

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accomplished a lot – and, at the same time, only a little. A big success is that they still exist. It was not obvious in 1991-2 that they would last long. New governing institutions were created. Seeds of economic success were planted, some countries being more successful at this than others. New militaries were created, and countries gained a measure of control over their borders – again some more successfully than others, as occupied chunks of Azerbaijan and Georgia testify, for example. Some sense of nationhood is now palpably evident virtually everywhere in the region, and nostalgia for the Soviet period that was still noticeable especially in Central Asia even in the late 1990s seems now to have faded away almost completely.

Despite these and other achievements, it would be highly misleading to consider Central Asia and the Caucasus broadly successful. While “failing” may be too strong a term, each country in the region faces grave problems and challenges. Ethnic issues have gotten worse in more countries than not. Thanks to the nightmare that is Afghanistan, drug traffickers and terrorists have brought new economic and security dislocations to the region. Many countries combine low-quality governance with authoritarianism or worse. Leadership succession looms in several countries, but mechanisms for transferring power are unclear – except that the process will most likely be opaque and, at best, only ratified by voters after the insiders have worked everything out. Poverty, poor climates for doing business, corruption and *autarky*, especially *vis-à-vis* neighbors, are the norm. Emigration and/or the temporary flow abroad of people in search of jobs are serious problems in most of the region’s countries; so is an overdependence on remittances in many. Stable, in any genuine and long-lasting sense, the Caucasus and Central Asia are not.

- Kyrgyzstan was savaged in 2010 by violence to overthrow a corrupt and tyrannical government (for the second time in a decade) and then among its ethnic Kyrgyz and Uzbek citizenry. Fractious political leaders are now attempting to govern through a parliamentary system that has no history or tradition; its success remains to be demonstrated. Division, political scheming, corruption and very unresolved ethnic issues cloud the country’s prospects. Kyrgyzstan’s economy is foundering, including because of its neighbors’ pressure tactics.

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- Tajikistan's most dysfunctional period took place during the 1990s civil war, but extensive poverty, weak governance, corruption, drug trafficking, terrorist violence and other issues make the country's prognosis highly questionable. Some Central Asia experts consider it more vulnerable to collapse than Kyrgyzstan. Cooperation on water and other issues with neighbors is poor – though this is not all Dushanbe's fault. President Emomali Rahman is essentially the only leader that independent Tajikistan has ever had, and a leadership succession struggle, when it comes, seems likely to provoke a crisis.
- Turkmenistan survived the cult of personality established by its last Soviet-era leader and first president, Saparmurat Niyazov. Its features included sometimes bizarre governance, hermit-like isolationism, and deep dependence on Russia for the export of natural gas, the country's most saleable export. Following Turkmenbashi's death in 2006, backroom deals engineered a transfer of power to the country's current leader, Gurbanguly Berdymukhamedov. Stranger excesses of the Niyazov era have been trimmed back. New gas development and export arrangements to China and Iran have reduced the country's dependence on Russia. But it remains poor, backward, remote, and removed from the world. Perhaps somewhat more than others throughout the region, Turkmenistan looks stable largely in a pre-2011 Tunisian way: it could last a long time, but might not.
- So does Uzbekistan. This country never had its neighbor's bizarre attributes, but an outstanding trait seems, in some eyes, to be the absence of genuine political change since the Soviet era. Even more than elsewhere in the region, direct or indirect state control of the economy suffocates business initiative; one regional banker privately called Uzbekistan's the worst climate for investment of all the former Soviet states. Tashkent often seems *chauvinistic* toward its neighbors and highly cautious about cooperating with them, as frequent, repeated border closures demonstrate. Relations with the West, Russia, and China are stiff and limited. The country's first and only president, Islam Karimov, turns 74 in January 2012. No model for or experience in transition exists. Expectations may already be building in the country about what change at the top might mean.

- Kazakhstan is relatively prosperous for Central Asia. Oil wealth has given Astana's leaders choices others did not have. Spending on education, infrastructure, economic development and to clean-up environmental and other legacies of the Soviet era is one result. Interethnic issues have been well managed, but the culture of freedom is weak. The government is authoritarian, sometimes benevolently, but at other times brutally so. Kazakhstan has a larger circle of foreign investors than elsewhere in Central Asia, but the economy's commanding heights remain in the hands of the state or those who lead it. Independent Kazakhstan's only president, Nursultan Nazarbayev, is 71. More visible work than elsewhere has been done to cultivate a new generation of potential leaders, but no established mechanism for succession exists in this country, either.
- Like Kazakhstan, Azerbaijan has similarly benefitted from energy riches and similarly suffered from authoritarianism, the cloistering of economic wealth in a few, favored hands, and a weak culture of freedom. Poverty in the countryside remains extensive. The conflict with Armenia over Nagorno-Karabakh limits the country's economic potential, distorts its politics, and saps public morale. It is difficult to see Azerbaijan –or Armenia– really succeeding as prosperous, stable, secure and at least democratizing states until Nagorno-Karabakh is resolved. President Ilham Aliyev succeeded his father, Heydar Aliyev, in an election after the latter's death in 2003. Succession at the top is not an obvious, immediate issue – except in the important sense that elections in Azerbaijan have never been judged free and fair. But a remarkable share of the top people under the president date back to the Soviet period and/or were installed after Heydar Aliyev's return to power in 1994, a fact which poses problems of its own.
- Armenia faces the same problems of poverty, a difficult and corrupt business climate, weak, but authoritarian governance, and the lack of a culture of freedom. Political space seems constricted, if not violent. Armenia's prospects are compromised by the militarization and isolation that flow from the unresolved Nagorno-Karabakh problem. Too many citizens are pessimistic about the future of their country – and so have left it. Political transitions have all been dodgy. Independent Armenia's first president, Levon Ter-Petrossian,

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was essentially overthrown by his prime minister, Karabakh leader Robert Kocharian, in 1998. While Kocharian's successor, Serzh Sarkisian, did gain the presidency through the ballot box, his victory was tainted by allegations of irregularities and post-electoral violence.

- Georgia's foreign policy and military failures with the Abkhaz, South Ossetians and Russia constitute its big tar babies, all the more since the August 2008 War gave Tbilisi's early-1990s *de facto* loss of territory at least a semi-permanent character. (The reintegration of Ajaria in the south was a more positive development.) The Rose Revolution was welcomed in the West for good reasons, but one thing it represented was a third consecutive transfer of power by means other than the ballot box. An improved business climate and a strong campaign against corruption hold promise for leading the country in better directions, but the Russia problem and the state of Georgia's interethnic problems remain deep, almost impossible problems.

A startling lack of cooperation further comprises the region and its states' futures. That they did not want to work together upon achieving independence was to some extent understandable. So is the lack of cooperation between, for example, Azerbaijan and Armenia. But little-developed cooperation between Georgia and Armenia or between Kazakhstan and Uzbekistan is harder to justify. As these countries head into their third decade of modern independence, strategies that disregard one's neighbors and the region no longer make sense.

Trade and investment ties among the Caucasus/Central Asian countries are minimal. Between 2001 and 2006, only Russia and Turkey had more than three regional partners that accounted for more than five percent of their total trade. By contrast, exports from members of the Association of Southeast Asian Nations (ASEAN) to other members were no lower than 15 percent of the total for any of that grouping. Potential wealth that could be generated through intra-Caucasus/Central Asian trade is lost, and the opportunity cost may be as much as one-third of GDP. Where they exist, economic ties and interests run north to Russia, for some sectors west to Turkey and in energy toward Europe and world markets, but not in the region.

Security cooperation is limited as well. U.S. efforts in the 1990s to foster collaboration among Central Asian militaries (e.g. through a Central Asian Peacekeeping Battalion) went nowhere. So it is with U.S. and other efforts to promote political and other forms of cooperation in the Caucasus. The Commonwealth of Independent States (CIS) has proven itself to be ineffective, at least in part because it was too obviously a vehicle for Russian influence and/or domination. Other efforts have been no more successful. The Collective Security Treaty Organization<sup>2</sup> and the oddly named GUAM grouping<sup>3</sup> have proved too limited, exclusive, bureaucratic or otherwise ineffective. The Black Sea Economic Cooperation organization (BSEC), has also suffered from an excess of politics on the one hand and bureaucratic thinking on the other, and it has not been effective either. In any case, BSEC does not embrace Central Asia.<sup>4</sup>

Fashioning a more successful future for Central Asia and the Caucasus involves many things, but two issues stand out:

One is that the countries need to find ways to work together. Here, as elsewhere, people like to make money, and business traders and investors are smart people. On a national and collective basis, at least where specific conflicts such as Nagorno-Karabakh or Abkhazia/South Ossetia do not get too much in the way, policy needs to make it easier to trade and invest across the region's borders. Infrastructure development helps. The Baku-Tbilisi-Kars railroad and developing shipping links across the Caspian are very important. So will be, for example, business-friendly visa regimes, more sensible air connections among capitals and business centers, and streamlined customs procedures that cut the time it takes to move cargo across the border, all strategies that have bolstered trade among ASEAN members in Southeast Asia. Harmonized investment rules and business-friendlier double-taxation regimes can help, too. Rules about special trade and economic zones in the region might be standardized or brought together such that the various zones could complement

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<sup>2</sup> CSTO members include Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan.

<sup>3</sup> GUAM consists of Georgia, Ukraine, Azerbaijan and Moldova - hence its name. For a time, Uzbekistan was also a member, and the organization was even more awkwardly named GUUAM.

<sup>4</sup> BSEC's members are Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey, and Ukraine.

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one another to become regional, not just local, drivers of prosperity. Multiple efforts need to be made to bring regional business leaders together in ways that will lead them to see more opportunity than competition, develop a sense of common purpose on issues of shared interest, and influence government policy in pro-trade ways on a national and collective/regional basis.

A second key issue is the work that outsiders do in Central Asia and the Caucasus. Great power rivalry will never be banished, any more than outsiders' stakes in whether and how conflicts over Abkhazia, Nagorno-Karabakh and the like can be ignored. But none among the outside powers –Turkey, Russia, China, the EU, the U.S., India or even Iran– really wants or will benefit from the instability or worse that seems likely in Central Asia and the Caucasus if present trends continue. Every one of them stands to benefit if and as the region becomes more stable and achieves anything close to its potential. Any effort to create a *condominium* of outside powers would be as unwise as the old “Great Game”, but exchanges of views and cooperation among the world’s leading powers can help lead the area’s states in more positive directions. An open regional free trade agreement that includes outside economies and that is negotiated in ways that genuinely opens markets and insists on harmonized policies would be a plus. The trade and transport flows being developed through the U.S.-initiated Northern Distribution Network to Afghanistan can be built upon and expanded to benefit purely civilian commerce. At a minimum, much needs to be done to draw regional business leaders into the global economy and to help them be drivers of modern economic and social policies that will help both individual countries and the region as a whole.

The Atlantic Council’s Black Sea Energy and Economic Forum aims to address these and other critical issues across the broad arc of instability that extends from Central Asia across the Caspian and Black Seas and on to Balkans and the Middle East. The Council aims to facilitate initiatives led by business people interested in their countries’ and the region’s future and who want to contribute to the policy debate about development and strategies for trade, investment, and growth. The aim is to support constructive politics, build prosperity and economic opportunity, and over time establish a sense

of community in a region where people have much in common, but whom history and recent events have pushed apart. The annual forums, the third of which takes in Istanbul 17-18 November 2011, constitute the headlines of this effort. But the Council will be working in 2012 and 2013 to foster dialogue among business leaders, and ultimately between them and governments, on ways to facilitate trade and investment, identify other common interests that can be worked on collectively, and implement projects that bring the region's countries together.



# THE CAUCASUS AND ITS NEIGHBORHOOD: A REGION WHERE ECONOMICS AND SECURITY COLLIDE\*

Fen Osler Hampson



The South Caucasus has historically been an area of extraordinary richness and diversity, and vast economic potential and opportunity – but also of conflict. Much like the Balkans, it is a region where East and West meet, and where three great empires –the Russian, the Ottoman, and the Safavid (Persian)– clashed in earlier times. With discovery of oil in Azerbaijan in the late 19th century, Russian ambitions to control the region intensified. The manipulation of ethno-religious differences by Russia and other external actors has long been part of imperial ambitions, from the Tsarist times, through the Bolshevik era, to the fall of the Berlin Wall.

Today, it is a region where many fires burn. These are the fires of economic ambition and growth, of political transformation and unrest, and of violent conflict resulting from uncontrolled assertions of identity and religion. The South Caucasus is also a region that demonstrates on a broader scale the way in which regional and global geopolitical tectonic plates are shifting, creating new opportunities for social, economic, and political interaction, while simultaneously igniting old tensions and rivalries. These tensions threaten regional political stability with larger global consequences. Left unchecked, they also threaten to jeopardize the huge strides in economic, social, and political

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development that the key countries of the region, notably Azerbaijan, have taken in recent years. Unfortunately, the efforts of various external actors to promote the resolution of the region's key disputes have been desultory and half-hearted of late. They will have to be reinvigorated and intensified. The EU and the U.S. have a critical role to play in fostering negotiations between the warring parties, and they must provide leadership. The region's long-term prosperity and political future ultimately depend upon the successful resolution of its key disputes.

### ***The Growing Global Importance of the South Caucasus***

The South Caucasus is a region of growing importance not only to the West but also to Asia, particularly the dynamic economies of China and Korea, which are increasingly important in driving global economic growth, innovation, and investment. The South Caucasus is also a region that increasingly sees itself –and is seen by others– as a strategic gateway between East and West, not least because of the wealth of natural resources, especially oil and gas, but also because it has the potential to serve as a key transit route for energy and resource shipments from Central Asia.

Three states –Azerbaijan, Georgia, and Armenia– form the South Caucasus region, which is delineated to the north by Russia, to the southeast and southwest by Iran and Turkey, and to the east and west by the brooding inland waters of the Black and Caspian seas. Some might argue that a region should be defined by its common values, shared interests, and a keen sense of identity; however the three countries of the South Caucasus are not necessarily unified by these elements.

What we do find is a “region” that is characterized by deep-rooted interdependent relationships which have developed over the years through the collision of culture and history, alongside shifting patterns of trade, investment, social migration, and interaction. It is also an “open” region because of the special relationships that these three countries have forged with their neighbors and others – Azerbaijan with Turkey and Georgia, Armenia with Russia, Georgia with Azerbaijan and the West.

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*Azerbaijan*

Azerbaijan is the region's most remarkable success story, thanks to its rich oil and gas resources. The ancient Persians called it *Atupatakan*, "a place where sacred fire is preserved." In Greek mythology, Zeus chained Prometheus to the Caucasus mountain range because he had stolen fire from the gods. Today, there are a still number of sites in the South Caucasus where whole mountainsides are on fire, where escaping gases from the ground have been ignited.

Before gaining its independence from the Soviets in 1991, Azerbaijan enjoyed a brief period of independence from 1918 to 1921, as the first democracy in the Muslim world. The macroeconomic stability and consistently high rates of growth that Azerbaijan has enjoyed since 1995 are indeed impressive. National GDP is fast approaching 100 billion dollars, dwarfing that of its neighbors. Its growth rates over the past decade have reached double-digits, the highest in the world, notwithstanding the recent global recession. The country's booming oil exports have also contributed to growth in the construction, banking, transportation, and real estate sectors. Although high rates of inflation accompanied Azerbaijan's oil boom during the last decade, these have been brought under control over the past two years, though a spike in oil prices does present a future risk.

Sound fiscal and monetary management by the government have been crucial to Azerbaijan's economic success. Privatization is a key element of the government's economic reform strategy. In 2000, the private sector made up 68 percent of the country's GDP. The second phase of privatization is currently underway, and for the most part envisages the privatization of medium and large-scale enterprises. As a result of this policy, the private sector generated 81 percent of GDP in 2007.

The 2011 Index of Economic Freedom gives Azerbaijan an overall economic freedom score of 59.7, placing it 92nd out of the 183 countries included in the 2011 index.<sup>1</sup> Azerbaijan's score rose by one percent between 2010 and 2011, which indicates that it is making steady progress in achieving key

<sup>1</sup> "2011 Index of Economic Freedom: Azerbaijan," *The Heritage Foundation and the Wall Street Journal*, <http://www.heritage.org/index/country/azerbaijan>

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reforms in the areas of fiscal and monetary policy, while also tackling regulatory reform and corruption. It is ranked in the top third of all countries in the Asia-Pacific region, and significantly above most of its immediate neighbors. Azerbaijan has also been working steadily to secure World Trade Organization membership. The accession process began in 1997, and is supported by a wide range of bilateral and multilateral trade treaties.

Azerbaijan's private banking sector continues to grow, despite the major role played by state-owned banks, particularly the International Bank of Azerbaijan. This growth has increased the supply of credit, though not yet to the degree necessary to enhance the growth of small and medium-sized enterprises in the economy. The government and private bond market also remains small and somewhat underdeveloped. In spite of these continuing challenges, Azerbaijan's banking system is generally quite stable, and the government is moving in the right direction by privatizing some of its state-owned banks.

Energy is the core of the Azerbaijani economy. Azerbaijan produces just over a million barrels of oil a day. It ranks 23rd among the world's major oil producers. More than half of Azerbaijani oil goes for export, given its relatively modest domestic consumption. Its proven oil reserves have been calculated at seven billion barrels, placing it 19th in the world.<sup>2</sup>

Azerbaijan's natural gas reserves also put it amongst of the world's major oil producers. Proven gas reserves are estimated at 849.5 billion cubic meters (27th in the world) and its natural gas exports amount to roughly 5.6 billion cubic meters annually (25th in the world). Much of Azerbaijan's oil is exported *via* the Baku-Tbilisi-Ceyhan Pipeline, which crosses through Georgia and Turkey, before being shipped by tanker to Western destinations. The discovery of deep reservoirs in the Caspian Sea has set in motion plans boost Azerbaijan's natural gas production with.

In recent years, the government has made a concerted effort to use its oil and gas revenues to diversify the country's economic base in order to promote sustainable, long-term growth. The key policy instruments for promoting

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<sup>2</sup> "Oil Production Rankings," *CIA World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2173rank.html>

diversification are the state programs on economic development, small and medium entrepreneurship development, and social and economic development of the regions of Azerbaijan. Educational reforms and major investments in higher education and research are key components of Azerbaijan's growth strategy. The country is also becoming a focus for Chinese, Korean, and other sources of foreign investment.

In addition to oil and natural gas, Azerbaijan exports machinery, cotton, and foodstuffs. Its main export partners are Italy (20.69 percent), India (10.67 percent), U.S. (9.24 percent), France (8.15 percent), Germany (7.62 percent), Indonesia (6.63 percent), and Canada (5.13 percent). Its key import commodities are machinery and equipment, oil products, foodstuffs, metals, and chemicals, which come from Turkey (18.69 percent), Russia (16.98 percent), Germany (7.87 percent), Ukraine (7.3 percent), China (6.18 percent), and the UK (5.73 percent).

Years of Soviet rule left a legacy of entitlement and corruption in the public and private sectors that Azerbaijan has found hard to shake; however, it is making solid progress on these fronts. Visitors are struck by the vigorous animation of Azerbaijani people, particularly the youth, who identify strongly with Western culture and values, and aspire to live in a country that upholds democratic principles and human rights.

Azerbaijan might be characterized as one of the world's "mini BRICs" – a term that has been used to describe the large, dynamic and influential large transitional economies that are emerging from the developing world (Brazil, Russia, India, and China). Azerbaijan's rapid economic growth over the past two decades has catapulted it into a position of growing prominence, not only at a regional level but also internationally. As the country begins to enjoy its newfound stature and influence, it finds itself wrestling with the many challenges that come with greater visibility, attention, and integration into the global economy.

Azerbaijan has a large, Turkic-majority, Muslim-majority population, but it is also one of the world's most moderate Muslim countries. The country's

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commitment to secularism is to some extent the product of years of communist rule and Soviet hostility to Islamic culture and traditions. According to the government, approximately 96 percent of the population is Muslim. The remaining four percent consists mainly of Russian Orthodox Christians who live in Baku and Sumgait. Almost two-thirds of Muslims are Shiite, and the rest are Sunni, though the differences between these two groups are not as sharply defined as they are in some other countries. Local and external observers report that religious observance has traditionally been quite low and identities tend to be constructed around culture and ethnicity rather than religion *per se*. However, attitudes and religious practices in some of the more rural parts of the country in the south may be changing as a result of external influences and pressures. The country clearly faces some major challenges as a result of cross-border fundamentalist pressures emanating from the large Azerbaijani community concentrated around Tabriz, which constitutes almost one-third of the population of neighboring Iran.

The Azerbaijani Constitution allows religious groups freedom of affiliation and expression without interference from the state. The exceptions to this, under the law on religious freedom, pertain to the activities of religious groups that “threaten public order and stability.” The government has tried to enforce these provisions by preserving a clear distinction between church and state and taking measures to keep religious groups out of politics. Religious groups have to register with the State Committee for Work with Religious Associations (SCWRA) and the publication, importation, and distribution of religious literature are carefully monitored by government authorities.<sup>3</sup>

### ***Georgia***

Georgia was seized by the Russian tsars in the 19th Century. It enjoyed a brief period of independence from between 1918-21, after which it fell under Soviet rule. When the Soviet Union collapsed, Georgia struggled to assert its independence. Its current president, Mikheil Saakashvili, was elected to power in 2004.

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<sup>3</sup> “Freedom of Religion Report 2006: Azerbaijan,” U.S. Department of State, <http://www.state.gov/g/drl/rls/irf/2006/71368.htm>

Although the country has embarked on a series of widespread reforms to liberalize and open the economy to foreign investment and to promote democratic development, it has struggled against Russian support for secessionist movements in Abkhazia and South Ossetia. Following military action by the Georgian military in South Ossetia, Russian forces intervened in 2008. Though Russian troops have since been “withdrawn”, Russia has unilaterally chosen to recognize the independence of these two breakaway regions.

Like Azerbaijan, the Georgian economy has witnessed unprecedented growth in recent years, supported, in part, by its role as a transit point for Azerbaijani oil and gas exports. Mining (manganese and copper in particular) and agriculture are the mainstays of the economy, with construction and financial services developing into important new sectors. Georgia’s economy experienced high levels of GDP growth (more than 10 percent) just before the global economic recession of 2008-9. Much of this growth was spurred by high levels of foreign direct investment and rising government expenditures. But the economy took a serious hit during the global recession and matters were made worse by the August 2008 conflict with Russia. Economic growth was negative in 2009 as foreign direct investment and foreign workers’ remittances declined. The economy has since rebounded, although the prospects for sustained growth will depend on internal political stability.<sup>4</sup>

In the late spring of 2011, the country’s capital, Tbilisi, was shaken by widespread public protests calling for the resignation of President Mikheil Saakashvili, in a “Day of Rage” styled after the revolutions that have swept the Arab world. The protesters accused Saakashvili of turning away from democracy and blamed him for what they viewed as Georgia’s humiliating defeat in the war with Russia.<sup>5</sup>

### **Armenia**

Armenia possesses the weakest economy in the region and was hit hard by the global recession, having enjoyed high levels of growth before the crisis.

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<sup>4</sup> “The World Factbook: Georgia,” Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/gg.html>

<sup>5</sup> George Lomsadze, “Two Die as Police Break up Georgia Protest,” *Wall Street Journal*, 26 May 2011, [http://online.wsj.com/article/SB10001424052702304520804576346870952340708.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB10001424052702304520804576346870952340708.html?mod=googlenews_wsj)

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The country has paid a high economic price for its ongoing conflict with Azerbaijan. Following Armenia's invasion of Nagorno-Karabakh in 1991, Turkey closed its border crossings. Countervailing pressures from Azerbaijan have thwarted recent Turkish efforts, supported by the U.S., to reopen its border with Armenia and improve relations. Armenia continues to depend heavily on its commercial and aid links with Russia, as well as the remittances it receives from the large Armenian diaspora.

### ***Influence and Ongoing Challenges***

The foreign policies of countries in the South Caucasus region are becoming increasingly assertive, self-confident, and independent, driven by changing notions of their own national interest along with newfound sources of power and leverage. They are moving from being pawns in the global power game to being independent and influential actors in their own right. Azerbaijan and Georgia in particular are looking to expand and strengthen their ties with the Euro-Atlantic region through energy exports, trade, investment, the development of new transportation corridors, and security cooperation. Azerbaijan's policies are driven by the strength of its energy sector, its desire to diversify its economy, and the fact that it, like Georgia, sees itself as a bridge between Europe and Asia. Its influence also derives from close relations with Turkey.

Armenia's influence comes largely from the strength of its diaspora, which is seen by many to be an obstacle to the resolution of the Nagorno-Karabakh dispute. This interethnic dispute between Armenia and Azerbaijan has a long and complex history. Towards the end of the Soviet era in the mid to late 1980s, violence erupted in the region when the Nagorno-Karabakh parliament voted to join Armenia. Tens of thousands of people died in the ensuing conflict as ethnic Armenians took control of the region. Immediately following the collapse of the Soviet Union in 1991, the region declared itself an independent republic. The death toll rose in the full-scale war that ensued between Armenia and Azerbaijan. Although a truce brokered by Russia was negotiated in 1994, the ceasefire has been an uneasy one. The threat of a renewed outbreak of violence and conflict remains, with wider consequences for regional stability.

In 1992, the Organization for Security and Cooperation in Europe (OSCE) established the “Minsk Group” to provide an appropriate framework for the peaceful resolution of the conflict. The Minsk Group is co-chaired by France, Russia, and the U.S. The other participants include Belarus, Germany, Italy, Portugal, the Netherlands, Sweden, Finland, and, Turkey, as well as Armenia and Azerbaijan. Although the group has met repeatedly and arranged successive rounds of negotiations, it has made little progress, largely because negotiations have been derailed by conflicting motivations and domestic pressure amongst key members.

Part of the reason for this is the presence of powerful Armenian diaspora communities in France, Russia, and the U.S., which are keen to see Armenia maintain control over the Nagorno-Karabakh region, and do not want to jeopardize relations with Yerevan. Some believe that Russia is also using the continuing dispute to exert pressure on Baku, which has been trying to reduce Russian influence over its energy sector and export markets. The EU, which could potentially play an important role in resolving the conflict, has been kept at bay by France and Russia - the latter has objected to the deployment of a full-scale EU mission. The U.S. has been less engaged in conflict management and security of the region in recent years, distracted by its ongoing problems in Afghanistan and Iraq and its own domestic economic difficulties. As Thomas de Waal, a close observer of this conflict writes: “Although the Minsk Process has appeared poised to deliver success on several occasions, it seems stuck in a perpetual cycle of frustration and disappointment.”<sup>6</sup>

### ***The Broader Consequences of Regional Instability and Need for Engagement***

The festering conflicts in the South Caucasus region, notably between Azerbaijan and Armenia, and Georgia and Russia, are not simply matters of local concern; their escalations would have global consequences, not least because of the region’s growing geostrategic importance and key role as an energy producer with critical supply lines to the West. Complacency is not an option. There is continuing risk that the conflict will be manipulated by elites, who see opportunities for personal political gain and/or by external actors

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<sup>6</sup> Thomas de Waal, “Remaking the Nagorno-Karabakh Peace Process,” *Survival*, Vol.52, No.4 (2010), p. 160.

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who do not want to see the region become stronger. The South Caucasus cannot live up to its full economic and social potential until these problems are addressed.

The Transcaucasus region still lacks a robust mechanism for conflict management. Moreover, the region's main powerful actors are all –in one way or another– affected by conflicting pressures and short-term political motivations. They seem incapable, at least for the time being, of pursuing a long-term strategy that will benefit the region as a whole. However, the threats and challenges confronting the Transcaucasus region today are beyond the capability of local actors. Their resolution will require positive, sustained engagement from a wider group of committed international actors to help address the region's long-running conflicts. We can only hope that such engagement will emerge soon and that key “lead nations” will move an effective conflict management response forward.

# A NEW WAY FOR THE CASPIAN REGION: COOPERATION AND INTEGRATION\*

Elmar Mammadyarov



**E**nergy trends in the global market have brought international attention back into the Caspian region. Following the collapse of the Soviet Union, the Caspian region was marred by conflicts, corruption, and state failure. Since then much has changed. The conflicts are protracted, corruption is being dealt with and states are increasing their internal institutional and human know-how. The energy sector is booming with the help of international partners and through domestic reforms on both the east and west coasts of the Caspian Sea. The Caspian region needs a multidimensional international outlook.

Azerbaijan is a pivotal state in what is emerging as the new Caspian political order. Anchored in the transatlantic community with a strong European outlook, we are reaching across to the Central Asian states in an effort to bridge the Caspian Sea and link Eurasian space with Europe. Our dialogue with Iran is progressive and forward looking. Multilateral and genuine cooperation is the only way in which we can progress as a region. The objective is to build a functional regional economic and political order. This will ensure broad stability, which in turn will bring about economic development. Our parameters of regional strategic cooperation will dictate the quality of our relations with the external world.

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The region is on a rebound. It is our task to ensure our development has stamina. Therefore sustainable development is a forefront priority for Azerbaijan. Energy outflow and income inflow must be maximized in the short run in order to develop an economic base, which will not only integrate the Caspian region into the global economy, but also ensure a broad and balanced long-term growth.

Income inequality continues to persist in our region, which is something to be dealt with systematically. The backbone of a stable society is a strong middle class. How we use our oil revenues is of paramount importance, as energy incomes can easily turn into a burden if the funds are mismanaged. Our plan is to develop strategic non-oil sectors of economy, including infrastructure, tourism, IT, and agro business. Moreover, President Aliyev endorsed a multi-year development program for the country's regions, which has already boosted social and economic life in remote areas.

### ***Caspian Energy***

Energy is for the time being the cornerstone of the region's economic revival and for some a key parameter of security. Therefore developing this sector further is a priority for the Azerbaijani government. There are at least two dimensions, which we must keep at the forefront – production and transport. The Caspian Sea is land-locked and the region is situated between two major energy consumers –China and Europe– and energy producers, namely Russia and the Middle East. To maximize the value of our natural wealth and to ensure security of supply the region needs both direct access to external markets and an open energy investment policy that is friendly towards foreign investors. Foreign know-how and technology is still necessary to ensure that we are maximizing our production yields.

For this reason Azerbaijan has preferred an open-door investment policy when it comes to foreign direct investment in our energy market. This open door policy has been balanced with the strengthening of our own domestic energy producer. The latter is slowly being developed into an internationally competitive energy company with assets in third markets.

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Caspian energy is of strategic significance also for China and Europe. Their presence on the Caspian market is therefore not surprising. The objective should be to enable European and Chinese engagement on both sides of the Caspian, otherwise we risk dividing the market into the west and east Caspian, which is dangerous as it undermines the logic behind diversity in energy exports for us producers, and it undercuts our efforts to add strategic depth to the notion of regional partnership. The Transcaspian link is beneficial for both consumers and producers. By connecting Kazakhstan and Turkmenistan with Azerbaijan, Europe would gain strategic access into the east Caspian markets while China could access Azerbaijan's production. A Transcaspian component to our energy development is a win-win for all.

A link to the West is a key for Azerbaijan. It is a function of our national sovereignty. Even more important is having a diverse energy strategy and market principles. Russia is an important partner in the region in general and in the regional energy sector in particular. However, we are interested in being an equal partner with Russia, which means mutual respect and support for a diversified market approach to energy development. Open energy markets are in the long-run also beneficial for Russia. Market diversity means greater security and a greater net income for the region, which will further drive development and deepen even further our economic cooperation with Russia.

The strategic objective for Azerbaijan is definitely supporting pipeline diversity. This means multiple routes to the West and a connection across the Caspian to the East. Caspian energy can help increase Europe's supply reliability and decrease its market risks. At the same time it is the platform on the basis of which we can cultivate regional cooperation and integration. If we mismanage our energy development the spillover effects will be huge. One clear danger is overdependence on a single market or a single supplier, which puts GDP and economic planning under pressure. It is necessary to support diversified but interoperable infrastructure solutions for Caspian energy in order to avoid, as much as possible, suffering from asymmetric shocks, which are almost always exogenous to any system and difficult to predict, therefore one cannot hedge the risks as well.

### *A Transcaspian Vibe*

The Caspian Sea is not only rich in energy resources, but it also connects Europe to Asia. It is the meeting point of the Eurasian region. As such it is one of the more relevant geopolitical zones that should be further developed and integrated deeper into the global economy. Buffered by massive economies like the EU, Turkey, Russia, and China, the case for booming economic growth across the region is more than strong. But for this we need interoperability in our region. Economic trade within the Eurasian space would be seriously enhanced if we manage to build additional infrastructure to support trade across the Caspian Sea.

Infrastructure has been at the core of international economic development. The global economy is based on a modern and integrated infrastructure system that allows easy transfers of goods, people, information, and financial derivatives across the world. The priority for the Caspian region is two-fold. First, the infrastructure in the region needs an upgrade in order to better integrate our internal markets. Second, we need varied and secure external connections.

The current regional economic outlook is based mostly on exports of raw materials and imports of refurbished goods and technology. This is an imbalance, which unless corrected will keep our region under the globalization curve, and it can inhibit our ability to build durable economies. We need to plug in at the upper level of the production chain, and grow our economies beyond the raw material phase. Brain drain could become a problem as well without investing in a knowledge-based society and economy. A durable economic platform for the Caspian region is above all a modern and integrated one.

The Caspian region needs to build added value beyond energy. There is a finite horizon on energy production. One day we will be without it. At the same time the profit margins are always higher on the retail and production ends than on extraction. Azerbaijan is therefore rapidly integrating its economy in the regional context, investing in information technology and

infrastructure adjustments, and into education. Building a knowledge-based economy should be our second collective priority.

The Transcaspian dimension is more than just a temporary political fad; it is also about social integration, allowing for closer cooperation of ethnic communities across and beyond regional boundaries.

There are at least three types of infrastructure priorities which will help regional integration. Roads and rail lines should be upgraded in order to allow an increase in cargo transport. New transportation technology would also reduce transportation costs, which would make this region even more interesting in the global context as a major hub. Second and related are logistic parks. We need to construct these on each side of the Caspian Sea in order to facilitate the Transcaspian transit and trade. In addition to being logistic parks they could also function as free trade zones from where foreign companies could manage and run their regional supply chains. Such modern hybrid parks are a major FDI attraction.

Modern border units and control systems are also required to ensure secure but speedy transfer of passengers and goods. We need to keep our states secure but in doing so we cannot risk undermining the just-in-time delivery systems, which are key to successful and competitive commerce today. Airports need to be expanded and flights added across the region and between the region and major global economic centers. There is also information exchange system to be built and connected across the region – it will require modern upgrades like WiMax and Wi-Fi lines. A knowledge-based economy rests on information exchange.

### ***The European Dimension***

The Caspian is part of Europe, and the EU is at the heart of our transformation and development. The Europe dimension is a part of Azerbaijan's orientation. However, we are not knocking on the EU door asking for membership. This is a long-term perspective which should be considered and addressed in due time. The EU is in a transition phase itself and it will take some time before it is ready to plan its next enlargement.

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A clear European perspective, however, is needed. The region should be integrated into the EU's strategic thinking as a partner in security and energy. Further, our markets should also be integrated. This means we need a sustained political dialogue at the highest level on all the outlined topics. Our democracies are still a process in the making. We accept the pointers that more could be done. But this region is in a phase of important transition, where we must ensure a balanced approach between political reforms and the economy. Democracy is a process, which in various degrees we are integrating into the Caspian space. The project, if done organically, will succeed.

Our need to be better integrated into the Euro-Atlantic security space is real. Traditional transnational and asymmetric threats exist in the broader Caspian space, which are best addressed through regional cooperation inside the European and Euro-Atlantic context. In this sense, Azerbaijan is actively implementing Individual Partnership Action Plans (IPAP) with NATO and European Neighborhood Policy (ENP) Action Plan with the EU. Regional security threats are specific due to the nature of our geography, internal parameters, and external security conditions, namely in Afghanistan and Iraq. The region in one way or another connects Asia, the Middle East, Russia, and Europe. As such it is the home to many civilizations; it is an energy and a trade hub, and a gateway to the Far East countries, Europe, Russia, and the Middle East.

Given the differences in textures the concept of openness is perhaps the most relevant for us – openness to ideas, values, and norms of others. All exaggerated attempts to exclude one or the other entity are counterproductive and create unnecessary tension that could easily turn violent. The concepts of regional integration and the European perspective are then closely linked with the notion of inclusion and the principle of open societies in the Caspian region. Development in terms of economic stabilization and knowledge revolution are part of this European perspective and openness.

Finally, the process of Europeanization of the Caspian region is not a “zero-sum” strategy. It is rather a direction that should also be compatible with the region's strong interdependence with Russia and our growing relations

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with the Asian countries. Europe, Russia, and China will be first to benefit in allowing the Caspian region to integrate organically into a functional and competitive Eurasian political system well integrated into the global economy.

### ***Protracted Conflicts***

Territorial integrity and the concept of sovereignty are however indispensable cornerstones of this highly interdependent and interconnected Caspian system. Without having territoriality clearly defined there will be no way of installing into the region modern grid structures and open borders. Open and unresolved border issues stimulate nationalism and narrow political paradigms, which are totally counterproductive to the logic of modern and integrated society and economy.

In this context the protracted conflicts are a major obstacle to progress as they keep us from moving forward at the rate in which we hope to, and at which we need to, in order to catch up with the high-end of global development. The unresolved Nagorno-Karabakh conflict fundamentally impacts Azerbaijan, our security, and our ability to deal with Armenia and the broader Eurasian space through an integrationist frame of mind.

Progress on this issue is long overdue and Azerbaijan cannot wait forever for its resolution, although we remain supportive of a peaceful approach to conflict settlement and the OSCE Minsk process. But the EU could also be more directly involved in protracted conflict resolution through its neighborhood policy. All three South Caucasus states are partners in the European Neighborhood Program. As this is a major region of strategic interest for Europe, the EU could help not only Azerbaijan and Armenia –through dialogue facilitation and confidence building measures—but also in Georgia and Moldova. The protracted conflicts are predominantly political issues in need of a political solution, which is why the EU can be particularly helpful.

Azerbaijan is not going to negotiate on its territorial integrity and the government stands ready to defend its sovereignty as stated in and supported by the Charter of the UN. A military settlement is not our preferred option of

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resolving the Nagorno-Karabakh conflict nor do we believe it will necessarily lead to a stable end outcome. It will surely undermine our efforts to move towards more regional integration and regional openness. So we need to solve this problem peacefully and now, but Azerbaijan is prepared to defend its territory.

The Nagorno-Karabakh solution can only be set in the broadest autonomy possible for the province. Baku is open to all options and we are ready to negotiate on every aspect of autonomy. What we are not prepared to do is to negotiate on the sovereignty issue. Nagorno-Karabakh is part of Azerbaijan and it would be highly unjust, and also destabilizing for the region and the international system, to ask us to accept an alternative model. The Kosovo status issue currently on the agenda of the international community is not a precedent for Nagorno-Karabakh. The legal, moral, and ethnic circumstances, as well as histories of these two cases differ vastly and therefore drawing parallels is extremely counterproductive. Doing so only confuses the situation further.

Azerbaijan and Armenia cannot make a substantial step forward in bilateral relations without first addressing the Nagorno-Karabakh issue. This has a net negative impact on regional development and also on the Transcaspian project. For Europe, Russia, and China this is a major setback in terms of interacting with the region.

Next year is an election year in both Armenia and Azerbaijan. We will soon have new governments in Russia and the U.S. Major shifts are also taking place within the OSCE community. Its structure may change in the year ahead. Therefore, the new political parameters due to emerge after 2008 may provide the opportunity for the grand breakthrough and a permanent resolution of the Nagorno-Karabakh issue.

This does not mean we have no work to do in 2008. Confidence building and regular diplomatic contacts should continue between the two sides. But most importantly we should in this coming year agree on the parameters for peace and the bottom line principles like territorial integrity and sovereignty. The Nagorno-Karabakh conflict should not feature in the upcoming elections as

a political tool for scoring cheap points. Making the conflict a top electoral priority will only make it harder to find a settlement afterwards.

### ***Future 2020***

A regional context supported by the European perspective is a precondition to a satisfactory long-term outlook for the Caspian region. Conflict will have to be resolved and economies diversified. But most importantly, the region should be put on the path of integration – internal and external. We need better infrastructure and more local brains to support our regional economic outlook.

The region has the potential to become the hub for Europe and Asia, and a bridge connecting Russia with the Middle East. It is a “melting pot”, which if managed correctly and in the spirit of cooperation can yield impressive results –economic and strategic– for all concerned. However, and unfortunately, the opposite is true as well. The status of the region may come under severe stress if international powers engage in the region through a “zero-sum” approach and if regionally we fail to stimulate the spirit of cooperation. Instability from within the Caspian states makes the resolution of the frozen conflicts a first priority. Finally, pursuing political reforms must go hand in hand with economic development.

The push for regional integration is not just a question of cooperation along the energy lines. It is much broader than that, encompassing the wide structures of trade, politics, and security. Therefore in 12 years’ time by 2020, the region as such should be better connected, its frozen conflicts resolved, and servicing as a hub between China, Europe, and Russia. This is a vision we should strive to achieve. Our European perspective is as acutely relevant to the Caspian as is the partnership with Russia and China, and Azerbaijan is committed to pursuing a multi-variable approach to regional development. In the end, success will depend on our ability to cooperate.



# INTEGRATION OF TRANSCAUCASIA: CONTINUED FAILURE AND HOPE\*

Tigran Mkrtchyan & Vahram Petrosyan



The Caucasus region (between Black and Caspian Seas) was under Turkish and Persian control until the early 18th century since when the Tsars of Russia challenged that domination and by mid-19th century the whole of the Caucasus passed under Russian control. It was in this period (18th century) that the Russians introduced the term Transcaucasia (in Russian Zakavkazye) as a general term for the region. But there were administrative changes and changes in delineations of borders of the boroughs (regions) which would later on in the 20th century become a major source of ethnic conflicts.

As surprising as it may sound, the main initiator of the political integration of Transcaucasia in the 20th century was Turkey. Since 19th century the common border between Turkey and Russia had become a source of vulnerability for Turkey (which was better understood during World War I), the latter was determined to avoid having a common border with Russia and therefore supported the independence of the region from Russia in 1918. The Transcaucasia Seim (Parliament), created in February 1918, did not accept the peace accords of the Brest-Litovsk Treaty which superficially grouped the Transcaucasia states together. In April 1918 the Transcaucasia Seim declared the independence of Transcaucasia from Russia. The Transcaucasia democratic

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federal republic was founded. Though the Armenians were against independence from Russia, the decision passed the Parliament because a majority was Georgian Menshevik and Azeri Muslim parliamentarians. The Transcaucasia Democratic Federal Republic existed only for a month, until the end of May 1918, when Georgia, Azerbaijan, and Armenia declared their independence respectively.

The idea of the establishment of the “Caucasian Home” and Confederative Union of Caucasian Republics and North Caucasian Tribes resurfaced between October 1918 and June 1921. Georgia was always active in issues of integration of the Caucasus or at least Transcaucasia. In October 1918 the government of the Republic of Georgia made a proposal to summon a conference in Tbilisi for representatives of Georgia, Armenia, Azerbaijan, and Caucasian highlanders. The goal of that conference was the formulation of joint approaches for the peoples of Transcaucasia and the Northern Caucasus to act as a united front in the upcoming World Congress. But conflicting foreign political priorities and longings made this initiative fail. The three Transcaucasia states (as well as their neighbors Russia and Turkey) had differing views about each other's borders, and their approaches were incompatible with one another. In this period, there were several clashes between Armenians and Azerbaijanis (particularly throughout 1918-20), an Armenian-Georgian war (1918), Turkey's Caucasus Campaign (1918), the Armenian-Turkish war of 1920, and the Russian capture of the Caucasus (end of 1920).

The next initiation of the integration of the Transcaucasia republics occurred after their Sovietization. The Musavat governed Azerbaijan, Dashnak led Armenia, and Menshevik led Georgia were forced to become independent Soviet republics throughout 1920-21. However they formally retained their independence. The conference of the representatives from the three Transcaucasia republics signed a confederation treaty on 13 March 1922, which founded their Federation, officially called Federative Union of the Transcaucasia Soviet Socialist Republics (FUTSSR). In December of the same year the first congress of the Transcaucasia Soviets was held in Baku, taking the decision to transform the FUTSSR into Transcaucasia Soviet Federal Socialist Republic (TSFSR) and adopting a constitution. That is to say, the Union transformed into a Republic.

On both occasions Armenia, Azerbaijan, and Georgia formally preserved their sovereignty. But the latter version anticipated a closer union of the Transcaucasia republics. The Transcaucasia Federation entered the Soviet Union in December 1922. As a federation it existed until 1936. After 1936 Armenia, Azerbaijan, and Georgia were separate entities within the Soviet Union.

After the collapse of the USSR, the integration idea gained a new *impetus*. The idea of forming a “Caucasian Home” was promoted by the then Georgian president Zviad Gamsakhurdia and the first Chechen president Dzhokhar Dudayev. It anticipated the unification of the peoples of the region (including independent states as Azerbaijan and Georgia and ethnic groups and nationalities of the Northern Caucasus under Russian rule). The main goal of that project was the alienation of Russia from the region. By this attempt Georgia was undertaking a leading role in the Transcaucasia, and the Chechens were aspiring for a leading role in the Northern Caucasus. But some of the Caucasian peoples, such as Armenians and Ossetians were disinterested in the project because of its anti-Russian essence. Simultaneously severe territorial and land disputes in the Northern Caucasus further complicated the implementation of this project.

In that respect special importance was given to the “Confederation of the Caucasian Peoples” (declared in 1992), which involved Georgia, Azerbaijan, and a number of movements in the Northern Caucasus. Then the Georgian President Eduard Shevardnadze and Chechen President Aslan Maskhadov reviewed the possibility of establishing an Organization for Security and Cooperation of the Caucasus resembling the OSCE, which even presupposed the foundation of a united Caucasian Parliament. Another proposal called “Common Caucasian Home” that emerged in mid-1990s presupposed the integration of the Caucasus into the European structures but this idea was not materialized.<sup>1</sup> In 1996, Georgia and Azerbaijan signed the Tbilisi Accord in which the idea of the “Caucasian Home” was readapted within strictly the borders of the Transcaucasia.

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1 Rouben Shugaryan, “The Idea of Regional Cooperation in the Context of Foreign Politics,” [http://www.spectrum.am/eng/book\\_2.htm](http://www.spectrum.am/eng/book_2.htm)

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All of those above-mentioned activities and integration attempts were declarative. Interstate and interethnic conflicts in the Caucasus were major obstacle to a successful realization of those ideas.

During the OSCE 1999 Istanbul Summit, the Armenian President Robert Kocharian underlined the necessity of forming a Transcaucasian regional security system which would be included in the European security system and which would include all stakeholders. Two months later, during his Georgia trip in January 2000, the then Turkish President Süleyman Demirel went further by stating that there is a need for “a stability pact for the Caucasus region to be worked out, as it was for the Balkans.”<sup>2</sup> But Demirel did not clarify what countries could be involved in this Caucasus Stability Pact in addition to the three South Caucasian republics. That gap was soon filled in by the Brussels-based Center for European Policy Studies which established a working group to propose a “Concept for the Caucasus Stability Pact”.<sup>3</sup> The concept was discussed in conferences, but was never realized as neither the Turkish, nor the Caucasus countries’ leaderships received it with particular enthusiasm. The way the Brussels concept proposed ideas to resolve conflicts were not welcomed by any of the conflicting sides. Also the concept pointed out that the Caucasus Stability Pact would include the neighboring countries of the Caucasus region (so this was a Wider Caucasus Regional Integration Project) as well as interested international organizations. Even though the idea of the Stability Pact had been proposed by Demirel, the proposal drawn up in Brussels for a pact gave a minimum role to Turkey. Hence this attempt also failed, though the idea did not die.<sup>4</sup>

New proposals for Caucasian or rather Transcaucasian integration were made in 2004 (based on the experience of the Balkan political club, the Bulgarian president Zhelyu Zhelev suggested to the Georgian President Mikheil Saakashvili

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2 “Regional Envoys to Discuss Stability Pact,” *UN Wire*, 29 February 2000, [http://www.unwire.org/unwire/20000229/7454\\_story.asp](http://www.unwire.org/unwire/20000229/7454_story.asp)

3 Sergiu Celac et al., “A Stability Pact for the Caucasus, A Consultative Document of the CEPS Task Force on the Caucasus,” *Centre for European Policy Studies (CEPS)*, 2000, <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?ots591=0C54E3B3-1E9C-BE1E-2C24-A6A8C7060233&lng=en&id=29279>; “A Stability Pact for the Caucasus in Theory and Practice - a Supplementary Note,” *CEPS*, [http://ceps01.link.be/Article.php?article\\_id=145](http://ceps01.link.be/Article.php?article_id=145)

4 Tigran Mkrtchyan, “Caucasian Security Within the Context of ‘Caucasian Platforms’,” *Capital Daily*, 15 October 2008, [http://www.cdaily.am/home/paper/2008\\_10\\_15/news/10493/](http://www.cdaily.am/home/paper/2008_10_15/news/10493/)

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the establishment of a Caucasian Political Club). Russia attempted to implement such an idea in 2007. But all of these ideas were left unimplemented.<sup>5</sup>

As a result of the Russian-Georgian war, which began on 11 August 2008, Turkish Prime Minister Erdogan proposed the idea of a “Caucasian Alliance.” Possibly because the word “alliance” is too ambitious, one day later the Turkish president Abdullah Gul used the phrase of “Caucasus Stability Forum.” Subsequently, in Moscow, Prime Minister Erdogan reformulated the idea into the words “Caucasus Stability and Cooperation Platform.” The fact that in three days this idea bore three differing appellations shows that the idea was still in the making and there was no pre-planned strategy.

Though initial consent for a platform was granted to Turkey by countries of the region, there are several questions remaining. One is: how would the *de facto* Republics (Abkhazia, South Ossetia, and Nagorno-Karabakh) be tackled? Proposals that exclude them could be rejected by Russia and Armenia. Proposals that include them could face dissent from Georgia and Azerbaijan.

Another question is, whether Armenian-Turkish normalization is to precede or follow the establishment of a Platform? And, how would the Platform relate to key stakeholders such as Iran, the EU, and the U.S.? Ambiguity rather than clarity is dominating the “platform” idea.<sup>6</sup>

### **Why is Transcaucasia Integration Failing?**

One of the many reasons of the Transcaucasia integration failures is the lack of any positive experience of integration in this region from the past. In fact neither during the pre-Soviet, nor in Soviet period did the region experience any actual integration. The psychological closeness never matured into a Caucasian identity. Most academicians do not view Armenians as Caucasian people at all, as Armenians originated in and spent much of their history living in the Armenian highlands (geographically the current eastern Anatolia, often in ancient and medieval history books called “Armenia Major” or “Greater

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<sup>5</sup> Teymur Atayev, “The Caucasus Stability and Cooperation Platform: Is Erdogan’s Idea Realizable?,” <http://www.islam.ru/pressclub/tema/osdierta>

<sup>6</sup> Tigran Mkrtchyan (2008).

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Armenia".<sup>7</sup> The Armenian language is a branch of the Indo-European family. While the Caucasian language group ethnographically includes the peoples of the Northern Caucasus and Georgia [this excludes the predominantly Turkic peoples living in today's Azerbaijan as well]). Thus from amongst the dominant three Transcaucasia peoples only one is a Caucasian ethnic group.

The fact that the states of Transcaucasia were part of the enormous USSR economic system never translated into actual integration, because independent choice of the peoples was an absent factor. In the Tsarist period, there were several conflicts in the region (noteworthy is the Armenian-Tartar clashes in the beginning of the 20th century) and the regional borders were constantly undergoing administrative alterations, laying the grounds for future conflicts.<sup>8</sup> The administrative border alterations occurred throughout the period of 1918-36, giving birth to more conflicts after the collapse of the Soviet Union.

For any regional integration, in addition to minimal conditions (such as common goals and value system, mutual trust, a certain degree of amicable relations, and cooperation), the existence of the following factors is necessary: the internal integration of separate entities, the understanding that only joint efforts can overcome problems equally threatening the region as a whole, well balanced, and simultaneous involvement of wider regional players. The internal integration of the Transcaucasia states is rather weak. Vital challenges (equally posing a threat to all three of them) which could have united the three states are lacking. Each of the states has its own threat perceptions. Armenia and Azerbaijan view each other as threats, some in Armenia view

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7 Armenian Highlands mentioned as "Greater Armenia" (in Greek and Latin, Armenia *Megali* and Armenia *Magna*) were geographically described (within 300,000 sq/km, mainly the territory of current eastern Anatolia) by the ancient geographers and historians such as Strabo (63 BC-24 AD), Elder Pliny (23-79), Arrian (86-146), Curtius Rufus (1st century AD), Claudius Ptolemaeus (90-168), Marcus Justinus (3rd century), Ammianus Marcellinus (325-391), etc., to name but a few. It was a geographical entity on which territory Armenian royal dynasties ruled from 4th century BC until 14th century AD. The Republic of Armenia of 1918-20 before it was attacked by Russian and Turkish armies in 1920 had a territory of 70,000 km/sq. Currently the Armenian Republic has a territory of 29,800 km/sq. The mentioning of "Greater Armenia" in Armenian textbooks is part of the history of Armenians of a given time in a given region and has nothing to do with irredentism or nationalism.

8 Lyudmila Harutyunyan, "Conflicts and integration in the Transcaucasia: Myths and Realities," in *Transcaucasia Today: Regional Integration Prospects* (Yerevan, 1997), p. 69.

Turkey as a threat, Georgia views Russia as threat, Azerbaijan has some fears of Iran. Meanwhile Turkey is an ally of Azerbaijan, Russia and Iran are allies of Armenia, the EU and the U.S. are strongly aligned to Georgia. Naturally “states facing an external threat will align with others to oppose the states posing the threat.”<sup>9</sup> In the Caucasian context those threat perceptions or misperceptions tend to deepen the security dilemma because rival powers and alliances are constantly invited into the region.<sup>10</sup>

Historical experience shows that throughout the 20th century, and to date, the contradictions in the positions of Turkey, Russia, other third countries, and positions of the Transcaucasia republics almost always led to failures in Transcaucasian integration attempts. With some reservations, the three states have a similar past, but their perceptions about their futures are divergent, as are their value systems. The external forces (states and organizations) implementing engagement from without are exerting differing level of influence and activity, acting not in cooperation, not jointly, nor in a balanced and simultaneous way, thus bringing forth a dire imbalance of power.

Currently Transcaucasia is an area of apparent rivalry, with isolation policies and zero-sum game logic serving as guiding principles for the regional actors. In this historical phase the Transcaucasia states are using their potential of international cooperation not inside the region, but outside. The process of establishing extra-regional partners is not yet complete. The priorities given to international organizations (CIS vs. GUAM), alliances (NATO vs. CSTO) and partner countries (Russia, the U.S., EU, Iran, Turkey) are not always compatible. Moreover, external forces and centers such as Russia, Turkey, Europe, and Iran are pulling the regional countries in their directions undermining core regional integration processes. Due to the influence of those power centers, the limits of the integration visions by the Transcaucasia countries often lead to divergent conclusions.<sup>11</sup>

9 Stephen Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1994), p. 32.

10 “Given the irreducible uncertainty about the intentions of others, security measures taken by one actor are perceived by others as threatening; the others take steps to protect themselves; these steps are then interpreted by the first actor as confirming its initial hypothesis that the others are dangerous, and so on in a spiral of illusory fears and ‘unnecessary’ defenses.” Glenn Snyder, *Alliance Politics* (Ithaca: Cornell University Press, 1997), p. 17.

11 Lyudmila Harutyunyan, (1997), pp. 68-9.

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Even though in rhetoric they are in favor of Transcaucasian integration, the states of the region, their neighboring countries, and supra-regional actors have reservations which *de facto* prevent integration. For example, Azerbaijan has a negative disposition towards integration that directly or indirectly presupposes Armenia's participation or presence. In its own version of the South Caucasus stability pact, Armenia mainly suggests the "3+3+2" format involving the three Transcaucasia republics, their three neighbors, Russia, Turkey, and Iran, and the supra-regional actors, the EU and the U.S. Russia has always been intent on being the sole mediator of the problems in the Caucasus. Therefore the only Caucasian stability formula acceptable to Russia is the format "3+1."<sup>12</sup> On the other hand, Georgia prioritizes the exclusion of Russia, while the U.S. and Turkey exclude the participation of Iran.

Until the collapse of the USSR, the Transcaucasia region was merely a periphery of an empire. Currently it lies on a juncture where the influences and interests of Russia, Turkey, the U.S., Iran, as well as European and Asian states cross. (The Caucasus is the heart of what Zbigniew Brzezinski described as the "Eurasian Balkans").<sup>13</sup> Russia continually reminds all that Transcaucasia never stopped being its periphery. Moreover, after the Russian-Georgian war it seems that some of Transcaucasia or the South Caucasus (Abkhazia and South Ossetia) are still a part of the Northern Caucasus in Russia's map. To the degree that the regions integration is attractive for the U.S., Turkey, and the EU as a factor of reducing Russia's influence, Russia and Iran are less supportive of such integration attempts. Nevertheless each of the supra-regional and regional actors has attempted to unify the region under their own supervision, which, at least currently, is impossible.

After the collapse of the Soviet Union, the Caucasus had the potential to be an area of "post-hegemonic cooperation." Some realists termed it a zone of "power vacuum". Yet, the attempts to fill in this "vacuum" induced major powers' use of coercion mechanisms. Liberal sounding "democratization" was a tool for the U.S. and the EU, realist sounding "spheres of influence" has

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12 Rouben Shugaryan, "The Idea of Regional Cooperation in the Context of Foreign Politics," [http://www.spec-trum.am/eng/book\\_2.htm](http://www.spec-trum.am/eng/book_2.htm)

13 Zbigniew Brzezinski, *The Grand Chessboard* (New York: Basic Books, 1997), pp. 123-4.

been a Russian approach, and two states and one nation” is a nationalist slogan used by Turkey.<sup>14</sup> But all of those stances aimed at preponderance in the region. Theory of “hegemonic stability” has been more actively applied for the region, which “defines hegemony as preponderance of material resources.”<sup>15</sup>

One of the largely ignored impediments to the integration of Transcaucasia is the fact that there is neither common appellation nor accepted borders. In 1918-22 and during the USSR period the term “Transcaucasia” was most used. Now the phrase “South Caucasus” is in circulation. There are political implications for the different terminology. If the Caucasus is one entity, why is then only the Southern part of it discussed in integration schemes, and not the northern part? In addition, for Abkhazia and South Ossetia there is a new center, i.e. Russia, while any perspective for unification of Northern Ossetia (located in the Northern Caucasus) with Southern Ossetia (located in Transcaucasia) could essentially change the borders of the region, as well as the balance of power in the Caucasus.

Until the “Southern Caucasus” has matured as a region, regional integration cannot occur. The concept of “South Caucasus” is not only artificial, but also was imported into academic and political parlance from abroad. After conquering the Caucasus, Russia invented the concept of “Transcaucasia” possibly to divide the Caucasus into two: Caucasus (Northern Caucasus) and Transcaucasia. The latter denoted the area stretching beyond the Caucasian mountain range. The division between the two areas reflected Russia’s interest in forming a new region. Transcaucasia being a bordering region was providing stability to the Northern Caucasus. The Northern Caucasus was notorious for its secessionist movements since the very beginning of its integration into the Russian Empire. Meanwhile the territories to the south at least since early 19th century were seeking for Russian protection against the expanding

<sup>14</sup> After Demirel’s proposal of Caucasus Stability Pact, Abdulhaluk Çay, Turkish Minister for Relations with the Turkic Republics, said that: “Russia is too weak to oppose us” in a plan to create a commonwealth of Turkic states. Çay said such a union would be a union between Turkey, “the successor to the Ottoman empire,” and Azerbaijan, Kazakhstan, Uzbekistan, Kyrgyzstan, and Turkmenistan. The Turkish minister also expressed the wish that the “Turkish commonwealth” might include Ukraine and Iran. “We ruled these territories for centuries,” he explained, adding that Turkey should be “big brother” to these countries. “Turkish President calls for Caucasus ‘Stability Pact’,” *European Foundation Intelligence Digest*, No.86, 14-27 January 2000, <http://www.europeanfoundation.org/docs/86id.htm>

<sup>15</sup> Robert Keohane, *After Hegemony* (New Jersey: Princeton University Press, 1984), p. 32.

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Ottoman and Persian dominance. By separating the south from the north the Russians were safeguarding the stability and loyalty of Transcaucasia making it a frontline region. At the same time, the Russians were isolating the Northern Caucasus from the Ottomans and Persians, who were their potential protectors.

After the collapse of the USSR the phrase “Southern Caucasus” was adopted, due to political calculations, by the West. The republics in Transcaucasia gained their independence while in the Northern Caucasus secessionist movements against Russia were maturing. If there is a “Northern Caucasus”, then there should logically be a “Southern Caucasus”. The unification of those two would mean Caucasian unity, which could reduce Russia’s presence and curb Russia’s ambitions in the region. Hence, if the republics of the Southern Caucasus republics gained independence, why would the north of the Caucasus not as well?

From the perspectives of identity and perceptions Armenia, Georgia, Azerbaijan, Abkhazia, South Ossetia, and Nagorno-Karabakh are separate and there is not one Transcaucasian identity. The Soviet propaganda exerted effort to promote one Transcaucasian identity. For that purpose particularly arts and culture were utilized. In 1930s Kurban Said’s Ali and Nino novel was published which is about a tragic love story between an Azerbaijani and Georgian; in 1977 the Soviet audience watched the film *Mimino* by a popular film director Giorgi Danielia, which is on a development of a Georgian-Armenian friendship in Moscow. The several Soviet anecdotes about the Georgian, Armenian, and Azerbaijani based on the common features of Caucasian mentality with their peculiarities inevitably served one and the same purpose. The songs on brotherhood and Caucasian friendship between the cities of Yerevan, Baku, and Tbilisi since 1950s, the mutual visits and joint projects for artists of the region were strongly encouraged by Soviet leadership. Also there was widely accepted Soviet custom that when an Armenian, Azerbaijani, or Georgian officially talked of one another such catchwords as “brotherly Georgian/Azerbaijani/Armenian” were to be used necessarily. This policy and ideology formed a degree of artificial homogeneity and a superficial Caucasian identity. This was a weak identity, as was the identity of being “Soviet” which did not oust out the ethnic differences.<sup>16</sup>

<sup>16</sup> Salome Asatiani, “CIS: Is South Caucasus ‘Region’ an Artificial Construct,” *RFE/RL’s Azerbaijani, Armenian, and Georgian Services*, <http://www.rferl.org/featuresarticle/2007/05/>

With the collapse of the USSR things began to fall back into place. The religious element again started to play a decisive role in the definition of identity. Azerbaijan is a Muslim country, Georgia is Christian-Orthodox, and Armenia is Christian-Apostolic. The foreign policy priorities were differing too, while the ethnic conflicts played a pivotal role in deepening the dividing lines. After the collapse of the USSR, the West attempted to cultivate a South Caucasian identity. Different international structures, such as the NATO and EU, appointed a single special representative for all three republics. The same model projects of development and reforms were passed to all three Transcaucasia republics, even though they were in differing starting conditions and on different levels of social development. Hence the Western attempts at cultivating a South Caucasian identity were doomed.

The terms “South Caucasia” and “Transcaucasia” have not had mutual acceptance by the regional players partially due to their artificial application and foreign origins. Those terms do not reflect any regional identity. Therefore, there is a need for a new term, to be born in the region (and not artificially invented and enforced from abroad). The Transcaucasian states are already seeking alternative regional identities. In order to underscore the European origins of the Georgian people, the Georgian leadership has been active in promoting Georgia’s Black Sea identity. This way Georgia can distance itself from the more problematic South Caucasia. When the South Caucasus is taken up as a region by international organizations, the internal problems of Georgia’s neighbors holds Georgian progress up, too. On the other hand, Azerbaijan, by underlining its belonging to the Caspian region emphasizes its significance as a “geopolitical pivot” and its being the “cork in the bottle containing the riches (‘the vast energy resources’) of the Caspian Sea basin.”<sup>17</sup>

The most commonly discussed model of Transcaucasian (South Caucasian) integration is the unification of the three countries (Armenia, Azerbaijan, and Georgia). But *de facto* there are other entities in Transcaucasia (namely South Ossetia, Abkhazia, and Nagorno-Karabakh). Therefore there is a need to clarify an approach towards these entities. Including the three republics (and not the other entities) aims to conserve the situation that existed during the USSR

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<sup>17</sup> Zbigniew Brzezinski (1997), p. 46.

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period, ignoring the conflicts in existence in the last 21 years (1988-2009) as well as the reality of functioning new borders in the region.

Ignoring the *de facto* states is unrealistic and sets the ground for failure for integration attempts. In a recent Black Sea security related conference in Yerevan on 27 October 2008 Turkey's official understanding of the Caucasus Stability Platform was presented by Deniz Çakar, the Head of NATO and Euro-Atlantic Infrastructure and Logistics Department of the Turkish Ministry of Foreign Affairs. According to this view, the Platform would include exclusively the states of the region, Turkey and Russia, while the region's conflicts would be resolved in line with the principle of states' territorial integrity. Such an approach could well mean the beginning of the end of the Platform's practical existence as Russia and Armenia would want the direct or indirect presence of Nagorno-Karabakh, South Ossetia, and Abkhazia in the Platform.<sup>18</sup> On the other hand, their inclusion would be rejected by Azerbaijan and Georgia. Hence a middle formula, acceptable to all sides is sought in order to smooth this most contentious issue. Such a formula could propose a forum for the Caucasian peoples and not states.

Armenia does not perceive itself as a Caucasian state, and thinks of itself as a state that lost its historical fatherland and established a state on its edges by creating a new identity based on the Armenian genocide. Transcaucasian integration would risk making Armenians a minority and the Karabakh achievements would have an ambiguous future, if integration were to exclude non-recognized entities. So Armenia weighs the potential costs of such integration. Therefore, Armenia is relatively restrained in promoting regional integration proposals. Hence there is a misleading impression that Armenia is least interested in this region's integration. Meanwhile Armenia, which is isolated in the region, blockaded, consecutively kept away from all major regional projects, has the most to gain from regional integration projects.<sup>19</sup> Getting access to various regional projects, gaining political, economic, and security balances, diversifying its dependence on Russia are all vital factors for Armenia. And regional integration could open the way for such perspectives.

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18 Tigran Mkrtchyan, "Armenia's European Future," in Kakha Gogolashvili et al., "The European Union and the South Caucasus: Three Perspectives on the Future of the European Project from the Caucasus," *Bertelsmann Stiftung*, 2009, p. 39, [http://www.bertelsmann-stiftung.de/bst/de/media/xcms\\_bst\\_dms\\_28297\\_28302\\_2.pdf](http://www.bertelsmann-stiftung.de/bst/de/media/xcms_bst_dms_28297_28302_2.pdf)

19 Lyudmila Harutyunyan, (1997), p. 70.

But the starting conditions are not equal as Armenia has already been excluded from all regional projects implemented so far and from those which are in the process of planning. Theoretically speaking of integration, but at the same time keeping Armenia out of all regional projects is not in the best interests of Armenia. But this does not mean that Armenia is not genuinely interested in regional integration.

Integration does not necessarily mean exceptionally close economic cooperation. It is not possible to regulate all political and security related issues through economic levers and *vice versa*. A balance needs to be struck between the economic, political, security, and ideological driving forces of regional integration.

The idea of regional cooperation, as well as any other idea should not become an ideology, or a self-serving reality, as it often happens. It should be viewed as one of the tools and routes for achieving stability, security, and prosperity in the region. This idea should not be made as a medicine providing solution to all regional problems. But if it is correctly used, it could become a means for getting rid of unacceptable relics from the 20th century. But we must be ready for negative results, because any alterations in the region, even positive ones, are accompanied with painful passages and presuppose certain level of danger.<sup>20</sup>

### ***“Sine qua non” of the Transcaucasia Integration: Anatomy of “Football Diplomacy”***

The most significant hurdles in front of regional integration are the region's conflicts (in South Ossetia, Abkhazia, and Nagorno-Karabakh) and problems with neighbors within the wider region (Russian-Georgian and Armenian-Turkish). Amongst all those problems the issue that seems to be closest to solution is the Armenian-Turkish normalization. Hence there is unprecedented international attention to this process.

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20 Rouben Shugaryan, “The Idea of Regional Cooperation in the Context of Foreign Politics,” [http://www.spectrum.am/eng/book\\_2.htm](http://www.spectrum.am/eng/book_2.htm)

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Turkey and Armenia have had a difficult and painful past. Especially since the late 19th century the predicament of the Armenians in the Ottoman Empire became intolerable culminating in several massacres (Hamidian purges of 1894-96, 1909 Adana massacres, and 1915-17 Armenian genocide, with clashes, massacres, and expulsions continuing in various regions of Turkey to Armenia in 1918-23). Since the 1960s Armenians started campaigning for the recognition and condemnation of the Armenian genocide. That process gained new momentum after Armenia became an independent state in 1991.

Turkey was among the first states to recognize the independence of Armenia. There were even regional projects under discussion (such as the Alaton-Hovnanian project of connecting Armenia to the Trabzon port) which would heighten Armenia's transit significance in the region. But Turkey did not hurry with the establishment of diplomatic relations due to the Karabakh conflict that had started in 1988. And after Armenians' capture of Kelbajar in the Nagorno-Karabakh war, Turkey stopped official negotiations with Armenia for establishment of diplomatic relations and closed its land borders with Armenia in 1993 (which had never fully functioned in a free and unrestricted regime during the Soviet period and afterwards). After the end of the Cold War, the Turkish-Armenian border remained the only border gate of the "Iron Curtain" that is still sealed. Also it is the only NATO border closed to a NATO partner country.

Since 1993, the Turkish official position has proposed various preconditions for the establishment of diplomatic relations and opening the border with Armenia. Amongst them few have been repeated most often: withdrawal of Armenian forces from territories under the control of Armenian forces in Nagorno-Karabakh and the surrounding territories;<sup>21</sup> official recognition of Turkey's and Azerbaijan's territorial integrities and their borders; reconfirmation of the Kars Treaty from 1921 confirming the existing Turkish-Armenian border; ceasing of the international campaign of Armenian genocide recognition (especially after 1998 this policy became an Armenian official foreign

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<sup>21</sup> There are differing perceptions by Armenia and Azerbaijan on the nature of Karabakh conflict. If for the Azeris the issue is purely territorial where territorial integrity is constantly cited as a counterargument, for the Armenians the issue is a self-determination issue, as the Karabakhi Armenians invoked their constitutional right to self-determination anticipated by Soviet law.

political core issue); acceptance of historians' commission which would study historically contentious issues concerning the relations between Armenians and Turks and issue its judgments on those problems (after Turkish Prime Minister Erdoğan proposed this idea in April 2005). Almost all of those conditions have been proposed this way or the other since 1993. There were a number of other preconditions, but they were dropped by time.<sup>22</sup>

The Turkish condition of keeping the border gates closed and not establishing diplomatic relations with Armenia aimed at forcing it to compromise in the negotiations with Azerbaijan. This policy has given no results whatsoever. After 1991 there was an opportunity that Turkey could appease the Armenian public fears that it is no threat to Armenia and start an open dialogue about the painful past and people-to-people reconciliation process. Yet in 1993 there were even threats from the Turkish leaders that Turkey might strike at Armenia for the Armenians' efforts in Karabakh. Turkish President Özal made such a warning by saying:

What would happen if during military exercises three of our bombs fall in the Armenian territory? What would happen if we sent 1-2 military brigades to Nakhichevan? We are bound to Nakhichevan with an agreement. What would happen, who would do us anything, who would come to intervene? Who could intervene in Bosnia? In world politics without resorting to risk we can reach nothing.<sup>23</sup>

But Russia had warned Turkey of dire consequences in case if Turkey intervened militarily in the conflict between Armenians and Azerbaijanis. In 1992 Marshall Yevgeni Shaposhnikov, Military Commander of the Commonwealth of Independent States warned that: "if another side enters there, then we may find ourselves on the threshold of World War III."<sup>24</sup>

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22 For details see: Tigran Mkrtchyan, "Post-election Prospects for Armenian-Turkish Relations," *TESEV - Foreign Policy Bulletin*, July 2007, p. 16,  
[http://www.tesev.org.tr/UD\\_OBJIS/PDF/DPT/BULTEN/tesevbul\\_july2007.pdf](http://www.tesev.org.tr/UD_OBJIS/PDF/DPT/BULTEN/tesevbul_july2007.pdf)

23 *Hürriyet*, 8 April 1993.

24 *Turkish Daily News*, 21 May 1992; "Up Against the Border," *Time*, 1 June 1992; *The Financial Times*, 22 May 1992; *Nezavisimaya Gazeta*, 22 May 1992. Another Russian official, Gennady Burbulis, Russian State Secretary, when asked about possible Turkish intervention, abruptly answered "That is excluded!" *AZG Daily*, 23 May 1992.

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Since 1998 the tension in relations did not appease as the Armenian President Robert Kocharian (1998-2008) further pushed for the Armenian genocide recognition on the international arena as a foreign political agenda issue. Independent of Armenian government wishes or efforts, the genocide recognition process had started much earlier, even before Armenia became independent and was mainly directed by the Armenian diaspora groups (especially in Latin America, Northern America, and Europe). After the Armenian government made it a foreign policy objective the number of foreign countries and organizations that recognized and condemned the Armenian genocide sharply increased.

Robert Kocharian though understood very well “that the development of regional stability and cooperation in the Southern Caucasus is impossible without shifting Armenian-Turkish relations into a new position.”<sup>25</sup>

Throughout this period Armenian and Turkish diplomats often had secret meetings in European capitals (usually before Foreign Affairs Ministers’ meetings). It continued in 2008 after Serzh Sargsyan became President of Armenia. This was followed by a number of cordial congratulations and correspondence between the Presidents, Prime Ministers, and Foreign Affairs Ministers of both countries, as talks of starting a “new period” between the two countries intensified.

The groundbreaking event took place in Moscow in 23 June 2008 at a meeting between the Armenian President Serzh Sargsyan and the Russian-Armenian diaspora representatives where he said:

The Turkish side suggests forming a commission that would study the historic facts. We do not mind establishing that commission, but only when the border between our countries is opened. Otherwise, it can become a means of protracting the solution of the issue for many years. In the future I intend to undertake new steps to further the normalization of Armenian-Turkish relations. Most probably, I will invite Turkey’s

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<sup>25</sup> “Armenian President Addresses OSCE Summit,” *SNARK News Agency*, 19 November 1999.

President Abdullah Gül to Yerevan to watch the match between the national football teams of Armenia and Turkey.

The principal agreement to form historians' commission and invitation of Turkish president to Armenia were most unexpected for many. In a 2005 correspondence between Erdogan and Kocharian the latter had also noted that such a commission could be formed as part of an intergovernmental commission only after border opening, but he would have never invited Gül to Armenia (as he confessed after Sargsyan invitation of Gül).

President Abdullah Gül paid an unprecedented historic visit to Armenia on 6 September to watch the football match between the Turkish and Armenian national teams. Before the visit and after August war between Georgia and Russia, Turkey thought that there was a good opportunity for taking a leading role in proposing and developing regional integration projects. In that context the idea of a Caucasus Stability and Cooperation Platform was born (discussed above). A process of talks, meetings and negotiations between the Turkish and Armenian leadership started which the media termed as "football diplomacy". This is indeed a political catchword or a "big idea"<sup>26</sup> emulating "ping-pong diplomacy" of 1970s, though there are far more difference in those two efforts than similarities. Most importantly, the players in this "football diplomacy" as the unfolding of events showed, were not two sides and there were not two football pitches. There were and are many more players, such as Europe (through Swiss mediation), the U.S. (Obama policies and Turkish pressures on the U.S. administration before 24 April –Armenians' Remembrance Day– and U.S.'s active participation in the signature and release of a joint Armenian-Turkish-Swiss statement about a "road map" of

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26 "Sports diplomacy" is a big idea as it has a bottom-line connotation that through sports activities political issues can be resolved. about the nature of "big ideas" in politics see the remarkable analysis by Stefan Halper and Jonathan Clarke, *The Silence of the Rational Center: Why American Foreign Policy is Failing* (New York: Basic Books, 2007), pp. 21-89. As catchy as that idea may sound analysis of past sports efforts and politicization of sports events shows that they usually are not the safest means of conducting diplomacy (in most of the football matches between England and Germany, for example, World Wars were remembered, fans often used racist and nationalist remarks and generally the atmosphere on TV screen as well as in stadiums were very tense. Thus "football diplomacy" in this context was not diplomatically helpful). For details about those approaches also about "football dimension" in international affairs see: Peter Beck, "The Relevance of the 'Irrelevant': Football as a Missing Dimension in the Study of British Relations with Germany," *International Affairs*, Vol.79, No.2 (2003), and on various sports events and their "diplomatic" potentials see: Lincoln Allison and Terry Monnington, "Sport, Prestige and International Relations," *Government and Opposition*, Vol.37, No.1 (2002).

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normalization of relation), Russia (as Armenian leader made the statement in Russia, Russian leaders being briefed by Turkish and Armenian leadership about the progress of talks) and Azerbaijan (which has been the only country by expressing explicit displeasure at the Turkish-Armenian rapprochement negotiations and threatening Turkey and the West with its energy resources and clearly flirting with Russia in that respect). Hence it is not the most correct term to be applied in this case. Football was a pretext for the Turkish President's visit to Armenia. But the Armenian President noted that he cannot go to Turkey for the return match "as a simple tourist or as a football fan."<sup>27</sup>

The sides have reached agreements on the intergovernmental commission (consisting of sub-commissions), establishment of diplomatic relations and endorsement of the borders between Armenia and Turkey.<sup>28</sup> The much discussed and possibly signed road map documents have not been yet disclosed as the negotiations and hopes for their successful conclusion are ongoing. But never in negotiations was Nagorno-Karabakh issue discussed. This was confirmed at the second official meeting between Presidents Gül and Sargsyan in Prague, 7 May 2009. The official reports of this meeting noted that the Presidents of Armenia and Turkey reached agreement "to honor all previous agreements and move forward toward the normalization of the Armenian-Turkish relations without preconditions and in a reasonable timeframe."<sup>29</sup> As a deadline for those talks are often mentioned the October 2009 match in Turkey between the national teams of Armenia and Turkey.

But after Barack Obama's statement on 24 April (where he avoided using the G-word, using the Armenian version for Great Calamity, "*Mets Yeghern*"), the Turkish Prime Minister Erdoğan has continuously reminded of the erstwhile precondition of Nagorno-Karabakh solution for the border opening and establishment of diplomatic relations between Turkey and Armenia. Erdoğan made such statements in Turkey, Azerbaijan as well as Poland. In parallel the

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27 "Interview of Wall Street Journal with Serzh Sargsyan, President of Armenia," *Wall Street Journal*, 23 April 2009, <http://online.wsj.com/article/SB124041090806043783.html>

28 David Phillips, "Testimony to the U.S. House of Foreign Affairs Committee," *Subcommittee on Europe*, 14 May 2009.

29 "Working Visit of President Serzh Sargsyan to the Czech Republic," *Official Website of the President of the Republic of Armenia*, 7 May 2009, <http://www.president.am/events/visits/eng/?id=59>

Turkish Foreign Minister Ali Babacan who had been heavily and positively involved in the Turkish-Armenian rapprochement talks was replaced from his ministry and moved to the Finance Ministry.

There has been a common understanding that the Turkish-Armenian relations' normalization were proceeding parallel to the negotiations over the Nagorno-Karabakh peaceful settlement. And it is clear that a full normalization of relations (which anticipates diplomatic relations establishment and open borders with unrestricted regime) assumes some progress in the negotiations over Nagorno-Karabakh and the surrounding territories under Armenian control. In Poland, the Turkish Prime Minister mentioned about Turkey opening the border gate with Armenia "if the latter ended its invasion of Karabakh." (it is unclear if Erdoğan sees the differences between Karabakh and the surrounding territories. In negotiations between Armenians and Azerbaijanis the return of Karabakh is not being discussed at all.) Erdoğan also mentioned about the possibility of deporting "40,000 illegal Armenian labor migrants"<sup>30</sup> and that Turkey "could send them back if necessary," but does not do that "because of humaneness."<sup>31</sup> The mentioning of "40,000 illegal migrants" as a threat in such a high level diplomatic process is a vulgar simplification of the process itself where the top Turkish, Armenian and international diplomats are involved.

Provided such statements continue and there are no implementations of agreements as endorsed in the "road map" of normalization of relations, then the unique opportunity for the normalization of relations will be lost for years to come. The establishment of relations between Turkey and Armenia could be a first step aiming at peaceful regional integration processes. Its failure will kill the Caucasus Stability Platform outright. Turkey could be supportive of Nagorno-Karabakh talks if it showed signs of "just" solution to the conflict irrespective of the internationally mediated negotiations in this issue that have been going on since 1994. By unequivocally and palpably siding with one of

<sup>30</sup> There are no official statistics about the Armenian migrant numbers in Turkey. Even state officials are using different numbers.

<sup>31</sup> "Turkish PM: There are 40,000 Armenians living and working illegally in Turkey," *ANS News*, 16 May 2009, <http://anspress.com/nid115004.html>

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the sides of the conflict, Turkey makes it harder for the Armenian side to perceive it as a helpful player in the region. That is important for the Armenian public perception in confidence building efforts and people-to-people reconciliation build-up following possible normalization of interstate relations between Turkey and Armenia. Return to conditionality factors and threats in political vocabulary would merely deepen the Armenian perception about the “encirclement of Armenia by hostile Turkic peoples.”<sup>32</sup>

Indeed that would hit on Turkey’s international image, as any breach of agreements on this level do not serve well for any country nor any leader. This could make a dangerous precedent in international practice about breaching (by a Prime Minister) of gained agreements (by a President). It would also deepen the distrust among Armenians about any future dealings, including signing of compromises in the Nagorno-Karabakh case with Azerbaijanis. Legitimately Armenians may no more trust the promises of the leaders of its Turkic neighbors and such a feeling of double insecurity (distrust in words and intentions) would make future diplomatic negotiations much harder.

International concerns on the toughening of Turkish stance have been raised too. As David Philips, former chairman of the Turkish Armenian Reconciliation Commission (TARC), biggest Track Two diplomacy project between the Armenians and Turks, said in a recent hearing in the U.S. House of Representatives, “as there should be no linkage between normalization and the status of Nagorno-Karabakh, there must be no linkage between normalization and genocide recognition.”<sup>33</sup> The U.S. State Department, the OSCE Minsk Group American and French co-chairmen have also underscored the necessity of unconditionality factor in establishing relations between Armenia and Turkey.

Lastly, the Turkish-Armenian rapprochement failure would guarantee the regional integration failures in the upcoming future and further make the

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32 Sabine Freizer, “Time for Turkey to be visionary in South Caucasus,” *Today's Zaman*, 17 May 2009, <http://www.todayszaman.com/tz-web/detaylar.do?load=detay&link=175505>

33 David Phillips (2009).

Caucasus rife for regional rivalries, great powers' interferences, continuation of the unresolved conflicts *status quo*, unstable and unpredictable neighborhood and a battleground of "zero-sum" gains and losses. Through the Armenian-Turkish rapprochement, Turkey cannot and will not lose Azerbaijan,<sup>34</sup> but its failure would guarantee the longevity of the standoff in Karabakh (as it would merely petrify the Azerbaijani and Armenian positions respectively), the continuation of the Armenian-Turkish tense relations and would exclude Turkey from a unique chance of truly becoming a regional power with a leading role in integration processes. For any integration to have success in the Transcaucasia the normalization of the Turkish-Armenian relations first of all is an indispensable precondition.

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<sup>34</sup> It is often mentioned that Azerbaijan threatens Turkey with its oil cut. The Baku-Tbilisi-Ceyhan is an international project. Its shareholders are: BP (30.1 %); AzBTC (25 %); Chevron (8.9 %); Statoil (8.71 %); TPAO (6.53 %); Eni (5 %); Total (5 %), Itochu (3.4 %); INPEX (2.5 %), ConocoPhillips (2.5 %) and Amerada Hess (2.36 %) <http://www.bp.com/genericarticle.do?categoryId=9006615&contentId=7020655> Azerbaijani company does not have even close to half of shares. Hence it is deeply unclear how Azerbaijan can cut oil flow without violating international agreements and commitments.



# RUSSIA AND THE UNRESOLVED CONFLICTS IN EURASIA\*

Svante E. Cornell



For two decades, Russia has played a leading role in the negotiations surrounding the unresolved conflicts of the post-Soviet space: Abkhazia and South Ossetia in Georgia, the conflict over Nagorno-Karabakh between Armenia and Azerbaijan, and the conflict in Moldova's region of Transnistria. Russia's mediation and peacekeeping has on the one hand been praised by Western powers for maintaining stability in these conflicts; on the other hand, numerous critics have detailed Russia's role in instigating these conflicts, as well as Russia's manipulation of the conflicts for its geopolitical purposes.<sup>1</sup>

The perception of Russia as a mediator to Eurasian conflicts has fluctuated greatly over the past three years. In August 2008, Russia's image as a peacemaker was badly damaged by its invasion of Georgia. Following local skirmishes in South Ossetia in late July and early August, Russia launched a mass invasion of not only that region but Abkhazia as well, the nature and speed of which led many observers to conclude had been premeditated. Indeed, subsequent

\* This article was published in Fall 2011 (Vol.1 No.2) issue of the Caucasus International (CI) Journal.

1 See: Thomas Goltz, "Letter from Eurasia: The Hidden Russian Hand," *Foreign Policy*, Fall, 1993; Evgeni M. Kozhokin, "Georgia-Abkhazia," in Jeremy R. Azrael and Emil A. Payin (eds.), *U.S. and Russian Policymaking with Regard to the Use of Force* (Santa Monica: Rand Corp., 1996); Alexei Zverev, "Ethnic Conflict in the Caucasus," 1988–94, in Bruno Coppeters (ed.), *Contested Borders in the Caucasus* (Brussels: VUB Press, 1996); Fiona Hill, and Pamela Jewett, *Back in the USSR: Russia's Intervention in the Internal Affairs of the Former Soviet Republics and the Implications for United States Policy Toward Russia* (Cambridge, MA: Strengthening Democratic Institutions Project, John F. Kennedy School of Government, Harvard University, January 1994); Svante E. Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, pp. 349–51.

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research has showed convincingly that Russian leaders had long planned and sought the conflict with Georgia.<sup>2</sup>

Thus, the events of 2008 led Russia belatedly to lose the position as a mediator and peacekeeper in Georgia's conflicts that it had enjoyed, despite growing skepticism, in the eyes of the international community. Moscow has, in the aftermath of the war, tried to re-establish the notion that it is not party to the conflicts in Georgia, but these attempts have so far failed, Russia's military presence on Georgian territory making its role as a party to the conflict clear. Moreover, Russian President Dmitri Medvedev announced an overtly imperialist doctrine, declaring that "Russia, like other countries in the world, has regions where it has privileged interests," and that these include Russia's "border region, but not only."<sup>3</sup> Nevertheless, the changes in perceptions of Russia's role in Georgia's conflicts did not automatically translate into a reassessment of Russia's role as a mediator in the Armenian-Azerbaijani and Transnistrian conflicts.

The Russian invasion of Georgia was understood in its immediate aftermath as a watershed event. However, only a few weeks after the invasion, in late September 2008, the U.S. financial system stood on the verge of collapse, leading to the global financial crisis that still plagues the Euro-Atlantic area. As world leaders struggled to save the world economy, the crisis in Georgia appeared less important. Thus, Russia's stated ambition in November 2008 to take the lead in a new round of negotiations between Baku and Yerevan was generally taken at face value by the international community. In the months and years that have followed, relations between Russia and the West have improved; a consensus has emerged that the economic crisis led to changed Russian attitudes in the international arena. Indeed, Russian policies toward the West have appeared to take on a new and more conciliatory tone. Russia moved to resolve a decades-old dispute with Norway on maritime boundaries, to patch up its longstanding differences with Poland, and in 2010

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2 Svante E. Cornell and S. Frederick Starr, *The Guns of August 2008: Russia's War in Georgia* (Armonk, New York: M.E. Sharpe, 2009); See also: Ronald D. Asmus, *A Little War that Shook the World: Georgia, Russia and the Future of the West* (Basingstoke: MacMillan, 2010).

3 Andrew E. Kramer, "Russia Claims Its Sphere of Influence in the World," *New York Times*, 31 August 2008, <http://www.nytimes.com/2008/09/01/world/europe/01russia.html>

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worked with NATO towards a compromise on the issue of missile defense. It likewise has appeared to reciprocate the Obama administration’s “reset” diplomacy, cooperating with the U.S. on sanctions against Iran and logistics in Afghanistan.

The implication of these developments has been to minimize criticism of Russia’s role in the unresolved conflicts of Eurasia. Indeed, Western powers lent support to President Dmitri Medvedev’s efforts to bring about progress in the Nagorno-Karabakh conflict, involving a failed summit in Kazan in 2011, and German leaders have raised the possibility of closer cooperation with Russia on resolving the conflict in Transnistria.

This article strives to assess whether the thaw in Russia’s relations with the West has led to any substantial changes in Russia’s policy toward the unresolved conflicts of Eurasia. The article will argue that contrary to appearances, these policies have remained essentially the same, and that Moscow’s policy continues to be to maintain the *status quo* in these conflicts until and unless a resolution can be achieved that would cement Russia’s geopolitical influence in the countries involved, preferably through a long-term military presence.

### ***Georgia: the Conflict Continues***

The ongoing situation concerning Georgia and its secessionist regions – Abkhazia and South Ossetia – remains the main area of discord between Russia and the West. Little has changed in Moscow’s policies toward Georgia, and indeed, the war of August 2008 should not be seen as an isolated event, but as the most violent and acute phase of a Russian-Georgian conflict that dates back to the late Soviet period.

Thus, long before the 2008 war, Georgia stood out as the post-Soviet country where Russia had most aggressively asserted itself. In the early 1990s, its military had taken an active role in the secessionist wars. In the mid-1990s, considerable evidence suggests elements in Moscow were involved in an attempt to assassinate then-Georgian President Eduard Shevardnadze. And on several occasions before current President Mikheil Saakashvili’s rise to

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power, Moscow bombed Georgian territory – making it the only country where Russia had used outright military power.<sup>4</sup> This indicates that while the war between Russia and Georgia may be over, the conflict between Moscow and Tbilisi continues at other levels.

The threat of a new Russian invasion cannot be dismissed out of hand. In the early summer of 2009, a considerable number of analysts deemed a renewed Russian military attack on Georgia –one designed to finish the job of ousting the Saakashvili regime– to be likely. While it is nearly impossible to know if such a war was indeed being planned, the diplomatic and military preparations were certainly observable.<sup>5</sup> For reasons that are not known, but which may involve messages sent during President Barack Obama's July 2009 visit to Moscow, these plans were not implemented.<sup>6</sup>

Russia continues to violate the 2008 cease-fire agreement negotiated by the EU, and to overtly seek regime change in Georgia. Russia likewise has rapidly expanded its military presence in the territories that it effectively occupies. On the basis of agreements with the *de facto* governments in Sukhumi and Tskhinvali, Moscow has built permanent military bases in both territories.<sup>7</sup> Moreover, these include sophisticated hardware, some of which appears directed at threatening the Georgian capital. In late 2010 and early 2011, it was reported that Russia had deployed Smerch (Tornado) multiple-launch rocket systems and Tochka-U (SS-21 Scarab B) short-range tactical ballistic missile systems in South Ossetia, less than 60 miles from Tbilisi.<sup>8</sup> Moreover,

4 Svante E. Cornell, *Georgia after the Rose Revolution: Geopolitical Predicament and Implications for U.S. Policy* (Carlisle, Pennsylvania: U.S. Army War College, 2007), <http://www.silkroadstudies.org/new/docs/publications/2007/0703USAWC.pdf>

5 Paul Goble, "Russian Experts Divided on Probability of New War with Georgia," *Window on Eurasia*, 1 July 2009, <http://windowoneurasia.blogspot.com/2009/07/window-on-eurasia-russian-experts.html>; "Russia to Plot a Second War Against Georgia?," *Panarmenian.net*, 29 June 2009, <http://www.panarmenian.net/eng/world/news/33516/>; Gregory Feifer, "Friction Feeds Fear of New Russia-Georgia Conflict," *Radio Free Europe/Radio Liberty*, 29 June 2009, [http://www.rferl.org/content/Fears\\_Grow\\_Of\\_New\\_RussiaGeorgia\\_Conflict/1765258.html](http://www.rferl.org/content/Fears_Grow_Of_New_RussiaGeorgia_Conflict/1765258.html); Yulia Latynina, "New War With Georgia Could Lead to 'Collapse of Russia,'" *Yezhednevnyy Zhurnal*, 3 August 2009.

6 Brian Whitmore, "Is a Russia-Georgia War off the Table?" *Radio Free Europe/Radio Liberty*, 14 July 2009, [http://www.rferl.org/content/Is\\_War\\_Off\\_The\\_Table\\_In\\_Georgia/1776909.html](http://www.rferl.org/content/Is_War_Off_The_Table_In_Georgia/1776909.html)

7 Philip P. Pan, "Putin Visits Breakaway Georgian Region, Unveils Plan for Military Base," *Washington Post*, 13 August 2009.

8 "Tbilisi Condemns Russia's Smerch Rocket Systems in S. Ossetia," *Civil Georgia*, 7 December 2010, <http://www.civil.ge/eng/article.php?id=22932>; "Reports: Russia Deploys Tochka-U Rockets in S. Ossetia," *Civil Georgia*, 24 January 2011, <http://www.civil.ge/eng/article.php?id=23077>

Russia continues to block the unarmed EU Monitoring Mission from accessing either Abkhazia or South Ossetia, as well as preventing the return to their homes of a quarter million ethnic Georgians displaced by the conflicts.

In addition to the military build-up, Russia's wholesale economic embargo on Georgia is still in place, and Russian activities to undermine the Georgian government have not ceased. First, Moscow funds and supports the most radical elements of the Georgian opposition. For example, the Georgian Interior Ministry released a recording in which the leader of the Democratic Movement-United Georgia Party Nino Burjanadze and her son are overheard while planning the May 2011 attempted *coup d'état*, openly discussing the possibility of assistance from Russian commandos.<sup>9</sup> (Burjanadze has failed to deny the authenticity of the recording.) Secondly, Moscow continues to publicly accuse Georgia of assisting Islamist terrorism in the North Caucasus, in spite of the total absence of evidence to that effect. Conversely, however, Russia's hand is visible behind a string of a dozen bombings that has rocked Georgia in the past year. These were all conducted with RDX explosives, targeting opposition party offices, railway bridges, supermarkets, as well as the NATO liaison office in Tbilisi and perhaps most alarmingly, a bomb that went off outside the wall of the U.S. Embassy in Tbilisi. Thanks to investigative reporting by the Washington Times, it is now known that the U.S. intelligence community has endorsed the conclusions of the Georgian government's investigation, which identifies an Abkhazia-based Russian Military Intelligence officer as the mastermind of the bombing spree, including the one targeting the U.S. Embassy.<sup>10</sup>

These events all suggest that in its long-standing conflict with Georgia, Moscow currently emphasizes subversive and covert strategies rather than overt military action. But there should be little doubt that Russia continues to actively undermine the development and security of Georgia.

On the diplomatic front, Moscow has engaged in two key efforts toward Georgia. First, while building up its own military capabilities on Georgian

9 Recording available with English translation at, <http://www.youtube.com/watch?v=qJDD8wL8AaE>

10 Eli Lake, "Classified Report: Russia Tied to Blast at the U.S. Embassy - Supports Local Findings," *Washington Times*, 27 July 2011, <http://www.washingtontimes.com/news/2011/jul/26/us-report-russia-tied-to-embassy-blast/>

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territory, it has successfully forced the equivalent of an international arms embargo on the country. The method has been to falsely accuse the U.S. and other Western states of supplying large quantities of weapons to Georgia, thus obtaining assurances that such deliveries have not been made – and an implicit acceptance that they should not in the future. As analyst Vladimir Socor has observed: “[t]he claim about those arms deliveries is intended for a U.S. and NATO audience. The Russian government must know that this audience knows that their claim is false. The purpose of such statements is simply to draw, or reinforce, Moscow’s red lines regarding Western policies.”<sup>11</sup> This effectively serves to sustain Georgia’s acute vulnerability, leaving Tbilisi defenseless to a renewed Russian invasion at some point in the future, and enabling Moscow to intimidate the present and future governments there.

Secondly, Moscow is seeking to distort the reality in the conflict zones. Before the 2008 war, Moscow interfered increasingly directly in the affairs of Abkhazia and South Ossetia, for example through the illegal distribution of Russian passports, economic investments, and through the direct appointment of Russian state employees to the unrecognized governments of the two entities. At the same time, it sought to portray itself as an honest broker, mediator and peacekeeper in the conflict – and obtained Western confirmation of this status, as well as regular praise in UN resolutions.

Moscow maintains that it is not a party to the conflict – that the conflicts are between Georgia on the one hand and the “independent states” of South Ossetia and Abkhazia on the other.<sup>12</sup> This strategy became most obvious in December 2010, after Georgian President Mikheil Saakashvili made a unilateral pledge in the European Parliament not to use force to recover the secessionist territories. In response, Moscow refused to follow suit and make a pledge not to use force against Georgia, arguing that it is not a party to the conflict.<sup>13</sup> This diplomatic initiative has not met with success, and indeed,

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11 Vladimir Socor, “Russia Calls for Arms Embargo on Georgia after War’s Second Anniversary,” *Jamestown Foundation - Eurasia Daily Monitor*, Vol.7 No.157, 13 August 2010.

12 Socor (2010); “We Don’t See Conflict Between Russia and Georgia - Lavrov,” *News.az*, 3 December 2010, <http://news.az/articles/georgia/27708>; “Russia Warns of ‘Confrontational’ UN Document on Refugees,” *Russia Today*, 26 August 2009, <http://rt.com/politics/russia-warns-confrontational-document/>

13 “Moscow Responds to Saakashvili’s Non-Use of Force Pledge,” *Civil Georgia*, 24 November 2010, <http://www.civil.ge/eng/article.php?id=22891>

Georgia has remained the main thorn in Russia's relationship with the West and in its international image. Contrary to the case before August 2008, the world firmly views Russia as a party to the conflict.

### ***Armenia and Azerbaijan***

During 2009 and 2010, the unresolved conflict between Armenia and Azerbaijan has been slowly escalating, with the war of words between the two countries mounting and skirmishes along the cease-fire line increasing.<sup>14</sup> Unfortunately, this evolution is partly a result of Western neglect of the conflict, and the collapse of the U.S.-sponsored Turkish-Armenian reconciliation process. Moscow's policies have been two-fold: asserting its role as the primary mediator between the parties, and stepping up its provision of military hardware to both of them.

Two decades in the making, the conflict is often considered the quintessential "frozen" conflict, eliciting comparisons to the Cyprus conflict. However, the conflict is far from frozen, and unlike in Cyprus, the risk of renewed hostilities is very much present. In fact, the *status quo* is untenable for one simple reason: the balance of power between the two protagonists is changing rapidly. Although Armenia sits on the land occupied since 1992-94, its population has shrunk considerably since independence due to emigration. By contrast, oil and gas riches have made Azerbaijan the fastest-growing economy of the world in the past five years. Its economy is now almost five times larger than Armenia's; its defense budget alone far surpasses Armenia's entire state budget.

Making matters worse are several facts: first, there are no peacekeeping forces separating the Armenian and Azerbaijani armies, which are eyeball to eyeball across the cease-fire line. Second, leaders on both sides have adopted increasingly fierce nationalistic rhetoric as the conflict has gone unresolved, and given the passage of time, most Armenians and Azerbaijani under the age of 40 have never met a person from the enemy nation. Finally, strong forces

<sup>14</sup> Nina Caspersen, "Mounting Tensions over Nagorno-Karabakh," *Central Asia-Caucasus Analyst* Vol.7, No.13, 7 July 2010, <http://www.cacianalyst.org/?q=node/5363>; "Armenia and Azerbaijan: Preventing War," *International Crisis Group, Europe Briefing no. 60*, 8 February 2011, <http://www.crisisgroup.org/en/regions/europe/south-caucasus/B60-armenia-and-azerbaijan-preventing-war.aspx>

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on both sides believe time is on their side. In Azerbaijan, the thinking is that the discrepancy of power will only increase to Baku's advantage, decreasing incentives to agree to a deal today when the possibility exists of imposing a better one tomorrow. In Armenia, by contrast, the feeling is that the world is increasingly receptive to the principle of self-determination that the Armenians of Karabakh champion, given the independence of East Timor, Montenegro, and especially Kosovo. After all, if there are two Albanian states in the Balkans, why can't there be two Armenian ones in the Caucasus? Of course, especially since the ethnic cleansing disproportionately targeted Azerbaijanis, the prospect of the international community ever recognizing the independence of Nagorno-Karabakh is in reality very unlikely.

Western diplomats have generally considered the conflict sufficiently frozen to concentrate, instead, on more urgent matters elsewhere. As such, attention to mediation efforts has been sporadic and erratic. The Bush administration did host a summit in Key West in 2001; French President Jacques Chirac hosted another at Rambouillet in 2006, and Russian President Dmitri Medvedev organized a third in Kazan in 2011. But in between such bursts of energy, little has been done to work toward an agreement. No top-notch mediator has been deployed by Paris, Washington, or Moscow to continuously work on the conflict; instead, mid-level ambassadors have chaired the talks, a strategy that has failed to produce results.

The events of 2008-9 illustrate this neglect. If anything, the war in Georgia should have served as a stern reminder that conflicts of the South Caucasus are far from "frozen". Having failed to prevent the escalation to war in Georgia, it would have been logical for Western powers to redouble their efforts to resolve the Armenian-Azerbaijani conflict. Instead, as absurd as it seems, Western leaders did not blink when Russia, fresh from its invasion of Georgia, announced it would take the lead to seek a negotiated solution.

Thus, shortly after the war in Georgia, Russian President Dmitri Medvedev took a leading role in the negotiations between Armenia and Azerbaijan. This served two purposes: first, to improve Russia's tarnished international reputation; and second, to reinforce Russia's role as the predominant force

in the South Caucasus. While both the Azerbaijani and Armenian presidents played along, not least in a high-profile summit in Moscow in November 2008, the negotiations went nowhere because of the volatile post-war regional atmosphere. In spite of this fact, Medvedev in October 2010 continued to express optimism that a deal would be reached by that December. Needless to say, there was no progress in that direction.<sup>15</sup> Similarly, Medvedev organized a high-level meeting in Kazan in June 2011, which attracted substantial levels of international attention, involving hopes of a breakthrough in negotiations. Again, such progress failed to materialize.

The reason for the failure is simple: Russia lacks credibility as a mediator. Indeed, while playing the part of a mediator, Moscow has simultaneously been acting as an arms merchant in the South Caucasus. Russia has sold Armenia arms at low prices, while offering them to Azerbaijan at high cost.

Following the successful extension of Russia's basing rights at Sevastopol on Ukraine's Crimea peninsula, Moscow applied the same blueprint in Armenia. August 2010 saw the amendment of the 1995 Russian-Armenian bilateral defense treaty, extending the lease of Russia's military base at Gyumri until 2044. At the same time, the wording of the agreement itself was altered; whereas the original treaty included a commitment by Russia to come to Armenia's defense if the country was attacked "by a state outside the CIS,"(a reference at the time mainly referring to Turkey) the amended treaty included no such clause. Thus, Yerevan in practice received stronger commitments from Moscow for defense against a possible Azerbaijani attack to reclaim its lost territories. To make good on these obligations, Russia also transferred a large volume of armaments to Armenia.<sup>16</sup>

But Moscow is playing both sides of the fence. While its main focus has continued to be Armenia, Russia is reported to have sold S-300 advanced anti-aircraft missile systems to Azerbaijan, and to have provided Baku with considerable amounts of tanks and other armaments.<sup>17</sup>

<sup>15</sup> "Medvedev Seeks Karabakh Deal by December," *Moscow Times*, 28 October 2010.

<sup>16</sup> Fariz Ismailzade, "Russian Arms to Armenia Could Change Azerbaijan's Foreign Policy Orientation," *Central Asia-Caucasus Analyst* Vol.11, No.2, 28 January 2009, <http://cacianalyst.org/files/090128Analyst.pdf>

<sup>17</sup> Shahin Abbasov, "Azerbaijan: Baku Embarks on Military Spending Surge, Seeking Karabakh Peace," *eurasanet.org*, 22 October 2010, <http://www.eurasianet.org/node/62223>

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Thus, Moscow's policy in the Armenian-Azerbaijani dispute seems to be to seek a negotiated solution on its own terms, one that would certainly involve Russian troops on Azerbaijani territory in some form of peacekeeping role. Barring that, it strives to sustain a controlled level of instability in the South Caucasus, one that ensures Armenia's continued dependence on Moscow while attaching cost to Azerbaijan's independent policies.

### ***No Resolution in Transnistria***

Moldova, with its unresolved conflict in Transnistria, has long been Europe's poorest, and perhaps most forgotten country. Ever since a short conflict in 1992, Russian military forces have been deployed in the eastern Transnistria region, where a secessionist pro-Russian, neo-communist regime remains in control. Russia's military presence in Moldova exists against the will of the Moldovan government and in contravention of its constitution, and has been one of the chief stumbling blocks for the entering into force of the Treaty on Conventional Armed Forces in Europe.

In 2010, the German government launched an initiative to explore closer security cooperation between Europe and Russia. At a summit in Meseberg, near Berlin, in June 2010, German Chancellor Angela Merkel and Russian President Medvedev signed a memorandum to "explore the establishment of an EU-Russia Political and Security Committee," which would be a considerable step toward changing the architecture of European security.<sup>18</sup> The move had taken place without consultations with Washington, and the intended body would surpass the institutional forms of coordination between the EU and NATO, or between the EU and the U.S.

However, Merkel explicitly raised resolution of the conflict in Transnistria as a test case of EU-Russia security cooperation, and the memorandum promised joint efforts in that direction.<sup>19</sup> Berlin also followed up on this memorandum;

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<sup>18</sup> Vladimir Socor, "Meseberg Process: Germany Testing EU-Russia Security Cooperation Potential," *Jamestown Foundation - Eurasia Daily Monitor*, Vol.7, No.191, 22 October 2010, [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=37065](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=37065); George Friedman, "Germany and Russia Moving Closer Together," *Stratfor*, 22 June 2010, [http://www.stratfor.com/weekly/20100621\\_germany\\_and\\_russia\\_move\\_closer](http://www.stratfor.com/weekly/20100621_germany_and_russia_move_closer)

<sup>19</sup> See: Judy Dempsey, "Challenging Russia to Fix a Frozen Feud," *New York Times*, 28 October 2010.

soon after the Meseberg summit, German Foreign Minister Guido Westerwelle visited Moldova, the first to do so.<sup>20</sup> German leaders then raised the issue with French and Polish leaders in the consultations known as the Weimar triangle, and Chancellor Merkel further coordinated with Romanian leaders during a state visit in October 2010. Yet almost a year later, Moscow had failed to reciprocate, in spite of German proposals that went a considerable distance in meeting Moscow's policy goals – involving pressuring Moldova to accept a solution based on a federalized state in which the separatist regime in Tiraspol would have significant influence, which in turn would undermine Moldova's European integration. Although German diplomacy sidelined the EU and U.S., who unlike Germany are official parties in the 5+2 format of the negotiations on Transnistria, and moved closer to Moscow's position, Russian intransigence continued.<sup>21</sup>

Thus, Germany's initiative has failed to bear fruit in spite of the great benefits and prestige a developed security relationship with the EU would offer Moscow. Observers with first-hand information about the negotiations suggest that Russian negotiators are more polite, but have yielded nothing on substance. Indeed, Moscow has not backtracked from its stance on the conflict – which continues to back the Smirnov regime in Transnistria, while demanding a resolution and a “reliably guaranteed” special status for Transnistria as well as Moldova’s “constitutional neutrality” before any military withdrawal.

### ***Conclusions***

While the atmospherics in Russia's relations with the West have changed, it is clear that little has changed in Russia's policies on the unresolved conflicts in Eurasia. Indeed, Russian aspirations to a sphere of influence covering the former Soviet space are still very much alive. Russia makes use of a range of mechanisms to reward positive behavior or punish undesirable actions on the part of neighboring states. The main problem for Moscow is that its means of influence in the former Soviet space is mainly negative: it has little to offer the

20 “The First Visit by a German Foreign Minister to Moldova,” *Eastweek*, 30 June 2010, <http://www.osw.waw.pl/en/publikacje/eastweek/2010-06-30/first-visit-a-german-foreign-minister-to-moldova>

21 Vladimir Socor, “Moscow Meeting Fails to Re-Launch 5+2 Negotiations On Transnistria Conflict,” *Eurasia Daily Monitor*, 22 June 2011.

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states of Eurasia, but great potential to undermine their security by diplomatic, economic, subversive, or military measures. Thus, Moscow has few carrots, necessitating a heavy use of sticks. Russian rewards extend to privileged export deals for military and other hardware, as well as subsidized energy prices. But potential punishments are many, including economic sanctions and embargos, manipulation of the price and supply of energy, intervention in domestic politics and unresolved conflicts, subversive activities, military provocations, and ultimately, as in Georgia, the use of full-scale military force. More than anything, Moscow uses manipulation of unresolved conflicts to maintain its position in the countries affected.

It is well-known that Russia's main desire in establishing the "reset" diplomacy with the U.S. –and similar efforts with European states– has been to obtain acceptance in the West of its claim to a sphere of influence in Eurasia. Western states have publicly and repeatedly rejected such a sphere of influence. Nevertheless, Western engagement in the region since 2008 has decreased dramatically. This is in all likelihood greatly a result of the financial crisis. Yet several policies suggest that a desire not to antagonize Moscow is part and parcel of the lack of Western engagement. Most egregiously, U.S.'s refusal to normalize military relations with Georgia and to resume the sale of military equipment to Georgia to the pre-2008 levels seem to uphold the favored Russian policy of a *de facto* arms embargo on Georgia. Similarly, Western efforts to develop the southern energy corridor through the Black Sea and Caspian basin have been much reduced. Thus, the inescapable conclusion is that while Western leaders reject the Russian notion of a sphere of influence, they have reduced their level of engagement to a level that allows Moscow to conclude that its demands for a sphere of influence are not being actively challenged.

Even though Western policies have been markedly less principled and active in Eurasia, Moscow has been unable to make much headway in consolidating its position. The government of Mikheil Saakashvili in Georgia survives, having weathered serious internal storms while maintaining substantial public legitimacy and continuing its reform agenda, though perhaps at a slower pace than before. Moscow's war against Georgia caused enormous damage to that

country, but also made inconceivable the arrival to power of a pro-Russian politician of the Yanukovich mold. Indeed, if not before, 2008 was the year that Russia lost Georgia. Similarly, Russia's renewal of its basing agreement with Armenia, and the attendant arms supplies, led to the abrupt end of any Russian-Azerbaijani honeymoon period, preventing Moscow from capitalizing on Baku's frustration with the West. While the Azerbaijani government is cautious in its relations with Moscow and cooperates in areas of its own interests –such as gas sales and arms procurement– nothing has changed in Azerbaijan's independent foreign policy. Even in Armenia, Moscow's position is based on Armenia's dependency, a fact not lost on Armenia's leaders. In Moldova, Russian encroachments failed to measure up to the gravitational pull of the EU. In November 2010, the fractured coalition government, aptly named the "Alliance for European Integration", won renewed confidence in an election, and was reconstituted, dashing Moscow's hopes of returning the Communist party to power.<sup>22</sup> In Belarus, the government of Aleksandr Lukashenko remains as alienated from Moscow as it was several years ago. In Central Asia, Moscow's policies have accelerated the efforts of Turkmen and Uzbek leaders to broaden their international contacts and their energy export routes; even in Ukraine, where Moscow had initial successes following the coming to power of Viktor Yanukovich, bilateral ties have worsened as Ukrainian leaders have refused Russian efforts to gain control over Ukraine's gas infrastructure.

In sum, Moscow's aggressive tactics have largely failed to bear fruit – but have contributed to deepening the instability of the entire post-Soviet sphere, and to complicating efforts at conflict resolution and development in the region.

<sup>22</sup> Vladimir Socor, "Moldova's Alliance for European Integration: a Team of Rival Parties," *Jamestown Foundation - Eurasia Daily Monitor*, Vol.8, No.5, 7 January 2011, [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=37333](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=37333)



# GEORGIA'S PRECARIOUS SECURITY\*

Stephen Blank



Three years after the Russo-Georgian war of 2008, Georgia's security remains precarious and additionally burdened by a permanent sense of being under threat from Russia.<sup>1</sup> Moscow has sustained a cold war of provocations and counter-provocations against Georgia since 2004, interrupted only by the brief hot war in 2008, which resulted directly from those provocations.<sup>2</sup> Georgian elites believe that while a Russian-initiated war is not imminent, Moscow believes it has not conclusively settled its scores with Georgia and therefore keeps open the option of a further attack. Russia continues its campaign of subversion against Georgia, which is comprised of attempts to generate or co-opt domestic opposition to the Saakashvili regime, unceasing espionage, and even bombings near the American Embassy in Tbilisi.<sup>3</sup> While this bombing may or may not also have targeted the U.S.; it certainly aims to destabilize Georgia and influence U.S. perceptions of its

\* This article was published in Fall 2011 (Vol.1 No.2) issue of the Caucasus International (CI) Journal.

1 International Crisis Group, "Georgia-Russia: Learn to Live Like Neighbors," *Europe Briefing*, No. 65, 8 August 2011, <http://www.crisisgroup.org/-/media/Files/europe/caucasus/georgia/B65--%20Georgia-Russia-%20Learn%20to%20Live%20like%20Neighbours.pdf>; Ghia Nodia, "Another Year Passes Without a New Russia-Georgian War, But Nothing Can Be Ruled Out," *Radio Free Europe/Radio Liberty*, 10 August 2011; "Tbilisi Suspects Russia of Preparing for War Against Georgia," *Interfax*, in English, 9 August 2011, *Open Source Center, Foreign Broadcast Information Service, Central Eurasia (Henceforth FBIS SOV)*, 9 August 2011.

2 Dmitri Trenin, *Post-Imperium: A Eurasian Story* (Washington, D.C.: Carnegie Endowment for International Peace, 2011), pp. 29-34, pp. 93-99; Eli Lake, "Russia Waged Covert War on Georgia Starting in '04," *Washington Times*, 3 December 2010.

3 International Crisis Group (2011).

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stability and reliability.<sup>4</sup> This constant pressure seems to be Moscow's general *modus operandi* in the former Soviet Union. Thus observers in Latvia concluded that:

We see several, interrelated short-term [Russian] strategies focusing on exercising ever-increasing influence in the politics of the target states. What we do not see is a policy of military conquest but, rather, a gradual but unswerving drive to eventually regain dominance over the social, economic, and political affairs of what are to become entirely dependent client states.<sup>5</sup>

Such activities show how much credence Russia puts in the Obama administration's resolve and accompanying reset policy.

Meanwhile the Georgian government perceives Russia as "enemy number one" and with good reason refuses to accept the legality of Moscow's assault on Georgian sovereignty; in 2008, Russia officially recognized the independence of Abkhazia and South Ossetia. What this means for Georgia is that there is no legal basis for a peace settlement unless Russia repudiates that policy. Therefore Georgia's government has not even discussed how it might win back those rebellious provinces. Tbilisi's refusal to negotiate on Moscow's terms is one reason for the deadlocked negotiations in Geneva. But that deadlock reinforces Georgia's unwillingness to present a credible strategy for addressing the Abkhaz and South Ossetian grievances that originally triggered the conflict. Consequently there is stalemate: Georgian domestic politics are paralyzed, as are relations between Georgia and Russia, and high levels of tension continue. The absence of any Russo-Georgian dialogue forces Georgia to rely on the West to influence Moscow, and reinforces its reluctance to open a dialogue with Moscow or its former provinces. This disinclination, however, leaves it vulnerable to criticism over what is perceived as passivity in terms of policy development.<sup>6</sup>

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<sup>4</sup> Michael Cecire, "U.S. Embassy Bombing a Plausible Escalation for Russia in Georgia," *World Politics Review*, 7 August 2011.

<sup>5</sup> Gundar J. King and David E. McNabb, "Crossroads Dynamics in Foreign Policy: The Case of Latvia," *Problems of Post-Communism*, Vol.56, No.3 (May-June, 2009), p. 39.

<sup>6</sup> "Interview with Mamuka Areshidze," *Sakartvelos Respublika*, 10 August 2011, *FBIS SOV*, 17 August 2011.

Russia, meanwhile, insists that the independence of Abkhazia and South Ossetia is irreversible, along with the rejection of Georgian entry into NATO. It is also pushing for the recognition that Moscow has a special sphere of influence in the Commonwealth of Independent States (CIS) where it can use force with impunity to protect its interests.<sup>7</sup> Russian political analyst Boris Sokolov recently commented that Prime Minister Vladimir Putin's remarks about Russia's potential incorporation of South Ossetia and Abkhazia –should those territories wish to be made part of Russia– suggest that the annexation of South Ossetia has not been excluded from Russia's agenda, that Moscow will not withdraw its troops from Georgia's provinces, and that neither the U.S. nor the EU are making any real demands on Russia or putting pressure it to withdraw those forces and return to the *status quo ante*.<sup>8</sup> Indeed, some Russian political figures like Duma member Konstantin Zatulin, who is also Director of the Institute for CIS Countries, believe that Putin's remarks signal Moscow's willingness "to respect the choice of the Ossetian people."<sup>9</sup>

Russia is also insisting that Georgia formally and publicly renounce violence as a means of regaining the breakaway provinces, without even considering that it too should renounce force for those purposes. At least since 2007, Moscow's true objective has been Georgian "neutrality", i.e. Georgia's renunciation of its pro-Western orientation, and thus further curtailment of its sovereignty.<sup>10</sup> Indeed, this demand that Georgia surrender some of its freedom in national security policy may well be Moscow's core objective here.

It is therefore disheartening that Russian analysts unanimously perceive the U.S.'s reset policy as an act of recognition by the U.S. and the West of Moscow's predominance in its chosen sphere of influence, and believe that these parties are therefore unwilling to challenge Russia's constant efforts to restrict the independence and sovereignty of other members of the CIS – not

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<sup>7</sup> "Interview given by Dmitri Medvedev to Television Channels Channel One, Russia, NTV (henceforth Medvedev Interview)," 31 August 2008, [http://www.kremlin.ru/eng/speeches/2008/08/31/1850\\_type82916\\_206003.shtml](http://www.kremlin.ru/eng/speeches/2008/08/31/1850_type82916_206003.shtml)

<sup>8</sup> "Interview with Russian Political Analyst, Boris Sokolov," *Sakartvelos Respublika*, 6 August 2011, FBIS SOV, 9 August 2011.

<sup>9</sup> "Moscow," *Interfax-AVN Online*, 3 August 2011, FBIS SOV, 3 August 2011.

<sup>10</sup> "Moscow," *Vesti TV*, 6 February 2007.

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just Georgia.<sup>11</sup> Moscow's Georgian policy seems to be under the control of the political elite (*Silovye Struktury*) who are motivated both by their desire for power and wealth in southern Russia, and the belief that the U.S. is itching to invade Russia over the Georgian issue or to intervene there. As a result, Moscow has strengthened its position in Abkhazia and South Ossetia by creating numerous military bases, installing *Federalnaya Sluzhba Bezopasnosti* (Federal Security Service or FSB) puppets into power there, and preparing for the possible incorporation of these provinces into Russia.<sup>12</sup> These actions violate both the 1975 Helsinki accords and also the truce or armistice agreed with the EU in 2008 during the conflict. Yet Russia has paid no price for these violations, and actually denies committing such breaches.<sup>13</sup>

Seeing that it can act with impunity, Russia is aggressively extending its influence in the South Caucasus. Prime Minister Putin recently suggested that Moscow could incorporate these provinces "Soviet style", i.e. through arranged and manipulated plebiscites.<sup>14</sup> While President Medvedev criticized this approach, on the grounds that the legal requirements for incorporation are not in place; this might have been more than just a criticism of Putin. It also could mean that Moscow is planning to implement those "requirements".<sup>15</sup> Potentially, over 150,000 people in these two provinces could participate in the December 2011 Russian Duma elections; Russia's Central Elections Commission is establishing polling stations around Russian military bases in both Abkhazia and South Ossetia.<sup>16</sup> While Putin's and Medvedev's recent statements about Georgia might be attributed to electioneering in Russia, these statements also stimulate popular demand (particularly among the

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11 Sergei Strokan and Dmitry Sidorov, "In the World: and Now the Rest," *Kommersant Online*, 27 July 2009, *FBIS SOV*, 27 July 2009; "The Next Decade: What Kind of Partner Can Russia Be," *Carnegie Europe: Carnegie Endowment for International Peace*, 26 May 2010, p. 28; Bryan Whitmore, "Power Vertical: Moscow, Washington, and the Near Abroad," *Radio Free Europe/Radio Liberty*, 20 May 2010, [www.rferl.org](http://www.rferl.org); "Open Source Center Report: Russia, European Officials Media Welcome US Security Plan," *Open Source Center, FBIS SOV*, 2 June 2010.

12 Dmitri Trenin (2011), pp. 29-34, 93-9.

13 "Interview by Dmitri Medvedev, 2011 (Henceforth Medvedev Interview-2)," 5 August 2011, <http://eng.kremlin.ru/transcripts/2680>

14 "Prime Minister Vladimir Putin Speaks With Participants of the Seliger-2011 Youth Educational Forum," 1 August 2011, <http://premier.gov.ru/eng/events/news/16080/>

15 "Medvedev Interview-2" (2011).

16 Nikolaus Von Twickel, "Georgian Provinces to Vote for the Duma," *Moscow Times*, 3 August 2011, [www.themoscowtimes.com](http://www.themoscowtimes.com)

*Silovye Struktury*) for further action against Georgia.<sup>17</sup> Statements calling Georgia's President Saakashvili "pathological" and insisting that the war's outcomes are irreversible only guarantee the continuing deadlock in the Geneva negotiations, and sustain Russia's cold war against Georgia.

### ***Threats to European and Eurasian Security***

The features of Georgia's security climate lead us to define this situation as a cold war environment, and emphasize the precariousness of its internal and external security. But the consequences of the 2008 war go beyond Georgia. In many respects they go to the heart of European security and reaffirm that European, Eurasian, and Transcaucasian security is ultimately indivisible. Russian sources now concede that the decision to cut off Abkhazia and South Ossetia from Georgia was to provide a legal structure (albeit a disingenuous one) that would allow Moscow to permanently station troops there, allegedly to deter the U.S. from intervening, or to threaten Georgia.<sup>18</sup> While contemporary reports suggested that the Russian Ministry of Foreign Affairs opposed the idea because it created a precedent that could and has since been invoked against Moscow in the North Caucasus; the decision to invade Georgia demonstrates at the least the supremacy of military-inspired and even paranoid threat perceptions in Moscow, if not the possibility that the armed forces have the potential to override the civilian authorities in Moscow, creating a dangerous precedent.<sup>19</sup>

Indeed, since 2009, Russian law has enshrined the right of its armed forces to intervene on behalf of Russian citizens in foreign lands where their honor and dignity is at risk, a justification for extra-territorial intervention from the Baltic to Central Asia. This legislation also confirms the well-known fact that many Russian political figures openly question the sovereignty of post-Soviet states.<sup>20</sup> This should not come as a surprise. Immediately after the

<sup>17</sup> Stephen Blank, "Medvedev's Remarks on Georgian War Anniversary: Politics, Lies, and Electioneering," *Eurasia Daily Monitor*, 10 August 2011; "Medvedev Interview-2;" "Prime Minister Vladimir Putin Speaks With Participants of the Seliger-2011 Youth Educational Forum," <http://archive.premier.gov.ru/eng/events/news/16080/index.html>

<sup>18</sup> Dmitri Trenin (2011), pp. 29-34, 93-9.

<sup>19</sup> This is not just a question of the military making a *coup* which is highly unlikely, rather it is the regime's willingness to accept as fact the fabricated and panicked threat assessments of the armed forces and intelligence services to justify continuing militarization and a quasi-cold war posture abroad.

<sup>20</sup> Stephen Blank, "The Values Gap Between Moscow and the West: the Sovereignty Issue," *Acque et Terre*, No.6 (2007), pp. 90-5.

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Russo-Georgian war, Medvedev announced that henceforth he would build his foreign policy around five principles, one of which supports Russian intervention in states where the “interests and dignity” of the Russian minority are deemed to be at risk. Medvedev also asserted that Russia has privileged interests in countries that he refused to specify, demonstrating that Russia is seeking more than just influence in Eurasia; it also wants to revise borders or intervene in other states.<sup>21</sup>

On 16 December 2009 the Federation Council, the upper house of Russia’s Parliament, quietly gave President Medvedev sole and complete authority to decide if, how, and when Russia’s forces could be deployed beyond its national borders.<sup>22</sup> This law foreshadows many potentially dangerous consequences for all of Eurasia – in addition to those listed above. In many respects, the wording of this law contravenes international law and the UN’s language pertaining to relevant situations. Beyond that, due to its vague and ambiguous wording, the new Russian legislation has radically expanded the range of circumstances under which Moscow considers it legitimate to deploy troops abroad, as well as the list of states in which Russia may station armed forces in accordance with the law.<sup>23</sup>

Second, the clause concerning the protection of Russian citizens in foreign states grants Moscow the right of unilateral military intrusion into any country in which Russian citizens reside on a permanent or temporary basis under a wide set of arbitrarily construed circumstances. It does not specify precisely what “an armed attack” constitutes, how many Russian citizens need to be under attack to justify Russian intervention, whether such an attack would be carried out by armed forces or law enforcement agencies of a foreign state or by non-state armed groups, and whether the Russian government has to obtain an official sanction to act in a foreign territory from the UN Security Council or from the authorities of the particular state where Russian citizens are under attack.<sup>24</sup>

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21 “Medvedev Interview” (2008).

22 “Moscow,” *ITAR-TASS, FBIS SOV*, 16 December 2009.

23 Yuri E. Fedorov, “Medvedev’s Amendments to the Law on Defence: The Consequences For Europe,” *Finnish Institute of International Affairs, Briefing Paper*, No.47, November 2009, p. 5, <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?ots591=eb06339b-2726-928e-0216-1b3f15392dd8&lng=en&id=110095>

24 Yuri E. Fedorov (2009), p. 6.

Third, this law radically alters the security situation in the CIS and the Baltic by giving Russia a legal platform for the justification of unilateral intervention into any territory belonging to these states that is not provided for in the founding documents of existing treaty organizations in the CIS, and thus undermines the validity of both the state sovereignty and the treaties, and with it, the protection of the sovereignty and integrity of those states. As Yuri Fedorov writes:

Russia's self-proclaimed right to defend its troops against armed attacks affects Moscow's relations with Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, all of which are parties to the Collective Security Treaty Organization (CSTO) and, with the exception of Belarus, the Shanghai Cooperation Organization (SCO), and which also have bilateral arrangements on military assistance with Russia. Russian troops and military facilities are deployed in all of these states, with the exception of Uzbekistan. Neither the Collective Security Treaty, nor any bilateral arrangements imply Russia's right to make unilateral decisions about the form, scope and very fact of employing its forces in the aforementioned states. All of these issues were to be decided either by all parties to the CSTO collectively, or by parties to the corresponding bilateral treaty. Decisions on counter-terrorist activities in the framework of the SCO are made by consensus. The new Russian legislation did not cancel out the multilateral or bilateral decision-making procedures yet it devalued those procedures in a sense. If Russian troops deployed in some of these countries are involved in international or internal conflict, which is quite possible, Moscow will have a pretext for using them and duly deploying additional units in a unilateral manner. The right to defend Russian troops on foreign soil is of particular importance for Russia's relations with Ukraine and Moldova. The Ukrainian government has demanded the withdrawal of the Russian naval base after 2017, while Moldova insists on the immediate departure of Russian troops from Transnistria. In turn, Moscow has set its sights on stationing its troops there indefinitely. In such a context, skirmishes of any degree of gravity involving Russian servicemen in these countries may furnish Moscow with a pretext for military intervention.<sup>25</sup>

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25 Yuri E. Fedorov (2009).

Fourth, as Fedorov notes, this law directly contradicts the language of the draft treaty on European security submitted by Medvedev to European governments on 29 November 2009.<sup>26</sup> While that draft treaty pledges multilateralism, the new law shows that, “Moscow favors a unilateral approach towards security issues and wants a free hand if and when conflict situations arise.”<sup>27</sup>

Fifth, this law has released Medvedev from any obligation to consult with legislative bodies. As there are no existing checks or balances that could prohibit such military deployments, Medvedev is free to do as he pleases with those forces. Thus a Russian President may send troops abroad on the vaguest of pretexts, without any accountability whatsoever. Medvedev’s own term, legal nihilism, only begins to address the implications of this situation.<sup>28</sup>

Finally, as Fedorov notes, this law may also shed some light on Moscow’s future external ambitions; it does suggest that the war with Georgia and the subsequent political-military developments in that neighborhood may come to signal a precedent rather than a one-off incident. Specifically:

In particular, the Russian intelligence services may plan to ignite disturbances and ethnic clashes in Sevastopol, resulting in attacks against the Black Sea Fleet servicemen or facilities by criminal groups or an unruly mob. This would give Russia the legal grounds to intervene militarily in the Crimean peninsula, occupy Sevastopol or the whole peninsula and retain its naval base for an indefinite period of time. Another scenario presupposes the engineering of ethnic clashes in Estonia and/or Latvia, which may be exploited by Moscow as a pretext for military intervention, or at least for the threat of such intervention. Widespread rioting and looting in Tallinn in April 2007, provoked by the decision to relocate the Soviet Army monument, yet fuelled and orchestrated by Russian agents, confirmed that Moscow has enough instruments at its disposal to destabilize the situation in large cities in Latvia and Estonia with a substantial proportion of ethnic Russians.<sup>29</sup>

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26 “European Security Treaty,” 29 November 2009, <http://eng.kremlin.ru/text/docs/2009/11/223072.shtml>

27 Yuri E. Fedorov (2009), p. 6.

28 “Medvedev’s Push for Control of Russian Military Unsettles Caucasus,” *Deutsche Welle*, 11 December 2009, <http://www.dw-world.de/dw/article/0,,5004308,00.html?maca=en-rss-en-all-1573-rdf>

29 Yuri E. Fedorov (2009), p. 7.

This law, and the overall defense policy of which it is part, has built upon precedents set by earlier Russian policies and other potential pretexts for action ranging from the Baltic to Central Asia. In 2003, speaking on Russia's recently released white paper on military policy, Defense Minister Sergei Ivanov observed that Moscow could use preventive force in cases where a threat is growing and is "visible, clear, and unavoidable." While to some degree that has been standard practice (e.g. Israel in 1967), the message was unsettling, particularly as Ivanov added that military force could be used in cases where "there is an attempt to limit Russia's access to regions that are essential to its survival, or those that form an important [area], from an economic or financial point of view."<sup>30</sup> So while the threats to Georgia's security from Russia are obviously much more acute than threats posed by Russia to other former Soviet republics, they differ only in magnitude or intensity; Moscow does not consider any of these countries to be truly sovereign states whose integrity, independence, and sovereignty deserve Russian respect. In this sense, Russia's legislation and attitude implicitly threaten the sovereignty of all of these states.

### *Helsinki Final Act and EU*

Clearly the threats to Georgia are not entirely personal; rather they target the entire post-Cold War European settlement. Moscow does not deny that it is seeking to revise that settlement in order to undermine NATO and block European integration – as demonstrated by its draft European Security Treaty of 2009.<sup>31</sup> On this basis, whether or not Georgia fired the first shot in 2008 is ultimately irrelevant, though it was clearly a victim of provocation. Moscow's overt aim all along has been to deny Georgia and other CIS states the right to freely exercise their independence. This is what is at stake in the entire CIS sphere.

Likewise, Turkey was seriously affected by this war. Having let a U.S. humanitarian ship through the Black Sea Straits, it found itself economically targeted by Moscow, and realized that it was too dependent on Russia – its

<sup>30</sup> Sophie Lambroschini, "Russia: Moscow Struggles To Clarify Stance On Preemptive Force," *Radio Free Europe/Radio Liberty*, 14 October 2003, [www.rferl.org/ncafeatures/2003/10/14102203171155.asp](http://www.rferl.org/ncafeatures/2003/10/14102203171155.asp)

<sup>31</sup> "The Draft of the European Security Treaty," 29 November 2009, <http://eng.kremlin.ru/news/275>

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largest trading partner— for energy and trade, i.e. its dependence on Russian trade was asymmetrical to an excessive degree. Turkish policy immediately pivoted, shifting its emphasis away from Russian dependency. While avoiding angering Russia, Turkey promoted a stability pact for the Caucasus, which included both Russia and itself, as a means of stabilizing and thus limiting Russian influence. Furthermore, Turkey galvanized its campaign to normalize relations with Armenia, to gain better access to it, and Azerbaijan; the government signed an agreement with Tehran to develop and ship gas from Iran; and intensified its quest to diversify its energy supply and facilitate an Azerbaijan-Turkmenistan rapprochement to increase possibilities for alternative gas supplies from Central Asia and for the EU's Nabucco pipeline to reduce dependence on Russia.<sup>32</sup> Although not all of these initiatives have borne fruit, their timing surely reflects Ankara's recognition of significant regional and international changes that were jeopardizing a number of its key economic interests.

Yet Europe and the Obama administration have refused to see these consequences for what they are. First of all, this war and its aftermath constitute a major blow to the *naïve* idealism of the EU's overall political-economic strategy, as it “underlined the enduring utility of force in interstate relations.”<sup>33</sup>

Similarly Colin Gray wrote then that:

What is so dangerous about U.S.-Russian relations is that they have an explicitly continental military focus along, indeed across, a strategic frontier between NATO and Russia that is very much in live

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32 Alexander Murinson, “Russia Accuses Turkey of Violating Montreux Convention,” *Central Asia Caucasus Analyst*, 15 October 2008; Gila Benmayor, “As Our Energy Dependence on Russia Increases,” *Hürriyet Daily News*, 3 January 2009, *FBIS SOV*, 3 January 2009; Dogu Ergil, “Opening Doors and Hearts,” *Today's Zaman*, 10 September 2008, *FBIS SOV*, 10 September 2008; Robert M. Cutler, “Turkey Has a Rough Road Ahead,” *Asia Times Online*, 27 August 2008, [www.atimes.com](http://www.atimes.com); Alman Mir Ismail, “Responding to Georgia Crisis, Turkey Seeks New Security Initiative in the Caucasus,” *Eurasia Daily Monitor*, 22 August 2008; “Russia, Turkey: a Reduction in Tensions,” 19 September 2008, [www.stratfor.com](http://www.stratfor.com); “Iran, Turkey Sign Gas Accord,” *Agence France Presse*, 17 November 2008; Thomas Grove and Orhan Coşkun, “Turkey Moves to Diversify Gas Supply After Russia Row,” *The Guardian*, 8 September 2008, [www.theguardian.co.uk](http://www.theguardian.co.uk); Igor Torbakov, “the Georgia Crisis and Russia-Turkey Relations,” *Jamestown Foundation*, <http://www.jamestown.org/uploads/media/GeorgiaCrisisTorbakov.pdf>

33 Dov Lynch, “ESDP and the OSCE,” in Giovanni Greco et al. (eds.), *ESDP: the First Ten years (1999-2009)*, 2009, p. 143, [http://www.iss.europa.eu/uploads/media/ESDP\\_10-web.pdf](http://www.iss.europa.eu/uploads/media/ESDP_10-web.pdf)

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contention. Russia's spat with Georgia in September (actually August-author) 2008 needs to be regarded as a reliable sign of severe dangers to come.<sup>34</sup>

Taken in their totality, the consequences of this war hold immense geopolitical (and geo-economic) significance. A German study of the war's consequences concludes:

The escalation of the local conflict in South Ossetia into a European crisis has shown that the existing structures –NATO, EU, OSCE, and CIS– are plainly unable to prevent conflict between hostile countries. Russia's elites, wanting to see their country regain its former role as a great power, ignore the normative framework the OSCE tries to establish, and disregard the CIS. Plainly neither organization is strong enough to structure a region extending from Europe through to Central Asia. NATO and the EU, on the other hand, are perceived as a threat by the Russian leadership, which makes them in their present form unsuited for integrating an expanded Europe. So the crisis has thrown up the medium-term task of redesigning the European order – to include Russia.<sup>35</sup>

Sokolov also underscored the dangers to the European *status quo*, caused by permitting Russia to use force with impunity.

In August 2008, Russia demonstrated to everyone that it is able to use armed force in the post-Soviet area. It emerged that the reaction of both Europe and the U.S. to the type of action by Russia was mild. Precisely after the August 2008 War, the Kremlin increased its pressure on Ukraine. That pressure made the change of government in Ukraine possible. Incidentally, after the change of government in Ukraine, Russia noticeably increased its pressure on the Baltic countries too. And all this indicates that, after the August war, Russia's influence in the post-Soviet area has become increasingly noticeable. True, this

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<sup>34</sup> Colin Gray, *National Security Dilemmas: Challenges & Opportunities* (Washington, D.C.: Potomac Books, Inc. 2009), p. 6.

<sup>35</sup> "Problems and Recommendations," in Hans-Henning Schroeder ed., *The Caucasus Crisis: International Perceptions and Policy Implications for Germany and Europe*, German Institute of International and Security Affairs, 2008, p. 5, [www.swp-berlin.org](http://www.swp-berlin.org)

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might not be what the Kremlin is dreaming about regarding the post-Soviet area, but this is certainly what happened.<sup>36</sup>

Thus Europe's lukewarm response to the situation directly undermines Georgia's security, even if it does so unintentionally. Even if one argues that the EU has increased its visibility in local conflict resolution processes, the results are minimal, due to Russian obstruction, Georgia's own unsettled domestic political conditions after the war, and the EU's long-term reluctance to commit serious resources to the post-Soviet area, a reluctance that predates the 2008 war by many years.<sup>37</sup> Nor do the threats unleashed by this war end here. As Sergey Markedonov observes, the repercussions of the war in Georgia for Moscow have come in the form of intensified war in the North Caucasus. Now those two areas are linked in the sense that security and peace north of the Caucasus Mountains crucially depends on the peace and stability south of the range.<sup>38</sup> Similarly, Markedonov has observed that Russia, now party to internationally managed negotiations in Geneva, wants to obtain a ratification of the new *status quo* that it created by force; he warns that:

At the same time, it is still hard to grasp that the two conflicts in question are not simply a matter of rivalry of ambitions and interests, but also an objective process. It is a question of the formation of nation-states after the destruction of imperial formations and the victory of the nationalist discourse. The breakup of the Soviet Union was not the end point in this process – it was a beginning. Such processes, by definition, are not completed quickly. A conflict of “imagined geographies”, different mentalities, is in progress. And not only the conflict but the actual formation of political and even ethnic identities is not yet finished.<sup>39</sup>

Certainly we see the potential for this in the insurgency in Russia's North Caucasus, if not elsewhere. Other observers like Lawrence Sheets, the

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36 FBIS SOV, 9 August 2011.

37 Mehmet Bardakçı, “EU Engagement in Conflict Resolution in Georgia: Towards a more Proactive Role,” *Caucasian Review of International Affairs*, Vol.4, No.3 (Summer, 2010), pp. 214-236.

38 Sergey Markedonov, “The Big Caucasus: Consequences of the ‘Five Day War’: Threats and Political Prospects,” *Xenophon Papers*, No.7, 2009, pp. 51-52, [www.icbss.org](http://www.icbss.org)

39 Sergei Markedonov, “Geneva Talks: From Ideological Confrontation to Diplomatic Routine,” *politkom.ru*, 19 December 2008, FBIS SOV, 27 December 2008.

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Caucasus Program Director for the International Crisis Group, warn that the so-called frozen conflicts along the former Soviet peripheries are now thawing, and could generate further ethno-political conflicts there or elsewhere.<sup>40</sup>

Moreover, Russia has failed to translate its military conquests into a legitimate new order. Thus its alleged victory in a limited war remains incomplete. In turn, that state of incompleteness serves as a constant temptation for one or both sides to undertake policies that could reignite the process. Indeed, one of the specific defects of Russia's highly problematic civilian control over its multiple militaries is that the regime, both at home and abroad, is constantly subjected to the temptation of using military measures to settle political problems, through the mentality and rhetoric of constant threats and war that it has created. Russia could have simply ejected the Georgian army from South Ossetia in 2008, demonstratively reinstalled the *status quo ante*, and won a resounding victory, establishing its red lines – but achieved with international legitimacy.

Instead it chose to create a permanent irredentist situation in the region, a situation resembling Alsace-Lorraine after the Franco-Prussian war in 1870. Consequently it violated a cardinal precept of its own strategy of limited war. If a state uses a limited war to revise international order and makes demands it cannot enforce, it not only destabilizes the international order that protected it in the first place, but it also creates a situation whereby there may not exist a viable organizational principle for the new system to operate from or to legitimize the security demands of the belligerent nation. Russia has singularly failed to transform its military achievement into legitimate authority and social order. Consequently the entire North and South Caucasus is in a much more dangerous position –destabilized beyond anyone's ability to bring about legitimate and stable order– than it was in 2008.

Nor does anyone seem to be interested in trying to reconstruct even the basis for such order. Although rhetorically, the U.S. is strongly backing Georgia, it will not sell it the weapons it wants for self-defense, lest they anger Russia and

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40 Brian Whitmore, "2008 in Review: War, Peace, and Football Diplomacy in the South Caucasus," *Radio Free Europe/Radio Liberty*, 26 December 2008.

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jeopardize the reset policy. This makes the U.S. complicit in extending Russia's embargo on arms sales to Georgia.<sup>41</sup> Though Secretary of State Clinton rightly denounced Russia's occupation of Georgia and Abkhazia, we have already seen that in practice no pressure is being brought upon Russia for reneging on its international responsibilities under the Helsinki Final Act, or the 2008 armistice accord. Privately, officials say that such statements are only for the public record, and that in reality, the U.S. administration will not go beyond providing economic assistance and training the Georgians for Afghanistan-like operations, as opposed to what is needed to defend their country. Indeed, high-ranking officials in the U.S. have made it clear that they do not want to be bothered with these issues lest they derail or sidetrack the reset policy.<sup>42</sup> So while we may see U.S. sympathy for Georgia, Tbilisi is mistaken in assuming that Georgia represents a key interest of the Obama administration.<sup>43</sup>

We can also see the EU's inability to function strategically or grasp what is at stake here in its trade negotiations with Georgia. The EU and Georgia are currently negotiating a Deep and Comprehensive Free Trade Agreement (DCFTA). Since NATO membership is closed to Georgia, and Georgia identifies strongly with European values in general (though less with what EU liberals consider to be European values), the DCFTA is an eminently logical step for both parties in terms of boosting economic strength, and in enhancing the EU's presence in the South Caucasus and Georgia's internal –if not external– security. While the Centre for European Policy Studies criticized the EU's proposal, EU officials have strongly defended it and criticized the centre's findings. However, objective observers like Thomas de Waal have argued that the EU has failed to tell Georgia exactly what it wants of Georgia, or to clarify its readiness to take the current negotiations to a successful conclusion.<sup>44</sup> The EU's visible ambivalence shows that in many respects it, like

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41 Joshua Kucera, "Gates on NDN, Gabala, Arms Sales to Georgia," *Eurasia Insight*, 15 September 2010, [www.eurasianet.org/mode/61935](http://www.eurasianet.org/mode/61935) ; [http://wikileaks.foreignpolicy.com/posts/2010/12/07/wikileaked\\_us\\_ambassador\\_to\\_russia\\_we\\_cant\\_arm\\_georgia/due/to/the\\_reset](http://wikileaks.foreignpolicy.com/posts/2010/12/07/wikileaked_us_ambassador_to_russia_we_cant_arm_georgia/due/to/the_reset)

42 Conversations with US Analysts and Officials, 2010-11.

43 James Wertsch, "U.S. Interest or Sympathy in Georgia?," *The Georgian Times Online*, 19 August 2011, FBIS SOV, 19 August 2011.

44 Patrick Messerlin et al., *An Appraisal of the EU's Trade Policy Towards its Eastern Neighbors: The Case of Georgia* (Paris and Brussels: Group D'Economie Mondiale, Sciences Po and Centre for European Policy Studies, 2011), [www.ceps.be](http://www.ceps.be) ; Thomas de Waal, *Georgia's Choices: Crafting a Future in Uncertain Times* (Washington: Carnegie Endowment for International Peace, 2011), pp. 35-38.

NATO, is unwilling to assume the lead in truly projecting a Europe that is whole and free. Meanwhile the current crisis of the Euro and of the EU project shows that no serious vision for the future can be envisioned or expected anytime soon, let alone one built along the lines of further expansion or EU integration of Georgia or other post-Soviet states. In light of this, claims by the Georgian government that the country will join NATO long before it joins the EU are hollow and insubstantial, based on wishful thinking rather than sober analysis.<sup>45</sup>

### ***Georgia's Path Forward***

Georgia's only strong card, besides the fact that Russia has nothing to gain from reopening the conflict, is its capability as a World Trade Organization (WTO) member to veto Russia's entry into the WTO. Russia has sought entry on and off for the past 17 years, and can only gain entry if members approve unanimously. Georgia uses this card to obstruct Moscow's efforts to integrate Abkhazia and South Ossetia into its economy by preventing the unchecked flow of goods in and out of the two provinces. Thus Georgia's formal position is that its main problem with Russia's WTO accession is the illegal trade and customs administration in those provinces, a claim that goes back to Georgia's contention that these are not sovereign states and that therefore Georgia has economic and trade rights.<sup>46</sup>

Meanwhile, Medvedev says Russia will not change its policy or make deals with Georgia to gain entry into the WTO, so here too there may well be another deadlock that derives from the larger ongoing one in Geneva.<sup>47</sup> Given the immense benefits that WTO membership would give to Russia, a Georgian veto, which is entirely possible, would underscore that Moscow has probably lost more than it has gained by annexing these provinces. But, given the neo-imperial mentality that dominates Russian policymaking towards Georgia, that potential loss will probably not push Russian leaders to rethink their position. Thus stalemate and continuing Cold War-like pressures are

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<sup>45</sup> "Interview with Georgian Foreign Minister Grigol Vashadze," *Kurier*, 22 August 2011, FBIS SOV, 22 August 2011.

<sup>46</sup> "Moscow," *Interfax*, 9 August 2011, FBIS SOV, 9 August 2011.

<sup>47</sup> "Interview with Dmitri Medvedev," 5 August 2011, <http://kremlin.ru/transcripts/12204>

likely to endure for some time, and with them, the likelihood of another violent crisis in the Caucasus.

### ***Georgia's Path Forward***

Under the circumstances, Georgia, like other small states, must vigorously defend its own security.<sup>48</sup> This means not waiting passively for Washington or Brussels. Rather it means consistently strengthening Georgian democracy, economic competitiveness, and conformity to the EU's standards, and refraining from provocative actions regarding the North Caucasus, such as recognizing the Circassian massacres of 1863 as a genocide (which merely provokes Russian anger to no real gain).<sup>49</sup> But most of all it means making a realistic proposal for Abkhaz and South Ossetian independence. It should be clear to any unbiased observer that no Georgian state since 1990 has answered Abkhazian and South Ossetian demands for self-rule with any credible action or plan. This ongoing failure merely provides Moscow with a pretext for remaining in these territories. By promising independence or at least a UN sponsored plebiscite on withdrawal of all foreign troops and their replacement by UN forces with a robust mandate, Georgia not only unburdens itself of a political albatross, it eliminates the security problems that block its entry into NATO and the EU, and forces Russia to defend itself against charges of imperialism. Though Georgian politicians claim no Georgian leader can accept the departure of these states from Georgian sovereignty, they must recognize what Willy Brandt told Germany in 1972, namely that those territories were gambled away a long time ago.<sup>50</sup> This may be an unpopular recommendation in Tbilisi, but the alternative of doing nothing, waiting for Washington and Brussels who will not do more than they are already doing, and occasionally provoking Russia for purely psychological gratification is the political equivalent of "Waiting for Godot".<sup>51</sup> Indeed, Georgia has no bayonets upon which to sit, even if that were possible. While Georgia faces serious risks, it possesses

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48 As the former Supreme Commander of Swedish Armed Forces, General Ole Wiktorin, observed, in reference to Bosnia's wars: "As a result of Bosnia and other armed conflicts we have come to accept war on European territory. The message is, in particular for a small nation, that if you do not take care of your security no one else may care." "The Jane's Interview," *Jane's Defence Weekly*, 15 October 1994, p. 56.

49 Thomas de Waal (2011).

50 Based on conversations with Georgian analysts and officials from 2008-2011.

51 Samuel Beckett, *Waiting for Godot*, first performed in Paris, 1953.

the resources to strengthen its position and cut the losses that it must incur for its previous political missteps. But if it fails to independently take the necessary domestic and foreign policy actions, it will remain at the mercy of allies whose resources and attention span are not only limited, but also who historically have always preferred Russia over its neighbors. Under the circumstances, that is not a way forward for Georgia, nor for anyone else.



# AZERBAIJAN'S FOREIGN POLICY SINCE INDEPENDENCE\*

Brenda Shaffer



Following the collapse of the Soviet Union, Azerbaijan's foreign policy can be divided into two distinct periods: the first under President Abulfaz Elchibey (1992-1993); and the second under President Heydar Aliyev (1993-2003) and President Ilham Aliyev (2003- ).<sup>1</sup> Under Elchibey, Azerbaijan's foreign policy was guided by ideological considerations. In contrast, under the Aliyev presidencies, Azerbaijan conducted a very pragmatic foreign policy based on material and non-ideological factors.

On gaining independence, the Republic of Azerbaijan inherited a perilous foreign policy environment. Azerbaijan is a small state located between three major powers: Russia, Iran, and Turkey. The South Caucasus serves as a focal point of Russia-U.S. competition, due to its strategic location and Azerbaijan's significant energy resources. This adds both security challenges and opportunities to Azerbaijan's strategic environment. On the eve of independence, Azerbaijan's neighbor Armenia challenged the internationally recognized borders of the new republic, and the new states were at war from early independence. Since 1994, a very tenuous ceasefire has reigned between

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1 The modern Republic of Azerbaijan considers itself the successor of the Azerbaijan Democratic Republic (1918-1920). This short-lived Azerbaijani state lost its independence following the Soviet takeover in 1920. Azerbaijan was subsequently incorporated into the Soviet Union, until it regained its independence following the collapse of the Soviet Union in December 1991. The Republic of Azerbaijan formally celebrates its independence on May 28, the day the first republic declared independence, and considers itself a republic since 1918.

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Azerbaijan and Armenia. As a consequence of the war, close to 20 percent of Azerbaijan's internationally recognized territory remains under Armenian occupation and close to a million Azerbaijani citizens are refugees and internally displaced people. Azerbaijan is also a landlocked state, and thus, is dependent on its neighbors to allow it to transit goods through their territories. This gives neighboring countries potential leverage over Baku, and creates a need for Azerbaijan to craft special foreign policies towards them. As an energy exporter, a landlocked state is particularly dependent on its transit states and vulnerable to their maneuvers, and often must give major concessions in order to keep its trade arteries open.<sup>2</sup> Azerbaijan also possesses a large ethnic Azerbaijani diaspora, estimated at over 30 million; approximately 25 million ethnic Azerbaijanis reside in neighboring Iran.<sup>3</sup> This diaspora can serve as a modest foreign policy asset in the U.S. and Europe, but it is a liability in Azerbaijan's relations with Iran.

Azerbaijan's geographic location has significant influence on its foreign policy options and outcomes. Azerbaijan's location on a strategic land bridge between Europe and Asia has endowed it with both opportunities and challenges in terms of foreign policy. Today, Azerbaijan's airspace is part of one of the globe's major air highways linking Europe, Asia, and the greater Middle East. Baku has positioned itself as a major air hub and location for refueling of intercontinental flights, including flights to Afghanistan. In addition, Azerbaijan is a major oil and natural gas producer and exporter. In 2011, Azerbaijan exported over a million barrels a day of oil and supplied natural gas to Georgia, Turkey, Greece, Iran, and Russia. The quantity of natural gas exports is also expected to grow significantly in the coming decade. In addition, Azerbaijan serves as a potential transit route for Central Asian oil and gas exports.

### *Azerbaijan's Early Foreign Policy: the Elchibey Period*

Following the collapse of the Soviet Union, Abulfaz Elchibey was the first democratically elected president of Azerbaijan in the post-independence period

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2 For more on the landlocked factor in Azerbaijan's foreign policy, see: Avinoam Idan and Brenda Shaffer, "The Foreign Policies of Landlocked States," *Post-Soviet Affairs*, Vol.27, No.3 (July 2011), pp. 1-37.

3 For more on the ethnic Azerbaijani minority in Iran, see: Brenda Shaffer, *Borders and Brethren: Iran and the challenge of Azerbaijani Identity* (Cambridge, Massachusetts: MIT Press, 2002).

(1992-1993). Under Elchibey, a professor of Middle East studies, ideological considerations superseded considerations of material factors in foreign policy and alliance selection. Thus, under Elchibey, Baku rejected institutionalized and especially security cooperation with Russia. It did not join the Moscow-led Commonwealth of Independent States (CIS) at its inception and called for the removal of troops under Russia's command from the territory of Azerbaijan.

Furthermore, under Elchibey, Baku sought alliances with states –Turkey and the U.S.– that did not want to perform the role of Azerbaijan's strategic backer. Elchibey had assumed that a shared Turkic identity would serve as a basis for an alliance with Ankara, despite the fact that Turkey showed no desire in this early period to enter into a military alliance with Azerbaijan. Particularly in the early 1990s, Ankara was guided by pragmatic interests, choosing not to get entangled in the conflicts in the region but to focus on promoting its economic interests among the new states of the former Soviet Union. Throughout most of the post-Soviet period, Ankara has also given precedence to its relations with Moscow, even at times when these policies have impinged on other partners in the post-Soviet space. In addition, Elchibey assumed that the pro-Western orientation of the early state at independence and its establishment of democracy would lead Washington to support Azerbaijan's security and prosperity. In reality, Washington's policies toward the South Caucasus in the early 1990s were highly constrained by the activities of the American-Armenian lobby in Congress and thus Washington did not extend support to Azerbaijan in this period. In fact, under the pressure of the American-Armenian lobby, the U.S. Congress enacted Section 907 to the Freedom Support Act, which barred direct U.S. government aid to Azerbaijan and government-to-government cooperation, including in the military sphere.<sup>4</sup>

Further to miscalculation of anticipated alliances, Elchibey's policies toward Iran provided an additional *impetus* for Tehran to support Armenia in its war with Azerbaijan. Based on his ideological beliefs, Elchibey championed the

<sup>4</sup> Section 907 has subsequently been waived by U.S. Presidents since 2002, in recognition of Azerbaijan's important role in facilitating U.S. led anti-terrorism policies and as a major transit state of U.S. supplies to Afghanistan.

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language and cultural rights of ethnic Azerbaijanis in Iran (which comprise a third of the population of Iran, and the majority of the population of the northwest provinces of Iran that border the Republic of Azerbaijan). Due to Baku's promotion of liberation of "South Azerbaijan"<sup>5</sup> and Baku's strong pro-U.S. orientation during the early period of independence, Tehran supported Armenia in its war with Azerbaijan.<sup>6</sup>

President Elchibey took a very idealistic view of alliance choices, and ignored many of the realities of the regional power dynamic. Consequently, during his presidency, Baku engaged in the conflict with Armenia with no allies, while Armenia enjoyed support from Iran and Russia. Accordingly, Azerbaijan incurred significant losses in the war, leading to loss of close to twenty percent of its territory and the creation of over 800,000 refugees. In light of these strategic losses, a popular uprising emerged against the Elchibey government, with wide public support for the return of Heydar Aliyev and a more pragmatic strategic and foreign policy.

### ***Foreign Policy under Heydar Aliyev and Ilham Aliyev***

President Heydar Aliyev served as president of Azerbaijan from 1993 to 2003. He was succeeded by his son President Ilham Aliyev in 2003. Ilham Aliyev was elected to a second term as president in 2008. During the tenure of Presidents Heydar Aliyev and Ilham Aliyev, Azerbaijan's foreign policy features six major trends: i) balancing of relations with major global and regional powers, instead of being a member of any exclusive alliance; ii) the absence of religious and other identity factors in determining the state's alliance and main vectors of cooperation; iii) maintenance of full independence and not

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5 This is the term used by President Elchibey to refer to the ethnic Azerbaijani populated provinces in northwest Iran.

6 Iran's assistance to Armenia during the 1992-1994 Nagorno-Karabakh War included supplying food and fuel, and providing a conduit through its territory for other states' supplies to Armenia. For more on Iran's support of Armenia in the Nagorno-Karabakh War, see: Brenda Shaffer "Iran's Internal Azerbaijani Challenge: Implications for Policy in the Caucasus," in Moshe Gammer (ed.), *The Caspian Region Volume I: A Re-emerging Region* (London and New York: Routledge, 2004), pp. 119-142.; Iran continues to conduct extensive economic, political, security and infrastructure cooperation with Armenia, despite its occupation of lands of Muslim-majority Azerbaijan. For more on Iran's policies toward the Armenia-Azerbaijan conflict, see: Brenda Shaffer, "The Islamic Republic of Iran: Is It Really?," in Brenda Shaffer (ed.), *The Limits of Culture: Islam and Foreign Policy* (Cambridge, Massachusetts: MIT Press, 2006), pp. 219-239.

serving as a *de facto* vassal state of any regional power; iv) policies that serve the state of Azerbaijan and not the greater Azerbaijani ethnic group; v) transportation policies and energy export as an integral element of foreign policy; vi) active attempts to ensure the state achieves safe and recognized permanent borders through resolution of the Nagorno-Karabakh conflict with Armenia. The major document enshrining the foreign policy approach during the tenure of Presidents Heydar and Ilham Aliyev is the National Security Concept of Azerbaijan, which was adopted on 23 May 2007.<sup>7</sup>

In contrast to the Elchibey period, under the Aliyev presidencies, ideological and identity considerations were removed from alliance formation, and the state adopted a policy of balancing its relations toward various powers, especially Russia, the U.S., Turkey, and Iran. In its National Security Concept of the Republic of Azerbaijan, it declares that “The Republic of Azerbaijan pursues a multidimensional, balanced foreign policy and seeks to establish it with all countries.”<sup>8</sup> Azerbaijan has pursued multiple alliances and cooperation with states that often possess opposing strategic orientations. Baku maintains multidirectional security cooperation with a number of alliances, including opposing alliances such as the CIS and the NATO. In September 2011, Azerbaijan officially joined the non-aligned movement. In addition to ties with multiple states that belong to varying alliances systems, Azerbaijan has joined a large number of regional and international political groupings and has been very active in these organizations. In the Aliyev period, Azerbaijan’s religious or ethnic ties have not affected Baku’s choice of alliances and partners. While maintaining excellent ties with many Muslim-populated states and Muslim international organizations, neither Aliyev regime has developed special alliances with states on the basis of shared religious identity.

With Georgia serving as its main transit state, Azerbaijan has viewed Georgia’s stability as part of its own national security interests. Accordingly, Azerbaijan conducts a special foreign policy toward Georgia. On multiple occasions, Azerbaijan has attempted to strengthen Georgia’s stability, at times through voluntary concessions on issues of major interest to Baku. For instance, Baku

7 “National Security Concept of the Republic of Azerbaijan,” *Ministry of National Security of the Republic of Azerbaijan*, 23 May 2007, [http://www.un.int/azerbaijan/pdf/National\\_security.pdf](http://www.un.int/azerbaijan/pdf/National_security.pdf)

8 “National Security Concept of the Republic of Azerbaijan” (2007).

chose, contrary to the advice of and despite pressure from the World Bank and other international institutions, to sell natural gas to Georgia at a relatively low price in order to strengthen Tbilisi's economic stability. Next, Baku strongly encouraged the ethnic Azerbaijani minority in Georgia to support the ruling governments in Tbilisi and to integrate into Georgian state institutions, often to the chagrin of the local Azerbaijani minority. This minority constitutes close to seven percent of the population of Georgia and 10 percent of the population of the capital.<sup>9</sup> Third, Azerbaijan has offered conciliatory positions on border delimitation with Georgia in order to smooth the process. In addition, Azerbaijan invests funds in infrastructure in Georgia, especially in the transport sector. Azerbaijan has taken it upon itself to fund the Georgian section of a major railway project –the Baku-Tbilisi-Kars railway– that is being established to link Azerbaijan, Georgia, and Turkey.

As a small state located adjacent to three powers – Russia, Turkey, and Iran, and involved in a territorial conflict with neighboring Armenia, Azerbaijan's foreign policy nevertheless serves the goal of retaining its independence and refusing to serve as a vassal state of any power. As part of this policy and in contrast to neighboring Armenia and Georgia, Azerbaijan has not agreed to the deployment of foreign forces in its territories.<sup>10</sup> In addition, Baku purchases arms to build its military capability from a variety of states, not one dominant supplier.

In the Aliyev period, Baku has conducted a very calculated policy toward the ethnic Azerbaijani diaspora, guided by foreign policy considerations. Over eight million citizens reside in the Republic of Azerbaijan, the vast majority of whom are ethnic Azerbaijanis. Outside the borders there are approximately 30 million more ethnic Azerbaijani diaspora members. In the Aliyev period, Azerbaijan has established a state agency, the State Committee for the Diaspora, which maintains regular ties with the diaspora. In addition, since 2001, the government of Azerbaijan sponsors a World Azerbaijani Congress meeting in Baku every five years. The Ministry of Foreign Affairs views many

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<sup>9</sup> Teimuraz A. Beridze and Martin Naughton, *Major Findings of First General National Population Census of Georgia* (Tbilisi: State Dept. for Statistics of Georgia, 2004).

<sup>10</sup> The only exception to this policy is the lease to Russia of the Qabala radar station, which houses a small contingent of Russian forces.

of the diaspora communities as useful contributors to Azerbaijan's foreign policy efforts, and its embassies maintain ties with Azerbaijani diaspora communities in a variety of locations, especially in the U.S. and Europe. However, in contrast to the approach many states take toward diaspora communities, the Republic of Azerbaijan has not granted special citizenship rights to ethnic Azerbaijanis from abroad, nor has it encouraged their immigration to Azerbaijan.

In contrast to the Elchibey period, under President Heydar Aliyev and President Ilham Aliyev, Azerbaijani state institutions have been cautious in promoting ties with the Azerbaijani community in Iran. Attempts at direct ties with this community could jeopardize bilateral relations with Tehran, and under both Aliyevs, Baku prioritized its ties with Tehran, as opposed to supporting the rights of the co-ethnic population in Iran. Thus, in the Aliyev period the government's policies toward the Iranian Azerbaijanis were shaped by the state of relations with Iran. When relations were cooperative, Baku took steps not to aggravate Iran on this issue. In contrast to other Azerbaijani diaspora communities, Baku does not maintain formal ties with the Iranian Azerbaijani diaspora. For instance, Baku refrained from inviting representatives from Iran to the various meetings of the World Congress of Azerbaijanis, despite the fact that this group comprises the largest diaspora community of Azerbaijanis.

At the same time, Heydar Aliyev did at points use the issue to signal to Tehran on a variety of security issues, in response to Iran's threats to Azerbaijan. For example, in 1994-96, Iran closed its border with Azerbaijan a number of times, often simultaneously with Russia. In response, Baku would broadcast a television show called *Shahriyar*, which dealt with the culture of Iran's Azerbaijanis, which was also picked-up in Iran, evidently attempting to signal to Tehran that Baku had means to strike back at Iran if the border remained closed. In addition, following the July 2001 threats to Azerbaijani-commissioned survey boats in the Caspian Sea and tens of intentional violations of Azerbaijani airspace by Iranian warplanes, Baku renewed broadcasts of television programs in the Azerbaijani language in Iranian territory.<sup>11</sup>

11 ANS TV (Baku, in Azerbaijani) 25 July 2001, reported by BBC broadcasting, 26 July 2001.

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Although Azerbaijan has refrained from courting the ethnic Azerbaijani community in Iran and has not pursued irredentist policies toward its neighbor, Iran has still maintained a very hostile policy toward Azerbaijan throughout the post-Soviet era. This policy includes support for terrorist groups that operate to destabilize the regime in Azerbaijan, and maintenance of close ties and cooperation with Armenia, despite its occupation of Azerbaijani territory and Yerevan's expulsion of over 800,000 Azerbaijanis from their homes. As part of its cooperation with Armenia, Iran officially inaugurated a natural gas supply pipeline to Armenia in 2007 and has supplied its neighbor with natural gas since 2009. Iran also imports electricity from Armenia. On multiple occasions, the Armenian leadership has also called for greater Iranian involvement in the Nagorno-Karabakh negotiations process and hailed the Iranian role in this process.<sup>12</sup> During the September 2011 visit of the Armenian Foreign Minister to Tehran, the Armenian representative praised "Iran's stance on the Nagorno-Karabakh issue."<sup>13</sup>

Transportation and energy issues form a significant sphere of Azerbaijan's foreign policy activity. This is due to Azerbaijan's special trade and transportation challenges as a landlocked state and the prominence of energy in Azerbaijan's economy and foreign policy strategy. As stated by Foreign Minister Elmar Mammadyarov, "An Azerbaijani foreign minister deals a lot with transportation."<sup>14</sup> Baku is also striving to become a major transit state itself, for trade by other states in the Caspian region. It has already become a major hub for flights to Afghanistan. In addition, Baku promotes export projects that would transport Central Asia's natural gas through Azerbaijan. Baku's intensive foreign policy efforts to realize the Baku-Tbilisi-Kars railway link reflect the importance of transport as part of the country's foreign policy.

Azerbaijan's decisions on its energy element reflect a variety of foreign policy considerations. As a landlocked energy exporter, Azerbaijan's oil export infrastructure passes through neighboring states before reaching world markets.

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12 See: "Speech of Armenian President Serzh Sargsyan," 22 June 2010, [http://www.rferl.org/content/Iran\\_Against\\_Any\\_US\\_Peacekeeping\\_Role\\_For\\_Karabakh/2081078.html](http://www.rferl.org/content/Iran_Against_Any_US_Peacekeeping_Role_For_Karabakh/2081078.html)

13 "Iran Says Concerned Over NATO Radar System in Turkey," *Tehran Times*, 17 September 2011, <http://tehrantimes.com/index.php/politics/2666-iran-says-concerned-over-nato-radar-system-in-turkey>

14 Foreign Minister Elmar Mammadyarov, *Speech at Azerbaijan Diplomatic Academy, Baku* (author's notes), 5 July 2009.

In this state, decisions on energy export pipelines have larger political weight than those of sea-abutters, since they involve designating permanent transit states. Azerbaijan's choice of an east-west route through Georgia and Turkey for its main energy export pipeline route reflects its primary alliance orientation in the 1990s. By choosing the route through Georgia and Turkey, Baku indicated that a security alliance with these states was the most beneficial of its various options. In addition, a landlocked state tends to choose as its transit state one that has the strongest interest in maintaining the flow of trade through its territory and therefore least likely to disrupt it in the service of foreign policy and other goals. Thus, Georgia was selected as Azerbaijan's main transit state.

During the independence period, Baku's view of the role of energy export as a foreign policy tool has evolved. During the first decade following independence, Baku attempted to leverage its energy export as a foreign policy tool. The Azerbaijani leadership estimated that its role as an energy exporter would build a strong interest on the part of the U.S. and Europe in stability in the South Caucasus, and thus they would actively work towards the resolution of the Nagorno-Karabakh conflict. Moreover, linking with the West *via* permanent energy export infrastructure was viewed as a conduit for greater cooperation and a close relationship with Euro-Atlantic institutions. However, during President Ilham Aliyev's second term of office, Baku seems to have become aware of the limitations of energy as a political tool, namely that it can't be successfully leveraged to achieve many of its main security goals, especially in terms of the resolution of the Nagorno-Karabakh conflict.

In the first stage of Caspian energy export, Azerbaijan adopted a "multiple pipeline" export strategy in order to limit its vulnerability to disruptions by a single transit state and to expand its international connections. In the second round of energy export, centered on the export of Shah Deniz natural gas, Azerbaijan is most likely to continue its "multiple pipeline" policy and thus attempt to encompass new markets, in addition to those it reached during its first round of establishment of energy export infrastructure.<sup>15</sup>

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15 For more on Azerbaijan's second stage of energy export strategies, see: Brenda Shaffer, "Caspian Energy Export Phase II: Beyond 2005," *Energy Policy*, Vol.38 (2010), pp. 7209-15.

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Azerbaijan's growing natural gas exports will require an expansion of foreign policy activity and agreements. The nature of gas trade renders it much more susceptible to political considerations than that of oil or coal. Petroleum and coal are primarily traded on international markets with little direct connection between supplier and consumer. Natural gas, on the other hand, is supplied chiefly *via* pipelines, creating direct, long-term linkages between suppliers and consumers. The high cost of the majority of today's international natural gas export projects means that consumers and suppliers must agree to mutual long-term commitments. Thus, as Azerbaijan brings online new natural gas exports in the coming decade, building the framework for the right export *venue*, will occupy a prominent part of its foreign policy agenda.

An additional major vector of Azerbaijan's foreign policy in the post-independence period centers on ensuring that the state achieves safe and recognized permanent borders through resolution of the Nagorno-Karabakh conflict with Armenia. Throughout the post-Soviet period, the resolution of the Nagorno-Karabakh conflict has occupied a major portion of Baku's foreign policy activity. In its National Security Concept of Azerbaijan document, restoring Azerbaijan's territorial integrity is listed as the first goal of its national security strategy. The conflict is the major determinant of its decisions in the United Nations, for instance. The need to cultivate resolutions in its favor on the Nagorno-Karabakh issue shapes its votes and coalitions in this international organization, as well as in other international and regional institutions.

Over the first two decades of independence, Azerbaijan's foreign policy strategy toward the Nagorno-Karabakh conflict has evolved. In the first decade, there was a strong belief in the role of international institutions and law in helping Azerbaijan resolve the Nagorno-Karabakh conflict and regain control of its occupied territories. In parallel, Azerbaijan conducted a strong cultural diplomacy effort. Baku attempted to "make its case" on a variety of foreign policy stages, believing that once the world heard the facts, the international community would adopt stances in its favor, and support from a variety of states and international institutions would have a meaningful impact on the resolution of the conflict. During President Ilham Aliyev's second term of office, there seemed to emerge an awareness of the limited impact of the various

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resolutions and judgments of the various international institutions and states not directly affected by the outcomes of the conflict.

The existence of the conflict and the unresolved issues of the status of Azerbaijan's occupied territories and refugee population have served as a critical constraint on Baku's policy options as well as a useful lever for neighbouring powers. The conflict significantly affects Azerbaijan's relations with most global and regional powers, especially Russia. External support, mainly from Russia, has been a key factor in the emergence of the conflict and thus external support is also key to its resolution.

### ***Towards the Future***

Beginning in 2005, with the inauguration of the Baku-Tbilisi-Ceyhan pipeline, Azerbaijan's revenues dramatically increased, allowing it to expand its foreign policy and security policy capacity, as well as to greatly improve the standard of living and quality of government services. As part of its improvement of state institutions and power, Azerbaijan has significantly raised the level and quality of the Azerbaijani military forces, and is making efforts to increase enlistment rates, training quality of the recruits and the overall professionalism of the military. The improvement of the military and Azerbaijan's domestic economic and social situations has also increased the assertiveness of its foreign and security policies. During the 2011 military parade on Armed Services' Day, President Ilham Aliyev stated that: "The military build-up will be continued... The country, which is at war, must first of all pay attention to the military build-up. Military expenditures take the first place in the state budget. Our army must demonstrate perfect readiness in any conditions. We will use all opportunities to strengthen the material and technical basis of the army."<sup>16</sup>

Azerbaijan is also highly aware that it is a small country with limited power, located next to a number of strong powers, as well as being situated at the center of U.S.-Russia strategic competition. Accordingly, Azerbaijan adjusts

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16 "Supreme Commander-in-Chief: Azerbaijan's Army has Reached the Highest Level," *APA news service*, 28 June 2011, <http://en.apa.az/news/150356>

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its foreign policies to the changes in the level of commitment and policies of various powers toward the region. For instance, Washington's level of commitment and activity in the South Caucasus has changed a number of times during the post-Soviet period. As stated by Novruz Mammadov, chief of the Foreign Relations Department in the administration of the President of Azerbaijan: "After independence, we thought that the U.S. could offer all solutions for their problems. But through experience, we learned that it was not the case in actuality."<sup>17</sup> In addition, Russia has become increasingly assertive in the region, including in the military sphere.

During the second term of office of President Ilham Aliyev, some shifts in Baku's bilateral relations are emerging in response to changes in Azerbaijan's strategic environment. Among the important changes are the relative retreat in terms of U.S. presence and activity in the South Caucasus, especially under the Obama administration, Russia's invasion of Georgia during the August 2008 War, and Turkey's agreement in principle to open its border with Armenia and other policy overtures to improve ties between Ankara and Yerevan. These shifts dramatically affect Azerbaijan's strategic environment and thus its foreign policy challenges and strategies.

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<sup>17</sup> "Author's interview with Novruz Mammadov," Baku, April 2011.

# THE NAGORNO-KARABAKH CONFLICT IN THE AFTERMATH OF THE RUSSIA-GEORGIA WAR\*

Gulshan Pashayeva



**D**ue to its geostrategic location at the crossroads between East and West, the territory of the South Caucasus was always conquered by different empires – becoming a zone of permanent migration, active contact of cultures, languages, religions, and a juncture of trade and transport routes.

The significance of the geo-economic parameters of the region and in particular of oil-rich Azerbaijan increased for regional and non-regional actors as a result of an immense demand of oil products starting from the 1880s, leading consequently to the first oil boom in Baku. Using its national energy strategy Azerbaijan has gone through the second oil boom a century later in the middle of the 1990s after regaining its independence. “Thus, through the years of independence Azerbaijan has evolved from an economically weak, internationally isolated, and unknown country into a most dynamic economy, a regional leader, and an important strategic partner,”<sup>1</sup> which proves Zbigniew Brzezinski’s reflection: “Despite its limited size and small population, Azerbaijan, with its vast energy resources, is also geopolitically critical... It is the cork in the bottle containing the riches of the Caspian Sea basin and Central Asia.”<sup>2</sup>

\* This article was published in Winter 2009 (Vol.8 No.4) issue of the Turkish Policy Quarterly (TPQ) Journal.

1 Mahmud Mammadguliyev, “Azerbaijan’s Foreign Economic Relations,” in Alexandros Petersen and Fariz Ismailzade (eds.), *Azerbaijan in Global Politics Crafting Foreign Policy* (Baku: Azerbaijan Diplomatic Academy, 2009), p. 203.

2 Zbigniew Brzezinski, *The Grand Chessboard* (New York: BasicBooks, 1997), p. 129.

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However independent Azerbaijan inherited an unresolved conflict with neighbor Armenia over Azerbaijan's Nagorno-Karabakh autonomous region. It is the first and the longest running conflict that took place in the territory of the former Soviet Union. In the course of this conflict:

- Armenian forces seized close to one-fifth of Azerbaijan's territory, including all of Nagorno-Karabakh and seven other adjacent Azerbaijani districts located outside the autonomous region (Lachin, Kelbajar, Fizuli, Jebrail, Zangelan, Aghdam, and Gubadli). One region of the country and its surrounding adjacent districts is currently outside government control;
- the occupied territories have been transformed into a buffer zone considered by Armenians as a bargaining chip on the issue of Nagorno-Karabakh and a security guarantee against Azerbaijan. Armenia is trying to use the current *status quo* as an instrument of political pressure to impose finally a *fait-accompli*-based solution;
- the leadership of this breakaway territory continues to integrate the region into Armenia as much as possible. No statements to the contrary can alter the fact that Nagorno-Karabakh economically and politically depends heavily on Armenia and the Armenian diaspora around the world;
- some estimates put the number of deaths on both sides at about 30,000; a huge number of refugees and internally displaced persons have created a devastating humanitarian crisis that has lasted for more than 20 years;
- sources, including Armenian ones, report that tens of thousands of settlers have moved to the occupied territories of Azerbaijan, including districts adjacent to the Nagorno-Karabakh region, including Lachin, Kalbajar, Zangilan, and Jabrayil in an organized manner with the purpose of annexing these territories;<sup>3</sup>
- a substantial damage has been caused to material and cultural resources within the internationally recognized borders of Azerbaijan, and this has brought about an irreplaceable loss of national heritage;

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<sup>3</sup> Araz Azimov, "Armenia-Azerbaijan Nagorno-Karabakh Conflict: Historical Background, Legal Aspects and Negotiation Process," in Alexandros Petersen and Fariz Ismailzade (eds.), *Azerbaijan in Global Politics Crafting Foreign Policy* (Baku: Azerbaijan Diplomatic Academy, 2009), p. 283.

- a significant amount of illegal military equipment may be concealed on the occupied territories of Azerbaijan that is not subject to the Conventional Forces in Europe Treaty (CFE) inspection regime and makes the national security of the Republic of Azerbaijan a particularly noteworthy question. Russia's continuous illegal military transfer to Armenia and the continued close military cooperation between Russia and Armenia gives cause for concern to those in Azerbaijan;
- in 1993, the UN Security Council adopted four resolutions (822, 853, 874, 884) that were directly related to the Nagorno-Karabakh conflict. The resolutions stressed the need for immediate cessation of military activities and hostile acts, immediate, complete and unconditional withdrawal of occupying forces from all occupied regions of the Republic of Azerbaijan;
- section 907 of the Freedom Support Act, passed by the U.S. Congress in 1992 bans American government aid of any kind (including humanitarian) to be given to the government of the Republic of Azerbaijan. However, due to Azerbaijani support provided to the U.S. in its efforts to counter international terrorism, section 907 was amended which resulted in a Presidential waiver authority which has been exercised annually starting from 2002;
- in December 2005, the Parliamentary Assembly of Council of Europe (PACE) adopted resolution 1416 entitled "The conflict over the Nagorno-Karabakh region dealt with by the OSCE Minsk Group" reaffirming the occupation of a considerable part of the territory of the Republic of Azerbaijan. PACE made it clear that the occupation of foreign territory by a member state constitutes a grave violation of that state's obligations as a member of the Council of Europe and urged the parties concerned to comply with the relevant resolutions of the UN Security Council, in particular by withdrawing military forces from any occupied territories;
- in March 2008, the UN General Assembly adopted a resolution concerning "the situation in the occupied territories of Azerbaijan" re-affirming the territorial integrity of the Republic of Azerbaijan and demanding withdrawal of all Armenian forces. The resolution calls

for the return of the population of the occupied territories, and recognizes the need to provide secure and equal living conditions for Armenian and Azerbaijani communities in the Nagorno-Karabakh region;

- there are no diplomatic relations between Armenia and Azerbaijan or Armenia and Turkey;
- since 1994 when a ceasefire was reached, many attempts have been made to find a political solution to this conflict.

### ***Before the Russian-Georgian War – Road to Independence***

Before proceeding with an analysis of the implications of the Russia-Georgia war for the Nagorno-Karabakh conflict, it should be noted that the South Caucasus has been considered a Russian sphere of influence for almost 200 years. Since 1991 it has become a region of global interest due to its key geo-strategic and geo-economic parameters, when three new independent states appeared in this territory. However, due to divergent foreign policies pursued by the leaders of these countries, the South Caucasus has been gradually polarized.

For instance the active pro-Western approach demonstrated by Georgian leaders after the “Rose Revolution” towards integration into European and Euro-Atlantic structures including NATO was quite different in its nature from the stance of the neighboring Armenian ruling elite with regards to Russia. Armenia being Russia’s “outpost” in the region has only Russian military bases on its soil to date. As opposed to that, Azerbaijani leaders have pursued a more independent and balanced foreign policy since 1993, trying to “find a *modus vivendi* with regional and non-regional actors which pursue their own, sometimes divergent, policies.”<sup>4</sup>

In parallel, geo-economic considerations and energy resources of the wider Black Sea-Caspian basin attract a persistent interest of external actors. Hence,

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<sup>4</sup> Elmar Mammadyarov, “The Foreign Policy of Azerbaijan: Affecting Factor and Strategic Priorities,” in Alexandros Petersen and Fariz Ismailzade (eds.) *Azerbaijan in Global Politics Crafting Foreign Policy* (Baku: Azerbaijan Diplomatic Academy, 2009), p. 20.

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the region has continued to be an area of dispute between regional and non-regional actors in the course of their struggle for control over energy resources. “The Caucasus and the Black Sea are at the epicenter of the energy game, through which the most important energy corridors connecting the Caspian resources with the European markets pass and challenge Russia’s energy primacy.”<sup>5</sup>

In this context Turkey as a regional actor with the aspiration to become an energy hub has a beneficial impact on the whole region, serving as a bridge to the West through its unique location. Supported by the U.S. and the EU, Turkey is trying to strengthen its political and economic influence in the South Caucasus. “Since 1993 and the Ankara Accord, Turkey had seen it as a national priority that a main export pipeline be built from Baku to the Turkish blue water oil port on the Mediterranean at Ceyhan.”<sup>6</sup>

In September 1994, after signing “The Contract of Century” with a consortium of international oil companies, Azerbaijan along with its key partners in the region, Turkey and Georgia, completed and put into operation two major pipelines – the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum natural gas pipeline, which will forever change the economic landscape of the entire region and lay the foundation for a new international energy security architecture.<sup>7</sup>

At the same time Turkey has always been a major strategic ally of Azerbaijan. It has closed its border with Armenia since 1993 in response to the Armenian occupation of Nagorno-Karabakh and the adjacent seven districts.

Iran, as another regional actor, perceives Azerbaijan and Central Asia as its potential sphere of influence. But due to its suspicions that one day secular Azerbaijan could be a threat for Iran, it supports Armenia, which proves in

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5 Eleni Fotiou, “Caucasus Stability and Cooperation Platform: What is at Stake for Regional Cooperation?,” *International Centre for Black Sea Studies (ICBSS) Policy Brief*, No.16, 2 June 2009, p. 18.

6 Terry D. Adams CMG, “Baku Oil Diplomacy and ‘Early Oil’ 1994-1998: An External Perspective,” in Alexandros Petersen and Fariz Ismailzade (eds.), *Azerbaijan in Global Politics Crafting Foreign Policy* (Baku: Azerbaijan Diplomatic Academy, 2009), p. 244.

7 Mahmud Mammadguliyev (2009), p. 202.

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turn that the religion factor is not that important in determining the foreign policy choices of even the most ideologically oriented countries.

Before the war, the U.S. and Europe's goals in the region were broadly compatible, but the question was whether the U.S. and particularly the EU could play a more significant role in the South Caucasus. Suffice it to say that as part of the European Neighborhood Policy (ENP), the EU signed action plans with the three South Caucasian states in November 2006, seeking to stabilize the region through economic integration and institutional cooperation. However, the EU was not involved in conflict resolution and broader security issues in the South Caucasus before the war.

Unlike the EU, the U.S. has been involved in the search for an agreement on the Armenian-Azerbaijani conflict over Nagorno-Karabakh within the OSCE Minsk Group which took the lead in mediating the conflict since March 1992, though it must be noted that the current ceasefire reached in May 1994 was the result of Russia's mediation efforts.

Since 1996, Russia, France, and the U.S. assumed the chairmanship of the Minsk Group. Since 1999 there has been a trend towards engaging the Presidents of Armenia and Azerbaijan in bilateral talks and – at the beginning of 2006 a settlement seemed near. However subsequent meetings between the two presidents ended in failure – including the Rambouillet peace negotiations in early February 2006 and the meeting in Bucharest in June 2006.<sup>8</sup>

On 13 July 2007, the co-chairmen of the OSCE Minsk Group issued a statement in which they provided an assessment of the emerging situation in the settlement process for the conflict in light of the meeting between the President of the Republic of Azerbaijan Ilham Aliyev and the President of the Republic of Armenia Robert Kocharian in St. Petersburg on 9 June 2007. The co-chairmen stated that during the meeting the presidents' discussion was focused on a limited number of obstacles that stand in the way of an agreement on a set of "basic principles" for the peaceful settlement of the conflict.

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<sup>8</sup> Liz Fuller and Richard Giragosian, "Nagorno-Karabakh: What is the Sticking Point in the Peace Talks?", *RFE/RL Newsline*, Vol.10, No.106, Part.1 (12 June 2006).

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The co-chairmen further stated that the presidents could not overcome these remaining differences.<sup>9</sup>

In sum, the Armenian-Azerbaijani conflict over Nagorno-Karabakh has been stalemated for over 15 years and it is critical to reassess it in the aftermath of the Russia-Georgia war.

### ***After the War – Shattered Dreams and Little Hope***

After the Russia-Georgia war it has been widely understood that the frozen conflicts put the stability of the South Caucasus region at risk. “In fact, Russian-Georgian war followed by annexation of the part of Georgian territory by Russian Federation changed the very basis of the international order emerged in the part of the world after the year 1991. Certain international consensus and rules, which were a milestone of stability and security in the Eastern Europe (or Western Newly Independent states – Western NIS) does not exist anymore.”<sup>10</sup>

This five-day long (8-12 August 2008) war proved that Russia still considers the South Caucasus as the zone of its vital and strategic historical interest and perhaps is ready to fight against the establishment of any “undesirable domination” in the region. It is obvious that as President Medvedev pointed out in his so called “five bullet points” doctrine, there are regions in which Russia has privileged interests, regions that are home to countries with which Russia shares special historical relations and is bound together as friends and good neighbors.<sup>11</sup> In this context the unilateral recognition by the Russian Federation of Abkhazia and South Ossetia –breakaway regions of Georgia– proved this conception once again and verified that the “frozenness” of the unresolved conflicts in the South Caucasus was an illusion – stalemate of any frozen conflict can easily be transformed into a new cycle of violence.

Thus, the Russian invasion of Georgia brought new implications not only for Georgia, but also for the wider South Caucasus and beyond.

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9 Araz Azimov (2009), p. 291.

10 Oleksandr Sushko, *The End of “International Order – 1991”: Impact of 2008 Russia-Georgia War on Ukraine* (Warsaw: Heinrich Böll Stiftung, 2008), p. 1.

11 Oleksandr Sushko (2008), p. 3.

### ***The Caucasus Stability and Cooperation Platform (CSCP)***

Turkey reacted immediately to the situation that occurred in the aftermath of the Russia-Georgia war. Turkish Prime Minister Recep Tayyip Erdoğan visited Georgia, Azerbaijan, and Russia and proposed a multilateral diplomatic initiative for a “Caucasus Stability and Cooperation Platform” (CSCP) in Moscow on 13 August 2008. Aimed at promoting peace, stability, and cooperation in the Caucasus region among all three South Caucasus countries and including Turkey and Russia, CSCP is an updated version of an older idea on the establishment of a “Stability Pact for the Caucasus”, proposed by 9th Turkish President Süleyman Demirel in 2000.

The CSCP conception is being pursued by Turkey’s proactive diplomacy targeted to achieve “zero problems” and maximum cooperation with the countries in the neighboring regions.<sup>12</sup> However an agreement on CSCP is not easy to reach today due to unresolved issues over Nagorno-Karabakh and current Russian-Georgian relations which seriously suffered in the aftermath of the Russia-Georgia war.

If, in tandem with Armenian-Azerbaijani negotiations over Nagorno-Karabakh, some progress is achieved from the Turkish-Armenian protocols signed on 10 October 2009 on the establishment of diplomatic relations and development of bilateral relations positive steps can be foreseen towards the realization of CSCP.

### ***The Moscow Declaration***

One of the repercussions of the Russia-Georgia war is the Moscow Declaration on Nagorno- Karabakh signed on 2 November 2008 by the Russian, Armenian, and Azerbaijani presidents. It is an example of increasing Russian interest to play a more active and persistent broker’s role in this process and restore its reputation after the war with Georgia.

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12 Bülent Aras, “Davutoğlu Era in Turkish Foreign Policy,” *SETA Policy Brief*, No.32 (May 2009), p. 9.

This document declares that the settlement of the conflict based on the norms and principles of international law will create favorable conditions for economic growth and all-around cooperation in the region. It affirms the importance of having the co-chairs of the OSCE Minsk Group continue their mediation efforts, including the outcome of the meeting between the parties in Madrid on 29 November 2007, and subsequent discussions on further steps to agree on the basic principles for political settlement.

It also agrees that a peace settlement should be accompanied by legally binding guarantees for every aspect and stage of the settlement process. Noting that the presidents of Azerbaijan and Armenia have agreed to continue to work on reaching a political settlement to the conflict, including further contacts at the highest level, and have instructed the heads of their respective foreign ministries to work together with the co-chairmen of the OSCE Minsk Group to activate the negotiation process, the Declaration also considers that it is important to encourage the establishment of conditions for carrying out confidence-building measures.<sup>13</sup> “Thus, the document brings to naught the speculations by Armenia on priority of regional cooperation before the final settlement of the conflict and elimination of its main consequences.”<sup>14</sup>

### ***Eastern Partnership and the Nabucco Pipeline Project***

It is obvious that “in response to the war in Georgia, the EU should take a more active role in defusing ‘frozen’ conflicts in Eastern Europe, and it should accelerate the integration of countries between the EU and Russia into the EU.”<sup>15</sup>

As a result of this policy, “a summit of 33 countries in Prague brought the EU’s 27 governments together for the first time with the leaders of the post-Soviet countries of Ukraine, Georgia, Moldova, Armenia, Azerbaijan, and Belarus to inaugurate the so-called ‘Eastern Partnership’” in May 2009. This

<sup>13</sup> “Declaration between the Republic of Azerbaijan, the Republic of Armenia, and the Russian Federation,” Maiendorf Castle, Moscow Region, [www.kremlin.ru](http://www.kremlin.ru)

<sup>14</sup> Araz Azimov (2009), p. 292.

<sup>15</sup> Tomas Valasek, “What Does the War in Georgia Mean for EU Foreign Policy?,” *Centre for European Reform*, p. 1, [http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2011/briefing\\_georgia\\_15aug08\\_tv-1136.pdf](http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2011/briefing_georgia_15aug08_tv-1136.pdf)

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new initiative is aimed at bringing these six countries together and establishing free trade areas between them and the EU, to tap their energy resources, and to promote human rights and democracy-building.<sup>16</sup>

Being one of the important projects contributing to European energy security, the Nabucco pipeline project was signed by the Prime Ministers of Turkey, Romania, Bulgaria, Hungary, and Austria on 13 July 2009 in Ankara. Backed by several EU states and the U.S., the Nabucco pipeline is a planned natural gas pipeline from Turkey to Austria diversifying the current natural gas suppliers and delivery routes for Europe. Azerbaijan is considered one of the transit and possible supplier countries. “So far, however, Nabucco is a critical part of Europe’s energy diversification strategy... If the EU pushes for the development of the Caspian-EU gas corridor, Azerbaijan, Kazakhstan, and Turkmenistan might play a more significant geo-economic role in the system of global energy security.”<sup>17</sup>

On 15 September 2009 the EU prepared a new South Caucasus strategy paper to work towards stronger ties with South Caucasus nations Georgia, Armenia, and Azerbaijan.<sup>18</sup> The EU Ministers asked the European Commission to prepare separate mandates for Associations Agreements with the three countries. According to Swedish Foreign Minister Carl Bildt: “These countries are sovereign nations and they have the right to choose their own destiny. They have expressed their view for a closer relationship with the European Union.”<sup>19</sup>

A possible incorporation of the South Caucasus states into the geopolitical and energy security framework of the EU could create favorable conditions for resolving the Nagorno-Karabakh conflict.

### ***The Madrid Principles***

On 10 July 2009 a Joint Statement on the Nagorno-Karabakh conflict was issued by the Presidents of the OSCE Minsk Group's co-chair countries France,

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16 Ian Traynor, “EU Pact Challenges Russian Influence in the East,” *The Guardian*, 7 May 2009.

17 Elkhon Nuriyev, “Azerbaijan’s Geo-strategic Role in the EU’s Energy Security,” *Caucasus Analytical Digest*, No.3, 19 February 2009, p. 16.

18 Ahto Lobjakas, “EU Ministers Review South Caucasus Strategy, Mull Afghan Future,” *Radio Free Europe/Radio Liberty*, 15 September 2009.

19 Ahto Lobjakas (2009).

the Russian Federation, and the U.S. at the “L’Aquila Summit of the Eight” in Italy. Along with this document, on the same day, a preliminary version of the Basic Principles for a Settlement to Armenia and Azerbaijan in November 2007 in Madrid (the so-called “Madrid principles”) presented by the Ministers of Foreign Affairs of the U.S., France, and Russia were made public.

The Basic Principles reflect a reasonable compromise based on the Helsinki Final Act principles of non-use of force, territorial integrity, equal rights, and self-determination of peoples.

These principles stipulate a return of the territories surrounding Nagorno-Karabakh to Azerbaijani control, an *interim* status for Nagorno-Karabakh providing guarantees for security and self-governance, a corridor linking Armenia to Nagorno-Karabakh; future determination of the final legal status of Nagorno-Karabakh through a legally binding expression of will; the right of all internally displaced persons and refugees to return to their former places of residence; and international security guarantees that would include a peacekeeping operation.<sup>20</sup>

According to Haroutiun Khachatrian, analyst on political and economic issues based in Yerevan, Armenia:

The three mediators of the Nagorno-Karabakh peace process so far seem successful in pushing Armenia and Azerbaijan toward a compromise. The parties are expected to sign a framework document later this year as an initial step of a long settlement process. In particular, the participation of the Nagorno-Karabakh *de facto* authorities in the process is proposed *via* providing them with an “*interim* status” before the final settlement of the conflict is reached. However, heavy obstacles are still ahead, mainly caused by lack of mutual trust between Armenians and Azerbaijanis. Domestic political issues, especially in Armenia, could also create obstacles to the process.<sup>21</sup>

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<sup>20</sup> “Joint Statement on the Nagorno-Karabakh Conflict,” *The White House Press Office*, 10 July 2009.

<sup>21</sup> Haroutiun Khachatrian, “Mediators Propose Interim Status for Nagorno-Karabakh,” *Central Asia - Caucasus Analyst*, 19 August 2009.

### *Armenian-Turkish Rapprochement*

The Armenian-Turkish rapprochement, which intensified after the Russia-Georgia war, significantly changed the geopolitical situation in the region. Starting from the “soccer diplomacy” in September 2008, Turkish-Armenian relations are developing towards normalization. Announced on 22 April 2009, a joint Turkish-Armenian statement prepared under Swiss mediation was the next step in this process. During the talks parties have agreed on a comprehensive framework for the normalization of their bilateral relations and “within this framework, a roadmap has been determined.”<sup>22</sup>

On 31 August 2009, Armenia and Turkey agreed to start their internal political consultations on the two protocols<sup>23</sup> –on the establishment of diplomatic relations and on development of bilateral relations between these two countries– which had been initiated through Swiss mediation. These two protocols provide a framework for the further normalization of the bilateral relations within a reasonable timeframe to contribute to regional peace and stability.

Azerbaijan highly appreciates these positive changes which will help mollifying Turkish-Armenian bilateral relations in the long term and “strengthens Turkey’s diplomatic position, not only because it would be a sign of Turkey’s flexibility but also because it would help push the genocide question off international agenda, thereby removing another obstacle from the path of Turkey’s geopolitical rise. This would, in turn, increase pressure on the EU to look more positively on Turkey’s application to join – something Obama urged during his recent trip to Europe.”<sup>24</sup>

At the same time there are some reservations from the Azerbaijani side, which are based on a fear that after this rapprochement Armenia will feel no more pressure to negotiate over Nagorno-Karabakh. According to the statement of the Spokesman for Azerbaijan’s Ministry of Foreign Affairs: “undoubtedly

22 “Joint Statement of The Ministries of Foreign Affairs of The Republic of Turkey, The Republic of Armenia, and The Swiss Federal Department of Foreign Affairs,” No.56, 22 April 2009.

23 “Press Release of the Ministry of Foreign Affairs of the Republic of Turkey, the Republic of Armenia, and the Swiss Federal Department of Foreign Affairs,” No. 153, 31 August 2009.

24 Stephen Kinzer, “The Turkey-Armenia Road Map,” *The Guardian*, 30 April 2009.

every country has a sovereign right to determine its relations with other countries, but this issue concerns the Azerbaijani national interests and therefore we consider that the opening of Turkey-Armenia borders before the solution of Nagorno-Karabakh problem conflicts with the national interests of Azerbaijan.”<sup>25</sup>

### ***Conclusion***

Due to the new geopolitical situation that occurred in the South Caucasus in the aftermath of the Russia-Georgia war, favorable conditions for the resolution of the conflict over Nagorno-Karabakh were put in place. Almost all of the regional and non-regional actors came to an agreement that this conflict hampers peace, stability, and development of the region. As shown above, a number of different interventions were introduced by various external actors after August 2008 which directly or obliquely influenced ways to reach a comprehensive solution to this conflict.

After signing the Moscow Declaration, six meetings were held between Armenian and Azerbaijani Presidents in 2009 and in 2010, which took place in Sochi on 25 January 2010. However no tangible results have been achieved in this process up to date.

In his interview to Russia’s *Vesti* TV channel on 30 June 2009, the President of Azerbaijan Ilham Aliyev shared his ideas regarding the future steps to be taken in order to achieve a comprehensive framework agreement between Armenia and Azerbaijan over Nagorno-Karabakh. He said that five of the seven districts would be liberated at the first stage of implementing the peace agreement, while Lachin and Kelbajar would revert to Azerbaijani control in five years. With reference to Nagorno-Karabakh’s status, the President said that a mechanism for provisional status could be agreed on in the first stage of the peace process, while the issue of the final status will be solved only when the parties agree on that.

On 10 July 2009 a Joint Statement on the Nagorno-Karabakh conflict issued by the presidents of the OSCE Minsk Group’s co-chair countries along

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<sup>25</sup> APA Information Agency, 1 September 2009.

with the “Madrid principles” were announced, which gave a new *impetus* to the negotiation process. The work on updated version of this document is in progress. So far, the parties reached an agreement only on the wording of the preamble of this document in Sochi on 25 January 2010.

The Armenian-Turkish rapprochement, intensified after the Russian invasion of Georgia, is currently at a very complicated stage. Transformation of Armenian-Azerbaijani and Armenian-Turkish relations is the most challenging issue now. In this context the evaluation of the role of the Armenian diaspora is quite important. The irredentism present among Armenians and fed by a sense of victimization and revenge plays a very negative role in the conflict resolution process. The Armenian interest in uniting communities particularly in the former Soviet Union (Nagorno-Karabakh and Nakhichevan regions in Azerbaijan, Javakhetia region in Georgia) and the Eastern Anatolian region in Turkey still exists as a dominant doctrine of the diaspora and some domestic Armenian political actors. The role of the diaspora in this particular issue is the most critical and is linked to the mobilization around memories of 1915. This past bloody experience between Armenians and Turks is the main barrier to the revitalization of their relations. Probably the historical memory of this event marks a psychological trauma in certain parts of the diaspora, who are not ready to put aside the “*revanchist* policy”. Azeris have been punished as a result of “guilt by association”, because Armenians usually do not differentiate between Turks and Azeris. This idea is supported by Libaridian who noted that: “close identification of Azerbaijan with Turkey made Azerbaijan an extension of Turkey in the minds of the diaspora Armenians... The occupation of Azerbaijani territories was also perceived by many diasporans as the rightful revenge of the past. There are those who believe that the return of these territories would constitute treason.”<sup>26</sup>

However, there are Armenians and Azerbaijanis still alive who had a positive experience of living together and of the mutual enrichment of their cultures. This factor, if used with skill, can become an important instrument for helping to overcome conservative aspects of the memory of these peoples. In this connection, the Azerbaijani side could conduct a more active and

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26 APA Information Agency, 1 September 2009, p. 144.

even intermediary role in the rapprochement of Turkey and Armenia just starting out. Of course, Azerbaijan will find it more difficult to begin such a dialogue with Armenia when part of its territory remains under the control of Armenian armed forces. In this situation, any attempts at resolving these identity issues may be conceived as a manifestation of “weakness” and a concession to the aggressor. That is why for Baku the demand for the return of its territory is so important as a first step toward this process.<sup>27</sup>

Domestic opposition in all three countries could be also considered as an impediment for the conflict resolution processes: compromises are necessary in any conflict settlement, which usually bear the possibility of political cost.

At the same time the continuous work of Armenian lobby groups to recognize 1915 events as genocide through resolutions in the parliaments of different countries including the U.S. creates serious impediments for the normalization of Armenian-Turkish relations.

A lot needs to be done to overcome the prejudices and stereotypes about each other and to re-shape new relations based on confidence building measures putting mistrust and fears behind us.

“Furthermore, without the genuine interest and serious responsibility shown by mediators and the international community, as well as some mutual positive steps to be taken not only towards progress on Armenian-Turkish rapprochement, but also on Karabakh, it will be impossible to secure long-lasting peace, sustainable development, and prosperity to the wider South Caucasus region.”<sup>28</sup>

There have been peaks within the negotiation process over Nagorno-Karabakh, when political breakthrough seemed very near. We are in similar situation again today; but let us believe that: “This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.”<sup>29</sup>

<sup>27</sup> Rauf Garagozov, “Turkish-Armenian Rapprochement and the Nagorno-Karabakh Conflict: The Role of Collective Memory and Identity,” *Azerbaijan in the World*, Vol.2, No.10 (15 May 2009), p. 3.

<sup>28</sup> Gulshan Pashayeva, “Baku Promotes Stability in the South Caucasus,” *Eurasia Daily Monitor*, 23 February 2010.

<sup>29</sup> Speech of Winston Churchill given at the Lord Mayor’s Luncheon, Mansion House, London, 10 November 1942.



# THE ARMENIAN CAUSE IN AMERICA, TODAY\*

Günay Evinch



The Ottoman Armenian tragedy of 1880-1919 is a dark episode in the history of Turkish and Armenian relations. Over one million Muslims, mostly Kurds, Turks and Arabs, and almost 600,000 Armenians perished in eastern Anatolia alone. World War I took the lives of 10 million combatants and 50 million civilians. While Russia suffered the greatest population deficit, the Ottoman Empire lost over five million, of which nearly four million were Muslims, 600,000 were Armenian, 300,000 were Greek, and 100,000 were Ottoman Jews.<sup>1</sup> Moreover, the millennial Armenian presence in eastern Anatolia ended.

The tragedy means different things for the two peoples. For the Armenians, their deaths constitute genocide. This means that the Ottoman government hated the Armenians as an ethnic or religious group, and destroyed them as such. With respect to Muslim deaths, the Armenians are silent, some because they do not know, some because they are in denial, some because Muslim deaths implicate Armenian responsibility.

\* This article was published in Winter 2005 (Vol.4 No.4) issue of the Turkish Policy Quarterly (TPQ) Journal.

1 See generally: Guenter Lewy, *The Armenian Massacres in Ottoman Turkey: A Disputed Genocide* (Salt Lake City: University of Utah Press, 2005), pp. 233-240; See also: Justin McCarthy, *Muslims and Minorities: The Population Ottoman Anatolia and the End of the Empire* (New York: New York University Press, 1983).

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For the Turks, the deaths do not constitute genocide. The deaths are massive on both sides, and caused by a large scale revolt by the Armenian Revolutionary Federation Army 1880-1919, the Armenian-spearheaded Russian invasion of eastern Anatolia in 1915, the Ottoman crackdown on Armenian rebel leaders and related relocation of Armenian civilians from the eastern war zones in 1915, the Armenian-spearheaded French invasion of southern Anatolia in 1917-19 and Ottoman counterattack, fighting between Armenian and Muslim villages for domination of the eastern and southern provinces, disease, and starvation.

Furthermore, for the Turks, the Armenian revolt is one of many by Christian nationalist groups seeking to create their own nations from the lands of the Ottoman Empire. While the vast majority of these revolts resulted in territorial gains for the various nationalist groups and the deaths and expulsions of hundreds of thousands of Ottoman Muslims and Jews, the Armenian revolt, as devastating as it was to Ottoman national security, is one that failed.

### ***The Armenian Cause***

While the mainstream Armenian Assembly of America (AAA) and right-wing Armenian National Committee of America (ANCA) serve as umbrella organizations for most Armenian Americans, there are over 450 Armenian American and 54 Turkish American NGOs throughout the United States. It is safe to say that perhaps only half of the Armenian American NGOs are active in any meaningful manner; that's 225 Armenian American NGOs in contrast with 25 Turkish American.

While meager Turkish American NGO assets are dedicated to addressing a wide range of issues, nearly 40 million dollars in Armenian American NGO assets are primarily dedicated to what is referred to in Armenian as *Hai Tahd*, “The Armenian Cause”. *Hai Tahd* includes three policy objectives: i) Recognition that the Armenian deaths constituted genocide; ii) Reparations from Turkey; and, iii) Restitution of the eastern provinces of Turkey to Armenia.<sup>2</sup>

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<sup>2</sup> Simon Payaslian, “After Recognition,” *The Armenian Forum*, Vol. 2, No.3 (Winter 1999), p. 49.

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*Political Capital*

At a presentation at the Holocaust Museum in 2002, Samantha Powers, author of “A Problem from Hell” and expert on the mass killings in Rwanda, opposed the idea of a court determination of whether the Armenian case constitutes genocide. She stated that it would be a “waste of political capital” for the Armenians, given that the legislative and public relations approach heretofore employed by the Armenian American lobby promised to be a more successful route toward a moral conviction, albeit not a legal determination, against Turkey and the people of Turkey.

At the National Press Club on 10 June 2005, asked whether Armenia might take to the International Court of Justice (ICJ) the issue of whether the events of 1915 constitute genocide, Armenian Foreign Minister and graduate of the Fletcher School of Law and Diplomacy, Vardan Oskanian responded to me that Armenia preferred a political approach.

This was a bit difficult to hear from legal and diplomatic scholars as Powers and Oskanian, given that under the UN Convention, genocide is a crime that can only be determined by the International Court of Justice (ICJ) at The Hague or domestic courts of member states that have laws against genocide. Nevertheless, Powers’ and Oskanian’s positions provided insight into the political expediency that may underlie the many resolutions and proclamations concerning the Armenian case.

The Armenian American lobby decided long ago to invest its financial and human resources in achieving *Hai Tahd* in the political arena, where it was vastly more powerful than the Turkish American community. According to ANCA, of the 50 states, 38 have passed or issued over 110 resolutions and proclamations, respectively, declaring that the Ottoman Armenian case constitutes genocide. The first state measure was a New Jersey resolution on 1 April 1975, and the most recent was Kansas Governor, Kathleen Sebelius’ proclamation of 28 April 2005. The Armenian American lobby in California and Rhode Island have demonstrated the greatest discipline, producing a resolution or proclamation every year since 1987 and 1990, respectively. Four

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states with significant Armenian American populations –California, Rhode Island, New York, and Michigan– account for 70 percent of the state measures, while metropolitan north eastern and south western U.S. regions with large Armenian and Greek American populations account for 95 percent of the measures. Indeed, Greek American politicians lead in the Armenian Cause, as New York Governor, George Pataki holds the record for the most “Armenian Genocide” proclamations. At the federal level, the Armenian American lobby has facilitated the acceptance of six federal measures. None of the federal measures have defined the Armenian case as genocide.

Aram Hamparian, Executive Director of ANCA commended Governor Sebelius on her proclamation and expressed: “We are hopeful that the growing pressure on the White House from state governments and U.S. legislators will impress upon the President that he should not stand in the way of Congressional legislation marking this crime against humanity.”<sup>3</sup> However, Professor Payaslian questions the yield on Armenian resolutions and proclamations:

The problem most official statements and resolutions regarding the genocide are familiar. They lack a clear statement of the fact that “Turkey” committed “genocide” against the Armenian people; they neglect the issues of retribution, compensation, and restitution; and they particularly ignore the fact that as a result of the genocide, Armenians lost their historic territories. Moreover, they do not constitute a formal recognition of the genocide.

In response to the politicization of this otherwise legal and historical matter, Turkish Americans, *via* the Assembly of Turkish American Associations (ATAA) have implemented an education program for legislators that states that: i) under the separation of powers legislators cannot adjudicate *via* politically-biased resolutions; ii) under principles of fairness and justice an accused is innocent until proven guilty by a competent court of law; iii) under federalism foreign affairs is a federal executive branch function; and, iv) the prosecution of the crime of genocide under the UN Genocide Convention is

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<sup>3</sup> Yerkir Armenian Online Newspaper, [www.yerkir.am](http://www.yerkir.am)

a federal executive branch matter before the International Court of Justice. Indeed, the ATAA has argued that the most a legislator may legitimately and should resolve to do is encourage honest and complete research into the Ottoman Armenian experience, without passing judgement and by providing equal treatment to matters involving American history as well, e.g., African American slavery, the Japanese American relocation in World War II, and the massacres of Native Americans. In 2001, the ATAA implemented this program of Education in American civics and American fairness with respect to an Armenian resolution in the Maryland State Assembly. The results were a more enlightened legislative body and a Maryland-record- number of abstentions.<sup>4</sup>

### *Capitalizing on the Holocaust*

The Armenian American lobby not only portrays the Armenian case in terms identical to the Holocaust, but its individual members seek reparations in the exact legal fashion as Holocaust survivors. In 2000, State Senator Chuck Poochigian sponsored and facilitated the passage of a law (The Poochigian Law), which: i) required insurance companies who did business in the Ottoman Empire to turn over policyholder lists; and, ii) extended statute of limitations 10 years from date of enactment. The Poochigian Law is a near carbon copy of a similar Holocaust reparations law.

In anticipation of the California law, class actions were filed against various insurance companies: Martin Marootian et al. v. New York Life; Ofik Kyurkjian et al. v. AXA; and, Vartkes Movsesian v. Victoria Versicherung. In these cases, Armenian plaintiffs sued to recover the life insurance benefits of their Ottoman ancestors for what the plaintiffs claimed were deaths

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<sup>4</sup> House Joint Resolution 3, 9 April 2001. HJ3, which required a minimum of 71 votes in the House, passed 79-11, with 50 legislators abstaining. The Greek American hand was strong in securing the support of the African American Caucus with promises of a Maryland State apology for slavery; such an apology has not been issued to date. Delegates reported that Greek American Maryland Senator Paul Sarbanes made personal calls to legislators urging passage of the resolution. Greek American and Baltimore baseball team owner, Peter Angeles, and H&S Bakery chain owner, John Paterakis, were said to help fund the massive assault that was coordinated by one of Maryland's most prestigious and expensive lobby firms, Alexander & Cleaver. Lockheed Martin's primary lobbyists, John Manis, also a Greek American, refused to assist his client in opposing the Armenian resolution, despite the fact that Lockheed-Martin contracts with Turkey employ hundreds of Maryland residents.

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arising from genocide.<sup>5</sup> However, in the unrelated case of AIA v. Garamendi, the Supreme Court declared the particular Holocaust reparations law on which the Poochigian Law was based unconstitutional, calling into doubt the Poochigian Law itself. Almost immediately, the Armenian plaintiffs settled their claims. Marootian settled for 20 million dollars, with four million dollars reportedly going to the lawyers, and eight million dollars going to Armenian NGOs and churches. Kyurkjian settled for 17.5 million dollars, with 3.15 million dollars reportedly going to the lawyers and three million dollars to a French Armenian NGO. Movsesian was dismissed for other reasons.

Importantly, in both settlement agreements, the plaintiffs' demands to characterize the cause of the deaths as genocide were rejected by the insurance companies. First, it is not the practice of insurance companies to characterize the cause of death in the payment of claims. Secondly, during each of the settlement proceedings, Turkish Americans educated the insurance companies and their lawyers with respect to the contra-genocide position.<sup>6</sup> Still, in the AXA case, the parties had finalized a settlement agreement that characterized the deaths as genocide "under French law" and were about to submit the agreement for court approval, when Turkish Americans educated Turkish-based consumer groups with respect to the mischaracterization, who in turn persuaded AXA's Turkish partner, OYAK, a military pension provider, to convey to AXA that the settlement agreement as such was unacceptable. In its final form of 6 December 2005, the settlement agreement did not characterize the cause of the deaths. Furthermore, the agreement conditioned the grant of three million dollars to a French Armenian NGO to: i) the approval of AXA; ii) for the sole purpose of helping the needy and for public education in France; and, iii) the ban against the use of such monies for any political purpose, e.g., resolutions, censorship, and rationalizing Armenian terrorism.

In its public education program, ATAA underscored the fraudulence of portraying the Armenian case in a manner identical to the Holocaust, the

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5 In a slightly different lawsuit, Vahe Tachjian v. Deutsche Bank, the plaintiff sued not just for monies in unclaimed accounts, but for conspiracy and accessory to the alleged crimes of the Ottoman Empire.

6 Among some of the wildest claims submitted to the court, Tachjian stated that Deutsche Bank facilitated the slave labor of Ottoman Armenians in the building of the Baghdad Railway.

collateral damage to the understanding of the Holocaust, and any resolution of the Armenian case in an honest and sustainable manner, as articulated by Princeton University and celebrated Middle East historian Bernard Lewis' statement of 14 April 2002, at the National Press Club:

[T]hat the massacre of the Armenians in the Ottoman Empire was the same as what happened to Jews in Nazi Germany is a downright falsehood. What happened to the Armenians was the result of a massive Armenian armed rebellion against the Turks, which began even before war broke out, and continued on a larger scale.

But to make this a parallel with the holocaust in Germany you would have to assume the Jews of Germany had been engaged in an armed rebellion against the German state, collaborating with the allies against Germany. That in the deportation order the cities of Hamburg and Berlin were exempted, persons in the employment of the state were exempted, and the deportation only applied to the Jews of Germany proper, so that when they got to Poland they were welcomed and sheltered by the Polish Jews. This seems to me a rather absurd parallel.<sup>7</sup>

It is perhaps due to the absolute difference between the Armenian case and the Holocaust, and the gravity and uniqueness of the crime of genocide, that the defendant insurance companies and banks in the aforementioned lawsuits do not address the genocide accusations. They defeat the cases on other issues or honor only settlement agreements that do not define the Armenian case as genocide. The Armenian plaintiffs do not appear to mind.

### ***The Turkish Awakening***

On 10 July 1919, Marmaduke Pickthall, a British author, expert on the Middle East, and former Chaplain to the Anglican Bishop of Jerusalem, eminent British expert on and later-convert to Islam, and writer for *The New Age*, a British intellectual journal edited by a French Jew, Alfred Richard

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<sup>7</sup> Bernard Lewis, "Distinguishing Armenian Case from Holocaust," *C-SPAN2*, <http://www.tc-america.org/files/news/pdf/lewis.pdf>

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Orage, commented on the inability of the Ottoman government to make its case at the Paris Peace Conference:

As I have often had occasion to remark in these columns, the Turk never sticks up for himself in the controversy against Europe. He does not know how to do so. With a strong case which any advocate could make convincing, he puts himself in the wrong from a tendency to accept the point of view of his opponents – a tendency which results from a sense of material defeat or helplessness. It is natural for a warlike people to accept the condition of defeat in war, and to think that by accepting that condition they appeal most strongly to the generosity of the conqueror. There is also the feeling that it is a waste of time to seek to demolish prejudices so robust as those which Europe cherishes regarding Turkey, even though those prejudices may be based upon false information. The Turk is thus the worst possible champion of his own cause. Anyone in possession of the facts could state his case much better than he can state it. ... [In Paris,] they have thrown away their own true case, and accepted the mere “propaganda” case of the Allies; instead of taking the offensive in discussion, as they had the right to do, for the treatment Turkey had received from the Allies conduced to the war was downright infamous, they assumed a deprecating, defensive attitude and apologetic tone, and positively asked for what they got – a snub the more offensive for its bland hypocrisy.

Today, the picture is quite different with respect to the Turkish American community, which has become more educated and active. While the Armenian American lobby's efforts certainly enhanced Turkish American awareness of the Armenian tragedy and the Armenian strategy, an unexpected result was the increased knowledge of the substantial harms suffered by Turkish Muslims and Jews at the hands of the Armenians in the past as well as today. Accompanying that knowledge, there is tremendous interest and activity not only to learn about the Ottoman Armenian experience, but to insist on a fair treatment of Turkey and people of Turkish origin on the issue of whether the experience constitutes genocide.

Furthermore, Turkish Americans are seeking justice for the harms they suffered from the Armenian Revolt, Armenian terrorism and ethnic violence, and the suppression of freedom of speech by the Armenian American lobby's efforts to censor from public education scholarly information that question the Armenian allegation of genocide.

On 24 April 2005, approximately 1,000 Turkish Americans convened at the White House and the Armenian Embassy. First, they thanked President Bush for not defining the Armenian deaths as genocide and demanded that next year his annual proclamation pay respect to the 1.1 million Muslims who died during the same period in the same region. They then marched to the Armenian Embassy, covering four city blocks, to lay a black wreath in memory of the victims of the Armenian Revolt in World War I and Armenian terrorism since the mid-1970s.

### ***The Armenian Revolution***

From the predominate Turkish American perspective, the Ottoman Armenian tragedy finds its roots in the Armenian Revolution of 1880-1919, in which Armenian rebels staged massive revolts throughout eastern Anatolia against the Ottoman state and its non-Christian citizens, mostly Kurds, Circassians, and Turks.

In 1895, members of the Armenian Revolutionary Federation (ARF) captured the Ottoman Central Bank in Istanbul. The Central Bank incident caused a riot in which over 900 Armenians and 700 Muslims died in Istanbul. By 1914, ARF had recruited over 100,000 militants. In the spring of 1915, ARF seized the city of Van, massacring tens of thousands of Muslims and Jews, and spearheading a Russian invasion of eastern Ottoman Anatolia. Two years later, ARF spearheaded a French invasion of the Adana region of southern Ottoman Anatolia, resulting in the deaths of tens of thousands.

William Langer, Harvard University diplomatic historian and expert on the fall of the Ottoman Empire, wrote that starting in 1880 leaders of the Armenian rebels established their central committee in Trabzon from which:

Agents were sent out to organize revolutionary cells in Erzurum, Harput, Izmir, Aleppo, and many other places... visiting the peasants, talking the night through with them, speaking with them of their sufferings unceasingly – impatiently, preaching the gospel of an eye for an eye – a tooth for a tooth, rousing their crushed spirit with high resolves and mighty aspirations.<sup>8</sup>

Langer reported that by 1890: “Europeans in Turkey agreed that the immediate aim of the agitators was to incite disorder, bring about inhuman reprisals, and so provoke the intervention of the powers.”

Professor Lewis’ April 14, 2002 C-Span statement provided:

Great numbers of Armenians, including members of the armed forces, deserted, crossed the frontier and joined the Russian forces invading Turkey. Armenian rebels actually seized the city of Van and held it for a while intending to hand it over to the invaders. There was guerilla warfare all over Anatolia. And it is what we nowadays call the National Movement of Armenians Against Turkey. The Turks certainly resorted to very ferocious methods in repelling it.

To the extent the Armenian Revolution does not receive proper treatment in the study of the Ottoman Armenian tragedy, great setbacks are rendered to an honest and complete assessment of the Ottoman Empire’s response to the Armenian rebels and the civilians, particularly to the issues of whether such a response constituted genocide or some other crime.

### ***Armenian Terrorism***

When Armenian American Bernard Ohanian was Editorial Director of *The National Geographic*, read by over 19 million worldwide, a propaganda

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<sup>8</sup> William Langer, *The Diplomacy of Imperialism, Vol. I* (New York & London: Alfred A. Knopf, 1935), pp.145-66.

piece entitled, “The Rebirth of Armenia” (March 2004) and arranged by a Frank Viviano and Alexandra Avakian, stated “dozens of Turkish diplomats and nationals were murdered, allegedly by Armenian terrorists.” However, the national and personal identities of the Armenian terrorists have never been in dispute.

According to the United States Federal Bureau of Investigation (FBI), between 1980-86, Armenian terrorism accounted for the second highest number of terrorist incidents in the U.S.<sup>9</sup> According to the FBI, two Armenian groups were directly responsible for this terrorism: the left-wing “Armenian Secret Army for the Liberation of Armenia” (ASALA), and the right-wing “Justice Commandos of the Armenian Genocide” (JCAG).

Since 1973, Armenian terrorists have committed 239 acts of terrorism that have killed at least 70 and wounded 524 innocent people, mostly non-Turks. Armenian terrorists have taken 105 hostages, “executing” 12, one of them an American woman. The Armenian terrorist bombing campaign that accounted for at least 160 of the 239 attacks caused the vast majority of the deaths and injuries. In addition, the Armenian terrorist bombing campaign caused 160 incidents of property destruction, totaling several hundred million dollars in property damage in the U.S., Europe, Middle East, and Australia. Of the 239 terrorist attacks, 71 were conducted by Armenians from North America, and 30 occurred on American soil. Twenty-two terrorists from the Armenian American communities of North America were captured, tried, convicted, and incarcerated.

That was just the tip of the iceberg. Unseen actors include movers in the Armenian American community, such as Mourad Topalian, former Chairman of the ANCA. On 24 January 2001, Judge Ann Aldrich, of the U.S. District Court for the Northern District of Ohio sentenced Mourad

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<sup>9</sup> “FBI Analysis of Terrorist Incidents in the U.S. in 1986,” *U.S. Department of Justice, Federal Bureau of Investigation, Criminal Investigative Division, Terrorism Section*, p. 53; For further information regarding Armenian terrorism, see: [www.EthnicTerror.org](http://www.EthnicTerror.org)

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Topalian to prison for weapons and explosives crimes the federal authorities linked to Armenian terrorism.<sup>10</sup>

Under the leadership of former President Tolga Çubukcu, ATAA submitted a Victim's Impact Statement and appeared at the criminal sentencing hearing of Topalian. Constitutional Law expert, Bruce Fein, spoke on behalf of the ATAA.

Aggrieved ethnic groups worldwide may look at Armenian terrorism as a successful method of forcing attention to their causes. A bad precedent, the Armenian terror campaign nevertheless achieved the initial stage of recognition: rendering World War I history relevant to today. Since the mid-1980s, the baton toward recognition appears to have been handed to the Armenian American lobby. However, neither ANCA nor the Armenian government has condemned Armenian terrorism.

### ***Suppression of Freedom of Speech***

An area in which the rights of all Americans are threatened by the powerful Armenian American lobby is freedom of speech, particularly in public education. On 1 March 1999, the Massachusetts State Board of Education issued a teacher's *curriculum* guide that included sources that questioned the Armenian allegation of genocide. The sources were provided by ATAA's regional component organization, The Turkish American Cultural Society of New England (TACSNE). The State Board of Education's committee of

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10 The Federal authorities, led by then-Federal Agent and current ATF Marshall, Pete Elliot, used DNA evidence to link Topalian to weapons and explosives that were in turn linked to four major attacks by the nationalist, JCAG terror organization: i) 12 October 1980, New York, Car bombing of the Turkish Center, Jewish American B'Nai Brith Center, and African American Center at the UN Plaza; ii) 3 June 1981, Los Angeles, Bombing of the Orange County Convention Center in Anaheim, site of an Evangelical Convention and Turkish folkdance and music show; iii) 20 November 1981, Los Angeles, Bombing of the Turkish Consulate building in Beverly Hills; and, iv) 22 October 1982, Los Angeles, Attempted bombing of the offices of Philadelphia Honorary Turkish Consul General by four JCAG members recruited from the Armenian Youth Federation (AYF) (a 5th JCAG co-conspirator is arrested at Logan International Airport in Boston the same day). On 12 June 2005, NBC Dateline's segment, "Time Bomb", reported that Topalian acquired and stored weapons and explosives in a public storage facility near a child-care center, public school, gas station, and major highway near Cleveland. The explosives, dating back to the late 1970s, were deteriorating and highly volatile. Agent Elliot expressed that had the arsenal ignited and exploded, it would have killed at least 750 people, mostly children. Dateline reported that Topalian was incriminated with the assistance of his wife, Lucy, and many former Armenian American JCAG operatives who have since become "teachers, doctors, and bankers."

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history *curriculum* experts accepted the sources as educationally relevant to an historical controversy. Unfortunately, bowing to political pressure from the Armenian American lobby, on 31 August 1999, State Senator Steven Tolman, Governor Paul Cellucci, Board of Education Chairman James Peyser, and Commissioner of Education David Driscoll forced the removal of the sources from the *curriculum* guide. The message was clear: i) Massachusetts shall support solely the Armenian view of Ottoman World War I history; ii) Massachusetts shall not make available to teachers, thereby students, even educationally valuable sources that challenges the state's position; iii) teachers risk violating state law and their jobs, if they introduce such information to their students; and, iv) future generations of Massachusetts citizens shall know and believe only the state-approved version of Ottoman World War I history. Similar prohibitions exist in France, Switzerland, Armenia, and Turkey.

This modern style book-burning by Massachusetts, as well as by most of the states of the United States, which have followed the example of Massachusetts in education, continues today. Under the leadership of President Vural Cengiz, on 26 October 2005, the ATAA decided to be a party to a lawsuit against the Massachusetts Board of Education and Department of Education, Griswold v. Driscoll, et al. ATAA joined a student and his parents and two teachers –none of whom were of Turkish origin– to support freedom of speech for all Americans, and perhaps for the community of civilized nations.

Griswold concerns protecting public school access to scholarly sources pertaining to a legitimate historical controversy for educational purposes. It concerns obtaining as well as providing scholarly information that supports the contra-genocide position with respect to the Ottoman Armenian experience.

The importance of the Griswold civil rights case can be best understood from the perspectives of its plaintiffs. The primary plaintiff, Theodore Griswold, is a Jewish American student at Lincoln Sudbury High School. Appearing on behalf of Theodore, his father, Thomas Griswold, believes that his child is denied the opportunity to receive contra-genocide viewpoints (censorship) and is forced to learn and accept the position of the government (state orthodoxy), in contravention of the U.S. Constitution.

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Plaintiff William Schechter is a Jewish American and a teacher at Lincoln-Sudbury High School. Mr. Schechter has been teaching history for 33 years and believes there is a genuine and continuing academic and historical controversy concerning whether the Ottoman Armenian experience constitutes genocide. His approach to teaching historical controversies is to present students with opposing points of view among legitimate historians. Mr. Schechter believes that the Massachusetts Department of Education's decision to exclude the contra-genocide materials from the *Curriculum Guide* teaches the wrong lesson – that historical right and wrong should be decided by censorship and state orthodoxy rather than by research and reasoned argument. Mr. Schechter also believes that censorship of the contra-genocide materials from the Guide infringes upon the state and federal constitutional rights of teachers and students to inquire, teach, and learn (censorship) and be free from the imposition of the government's point of view (state orthodoxy).

Plaintiff Lawrence Aaronson is a Jewish American and a teacher of social studies, history and civil rights at Cambridge Rindge & Latin School, a public high school in Cambridge, Massachusetts. Like Mr. Schechter, Mr. Aaronson believes that censorship of the contra-genocide materials from the Guide infringes upon the state and federal constitutional rights of teachers and students to inquire, teach, and learn (censorship) and be free from the imposition of the government's point of view (state orthodoxy).

Plaintiff ATAA has concerns on several levels: freedom of speech, nationwide public education, and anti-Turkish racism. ATAA serves as an umbrella organization to 54 local Turkish American organizations. ATAA is a non-profit, charitable organization dedicated to promoting public education and awareness about Turkey and issues that concern Turkish Americans. ATAA's website that provided a bibliography of scholarly sources that were deemed by Massachusetts education experts as educationally suitable to understanding a legitimate historical controversy, was censored by the Board of Education after substantial Armenian American lobby pressure came to bare. ATAA and its members are concerned that students in Massachusetts public schools are being taught only one side of controversial and controverted historical events that span from 1880 to 1919, whereas the legal and historical characterization

of the Ottoman Armenian experience is disputed by eminent and respected historians. Furthermore, ATAA is concerned that since the state of Massachusetts serves as major role model to other state boards of education, the censorship that has occurred in Massachusetts, if not corrected, may serve as an example—a wrong example—to other states. Finally, ATAA believes that the disputed Armenian allegation of genocide, supported by the censorship of scholarly defenses, is racist and prejudicial against people of Turkish origin, and stigmatizes Turkish Americans in Massachusetts as well as nationwide.

### ***Conclusion***

Whether the Armenian case constitutes genocide or some other crime is a legal question, in which historians play a critical role as expert witnesses. The inquiry requires utmost honesty and discipline in the use of documentary evidence, testimonies, and experts. But before this legal inquiry can be made, the complete historical record must be placed on the table. That requires freedom of speech.

The modern-day Armenian Cause relies heavily on censorship. It is the most sophisticated strategy the Armenian American public advocacy network has employed to promote its version of history as the undisputed truth. If left to take its course, this censorship involves a process by which generations will learn only one part of the facts of the Ottoman Armenian experience and come to accept it as the complete facts and the undisputed truth. It is a process by which history will be revised.

However, Theodore Griswold, his attorney Harvey Silverglate, the American Civil Liberties Union (ACLU) who will be joining the suit on the side of freedom of speech, and the American media which is providing wide coverage of this civil rights law suit, are making more and more Americans ask:

By the censorship of contra-genocide scholarly sources from *curriculum* guides and school libraries, the re-writing of history textbooks in order to omit the contra-genocide point of view, the imposition of college entrance examination questions to which the correct answers are

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“Armenian genocide”, the omission from “scholarly” panels scholars who support the contra-genocide point of view, and the inclusion on such panels Turkish nationals who support the Armenian allegation of genocide, and claiming that such panel participants are providing the Turkish perspective, what is the Armenian American lobby afraid of –what is it hiding from– what is it hiding? Can truth they claim not withstand the strongest counter-evidence?

By 1919 when World War I ended, over 60 million people had perished in Europe, Eurasia, and the Middle East from conflict, starvation, and disease. The fighting was so vicious, the destruction was so massive, that World War I was called “the war to end all wars.” The Ottoman Empire had lost more than five million people. The same year, as attorney Harvey Silverglate, wrote in the introduction to the Griswold civil complaint, United States Justice, Oliver Wendell Holmes declared that the “best test of truth is the ability of thought to prevail in the free marketplace of ideas.”<sup>11</sup> Censorship is not a permissible marketing tool.

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<sup>11</sup> Abrams v. United States, 250 U.S. 216 (1919).

# TURKEY AND ARMENIA: A SECOND CHANCE?\*

Thomas de Waal



For the last 20 years, the conflicts of the South Caucasus have been stuck in a series of vicious circles. In 2009, in an environment of predictable gloom, the Armenia-Turkish rapprochement suddenly offered the prospect of something different and positive. Unfortunately, however, when the normalization process stalled in April 2010, it left the region in an even worse position than it was before, with the situation over Nagorno-Karabakh more dangerous than it has been for a number of years. The challenge for 2011 is to see if the process can be revived and a negative dynamic can become a positive one again.

The process broke down primarily, although not exclusively, because the Turkish side made an explicit linkage between normalization with Armenia and progress in the peace talks over the Nagorno-Karabakh conflict. Although the Turkish government made no secret that it wanted to see Azerbaijan get something from the process, the Karabakh issue was deliberately not mentioned in the two Protocols signed in Zurich in October 2009.

Whatever Ankara's intentions, by first moving forward and then hitting the brakes on the Protocols, it managed to tie the outcome of a difficult process (Armenia-Turkey) to an even more difficult process (Nagorno-Karabakh) and

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both suffered. Armenian President Serzh Sarkisian had used up much of his already modest domestic political capital on the Turkey process and had nothing new to put on the table in the Karabakh talks. This was a major reason why 2010 was a particularly bad year for the Karabakh peace talks, with only three meetings between the presidents of Armenia and Azerbaijan, no progress in the substance of the negotiations, an increase in bellicose rhetoric and a rise in violence on the ceasefire line between the two armies. Unfortunately, we can only expect more of the same, or even worse, in 2011.

It is worth reviewing why Turkey went into this process and what can it expect to get out of it. I see there having been three main drivers for Armenia-Turkey normalization on the part of Ankara.

The first is the most nebulous, but also perhaps the most fundamental. This is an identity issue for Turkey. The Armenian issue is the most painful one in modern Turkish history and it is simply not healthy to pretend it does not exist. Put plainly, there were around two million Armenians in eastern Anatolia in 1914 and a few years later there were none. Around two million people had been either killed, deported, or assimilated.<sup>1</sup> To suggest that the Armenians somehow left their homeland voluntarily is as *naïve* as suggesting that the Azerbaijanis who fled their homes during the Karabakh war did so willingly. This of course is the question which troubles Turkish intellectuals. It is not so much about genocide – after all the word “genocide” post-dates the actual tragedy of 1915 by 30 years, having been coined in 1944 in a book written by Rafael Lemkin (and published by my employer, The Carnegie Endowment for International Peace). The issue is one of the identity of the modern Turkish state and the argument that Turkey will be stronger by confronting its past and the truth about what its minorities in general, and the Armenians in particular, suffered during the break-up of the Ottoman Empire. However, with the exception of a few thoughtful individuals, this is an issue more for the professional classes than for the political elite.

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<sup>1</sup> These figures are of course disputed and there is no space to enter into a detailed debate here. The official Armenian figure is that 1.5 million Armenians died and a great number were deported. The recently published “Black Book” of Talat Pasha, his notes written during the events, says, “[The] true number of Armenians in 1914 can be taken as 1,500,000 and the number of Armenians remaining in the provinces...to be around 350,000 to 400,000.”

The second motivation is the one that the Armenian diaspora is keenest to talk about. A successful rapprochement with Yerevan would more or less kill off the campaign to have international parliaments call the 1915 Armenian “Great Catastrophe” a genocide. It would be foolish not to see this as a motivation for the Turkish government. Successive governments in Ankara have spent millions of dollars and thousands of hours, battling against this campaign, aggrievedly withdrawing ambassadors issuing statements – all with only limited effect. But times have moved on. The “G-word” is no longer taboo in Turkey itself and is uttered at conferences in Istanbul and Ankara. The American-Armenian lobby had identified the election of Barack Obama as its best hope in years for a U.S. president to pronounce the word “genocide”. As a candidate, Obama listened to the views of advisers such as Samantha Powers and obviously made up his mind to use the word. In the event, on being elected, he was evidently persuaded that it was politically too explosive to utter the word, but his 24 April statements have gone much further than his predecessors. His use of the phrase “Great Catastrophe” takes the dignified route of calling the 1915 killings by the name that Armenians themselves use.

In other words, warding off genocide resolutions was definitely a motive for Ankara but it is misleading to think of it as the only one. The genocide recognition campaign, which first got going in the 1960s, has surely passed its high-water mark and the debate is moving to a different place. If that were not the case, the Turkish government would surely have approached Washington to be its mediator with the Armenians, as this would be where the battle would be fought. In actual fact, in 2007 they approached the Swiss Foreign Ministry in order to talk directly to Yerevan. The U.S. State Department only became actively involved in the process in early 2009. Arguably, American involvement made things worse because the domestic U.S. political timetable, with the looming question of what would or would not be said about 1915 on 24 April, interfered with the slower diplomatic process being chaired by the Swiss. Ankara and Yerevan were pressured into releasing a statement in April 2009 just before 24 April. Then in 2010 the two sides were again put under pressure to resolve their differences, once more in advance of a 24 April deadline, and the Armenian side decided to withdraw.

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The fact that the normalization process was led by Swiss and not Americans underlines that the third motivation driving the Turkish side was probably the most important one. This was that Turkey was seeking a role in the South Caucasus. Turkey was frustrated that it was a bystander and not a direct player in this neighboring region and realized that it could not engage there properly without normalizing relations with Armenia. As Alexander Iskandarian observes, Ahmet Davutoğlu's celebrated foreign policy slogan was not "no problems with nice neighbors," it was about resolving issues with the neighbors Turkey had problems with. Furthermore, Iskandarian points out, having an open border with your neighbor in the 21st century should be a norm, not a privilege.

Along with Russia, Turkey is the biggest economic player in the South Caucasus. It is the chief trading partner of both Georgia and Azerbaijan and does at least 200 million dollars worth of trade with Armenia *via* Georgian territory despite the closed border between the two countries.<sup>2</sup> But, politically, Turkey has punched way below its weight for many years.

Turkey has played a surprisingly small role even in those parts of Georgia in which it has a historic interest. Ajaria on the Turkish border was part of the Ottoman Empire until 1878 and briefly tried to secede from Georgia and join Turkey in 1918. In the 1921 Treaty of Kars, Turkey won provisions from the Georgian side that the people in Batumi would be allowed autonomy and that the Turkish side would have free access to the port. However, those provisions lapsed in practice during the Cold War and Turkey played almost no role in the politics of Ajaria after 1991. When the region was in crisis in 2004 it was the Russian Foreign Minister Igor Ivanov who flew in to negotiate; Turkish diplomats were nowhere to be seen.

In August 2008, Turkey again watched in alarm as two countries with which it had friendly relations, Georgia and Russia, went to war, with the conflict touching Abkhazia, a place with which Turkey also has historic ties. Turkey knows that it would stand to lose catastrophically –along with everyone else—if the Nagorno-Karabakh conflict were to reignite. It would be in the unenviable

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<sup>2</sup> This is a conservative figure, based on World Bank reports. Unofficially the trade may be higher than that.

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position of being put under pressure to give military help to Azerbaijan, while possibly seeing conflict in Nakhichevan, an area on its direct border, and damage to Caspian Sea oil and gas pipelines.

The war in Georgia helped persuade Turkish President Abdullah Gül to make his historic visit to Yerevan on 6 September 2008, to watch the Armenia-Turkey football match. It coincided with Turkey's attempt to launch the well-meaning but vaguely formulated Caucasus Cooperation and Stability Platform. But the initiative went ahead without a clear strategy as to how Azerbaijan's inevitable objections should be handled. Would Baku just be told that this process was good for them anyway and that they had to swallow it? And if so who was going to do the hard talking to Baku? Or would the Turks proceed in the expectation that a breakthrough could be made on the Karabakh issue and that they could use the need for parliamentary ratification as an escape clause to back out of the process, if they wanted to?

Whatever is the true story here, Azerbaijan moved to block the process and succeeded in doing so. The sad irony is that there is actually good reason to believe that Armenia-Turkey normalization would be good for Azerbaijan and good for the Karabakh peace process. Azerbaijan would of course suffer a symbolic short-term blow by seeing Armenia open its border with its "Turkic brother". They would see this as a defeat for their foreign policy strategy of the last few years. But the longer-term dynamic would surely work the other way and make the resolution of the Karabakh dispute more possible. Turkey would get much more leverage over the Karabakh process, having an embassy in Yerevan and relations with both sides of the conflict. Through normalization, Armenia would begin to lift its siege mentality and over-reliance on diaspora groups. This in turn would focus attention on the continuing Armenian occupation of the seven Azerbaijani territories around Nagorno-Karabakh and put more pressure on Yerevan to be flexible and cut a deal with Baku.

In my view, the major flaw in the Protocols process was that none of the international players involved –and the United States was best placed to play this role– made the case sufficiently strongly to Azerbaijan that it should not fear Armenia-Turkey normalization and talked to Baku on that basis. Had

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U.S. Secretary of State Hillary Clinton visited the South Caucasus not in July 2010, but in January and publicly stood in Baku and told the Azerbaijani president and public: “We support this process but we also support you and we think that this process will be good for you.” She would not have deflected all the criticism, but she could have blunted the aggrieved (and successful) Azerbaijani campaign to halt the Protocols.

As it stands, the current situation holds nothing good for anyone. Armenia and Turkey do not derive the domestic and international benefits of a successful normalization process. Azerbaijan has won what could be called a “PR victory”, having successfully blocked the normalization process. But it has only received in return greater Armenian intransigence on the country’s “number one issue”, the Nagorno-Karabakh dispute, and had to watch as a fearful Armenia signed a new military deal with Russia in August 2010. That can hardly be counted as a great success.

All is not lost however. The Protocols process is suspended, not dead, and there is a chance that it can be revived after the Turkish election in June 2011. For this to happen, I see four prerequisites. First, the AKP wins a new majority. Second, it sets reviving normalization with Armenia as a priority, as it reviews its many foreign policy challenges. Third, the Armenian side makes a statement reaffirming that it attaches no preconditions to the Protocols process, thereby satisfying Turkish concerns about the Constitutional Court commentary.<sup>3</sup> Fourth, Azerbaijan is given something which symbolizes “progress” in the Karabakh conflict but falls short of the unrealistic demands that the Armenian side withdraw troops from territory in return for the opening of the border – a bargain that no Armenian politician would ever accept.

This is a tough list but not an impossible one. There may be an inclination to remain very cautious on this issue but Turkish decision makers should also consider that doing nothing also has its cost. Turkey faces the prospect of suffering greatly if the situation over Nagorno-Karabakh continues to deteriorate.

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<sup>3</sup> In January 2010, the Armenian Constitutional Court issued a ruling on the Protocols, declaring them to be in accordance with the Armenian Constitution. The accompanying commentary said that the Protocols were also in accordance with the country's 1991 declaration of independence, which sets recognition of genocide as a goal. This disturbed many in Turkey who saw it as adding a new precondition to the process.

Whereas, if it manages to press forward with the Protocols process, in co-ordination with renewed efforts by the Minsk Group over Nagorno-Karabakh, the positive effects could be tremendous.



# THE PAST AS A PRISON, THE PAST AS A DIFFERENT FUTURE\*

Gerard J. Libaridian



The past dominates the general perception of Turkish-Armenian relations. At least it appears so. The past dominates that perception because these relations ended tragically in the Ottoman Empire and because we have perceived it in more ways than one and invested so much in each. Some questions suggest themselves: Can we take responsibility for the way in which we have recreated that past, just as it has created us? What have the two sides invested in the battle for the recognition of their version of the past? And, what is to be done with two different, disparate and more often than not conflicting perceptions of the past, if and when there is willingness to transcend it?

By and large for the Armenian side the difference can be resolved if and when the Turkish side acknowledges the genocide perpetrated by the Young Turk government during World War I. This expectation of the victim has encountered the official Turkish view, which places its own victimization by the Great Powers at the center of its own perception of history, a perception that makes what happened to Armenians an almost irrelevant detail, a nuisance at best, a past that should be denied, trivialized, or explained away. For decades the official Turkish position has been to do all three, at the same time.

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Clearly, we are not dealing with a mere academic disagreement between scholars of different persuasions or schools. The entrenched position of each side is now part of their respective identities, identities that not only define the boundaries of the ethno-cultural self-definitions but also the socio-political context within which they see their present and project the future. We have learned that conflicts that deeply engage identities often produce the bloodiest wars and are the most difficult to resolve, especially when the parties to the conflict seek the affirmation of their identities by the rest of the world as an integral component of their strategy.

To understand what has been a stalemate for some time, to change gears, so to speak and, in fact, to make the best use of history, each side must understand some basic realities about the other.

The Turkish side, and especially officials and policy makers must realize that, however the events of 1915-17 are characterized, there is no doubt that they brought to an end the collective existence of the Armenian people on their ancestral homeland. The violent, abrupt, and permanent break in the long history of a nation, the sheer finality of it, was apt to make survivors feel death for generations. The passage of time has only deepened the sense of a collective death, even if the survivors themselves were paralyzed by the personal tragedies they endured and were unable to sense and articulate adequately the full extent of the tragedy. For the less traumatized progenies of the survivors in lands nearby and distant, the past is the present. Denial of the genocide is a denial of not only their past but also their present.

Furthermore, the sustained policy of denial of that past by successive Turkish governments only infuriates the new generations of Armenians; it makes it more difficult for them to focus on the historical context in which these events took place or to generate a desire to understand the position within which Turkish society finds itself. This is true even for those Armenians who would like to transcend the limitations imposed by a self-definition as a victim nation. Attempts by Turkish officials and official historians to equate Armenian actions against the Ottoman regime before the war or the Turkish state since with the policies of the *Ittihat ve Terakki* during the war only leads the new

generations to think of the Turkish state as an unreformed and hopeless entity. The more the Turkish state denies the past, the more adamant the new generations are in asserting it. That part of the collective memory tends to take over as the determinant of their identity, more difficult to transcend, more important to have others recognize it. There are good reasons why the use of the term “genocide” has become so important for the Armenian side.

These are some of the immovable realities worth a moment of reflection on the Turkish side, setting aside the defensive wall that is best characterized as a fear of knowledge. Almost 20 years ago a promising young scholar –now a well known and respected historian in Turkey– related to me the story of his dying father who asked him not to become a historian. When he realized his son was set on his course and did not want to become a doctor or an engineer, the father begged him to at least not engage himself in the “Armenian issue”.

There are many ways to deal with conflicting perceptions of history. Ignoring history is not one of them. Not for a healthy society.

What the Armenian side must realize is that, first, the Turkish position is based on willful ignorance, one that is promoted by the state for reasons that must also be understood. There is an ideology of statehood and nationhood that is at the foundation of the central value of the Turkish War of Independence in Turkish collective memory. That ideology relies on a well known theological model: No sins were committed during the process, and the purpose of the newborn was to save the world, in this case the world of Turks. This is a most comfortable past, a most blissful birth.

Ideologies have a coherence and are, therefore, fragile. Removing one stone in that foundation threatens the collapse of the whole system. Under the circumstances to integrate a sin as serious as genocide in that theology is asking too much from a state, as well as from a people.

Second, the Armenian side must recognize that the great powers did in fact prey upon the Ottoman Empire; until the rise of the Kemalist Movement, the rivalry between Great Britain and Russia was probably the main reason why

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Anatolia did not suffer the same fate as Africa in their hands. The importance of the centrality of Great Power threat to the Ottoman state cannot be underestimated; nor can one underestimate the role of that threat in the rise of the modern Turkish state and in Turkish perceptions of the past.

That such historical facts are also used to justify a security oriented state, the role of the military in Turkish politics, and the use of force to settle political conflicts, is very much part of the ideology, just as the genocide is at the basis of territorial demands from Turkey for some Armenian political parties. Such territorial demands feed into the logic of denial: recognition of the genocide, Turkish officials argue, will result in the demands for reparations, including territorial ones. Whether Turkey will face a real threat in this area is immaterial; what matters are that such fears find a receptive audience, are embedded in the political *psyche*, and are easily manipulated in a society educated in the historical threat of dismemberment.

When looking back from what Turks and most of the world take for granted today, Turkish statehood within its present borders, and given that generations of Turks since have been taught to accept the primacy of the state over society as the foundation of that statehood, one should not be surprised at the resistance to injecting into one's pristine history a series of horrors.

The Armenian side should take a moment and look at these realities. There are many ways to deal with conflicting perceptions of history. Force feeding one is not of them, not if there is to be genuine recognition and reconciliation, especially now when Armenia, a neighbor of Turkey, is a sovereign state.

This long running conflict has its own history, as well as politics and sociology. Until the rebirth of independent Armenia in 1991, the battle was between Turkey, a well defined nation-state with boundaries and policy making institutions, on the one hand, and an Armenian diaspora outside Turkey, a transnational entity made up of communities defined extraterritorially and endowed with many structures but not a single structure that could speak for it and act on its behalf in a single voice. The battle was asymmetric; it allowed for little direct interaction. Not only were the Turkish state and Armenian

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diaspora totally alienated from each other, but also the logic of the position of each evolved almost independently from each other, neither having to account for the failures or successes of their policies against the other's means and resources. After all, beyond the stated goals of compelling or rejecting recognition, the battles were their own justification, since they served to affirm the battlers' identities.

The arena for the battle was the international community to which each addressed itself. The rare encounters between Turkish and Armenian scholars were not meant to promote understanding of each other's position, but to state positions and satisfy their own audiences. The one known meeting between officials of the Turkish Foreign Ministry and representatives of the *Dashnaktsutiun* (Armenian Revolutionary Federation) in the late 1970s, still shrouded in mystery, does not seem to have served any other purpose. And the series of terrorist acts by secret Armenian groups against Turkish diplomats and institutions could hardly have been construed as encounters of mutual understanding.

Most Armenians in the diaspora had never met a Turk. The "Turk" had become an abstraction in the Armenian mind, easier to hate than to know. Any and each Turk in this context represented the invader of a thousand years ago, the killer of a hundred years ago and the denier of today, all in one. Turks had no other characteristics. For Turks, the "Armenian" was the friendly and harmless baker in the neighborhood at best, a discomfiting thought from the past pushed to the recesses of the mind, a troublemaker, slanderer, and terrorist at worst. For each, the other was "the other".

This skewed process had serious consequences for both.

Part of the legitimacy of historical Armenian institutions in the diaspora such as the Church and political parties is based on their pre-genocide existence. They are part of the patrimony that has survived and must be kept alive. This is a powerful argument in the diaspora, where the fear of assimilation pushed diasporans to find anchors that reconfirm their identity. Thus the battle for genocide recognition has become an organizing concern and unifying

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principle. It connects the past and the future: the future consists of the recognition of the past. The present is just the moment where the struggle occurs.

Yet identities are not frozen. They evolve and adapt as a result of internal dynamics and external *stimuli*. They also change as a result of conscious choices, whether cultural or political. While the name of the *ethnos* remains the same, history shows that in fact some attributes of ethnicity become less important and others become more poignant over time. Even collective memory undergoes mutations to project new sensibilities; contemporary needs seek different dimensions of the past; new research and more critical history seep into the domain of the general public. Sensibilities change with regard to perceptions of the past and of the future. In an anecdote ascribed to the ubiquitous *Radio Yerevan*, a listener asks the radio commentator if he knows what the future will look like. The commentator's answer is indeed telling: "The future is not a problem; we know what it will look like. Our problem is with the past. They keep changing it."

The advent of Armenia's independence created another level of interaction in Turkish-Armenian relations, state-to-state. Neither the Ter-Petrossian nor Kocharian administration in Armenia made the recognition of the genocide by Turkey a precondition for the establishment of diplomatic relations with its neighbor, although the second did raise the issue. Soviet Armenians too knew their history, many of them progenies of survivors of the genocide, including a number of the founders of the Republic who in the 1960s had organized street demonstrations against Turkey in Yerevan. The difference is that state to state relations, particularly with neighbors, require a different logic since leaders of states, especially those just born, must take into consideration a host of overwhelming issues. The Armenian National Movement that led the country to independence also considered the genocide-led national agenda and the psychology behind it as factors that had justified Armenia's subservience to the Soviet Union and the oppressive Communist rule. Now citizens of a sovereign republic, Armenians in Armenia did not resist this change away from the primacy of the genocide issue, a change in strategic thinking which was nothing less revolutionary in Armenian political thought. Besides, as citizens of a state, they did not need an organizing principle: the state is that principle.

The present forces its own agenda and priorities and the future must resolve other problems for the citizens of Armenia who are, nonetheless, keenly interested in the recognition issue.

The normalcy, if not yet normalization, of relations between Turkey and Armenia lifted the taboo in the diaspora as well. Sovereign Armenia without barriers for diasporans represents a new reference of identity, one that can absorb as much energy from the diaspora as it can emit.

For the Turkish governing elite the control of the past is a justification for the present form of government and an insurance policy for its perpetuation. The future, indeed, would look different if the past was tampered with. If the Soviet Union changed the past to justify shifts in policy, the Turkish state held a firm grip on it to guarantee that the future does not change. Here the denial of parts of history is the affirmation of that future. A Turkey that has matured enough to recognize that history would have to be a very different Turkey than the one they know and cherish, the one they present as the indispensable form without which Turkish identity would be denied and Turkish security threatened.

But here too there have been changes. An expanding civil society and a more inquisitive and critical intellectual class feel secure enough in their identity to question the hegemonic ideology of the state and its hold on history; they can imagine a different and better future for Turkey. They, therefore, can also imagine a different past. This development constitutes a tribute to Turkish society.

The coming to power of AK Party not so much beholden in its ideology and legitimacy to the nationalist past has also offered new possibilities. Prime Minister Erdoğan's offer to leave history to historians is, to say the least, a valiant recognition of the possibility of a history differently conceived, as he too imagines a Turkey differently construed.

The dynamics of the confrontation has changed as a result. Turkish and Armenian societies have now come to interact in more ways than one. More

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Armenians travel to Turkey now and visit their ancestral towns and villages. While not influential enough, the Turkish Armenian Business Council is a reflection of newly emerging interests. Turkish journalists have visited Armenia and have developed contacts in the diaspora. Armenian journalists from Armenia and the diaspora have visited Turkey and established contacts there.

But two undertakings deserve special attention. The well intentioned but badly conceived Turkish Armenian Reconciliation Commission (TARC) provided a forum where the issue of whether the past would determine the future was discussed. Even in its failure that forum contributed to the acceptance of a dialogue.

The more successful forum has been the less ambitious yet more fruitful Workshop for Armenian and Turkish Scholarship (WATS), initiated in 2000 by a small group of scholars of Armenian and Turkish origin at the University of Michigan, Ann Arbor. WATS aims at developing the historical context within which Turkish-Armenian relations evolved. The scholars involved did not feel the need to start with terminology and focused on the necessity to understand the context offering perspectives on events, processes, policies, and causation. The four sessions of WATS have involved over a hundred scholars from various disciplines and countries. The Workshop is based on the principle of respect for the intellectual integrity of the participants whose scholarship is recognized by universal standards. WATS has already had a major impact on both the quantity of scholarship produced and the quality of the dialogue. A larger picture of the period in question is emerging, a picture that recognizes the calamities that the *Ittihat ve Terakki* policies produced, the ideologies and mechanisms involved, the engagement of Armenian political parties and the Church as actors in Ottoman politics, and the role of the great powers. The number of conferences and *colloquia* addressing the issue have multiplied, the most prominent being the Istanbul conference in September 2005 organized by Turkish scholars and with the exclusive participation of Turkish scholars, despite vehement opposition by some quarters in Turkey.

Genuine scholarship freed from the burdens of legitimization of power, political leadership freed from the need to preserve the *status quo*, and a

re-humanization of the “other” are making it possible to redefine identities, challenge identity politics as we know it. Turkish-Armenian relations may yet have a future.



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# **Chapter III:**

## **Economic Integration, Development, and Energy Security**

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# THE EMERGING PATTERNS OF AZERBAIJAN'S INTERNATIONAL ENERGY POLICY: CONTINUITIES AND CHANGES\*

Elnur Soltanov



Today, 20 years after independence, one can speak of relatively clear patterns in Azerbaijan's international energy policy. Some of these trends have been there since the very beginning; others would qualify as new developments, and still more are modifications of the country's initial positions. Looking first at the continuities, Azerbaijan has been very careful to avoid antagonizing Russia and Iran while unmistakably deepening ties with the West. Secondly, it has proven to be a reliable partner in energy deals, not reneging on its promises. Thirdly, in the direction of the West, Baku still has tried to diversify, reaching deals with as many Western companies and countries as possible, and investing in alternative routes. This third aspect requires some modification, as Azerbaijan, specifically in pipeline matters, has become overdependent on Turkey. Finally, after successfully transporting its oil to the open sea *via* Georgia and Turkey, Azerbaijan is trying to replicate this success in the natural gas market. This matter straddles continuity and change; Azerbaijan is going beyond what it has learned with oil and is trying to become an independent leader and to contribute more to the process.

This last point is a subcategory of one of the fundamental changes that is happening in the Azerbaijani oil and gas industry. Having accomplished the first phase of developing its hydrocarbon resources, Azerbaijan has been

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moving down the value chain to capture more profits beyond the export of its unrefined raw materials. An additional development is that with its increasing hydrocarbon revenues, Azerbaijan has been increasing its soft and hard power capacity considerably in order to end Armenia's occupation of one-fifth of its sovereign territory. Last but not least, as Azerbaijan is extracting more oil and gas, the depletion rate is speeding up, which will push the country to explore for further reserves in sensitive border areas, where there is potential for conflict with neighbors.

### ***Western Direction***

The importance of this issue lies in the surprising recurrence of the question about Azerbaijan's energy vision. The debates preceding the decision on the main oil export pipeline in 1990s resurfaced before Azerbaijan made a choice about the route to export its natural gas from Shah Deniz II.<sup>1</sup> In hindsight, one can say with confidence that the intention of all Azerbaijani governments from the outset was to look to the West. For a country that cut a deal with Western firms in 1994 despite Russia's aggressive dissatisfaction, the expectation could hardly have been otherwise.

From the beginning, ideology and pragmatism in Azerbaijan pointed in the same direction. The Elchibey government of 1991-92 might have seen Western alignment as a more ideologically based approach. In fact, ideology might explain this government's suicidal stubbornness in insisting on this alignment to the total exclusion of Russia. Thus it was not surprising that the more pragmatic Heydar Aliyev government contemplated alternative options. But in retrospect it becomes clear that the consideration of the Russian route was nothing more than a move to balance the country's greatest threat and to keep alternative options open.<sup>2</sup> As soon as the Turkish and Western presences were deemed sufficient to balance the imminent and immediate Russian threat, Azerbaijan went the way it apparently had been intending to go all along.

Both economically and in terms of state survival, the Western option seems to have been the optimal choice. Only the West had the required technical

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1 "Russia: Moscow's Grip on Caucasus Energy Tightens," *Stratfor*, 30 June 2009.

2 Brenda Shaffer, *Energy Politics* (Pennsylvania: University of Pennsylvania Press), 2010, p. 54.

and organizational capacity to exploit Azerbaijan's difficult offshore reserves. Moreover, the Turkish route might have been economically costly in the short term, but in the long run the legal enforceability of the deal secured steady return on investments. Politically speaking, this choice was an attempt to escape the Russian grip, as Moscow was uneasy about the sovereignty of the newly independent Soviet republics. But something is still missing in this interpretation. Although moving toward the West seemed reasonable, so did an alliance with Russia. Russia was extremely angry about the possibility of losing its monopoly over the hydrocarbon exploitation and transit routes in the post-Soviet space. No other country enjoyed as much influence in the region as Russia; it had the potentially huge resources to punish and reward. For instance, Russia was the key to the resolution of Nagorno-Karabakh conflict, a paramount issue for Azerbaijan. At the same time, going directly to the Black Sea could have saved billions in the establishment and maintenance costs of the export pipeline. Therefore, in seeking to understand the crucial factor in the decision making process, one must look to the thinking of the Azerbaijani political elite.

There was a conviction that the West was a better option than Russia, politically, economically, and culturally. This was about parting ways with a relationship that had shaped the past 170 years. Azerbaijan understood the nature of this relationship, past and future, and there was a conscious effort to discontinue it. It was Russia that invaded and destroyed the nascent democratic Azerbaijan in 1920, and it was Russia that was behind the military occupation of one-fifth of Azerbaijani territory. Russia, the heir of the omnipotent and controlling USSR, was no longer desirable as a political partner. Therefore, Azerbaijan could liberate itself by leveraging its oil wealth, there was no way the country would sacrifice it to Russia. Thus, it is surprising that the debate on which direction to take has gone on for so long. The strategic choice must have been clear from the very start. Occasionally Azerbaijan could have been waiting for the most appropriate moment for action, but the end result we have today, regarding the ownership and direction of the export routes of oil and gas, is no accident.<sup>3</sup>

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<sup>3</sup> It is interesting that the same debate about which way to go has never been a domestic issue. There has been a broad consensus within Azerbaijan about the Western direction.

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This brings us to what many scholars of Azerbaijan fail to understand. Energy policy has not been about the political survival of the ruling elite. Apparently, the choice of Russia would have been a better alternative in this regard. The Western option was a risky choice for the decision makers, but the best one for the sovereignty and welfare of the country, and the choice was the latter. The same trend continues under the current government of Azerbaijan, headed by Ilham Aliyev. Contrary to the widespread argument, Azerbaijan is not balancing the three major powers in its neighborhood and grappling with a shapeless foreign policy. In its energy deals, nothing fundamental has been offered to Russia or Iran. All that has been offered to them was an absolute minimum to keep them satisfied, while all the strategic shares and routes have gone to the West.

### ***Reliable Partner***

The importance of trust between a host country and oil companies is well explained in Vernon's "Obsolescing Bargaining Theory".<sup>4</sup> Given the capital intensive nature of hydrocarbon extraction and the huge sunk cost involved in establishing the necessary infrastructure in the host countries, oil companies face great risks. The mirror image of the same issue for the host country is a substantial advantage regarding the inflow of huge amounts of capital during the initial stages. This problem becomes particularly acute in countries with problematic legal environments in terms of property rights. Therefore, by their very nature, deals between foreign oil companies and host countries follow a clear pattern. At the start, oil companies are careful to invest and host countries are willing to bring them in. This creates a better bargaining position for the companies. Yet after the initial investments, it is costly for a firm to depart, which in turn creates an incentive for the host countries to renege on initial deals and to change their terms. Cases of such behavior abound.<sup>5</sup>

Given the modest reserves by global standards, the land-locked situation, internally volatile political environment and quite credible threats from Russia

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<sup>4</sup> Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of US Enterprises* (New York: Basic Books, 1971).

<sup>5</sup> Toyin Falola and Ann Genova, *The Politics Of The Global Oil Industry: An Introduction* (Westport: Praeger, 2005), pp. 43-62.

and Iran, it is understandable that Western oil majors were willing to come to Azerbaijan only under extremely favorable circumstances. For the same reasons, it is no surprise that Azerbaijan was willing to accept those conditions. Comparatively speaking, Azerbaijani PSAs are fairly business friendly.<sup>6</sup> Yet despite this, even after most of the initial problems were removed and the firms had already made their substantial investments, Azerbaijan did not change its terms in any substantive sense. The situation unfolded differently in another major Caspian littoral state, Kazakhstan, and foreign investors have unquestionably faced greater problems in Russia.

There are several reasons that Azerbaijan has not tried to modify the agreements in the 2000s. The country's oil and gas reserves are significant, but not huge by global standards.<sup>7</sup> The big money-making reserves remain beyond the technical capacity of national oil companies. Yet there are still many cases where countries in similar situations have reneged on contracts, notably in Kazakhstan and Russia, at least regarding specific oil and gas reserves. There is always an element of choice, and the stance Azerbaijan has taken has been largely a matter of political will, which signifies more than an attempt to cultivate relations with the West and its multinationals. Respect for treaties is becoming a key part of Azerbaijan's international energy profile.

### ***Diversification in the Oil/Gas Business***

Diversification of the ownership of the oil and gas reserves as well as the pipeline routes has also been part of a considered strategy. This diversification serves four purposes: satisfying the minimum demands of the major players to the north and south, i.e., Russia and Iran; bringing in the maximum number Western countries to counter Russia and Iran; keeping alternative options open; and achieving a better bargaining position. The first two points are related to the discussion above. The shares given to Russian and Iranian companies were more about softening their official position and buying their

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6 Kristen Bindermann, *Production Sharing Agreements: An Economic Analysis*, Oxford Institute for Energy Studies (October, 1999), p. 71-2, <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/WPM25-ProductionSharingAgreementsAnEconomicAnalysis-KBindermann-1999.pdf>

7 According to CIA country report Azerbaijan occupies 19th place in terms of proved oil and 27th in terms of proven gas reserves in the world.

acquiescence than anything else. There was no question that while satisfying Russia and Iran Azerbaijan was clearly outsourcing its hydrocarbon reserves to Western countries and their energy companies. Baku did not perceive the West as a threat to be balanced. Azerbaijan tried attracting as many Western countries aboard as it could: the UK, U.S., Norway, Italy, France, Japan, and Turkey have all been represented.<sup>8</sup>

The third aspect of diversification was about keeping alternatives open in case something went wrong. If a company was not doing its job, there would be others immediate available to take over their shares. The companies were already in Azerbaijan, already familiar with the political and technical environment and thus, it would not take them long to make a decision. Regarding the pipelines, having Baku-Novorossisk and Baku-Supsa were expensive alternatives, but in one of the most volatile regions of the world they were worth having. These pipelines have several times proven their usefulness when the main artery of the Azerbaijani oil has been temporarily cut off. Moreover, even if the main pipelines are secure, the confidence created by having the alternatives cannot be overstated. Lastly, the Azerbaijani government wanted to diversify the ownership structure and pipeline routes among different companies and countries in order to gain a better bargaining position. Dissolving the monopoly on the part of the oil companies while speaking with one unified voice was a good thought, at least theoretically speaking.

The developments with natural gas, however, have led to significant changes in this diversification trend. Today, Azerbaijan is sending its oil through Georgia and Turkey; its natural gas from Shah Deniz I is following the same path, and with TANAP, Shah Deniz II faces the same end. True, there are still the Baku-Supsa and Baku-Novorossisk routes for oil, although they may not be enough to fully replace Baku-Tbilisi-Ceyhan (BTC), given that the latter has not been functioning at full capacity. But even in the context of the declining output of oil, the worst possible scenario does not look too worrisome. The situation with natural gas could be a little different. The immediate alternatives for Azerbaijan are exports to Russia and Iran, and to go through the Black Sea as

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<sup>8</sup> Svante E. Cornell, *Azerbaijan Since Independence* (Sharpe: USA, 2011), p. 395-7.

CNG and LNG in the long run. But the latter would take time and a lot of resources. In fact, one of the reasons Azerbaijan is continuing to follow the Georgia-Turkey path has been the geopolitical constraints it faces and the much more expensive alternatives through the Black Sea.

The potential problems with these routes are political. There could be terrorist attacks, but in the strategic sense this seems less significant. That Armenian intervention in Azerbaijan or Russian intervention in Georgia would stop the flow of oil and gas is also highly unlikely. Georgia itself, given its pro-Western tendencies and limited resources, would hardly abuse its commitments. But Turkey could be a slightly different story. The key vulnerability for Azerbaijan in the continuing success of its energy policy could turn out to be the same factor that has been its main strength. If the latent problems in the relations between the countries reach a low point like they did in 2009, there will be negative consequences.

Both Turkey and Azerbaijan are convinced that they have been doing the other side a favor, and without much gratitude in return. Turkey feels that it made numerous economic sacrifices in bringing the Azerbaijani oil to the Mediterranean, where BOTAS is continuing to lose money, and that they sacrificed their desire to buy Turkmen gas to keep Azerbaijan happy. Given that they also closed their borders with Armenia in solidarity with Azerbaijan over the Nagorno-Karabakh conflict, they feel that they deserve favors, in the form of lower prices, bigger shares, better status, etc. Azerbaijan on the other hand feels that it undertook huge risks with Russia while adding to Turkey's strategic importance through BTC, SCP, and now with TANAP. Additionally, Azerbaijan feels that it involved Turkey in projects that under pure market conditions Turkey would not have received. Moreover, Baku has been selling its gas to Turkey at a lower price than either Russia or Iran.<sup>9</sup>

The problem is not related to corresponding favors. There are three structural reasons behind the problems encountered in Turkish-Azerbaijani energy relations, two political, and one socio-economic. Firstly, Turkey has

<sup>9</sup> Turkey was paying around 120 dollars for the Azerbaijani gas around the time Turkish-Armenian conciliation attempts started in 2009, while Russia was charged nearly three times as much.

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increasingly close relations with Russia. Ankara values its relations with Russia much more today than it did during the planning stages of Baku-Tbilisi-Ceyhan. Secondly, now that Azerbaijan has bound itself to Turkey with these expensive and high profile projects, Ankara may want to utilize its better bargaining position. This appears to be a classic example of Vernon's obsolescing bargaining. The third factor is related to the social, economic, and political reconfiguration of the Turkish domestic landscape, which creates an ideological environment less conducive to good relations with Azerbaijan than ten years ago.

Bilateral relations between Turkey and Azerbaijan today are better than they have been since the crisis brought about by the Turkish-Armenian reconciliation attempt in 2009.<sup>10</sup> Azerbaijan has started its multibillion investment into the Petkim refinery in Turkey, and the main hurdles over the gas pricing, as well as the terms of the transit and sale of the additional gas from Shah Deniz II, seem to be over. The decision to carry the gas to Europe through TANAP, along with the involvement of Turkish companies in the building of the pipeline were also key milestones. But there remains a grudge at the heart of the relationship, and its asymmetrical nature means that one side, Azerbaijan, could lose more if things deteriorate. Baku has placed too many eggs in the Turkish basket. Although there are still alternatives, they may not be sufficient; they could take time to become operational and they certainly will be too costly. For these reasons, Azerbaijan needs to be vigilant about its relationship with Turkey.

This said, Turkey is a sophisticated country with progressive Western political and economic institutions. It is sophisticated enough to maintain economic relations regulated by formal contracts and by world-class arbitration mechanisms independent of the political whims of different governments. Moreover, Azerbaijan continues to enjoy huge grassroots support in Turkey and politicians will struggle to overcome the popular affection that is indeed reciprocal. Although Azerbaijan is becoming too dependent on Turkey for energy goods exports, of all Azerbaijan's neighbors, Turkey is the least likely to renege on its agreements.

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<sup>10</sup> Saltanat Berdikeeva, "Taking a Second Look at the Southern Gas Corridor," *Oil Price*, 10 May 2012, <http://oilprice.com/Energy/Natural-Gas/Taking-a-Second-Look-at-the-Southern-Gas-Corridor.html>

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## *Oil vs. Gas*

The phased approach to the development of oil and gas sectors is also noteworthy. After finishing the fundamental aspects of oil production and export, Azerbaijan started to deal fulltime with natural gas. True, Shah Deniz was discovered only in 1999, and it is natural for the gas business to lag a bit. But from the outset, Azerbaijan applied its institutional memory and all its accumulated experience *vis-à-vis* oil to Shah Deniz I, which accelerated the development of gas exports. The paths followed are quite familiar; the consortium members, the type of contract, the main pipeline route, the balance of ownership, etc. And in the second stage of gas industry development, Azerbaijan is doing much more in addition. What makes this undertaking noteworthy is the fact that the nature of the gas business is a little different. Long-term buyers must be secured before one starts producing gas as its consumption, storage, and transport is technologically less advanced compared to that of oil. True, spot gas markets are not there yet. Therefore, pulling off a gas deal from upstream to downstream is a more difficult business, but Azerbaijan is apparently feeling confident enough to do it. This time, Baku is directly involved in the building of a new pipeline to western Turkey for now, and is planning to sell its gas directly to Europe.<sup>11</sup> This action entails elements of both continuation and change.

## *Diversifying the Economy*

Diversification of the economy is related to the hydrocarbon industry in three ways. It happens as a reaction to the overdependence on oil/gas industry, with the help of the money generated by the oil/gas industry, and within the oil/gas industry itself. Because overdependence is creating a fear about the one-sided and unsustainable development of the national economy, the money generated by this same overdependence is paving the way for favorable financial conditions that will enable Azerbaijan to focus more on economic diversification.<sup>12</sup> But amazingly, the first target of the diversification has been

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11 Kostis Geropoulos, "Azerbaijan, Turkey Ink TANAP Pipeline Deals," *New Europe*, 29 June 2012, <http://www.neurope.eu/article/azerbaijan-turkey-ink-tanap-pipeline-deals>

12 Shahin Abbasov, "Baku Confronts Economic Diversification Challenges," *Eurasianet*, 14 April 2010, <http://www.eurasianet.org/departments/business/articles/eav041410.shtml>

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in the oil and gas industry itself. The country is apparently trying to move away from being an exporter of raw oil and gas and to add value to the raw energy materials at the midstream and downstream phases.

Azerbaijan has been empowering SOCAR as an internationally competitive energy company.<sup>13</sup> SOCAR has not only increased its involvement in the domestic hydrocarbon industry but has also extended its reach to neighboring Georgia and Turkey. It has been one of the largest taxpayers in Georgia, and at times, the largest, through its subsidiary, SOCAR Georgia Petroleum. In Georgia it has been investing in oil/gas terminals and warehouses as well as the retail and wholesale of oil/gas and their products. Its investments in Turkey (mainly refineries and pipelines) are projected to top 17 billion dollars in the coming eight years.<sup>14</sup> The company has also been aggressively expanding into the gas stations business in Romania, Ukraine, and Switzerland.<sup>15</sup> Azerbaijan has been investing in its oil tanker fleet and related infrastructure to carry a portion of the ever-increasing Kazakh oil to the open sea. The country already functions as a transit for the Kazakh oil but it has been eyeing a bigger share.<sup>16</sup> Despite problems with Turkmenistan, both countries should try to carry more Turkmen gas to European markets through Azerbaijan. Baku has also been investing in refineries at home, so that products can be exported to neighboring countries, including Iran and the southern parts of Russia.

Azerbaijan has clearly been trying to capitalize on the experience it has gained through interaction with some of the world's most advanced energy companies. This drive is also partly about developing the non-oil sector. True, SOCAR is an energy company, but SOCAR's development is not about getting Azerbaijani oil and gas to global markets. Rather, it is about developing an internationally competitive oil/gas service sector in Azerbaijan.<sup>17</sup> Diversification of the

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13 Isabel Gorst, "State Oil Company: Burning Ambition to Compete on Global Stage," *Financial Times*, 24 January 2008, <http://www.ft.com/reports/azerbaijan2008>

14 "Azeri SOCAR's 8-year Turkey Investments to Top \$17 billion," *Today's Zaman*, 8 June 2012, [http://www.todayszaman.com/newsDetail\\_getNewsById.action?newsId=282918](http://www.todayszaman.com/newsDetail_getNewsById.action?newsId=282918)

15 "SOCAR Expands Activities in Europe," *Today.az*, 25 June 2012.

16 Vladimir Socor, "Oil Tanker Shipment: the Short-term Default for Trans-Caspian Oil," *Eurasia Daily Monitor*, 6 June 2006, [http://www.jamestown.org/programs/edm/single/?tx\\_ttnews%5Btt\\_news%5D=31797&tx\\_ttnews%5BbackPid%5D=177&no\\_cache=1](http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=31797&tx_ttnews%5BbackPid%5D=177&no_cache=1)

17 "State Oil Company of Azerbaijan Already Numbers 23 Filling Stations Under SOCAR Brand in Georgia and Builds New Ones," *ABC.az*, 21 April 2009, <http://abc.az/eng/news/34083.html>

economy is certainly not confined to the hydrocarbon sector. Baku is busy procuring expensive equipment, training its labor force and learning efficient management techniques across other industry and service sectors. However, it remains the case that the most dramatic moves have been made in the hydrocarbon sector.

### ***Energy Resources and Nagorno-Karabakh Conflict***

The strategic value, connections and cash that are flowing into Azerbaijan due to oil and gas serve one very concrete goal: to increase the country's chances to end the Armenian occupation of its territories. One of the biggest prices Azerbaijan has paid for going in the Western direction with its strategic leverage has been the loss of Nagorno-Karabakh together with the surrounding territories to the Armenian military forces, as a result of angering Russia and to a lesser extent Iran. There have also been many other factors at play, but the arrival of the West in the Caspian was too tangible a blow to be ignored by these two countries.

If Nagorno-Karabakh was a loss suffered in part due to the strategic gains in the oil and gas policy, then the first fruits of the oil and gas success were to be spent on ending Armenian military occupation. This is exactly what has been happening. One of the most notable changes in Azerbaijan's behavior has been the skyrocketing amount of money allocated for building up the military. This change is not related to new strategies or new importance being attached to the issue; it is simply that Azerbaijan has more resources today and thus it has become more active only in an absolute sense. Although Russia has been flooding Armenia on an *ad hoc* basis with military hardware to balance Azerbaijani military buildup, there are clear indications that Azerbaijan's policy has shaken up the balance in the region and generated a lot of fear in the occupying country, spearheading a new push for the peaceful resolution of the conflict by the international community.<sup>18</sup> In addition, Azerbaijan has been increasing its soft power arsenal, by investing significantly in its foreign relations. The number of its embassies is increasing exponentially and it was

<sup>18</sup> Anna Poghosian, "Possible War Over Nagorno Karabakh or 'Weapons Fashion Show?'," *Journal of Conflict Transformation*, 1 November 2011, <http://caucasusedition.net/analysis/possible-war-over-nagorno-karabakh-or-weapons-fashion-show/>

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due to the increased recognition accorded to its international activities that it was elected a member of the UN Security Council in 2011. There is reason to believe that it is becoming costlier for Armenia to hold on to the occupied territories of Azerbaijan.

### ***Production/Reserves Rate***

Since the dawn of the new oil era in the early 1990s, Azerbaijan has faced jealous and uncooperative neighbors, especially whenever it moved on to exploit new hydrocarbon reserves. This issue may become more acute in the near future. According to the BP Statistical Review 2012, if Azerbaijan continues to exploit the current reserves with the current pace, the oil reserves will dry up in 20 years and gas in 86.<sup>19</sup> Much will depend on new discoveries, but if that is not the case, peak oil could occur within this decade. Regarding natural gas the production will almost double with Shah Deniz II. Thus in the absence of new discoveries, Azerbaijan will have only 40 years left before its gas reserves run out. There are always new technologies that increase the size of the reserves. As Azerbaijan is gearing up to realize its full production capacity, it will start feeling the heat regarding the finite nature of these resources. This is not desirable economically and politically for the country, and it will do its best to avoid the situation. Thus, in the medium term, Azerbaijan could be expected to intensify its search for new fields. This might mean attempts to resolve the differences with Turkmenistan and Iran regarding the legal regime governing the delineation of the Caspian Sea. Such developments could potentially turn aggressive and violent, and the international community should remain alert to this.

### ***Conclusion***

There are more continuities than changes in Azerbaijan's international energy policy. This is understandable, as the policies that were first undertaken in the early 1990s have been largely successful. Keeping Iran and especially Russia happy will be important to the success of the overall energy strategy, which is directed towards Western investment. Azerbaijan should continue to guard

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19 "Statistical Review of World Energy 2012," *BP*, June 2012, [bp.com/statisticalreview](http://bp.com/statisticalreview)

its impeccable record in terms of honoring the contracts, and its world-class mechanisms for dealing with discord. Although the strategy to diversify the ownership of assets and the direction of routes is continuing, Georgia and Turkey are acquiring a monopolist status regarding transportation. Azerbaijan should be careful about managing its relations with these neighbors. The phased approach to the development of the oil and gas businesses, either by accident or design, has been fortunate, and Azerbaijan should be commended for its approach. On a broader scale, this amounts to the diversification of the economy, specifically in the energy sector, which also is a clever move, since this is Azerbaijan's area of expertise. Channeling the oil/gas money towards the resolution of the Nagorno-Karabakh conflict is understandable, and Azerbaijan should continue to seek new and creative ways for the conflict's peaceful resolution. Regarding production/reserves rate, this challenge needs to be turned into an asset in terms of increasing the cooperation among Caspian littoral states, however difficult this might prove.



# IMPLICATIONS OF AZERBAIJANI GAS FOR THE SOUTHERN CORRIDOR AND EUROPEAN ENERGY SECURITY\*

Mert Bilgin



Azerbaijani gas from Shah Deniz I reaches the European market through Baku-Tbilisi-Erzurum (BTE) gas pipeline, which started transportation in 2006 with an actual capacity of 6.6 bcm/y. The significance of this pipeline is more than the gas volume it transports, and that it will channel in the near future. Under current economic and political conditions, one thing is clear: all the other projects that are aiming to pass through Turkey from the Caspian and the Middle East would be dismissed as unfeasible or unreliable for at least in the next decade without Azerbaijani gas.

Azerbaijan and its partners in gas trade took further initiatives to channel increased volumes of gas from the second phase of Shah Deniz (Shah Deniz II) field, and engaged in important accords. The Memoranda of Understanding (MoU) of the Izmir agreement and the Governmental Agreement and the Host Government Agreement to implement the Trans-Anatolian Gas Pipeline (TANAP) in late June 2012 drastically changed the dynamic for pipeline projects of Southern Corridor.

There are, of course, multiple pros, cons, incentives, and obstacles concerning a myriad of existing pipeline projects within the Southern Corridor. This article explores the emerging role of Azerbaijani gas in European energy security

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with a special focus on the impacts of the Izmir agreement and the TANAP project, both of which prompted alternative projects to accelerate their initiatives and adapt them to the actual priorities of Shah Deniz Consortium. The main hypothesis here stems from the following argument: gas transportation from Shah Deniz I and II opens the gate to European markets for Southern Corridor and this will accelerate (rather than decelerate) other pipeline projects, not only in terms of demand opportunities starting at the Turkish borders with EU member countries, but also with regard to suppliers who will likely get involved in the emerging web of pipelines once the matter of supply constraints has been resolved.

From this perspective, the first section elaborates the role of gas for global energy security in the 21st century with a particular focus on European gas demand, and the way in which the expected increase in consumption makes the rise of Southern Corridor an important alternative. The second section addresses the Southern Corridor and its constituent pipelines and pipeline projects. The third section reviews supply options and constraints with reference to alternative countries in Caspian and the Middle East. The last part scrutinizes the significance of reliable Azerbaijani gas in market turmoil, and concludes that the TANAP project constitutes a turning point for the Southern Corridor by offering strategic leverage to Azerbaijan and the Shah Deniz Consortium, which is imperative for European energy security.

### ***European Energy Security and the Role of Gas in the 21st Century***

We are in an age of transition, between what can be termed the “late oil” era to the “energy mix” era. However, fossil fuels (mainly coal, oil, and gas) are still the main source of energy for international consumers, and of those, natural gas is expected to be a strategic source of energy. Many experts agree on the rising profile of natural gas, which, bolstered by high oil prices and environmental, safety and other factors, could become the most used hydrocarbon by 2030.<sup>1</sup> According to estimates by the United States Energy Information Agency (U.S. EIA), world net natural gas consumption will increase by at

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<sup>1</sup> The fact that natural gas contains zero sulfur dioxide (SO<sub>2</sub>), releases low levels of nitrogen oxide (NO<sub>x</sub>), CO<sub>2</sub>, and other pollutants is extremely important in European countries which are very responsive to air quality.

least 50 percent by 2030. In light of these considerations, it is possible to make two conjectures: i) as a result of peaking oil prices, natural gas will replace oil wherever possible; ii) as a result of environmental constraints, governments, NGOs and consumers seek to use natural gas whenever possible.<sup>2</sup> Natural gas remains a key energy source for the industrial sector and for electricity generation, with a rising stake in household consumption (including heating and cooking), along with transportation (mainly public). In terms of safety, modern technology allows the safe production, transportation and consumption of natural gas. With regard to comfort; natural gas allows constant and controlled heating at better terms when compared to other fuels.<sup>3</sup>

As for global energy security, the rapidly increasing energy demands of China and India puts pressure on the U.S. and other consumer countries.<sup>4</sup> The EU, in the meantime is eager to diversify gas suppliers in Eurasia, Mediterranean and the Gulf, in order to guarantee supply security.<sup>5</sup> The Caspian provides one of the best options for EU energy security.<sup>6</sup> The EU, however, must face Russia's desire to retain its energy monopoly in relation to European markets. Discrepancies between national energy policies and the EU Commission's goal of diversifying resources from a variety of countries in Caspian, the Middle East, and Africa are causing regional gas projects to lose pace. The Southern Corridor, which entails an emerging web of pipelines from the Caspian and the Middle East to Europe *via* Turkey, deserves closer attention, given that it promises to increase European energy security in addition to strengthening gas markets.

The most optimistic view of European gas consumption was given in 2004 International Energy Agency (IEA) Report, which stated that EU members would need additional gas supplies to satisfy rising gas consumption, estimated to reach 900 bcm in 2030. Indigenous production is forecasted at less than

2 "World Natural Gas Consumption," EIA, September 2008, [http://www.eia.doe.gov/oiaf/ieo/excel/figure\\_35data.xls](http://www.eia.doe.gov/oiaf/ieo/excel/figure_35data.xls)

3 See: Masami Kojima, *Breathing Clean* (Washington: The World Bank Publications, 2001), pp. 3-5.

4 Michael T. Klare, *Rising Powers, Shrinking Planet: The New Geopolitics of Energy* (New York: Metropolitan Books, 2008), pp. 63-87.

5 Sanam S. Haghghi, *Energy Security: The External Legal Relations of the European Union With Major Oil-And Gas-Supplying Countries* (Portland: Hart Publishing, 2007), pp. 341-80.

6 Dimitrios Mavrakis et al., "An assessment of the Natural Gas Supply Potential of the South Energy Corridor from the Caspian Region to the EU," *Energy Policy*, Vol.34, No.13 (September 2006), pp. 1671-80.

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300 bcm, which requires annual gas imports of 600 bcm. The IEA projected the diversification of European suppliers as follows: Russia (79 bcm of natural gas), Central Asia and Caspian (51 bcm of natural gas), Middle East (40 bcm of natural gas and 117 bcm of LNG), Africa (70 bcm of natural gas, 61 bcm of LNG) and Latin America (18 bcm of LNG).<sup>7</sup>

This projection remains over-optimistic, because the global financial crisis has negatively affected European economies; demand from EU countries has increased less than the IEA estimated in 2004, but nonetheless its gas consumption will still be crucial. A recent quantitative analysis based on a mathematical formulation and illustrative results of the World Gas Model, which is a multi-period complementarity model for the global natural gas market with explicit consideration of market power in the upstream market, again generates an optimistic estimation, although expected consumption remains below the levels estimated by IEA. Total projected consumption in Europe in 2030 is put at 667 bcm/y. Of this, a projected 27 bcm/y will be supplied in the form of LNG, or four percent of the total consumption; 200 bcm/y produced domestically, and a large proportion will be imported from Russia, the Caspian, and from North Africa as pipeline gas.<sup>8</sup> In terms of supplies, this study projects a split of Russian, Caspian and Middle Eastern gas between Europe (first main destination for natural gas), Asia (second main destination for natural gas) and North America (small amounts sold as LNG).<sup>9</sup>

A recent analysis focuses on European gas demand trends from a policy perspective, combining economic forecasting with geopolitical scenario building. The analysis, based on reports by the EU Commission, sets out four possibilities: i) Baseline scenario with average oil price of 61 dollars/bbl; ii) Baseline scenario with average oil price of 100 dollars/bbl; iii) New energy policy scenario with average oil price of 61 dollar/bbl; iv) New energy policy scenario with average oil price of 100 dollars/bbl. The policy analysis outlines options, restraints, priorities and strategies of concerned actors, and generates

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7 "Outlook for European Gas Demand, Supply and Investment to 2030," IEA, 2004, p. 8,  
<http://www.iea.org/textbase/work/2004/investment/outlook%20for%20European%20gas%20demand.pdf>

8 Ruud Eggig et al., "The World Gas Model: A Multi-period Mixed Complementarity Model for the Global Natural Gas Market," *Energy*, Vol.35, No.10 (2010), pp. 4016-29.

9 Ruud Eggig et al. (2010), p. 4025.

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four policy scenarios: i) Russia first; ii) Russia dominant; iii) Security first; iv) Each for itself.

The results indicate that European gas demand is very likely to increase although with different policy implications. The matrix obtained out of four economic and four policy options results in 16 contingencies defining the impact of gas supply/demand characteristics on European energy security in 2020. Accordingly; “Russia first” scenario refers to a situation in which the EU Commission and EU member states attribute a priority to Gazprom’s and Russia’s concerns in Europe while supporting ongoing projects. “Russia dominant” scenario describes Russia’s and Gazprom’s extensive control over supplies in Caspian, Middle East and North Africa mainly through successful corporate expansions and geopolitical maneuvers. “Security first” scenario implies balanced and equitable gas supplies from Russia, Azerbaijan, Turkmenistan, Iran, Iraq, Egypt, Libya, Algeria, and Nigeria. “Each for itself” scenario describes a hypothetical situation in which the EU fails at taking a common action. Individual states attribute high priority to national options by undermining the common good and negative externalities.

### ***Making Sense of the Southern Corridor***

To start from the big picture, as presented by the EU Commission prior to the global financial crisis, the EU is openly seeking to extend its partners eastward to the former Soviet Union, and southward towards Mediterranean and Middle Eastern regions, as part of the Wider Europe concept.<sup>10</sup> The Caspian, and to a lesser extent the Middle East, promises to contribute to European energy security.<sup>11</sup>

The Southern Gas Corridor entails a portfolio of a pipeline projects mainly Nabucco, the Interconnector Turkey-Greece-Italy (ITGI), White Stream (a Georgia-Ukraine-EU gas pipeline project), the Trans-Adriatic Pipeline (TAP) and Trans-Anatolian Gas Pipeline (TANAP). The South East Europe Pipeline

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<sup>10</sup> James W. Scott, “The EU and ‘Wider Europe’: Toward an Alternative Geopolitics of Regional Cooperation?,” *Geopolitics*, Vol.10, No.3 (2005), pp. 429-54 at 430.

<sup>11</sup> Yelena Kalyuzhnova, “The EU and the Caspian Sea region: An Energy Partnership?,” *Economic Systems*, Vol.29, No.1 (2005), pp. 59-76.

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(SEEP), first proposed by BP on 24 September 2011, also deserves further analysis within this context.

The Nabucco Gas Pipeline Project appears to be the most ambitious. The concept was launched by a consortium on 24 June 2004, to develop, construct, and operate the Nabucco pipeline from the Georgian/Turkish and the Iraqi/Turkish border to Baumgarten in Austria to transport and then distribute 33 bcm/y of gas with a lifespan of 50 years.<sup>12</sup>

“The White Stream project was conceived in 2005 and is a key component of the EU Southern Energy Corridor to transport up to 32 bcm/y of gas from Azerbaijan and other countries in the Caspian Region *via* Georgia directly to countries on the Western side of the Black Sea (Romania, Ukraine) and onwards to markets in Central and Eastern Europe through a pipeline which will cross the Black Sea in water depths in excess of 2,000 meters, using advanced proven technology.”<sup>13</sup> This project, however, is struggling with high investment costs, and remains unfeasible under current economic conditions, which are likely to prevail for at least the next five years.

ITGI is composed of ITG (Interconnector Turkey-Greece), which has been in operation since November 2007 and has a capacity of 11.5 bcm/y, and the IGI (Interconnector Greece-Italy) project, which aims to reach a capacity of 9 bcm/y.<sup>14</sup>

The Trans-Adriatic Pipeline (TAP) will start in Greece, cross Albania and the Adriatic Sea and come ashore in southern Italy, allowing 10-20 bcm of gas to flow directly from the Caspian region to Italy and other European markets.<sup>15</sup>

SEEP aims to transport Azerbaijani gas to Austria *via* Turkey by combining existing pipelines that would for the most part use existing nationally owned

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12 “Nabucco Gas Pipeline,” *Overview*, <http://www.nabucco-pipeline.com/portal/page/portal/en/pipeline/overview>

13 “White Stream Pipeline Company, Diversifying Europe’s Gas Imports,” <http://www.gueu-whitestream.com/main.php?id=1&lang=eng>

14 “ITGI,” *Edison*, <http://www.edison.it/en/company/gas-infrastructures/itgi.shtml>

15 “TAP Project Concept,” *Trans Adriatic Pipeline Company*, <http://www.trans-adriatic-pipeline.com/tap-project/concept/>

pipelines, pipeline sections, and inter-connectors, with a new one that could be 800-1000 km long, as opposed to building the Nabucco pipeline along that entire route.<sup>16</sup>

### ***Supply Options and Constraints***

Volume and cost are not the only issues at stake in the Southern Corridor. There are also important political and geopolitical consequences. Gas supplies to the proposed pipelines inevitably lead to controversies stemming from geopolitical and economic difficulties.<sup>17</sup> For instance, bringing Turkmen gas to Europe *via* Transcaspian and Nabucco pipelines,<sup>18</sup> makes more sense as a simple supply diversification issue. It would be very expensive for Gazprom to satisfy Europe's rising demand by developing its conventional fields or even new ones (e.g. Shtokman) if it cannot buy natural gas from Turkmenistan.<sup>19</sup> Russia's growing domestic market, along with production decline in the West Siberian fields of Yamburg, Urengoy and Medvezhye,<sup>20</sup> is forcing Gazprom to use natural gas from Turkmenistan as opposed to confronting the issues of high production and transit costs in the new fields. This is why Russia needs to keep Caspian, or at least Turkmen gas, within its infrastructure. Most experts point to Russia's increasing attempts to compete with Southern Corridor pipelines, and to dismiss them as unfeasible for Europeans, instead promoting their own initiatives, namely the Nord Stream and South Stream pipelines. In the meantime, facing the difficulty of building a Transcaspian pipeline, Turkmenistan has signed long-term contracts with Russia and China.

Regarding further extensions in Africa and the Middle East, the joint statement released after the European Commission's meeting on "Enhancing

16 Vladimir Socor, "Europe Queries BP Pipeline," *Asia Times Online*, 8 November 2011, [http://www.atimes.com/atimes/Central\\_Asia/MK08Ag01.html](http://www.atimes.com/atimes/Central_Asia/MK08Ag01.html)

17 For a supply side analysis and prospects of further production, see: Mert Bilgin, "Geopolitics of European Natural Gas Demand: Supplies from Russia, Caspian and the Middle East," *Energy Policy*, Vol.37, No.11 (2009), pp. 4482-91.

18 3,300 km (2050 miles) long Nabucco pipeline project is planned to cost about \$5.5 billion to transport 31 bcm of gas from the Middle East and Central Asia to European markets. For other features and capacity, see: Matthias Pickl and Franz Wirl, "Auction Design for Gas Pipeline Transportation Capacity - The Case of Nabucco and its Open Season," *Energy Policy*, Vol.39, No.4 (2011), pp. 2143-51.

19 See: Mert Bilgin (2009).

20 For depletion in Yamburg, see: "Russia Energy Survey 2002," *International Energy Agency* (2002), p. 55, [http://www.iea.org/publications/freepublications/publication/russia\\_energy\\_survey.pdf](http://www.iea.org/publications/freepublications/publication/russia_energy_survey.pdf)

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Energy Cooperation” on 5 May 2008 warrants further attention. The statement suggested that the 10 bcm/y capacity Arab Gas Pipeline, which runs from Egypt through Jordan to Syria, be connected with Turkey and Iraq as soon as possible. The Commission excluded Iran for political reasons stemming from its nuclear agenda, and thus proposed that the EU diversifies its gas supply by connecting North Iraqi El Anfal, or Akkas in Sunni region, gas resources with Arab Gas Pipeline to feed Nabucco.<sup>21</sup> The EU will gain its alternative gas supply system if this joint statement leads to the proposed Middle Eastern gas network comprising of Iraq and Egypt.

Nevertheless, Iraq cannot satisfy regional security concerns; nor can Egypt sell natural gas if the rise of LNG demand on the one hand, and the geopolitical concerns of the U.S. on the other, are ignored. The security threats in Iraq, Lebanon, and Egypt endanger this pipeline. Insurgence in Syria, which is now at its peak, raises additional concerns about regional security in the mid-term. Furthermore, the fact that Algerian LNG prices tripled between 2003 and 2008 pushed potential natural gas producers, including Egypt, Iran, and Saudi Arabia, to invest in liquefaction units and terminals in order to overcome geopolitical pressures and benefit from LNG trade. Shell is about to invest 2.5 billion dollars on a natural gas plant in southern Iraq to meet the rising demand of UAE and Saudi Arabia *via* LNG. The Suez Canal and Sumed oil pipeline have raised Egypt’s significance based on strategic routes traversing the Persian Gulf, which in turn promotes LNG trade over natural gas. Port Damietta, at 50 km north-west of Port Sa’id, is likely to become an LNG hub, because Egypt is determined to bring additional trains on stream.<sup>22</sup>

As for Iran, this country will definitely be a key player in gas markets if the government can manage its difficult relationship with the international community, pursuant to its ambitious nuclear program. Aware of the future significance of gas, Iran has already started to invest in infrastructure for a new domestic pipeline system (IGAT) from South Pars to North with a possible extension to Turkey and the Pakistani border, with the aim of constructing the Iran-Pakistan-India Pipeline (IPI). Iran hopes to sell natural gas to European

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21 “EU-Turkey Agree on Arab Gas Pipeline Cooperation,” *Hürriyet Daily News*, <http://www.hurriyet.com.tr/english/turkey/8871261.asp?gid=231&sz=38847>

22 See: “The Report: Emerging Egypt 2008,” *Oxford Business Group*, 19 June 2009, p. 118.

markets, and then to India and even China if the proposed 2,600 km IPI pipeline (and its extension to China) can be completed. IPI seems to be stuck for strategic reasons, and although Iran and India are continuing negotiations toward a solution, political unrest in Afghanistan and Pakistan is impeding the construction of this pipeline.<sup>23</sup> Gas sales to European markets in the meantime are put at risk by doubts among European countries about Iran's nuclear agenda

In terms of international geopolitics, Russia is aligned with Iran not merely because they both consider the U.S. as their principal antagonist, which trumps any major difference between them, but also because they are both pursuing multi-polarity in the Middle East and worldwide.<sup>24</sup> "In conclusion, for different reasons, Iran, India and Russia have strong reasons for grievances against the international system, which are also shared by China."<sup>25</sup> Russia would definitely prefer Iran to remain outside of European gas markets for as long as possible, and this may be a partial explanation of why Russia is supporting the Iranian nuclear program, aside from economic reasons.<sup>26</sup> The U.S. cannot defy the rising influence of Russia and China in Central Asia, and its insistence on excluding Iran from European markets may result in gas trade between Russia and Iran, and China and Iran. If Russian and Chinese gas relations with Kazakhstan and Turkmenistan also include Iran, this would drastically jeopardize U.S. interests and hinder the EU's search for alternative suppliers.<sup>27</sup>

### ***Importance of Reliable Azerbaijani Gas in the Context of Market Turmoil***

Which countries can supply gas to European markets, can improve European energy security, and do so without creating additional geopolitical tension?

23 Harry Dhaul, "Future Shock! The Power Sector," in Ritu Anand et al. (eds.), *Business Standard in India 2009* (New Delhi: BS Books, 2009), pp. 59-72 at p. 70.

24 Ariel Cohen et al., "The Proposed Iran-Pakistan-India Gas Pipeline: An Unacceptable Risk to Regional Security," *The Heritage Foundation*, 30 May 2008, <http://www.heritage.org/Research/AsiaandthePacific/bg2139.cfm>

25 Hooman Peimani, *Falling Terrorism and Rising Conflicts* (Westport: Greenwood Publishing, 2003), p. 91.

26 For Russia's gas strategy see: Mert Bilgin, "Energy Security and Russia's Gas Strategy: The Symbiotic Relationship Between The State And Firms," *Communist and Post-Communist Studies*, Vol.44, No.2 (2011), pp. 119-27.

27 Martha B. Olcott, "International Gas Trade in Central Asia: Turkmenistan, Iran, Russia and Afghanistan," in David G. Victor et al. (eds.), *Natural Gas and Geopolitics: From 1970 to 2040* (Cambridge: Cambridge University Press, 2006), pp. 202-33.

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The answer is Azerbaijan. “Azerbaijan’s current gas reserves stand at almost three trillion cubic meters (tcm) following a large discovery in the Shah Deniz field a decade ago (some 1.3 tcm) and recent discoveries in the Absheron and Umid fields, each containing close to 400 bcm.”<sup>28</sup> Azerbaijan will be able to channel 15-20 bcm of gas to European markets, including Turkey, in five years, if field development studies meet expectations.

Furthermore, Azerbaijan is already part of the European gas network, through the BTE pipeline, which currently transports 6.6 bcm/y of gas from offshore Shah Deniz I field to Turkey. This pipeline is connected to ITG, which can actually supply 3 bcm/y of gas to Greece at its maximum level.

The Shah Deniz I agreement has recently led to another important accord between Azerbaijan and Turkey to boost Azerbaijani gas exports to European markets. The Azerbaijan-Turkey gas agreement (also known as the Izmir Agreement), signed in Izmir on 25 October 2011, is aimed at carrying 16 bcm of gas from Azerbaijan’s Shah Deniz II field to Turkey and EU members.<sup>29</sup> This is a significant volume, which could feed the initial capacity of ambitious projects like Nabucco, and which could result in a direct web of pipelines between Azerbaijan and the EU-27 markets *via* Georgia and Turkey, by supplying intermediate projects such as ITGI, TAP, and SEEP.

A December 2011 MoU between Turkey and Azerbaijan saw the emergence of the Azerbaijani-Turkish Trans-Anatolia Pipeline Project (TANAP). TANAP (Azerbaijani SOCAR 80 percent and Turkish BOTAS 20 percent) will transport 16 bcm of gas to Turkey (6 bcm) and European markets (10 bcm). If formally signed, TANAP will drastically change the course of pipelines within the Southern Corridor. Following the TANAP MoU, the Shah Deniz Consortium is about to decide with whom it would be most advantageous to transport gas from Turkish-Bulgarian border to European markets. TANAP offered a very important strategic advantage to Shah Deniz Consortium, and

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28 Fariz Ismailzade, “Azerbaijan-Turkey Energy Cooperation: Back to a Strategic Agenda,” *GMF Analysis*, 16 November 2011, p. 2, [http://www.gmfus.org/wp-content/files\\_mf/1321557594\\_magicfields\\_attachment\\_1-1.pdf](http://www.gmfus.org/wp-content/files_mf/1321557594_magicfields_attachment_1-1.pdf)

29 Bruce Pannier, “Azerbaijani-Turkish Gas Deal Opens Southern Corridor,” *RFERL*, 26 October 2011, [http://www.rferl.org/content/turkey\\_azerbaijan\\_natural\\_gas\\_agreement\\_nabucco/24371892.html](http://www.rferl.org/content/turkey_azerbaijan_natural_gas_agreement_nabucco/24371892.html)

indirectly to Azerbaijan and Turkey, which “will now have to choose between a shorter and re-routed Nabucco pipeline and BP’s SEEP project for transporting Azerbaijani gas to Central Europe and/or –ITGI– TAP to target the Italian market.”<sup>30</sup>

TANAP forced other pipeline consortia to adapt their projects according to the priorities of Shah Deniz Consortium and Azerbaijan. “The day before the signing of the transit agreement, the Greek Minister of Environment, Energy and Climate Change was in Baku, where he would have presumably lobbied for both the ITGI and the TAP which would run across Greek territory.”<sup>31</sup> Following the agreement, the Nabucco consortium acted promptly to launch Nabucco-West, from the Turkish-Bulgarian border to Baumgarten, Vienna, Austria. This was a timely tactic for Nabucco. Although the Nabucco project is in good shape, as the intergovernmental agreements are already in place and the pipeline is officially backed by the EU, it faces two major disadvantages: first, being the costliest of all pipeline alternatives (10-20 billion dollars); and second, requiring 31 bcm/y of gas, though currently Azerbaijan could hardly go beyond 10 bcm, at most 15 bcm.<sup>32</sup>

Another important consequence of TANAP concerned the possibility of Turkmen gas in Europe. The Izmir agreements and the SEEP initiative, unlike Nabucco, do not envisage a transportation solution for Turkmen gas to Europe, and foresee throughput capacities matching the guaranteed gas volumes from Shah Deniz, at 10 bcm/y from 2017 onward. Thus these agreements decoupled Azerbaijani gas from Turkmen gas, risking one of Nabucco’s important supply options.<sup>33</sup> TANAP, however, did not affect Turkmenistan’s demand security because Turkmenistan had already agreed to supply considerable amounts of natural gas to Russia, Iran and China, and thus became less interested in European markets, at least in the short term.

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<sup>30</sup> “Energy: Why ‘TANAP’ is Changing the Eurasian Pipeline Competition,” *Geopolitical Information Service*, 27 March 2012, p. 3, [http://www.acus.org/files/EnergyEnvironment/032712\\_Umbach\\_EurasianPipelineCompetition\\_PartII.pdf](http://www.acus.org/files/EnergyEnvironment/032712_Umbach_EurasianPipelineCompetition_PartII.pdf)

<sup>31</sup> “Turkey-Azerbaijan Gas Transit Agreement Significant Event for South Corridor,” *NewsAz*, 27 October 2011, <http://news.az/articles/economy/47641>

<sup>32</sup> Elnur Soltanov, “The South East Europe Pipeline: Greater Benefit for a Greater Number of Actors,” *IAI Working Papers*, 2 January 2012, pp. 2-3, <http://www.iai.it/pdf/DocIAI/iaiwp1202.pdf>

<sup>33</sup> Vladimir Socor (2011).

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At this juncture, Shah Deniz Consortium is poised to choose between the different pipeline options (Nabucco West, SEEP, ITGI, and TAP) for the sale of its initial gas flow of 10 bcm.<sup>34</sup>

Soltanov sets out the various arguments clearly:

Both TAP and ITGI are much less expensive than Nabucco, in fact about 10 times cheaper. Their capacity perfectly fits what Shah Deniz II would be able to sell to Europe after Turkey siphons off its share of 6 bcm out of 16 bcm. If ITGI/TAP is a more realistic option than Nabucco, SEEP is an attractive improvement over ITGI/TAP. SEEP is preferable to Nabucco insofar as it would not only be much smaller (and thus cheaper), but also it would mainly use existing pipelines on its route, thus lowering the cost and increasing the potential profit margin. This, of course, is what ITGI/TAP would also do. But unlike ITGI/TAP, the SEEP would reach more reliable markets than Greece and Italy. SEEP would pass through Bulgaria, Romania, Hungary and Croatia, i.e., twice as many markets as ITGI/TAP.<sup>35</sup>

Nabucco West, SEEP, ITGI, and TAP offer different advantages. There is also the possibility of including more than one if production increases as much as SOCAR envisages. “According to SOCAR President Abdullayev, the agreements just signed open the way for Azerbaijan to maximize its gas exports to Europe in a follow-up stage because Azerbaijan expects to produce some 50 bcm of gas annually from 2025 onward, once the Umid, Absheron, and Shafag-Asiman offshore fields start commercial production, on top of Shah Deniz.”<sup>36</sup> If these assumptions about production increase are realized, then there will be certainly room for other pipelines in the future.

### ***Conclusion***

As the paper has demonstrated, there are multiple scenarios concerning European gas security in the next decade. Alternative supplies retain their

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<sup>34</sup> As of May 2012.

<sup>35</sup> Elnur Soltanov (2012), pp. 3-4.

<sup>36</sup> Vladimir Socor, “Azerbaijan and Its Gas Consortium Partners Sign Agreements with Turkey,” *Eurasia Daily Monitor*, 1 November 2011, [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=38603&tx\\_ttnewss%5BbackPid%5D=7&cHash=6bc581ad046414cd39c92f5db174f9fc](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=38603&tx_ttnewss%5BbackPid%5D=7&cHash=6bc581ad046414cd39c92f5db174f9fc)

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significance not only due to mid-term expectations about increasing demand, but also because of security concerns that invoke the necessity of diversification. However, regarding the immediate future, the next five years, there will be a shift towards affordable and relatively more feasible projects, moving away from ambitious ones that demand massive investments. This is one of the consequences of the financial restraints stemming from the ongoing economic crisis in Europe. Indeed, the current context is more conducive to affordable projects which transport to southeast European markets, carry small volumes, and depend heavily on Russia for political and financial support. Central European countries are the big consumers of Russian gas, yet their energy mix is based on a well-designed strategy, which results in dependence on Russian gas in terms of Europe's share in total consumption. This assumption will remain true as long as European countries do not enter an economic boom, which would give rise to a drastic increase in gas consumption in countries such as Germany, France, and Italy.

Azerbaijan, as part of this picture, emerges as the most reliable supplier with a clear understanding of supply, demand and transit routes, especially since TANAP has been introduced. It is now up to Azerbaijan and the Shah Deniz Consortium to decide about the potential connections between pipelines in Europe and emerging trans-Anatolian pipelines. Nabucco West, SEEP, TAP, and ITGI offer different costs and benefits, as discussed in the final section. In any case, Azerbaijan will have several options to choose between in terms of gas supply to Europe. ITGI and TAP are 10 times cheaper than Nabucco, and target the same markets as SEEP (Bulgaria, Romania, Hungary and Croatia). As for Nabucco West, the new proposal seems to be responsive to priorities envisioned by TANAP and the Shah Deniz Consortium. Finally, it should be noted that if Azerbaijan manages to increase production to 30-50 bcm/y from 2025 onward following successful field developments in Umid, Absheron, and Shafag-Asiman offshore fields, then we can agree that TANAP, and its extension in Europe, will be the first of many other pipelines to be chosen for the development of the Southern Corridor.



# TURKEY AND SOUTH STREAM: TURCO-RUSSIAN RAPPROCHEMENT AND THE FUTURE OF THE SOUTHERN CORRIDOR\*

Cenk Sidar & Gareth Winrow



Formerly Cold War enemies and historical rivals, Turkey and Russia now enjoy close economic and political ties. The improvement of ties between the two countries can be observed on a number of levels.

Turkish Prime Minister Recep Tayyip Erdoan and his Russian counterpart, Vladimir Putin, appear to have developed a close personal relationship. This was most recently evident in Putin's warm message of congratulations to Erdoan after the latter secured a third term in office after the June 2011 elections.<sup>1</sup> A high level cooperation council, formed in 2010, aims to lay the foundation for a strategic partnership between the two states. Over three million Russian tourists visit Turkey each year and this number will likely increase with the recent lifting of visas. In spite of the recent economic recession, trade turnover in 2010 totalled over 26 billion dollars and the intention is to raise this to 100 billion dollars in the next few years. Turkish construction firms have established a prominent position in the Russian market having undertaken projects worth almost 34 billion dollars. And finally, the Turkish Armed Forces are seriously considering procuring either the S-300 or the more advanced S-400 air defense systems from Russia.<sup>2</sup>

\* This article was published in Summer 2011 (Vol.10 No.2) issue of the Turkish Policy Quarterly (TPQ) Journal.

1 "Press Release," *Government of the Russian Federation*, 14 June 2011, <http://www.government.ru/eng/smi/messages/15560/>

2 In 2008 Russia was awarded a contract to supply anti-tank missiles to Turkey. Moscow has also been seeking to sell attack helicopters to Ankara.

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Although these developments point to what this article refers to as “the Turco-Russian rapprochement”, relations between the two countries may still be negatively affected by developments in the Caucasus. The ruling Justice and Development Party (AKP) has sought to pursue a policy of “zero problems” with its neighbors and at the same time has promoted Turkey as a key regional state. In practice, in the Caucasus, Turkish officials have underlined the need to respect the territorial integrity of states and to resolve disputes peacefully.

However, there are potential challenges ahead for Turkey’s improving relations with Russia. First, the conflict between Russia and Georgia in August 2008 and the later recognition by Moscow of the independence of the breakaway republics of Abkhazia and South Ossetia posed a challenge to Turkish policy-makers given Ankara’s policy of supporting peace and stability and respecting the sovereignty of states in the Caucasus. Secondly, the possibility that war may again resume between Armenia and Azerbaijan over the disputed territory of Nagorno-Karabakh persists, which could cause tensions between Turkey and Russia given Russia has traditionally supported Armenia while Turkey continues to give firm diplomatic backing to its fellow Turkic state Azerbaijan. Finally, as a member of the NATO, Turkey is affected by the ups and downs in the relationship between the U.S. and Russia.

The relations between Turkey and Russia in the field of energy mirror on the one hand the strengthening of economic and political ties but on the other, reflects concerns that Ankara may lose its freedom of maneuver in its foreign policy because of increasing dependence on Moscow. This article seeks to address this issue by examining Turkey’s position with regard to the Russian-sponsored South Stream gas pipeline. It is argued that the relationship between Turkey and Russia in the field of energy is to some extent an interdependent one in which bargaining is taking place in effect to ensure that certain projects are realized.

### ***A Grand Energy Package?***

Commentators have argued that Turkey’s dependence on Russia for energy has resulted in Ankara becoming a part of Moscow’s sphere of influence. Robert

Cutler, for example, has referred to the formation of a “geo-economic alliance” which could threaten energy security of member states of the European Union (EU) because Turkey and Russia could place a chokehold on gas supplies to Europe.<sup>3</sup> Certainly, at the time of war between Russia and Georgia, Prime Minister Erdoğan remained largely silent even though Turkey’s strategic interests were endangered bearing in mind the close relations between Ankara and Tbilisi, and given that important oil and gas pipelines transited Georgia to reach Turkey. The Prime Minister appeared to justify his stance by noting that Turkey’s energy dependence on Russia could not be ignored.<sup>4</sup>

Not a major energy producer, Turkey is dependent on Russia to a certain extent for imports of natural gas, crude oil and hard coal. According to the Energy Market Regulatory Authority of Turkey, in 2010 Turkey imported about 17.5 billion cubic meters (bcm) of gas from Russia out of a total import volume of just over 38 bcm.<sup>5</sup> Turkey had previously imported over 23 bcm of gas from Russia in 2008. It seems that Ankara has curbed its gas imports from Russia by increasing deliveries from Iran and purchasing more gas on the spot market. Russia supplied 38 percent of Turkey’s crude oil imports in 2009. Turkey is traditionally Russia’s third largest importer of hard coal.

Interviews conducted by one of the SGA consultants with various energy officials in Ankara and Istanbul in 2010 and 2011 indicate that Turkey and Russia have been engaged in what amounts to bargaining over the realization of a range of energy projects, which demarcate the contours of a “grand energy package”. Russia is keen to secure Turkey’s backing for its flagship South Stream gas pipeline project and this could give Ankara leverage in its negotiations with Moscow. The Russian authorities are also interested in the possibility of constructing an oil refinery and gas liquefaction plant at Ceyhan, building gas storage units in central Anatolia, and acquiring stakes in Turkey’s gas distribution network. Turkish energy officials have been seeking to secure Moscow’s firm support for the Samsun-Ceyhan oil pipeline project from

<sup>3</sup> Robert M. Cutler, “Turkey and Azerbaijan Move Towards Agreement on Shah Deniz Gas,” *The Central Asia-Caucasus Analyst*, Vol.12, No.4 (2010), <http://www.cacianalyst.org/?q=node/52791>

<sup>4</sup> “Turkey Cannot Afford Disruption in Ties with Russia Says Erdoğan,” *Turkish Daily News*, 1 September 2008.

<sup>5</sup> “2010 Yılı Doğalgaz Piyasası Sektör Raporu,” [Report on the Natural Gas Market in 2010], <http://www.epdk.org.tr/documents/10157/5240dd6f-6c54-4096-89f1-dd91337259b6>

which Turkey could obtain certain economic benefits and also enhance its credentials as a key energy transit state. The Turkish State Pipeline Corporation (BOTAS) is hoping for the easing of take-or-pay obligations from Gazprom and wants to import Russian gas at a cheaper price.<sup>6</sup> Turkish energy officials have also sought re-export rights for Russian gas delivered to the Turkish market.

Russia's interest in constructing the first nuclear power plant in Turkey is no longer part of this "grand energy package". Without a competitive tender, the Turkish government agreed in May 2010 that the plant near Mersin would be built by the Russian state-owned company ROSATOM. In a deal expected to cost 20 billion dollars, Turkey's state-owned electricity corporation has guaranteed that it will purchase a fixed amount of electricity produced at the plant in the first 15 years of its operation. It appears that in a separate round of bargaining, Turkish officials agreed to the nuclear deal in return for Moscow allowing visa-free travel for up to 30 days, which will presumably encourage further business and trade. The Russian authorities had driven a hard bargain out of concern that the lifting of visa requirements could trigger a substantial increase in the number of illegal immigrants seeking to enter Russia. However, seeking to include nuclear power in Turkey's future energy mix, Ankara was eager to secure Moscow's commitment to build a nuclear power plant to generate more electricity to meet Turkey's rising energy needs.

### ***South Stream***

If realized, the South Stream project, vigorously promoted by Moscow, would significantly increase the amount of Russian gas exports to Europe. South Stream is competing for access to the European gas market with several smaller EU-backed pipeline projects, and Russian officials are keen to complete construction of South Stream before one or more of these alternative projects may come on stream. Estimated to cost 19-25 billion euros, the South Stream pipeline project, upon completion, will transport Russian natural gas to Bulgaria under the Black Sea and then carry this gas to Austria and Italy

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6 Through "take-or-pay" obligations a gas importer is committed to pay compensation to the gas exporter if it fails to import a certain percentage of the volume of gas contracted to be received in a given year.

along two yet to be determined routes. Gazprom and the Italian company Eni hold 50 percent stakes in the South Stream company but the Russian gas export monopoly is clearly the driving force behind the project. Gazprom is eager to boost its profits and enhance its stature as a major and respected energy company. Representatives at Eni have agreed to reduce their stake in the project if other companies come on board. Germany's Wintershall and France's EDF have signed memoranda of understanding to join the project and Germany's E.ON also has expressed an interest. A final investment decision is expected to be made in late 2012 with construction set to commence in 2013. The first gas is planned to be pumped in 2015 with an initial annual capacity of 15.75 bcm. The pipeline is expected to reach full capacity of 63 bcm by 2018-19. The governments of states in southeastern Europe through which the pipeline network would run have pledged their cooperation.

A major obstacle to South Stream has been the 2009 EU directive which would compel Gazprom to allow third party access to the pipeline network or face strict penalties. The Russian authorities have been lobbying to secure exemption from the EU's third party access rule and have pressed for South Stream to be recognized by Brussels as a "project of European interest."<sup>7</sup> This would open access to European credits to help finance the project. But, arguably, South Stream could still go ahead without such funding. Unwilling to increase energy dependence on Russia which provides one quarter of Europe's gas needs, the European Commissioner for Energy, Gunther Oettinger, has refused to make concessions for South Stream and has promoted South Stream's main rival, the Nabucco pipeline project.

The Russian authorities remain determined to realize South Stream, which they regard as both a strategic and commercial project. The pipeline's construction would enable Moscow to deliver substantial volumes of gas to the lucrative market in Europe along a route bypassing Ukraine. Disputes between Kiev and Moscow over gas supplies in 2006 and 2009 had disrupted Russian gas deliveries to Europe and tarnished Gazprom's reputation. Gazprom will use its European partners in the project to press its case in Brussels. Given

<sup>7</sup> "South Stream's Brussels Promo Tour Falls Flat," *EurActiv.com*, 26 May 2011, <http://www.euractiv.com/en/energy/south-streams-brussels-promo-tour-falls-flat-news=505159>

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Gazprom's close links with the Russian state, it is likely that the Kremlin, if necessary, would subsidize effectively a large part of the pipeline network to beat off challenges from rival projects. In contrast to South Stream, companies involved in projects such as Nabucco, the Interconnector Turkey-Greece-Italy (ITGI) and the Trans-Adriatic Pipeline (TAP) must demonstrate that these projects are commercially viable to attract funding.

Visiting Ankara in August 2009, Prime Minister Putin obtained Turkey's support for Gazprom to conduct seismic and environmental studies in Turkey's exclusive economic zone in the Black Sea. Moscow's intention was to secure Ankara's eventual approval for the laying of a subsea pipeline which would enable South Stream to avoid the exclusive economic zone of "troublesome" Ukraine. The aim was to finish the feasibility study and audit by 10 November 2010.<sup>8</sup> This deadline was not met because of delays in preparing the necessary paperwork to allow offshore survey work to commence. According to Gazprom, permission to go ahead with offshore prospecting in May 2011 was only granted on 8 April 2011.<sup>9</sup> After the survey work is completed, the Turkish government would still need to give its final approval before construction work could commence.

These delays could force the South Stream company to reassess its construction timetable. According to Marcel Kramer, the chief executive officer of the project, the consolidated feasibility study is expected to be ready by September 2011 and then the final routes for the pipeline network would be determined.<sup>10</sup> Exasperated Russian officials have complained that they were keen to start initial exploration studies but Ankara was slow to provide the necessary documents.<sup>11</sup> It seems that Turkey has been prolonging negotiations and preparations over South Stream in an attempt to wrest concessions from Russia with regard to other key energy issues such as gas pricing and the Samsun-Ceyhan oil pipeline project.

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8 "Russia Gets Turkish Support for South Stream Gas Pipeline," *Hürriyet Daily News*, 6 August 2009.

9 "Gazprom Gets Turkish Approval," *Upstreamonline.com*, 8 April 2011, <http://www.upstreamonline.com/live/article251802.ece>

10 Presentation by Marcel Kramer, Chief Executive Officer of South Stream, titled "South Stream: Energizing Europe," Brussels, 25 May 2011.

11 "No South Stream Deal with Turkey - Russia," *Reuters*, 16 March 2011.

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*Samsun-Ceyhan*

Çalık Holding and Eni have set up a joint venture, the Trans-Anatolian Pipeline Company, to construct the planned 50-70 million ton (mt) Samsun-Ceyhan crude oil pipeline, linking the Black Sea with the Turkish Mediterranean. The projected cost for the 550 kilometers long pipeline could be as high as three billion dollars. The intention is to fill the pipeline with Russian and Kazakh crude. Although, the project was officially inaugurated with much fanfare in 2007, investment in the pipeline has been stalled due to the failure to secure throughput guarantees and actual construction has yet to commence. The lack of progress in realizing Samsun-Ceyhan appears to be tied to delays in South Stream as explained below.

Russia and Kazakhstan are generally supportive of Samsun-Ceyhan. If built, the pipeline would be an important substitute for the planned 35-50 mt Burgas-Alexandroupolis oil link which would have connected the Bulgarian Black Sea coast with the Greek Mediterranean. The Burgas-Alexandroupolis project is no longer supported by the government in Sofia because of environmental concerns. Moves to go ahead with Samsun-Ceyhan would enable the Caspian Pipeline Consortium to more than double the capacity of the oil pipeline connecting the Tengiz oil field in Kazakhstan with the Russian Black Sea port of Novorossisk. Significant volumes of Russian and Kazakh crude could then be shipped by tanker from Novorossisk to Ceyhan, and Moscow would also benefit from the increase in transit revenues for the transportation of Kazakh oil across Russian territory.

Samsun-Ceyhan would also provide benefits for Turkey: the projected increase in the number of tankers trafficking the already congested Bosphorus carrying additional volumes of crude would be somewhat reduced, Turkey could collect transit revenues, and some of the oil might be used by Turkish consumers. Transit fees, however, appear to be one reason for the delay in realizing Samsun-Ceyhan. Nikolai Tokarev, the head of the Russian state pipeline operator Transneft, has complained that Turkish officials are demanding unfavorable transit terms and that the fees paid for shipping crude through

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the Bosphorus are much more attractive.<sup>12</sup> Turkey's Energy Minister Taner Yıldız has been lobbying the major energy companies to secure their backing for raising the fees for tankers carrying crude through the Bosphorus and the Dardanelles to encourage more oil to be transported along pipelines.

In October 2009 in Milan; Italian, Russian, and Turkish government leaders agreed to promote Samsun-Ceyhan, and Çalık Holding and Eni signed a memorandum of understanding with Transeft and the Russian state-controlled oil company Rosneft. The two Russian companies expressed an interest in joining the Trans-Anatolian Pipeline Company.<sup>13</sup> The following September, Moscow presented a draft intergovernmental agreement for Samsun-Ceyhan in which the Russians guaranteed to supply 25 mt of crude.<sup>14</sup> This was not looked upon favorably by Ankara because of the low volumes Rosneft committed. Tokarev later revealed that another draft intergovernmental agreement was submitted to the Turkish authorities in December 2010, but details of this draft have not been made public.<sup>15</sup>

It seems that delays and problems between Turkish and Russian energy officials over hammering out the details for Samsun-Ceyhan with regard to transit fees, throughput guarantees, financing and the stakes that Transneft and Rosneft might hold in the Trans-Anatolian Pipeline Company, have paralleled the slow movement and difficulties between Ankara and Moscow with regard to South Stream. This would suggest that the Turks are hoping to secure more concessions and better terms from the Russians for Samsun-Ceyhan before formally approving the laying of a subsea gas pipeline across Turkey's exclusive economic zone in the Black Sea for South Stream.

### ***Other Components of the Grand Energy Package***

Russian interest in building a refinery at Ceyhan is closely connected with the fate of Samsun-Ceyhan. In October 2009 the Russian Energy Minister Sergei

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12 "Transneft says Samsun-Ceyhan Link Talks Stalled," *Reuters*, 14 September 2010.

13 "Italy, Russia, Turkey Sign Pipeline Deal," *Hürriyet Daily News*, 19 October 2009.

14 "Russia Presents Turkey Draft Samsun-Ceyhan Deal with 25 mln T Supplies," *RIA Novosti*, 3 September 2010.

15 "Russia Presents New Draft of Samsun-Ceyhan Agreement to Turkey – Transneft," *RIA Novosti*, 13 January 2011.

Shmatko announced that Rosneft would participate in the construction of an eight to 12 mt capacity refinery at the Turkish Mediterranean port to help maximize the profit from the Samsun-Ceyhan pipeline.<sup>16</sup> In December 2010 Çalık Holding and Rosneft signed a cooperation agreement to set up a partnership company to trade in petrol and petrol products in the Mediterranean and supply ships with fuel.<sup>17</sup> Other companies have expressed an interest in constructing an oil refinery at Ceyhan. But the Austrian company, OMV, appears to have lost enthusiasm after the license application made by the Turkish petroleum distributor Petrol Ofisi was blocked. In December 2010 OMV had become the majority shareholder in Petrol Ofisi after purchasing shares from Turkey's Doğan group.<sup>18</sup> Moreover, the state-owned Azerbaijan energy company (SOCAR) seems to be more interested in building a refinery near Izmir with its Turkish partner Turcas. There does appear to be an opportunity, therefore, for Çalık Holding and Rosneft to construct a refinery at Ceyhan and thereby capture the market for oil products in the eastern Mediterranean. Turkish officials could exploit Russia's interest in the refinery to secure better terms for Samsun-Ceyhan and also win concessions from Moscow with regard to gas pricing and alleviating take-or-pay obligations.

The precise details of gas pricing arrangements between Turkey and Russia are confidential although it is apparent that in spite of geographic proximity, Ankara has been paying Moscow a price comparable to that on the European market. Take-or-pay obligations come into effect if Turkey fails to annually import 75 percent of the amount of Russian gas contracted. Ankara's debts to Moscow have mounted as Turkey has sought to reduce its energy dependence on Russia. In May 2011 there were reports that Ankara owed Russia almost 800 million dollars for failing to import enough gas in 2010.<sup>19</sup> In March 2011, on the occasion of the visit to Moscow by Prime Minister Erdogan, Russian President Dmitri Medvedev stated that Russia wanted to maintain

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16 Eugene Nikitenko, "Two new Russian oil projects in Turkey," *The Voice of Russia*, 28 October 2009.

17 "Çalık, Rosneft Sign Cooperation Agreement," *Hürriyet Daily News*, 20 December 2010.

18 "Turkey: Energy Report," *The Economist Intelligence Unit*, 4 December 2010, [http://www.eiu.com/index.asp?layout=ib3Article&article\\_id=1407770325&pubtypeid=1142462499&category\\_id=1450000145&page\\_title=&rf=0](http://www.eiu.com/index.asp?layout=ib3Article&article_id=1407770325&pubtypeid=1142462499&category_id=1450000145&page_title=&rf=0)

19 Neşe Karanfil, "Bakan Yıldız Rusya'ya Mahçup Oldu," [Minister Yıldız Loses Face in Russia], *Radikal*, 13 May 2011.

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the take-or-pay principle, but, price discounts were possible in exchange for certain Turkish concessions.<sup>20</sup> This suggests an ongoing bargain between Turkish and Russian energy officials in which Moscow could have been seeking movement from Ankara over South Stream.

Turkish energy officials have also been pressing unsuccessfully for Moscow to allow Turkey to re-export gas volumes that had been allocated to the Turkish market. This would enable Turkey to further its ambitions of becoming a future key energy hub. Currently, only Azerbaijan permits Turkey to re-export gas to other markets. But, Moscow has consistently refused to allow Turkey to re-export gas at a profit. Russia's interest in building a gas liquefaction plant at Ceyhan remains on the drawing-board, presumably because of the high costs involved. Talks between Çalık Holding and Gazprom over building gas storage units in central Anatolia have made little progress, with the World Bank offering financial support for a separate tender. Gazprom would be keen to bid for a stake in Istanbul's gas distribution network, but Ankara has delayed privatizing Turkey's largest gas distribution grid until the economic situation is deemed appropriate. At the time of writing, though, a tender was opened for the sale of gas import rights previously held by BOTAŞ for six bcm of gas delivered by Gazprom along the Blue Stream pipeline network across the Black Sea. Gazprom could partner with a local company to secure gas import rights. In one previous gas release tender the largely Gazprom-controlled Bosphorus Gas obtained import rights.

There are a number of energy issues which are regularly discussed by Turkish and Russian officials. However, the key elements in the ongoing talks through which agreement over an energy package of sorts may eventually be realized appear to focus on South Stream, Samsun-Ceyhan, the building of a refinery at Ceyhan, and negotiations over gas pricing and take-or-pay obligations.

### ***Implications for the Southern Gas Corridor***

Will Turkey's bargaining with regard to South Stream have an impact on other projects which are being considered for the EU's Southern Gas Corridor?

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20 Anatoly Medetsky, "Turkey Sticks by Plans for Nuclear Power Plant," *The Moscow Times*, 17 March 2011.

Nabucco, the ITGI, and TAP would make use of Turkish territory to deliver gas to markets in Europe. The larger strategic project, Nabucco, which envisions the transportation of 31 bcm each year to Europe, would require the laying of a new pipeline network across Turkey. The smaller ITGI or TAP could make use of the spare capacity of the current Turkish pipeline system. Officially, the Turkish authorities are willing to back any of the projects of the Southern Gas Corridor which would use Turkey as an energy transit state.

Contrary to the views of many commentators, Turkey's Foreign Minister, Ahmet Davutoğlu, has argued that South Stream and Nabucco are not rivals but are complementary projects.<sup>21</sup> Both South Stream and Nabucco are aiming to deliver gas to the same European market. EU member states will need to import considerably more volumes of natural gas in the future as North Sea gas production continues to decline. The disaster at Fukushima has forced the German government to cancel its nuclear energy program and other states in Europe will likely seek to increase their reliance on natural gas rather than build nuclear power plants. It is questionable, however, whether the European gas market could accommodate the additional 94 bcm that in theory could be delivered if both South Stream and Nabucco were built and became fully operational at around the same time.

It is important to remember, though, that Nabucco, unlike South Stream, is a fully commercially driven project. No final investment decision will be made on Nabucco unless supplies are committed beforehand. Attention is therefore focusing on the decision which is expected to be made in October 2011 by the Azerbaijani government and the international consortium working at the Shah Deniz gas field in the Azerbaijani part of the Caspian Sea. A decision will be made on the export outlets for the 10 bcm which will become available for delivery each year to outside markets once the Shah Deniz field enters its second phase of production starting 2017. It appears that Turkey will import annually a further six bcm from Shah Deniz after 2017, but the protracted negotiations between Ankara and Baku over transit issues and the price of Azerbaijani gas to be delivered to Turkish consumers have forced

<sup>21</sup> "Turkey and Russia: Old Rivals, New Partners," *The Economist*, 13 August 2009.

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Baku and the international consortium to keep postponing a final decision on the export routes for gas to be produced at Shah Deniz from 2017. This delay has compelled the Nabucco consortium to revise its timetable. Without a commitment of Azerbaijani gas volumes from Shah Deniz to provide the initial capacity for Nabucco, it would appear highly unlikely that the Nabucco project would be realized. In practice, therefore, it seems that Turkish policy-makers could be endangering the prospects for Nabucco, not by lending encouragement to South Stream, but by holding out for better terms with Azerbaijan with regard to transit issues and gas pricing.

### ***Conclusion***

Given the different set of strategic and commercial dynamics involved, Turkey's possible support for South Stream, therefore, does not appear to be jeopardizing the implementation of other possible pipeline projects in the envisioned Southern Gas Corridor. However, Ankara's declared interest in South Stream does seem to be part of an ongoing bargaining process between Turkey and Russia over a number of energy issues involving the two states. Moscow has already shown signs of frustration with Ankara over what looks like the spinning out of the process to secure Turkey's approval for the laying of a subsea pipeline in the Black Sea. A decision will need to be made by Ankara sooner rather than later and if the Turkish authorities were to withhold approval for South Stream this would most likely have negative repercussions on Samsun-Ceyhan and on the prospects for Turkey obtaining preferential terms for Russian gas supplies.

A more likely scenario, however, given the recent rapprochement between Turkey and Russia and the personal investment put into this warming relationship by Prime Ministers Erdoğan and Putin is that Ankara will give the go-ahead for the laying of the subsea gas pipeline in Turkey's exclusive economic zone in the Black Sea. Significantly, Erdoğan's son-in-law is General Manager of Çalık Holding, the Turkish company which is working to develop projects with Gazprom. In return for supporting South Stream Ankara will likely secure certain benefits from Moscow. This could entail, for example, a

commitment for greater oil volumes for Samsun-Ceyhan. It is also possible that other components of what would then be a larger energy package could be realized once South Stream is formally approved by Ankara.



# TURCO-CASPIAN ENERGY SECURITY AND THE CAUCASUS: THREATS AND OPPORTUNITIES\*

Robert M. Cutler



The years 2003-4 represent a turning point in the geo-economic evolution of the Caucasus and the Turco-Caspian region. Consequently, this article begins by reviewing the threats against and opportunities for energy security in the region at that time. The next part of the article presents an analysis of the evolution of the situation since then, looking at Azerbaijan, Georgia, and Turkey. On that basis, the third part of the article compares the situation today with the situation eight years ago. Since Azerbaijan emerges as a key player in regional security, both economically and politically, it is given further attention in the fourth section. A conclusion then follows.

## *Potential Sources of Crisis in the Caucasus*

Eight years ago, I was asked to analyze the sources and regions of crisis in the Caucasus and their impact upon the security of Turkey. In particular, I was asked to consider and evaluate six potential sources of crisis in the Caucasus. These included two identity issues, which were ethnic conflict and religious fundamentalism; two socio-economic issues, which were organized crime and migration due to economic problems; and two energy issues, which were oil and power-line security.<sup>1</sup>

\* This article was published in Fall 2012 (Vol.2 No.3) issue of the Caucasus International (CI) Journal.

1 Robert M. Cutler, "The Sources and Regions of Crisis in the Caucasus," in N. Reşat Ödün (ed.), *Examination of the Regions of Crisis from the Perspectives of Turkey, NATO and the European Union, and Their Impacts on the Security of Turkey* (Ankara: Turkish General Staff Printing House, 2004), pp. 105-26;

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It is worthwhile to briefly review past experiences concerning power-line security as a source of crisis in the Caucasus, and its impact on Turkey. Eight and more years ago, oil was not a direct source of crisis in the Caucasus itself, because it was mostly controlled by national governments. Questions about oil seemed to lead to crisis only where the state apparatus was not firmly embedded, and did not wield a monopoly of coercive force.

The best example of such a situation is Chechnya in 1993. There, even local authority broke down as conflicts between clans concerning the physical control of land made it increasingly difficult for oil to flow through the established pipeline between Baku and Novorossisk.<sup>2</sup> During the Soviet era, Grozny and its surrounding areas produced a high proportion of specialized petroleum products used, for example, in Soviet aviation. By the early 1990s, however, there was no obstacle to any individual blowing a hole in a pipeline, collecting what came out of it, and selling it by the roadside, sometimes distilled in homemade apparatus.

The case of Ajaria in Georgia provides the best contrast to the chaos in Chechnya. Even before Aslan Abashidze's –the leader of the Ajarian Autonomous Republic in western Georgia– downfall in 2004, oil from Kazakhstan was reaching Baku by barge across the Caspian Sea and, from there, was being loaded into railroad transport and taken across Georgia to Batumi for sale and transshipment. Oil from Baku also went to Supsa a few miles away, as well as to Novorossisk after a railroad detour around Grozny was constructed through Dagestan.

The contrast between Chechnya and Ajaria motivated the conclusion that even where there was a separatist or autonomous movement in the Caucasus, oil did not have to be a catalyst to crisis if there existed a regional authority capable of enforcing order, reaching working agreements with the central authority, and implementing them.

The leading causes of the crisis in the Caucasus in 2004 were clearly domestic and transnational issues of identity, specifically, ethnic conflict and religious

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<sup>2</sup> The Baku-Novorossisk pipeline runs for 1,330 kilometers from Azerbaijan's Sangachal Terminal to the Russian Black Sea port of Novorossisk.

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fundamentalism. State-level socio-economic issues of organized crime and migration due to ethnic problems were secondary. The crises in Abkhazia and Chechnya in the 1990s typified how the already-hot identity issues (later combined in the case of Chechnya with fundamentalism) could be kindled by socio-economic issues (organized crime in particular) and then set alight by energy issues (especially oil).

International-level issues of oil and power-line security were in general only of tertiary significance in explaining the crisis for the people in the region, as important as they were too many external powers. Nevertheless, these international issues, and oil in particular, did play some role. There was even sometimes a direct influence, explaining the persistence of the crisis, since actors from outside became involved and all levels of conflict were simultaneously in play inside the region itself.

### ***The Evolution of the Situation until the Present***

#### ***The Example of Azerbaijan***

Azerbaijan has been built with massive foreign investment flows into the energy sector from early in the last decade. Even though the 1994 “contract of the century” for the Azeri-Chirag-Gunesli (ACG) fields brought Azerbaijan the largest foreign investment in the former Soviet states (8 billion dollars in 1994), Azerbaijan’s success is exceptional nevertheless. The country has recorded impressive 15 percent real growth rates through most of the last decade, leading to a massive decline in poverty from over 50 percent to less than 10 percent by World Bank standards.<sup>3</sup>

The key to Azerbaijan’s success was that its leadership understood the need for predictability in the business environment. That is why every production-sharing agreement (PSA) became the law of the land through ratification by the national parliament. Indeed, this way of proceeding did more than create predictability of the business environment; it also ensured the sanctity of contract. Because of it, no one in Azerbaijan has ever mentioned the possibility of

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<sup>3</sup> “Azerbaijan - Country Program Snapshot,” *World Bank Group*, <http://tinyurl.com/9ztq3z2>

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revising the ACG contract, although as it stands, it is very disadvantageous to Azerbaijan; no contract since has contained such disadvantageous provisions.

The question now is: How can Azerbaijan transform this natural resource wealth into ambitious targets for economic development? From 2005 through 2008, public spending roughly doubled each year. Much-needed, this was devoted to high priority infrastructure, but it has also meant that growth so far has been built squarely on oil and on oil revenues.<sup>4</sup>

The public spending leading to the construction boom in the non-oil sector is impressive. It grew 20 percent on average per year over the last 10 years, compared to three percent growth in agriculture and six percent growth in industry from a very small base. Current discussions of the country's economic development increasingly concern how private investment can start to substitute for some of the state spending, including a renewed focus on economic diversification.<sup>5</sup>

The number of Azerbaijan firms engaged in export in the non-oil sector has been declining for a decade for a number of reasons, not least the effects of the Dutch disease. The oil revenue fuelling public spending has led to some real exchange rate depreciation, damaging the competitiveness of agricultural manufacturing and tradable services.<sup>6</sup>

Although Azerbaijan has made important strides in reducing poverty, the question now is how to sustain and consolidate them. Job creation is very important, but it is unlikely that oil construction will provide the options that the young and growing population needs. Consequently, today at issue is how to give the emerging and growing and young middle class a way to satisfy their aspirations. The objective of a new growth model would thus be a more diversified economic structure, including the creation of a business environment that enables innovation, facilitates investment, and fosters entrepreneurship.

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<sup>4</sup> Maria Albino-War and Asghar Shahmoradi, "Republic of Azerbaijan: Selected Issues," *IMF Country Report No. 12/6*, January 2012, p. 15, <http://www.imf.org/external/pubs/ft/scr/2012/cr1206.pdf>

<sup>5</sup> "Country Partnership Strategy (CPS) for Azerbaijan: Country Context," *World Bank Group*, p. 1, <http://tinyurl.com/98ve236>

<sup>6</sup> Maria Albino-War and Asghar Shahmoradi (2012), pp. 8-14, which also discusses some of the points that follow here.

Azerbaijan has started to strengthen its market institutions, but the challenge is to build the right institutions for the country and to do so quickly. Another important aspect of economic diversification is human capital, which requires a highly educated and skilled workforce, and thus a modern education system, in order to help the country compete in global markets. Azerbaijan has already demonstrated a potentially valuable model for social development, combining its post-Soviet legacy with a secular Muslim identity to produce a constructive foreign policy orientation.

It will take a generation or more for history's verdict on those processes currently underway in Azerbaijan to become clear. Today's favorable signs signal only a potential that is in the process of being born. The situation in Georgia reminds an observer how fluid, delicate, and vulnerable these things are.

#### *A Few Words on Georgia*

Georgia emerged from the Soviet era as a Western-oriented country, but eight or 10 years ago it was still suffering under extremely heavy burdens from its Soviet legacy, and had few friends in the West. Georgia's political evolution manifests two cycles of development. The first ended in state failure, and the second began with the Rose Revolution. Independent Georgia was reborn without any expertise in fiscal or economic policies. It also lacked a foreign policy. Not Georgian but rather Russian elites emerged as the leaders of the domestic economy. The country suffered three civil wars and their devastating consequences. Indeed, the case could be made that Georgia's only recognized asset was its aspiration towards Western institutions and its commitment to a Western model of society and its international institutions.

A window of opportunity opened when people began to see that Georgia had value as a transit country for energy routes running from East to West. Based upon the development of Azerbaijan's offshore resources and cooperation with Turkey, Georgia developed a niche as a transit country with the construction and operation of the Baku-Tbilisi-Ceyhan (BTC) pipeline. Yet it could build little upon that foundation, and almost became a failed state towards the end of the Shevardnadze regime.

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At the time of the Rose Revolution, Georgia faced an empty treasury and an overwhelming level of foreign debt. However, it had enormous leadership potential, significant popular support for a Western-oriented policy, and strong and important friends. Today, the World Bank judges Georgia to be the most successful reformer in the post-Soviet sphere, with the most liberal tax codes and an excellent business environment.<sup>7</sup>

This progress has occurred under difficult circumstances. The country's territorial integrity remains under constant threat. However, none of these opportunities would exist if not for the cooperation with Azerbaijan and Turkey on energy development and transit. Indeed, Azerbaijan agreed several years ago to supply all of Georgia's gas needs, an extraordinary achievement following the Russian invasion in 2008, helping the country both from the standpoint of political stability and from that of energy diversity.<sup>8</sup>

Western powers do not always tend to see the details very well, but the unresolved status of the potentially explosive situation in Georgia clearly threatens not only the successful domestic reforms but the very existence of the state itself. This is a reality to which Western powers, not just in Europe but also the U.S., too easily shut their eyes. The threat posed by this unresolved conflict cannot be ignored, and it reminds the observer of the possible consequences of renewed hostilities between Azerbaijan and Armenia as well.

### *The Transformation of Turkey*

In 1980, the estimated gross domestic product of Turkey was 70 billion dollars; now it is 700 billion dollars. Exports during the same period grew from 3 billion dollars to 300 billion dollars. The Turkish economy leapt from the 25th largest to the 16th largest in the world. According to the World Bank, Turkey's recent growth rate is second only to China, as is the urbanization rate. Such traditional population centers as Ankara and Istanbul have grown

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7 "Ranking of Economies - Doing Business," *World Bank Group*, <http://www.doingbusiness.org/rankings>

8 Robert M. Cutler, "Euro-Caspian Energy Plans Inch Forward," *Asia Times Online*, 27 November 2008, [http://www.atimes.com/atimes/Central\\_Asia/JK27Ag01.html](http://www.atimes.com/atimes/Central_Asia/JK27Ag01.html)

rapidly, but also in Anatolia many industrial centers are growing in size and influence. This is a remarkable transformation.<sup>9</sup>

All these developments have influenced the country's large current account deficit, to which the financial press gives much attention. The share of energy in the current account deficit as well as in the trade deficit has recently declined, but oil and gas still represent about 20 percent of all imports and 50 percent of the current account deficit.<sup>10</sup>

For Turkey, there is a close relationship between growth and the sustainability of energy supply. In particular, it bears noting that Turkey is a relatively energy-intensive economy. Every 1000 dollars of GDP requires 0.26 tons of oil equivalent, compared to the OECD the average of 0.18. Energy demand and electricity demand may grow as much as seven percent per year, if recent trends continue.<sup>11</sup>

Today, gas from the first stage of the Shah Deniz offshore development (Shah Deniz I) goes to Georgia and Turkey. That gas provides a substantial supply for Turkey's growing demand and additional supply as from 2017, not to mention the export, for the first time, of natural gas from the Caspian Sea region into European markets. Shah Deniz II will provide six billion cubic meters per year of additional gas for Turkey's growing demand, helping to diversify import markets and to reduce dependency on other sources.

Turkey and Azerbaijan have signed an intergovernmental agreement for Azerbaijan's gas to transit through Turkey to European markets. This is itself a new development for Turkey. It marks the first time Turkey has committed politically and comprehensively to fulfill the role of a transit country;

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9 "Report for Selected Countries and Subjects," *International Monetary Fund*, <http://tinyurl.com/brw6nw6>; "Prospects for the Global Economy - Table 1, The global Outlook in Summary, 2010-14," *World Bank Group*, <http://go.worldbank.org/JGD8ZACBC0>; "Urbanization - Statistical Yearbook for Asia and the Pacific 2011," *United Nations Economic and Social Commission for Asia and the Pacific*, <http://www.unescap.org/stat/data/syb2011/I-People/Urbanization.asp>

10 Katy Barnato, "Europe's Fastest-Growing Economy Needs More Oil," *CNBC*, 21 August 2012, <http://finance.yahoo.com/news/europe-s-fastest-growing-economy-needs-182744342.html>

11 Ulrich Zachau, "Turkey's Energy Agenda - Some Possible Directions," Presentation at Conference: "Game Changing Energy Dynamics in the World and in Turkey," *Strategic Technical Economic Research Center (STEAM)* 13th Energy Arena, 8-9 September 2011, Istanbul, p. 1, <http://tinyurl.com/cebmcmc>

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Turkey imports gas from Russia, Iran, and Algeria, but all of that gas stays in Turkey. Gas from Azerbaijan's offshore in the Caspian Sea, however, will move through Turkey for sale in European markets.

Such a fundamental change in favor of this economic and political cooperation is driven by energy projects. Oil provides the liquidity for a transport system, while gas provides for industrial development, diversification, heat, electricity, and other residential uses of energy. Azerbaijan remains at the forefront of tackling enormous political challenges, with its political commitment to develop offshore natural gas for export to the West.

Azerbaijan is today the largest taxpayer in Georgia through SOCAR, and the development of energy in the Caspian has contributed enormously to the development of Georgia. With the Trans-Anatolian Gas Pipeline and other, related industrial projects totaling 17 billion dollars, Azerbaijan is set in the relatively near future to become the largest investor in the Turkish economy.

### ***A Recent Historical Perspective on the Current Situation***

In the 20 years since the South Caucasus countries gained independence, with the legitimate exception of Georgia, observers have gone from worrying about their survival to worrying about their choice of development model. No one today calls into question the decisions made in the early 1990s by such countries as Azerbaijan or Kazakhstan to develop their energy assets and to monetize them for export to Western markets. At the same time, these countries reached out to other newly independent states in the former Soviet area for economic and political cooperation for mutual benefit.

Such cooperation must be tangibly and effectively realized on the ground for it to have roots and take hold, and in this region, that has been the BTC oil export pipeline. The BTC energy project has done nothing less than to lay the backbone for South Caucasus regional integration in the former Soviet area, with the participation of Turkey. It has promoted voluntary and mutually beneficial cooperation based upon an understanding of common benefits for populations of these countries.

Comparing the current dynamic with the situation eight years ago along the lines of the six analytical issues identified at the beginning of this article, one finds an evolutionary process that conserves some aspects of what went before but also introduces new aspects. Identity issues have remained relatively dormant but continue ominously to fester. Socio-economic issues have been in large part and sometimes impressively overcome, while the energy issues as well as other international aspects of the situation have only grown in delicacy with the increasing self-insertion of external powers into the region.

Problems concerning organized crime and migration due to economic problems remain a source of crisis but they have improved in both general and specific instances. Both Azerbaijan and Georgia have addressed their domestic economic and institutional problems with definite success, on the basis of the positive development of oil and now also natural gas resources. It is unfortunate that the territorial bases for those economic problems have not been resolved.

In the absence of resolution of the occupation by foreign forces of national territory in both Georgia and in Azerbaijan, conflict situations have embedded themselves in the region. This remains a heavy shadow that too many outside the region fail to notice, because they have simply had too much time to get used to it, or even because they willingly blind themselves through identification with the interests of larger countries rather than the smaller ones.

Those conflict situations draw the observer's attention to the other two sources of crisis outlined above, i.e. ethnic and religious issues. Arguably, the situation here is worse, or at least more dangerous, than it was eight years ago. Russia threatens the territorial integrity of Georgia not only in word but in deed, and those deeds only underline the long-term problems of failure to resolve such issues. The situation in Nagorno-Karabakh remains unchanged, and also Iran has increased its provocations against Azerbaijan, including on the territory of Azerbaijan itself.

### *Iran and Azerbaijan*

There is another conflict in the Caucasus that affects Turco-Caspian energy security on the territory of the Caucasus and, like the threats against Georgia's territorial integrity, it involves a non-South Caucasus country: Iran.<sup>12</sup> Iran is endangering Azerbaijan's position as a post-Soviet state with a secular Muslim identity and constructive foreign policy orientation.

Iran has been threatening Azerbaijan for over a decade. In the energy sphere, the best-known incident of aggression occurred in the summer of 2001, when the deployment of Iranian military force in the Caspian Sea –and the threat of action– compelled a BP-led exploration mission including an Azerbaijani vessel to cease its work on the offshore Alov hydrocarbon deposit in the Azerbaijani sector.

As far back as 1999, referring to the Russian-leased Gabala radar station in Azerbaijan, the chairman of the joint chiefs of staff of the Iranian armed forces threatened the Baku government by pointing to the presence of “Shiite Azeris with Iranian blood in their veins” in the region of the station. He never apologized for these provocative remarks, and remains in office. In August 2011, he personally threatened Azerbaijan’s president Ilham Aliyev with a “dark future” if the latter did not “pay heed” to his words.

In 2007, 15 Iranians and Azerbaijanis were convicted in Azerbaijan of spying on U.S. and other Western interests, including state oil facilities, and conspiring to overthrow the government. In 2008, Azerbaijani authorities exposed and thwarted a plot by Hezbollah operatives with Iranian assistance to blow up the Israeli Embassy in Baku. Towards the end of last year, the Azerbaijani journalist Rafiq Tagi was murdered in a knife attack in Baku soon after publishing an article critical of Iran’s president Mahmoud Ahmadinejad for “discrediting Islam”. The subject of a death-penalty fatwa from Grand Ayatollah Fazel Lankarani since 2006, Tagi stated one day before his death

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12 For source documentation of the facts set out below, see the references in Robert M. Cutler, “Iran Muscles in on Azerbaijan,” *Asia Times Online*, 7 March 2012, [http://www.atimes.com/atimes/Central\\_Asia/NC07Ag01.html](http://www.atimes.com/atimes/Central_Asia/NC07Ag01.html) upon which the present text also draws.

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his belief his killing could have been retaliation for that article.<sup>13</sup> At the beginning of March this year, members of a terrorist cell created by the Iranian Revolutionary Guards together with the Lebanese Hezbollah were arrested in Azerbaijan.

Is there any justification for these words and deeds? Azerbaijan has supported Iran's right to a peaceful nuclear program. In January 2011, it signed a five-year agreement to supply at least one billion cubic meters of natural gas annually to Iran. In addition, most notably, it has pledged that its territory would not be used for military purposes against Iran.

It would seem odd that Iran has favored "Christian" Armenia over "Muslim" Azerbaijan from the start of the conflict between the two South Caucasus countries. However, this tilt only reveals that the Tehran regime's advocacy of Islamic unity is but a thin tissue that barely covers the assertion and pursuit of Persian national interests as conceived by the ruling elite of multinational Iran.

Just a few recent examples of Iran's undeviating support for Armenia include: its opening, in 2007, of a crucial gas pipeline to Armenia, providing an energy lifeline; its construction of two hydroelectric plants on the Araks River, which marks their common border; and its building of highway and railroad links between the two countries. Indeed, in March 2011 Armenia's President Serzh Sargsyan accepted the invitation of Iran's president Mahmoud Ahmadinejad to celebrate Nowruz in Tehran, where as a guest he publicly underlined that the Iranian government "has placed no limits on the development of cooperation with Yerevan."

The secularism of the Azerbaijani model of development gives the lie to the millenarian pretensions of the Tehran elite, who see Azerbaijan as all the more dangerous to themselves because it is a state with a majority Shiite population that has chosen secularism.

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<sup>13</sup> Frances Harrison, "Iran Issues Fatwa on Azeri Writer," *BBC News*, 29 November 2006, [http://news.bbc.co.uk/2/hi/middle\\_east/6158195.stm](http://news.bbc.co.uk/2/hi/middle_east/6158195.stm); Ilgar Rasul, "Rafik Tagi Rasskazal o Pokrushenii," [Rafik Tagi Talked About the Attack], *Radio Liberty*, 22 November 2011, <http://www.radioazadlyg.org/content/article/24398750.html>

### *Conclusion: Iran, a Threat to Turkey and the Caucasus*

When Iran promotes such a regional conflict in the Caucasus, it threatens the energy security of the broader region including Turkey. As an active threat to Turkey and its economic prosperity, Iran threatens the country's political well-being. The foregoing glance at the energy dependence of the Turkish economy makes this clear. How should Turkey consider this problem and respond?

Turkey has undertaken successful economic reforms, not because the EU has said this must be done, but because this has been in Turkey's national interest. Turkey has also applied UN sanctions against Iran. Turkey chose earlier this year to reject further sanctions against Iran, such as those advocated by the U.S. It preferred to increase trade with Iran for private short-term economic gain. Yet Iran refuses to allow Turkey to have "zero problems".

Long-term Turkish national interests would be best served by increased economic sanctions against Iran, not increased economic trade. That is not because the U.S. or some other country wishes it to be so, but because it is in accordance with the Turkey's strategic interests: just as Turkey undertakes, for its own reasons, economic reforms that happen to be encouraged by the EU.

It is alarming to imagine the behavior of the regime in Tehran towards Azerbaijan, should it succeed in developing nuclear weapons. It is frightening to consider the consequences of that development, not least including the pursuit of nuclear armaments by other countries in the broader region. It is moreover depressing to consider the effects of such developments upon the economic well-being of Turkey. That is because Turkey's success in becoming an energy center for the region is based mainly on the hydrocarbon resources of the Caspian Sea basin, and Azerbaijan in particular.

There are increasing levels of interdependence between Turkey and its South Caucasus partners for its own economic well-being, especially but not exclusively in the energy sector. Since before the end of the last century, Iran has posed a daily threat to the Turkish state and society, through its unceasing hostile acts against the secular state Republic of Azerbaijan, with its majority

Shiite Muslim population. As such, it is a threat to the South Caucasus, to Turkey, and to the populations of the region.



# THE NEW IRON SILK ROAD: THE BAKU-TBILISI-KARS RAILWAY\*

Glen E. Howard



Railways have historically transformed the strategic landscape of Eurasia. From the Caucasus to Central Asia, railways in the 19th century were seen as the spearheads for competition and influence between Russia and Britain in the rivalry known as the “Great Game”. The Baku-Tbilisi-Kars (BTK) railway is no different. The transcontinental railway is speeding toward completion and will be fully operational sometime in 2013, ending the century-long Soviet and then Russian domination of regional rail transportation. Once built, the BTK railway will be the first region-wide East-West railway from the Caucasus to Turkey, and promises to revolutionize trade and transportation ties between the Caucasus and Europe. In short, it will become Azerbaijan’s “Iron Silk Road”, securing greater commercial ties with wider Europe.

Geopolitically, the railway is significant because it marks the end of Russia’s domination of the railway network across the Caucasus. For nearly a century, Kremlin planners developed the Caucasus railway network along a North-South axis, aimed at integrating Georgia, Armenia and Azerbaijan into a Russian/Soviet economic sphere of influence. By building a railway that runs along an East-West axis that also partially adopts a European standard rail gauge line, Azerbaijan and Georgia are signaling that their economic future lies with the Euro-Atlantic community. The BTK railway will become a

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key artery for exports from the oil-rich Caspian Sea region and shorten the transport time and distance for Chinese goods routed through Turkey toward European markets. Moreover, with the completion of Turkey's Marmaray rail tunnel underneath the Bosphorus, from 2013, trains leaving Baku will be able to reach London and Paris, which is truly a revolutionary development in land transportation engineering on par with the Baku-Tbilisi-Ceyhan pipeline.

For Azerbaijan and Georgia, a railway connecting Georgia, Azerbaijan and Turkey as part of a future Caucasus common market will solidify Baku's importance as a Caspian trade hub, and further strengthen its relations with Central Asia. The railway will form the nexus for a regional rail network, transporting cargo from China to European markets, serving as Azerbaijan and Georgia's window into Europe. It will also complement the existing Russia-linked Trans-Siberian railway that serves as an important overland corridor for trade between East Asia and Europe.

For Turkey, the new Iron Silk Road plays a key role in revitalizing its eastern city of Kars, its eastern gateway to the Caucasus. The arrival of the BTK is revitalizing Kars with a commercial vibrancy not seen since the days of the ancient Silk Road when it was used by Central Asia caravans as a transit point for overland trade routes to Europe and the Mediterranean. Directly south of Kars is the ancient Silk Road city of Ani, a staging post and banking center known as the city of "1001 churches". Kars has long been an imperial outpost delineating the frontiers between Tsarist Russia and Ottoman Turkey. Subjected to numerous Russian sieges and battles during the 19th century, Kars is now looking to restore its commercial prominence with the construction of the BTK railway. The mayor of Kars told *National Geographic* magazine that the railway would transform Kars into a city "important in the world's eyes."<sup>1</sup>

For Azerbaijan and Georgia, the railway represents their common effort to work together to build closer transportation links to Turkey, and step-by-step chip away at the economic isolation of the Caucasus. Oil-rich Azerbaijan is using its growing economic and financial clout to fund the bulk of the costs

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<sup>1</sup> Brett Forest, "The New Silk Road," *National Geographic*, August 2010, <http://ngm.nationalgeographic.com/2010/08/new-silk-road/forrest-text/1>

of the 850 million dollars project. The BTK railway project further signifies Azerbaijan's aspiration to see the South Caucasus integrated with European markets – it will be able to transport 17 million tons of cargo per year, as well as two million passengers. Writing in the *Jamestown* publication *Eurasia Daily Monitor*, Azerbaijani analyst Yashar Aliyev, quoting Azerbaijan's former Ambassador to the UN, noted that: "the BTK project is an important part of the East-West transport corridor that will be a guarantor of sustainable development and security in the South Caucasus and Eurasia as a whole."<sup>2</sup>

Meanwhile, Armenia's annexation of the Azerbaijani territory of Karabakh has blocked the traditional rail route that gave Baku access to Turkey and European markets, which has only reinforced Azerbaijan's determination to establish an alternate rail link, bypassing Armenia to reach neighboring Turkey. After investing over 2 billion dollars in its own rail system, Azerbaijan is now bankrolling regional railway development, eyeing the lucrative markets of Europe.<sup>3</sup>

The BTK railway also holds enormous strategic importance for Georgia. Georgian President Mikheil Saakashvili has called the project "Georgia's window to Europe" and hailed the project as a "geopolitical revolution" that "will allow Azerbaijan and Georgia to ensure direct rail communication with Europe, while Turkey will be linked with Central Asia."<sup>4</sup> Indeed, Ankara has its own strategic vision for the project. Turkish Prime Minister Tayyip Erdoğan has championed the project, describing it as part of a Europe-China nexus that will come into play once a new 1.4-kilometer underground tunnel, known as the Marmaray project, is built underneath the Bosphorus.<sup>5</sup> Turkish Prime Minister Erdoğan has described the railway as the "project of the century", noting that the tunnel underneath the Bosphorus will become an integral part of the BTK project. The Marmaray project is the second

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2 Taleh Ziyadov, "Officials Meet to Discuss South Caucasus Rail System," *Eurasia Daily Monitor*, Vol.2, No.232 (14 December 2005), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=31218](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=31218)

3 Paul Goble, "Railroads Again Becoming a Factor in the Geopolitics of the South Caucasus," *Azerbaijan Diplomatic Academy Bulletin*, 21 November 2009, [http://biweekly.ada.edu.az/print.php?item\\_id=20091106011322428&sec\\_id=1](http://biweekly.ada.edu.az/print.php?item_id=20091106011322428&sec_id=1)

4 *ITAR-TASS*, 24 July 2008.

5 John Daly, "Turkey Completes a Major Step in the Marmaray Project," *Eurasia Daily Monitor*, Vol.5, No.197 (15 October 2008), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=34023](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=34023)

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transcontinental leg of the rail project that will further integrate Turkey and the South Caucasus into wider Europe, particularly once a high-speed railway between Ankara and Istanbul is finished in 2013, enabling passengers to travel from the capital to Istanbul in under three hours.

### ***Strategic Impact of the Railway***

The BTK railway is not the first construction project to revolutionize regional transportation and development, but it will join the list of major engineering feats in the Caucasus since the breakup of the Soviet Union. The first “project of the century” was the 1,768-km Baku-Tbilisi-Ceyhan pipeline, which commenced operation in May 2005. This mammoth project was followed by the Shah Deniz gas pipeline from Baku to Erzurum, which began supplying gas to Turkey a year later. Operating along the same corridor, the BTK railway will join the oil and gas pipelines that have elevated Azerbaijan to the ranks of major oil producing states.

One of the notable accomplishments of the BTK railway is that it will replace the Soviet backed North-South Kars-Gyumri-Tbilisi railway which dominated the transportation landscape of the South Caucasus until the collapse of the USSR in 1991. The Kars-Gyumri-Tbilisi railway was first built in 1899 by Tsarist Russia, and was purposely routed through Armenia as part of Moscow’s Armenia-centric policy in the South Caucasus, aimed at making Yerevan the bulwark of its forward policy against Ottoman-Turkey. The railway was used by the Russian military in its military campaign in Anatolia during the First World War to supply Russian forces. The chief drawback to the railway is that it uses narrow gauge rail, which meant that cargo had to be transferred by crane to trains destined for Turkey, creating traffic jams and delays at the border. The railway ceased operating in 1994 after Turkey closed its border with Armenia in response to the Armenian seizure of Karabakh. Since the closure of this railway, strategic planners in Tbilisi and Baku have been working to rebuild regional transportation links that would bypass landlocked Armenia, due to the diplomatic deadlock between Yerevan and Baku over Karabakh.

The idea for the BTK railway emerged in the 1990s during bilateral discussions between Azerbaijan, Georgia, and Turkey, but the project lacked the

necessary financing to get off the ground. Plans for the railway were put on hold as the three neighbors focused their attention on finishing the Baku-Tbilisi-Ceyhan pipeline project. In May 2005 when the BTC pipeline was near completion, the railway project was brought back on the agenda.<sup>6</sup> In December 2005, planners from Azerbaijan, Georgia, and Turkey resumed their discussions. BTK finally got off the ground in January 2007 as a result of Azerbaijan's increased economic strength *via* its energy exports, and over the past ten years, Azerbaijan's growing economic power has been staggering. Azerbaijani President Ilham Aliyev recently stated that Azerbaijan now provides as much as 80 percent of the investment in projects in the South Caucasus.<sup>7</sup>

By far the biggest obstacle facing the BTK project was the financing of the Georgian section of the rail line to Kars. In early 2007, Georgian officials managed to get their section of the railway started thanks to a 220 million dollars loan from Azerbaijan. This funding finally gave the Georgian government the resources it needed to begin work on several challenging rail tunnels from its side of the border to Turkey.<sup>8</sup>

The bulk of the 258 km long railway system was already in place when work first started, but key parts of the railway needed to be built before the project could be connected with the Turkish rail line in Kars. The most challenging technical aspect of the project was the Kars-Tbilisi leg. Soviet planners deliberately avoided linking Georgia directly to Turkey by rail due to military considerations during the Cold War, because it preferred to rely on the rail line through Armenia, and also because of the mountainous terrain between Georgia and Turkey that acted as a deterrent to a possible NATO attack. Because of this, the Tbilisi-Kars leg of the railway had to be built from scratch with Turkish engineers involved in building a series of underground tunnels for much of the 98 km section from Kars to Tbilisi (with 68 km in Turkey and 30 km in Georgia), including an underground tunnel of nearly five km between Turkey and Georgia. Turkish engineers have been busy for the past

<sup>6</sup> Taleh Ziyadov (2005).

<sup>7</sup> "Ilham Aliyev Attended the Opening in Baku of the 19th International Exhibition and Conference 'Caspian Oil and Gas: Refining and Petrochemicals – 2012,'" *President of Azerbaijan*, 5 June 2012, <http://en.president.az/articles/5119>

<sup>8</sup> *President of Azerbaijan* (2012).

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two years blasting tunnels into the mountains south of Kars, creating one of the longest underground tunnels ever built in Turkey.<sup>9</sup>

The railway has attracted the interest of Central Asian states interested in using the Baku railhead as an iron gateway for the export of their commodities and products destined for European markets. Of these, Kazakhstan is taking the biggest steps to enhance its own energy export economy and is interested in the project serving as a Transcaspian linkup for its oil exports. The railway will provide Kazakhstan with direct access to the EU for its oil and agricultural exports for the first time. Strategic planners in Kazakhstan believe that the railway will enable a large increase in Kazakh commodity exports to Europe, particularly in the area of grain exports. In anticipation of the opening of the railway, Kazakhstan is finishing construction of an 800,000 ton grain terminal near Baku for the transshipment from barges to the strategic railroad.<sup>10</sup> Officials in Kazakhstan are planning to raise the capacity of the grain terminal to five million tons per year in the hope that it will become a key shipment center for grain exports to Europe.<sup>11</sup>

### ***Armenian Opposition to BTK***

Armenia's role as a key transportation node in the South Caucasus has historically been attributed to its dominant position as a transit point along the Kars-Gyumri railway. Starting in 1899, Tsarist planners deliberately gave Armenia an important role in rail construction in the South Caucasus as part of Moscow's occupation of Turkish city Kars, made possible by Russia's victory over Turkey in the 1877-78 war. During that war, the Russian General Staff experienced major delays in troop mobilization in the South Caucasus due to the underdeveloped rail network. In fact, it took a major logistical effort by the Russian military just to move troops from the Caspian to Tiflis (modern day Tbilisi) to undertake military operations against Ottoman forces based in Batumi.<sup>12</sup> Embarrassed by the delays in troop transfers, the Russian

9 Brett Forest (2010).

10 Vladimir Socor, "The Iron Silkroad Advances Further," *Eurasia Daily Monitor*, Vol.5, No.142 (25 July 2008), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=33832](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=33832)

11 [www.energyresearches.org](http://www.energyresearches.org), 31 October 2009.

12 John P. McCay, "Baku Oil and Transcaucasian Pipelines, 1883-1891: A Study of Tsarist Economic," *Slavic Review*, Vol.43 No.4 (Winter 1984), p. 609.

General Staff launched a major effort to modernize the rail network in the South Caucasus following the war. The bulk of this rail modernization was aimed at improving mobility in order to reinforce Russian-occupied Kars, which became Moscow's bridgehead into Ottoman Anatolia following that war. Following the Russo-Turkish war Moscow began to resettle large numbers of Armenian refugees from the Middle East, who were then relocated to Karabakh.<sup>13</sup>

Following the breakup of the Soviet Union, Armenia retained a key role in the South Caucasus rail network by virtue of its rail lines to Turkey. However, following Armenia's occupation of the Azerbaijani territory of Karabakh, Ankara proclaimed an embargo against Yerevan, closing the border and ending its unique role as a rail bridge to Turkey. Armenia's diplomatic standoff with Azerbaijan over the future of Karabakh has only deepened Yerevan's growing regional isolation as the BTK rail project bypasses this land-locked country, leaving it more dependent than ever on Moscow for its economic lifeline. In light of this, Armenia has grown weary of the economic repercussions of the BTK railway, which will further deprive Yerevan of whatever leverage it may have with its two neighbors. Two of the biggest challenges to the BTK railway project stem from Armenian-related issues. Dissent within Georgia's Armenian populated enclave of Javakheti and from the Armenian government in Yerevan as well as its powerful overseas diaspora have proven to be an irritating, but manageable problem for Tbilisi in its efforts to build the Georgian section of the BTK railway. Javakheti has traditionally been one of the most underdeveloped regions of Georgia where the biggest source of local employment had been the Soviet/Russian military base in Akhalkalaki.

Following the Soviet collapse in 1991, the Russian military desperately sought to maintain a foothold in the Armenian enclave of Javakheti through the deployment of its 62nd division. Due to U.S. diplomatic pressure, Moscow eventually evacuated the military base in Akhalkalaki in 2007. However, the Russian withdrawal was a mixed blessing for Tbilisi as the base had been a key source of regional employment for the local Armenian community. The

13 Tadeusz Swietochowski, *Russia and Azerbaijan: A Borderland in Transition* (New York: Columbia University Press, 1995), p. 11.

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closure of the base led to further economic problems as the regional Armenian community in Javakheti strove to cope with the worsening situation. When plans to open the BTK railway were first announced, Georgia's Armenian population in Javakheti opposed its construction, citing the railway's intention of bypassing Armenia.

Georgian officials have sought to reassure the local Armenian community in Javakheti that the railway will help inject economic life into the poorly developed region, and has undertaken major steps to improve the local economy in Javakheti despite the economic obstacles. For example, Georgian officials built a major transit point in Akhalkalaki where railway trains will be moved from the narrow gauge Russian sized track to European-size track for cargo shipments to Europe. In the long term, Georgian officials believe that the railway will help them to enhance political stability in the region. Over time, however, local attitudes toward the railway have changed due to increased expectations that the local economy should benefit significantly once the railroad becomes operational by 2013.

Meanwhile, the government of Armenia and its highly influential diaspora organizations in the U.S. have utilized their lobbying prowess in Washington to hinder the railway's progress. These groups have mounted several successful lobbying efforts to prevent the railway project from receiving U.S. financing.<sup>14</sup> In mid-2005, for example, the powerful Armenian lobbying diaspora mounted an effort to block U.S. financial support for the railroad, which later extended to Europe; consequently the EU halted its efforts to support the project. In July 2005 the two co-chairs of the Congressional Armenian Caucus, Representative Frank Pallone (D-NJ) and Representative Joe Knollenberg (R-Michigan), introduced the "South Caucasus Integration and Open Railroads Act of 2005 (HR 3361) which sought to block U.S. financing of any rail connections or railway-related connections that do not traverse or connect with Armenia.<sup>15</sup>

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<sup>14</sup> Vladimir Socor, "Kars-Akhalkalaki-Tbilisi-Baku Rail Project Soon to Roll Forward," *Eurasia Daily Monitor*, Vol.4, No.14 (19 January 2007), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=32408](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=32408)

<sup>15</sup> Taleh Ziyadov (2005).

A year later *Radio Free Europe* reported that Armenian lobbying organizations in Washington had used their influence to force the U.S. House Financial Services Committee to prevent any U.S. government funding for the BTK railway project because of Azerbaijan's involvement in the project. The House Committee argued that the railway would add to Armenia's existing economic isolation. The House legislation also made it impossible for the U.S. Export-Important Bank to develop or promote any rail connections connecting Baku to the railway.<sup>16</sup> This came at a time when Congressional officials failed to recognize that Yerevan had built a flourishing trade relationship with Iran and according to *Wikileaks* had also developed an arms relationship with neighboring Iran that led to the deaths of American soldiers in Iraq.<sup>17</sup>

Aside from Washington, representatives of the Armenian Javakheti community in Russia have also obstructed development of the railway by mounting an effort to speak out against the railway's construction. On the eve of the Georgian Foreign Minister's visit to Armenia in 2011, the Javakheti expatriate community issued a press release stating that the opening of the railway line would lead to an influx of cheap and low quality products. Other Armenian organizations went a step further, expressing concern that the railway construction was leading to an influx of workers from Turkey which threatened to alter the region's ethnic balance, and then issued a further call demanding that the region seek autonomy from Georgia. The issue of Javakheti's autonomy within a federal Georgia was even raised with members of the Council of Europe by local Armenian representatives.<sup>18</sup>

At the same time, officials in Yerevan have long insisted that Turkey should abandon the project and instead use the existing Kars-Gyumri railroad link that was closed by Ankara after Armenian forces seized Karabakh. As Jamestown senior fellow Vladimir Socor has noted, the two are basically incomparable – with the Kars-Gyumri rail line being a local project and the BTK railway being a project of transcontinental proportions, referring to the

16 *Radio Free Europe*, 15 June 2006.

17 *Guardian*, 28 November 2010; *Washington Times*, 29 November 2010.

18 Kristine Aghalaryan, "Javakh Representatives Call for Autonomy to Stem Turkish Tide," 19 March 2012, [www.hetq.am](http://www.hetq.am)

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BTK railway's importance in trade with the EU and as a link to China. With talks over the future of Karabakh in deadlock, such a development is inconceivable until Yerevan decides to return Karabakh to Azerbaijani control.<sup>19</sup>

Despite its opposition to the railway, Yerevan appears to understand that its demands for a re-routing of the railway are unrealistic, particularly in light of the fact that Armenia is so vulnerable in terms of how far it can go with Tbilisi in its demands. First and foremost is the glaring fact that Armenia remains highly dependent on Georgia for its external trade, as more than 80 percent of its foreign trade is carried out through Georgian territory, notably the Black Sea ports of Poti and Batumi.<sup>20</sup>

During the Russo-Georgian war of August 2008, officials in Yerevan discovered the true extent of their transportation dependence on Georgia. The Five-Day War caused a closure of Georgia's ports and railways, which led to a suspension of exports. One of Georgia's most astute experts on the region recalls that the suspension in transportation was so severe that one more week of fighting would have led to a collapse of the Armenian economy.<sup>21</sup> In retrospect, Armenia's efforts to block the BTK railway project, just as it tried in the 1990s to prevent the BTC pipeline to Turkey from being built, only threaten to deepen Yerevan's economic isolation in the South Caucasus. Georgia and Azerbaijan are well on the path to creating a new transportation corridor that bypasses Armenia and will leave it even more isolated than before.

### ***Conclusion: NATO's Iron Silk Road?***

As the BTK railway races toward completion in 2013, an underexplored issue is the impact of the railway on NATO. The completion of the BTK railway next year will come at an opportune time as the U.S. and its NATO allies will begin the "reverse transit" of U.S. and NATO forces from Afghanistan by the

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19 Vladimir Socor, "Frozen Conflicts Seen as Russia's Door into 'Euro-Atlantic Security Community,'" *Eurasia Daily Monitor*, Vol.9, No.28 (9 February 2012), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=38989](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=38989)

20 "Russian Bases Won't Solve Problems in Javakheti," Emil Danielyan, *Eurasia Daily Monitor*, Vol.2, No.69 (7 April 2005), [http://www.jamestown.org/programs/edm/single/?tx\\_ttnews%5Btt\\_news%5D=30237&tx\\_ttnews%5BbackPid%5D=176&no\\_cache=1](http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=30237&tx_ttnews%5BbackPid%5D=176&no_cache=1)

21 Conversation with Alexander Rondeli, 25 September 2008.

end of 2014. The massive military withdrawal will involve the exodus of more than 130,000 men and 70,000 armored vehicles, supplies, and troops from Afghanistan. The bulk of these forces will be withdrawn from the region using the Northern Distribution Network (NDN), the alternate supply network for U.S. and NATO forces in Afghanistan that was created after the closure of Pakistan's Khyber Pass through which 70 percent of U.S. and NATO supplies to Afghanistan were transported. Created in 2010, NDN accounts for 35 percent of supplies which already go through the Caucasus (the remainder goes through the Baltic port of Riga, through Russia to Central Asia).<sup>22</sup>

In the past two years Baku has emerged as the Eurasian hub of NATO transit to and from Afghanistan. Speaking in Baku on 6 June 2010, former Secretary of Defense Robert Gates referred to Azerbaijan as an integral part of the South Caucasus spur of NATO's supply line to Afghanistan. One U.S. official noted that in 2010 alone Azerbaijani airspace hosted the transit of over 100,000 American troops.<sup>23</sup> In light of Azerbaijan's important logistical role in supporting NATO troops in Afghanistan, its new Iron Silk Road will likely become a key reverse transit route for the U.S. military. Once operational sometime in 2013, the BTK railway should provide the U.S. and NATO with a route for the reverse transit of personnel and equipment directly from Afghanistan to Europe.

The BTK railway promises to have an enormous geopolitical impact on Azerbaijan's growing importance as a direct East-West transportation hub. Azerbaijan has already strengthened its role as an important transportation center for Caspian energy, first by becoming a major energy provider to U.S. and Western energy security with the construction of the one million barrel per day Baku-Tbilisi-Ceyhan pipeline in the 1990s, and again in the 2000s by building the Shah Deniz gas pipeline to Turkey. With the completion of the BTK railway sometime in 2013, Azerbaijan will not only have completed its strategic goal of becoming an energy provider, but will also have established a transportation link to Europe that will simultaneously strengthen its role

<sup>22</sup> *The Moscow Times*, 16 April 2012.

<sup>23</sup> John D. Banusiewicz, "Azerbaijan Visit Highlights Afghanistan Contributions," *U.S. Department of Defense*, 6 June 2010, <http://www.defense.gov/news/newsarticle.aspx?id=59508>

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with both the EU member states and NATO. In addition, it will have further cemented its role as part of a wider Europe-China trade corridor. The BTK railway will also enhance Azerbaijan's importance to China as part of a new Iron Silk Road for Chinese exports, and encourage Beijing to look upon Baku as a vital transit link to Europe.

In sum, the BTK railway project marks a transportation revolution in the South Caucasus, which promises to bring Azerbaijan and Europe closer. These factors, combined with Baku's bid to host the 2020 Olympics, will enable Azerbaijan to pursue its goal of becoming a major hub of commerce between East and West and further deepen its strategic importance to the Euro-Atlantic community.

# ARMENIA AND THE TREMORS OF THE CRISIS\*

Meri Yeranosyan



The global financial crisis, caused by the explosion of financial bubbles, “has exposed pervasive weakness in financial industry regulation and the global financial system.”<sup>1</sup> Its impact spread over the globe, resulting in the slowdown of the world economy. The panic over the crisis, led more people to develop their knowledge in economics and finance in order to understand the problem.

## *The Imperfections That Allowed Surpassing the Direct Impact of the Global Financial Crisis*

After the collapse of the Soviet Union, the Central Bank of Armenia (CBA) underwent dramatic change. Only in 2006 did the CBA adopt the function of regulation and supervision of all financial system participants in the country – before the task was shared between the CBA and the Ministry of Finance.

Today Armenia’s financial system is composed of 22 banks, 26 credit organizations, 12 insurance companies, 91 pawnshops, 244 exchange agencies,<sup>2</sup>

\* This article was published in Summer 2009 (Vol.8 No.2) issue of the Turkish Policy Quarterly (TPQ) Journal.

1 Ben S. Bernanke, “Four Questions About the Financial Crisis,” *Board of Governors of the Federal Reserve System*, 14 April 2009, <http://www.federalreserve.gov/newsevents/speech/bernanke20090414a.htm>

2 Including branch offices.

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nine money transferring and seven payment systems processing and clearing companies and nine security firms.<sup>3</sup> Despite the variety of financial institutions, the main actors in the arena remain foreign owned banks, “Banks own more than 90 percent of financial system assets; about 70 percent of banking capital is foreign owned; 20 banks out of 22 are with foreign participation.”<sup>4</sup>

The CBA states that financial intermediation –i.e. redistribution of funds through banks between lenders and borrowers– is low: “The level of financial intermediation is still shallow. Total assets of the banking system constitute only 30 percent of GDP.”<sup>5</sup>

The Armenian banking system, though stable enough and showing progressive developments (during the last five years average growth rates of assets was 29.7 percent, of loans was 51 percent, of capital was 33.2 percent and of profits was 37 percent),<sup>6</sup> is not yet suitable for a variety of financial instruments such as securities (banknotes, bonds) and derivatives (forwards, options, swap). These instruments are extremely sensitive to changes in the macroeconomic environment since they are based upon future-oriented agreements regarding concrete deals between parties.

Classifying Armenia as a low-income country, IMF analysts conclude, “Low-income countries’ financial systems have so far not been strongly affected by the global crisis. Their banks have little, if any, exposure to complex financial instruments.”<sup>7</sup>

As a newly emerging financial market, market capitalization of publicly traded companies made only one percent and 1.5 percent of Armenia’s GDP in 2007 and 2008 respectively. Market capitalization is a determining factor of stock valuation based on public opinion regarding the company’s net worth.

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3 As of June 2009, *Central Bank of Armenia*, [http://www.cba.am/CBA\\_SITE/financial\\_system\\_control/index.html?locale=en](http://www.cba.am/CBA_SITE/financial_system_control/index.html?locale=en)

4 Speech by Vahe Vardanyan, Head of Financial System Policy and Financial Stability Department of the Central Bank of Armenia, in Conference: “Impact of the Global Crisis on Armenia: Short and Long-run Perspectives,” *Armenian International Policy Research Group*, 6-7 July 2009, Yerevan, [http://www.aiprg.net/UserFiles/File/AIPRG\\_2009\\_Conference/3rd\\_session/Vahe\\_Vardanyan.ppt](http://www.aiprg.net/UserFiles/File/AIPRG_2009_Conference/3rd_session/Vahe_Vardanyan.ppt)

5 Speech by Vahe Vardanyan (2009).

6 Speech by Vahe Vardanyan (2009).

7 “The Implications of the Global Financial Crisis for Low-Income Countries,” *International Monetary Fund*, 2009, <http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>

Other factors that played a role in limiting the effect of the global financial crisis are: “No investment in foreign securities; very low dependence on external financing of both banking sector and corporations (85 percent of banks have long term external liabilities and mostly from the international organizations and affiliated companies) and sound and liquid banking system.”<sup>8</sup> The imperfections highlighted are mainly the side-effects of still being a relatively undeveloped financial system. Having a sound and liquid banking system is the only criteria among the listed that cannot be characterized as “an imperfection of the system;” it is, rather, the main achievement of the activities of the Central Bank. Because of its small size, the banking system was able to withstand the crisis. Though the profitability of banks decreased significantly, there was no deposit run. Nevertheless, having negative expectations, banks tightened their lending conditions.

The World Bank claims that Armenia entered crisis with some strengths: “Well-capitalized and liquid banking system with strong prudential regulation; prudent fiscal policies and small fiscal deficit; low public debt.”<sup>9</sup>

### ***Indirect Effects of the Global Financial Crisis***

Decrease in remittance inflows, in demand for Armenian exports, in metal prices and in FDI were/are the main aspects of the impact of the financial crisis on Armenia. In the pre-crisis period economic growth of Armenia was significant. In the six years from 2002 until 2008, the GDP grew 2.7 times (of which, Industrial Production: 2.2 times; Construction: 5.3 times, Agriculture: 1.7 times and other sectors: 2.9 times).<sup>10</sup> Apartment prices in Yerevan per square meter increased by 4.5 times for the given period.

Though the government tried hard to surpass mass panic by downplaying the crisis, the slowdown of economic growth in the last quarter of 2008 made

<sup>8</sup> Speech by Vahe Vardanyan (2009).

<sup>9</sup> Speech by Aristomene Varoudakis, Head of World Bank Yerevan Office, in Conference: “Impact of the Global Crisis on Armenia: Short and Long-run Perspectives,” *Armenian International Policy Research Group*, 6-7 July 2009, Yerevan, [http://www.aiprg.net/UserFiles/File/AIPRG\\_2009\\_Conference/2nd\\_session/Aristomene\\_Varoudakis.ppt](http://www.aiprg.net/UserFiles/File/AIPRG_2009_Conference/2nd_session/Aristomene_Varoudakis.ppt)

<sup>10</sup> Speech by Aram Gharibyan, Adviser to the Prime Minister of Republic of Armenia, in Conference: “Impact of the Global Crisis on Armenia: Short and Long-run Perspectives,” *Armenian International Policy Research Group*, 6-7 July 2009, Yerevan, [http://www.aiprg.net/UserFiles/File/AIPRG\\_2009\\_Conference/D&T/D&T\\_Aram\\_Gharibyan.ppt](http://www.aiprg.net/UserFiles/File/AIPRG_2009_Conference/D&T/D&T_Aram_Gharibyan.ppt)

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the impact of the crisis on the Armenian economy obvious. When January-May 2009 was compared with the same period of 2008, the following figures were recorded: GDP shrank by 15.7 percent, industrial Production by 10.5 percent, construction by 56.1 percent, import by 29.9 percent, export by 47.8 percent, and tax revenues did by 19.4 percent.<sup>11</sup> Decline in real estate prices was observed by private realtors in the first quarter of 2009, “Real estate prices in Armenia have plummeted by at least 30 percent this year because of a worsening economic situation and decreased cash inflows from abroad.”<sup>12</sup>

According to an OSCE nationwide survey in 2008: “In the period of January 2002 - December 2007, approximately 20 percent of Armenian households were involved in labor migration.”<sup>13</sup> This figure does not include internal labor migration; in other words it illustrates that every fifth household in the Republic of Armenia (RA) received remittances from abroad for the given period of time.

The survey results also reveal the most common profile of labor migrants from Armenia. Most labor migrants are men (90 percent of labor migrants) who worked/works in the construction field (70 percent of cases) in Russia (96 percent of labor migrants).

Since 2004, a 40 percent growth in private transfer’s inflow was recorded by the CBA. Summing up the figures from various sources, we see that private transfers made up around 15-30 percent of GDP in the pre-crisis period. And if it were possible to measure the cash inflows of labor migrants, the real figures would have likely been much higher.

Decline in remittances from Russia was one of the main shocks the Armenian economy faced as a result of the global financial crisis, “The economy is suffering from the drop in remittances, in particular from Russia, which had financed the boom in construction in recent years, notably of residential

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11 Speech by Aram Gharibyan (2009).

12 “Recession Cuts Armenian Property Prices,” *Armenian News*, 31 March 2009, <http://www.armtown.com/news/en/rfe/20090331/20090331/>

13 “Return Migration to Armenia in 2002-2008: A Study,” *Organization for Security and Co-operation in Europe*, 2008, [http://www.osce.org/publications/oy/2009/01/35901\\_1225\\_en.pdf](http://www.osce.org/publications/oy/2009/01/35901_1225_en.pdf)

investment.”<sup>14</sup> “A 35.3 percent decrease was observed in the indicators of remittances, during the first five months of 2009.”<sup>15</sup>

Construction was the driving force of Armenian economy in the pre-crisis period and amounted to 25 percent of the GDP. Double-digit growth of the GDP concealed to the problems in other sectors of Armenia’s economy. The crisis severely hit the construction sector and construction volumes were cut in half. “Armenian construction sector’s 56.6 percent decline in January-May 2009 drove GDP 10.3 percentage points down, while at the same period of 2008, construction added 2.9 points to GDP.”<sup>16</sup> Among the reasons for the construction decline, economists note the low level of availability of investment resources and decline in demand.

Mining is another sector of Armenia’s industry that was badly hit by the crisis. Post-crisis decline in metal prices in the international market caused contraction of mining industry by 10 percent. “In the world commodity markets dramatic price decrease for the raw materials was observed, which caused those raw material exporting country’s exports to dampen significantly. The productions of the other branches of economy were followed by the deteriorations in these sectors.”<sup>17</sup>

The global financial crisis cut demand for Armenia’s exports –the biggest share of which is raw materials– almost in half. Armenia exports to a limited number of countries:

The concentrated structure of Armenia’s export –six countries account for nearly 70 percent of the country’s exports– increases the country’s vulnerability to a negative impact arising from a shock to a major trading partner.<sup>18</sup>

<sup>14</sup> “IMF country report No:09/214,” *International Monetary Fund*, July 2009, <http://www.imf.org/external/pubs/ft/scr/2009/cr09214.pdf>

<sup>15</sup> Speech by Tigran Sargsyan, Prime Minister of the Republic of Armenia,, in Conference: “Impact of the Global Crisis on Armenia: Short and Long-run Perspectives,” *Armenian International Policy Research Group*, 6-7 July 2009, Yerevan, [http://www.aiprg.net/UserFiles/File/AIPRG\\_2009\\_Conference/0\\_session/Speech\\_Prime\\_Minister\\_eng.doc](http://www.aiprg.net/UserFiles/File/AIPRG_2009_Conference/0_session/Speech_Prime_Minister_eng.doc)

<sup>16</sup> “Premier: Additional cash injections in Armenia’s construction sector can mitigate adverse impact of global crisis,” *ARKA News Agency*, 1 July 2009, <http://mail.arka.am/en/news/economy/15588/>

<sup>17</sup> Speech by Tigran Sargsyan (2009).

<sup>18</sup> “Implication of World’s Financial Crisis/or Armenia’s Economy,” *Policy Forum Armenia*, 2008, [http://www.pf-armenia.org/sites/default/files/documents/files/CRISIS\\_REPORT--FINAL.pdf](http://www.pf-armenia.org/sites/default/files/documents/files/CRISIS_REPORT--FINAL.pdf)

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Armenia exports most to Russia, EU countries (Germany, Netherlands, Belgium), Georgia, and the U.S. “For small open economies, such as the Republic of Armenia, first of all a drastic fall of export rates was observed – 6.1 percent in 2008, and 47.8 percent in the first five months of 2009.”<sup>19</sup>

The global economic slowdown significantly reduced the FDI flows to Armenia. The IMF graphs show that FDI growth was eight times less in 2008 than it had been in 2006.<sup>20</sup> In 2008, FDI was geared mostly to energy-related sectors (from Russia), telecommunications (from Russia and France), and transportation (Argentina).<sup>21</sup>

The Armenian government claims that pre-crisis economic growth was mainly driven by non-tradable sectors and was heavily dependent on external factors: “average economic growth of 13 percent was secured by construction, mining industry, and service sector.”<sup>22</sup> The mining industry, given the high prices and demand from abroad brought financial inflow to Armenia. With these inflows, construction boomed and the service sector grew. The Armenian currency, the dram (AMD) appreciated. It was assessed that, “the main portion of appreciation was the result of financial inflow and positive terms of trade shock.”<sup>23</sup>

With the financial crisis, a fall in capital inflows has been recorded, and the national currency of Armenia has got depreciated by 22 percent against the dollar. The Armenian economy adopted a floating exchange rate policy, meaning that exchange rate gets defined by the market and not by the CBA, however, in extreme situations the Central Bank can buy or sell dollars, thus regulating exchange rates.

The 3rd of March 2009 was called “Black Tuesday” in mass media, the day, when the AMD abruptly depreciated and panic started, some shops

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19 Speech by Tigran Sargsyan (2009).

20 Masood Ahmed, “Impact of the Global Crisis: How Does Armenia Compare with Other Countries in the Region,” *International Monetary Fund*, <http://www.imf.org/external/country/arm/rr/2009/041009.pdf>

21 “Trading Partners, 2008,” *The Armenian Economist*, [http://armenianeconomist.blogspot.com/2009\\_05\\_01\\_archive.html](http://armenianeconomist.blogspot.com/2009_05_01_archive.html)

22 Speech by Tigran Sargsyan (2009).

23 Speech by Tigran Sargsyan (2009).

temporarily closed down, and the prices of mainly imported goods went up. When explaining why depreciation did not happen earlier and what caused the rapid depreciation of national currency in March 2009, the IMF explained:

During 2008, the CBA kept the nominal AMD/USD rate within a very tight band, out of concern for financial instability and to do this, the CBA had to increasingly sell large amounts of dollars, especially in the last few months, which led to a significant loss in CBA reserves.<sup>24</sup> Eventually, large depreciation was unavoidable. The supply of dollars decreased: falling remittances (mostly from Russia), falling foreign direct investment (e.g., in real estate), large drop in export prices (copper and molybdenum prices fell by 2/3) and the demand for dram decreased: fall in demand for Armenian exports and re-dollarization.<sup>25</sup>

The Central Bank confirms that dollarization has taken place, “Share of AMD deposit in total deposits shrank from 60 percent to 30 percent during last quarter of 2008 and first 5 months of 2009.”<sup>26</sup>

Since the economic outlook of the country has worsened because of the global slowdown, the Armenian government has increased its external debt by requesting loans from different institutions. It has already received a 500 million dollar project loan from Russia, 545 million dollars from the World Bank, 130 million dollars from the Asian Development Bank and is expected to get 544 million dollars from the IMF; currently, the government requests augmentation of loan with additional 258 million dollars from the IMF.<sup>27</sup>

### ***Instead of Conclusion***

The merge of political and economic powers in Armenia developed an unhealthy social environment in the country and increased the distrust of

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<sup>24</sup> “The CBA intervened on a few occasions –for a total net amount of 3.5 % of gross international reserves– to smooth exchange rate volatility and facilitate the functioning of the market. Gross reserves were 1.2 billion dollars at the end of April.” *International Monetary Fund*, (2009).

<sup>25</sup> “Nienke Oomes - IMF Resident Representative in Armenia, “What Explains Exchange Rate Movements in Armenia,” August 2009, [www.imf.org/yerevan](http://www.imf.org/yerevan)

<sup>26</sup> Speech by Vahe Vardanyan(2009).

<sup>27</sup> *International Monetary Fund* (2009).

people towards the state. The corruption and monopolies, the misuse of power and the inability of people to defend their rights, have rendered civil society ineffective:

Increasingly, human rights movements organize themselves in the image of markets if we use that notion intuitively to denote competition among individuals and groups for scarce or limited resources. NGOs of various kinds and at various levels emerge as economic actors insofar as they seek to mobilize resources for their work; and as such many of them compete *inter se*. Funding agencies (whether national, regional, or global, private, governmental, inter-governmental, or international) are economic actors that allocate resources. Human rights markets thus comprise a series of transactions across a range of economic actors that pursue competition within a framework of collaboration. This signifies at least that both types of economic actors seek to shape each other's agenda, or the sum of total of human rights goods and services thus produced, circulated and consumed. This process of social production, however, raises many problems that actors in human rights markets have to necessarily negotiate, giving rise in turn to what may be termed as human rights market rationality.<sup>28</sup>

The voices of local and international environmentalists were ignored when a private company –the Armenian Copper Program– seeing the country's raw materials as a source of fast and easy-to-generate income “planned to build a massive open-pit of copper mine in the small town of Teghut, which would threaten local ecosystems and communities.”<sup>29</sup> There is a belief among the environmentalists that some governments/big players have serious stake in the outcome, which is the main reason that environmentalists' efforts remain fruitless.

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28 Upendra Baxi, *The Future of Human Rights* (New Delhi: Upendra Baxi and Oxford University Press, 2002).

29 “The Teghut Copper Mine Project in Armenia: An Overview,” *Friend of Earth*, [http://www.foe.org/pdf/Teghut\\_Fact\\_Sheet.pdf](http://www.foe.org/pdf/Teghut_Fact_Sheet.pdf)

Despite its negative impact, the global financial crisis can also create an opportunity for debating real and systemic change in the country. The global financial crisis offers an opportunity for Armenia to make changes that would shatter the existing monopolies. It is unfortunately unlikely that this opportunity will be seized. External assistance from donors temporarily allows the country to stay afloat and thus delays the systemic changes needed.

At present, being relatively deprived from remittances, FDI inflows and having shallow financial intermediation, taxes remain the main leverage for the government to generate income. The government might be forced to make sound changes in the level and composition of taxation, which would cause fairer distribution of income in the society. Reforms in tax policies could create a more favorable business environment for start-ups and SMEs, and allow more just competition between all market players. This could be a good start for delinking political and economic powers.



# THE GLOBAL ECONOMIC CRISIS AND AZERBAIJAN\*

Elshad Mikayilov



**S**tatements are currently showing up on the headlines of the world news about the crisis coming to an end all over the world. Any tiny growth glimmer in the global economy is construed as being a sign of hope for the end of the crisis. However, given the currently observed downward economic patterns, it is too early to speak about the ending of the crisis. Quite conversely, economists are warning about the potential second wave of the crisis starting next year. The crisis first started with the sub-prime mortgage crisis in the U.S. that later spilt over the whole global economy, to different extents in different countries. Countries have responded to the unfavorable consequences of the crisis in different ways, with various bailout arrangements. The degree of susceptibility of individual countries to the crisis is linked with their degree of exposure to the global economy, with more integrated economies suffering more from the crisis in negative terms.

Azerbaijan got its share of unfavorable effects from the crisis as well, though to a lesser extent than other countries. Nowadays the concern remains about potential challenges the Azerbaijani economy is bound to face in the event of the prolongation of the global financial crisis. Where Azerbaijan was before the crisis and how durable its economy is against the adverse effects of the crisis are key questions for policymakers. There is a widely held view

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that Azerbaijan can ride out the crisis more easily than any other state simply because its economy is built on strong economic fundamentals. This belief is supported by the perception that since Azerbaijani banks are not very much financially integrated into the global financial system, the banking system is more resilient to the effects of the crisis.

Another stream of thought holds that the effect of the crisis effect has been significantly high for such a small economy. Similar arguments can be found in international financial institutions' statements, such as the IMF, about countries within the Commonwealth of Independent States that were hit heavily by capital flow reversals. According to IMF, the activity is expected to contract by 0.5 percent in 2009. IMF also forecasts a 2.5 percent slowdown in GDP in 2009 for Azerbaijan, as opposed to the government's projected 14 percent.

Obviously, thoughts are multidimensional and inconsistent with regard to the extent of the crisis – showing lack of harmony on opinions regarding how critical the issue is and how devastating consequences might the economy encounter, and its future, should the recession carry on and proper policy measures not be undertaken.

### *Economic Fundamentals and Crisis Challenges*

Over the last five years, Azerbaijan's economy has been growing steadily and had the highest GDP growth rate in the world in 2006 (34.5 percent).<sup>1</sup> Likewise, the GDP per capita has been on the rise and was at its highest level of 42.5 percent in 2006.<sup>2</sup> Despite the slowdown following 2006 both in total and per capita GDP, the country is still ahead of many other countries in terms of its economic growth. According to the estimates before the crisis, the expected GDP growth would be at 14 percent.<sup>3</sup> However, in the first half of 2009, GDP increased only by 3.6 percent and if this trend continues, the growth will be much lower than expected. Traditionally, oil has been a

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1 "Azerbaijan - Country Brief 2009," *World Bank*, [www.worldbank.org](http://www.worldbank.org)

2 "2008-2011 Major Macroeconomic Indicators for Azerbaijan," *Ministry of Economic Development*, [www.economy.gov.az](http://www.economy.gov.az)

3 "2008-2011 Major Macroeconomic Indicators for Azerbaijan."

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dominating factor in GDP formulation and comprised 59 percent of the GDP, compared with the 41 percent for the non-oil sector.<sup>4</sup>

Along with higher growth, state budget revenues increased over the last few years, except for the crisis related slowdown to 16.1 percent expected for 2009 – as opposed to very promising growth figures of 88.2 percent in 2006, 49 percent in 2007, and 74.5 percent in 2008.

With the start of the global crisis in response to the mortgage market failure in the U.S., global growth was set to decline considerably. According to an IMF analysis, the economic activity is expected to decelerate from 3.5 percent in 2008 to 0.5 percent in 2009 before embarking on a gradual recovery in 2010. The projections are that growth patterns in emerging and developing economies will also be affected as a consequence of financing constraints, lower commodity prices, weak external demand, and associated spillovers to domestic demand.<sup>5</sup>

The same deceleration patterns can be observed in all major macroeconomic forecasts of Azerbaijan. For instance, the economy in fact registered with a slower pace, down to 10.8 percent at the end of 2008 in terms of its GDP growth performance, than initially expected 18 percentage points. An equally important forecast for per capita GDP is expected to be sharply reduced to 21 percent as opposed to the 22 percent in 2008 and 39 percent in 2007. Personal incomes are also expected to deteriorate in 2009 and official projections show people incomes will grow only by 22.2 percent as opposed to previous year's 29.4 percent and 29.3 percent in 2007.

Azerbaijan's budgetary position has also been destabilized due to the crisis. The share of revenues of state budget in the consolidated budget as well as in GDP was lower than ever. Also the investments into the economy have declined by ten percent to 4.82 billion dollars since the beginning of the year. The state statistics committee report that 77.7 percent of this investment was

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<sup>4</sup> "Macroeconomic Indicators of Economic and Social development for the First Half of 2009," *State Statistics Committee*, <http://www.stat.gov.az/indexen.php>

<sup>5</sup> "The Implications of the Global Financial Crisis for Low-Income Countries," *International Monetary Fund*, 2009, <http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>

diverted to the construction of production facilities. Despite the domestic investment growth by seven percent, foreign investments went down by 48 percent and the least investments went to the mining industry, 31.3 percent. Besides, transportation, communication and agriculture also received lower investments.

The dependence of the state budget on oil revenues strengthened further with oil taking up 65.4 percent of all revenues in 2009 as compared to 62.4 percent in 2008 and 61.3 percent in 2007. Moreover, as a result of falling oil prices in world markets, the percentage of transfers from the state oil fund of the Republic of Azerbaijan to the state budget increased. The government compensated the budget deficits through the increased transfers from the state oil fund and 92.4 percent of oil fund expenditures will be transfers to the state budget in 2009, 29.3 percent more than in 2008. The increased state budget dependence on oil revenues had a negative externality for the non-oil sector. The deficit in this sector went up to 42.5 percent of in 2008 from 32 percent in 2007.

Another important aspect is taxes – mainly profit and personal income taxes in the state budget, which are related to employment performance of the economy and are actually expected to go down to 18.2 percent from 23.3 percent in 2008 in profit taxes and to 7.4 percent from 7.6 percent of 2008 in income taxes. The share of taxes in GDP declined to 16.5 percent in 2008 from 19.4 percent in 2007, showing the impact of the global financial crisis in the lower tax-generating economic activities. State officials tend to explain this decrease through the altered tax base for the personal income tax (i.e. salaries subject to 14 percent taxation were raised from 1,200 to 2,400 dollars) and the reduction of personnel in foreign oil companies. However, these arguments do not prove to be convincing enough; at least, statistically, only a small fraction of population earns more than 1,200 dollars in wages and the number of personnel working in the oil sector is not big enough (only two percent of the total employment) to affect the projected revenues goal from the personal income tax. According to the official statistics, before the crisis, there were 20-22,000 people working for foreign oil companies and approximately 1,500 to 2,000 of them were laid off as a result of the crisis.

Moreover, official statistics show that salaries were raised by 25 percent and an additional 105,000 jobs created in 2008, which would, at least theoretically, have brought more personal income taxes into the state budget.

### ***State Economic and Social Policy***

There was a calmness and confidence in the Azerbaijan government since fall 2008 when the global financial crisis started, based on the assumption that the crisis would bypass Azerbaijan, because of the strong economic fundamentals and sufficient reserves of the country. However, the effects of the crisis for Azerbaijan were aggravated by subsequent price drops in the world oil markets, consequently weakening local currencies. The impact became evident in the key macroeconomic forecasts of the government especially during January-April 2009. Since the country's exports are mainly oil products, there were several downward effects on the economy that can be seen first in the consolidated budget decrease for 2009. Also, import of goods and services contracted, declining by 17 percent and exports went down by 80 percentage points during the first seven months of 2009. Lower demand and the consequent dramatic fall in world oil prices nearly by 50 percent from its peak in March 2007 hit exports, which consist primarily of oil products (92 percent). Oil fund assets decelerated and are expected to be less by 17.6 percent as compared to the forecasts for 2008 or by 29.5 percent as compared to the actual oil fund revenues in 2008. Government's final figure for the 2008's cumulative GDP was twice below the initially expected one (actual 10.8 percent vs. expected 21 percent).

Given the greater reliance of the state budget on oil revenues, the downward trend in growth has exacerbated further. Unlike the previous years' growth in minimum salaries (2004-7), the government did not announce any upturns either in the minimum salaries or in pensions for 2009. Social expenditures were cut down from by 3.3 percent to 25.6 percent in 2009 and 41 percent in 2003.

Share of social protection and provision expenses will increase in 2009. However, share of transfers to State Social Protection Fund in total social

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expenses will decrease to 44.3 percent in 2009 from 48 percent in 2008 and 46.8 percent in 2007. Despite the increase of social expenses by 39.3 percent, only 10 Azerbaijani new manat (manat) or 12 dollars will be added to the base part of pensions in 2009, which surely is not adequate in comparison with the current volume of problems. However, investment expenditures in the state budget increased from 37.5 percent in 2007 to 49 percent in 2008. Equally worrying was that the capital inflows to Azerbaijan slowed dramatically by 10 percent since the onset of 2009. Despite a seven percent increase in the size of domestic investments last year, foreign investments comprised only 48 percent. The highest decline in investments was in the mining sector, by 31.3 percentage points. Along with this, investments into transportation, communication, and agriculture declined too. The crisis decelerated the growing inflation in the country from 20 percent inflation rate in 2008 to only three to four percent in the first half of 2009.

### ***Financial Sector and Bond Markets***

Until recently, banking was perceived as one of the most developed sectors of the economy. However, when the crisis started to hit the economy hard, oil prices, just like elsewhere, became less important in supporting economic growth and banks were forced either to suspend giving credits or their money became more expensive (because of the higher interest rates) and thus unavailable for many households and businesses. They are now being offered with a higher annual interest rate of 25-35 percent. That is because banks themselves are suffering insufficient funding (liquid money) to channel credits and presume the higher credit repayment risk upon giving out money to households and companies. But before the crisis, over one-third of the credit portfolio of banks (about 38 percent) was given to households for consumption. It can be inferred that the credits were not effectively promoting economic growth and covered only a small portion of the money demanded by the production sector. In terms of bank credits shares in GDP (18 percent) Azerbaijan lags behind many other transition states.

Though the government of Azerbaijan did not announce particular stabilization packages like in other oil and gas producing countries such as Kazakhstan,

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the Central Bank of Azerbaijan took several steps to provide flexibility for commercial banks in their liquid money management, by easing its reserve requirements on domestic liabilities to almost six percent in 2008 from 12 percent and decreasing discount rate to two percent from 15 percent. This was meant to allow commercial banks to earn money for their increasing preference for liquidity; at least, for a short time period the decreased reserve requirements injected 350 million manats liquid money into the local banking system.

However, boosting liquidity through administrative means could be ineffective given the magnified effects of the crisis resulting from residents withdrawing their deposits or exchanging them for “safer” currencies. And therefore, maintaining depositors’ confidence and stabilizing financial markets were the most recent policy response achieved through expanding deposit insurance. Before the crisis unfolded, one-third of credits issued by banks came from deposits and another 30 percent from foreign loans. But now the Central Bank reported that deposits went down by four percent. Deposit withdrawals amounted to 1.1 billion manats in February this year. In addition to the decline in deposits, the Central Bank repaid one billion dollar worth of foreign debts in 2008 and plans to repay another one and a half billion dollars in the coming future. The situation becomes even more serious given the fact that 60 percent of the investment into construction came from bank credits and construction companies were forced to stop their business due to the suspension of the bank credits. At best, maximum credit amounts were lowered to 6,200 dollars as a result of the high risk of non-repayment. Due to reduced funding and the frozen construction sector, real estate bubbles started to deflate and apartments started to sell much cheaper than before.

The credit issuance of banks decreased consumption capacity of the households and most influenced was the automobile market, where vehicles are basically purchased through bank credits. When banks stopped lending out credits, owners of the cars could not sell their automobiles and people could not buy new cars. Should stagnation continue in the housing market and oil prices keep falling down, how these credits taken by construction firms will be paid back to banks will remain unclear. Delayed repayment of bank

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credits may aggravate banks' need for money even further. All of these have already led to liquidity squeeze in the local banking system. Now, the pressing question is where these additional funds will come from to provide credit in the economy. Western banks are themselves looking for funding and cannot be relied on for future funding. As a result of suspension of credits, companies were not able to continue their operations profitably and thereby tax collections went down.

Given all these constraints and challenges associated with the crisis and the situation banks were facing, the government decided to introduce a policy to help the banks attract domestic depositors by expanding the minimum level of bank deposit insurance to 30,000 manats from 3,000 despite the fact that banks expected this amount to be raised up to 50,000 manats. This stabilized the situation with the deposits in the banks to a certain extent. The size of depositors started to grow as of April 2009. Experts believe that on the short term this is a more effective policy than directly financing banks since there are no effective governance tools in place to define to which banks and on which criteria such funds will be allocated. Above all, in order to directly finance banks, the government would first need to prioritize areas to protect against the crisis. What will be these credits spent on? Will they be spent to repay debts, continue giving consumption credits, or for other purposes? It is therefore equally important to determine the spending directions of government funds to banks as bailout.

The global financial crisis also affected the stock market in Azerbaijan and like in all other spheres there is money deficit in the stock market. Towards the end of the last year, when the impact of the crisis was the highest, shares of stock companies in all sectors, especially banks' own share prices have fallen by almost twice. Major buyers of shares used to be owners of stock companies and as a result of the crisis, they stopped purchasing shares and as such, interest in shares declined. Also because only a few big investment projects are implemented, some stock companies were not able to receive the expected demand for construction. Finally, stagnation in the construction field lowered the workload of stock companies. Price changes occurred in regions outside the capital too. Lower interest was also caused by the undermined ability

of stock companies to timely pay dividends to their shareholders. Due to the underdeveloped stock market, banks were not accepting company's shares as collateral for the credit, which directly lead to the decline in external income sources for investors and overall reduced market dynamic. Hence, it is possible to conclude that the financial crisis sharply reduced private sector credits in Azerbaijan.

Central Bank also faced additional spending pressures connected with its efforts to prevent currency depreciation and consequently Central Bank reserves have been steadily declining since the beginning of this year (due to the financial crisis and diminishing oil prices in the world markets.) Consequently, Central Bank reserves depreciated and additionally were used for maintaining the rate of the manat stable. The reserves of the Central Bank made up 4 billion 787 million dollars for 1 August 2009, 8.4 percent or 436.7 million dollars less than the same period of the previous year. Also in August, reserves declined by 22 percent (one billion 350 million dollars) as compared to the beginning of the current year, and 35.3 percent (294 million dollars) as compared with 1 July. Such a downfall continued until May and the situation stabilized during the following two months. Yet, as was mentioned earlier, the reserves again started to drop in August.

### ***Impact on Business Environment and Households***

Related to this weak economic performance, the real sector was hit with more force. Industrial production dropped precipitously by eight percent with the metallurgy industry (contraction by 62 percent), chemistry (by 53 percent), furniture production (42.6 percent), oil processing (10 percent), rubber and plastic materials (19 percent) receiving the highest blow during the first seven months of this year as compared to the same period in the previous year. Food production remained the same level as previous year. As a result of lower demand in the world markets, oil production decreased, ultimately influencing the flow of income from exports, certainly because oil and gas have the highest share in processing industry, 78.3 percent (and registered with only 1.6 percent growth since the beginning of the year.) Contrary to expectations, the government did not decrease the domestic price of oil in

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local markets and the underlying strength of the manat against the dollar led the country's exporters to a competitive disadvantage that rendered them less interested to produce oil products and export. The impact registered not only in the decreased production volume, but also in the number of employees working in this field. Unemployment went up by seven percent. The number of employees in the public sector decreased by 8.8 percent, 20 percent in metallurgy, and 25 percent in automobile industry. In addition, due to the crisis in Russia, the exports of agricultural products to Russia sharply decreased and Russian markets are no longer lucrative for Azerbaijan to export agricultural products. Due to the loss of the Russian markets, there was excess in agricultural products within the country and it impacted on the prices of agricultural products.

Another critical issue is people's declining income level and employment. The expected per capita income in nominal terms will increase by 22 percent as compared to the previous year's 29.4 percent. Given the current impact of global financial crisis, people's incomes and employment opportunities have reduced. Another concern with the declining incomes of people is the amount of remittances coming from the relatives of people working abroad, particularly in Russia. The initial figure show that remittances are on the fall. Many people in Russia, are unable to continue their employment and ending up earning less than before. Today, some experts argue that the remittances are going in the opposite direction, from Azerbaijan to Russia because entrepreneurs engaged in business in Russia had to sell their properties in Azerbaijan to keep their businesses alive especially after the shutting down of Cherkezov marketplace in Moscow.

The salary increase rate went down from 30 percent in 2007 to 19 percent meaning companies and the state cannot increase people's salaries and ultimately the purchasing power of population went down. The government did not review budget for the second time for 2009 unlike the previous years when due to more revenue inflows, the state budget expenditures including salaries and pensions increased.

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### ***Conclusion and Policy Recommendations***

Azerbaijan has made big strides in building up huge reserves as a result of oil and gas revenues over the last years. Due to the so-called strong economic fundamentals, there are expectations, at least on the reported level, that the country's huge reserves will contribute to overcoming the adverse impacts of the financial crisis within a short time. However, much will depend on real policy arrangements the government will employ to take the country through the crisis. While the effects of the crisis for Azerbaijan may lag behind other more financially integrated countries of the world, its eventual impact may be severe, especially given the lesser diversification level of the economy and higher oil dependency of the state budget. The worst of the global downturn is already in the past. However, the government of Azerbaijan needs to cleverly manage its policies under such risky and unpredictable circumstances.

Based on the analysis above, the government should, as a lead recommendation, continue its loose monetary policy for now. At the same time, a mixed approach, entailing policies both at the central bank level and overall government level should be preferred. The government should first of all pay more heed to lessening the reliance and thus elasticity of the budget on oil revenues and developing the non-oil sector through more tradable goods and services, while, more effective planning should be realized through the application of permanent oil income model with fair and equal distribution of incomes between current and future generations. The state budget should be planned for the long term so that all the risks are predicted and proper measures taken to mitigate any adverse impact. Of course, under the circumstances of greater budget dependency on oil, it is less likely that the budget would be planned over a long-term. That is why the lessening the dependence of the economy on the oil should be a priority. That may happen through boosting, in the long run, development in those sectors that are more labor-intensive such as agriculture, which accounts for 40 percent of the total employment and contributes only one percent to the overall employment in the country.

One of the key recommended policies is that the government should lower the internal market prices of oil products or at least should adjust them to

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the world market prices to remove the imbalances between world market and local market oil prices. This suggests that the country's exporters will be in a position to profitably produce and sell their products to the world markets.

Finally, the Central Bank should continue its efforts to create liquidity for banks. The Central Bank gives credits at a discount rate to commercial banks from its reserves. The government should enhance on mortgage credits and stimulate construction companies, insurance or appraisal companies and finally people's purchasing power for new apartments.

Another important aspect is to avoid increasing the money supply in circulation without increasing the overall GDP and therefore money supply should be gradually increased on condition that national currency rate is stable and inflation is not rising. Thus far there is no risk of higher inflation and therefore the Bank can delay returning to its tighter liquidity position in the long term in order to meet inflation targets.

The other recommendation of particular interest would be that credits of commercial banks are insured so that credit risks will ultimately go down and rates will go down so that people can easily take credits from banks. However, the challenge with such an option is that the insurance market is not adequately developed, thus creditors would insure their credits from commercial markets.

The government should continue its policy of raising the amounts of deposits to be insured. As economic conditions improve, this policy can be extended to cover the insurance of bigger deposit amounts to bolster economic growth.









The South Caucasus has experienced a particularly eventful past decade, including wars, initiatives to solve conflicts, and development of energy and transportation infrastructure. This volume collects 28 essays from the policy community focusing on the geopolitics of the South Caucasus. Taken together, the perspectives map out the contours of the region's power politics. In bringing together these pieces thematically, we aim to create a dialogue on the region over time and space.

The trajectory of the South Caucasus is in flux. Debates over declining U.S. global power, the perception of rising pressure from Moscow, Turkey's leaning towards the Middle East and North Africa (MENA) region, uncertainty over the future regional role of the EU, and concerns over the future course of Iran are weighing on the Caucasus. Meanwhile, infighting within the region and resistance to overcoming zero-sum approaches are detracting from momentum to work towards a better future in the region. Fortunately, heightened concern about these fault-line shifts can also trigger the search for sustainable solutions. This compilation aims to encourage constructive thinking, and rethinking of the paradigms that will define the region in the era ahead.



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