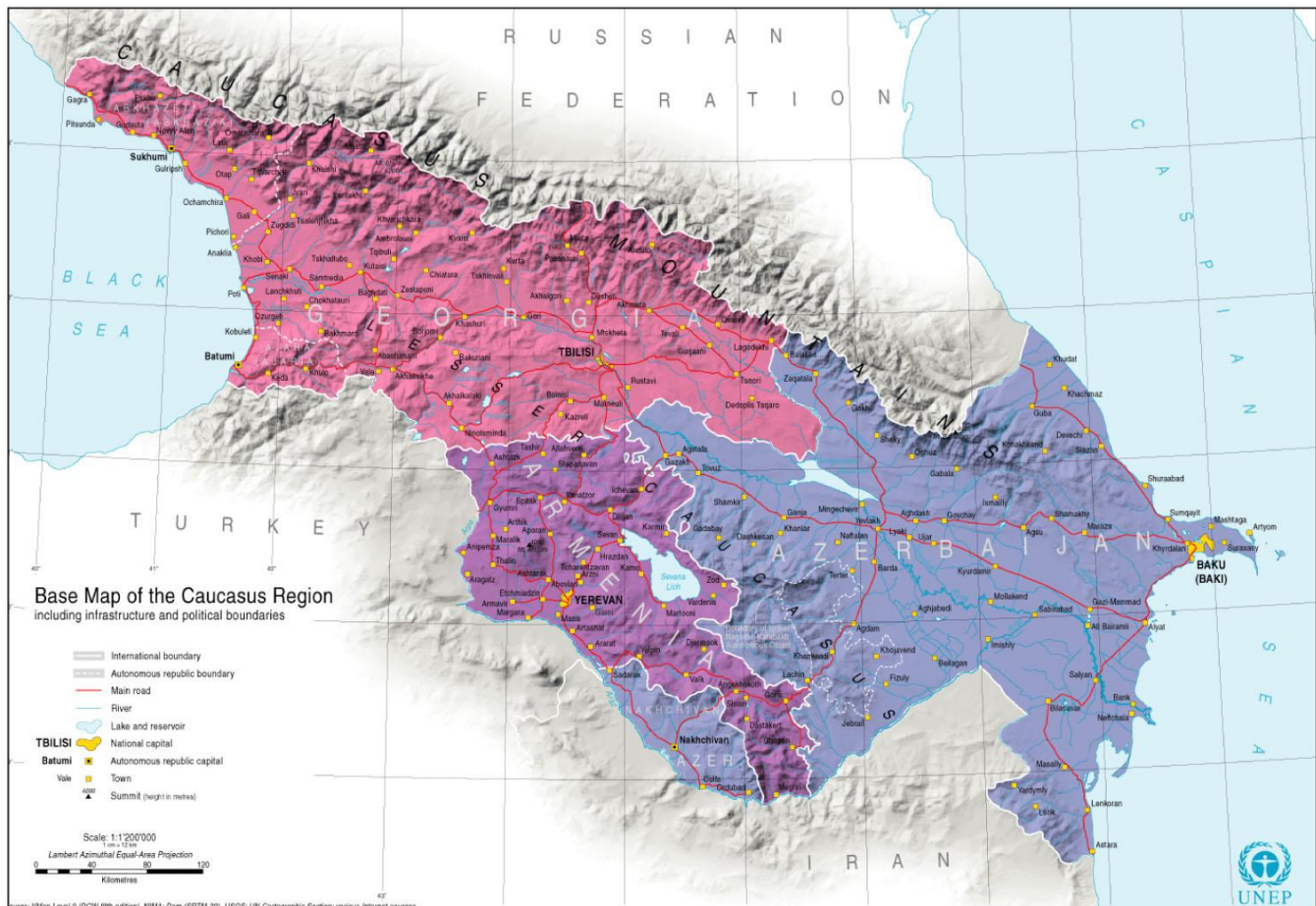


# The South Caucasus

## Between integration and fragmentation

May 2015



Fuad Chiragov  
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Dennis Sammut  
Cavid Veliyev

The views expressed, and terminology used in these papers are those of the authors and do not represent those of the EPC or SAM.

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## About the authors

**Fuad Chiragov**, Research Fellow, Foreign Policy Analysis Department, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)

**Vusal Gasimli**, Head, Economic Analysis and Global Affairs Department, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)

**Kornely Kakachia**, Professor, Department of Political Science, Tbilisi State University; Director, Georgian Institute of Politics (GIP)

**Reshad Karimov**, independent expert

**Andrey Makarychev**, Guest Professor, Institute of Government and Politics, University of Tartu

**Farhad Mammadov**, Director, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)

**Mehmet Ögütçü**, Chairman, Global Resources Partnership (UK); Executive Chair, The Bosphorus Energy Club (Istanbul)

**Gulshan Pashayeva**, Deputy Director, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)

**Amanda Paul**, Senior Policy Analyst, European Policy Centre

**Dennis Sammut**, Member of the EPC's Advisory Council, Director, LINKS (Dialogue-Analysis Research)

**Zaur Shiriyev**, Senior Research Fellow, ADA University

**Cavid Veliyev**, Head, Foreign Policy Analysis Department, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)

## Abbreviations

AA	Association Agreement
AKP	Justice and Development Party
BP	British Petroleum
BSEC	Black Sea Economic Cooperation
BTC	Baku-Tbilisi-Ceyhan (pipeline)
BTE	Baku-Tbilisi-Erzurum (pipeline)
BTk	Baku-Tbilisi-Kars (railway)
CAREC	Central Asia Regional Economic Cooperation
CCTS	Cooperation Council of Turkish Speaking States
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CIS PKF	Commonwealth of Independent States Peacekeeping Force
COE	Conseil de l'Europe
CSCP	Caucasus Stability and Cooperation Pact
CSDP	Common Security and Defence Policy
CSRASPI	Centre for Support of Russian-Armenian Strategic and Public Initiatives
CSTO	Collective Security Treaty Organization
DCFTA	Deep and Comprehensive Free Trade Area
EAEU/EEU	Eurasian Economic Union
EAPC	Euro-Atlantic Partnership Council
ECO	Economic Cooperation Organization
ECU	Eurasian Customs Union
ENP	European Neighbourhood Policy
EaP	Eastern Partnership
EPP	European People's Party
EU	European Union
EUMM	European Union Monitoring Mission
EUSR	European Union Special Representative
GD	Georgian Dream
GDP	Gross Domestic Product
GUAM	Organization for Democracy and Economic Development
FDI	Foreign Direct Investment
IDP	Internally Displaced Person
IOC	International Olympic Committee
JPKF	Joint Peacekeeping Forces
MAP	Membership Action Plan
MNNA	Major Non-NATO Ally
MoD	Ministry of Defence
NAM	Non-Aligned Movement
NATO	North Atlantic Treaty Organization
NDI	National Democratic Institute
NGO	Non-Governmental Organisation
NKAO	Nagorno-Karabakh Autonomous Oblast
NKR	Nagorno-Karabakh Republic

NRF	NATO Response Force
OECD	Organisation for Economic Co-operation and Development
OIC	Organization of the Islamic Conference
OSCE	Organization for Security and Co-operation in Europe
PACE	Parliamentary Assembly of the Council of Europe
PAP-T	Partnership Action Plan against Terrorism
PARP	Planning and Review Process
PCA	Partnership and Cooperation Agreements
PfP	Partnership for Peace
IS	Islamic State
ISAF	International Security Assistance Force
ISIL	Islamic State of Iraq and the Levant
IRI	International Republican Institute
ROC	Russian Orthodox Church
RF	Russian Federation
SCO	Shanghai Cooperation Organisation
SGC	Southern Gas Corridor
SOCAR	State Oil Company Azerbaijan
SOFA	Status of Forces Agreement
SPS	Science for Peace and Security
SSR	Soviet Socialist Republic
START	Strategic Arms Reduction Treaty
TAP	Trans Adriatic Pipeline
TANAP	Trans-Anatolian Pipeline
TASIM	Trans-Eurasian Information Super Highway
TRACECA	Transportation Corridor Europe-Caucasus-Asia
UN	United Nations
UNGA	United Nations General Assembly
UNM	United National Movement
UNOMIG	United Nations Observer Mission in Georgia
UNSC	United Nations Security Council
US	United States
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics
VAT	Value-Added Tax
WMD	Weapons of Mass Destruction
WTO	World Trade Organization





# Introduction

Lying at the crossroads between East and West and South and North, the South Caucasus is situated at the intersection of Eurasia's major energy and transport corridors. An important geostrategic region, for centuries it has been the theatre of competition between regional powers, including the Persian, Russian, and Ottoman Empires. While these empires may have disappeared, their successor states continue to jostle for influence along with new players, including the US, NATO, EU and China. Hence, despite being independent for more than two decades, the three South Caucasus states – Armenia, Azerbaijan and Georgia – continue to feel the influence and, in some cases, threat, of external actors

The South Caucasus is a complex region. Despite the pre-existing interdependence between the three states under the Soviet umbrella via economic, infrastructural and cultural ties, Armenia, Azerbaijan and Georgia not only broke away from Russia with the collapse of the Soviet Union but from one another too, resulting in an immediate fragmentation of the region. The collapse of a centralised economy and the conflict between Azerbaijan and Armenia over Nagorno-Karabakh played a significant role in the isolation of these countries from one another.

More than two decades after the collapse of the Soviet Union, the region has not yet been politically or economically integrated. Furthermore, it is also plagued by a range of political, security and economic challenges, including separatist conflicts (South Ossetia, Abkhazia, and Nagorno-Karabakh), closed borders, weak state institutions, issues with the rule of law and underdeveloped economies. While the main reasons behind the region's fragmentation are undoubtedly internal, certain external players have also acted to maintain the *status quo*, which allows them to maintain a strong influence there.

For traditional powers Iran and Russia, the entry of some new players into the region has not been welcomed. Both Iran and Russia share concerns over the hypothetical enlargement of NATO, the economic importance of the Caspian energy resources to the West, the transit routes in the region and the political and military presence of the US in the region.

While Iran's regional outreach has been limited by international sanctions as a result of its nuclear programme, Russia's sway remains significant. It continues to have a strong influence via trade, security, energy and cultural ties. Furthermore, the unresolved conflicts in Georgia and Russia's military base in Armenia have allowed Russia to "leave the South Caucasus without leaving". Not only do they allow Russia to project its power across the region through a military presence, the unresolved conflicts can be used to create instability when the need arises. Furthermore, Russia's recognition of Abkhazia and South Ossetia, and the protectorate status that it has adopted towards the two territories is a guarantee of long-term instability in the region. Turkey, despite having established important economic cooperation links with Azerbaijan and Georgia plays, by and large, a blocking role in the region by linking the normalisation of relations with Armenia and the opening of the border with the settlement of the Nagorno-Karabakh conflict.

Regional tensions have been exacerbated by steps taken by the three South Caucasus states to deepen ties with the West, in particular with NATO and the EU. Russian President Vladimir

Putin's attempts to gather former Soviet republics in a Eurasian Union under Russian leadership came as a response to efforts of some of the countries aspiring to sign Association Agreements (AA) and Deep and Comprehensive Free Trade Agreements (DCFTA) with the EU. Russia's illegal annexation of the Ukrainian Peninsula of Crimea and ongoing war in Eastern Ukraine was a further response, and underlined what could be the consequence of defying Russia. Meanwhile the EU, US and NATO lack a coherent strategy that takes into account the realities and threat from Russia.

Armenia, Azerbaijan and Georgia have, for different reasons, chosen to integrate into different, and in some cases opposing integration projects, including NATO, the Eurasian Economic Union (EAEU), the Collective Security Treaty Organization (CSTO), the Commonwealth of Independent States (CIS) and the EU via its European Neighbourhood Policy (ENP) and Eastern Partnership (EaP).

Today all three South Caucasus countries have chosen different geostrategic paths, which has left the region further fragmented and volatile. While Georgia has made membership of the EU and NATO a priority, Armenia became a member of the Eurasian Union in January 2015. Meanwhile, Azerbaijan has chosen not to choose and continues to try and balance between the West and the different regional actors.

The aim of this multi-authored set of papers is to offer a broader and better understanding of developments in the South Caucasus, and analyse the different foreign trajectories that each of the three states is following, and the impact and goals of the policies of the different external players.

# Europeanisation and Georgian foreign policy

*Kornely Kakachia*

## Introduction

Georgia's goal of having closer ties with the European Union (EU) and North Atlantic Treaty Organization (NATO), as well as the country's need to maintain balanced relations with its neighbours, are among the factors influencing Georgia's foreign and security policy. Compared to its predecessor, the current Georgian government has been less visible on the international stage. Nevertheless, overall it has been committed to a course of pro-Western foreign policy, thus entering Tbilisi into a new chapter of internal development strongly driven by public opinion – "irreversible Europeanisation".

Euro-Atlantic integration is Georgia's top foreign policy priority. It is less a question of choice than a strategic necessity. Tbilisi's main objectives are close association with the EU; visa liberalisation; obtaining a Membership Action Plan (MAP) from NATO; and securing economic assistance from the West. While refraining from formal diplomatic relations with Moscow due to Russia's occupation of the Georgian territories of Abkhazia and South Ossetia, the Georgian authorities want to engage in a constructive dialogue with Russia without having to sacrifice national interests. While this could help alleviate a security predicament, it is far from easy. As the government so far displays no subservience to Russian influence and repeatedly emphasises the need for continued Euro-Atlantic integration, there are some indirect signs that Moscow, emboldened by the change of leadership in Tbilisi, is seeking to lure Georgia into the Russian political and security realm.

## Georgia's Europeanisation project: challenges and opportunities

The signing of the Association Agreement (AA), including a Deep and Comprehensive Free Trade Area (DCFTA), with the EU on 27 June 2014 marked an important crossroads in Georgia's foreign and security policy. The agreement not only brought Georgia closer to the EU, but reaffirmed Georgia's position as the "centre of gravity" for Western engagement in the South Caucasus<sup>1</sup>, given that Georgia's neighbours Azerbaijan and Armenia are moving in different directions. The EU Neighbourhood Barometer for Georgia<sup>2</sup>, conducted in the framework of an EU-funded opinion polling project for the Neighbourhood, found that 69% of Georgians feel the EU is an important partner, with 56% believing the EU and Georgia share sufficient common values to be able to cooperate. Many of those polled (56%) also believe the EU brings peace and stability to the region. The poll also revealed a high level of trust among Georgians in international institutions. The majority of those asked (61%) said they trust the EU, followed by NATO (59%) and the UN (54%).

Although it may take several years for all EU-member states to ratify the AA/DCFTA, the document allows for provisional application of parts of the agreement prior to the completion of the ratification process in national EU parliaments and the European Parliament. However, there are many challenges, too. While the DCFTA is expected to boost Georgia's GDP by 1.7% in the short term and 4.3% in the long term, a significant number

of standards and regulations are yet to be implemented, while the impact on job creation will only be marginal.<sup>3</sup> Real benefits will only be felt in the mid to long term, after a period of adjustment. However, while Georgian manufacturers will face certain costs related to certification, this should be seen as an investment that will enhance their business prospects in the long term. Moreover, the agreement is likely to boost investment, and help create new companies, as well as modernise several sectors of the economy through reforms. Food safety and consumer goods standards will also improve. Finally, citizens and businesses alike will benefit from more transparency.

Georgia also expects to benefit from European aid and monitoring, democratic conditionality strategies, institutional and knowledge transfer, and foreign investment.<sup>4</sup> As further engagement with EU is expected to be a symbolic breakthrough in the Europeanisation plans of Georgia, it could become of crucial importance for the future development of the region.

Georgians broadly agree that such a commitment to the West is crucial for the process of democratisation. As the Speaker of the Georgian Parliament put it: "the Europeanisation of Georgia is becoming as important as democratisation."<sup>5</sup> However, given the challenges associated with Georgia's political and economic harmonisation, ongoing tensions with Russia, and the serious obstacles stemming from within Europe itself – economic turmoil, enlargement fatigue, lack of strategic vision and leadership – Georgia's path to membership may be long if, it ever happens at all. However, even without real certainties and with plenty of fears, Georgia has no option but to go ahead, as it has already invested so much energy in Euro-Atlantic integration over the past two decades. Furthermore, despite the fact that the agreement does not guarantee EU membership in the foreseeable future, it recognises the ambition and aspirations of the Georgian people to one day become a member of the European family.

### **Wales NATO Summit and Georgia's uncertain bid**

As was expected, the Wales NATO summit did not offer Georgia a Membership Action Plan (MAP), with Tbilisi's quest for membership remaining elusive. However, Georgia still received an important consolation prize when NATO leaders named Georgia as one of five nations designated as enhanced partners of the alliance.<sup>6</sup> In the Wales Declaration<sup>7</sup>, NATO leaders acknowledged the visible progress that Georgia has made since the 2008 Bucharest summit and stated they would provide a "substantial package" as a tool to further boost Georgia's integration with NATO.

The package includes establishing "a defence capacity building mission" and training centre in Georgia, more participation in NATO military exercises in and outside Georgia and expanding the NATO liaison office in Tbilisi. The package also aims to enhance Georgia's defence capabilities, in particular by supporting the Ministry of Defence and promoting reforms aimed at modernising Georgia's defence and security sectors. It also aspires to increase the interoperability of Georgia's armed forces by involving them in more NATO trainings and exercises.<sup>8</sup> According to former Defence Minister Irakli Alasania the package also gives Georgia, among other things, "the possibility to procure air defence and anti-tank systems, although this would require more defence funding".<sup>9</sup>

The unveiling of this package received different reactions from Moscow and Washington. On 8 October 2014, the Russian Foreign Ministry issued a statement expressing "concern in connection to the Georgian media reports about plans to deploy military infrastructure on the territory of Georgia in the interests of NATO". According to the Kremlin, such actions would create a threat to the "emerging stability in the Transcaucasia region".<sup>10</sup> On the other hand, immediately after the summit, in a gesture aimed at reassuring Georgia's leadership that Tbilisi is not alone, US Defence Secretary Chuck Hagel visited Georgia.<sup>11</sup> Hagel informed Tbilisi that with Washington being increasingly concerned about Russia's expansionist plans, the White House intends to make an extensive contribution to the "substantial package" and pledged to continue its bilateral capacity building efforts with Georgia. Hagel also outlined a possible role for Georgia in the US-led coalition to destroy the Islamic State of Iraq and the Levant (ISIL).<sup>12</sup> However, critics say Hagel sought to neutralise a possible backlash from NATO's decision not to move ahead with a MAP by focusing on Georgia's newly obtained "special partnership".

Georgia will continue to face strong opposition from Russia, especially with respect to Abkhazia and South Ossetia. On 13 October 2014, the Kremlin unveiled the so-called Agreement on Alliance and Integration between Russia and Abkhazia, which envisages a gradual, but ultimately complete merger of the separatist region's defence, law enforcement, customs, border, economic and healthcare agencies with those of the Russian Federation's within a three-year time period. As was expected, South Ossetia followed suit. Under these circumstances, some Western friends of Georgia have suggested that Georgia should think "outside the box" regarding territorial integrity and even "think the unthinkable". However, while Tbilisi is not going to sacrifice its sovereignty and territorial integrity, there has been some discussion about whether or not Georgia could become a NATO member without extending security guarantees to its breakaway regions. This would follow the model of West Germany, which joined NATO in 1949 despite its own frozen conflict with Moscow – one that was not solved for decades. Supporters of the idea claim that it would not oblige the Alliance to defend parts of Georgia that have not been directly governed by Tbilisi for twenty years.

### **Stuck in NATO's waiting room**

While Georgia is committed to active political dialogue and practical engagement with NATO via the NATO-Georgia Commission and the Annual National Program, it seems that Georgia's NATO membership bid remains indefinitely frozen, despite Georgia's efforts to prove its commitment to the alliance. Today, Georgia is the largest non-NATO member troop contributor to the International Security Assistance Force (ISAF) in Afghanistan and has indicated its willingness to participate in the post-2014 mission. Georgian troops continue to play a disproportionately important role in EU missions in the Central African Republic and Mali. Tbilisi also continues to try and prove itself a *de facto* US ally, even without a formal alliance. While Georgia's commitment is greatly appreciated, it has not as yet had an impact on the leaderships of some major European NATO members (France, Germany, Italy), which seem content with the alliance's existing composition, despite having promised Georgia a seat at the NATO table at the 2008 Bucharest summit. On 13 June 2014, during her meeting with Georgian Prime Minister, Irakli Menagharishvili, Chancellor Angela Merkel made it clear that Georgia should not pin its hopes on receiving a MAP at the Wales summit in

September, adding that there are options other than MAP through which Georgia's progress can be reflected.<sup>13</sup> To make matters worse, during his meeting with NATO Secretary General Jens Stoltenberg in Paris on 2 March 2015, French President François Hollande stated<sup>14</sup> that his country is against NATO enlargement and those countries who seek membership should be rejected at this time. While the government has tried to sell Hollande's statement as being influenced by current efforts to resolve the ongoing crisis in Ukraine and concerns about antagonising Russia, the statement caused some misgivings in the Georgian public.

While the door to Georgian membership in NATO has been kept open rhetorically, in practice the membership of the country has been put on hold. Nevertheless, the process itself has had a very positive impact, especially when one considers the point from which it started. The cooperation with NATO has achieved significant security sector reform, and brought the Georgian armed forces much closer to NATO standards.

### **Euro-Atlantic integration and public opinion**

Despite the fact that there is no indication that Georgia will become a member of neither the EU nor NATO in the near future, a large part of society continues to support membership of both. NATO membership is viewed not only as a security guarantee but also as a symbol of belonging to the West. According to a survey by the US International Republican Institute (IRI) conducted in February 2015, support for Georgia's integration in the EU and NATO remains strong at 85% and 78%, respectively. Moreover, despite political differences between the Georgian government and opposition, there is a consensus on this issue.

In March 2013, the Georgian Parliament unanimously adopted a 14-point Resolution on the Basic Directions of Georgia's Foreign Policy, drafted by the ruling Georgian Dream Coalition (GD) and the opposing United National Movement (UNM) factions, which confirms Georgia's desire to join NATO and the EU.<sup>15</sup> This decision underlined that few strategic disagreements exist between the GD and the UNM. Both sides agree on the non-recognition of the Russian-sponsored "independence" of Abkhazia and South Ossetia, while they also agree on the indefinite postponing of the resumption of diplomatic relations with Moscow. The resolution states that "Georgia cannot have diplomatic relations with countries which recognise the independence of Abkhazia and the Tskhinvali region/South Ossetia". It also excludes Georgian membership of "military-political or customs unions" with such countries. Simply put, it means that Georgia will not join Moscow-dominated organisations such as the Eurasian Union, the Commonwealth of Independent States (CIS), the Collective Security Treaty Organization (CSTO), or the Customs Union. Furthermore, the adoption of the resolution means a dramatic turnaround in relations between Moscow and Tbilisi is unlikely.

### **Ukrainian crisis: reverberations for Georgia**

Russia's annexation of Crimea and attempt to redraw the map of Europe had a significant impact throughout Eastern Europe, including Georgia. Amid reports of Moscow's direct support of the separatists in Eastern Ukraine, Georgians are closely monitoring developments in the region, concerned about the potential threat the crisis may pose for their country.



For Tbilisi the crisis in Ukraine is not simply an issue of geopolitical importance, but is also based on genuine concern over a country it has close and friendly relations with, and who considers it as a strategic partner. As Georgians feel a strong kinship with Ukrainians, they also believe the struggle for Ukraine's sovereignty will indirectly decide their own fate as, according to popular belief, Ukraine is a more important geostrategic asset for Europe than Georgia. In a February survey of nearly 4,000 Georgians commissioned by IRI<sup>16</sup>, 76% of the respondents viewed Russia as "a real and existing threat". As the crisis in Ukraine deepened, this figure increased. As a result, Georgians have become more vocal in supporting Ukrainian independence with some Georgians even fighting for its territorial integrity.

Many Georgians believe that Russia is repeating in Ukraine what it did in Georgia in August 2008. There are many common factors – distribution of Russian passports, reinforcing military infrastructure and units by Moscow on the territory of another state, as well as the decision taken by the Russian Parliament to allow the Russian armed forces to protect the "interests of compatriots" living in Ukraine. Such activities are a flagrant interference in the internal affairs of a sovereign state. There is a strong conviction that Russia's actions against Ukraine might have been unsuccessful if the international community had had a more robust response to the 2008 Russia-Georgia war. The weak Western reaction seemed to have left Moscow believing it could get away with seizing Crimea as well.

While some voices in the West blamed Georgia for provoking the war with Russia and called on Tbilisi to show restraint and take steps to improve relations with Moscow, the Ukrainian crisis underlined the failure of the West to understand Russia's ambitions and objectives in the former Soviet space, and how far Moscow is ready to go to achieve its objectives.

While the immediate reaction to Russia's invasion brought about a different response from Tbilisi and Kiev, the end result in both cases was almost the same; the occupation of territories, with the international community unable to make Russia comply with international resolutions demanding the withdrawal of its troops. Russia's intervention in Ukraine has raised further concerns about the safety of the territorial sovereignty of Georgia.

Tbilisi hopes that the Ukraine crisis may bolster political support for its own security concerns regarding Russia.<sup>17</sup> There is an expectation that it may push Western leaders to take decisive steps to speed up the region's integration with the West in the same way the Russian-Georgian war prompted the EU to speed up the Eastern Partnership (EaP). Though the EaP does not contain a promise of eventual EU membership, it has played an important role in consolidating the EU's geostrategic choice of Moldova, Georgia and Ukraine. While EU leaders have been unable to bridge their differences in order to deliver tangible plans that could change the geopolitics of the region, Washington seems to be taking some steps in this direction.

An important signal was the recent initiative by US Congress to initiate the Russian Aggression Prevention Act of 2014 Bill<sup>18</sup>, currently under consideration in the US Senate. If agreed it would grant Georgia, Ukraine and Moldova major non-NATO ally (MNNA) status, including closer interaction by US Armed Forces with these three countries plus Azerbaijan. Though an MNNA status does not entail the same mutual defence and security guarantees afforded to NATO members, if it passes into law, the bill could set the stage for a stronger affirmation and strategic

importance the US places on the wider Black Sea region.<sup>19</sup> While the US is not prepared to defend Georgia, Ukraine and Moldova against Russia today, it is important to counter perceptions that the US (and the West) have acquiesced to increased Russian dominance in the region.

### **Internal implications of the Ukrainian crisis**

The Ukrainian crisis is also important for Georgia's domestic politics. Since the Rose and Orange Revolutions, the political elites of both countries have enjoyed strong political ties. Using personal contacts (Saakashvili graduated from international relations in Kiev), as well as revolutionary solidarity, the UNM government under Saakashvili enjoyed unprecedented influence over Ukrainian politics. During his presidency, Saakashvili established a strong cooperation with a number of Ukrainian politicians, including Viktor Yushchenko and Yulia Tymoshenko. More importantly, these links were institutionalised by inter-party cooperation using affiliation in international platforms such as the European People's Party (EPP) and other European structures where the UNM, together with the Rukh and Batkivshchyna parties, enjoy the support of European politicians that share the same ideology. Saakashvili even tried to influence the Ukrainian elections in 2010 when he openly supported Yulia Tymoshenko against Viktor Yanukovich by sending election observers to Donetsk, a political stronghold of Yanukovich. Even today, due to his image as a political reformer, Saakashvili enjoys significant support from the new authorities in Kiev with some members of his former team working as advisors for different parts of the Ukrainian government.

The policy of the GD government is significantly different from that of its predecessors, with Tbilisi abandoning its openly anti-Russian rhetoric. While the Georgian opposition called on the government to voice its unequivocal and steadfast position in support of Ukraine – "to condemn Russia's brazen military aggression." –, the government responded carefully. While it supported Ukraine's territorial integrity, it was done through a carefully worded statement to avoid irritating Moscow. Unlike the previous administration, the GD government prefers to use diplomatic language instead of emotional statements to criticise its northern neighbour. Tbilisi also understands the geopolitical stand-off between Russia and the West over Ukraine leaves little space for any meaningful incentives for Georgian diplomacy.

### **Conclusion**

During the past two decades, since regaining its independence, the main goal of Georgia's foreign and domestic policy was to escape from Russia's historic, geographic and civilizational space. In some ways, fleeing Russia's backyard became a nationwide mantra emanating from an identity-based narrative. While the signing of the AA with the EU is a significant step towards joining "the European family of nations", it is still not what the Georgian political class calls a "return to Europe". While generations of Georgians have hoped and waited decades to see this day, they also understand that the sweeping political and economic agreements do not come with a promise of EU membership and that serious challenges remain, including Russian retaliation.<sup>20</sup>

However, despite the complexity and difficulties related to the realisation of EU aspirations, the perspective for Georgia's Europeanisation and long-term integration is open and realistic,



especially when one considers the point from which it began. Given the zero-sum nature of Georgian politics, Georgia's main challenge is to turn the successful European policy into concrete steps to institutionalise democracy. As support from the West will remain crucial, Georgia's economic difficulties and uneven income distribution must also be addressed. By following such recommendations, Georgia can achieve the degree of international cooperation needed to ward off Russian threats, and safeguard its sovereignty. As relations between Georgia, Russia and the West are currently undergoing important changes, it remains to be seen whether Georgia will be able to bargain the best deal for itself in this delicate situation.

**Kornely Kakachia, Professor, Department of Political Science, Tbilisi State University; Director, Georgian Institute of Politics (GIP)**

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# Russia's policies in the South Caucasus after the crisis in Ukraine: the vulnerabilities of realism

*Andrey Makarychev*

## Introduction

This paper is inspired by two paradoxes that appear when analysing the repercussions of the Ukraine crisis for other post-Soviet regions, in particular the South Caucasus. First, there is a paradoxical discrepancy in approaches employed by major actors in the post-Soviet space. The crisis in Ukraine was marked by an upsurge of explicitly normative discourses from all parties involved in the conflict. The policy of the EU, since the inception of the Eastern Partnership (EaP), has been dominated by normative/value-driven considerations. Furthermore, Russia itself pursued a policy overwhelmed by normative and identity-laden issues, from resisting the malign expansion of the European liberal emancipation to "protecting" Russian-speaking population.

In the South Caucasus, a region that along with Eastern Europe, oscillates between the EU and the Customs/Eurasian Union, the situation looks very different. Against the background of developments in Ukraine, major actors are increasingly willing to speak the language of realism. From the EU side, there is almost a consensual understanding that the EaP needs to be revised and adjusted to the new realities on the ground, including in the South Caucasus. It is not uncommon for German experts – the most influential EU country – to claim that the Europeans need to make Russia respect their interests both in bilateral relations and in their shared neighbourhood.<sup>1</sup>

Many Russian experts readily and vociferously advance their own versions of realism. Some claim that Russia's annexation of Crimea is not dissimilar from the numerous cases of land grabs by major powers throughout history.<sup>2</sup> One of the ensuing arguments is that with power (geo)politics back, "responsible stakeholders in Tbilisi, Yerevan and Baku have realised that should there be serious warfare in the region, there will be no international institution powerful enough to stop it, or any great European power ready for head-on military collision to defend their clients' interests".<sup>3</sup> Simply put, countries in Russia's "near abroad" cannot expect any external help in the event that they encounter security problems with Russia. Another argument articulated by Kremlin loyalists in the aftermath of the Ukraine crisis claims that the time for multi-vectoral policies is over, and most of the post-Soviet countries should get ready to make their – deeply political – choices.<sup>4</sup>

The countries of the South Caucasus also position themselves within the realist paradigm. The Georgian government defines its foreign policy toward Russia as based on the classical tenets of Realpolitik.<sup>5</sup> Armenia too explains its decision not to proceed with the signing of its Association Agreement (AA) negotiations with the EU in the vocabulary of rational choice, referring primarily to pragmatic security and economic considerations.<sup>6</sup> Azerbaijan, in spite of its implicit disagreement with the "end of multi-vectoral policies" argument, sticks to its own version of realism aimed at balancing Russia and rebutting exactly what Moscow insists on; making a definite political choice in a situation of ambiguity.

It is at this point that the second paradox pops up: in spite of a seemingly similar language of national interests and security, the South Caucasus is not becoming safer and more stable. This aspect of the debate is particularly salient against the backdrop of a series of well-articulated explanations over the Ukraine crisis being a result of the West's disproportionate efforts to promote liberal values, which made Russia respond.<sup>7</sup> Yet for obvious reasons there is much less room for either Western or Russian "ideational overlays" in the South Caucasus, which explains the domination of more realist policy frames in the region. Whether it makes it more secure is very debatable.

My contribution to this debate consists of unpacking Russian foreign policy approaches to the South Caucasus, focusing on key elements of Russia's regional strategy, and describing its most vulnerable points and areas of contradiction with the EU.

### **The limits of the "Russian World"**

The policy of Russia President Vladimir Putin in the post-Soviet area in general, and in the South Caucasus in particular, is a combination of two approaches that have their own logic, yet might coincide in many important respects. The Kremlin tries to balance between the two and find a middle ground.

One approach is represented by advocates of a radical nationalist strategy of force-based domination. Many of these ideologues claim that no compromise with the West is attainable, and even predict a new world war in which Russia would need to defend itself against the increasingly aggressive West.<sup>8</sup> Many of these voices come from different sources outside of the government (including the nationalistic part of academia and the military), yet their influence is also strong in policy making circles.

Another approach is articulated by proponents of a (neo)realist version of Russia's strategy, for whom the *finalité politique* is not a forceful overlay of Russian might in the neighbouring regions, but a search for a new deal with the West based on a great power management model. In their reasoning, either the rivalry with the EU and NATO "continues without any rules, or Russia and the West will be forced to finally become engaged. In doing so, they will define their interests, resources and opportunities through effective negotiations and cooperation, instead of the endless zero-sum games".<sup>9</sup>

The two versions of Russia's strategy share at least one common point; the idea of the "Russian world", which, for nationalists, is a matter of identity, while for pragmatists it constitutes an indispensable resource for bargaining with the West. They also coalesce on the point of forcing the West to recognise the inclusion of Eastern Europe – and to some extent the South Caucasus – into the Russian sphere of interests.<sup>10</sup> In particular, the concept of a "greater Caucasus"<sup>11</sup> that intentionally blurs the lines between its northern and southern parts, serves this purpose by implicitly pointing to the exceptional role of Russia in this region.

Yet in the South Caucasus Russia faces a reality substantially different from Eastern Europe, with the key distinction being a very limited space for the "Russian world" – a core concept acknowledged by both ideologues and pragmatics. In the absence of strong Russia-oriented

communities in any of the three countries of the region, Moscow can use the "Russian world" only as an element of its policies toward South Ossetia and Abkhazia. As for the ruling elites and business circles in Armenia, the most pro-Russian country in the region, their loyalty to the Kremlin is more pragmatic than normative, and is based on practical calculations.

Moreover, it is from the religious circles of Abkhazia that the domination of the Russian Orthodox Church (ROC) – a pivot of the "Russian world" concept – was challenged. Dorofei, the head of the self-proclaimed Abkhaz Church, claims that instead of canonical services, the Moscow Patriarchate is more bent on fighting Western conspiracies. In his words, "Russian Orthodoxy, unfortunately, is coming back to its pre-revolutionary way of life that led to revolution and the destruction of the church itself. I am sad about a medieval understanding of the church mission, with priests thinking of themselves as grandees and the ensuing enrichment... This explains alienation from the church that has lost reputation among certain groups within Russia".<sup>12</sup>

The schism within the Abkhaz Orthodox Church – between those loyal to the Moscow Patriarchate, the Constantinopolis patriarchy and the independists – constitutes a major challenge to the concept of the "Russian world" in the South Caucasus. In spite of the former Abkhaz President Ankvab's direct appeal to the Patriarch Kirill, the latter refuses to recognise and take under his canonical supervision the Abkhaz Orthodoxy.<sup>13</sup> This position not only creates a feeling of uncertainty in relations between the ROC and the Kremlin's policy of integrating Abkhazia with Russia, but is also lambasted in Abkhazia as undermining its claims for independence from Georgia. This expands a list of Abkhazian complaints toward Russia in more material fields – due to security restrictions Abkhazia was cut off from the Sochi Olympics<sup>14</sup>, and its businessmen feel that Russia neglected to invest in Abkhazia. Besides, "if Moscow decides to redirect the tourist stream to Crimea, small and medium sized businesses in Abkhazia will have nothing left".<sup>15</sup>

Moscow's attempts to project its understanding of the "Russia world" beyond break-away territories can be even more problematic, since it reveals its strong imperial tones. "If Armenians want to feel safe, they have got to speak Russian", Moscow's propagandist-in-chief and Russian media personality Dmitry Kiselyov instructed Russia's closest Caucasus ally Armenia.<sup>16</sup> Such incidents explain the widely spread criticism of the Russian soft power that in many substantial respects is drastically dissimilar from – rather than complementary to – the EU policy toolkit.

### **How different are the EU and Russia in the South Caucasus?**

These examples show that the concept of the "Russian world" looks controversial and betrays deep gaps between Russia's and EU's regional strategies. They also unveil that Moscow – in spite of its previous claims about post-Soviet integration as a means for protecting the sovereignty of its neighbours against the encroachments from the West<sup>17</sup> – seeks to absorb these sovereignties rather than strengthen them. A perfect example of this is a *de facto* creeping incorporation of Abkhazia into Russia as a retaliatory measure against Georgia signing the Association Agreement (AA) with the EU, a policy move that, as the case of Ukraine made clear, is a powerful irritant for Moscow. This type of reaction drastically differs

from the EU's integration model that is devoid of either strong military instruments or a record of dismembering neighbouring states.

A second distinction between the EU and Russia is a very different understanding of the freedom of choice. One may argue that Moscow's strategy towards Armenia is not about making an offer that would ultimately change this country from the inside, but rather about limiting Armenia's scope of choices to the point of eliminating the very possibility of alternatives to the pro-Russian orientation. Again, it is not the adherence to common norms or values, but the security trump card that Moscow used to make Yerevan stop its AA negotiations with Brussels, exploring Armenia's deeply rooted concerns about Nagorno-Karabakh, rather than its own sovereignty. This is what facilitates Russia's policy of using Nagorno-Karabakh – as well as South Ossetia and Abkhazia – as a platform to project its power, along with ensuing instability, in the region. It is at this point that the neocolonial nature of the Russian reintegration project comes to the surface.<sup>18</sup>

A third distinction between Russia and the EU lies in the lack of strong supranational mechanisms in the Moscow-sponsored integrative project. Dmitry Trenin suggested that "perhaps, comparing the situations in the Balkans and in the South Caucasus, Moscow contemplates whether it makes sense to borrow something from the EU toolkit in solving the problems with Kosovo and Serbia".<sup>19</sup> Presidential advisor Sergey Glaziev echoed this logic by presuming that taking into account both Armenia's integration with the Customs Union and the conflictual state of its relations with Azerbaijan, Russia is interested in "the fully-fledged participation" of the latter in the Eurasian Union.<sup>20</sup> Yet it is exactly at this point that the political deficiency of the Eurasian Union project becomes obvious, since it is short of absorbing capacity of the EU and thus cannot produce a normative framework equally appealing to Armenia and Azerbaijan. Besides, all attempts to augment its political components are rebuffed by fellow members Kazakhstan and Belarus that do not seem interested in extending the format beyond economic intergovernmental alliance.

## **A two-track soft power**

The growing complexity and diversity within the post-Soviet area makes Russia come up with two different policy strategies.

One strategy is aimed at the most troublesome country for Russia – Georgia. Georgia has a record of military confrontation with Russia and has signed the AA, including a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. Russia prefers to formulate its Georgia strategy in soft power terms that content-wise are based on a number of arguments. Most of them can be identified in analysing 'The Caucasian Dialogue', a Moscow-based project designed as one element of Russian soft power in Georgia.

First, accentuation of cultural and religious proximity with Georgia is for Moscow a political instrument for emphasising the incompatibility of "traditional" Orthodox values with the liberal emancipatory agenda of the EU that allegedly "calls to respect the sin" and "forget about nations and patriotism".<sup>21</sup> In particular, the "Society of Irakly the Second", a Georgian NGO with a strong Orthodox background, is directly involved in the Russia-patronised

Eurasianist movement. Politically this leads to the direct projection to Georgia of the Kremlin's Ukraine discourse, as exemplified by Russia's presidential advisor on Ukraine, Sergey Glaziev.<sup>22</sup>

Second, as in the case of Ukraine, Moscow insists that the 'colour revolution' in Georgia, led by Mikhail Saakashvili, was socially ineffective and politically detrimental. Ultimately it led to the drastic deterioration of Georgia's relations with Moscow and the loss of Abkhazia and South Ossetia in 2008.<sup>23</sup> Saakashvili's support for Ukraine's EuroMaidan in 2013-2014 is interpreted as a continuation of his attachment to the idea of colour revolutions that ultimately marginalised him within Georgia politically.<sup>24</sup> The EuroMaidan was perceived by Georgian nationalists as an attempt to take revenge and return to the old agenda of pushing Russia out.<sup>25</sup>

Third, Russia tries to explore skeptical attitudes within Georgia toward Western institutions, claiming that the AA with the EU puts Georgia in an unequal position.<sup>26</sup> Discussions about the possible deployment in Georgia of a NATO military infrastructure are lambasted as challenging the process of Georgian-Russian normalisation.<sup>27</sup> Yet given the high level of support for the EU in Georgia and the ongoing security concerns over Russia's policy after the annexation of Crimea, this ploy of Moscow can hardly be seen as very successful.

Russia also transposes into the South Caucasus its (mis)interpretation of the AA as a document conducive to the relegation of signatories' sovereignties to the EU, to which Russia reserves a right to respond by more closely incorporating break-away territories. Against this backdrop the political value of separatist territories for Russia's long-term strategy becomes more obvious: Moscow is eager to either use the perspective of absorbing them in order to deter neighbours from entering into a closer relationship with the EU, or attach these territories to Russia as compensation for a possible failure of changing those countries' foreign policy orientation.

To promote these messages and establish a basis for dialogue with Tbilisi, Moscow uses both local Georgian voices and Russian experts. Yet Russian soft power efforts are seriously damaged by the policy of absorbing Abkhazia. Zurab Abashidze, Georgia's Special Representative on Russia, confessed that the two parties remain on "radically divergent positions", while Georgia's Prime Minister Irakli Garibashvili added that he has not seen any headway in bilateral relations despite Saakashvili's departure from office.<sup>28</sup>

Russia's policies toward countries susceptible to Russian influence – such as Armenia, which refused to continue association talks with the EU and with whom Russia has strong security links – are grounded in different premises. Many of these policies toward Armenia are promoted, in particular, by a Moscow-based NGO named Centre for Support of Russian – Armenian Strategic and Public Initiatives (CSRASPI).

Russia intentionally deploys its relations with Armenia in the East-West confrontational dichotomy, which allows Moscow to play a role of defending its ally from "dark pro-Western forces"<sup>29</sup> that allegedly are eager to detach Armenia from further integrating with Russia. In the meantime, Russia tries to implicitly take advantage of the traditionally securitised perception of



Azerbaijan in Armenia by claiming, for example, that Baku considers a closer alliance with "Turkic countries", including Kazakhstan and Kyrgyzstan, which might be harmful for Armenia.<sup>30</sup> Russia also popularises opinions of those Armenian experts who praise further association with Russia, claiming that in case of necessity Moscow will defend Armenia militarily as it did in August 2008, using military force to protect South Ossetia<sup>31</sup> – an argument that *de facto* justifies not only the Five-Day War between Georgia and Russia, but also Moscow's recognition of the two break-away regions. This line of thinking is also a consequence of the support that Russia gave to Armenia during the conflict over Nagorno-Karabakh.

The references to Abkhazia and South Ossetia in this context are important for understanding one of the pivotal arguments in the Russian nationalistic discourse – the existence of a community of post-Soviet territories that seceded from internationally recognised countries in a bid for either independence or reintegration with Russia. This imagined community can be metaphorically dubbed "CIS-2", and includes Transnistria, Abkhazia, South Ossetia, Nagorno-Karabakh, Crimea and following the Russian-backed insurgency in eastern Ukraine, the so called "Novorossiya". It is at this point that the Ukraine became a trigger for a closer association of Abkhazia with Russia.<sup>32</sup> Within this logic, all cases of post-Soviet separatism are included in a wider picture of Western provocative policies of fueling conflicts that Russia ought to withstand.

Russia also denies that there are grounds for political discussions on making a choice between the EU and Eurasian Union: "Why protest, if Armenia's association with the Eurasian Economic Union brings lots of advantages?".<sup>33</sup> Armenia is expected not to improve its governance, but simply to "fix political stability", for which Russia can be of some help: thus, according to the director of the Shanghai Cooperation Organisation (SCO) Business Club Denis Tiurin: "We in Russia do have legislation on foreign agents, and Armenian civil society might wish to positively assess this experience".<sup>34</sup> In fact, in countering Western "democracy promotion", Russia ends up promoting autocracy in the neighbouring countries. Furthermore, Russia is also able to use the fear among the Armenian political elite of an "Armenian Maidan".<sup>35</sup>

### **The hard/soft power dilemma**

The idea of making Russia more attractive and reliable to its South Caucasus neighbours is also based on a strong military ground, of which Armenia is perhaps the best example.

The military argument – Russian troops in Armenia as a security guarantee against a possible attempt to take back Nagorno-Karabakh by Azerbaijan – was the most instrumental in dissuading Yerevan to proceed with its AA. Yet a direct impact of preventing Armenia from signing the AA with the EU is Russia's deeper entanglement with the Nagorno-Karabakh conflict, which only complicates Moscow's policy of striking a balance between the two conflicting parties.

Signals from Moscow in this respect are far from conclusive. On the one hand, Moscow has to be sensitive to Armenia's expectations *vis-à-vis* its membership of the Eurasian Economic Union (EEU). That it is a means to not only get economic, but foremost, security advantages in its conflict with Azerbaijan.<sup>36</sup> Col. Andrey Ruzinsky, commander of Russia's 102<sup>nd</sup> Military



Base at Gyumri in Armenia, affirmed Russia's preparedness and intention to "join the armed conflict" against Azerbaijan if it "decides to restore jurisdiction over Nagorno-Karabakh by force".<sup>37</sup> Furthermore, some analysts predict that Russia may also seek to increase the role of the Collective Security Treaty Organization (CSTO), as opposed to the OSCE Minsk group, which has been dealing with the conflict since the early 1990s and of which Russia, along with France and the US, is a co-chair.<sup>38</sup>

However, this policy is contested by many experts who believe it is unlikely that Russia will take this route given that "Russia will have to sustain heavy losses fighting an enemy that it has itself armed to the teeth, which the Russian population will not understand or support".<sup>39</sup> Furthermore, member of the Russian Presidential Council on Human Rights Maksim Shevchenko stated that Russia has to help the Azerbaijani refugees return to Nagorno-Karabakh, and excluded the possibility of support for a Russian-led military operation from the CSTO, since Karabakh is not part of any of its member states.<sup>40</sup>

Russia sends amicable messages to Azerbaijan trying to prevent a possible alienation of the country as a result of Armenia's accession to the EEU. For example, Deputy Prime Minister Dmitry Rogozin suggested that the West's sanctions against Russia served to increase trade between Russia and Azerbaijan, strengthening economic ties.<sup>41</sup> A journalist from the Kremlin-loyal "Rosbalt" agency suggested that "for Moscow it would be more important to see Azerbaijan, not Armenia, in the Eurasian Union".<sup>42</sup>

Therefore, Russia's policy is to leave the door open to Azerbaijan in both economic and security spheres. Against the background of the increasing threat emanating from the Islamic State (IS), Russia claims that Armenia, its military ally in the South Caucasus, is much better protected against radical Islamism than Georgia and Azerbaijan.<sup>43</sup> There are even voices arguing that the Russian military base in Gyumri can be a protective force for the entire South Caucasus.<sup>44</sup>

Russia's relations with Georgia and Abkhazia are another example of soft power being closely interconnected with Russia's military resources. Indeed, perspectives for soft-power-based post-conflict settlement widened with the Georgian authorities distancing themselves from the policies of Saakashvili. Moscow uses the criminal case opened against Saakashvili to validate its interpretation of the colour revolutions as unfortunate and detrimental developments orchestrated by external powers. It is this argument that facilitates the rapprochement between Moscow and Tbilisi – from the Caucasian Dialogue initiated by the Gorchakov Foundation to the resumption of air communication between the two countries.

However all this did not prevent Georgia from signing the AA with the EU and from seeking greater integration with NATO, to which Russia responded with the Russian-Abkhaz Treaty on Partnership and Integration in which the military component is key. This suggests that Russia's soft power in Abkhazia is heavily based on hard power resources. It is not incidental that Georgia's AA with the EU unleashed a new wave of securitisation in relations between Moscow and Tbilisi, with many in Georgia presuming that their country might be the next target of the Kremlin after Ukraine.<sup>45</sup>

## Conclusion

In this paper I have argued that due to serious cultural and political constraints Russia cannot rely on soft power – with the concept of the "Russian world" at its core – as an effective instrument in the South Caucasus. Therefore, ideas of civilisational proximity, shared values and historical commonality are of only limited use to Moscow's diplomacy.

Yet it remains doubtful that reliance on material interests and physical dependence on Russia (from market to security) constitutes a solid foundation for Russian long-term hegemony in the region. Realist policies do not usually create a new international reality – they are more bent on maintaining a *status quo*, forming ad-hoc coalitions against external threats, or taking temporal advantages of others' missteps. Without a clear normative component Russia tends to increase its security and financial commitments to its southern neighbours without necessarily strengthening their loyalty in response. In Moscow-dependent Abkhazia the prospect of incorporation into Russia is a matter of deep political controversy; in Armenia the accession to the Eurasian Economic Union is widely perceived as "a choice of a lesser evil".<sup>46</sup> Moreover the example of Ukraine sent controversial messages to Yerevan: "the case of Crimea can be perceived as proving the veracity of Armenian policy in Karabakh, yet Dobnass is a story of a price to be paid for this".<sup>47</sup>

Besides, Russian realism is vulnerable in one more respect; it never strongly conceptualised the very idea of national interest, preferring to leave it fuzzy. This leads to multiple inconsistencies in Russia's policies in the South Caucasus. Moscow lambasts the West for legitimising Kosovo's ambitions for independence, yet does exactly the same in all separatist territories in the South Caucasus and beyond. The Kremlin villifies the EU, but borrows many of its policy tools when launching its own integration project. Russian diplomacy heavily invests in developing soft power resources in Georgia, which are then undermined by a policy of *de facto* annexation of Abkhazia, etc. A more or less clear vision of Russia's long-term strategy in the region is hardly imaginable without a solid normative foundation; a lack thereof turns Russian realism into a justification for mostly temporal and situational adjustment to policies of others.

Andrey Makarychev, Guest Professor, Institute of Government and Politics, University of Tartu

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# Azerbaijan's foreign policy – A new paradigm of careful pragmatism

*Farhad Mammadov*

## Introduction

Strategically located at the crossroads of the east-west and north-south transportation corridors, Azerbaijan, with its vast hydrocarbon energy reserves, is a country of particular importance in the South Caucasus. It was the first to join the Transportation Corridor Europe-Caucasus-Asia (TRACECA) programme and is a key initiator of the Baku-Tbilisi-Kars railway and the new dry-cargo terminal at the international seaport in Alat which, once completed, will increase trade and economic activity in the wider Caspian and Central Asia. At the same time Azerbaijan's oil strategy, developed by former President and national leader Heydar Aliyev, aims to use the country's energy resources to drive economic activity by cooperating with large foreign companies on the principle of mutual benefit.

The complex geopolitical theatre of the South Caucasus has significantly influenced Azerbaijan's foreign policy. The fact that the geopolitical and geo-economic interests of Russia, Turkey and Iran, as well as, to a certain extent, the US and the EU, clash in the region compels Azerbaijan to maintain a pragmatic foreign policy. Unlike its neighbours, Georgia and Armenia, which have made a clear choice in terms of their geopolitical orientation – Georgia making Euro-Atlantic integration with membership of the European Union (EU) and NATO a priority, and Armenia joining the Russian-led Collective Security Treaty Organisation (CSTO) and more recently the Eurasian Economic Union – Baku pursues a balanced foreign policy that is based on the norms and principles of international law. Respecting the sovereignty and territorial integrity of all states and non-interference in their internal affairs are the guiding principles of Baku's interaction with other countries. Azerbaijan also maintains a stable position on global and regional issues, endeavouring to act as a predictable actor in bilateral and multilateral relations.

Azerbaijan participates in various global and regional platforms, including the Commonwealth of Independent States (CIS), the Organization for Democracy and Economic Development (GUAM), Parliamentary Assembly of the Council of Europe (PACE) and EU Eastern Partnership (EaP), the Organization of the Islamic Cooperation (OIC), the Black Sea Economic Cooperation (BSEC), the Economic Cooperation Organisation (ECO), The Cooperation Council of Turkic Speaking States (CCTS), and others.

Azerbaijan has also endeavoured to build a strong and competitive economy, deeming it will allow the country to be independent in decisions concerning its resource management. It is challenging to be surrounded by great states with huge economies and remain independent or outside their economic orbit. Therefore, Azerbaijan is committed to maintaining a secure corridor between Europe and Asia for the free flow of trade, people, energy, resources, technology and communications. Ensuring its bidirectional openness to both Europe and Asia is a crucial factor in formulating its foreign policy strategy.

The results of this policy are evident – Azerbaijan is the first country to have been elected as a non-permanent member of the United Nations (UN) Security Council in the South Caucasus and Central Asia region, and only the second in the Commonwealth of Independent States (CIS) region. Azerbaijan took its seat at the UN Security Council in early January 2012 and chaired the Council during May 2012. In his address to the Security Council on 4 May 2012, President Ilham Aliyev underlined in particular that "this is a big responsibility, and we are ready to assume that responsibility. Azerbaijan will defend the ideas of justice, international law and peaceful cooperation between all countries."<sup>1</sup>

This paper analyses Azerbaijan's foreign policy in terms of its relations with the Euro-Atlantic institutions (NATO and the EU) and Russia, at a time when the world is faced with the most significant confrontation between the West and Russia since the end of the Cold War, and the consequences of this for Azerbaijan. How Azerbaijan chooses to conduct its foreign policy will have implications not only for its own national sovereignty, but also for the geopolitical order of the region.

### **Shaping Azerbaijan's foreign policy**

With the fall of the Soviet Union, Azerbaijan found itself in a very complex situation. The occupation of nearly one-fifth of its territory, including the former Nagorno-Karabakh autonomous oblast and seven other adjacent Azerbaijani districts (Lachin, Kelbajar, Fizuli, Jibrail, Zangelan, Aghdam and Gubadli) by Armenia has left Azerbaijan with one million naturalised refugees and internally displaced persons today, the vast majority of whom were displaced during the early 1990s.<sup>2</sup> Despite more than two decades of mediation efforts under the auspices of the OSCE Minsk Group, no political solution to this conflict has yet been found. Resolution of the Armenian-Azerbaijani Nagorno-Karabakh conflict is Azerbaijan's top foreign policy priority. Presently it acts as a handbrake on the development of the entire South Caucasus region, undermining regional peace and security.

At the same time, beyond the conflict with Armenia over the Azerbaijani territory of Nagorno-Karabakh, Azerbaijan's future was significantly dependent on its ability to forge working relations with its three large neighbours-Russia, Iran and Turkey. Hence, relations with each of these states have acted as prisms in shaping both Azerbaijan as a state and its foreign policy.

A further strategic objective for Azerbaijan is pipeline diversity. This is a platform from which Baku can promote regional cooperation and integration. Azerbaijan's significant oil and gas reserves – hydrocarbon reserves are currently and rather modestly estimated at around 2.55 trillion cubic meters of gas and two billion tons of oil (while the predicted gas reserves of the country are estimated at six trillion cubic meters and oil reserves at four billion tons) – have allowed the country to develop more quickly than its neighbours and have been the cornerstone of its ties with the West. 1994 was a watershed for Baku, as in September of that year, Heydar Aliyev signed what was to become known as "the Contract of the Century", which opened the way for American and Western European companies to have a major stake in projects meant to develop Azerbaijan's hydrocarbon reserves, in particular, for the development of the Azeri-Chirag-Guneshli oil field. Today Azerbaijan is the only westward

route from the Caspian through the Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) oil and gas pipelines.

Energy ties have continued to strengthen, with Azerbaijan becoming the "enabler" for the EU's Southern Gas Corridor (SGC). The SGC will transport gas from Azerbaijan's Shah Deniz II field across Georgia and Turkey to the Greek border where it will connect to the Trans Adriatic Pipeline (TAP), which brings the gas to Albania before finally terminating in Italy. Scheduled to begin pumping as of 2019, it will significantly contribute to the EU's energy security, and to price competition in Europe, weakening any opportunity to use energy as a political weapon, a stated aim of both EU and US policy. This important step will give the EU direct access to gas from the Caspian Basin. This is a major milestone for the diversification of Azerbaijani energy supplies, to the benefit of European consumers and businesses. Azerbaijan's role as a European gas supplier is also expected to grow as the country develops additional large fields in the Caspian, thereby taking a much greater stake in the global gas market as its oil production begins to decline. Furthermore, Azerbaijan's State Oil Company (SOCAR) is also keen to further spread its wings and develop both upstream and downstream opportunities in Europe. SOCAR has invested in the internal Greek gas network DESFA, which offers an opportunity to go much deeper into Europe. Combine this with the major stake SOCAR already has in Turkey and it seems that Azerbaijan is set to have an increasingly large involvement in the Eurasian and European energy markets.

Moreover, the Azerbaijan-led development of east-west energy cooperation in the Caspian region has not only involved a wide range of regional players, it has also promoted the development of infrastructure, the improvement of the macro-economic environment and international integration. This has been particularly beneficial to Georgia, which is a transit country rather than a producer, while Azerbaijan is both.<sup>3</sup> Thanks to Azerbaijan and contracts for the transit and supply of gas and oil, "Georgia has been the only country in the region without its own domestic supplies that has not been adversely affected by the energy crisis that hit in January 2009. Indeed, Tbilisi has been able to increase the export of electricity to its neighbours, including both Turkey and Russia. However, perhaps especially important, for the first time since gaining independence, Georgia has had a permanent and stable supply of electricity, which has allowed its industries to operate with greater predictability and helped to ensure that economic reforms are irreversible".<sup>4</sup>

### **An important US partner**

The United States (US) was one of the first countries to open an embassy following Azerbaijan's independence, demonstrating that the US could see the potential geopolitical importance of Azerbaijan. Since the mid-1990s, the US has had a relatively good relationship with Baku – described by some as a "strategic partnership" – even though the significant Armenian diaspora in Washington, one of the best-organised and most well-connected global communities, has sought to undermine relations. For example, Section 907 of the US Freedom Support Act legislation prohibits direct assistance to Azerbaijan and the delay of the appointment of Matthew Bryza as US Ambassador in Azerbaijan for more than a year gave weight to Baku's concern that "ethnic groups like Armenian Americans can



import their hatred into US politics and turn it into government policy and legal precedent of that country".<sup>5</sup>

Relations have also been rocky because the South Caucasus is far from being Washington's main area of focus; it is Russia, Syria, Afghanistan and Iran that are dominating the US foreign policy agenda. This is a far cry from the mid-1990s when, on 21 July 1997, Strobe Talbott, then Deputy Secretary of State, described the Caspian area as a "strategically vital region" destined to become part of the Euro-Atlantic community, which the United States could "not afford" to neglect.<sup>6</sup>

Washington's efforts and approach towards pushing for rapprochement between Turkey and Armenia was also not welcomed by Baku, as the reconciliation effort was viewed as one-sided, having a pro-Armenian tilt that impacted the Nagorno-Karabakh conflict. The reservations from the Azerbaijani side were based on a fear that after the rapprochement Armenia will feel no more pressure to negotiate over Nagorno-Karabakh. The US position on Nagorno-Karabakh is another cause of tension. Azerbaijan wants to see the US pursue its national interests in the South Caucasus region without being hostage to diaspora politics, and believes that the US should call things by their proper names. "At a time when the direction of US foreign policy is generating abundant global bewilderment, policy-makers in Congress and the administration must be mindful not to alienate more allies and increase doubt and distrust of America's promises. Azerbaijan, a pro-American, secular Muslim and energy-rich nation of some 9 million people on the shores of the Caspian Sea is one of those countries".<sup>7</sup> Decades of US efforts to shore up the independence of the former Soviet states and build strong regional alliances could be lost if the US continue to follow, what is viewed in Baku, as a double-standard approach.

Baku believes that the US does not use the influence it has to press Armenia to withdraw from Azerbaijan's occupied territories. Rather, it seems to reward Yerevan (and the illegal puppet regime in Nagorno-Karabakh) with financial support. The US has provided over \$2 billion to Armenia in financial aid, the highest per capita amount in the newly independent states. Congress also allocates direct aid to Nagorno-Karabakh (on an annual basis), which contradicts the State Department's policy in the region. Direct financial aid is not given to any other unrecognised regime in the post-Soviet space. Moreover, the fact that the US has still not abolished Section 907 of the US Freedom Support Act, which has prevented Azerbaijan from receiving any financial or military assistance except for non-proliferation and disarmament activities, has been a thorn in relations, though a waiver is currently in place.

The Ukrainian crisis and the West's response has also revealed double standards and a lack of a consistent policy; Baku has expressed its disappointment with 20 years of occupation of internationally recognised territories of Azerbaijan being ignored, in contrast to the stance of the West toward the territorial integrity of Ukraine. Against this background, one should remember that "international law norms should not be interpreted by different countries with respect to their interests. They must be regarded as they were written. There is a very clear definition in the United Nations charter, in documents of OSCE and other international organisations about priorities of the principles of international law. So all of them must be observed, and then we will avoid double standards".<sup>8</sup>



The absence of a developed and engaged US foreign policy in the South Caucasus puts US security and commercial interests, along with the sovereignty and independence of US regional allies, at risk. Moreover, weakened ties between the South Caucasus and the US, the EU and other key transatlantic institutions jeopardises the reliability of energy transit and new pipeline projects.

At the same time, however, NATO's security interests in the South Caucasus have been intensifying since the beginning of the 2000s. As NATO members have become increasingly engaged in Afghanistan and Iraq, broader security concerns have prompted the Alliance to engage with possible partners, one of them being Azerbaijan. NATO is engaged with Azerbaijan in the framework of an Individual Partnership agreement that focuses on military reform and the establishment of effective state institutions in the military and security fields.

Azerbaijan joined NATO's Partnership for Peace Programme (PfP) in 1994, and was one of the first countries to support the US post-9/11, playing a crucial role in the Global War on Terror, when the region became a potential launch pad for US military forces en route to the Middle East and Afghanistan, opening its airspace for Operation Enduring Freedom. Azerbaijan has actively taken part in the NATO-led Kosovo Force and US-led missions to Iraq, is currently contributing in Afghanistan, and has pledged to be part of post-Afghanistan NATO operations as well as continue to support projects in Afghanistan such as education programmes, de-mining activities, and financing the Board of Trustees of the Afghan National Army. Furthermore, Azerbaijan is the only country among NATO's partner countries involved in the important issue of energy infrastructure. At the NATO Wales Summit in September 2014, new cooperation areas were established for Azerbaijan, including energy and cyber security, defence sector reform, and humanitarian assistance.

### **Relations with the EU – A case of mismatched objectives**

Links with the EU were first established in the early 1990s via the TACIS programme. Cooperation has slowly deepened, although it remains dominated by energy. Azerbaijan became part of the European Neighbourhood Policy (ENP) in 2006 and the Eastern Partnership (EaP) in 2009. Baku is currently negotiating a Strategic Modernisation Partnership and a visa facilitation agreement with the EU.

While President Aliyev has declared that he wants "Azerbaijan to be as close as possible to the EU, ...that it is a matter of strategic importance, and that relations have a great potential in the future"<sup>9</sup>, relations are nevertheless far from problem-free, and are rather hobbled by mismatched objectives and often problematic communication. While the EU focuses on the need for comprehensive reforms across a range of sectors, and greater progress related to development of civil society and democracy within the framework of its 'more-for-more' approach, Azerbaijan is looking for a strategic relationship based on mutual interests and objectives.

A significant thorn in relations has been the EU's failure to explicitly recognise Azerbaijan's territorial integrity in the same way it does with the other countries in the EaP that have territorial disputes (Moldova, Georgia and, more recently, Ukraine), which Azerbaijan considers to be a

double-standard approach and which has been particularly problematic when formulating new political agreements, including the now abandoned Association Agreement (AA).

Furthermore, the EU continues to hide behind what it says is the existence of two contradictory principles in international law; the principle of territorial integrity and the right to self-determination. However, the right to self-determination does not necessarily include the right to territorial separation from an internationally recognised state, as defined in the Helsinki Final Act. Furthermore, by failing to criticise the ongoing occupation, the EU is actually giving the impression that it approves of it. At the same time, experts in Azerbaijan are still discussing a possible framework for the Azerbaijani region of Nagorno-Karabakh, as mentioned in the proposed but unsigned EU Association Agreement with Armenia.

While Azerbaijan's leadership declares it fully supports the EU EaP, Baku embraces the idea of gradual integration, taking into account the specifics of the development state of young aspiring nations. In geopolitical terms, Baku supports the notion of "integration for", not "integration against".

### **Pragmatic ties with Moscow**

Relations with Russia during Yeltsin's presidency (1991-99) were turbulent in character. During this time, no Russian president visited Azerbaijan. In 2000 the situation changed because one of Putin's strategic foreign policy goals during his first two terms was improving relations with CIS countries. In this context, the relationship with Azerbaijan received new attention and president Putin became the first Russian president to visit Azerbaijan, on 9 January 2001.

Azerbaijan's bilateral relations with Russia presently cover a number of different areas, including economic, humanitarian and military cooperation. Azerbaijan is Russia's number one trade partner in the South Caucasus, while Russia is Azerbaijan's number one trade partner in the non-oil sector. Talking about the pragmatic and trust-based Moscow-Baku bilateral partnership model, President Aliyev mentioned that "relations between Azerbaijan and Russia are at a level of strategic partnership. Our countries cooperate closely in political, trade, economic and humanitarian spheres. Interregional relations of Azerbaijan with the Russian Federation are developing dynamically and effectively and the scope of cooperation is expanding."<sup>10</sup> In relations with Russia, a historical achievement – the final delimitation of borders – was attained. Azerbaijan is also the country of the South Caucasus where Russian is most widely spoken.

In June 2014, Russian ministers and high-level officials visited Azerbaijan to persuade Baku to enter into closer cooperation with Moscow. Russia's Economy Minister, Alexei Ulyukayev, visited Baku in early June to discuss economic cooperation. Russia's Foreign Minister Sergei Lavrov then arrived on 18-19 June for a continuation of what he described as "a most active dialogue." In addition, Azerbaijan hosted visits by Russia's Deputy Prime Minister Dmitry Rogozin, Duma speaker Sergei Naryshkin, and Development Minister Igor Siluanov.

At a news conference in Baku on 18 June 2014, Lavrov said: "We consider Azerbaijan as a serious partner in the South Caucasus. The country is interested in deepening bilateral

relations. After last year's visit of Russian President Vladimir Putin to Azerbaijan, the relations have expanded."<sup>11</sup> This underlines the growing degree of partnership and mutually beneficial relationship between Azerbaijan and Russia.

The Ukrainian crisis sparked significant concerns among a number of other Eastern Partnership (EaP) states, including Azerbaijan, over what impact it could have on their policies aimed at strengthening ties with the Euro-Atlantic institutions. The presence of protracted conflicts in the region brings about a climate of uncertainty, exacerbating the already fragile security situation and undermining relations with the West. Developments in Ukraine impacted Azerbaijan in a number of ways, one of them being the feeling of disappointment that it did not lead the West (EU) to adopt a clearer position concerning the Nagorno-Karabakh conflict, especially because Azerbaijan, unlike its neighbour Armenia, supported UN Security Resolution 68/262 on Ukraine's territorial integrity. The fact that the West quickly moved to place sanctions on Russia for its actions in Ukraine, but fails to adopt the same approach towards Armenia's two-decade old occupation of Azerbaijani lands, created a wave of resentment.

It is also necessary to consider the position of Azerbaijan during the voting in the Parliamentary Assembly of the Council of Europe (PACE) concerning the suspension of the Russian delegation's voting rights. The Azerbaijani delegation voted against this decision due to the fact that, despite PACE's recognition of the Armenian occupation of the Azerbaijani territories, it did not apply the same approach as with Ukraine.

As a relatively small state, Azerbaijan's foreign policy will remain affected to some degree by external actors. At the same time, Azerbaijan's new foreign policy paradigm is based on a delicate balance between, on the one hand, a multi-vector, even-handed and, at the same time, proactive foreign policy strategy aimed at, on the one hand, realising its national interests, strengthening its independence and sovereignty, and restoring its territorial integrity and on the other, being flexible enough to allow the country "to find a *modus vivendi* with regional and non-regional actors which pursue their own, sometimes divergent, policies."<sup>12</sup> However, while the country tries to maintain the balance of power between the great nations in the region, it will also continue to benefit from the fact that these countries are in competition with each other for influence in the region.

**Farhad Mammadov, Director, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)**

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# Security challenges and conflict resolution efforts in the South Caucasus

*Gulshan Pashayeva*

## Introduction

Armenia, Azerbaijan and Georgia belong to the unstable and geopolitically fragmented South Caucasus. These states regained their independence in 1991. However, their turbulent history is full of encounters with different empires which have left deep scars on their souls. It has also negatively impacted their further inter-ethnic relations.

Today the Armenian-Azerbaijani conflict over Nagorno-Karabakh draws dividing lines between the two nations – Armenia and Azerbaijan – and destroys the very basis of the regional stability, development and trans-regional cooperation among the three South Caucasian states. At the same time no political settlement of the Georgian-Ossetian and the Georgian-Abkhaz conflicts have yet been found.

The situation today on the Armenian-Azerbaijani front line, devoid of any peacekeeping force, is also rather tense. There have been continual frontline skirmishes and ceasefire violations, and numerous people, both military personnel and civilians, have been killed along the Line of Contact over the last 20 years. It is apparent that there is a serious security threat in the region due to this unresolved conflict, and any incident that occurs along the front line could easily escalate into a new war.

After the Russia-Georgia War of August 2008, in May 2009 the European Union (EU) launched its Eastern Partnership (EaP) initiative as a framework for enhancing cooperation opportunities and deepening integration processes among six post-Soviet states – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine and the EU. The last five years have demonstrated that each of the three South Caucasian states has its own trajectory in this process.

This paper will examine how both the EaP and the Eurasian Economic Union (EEU), which was introduced by the Russian Federation (RF) as an alternative project to the EaP, impact on security challenges, as well as conflict resolution and peacebuilding efforts in the South Caucasus. The author evaluates whether or not these integration projects have the necessary potential for the greater regional coherence.

## The reasons behind wars

After the Caucasus region became a part of the Russian Empire in the 19<sup>th</sup> century, a policy of forced migration pursued by the Tsarist authorities had far-reaching repercussions in the ethnic composition of the entire region.

The *mukhadzhirstvo*, a term which refers in Russian to the forced migration of tens of thousands of the Abkhaz who had to leave their homeland in the 1860s-70s, is considered to be the

starting point of the Georgian-Abkhaz conflict.<sup>1</sup> Later, Georgians settled in the depopulated areas of Abkhazia. At the same time, Armenians were encouraged by the Tsarist authorities to emigrate from the Ottoman and Persian empires to settle in the areas inhabited by the Turkish Muslim population of the Azerbaijani khanates, incorporated into the Russian Empire in the early 19th century. These developments led to considerable changes in the demographic situation and laid the foundations for the future ethno-territorial conflicts in the region.

These conflicts were not dormant in the 20<sup>th</sup> century, and flared up a few times; with the last outbreak occurring in the Soviet Socialist Republics (SSR) of Azerbaijan and Georgia within the USSR in the late 1980s and early 1990s.

The Armenian-Azerbaijani conflict over Nagorno-Karabakh was the first among these, breaking out in February 1988. The Armenians of the former Nagorno-Karabakh Autonomous Oblast (NKAO), established in Azerbaijan SSR in 1923, sought unification with the Armenian SSR, which strongly supported them as a kin-state. Due to the failure of the Soviet leadership to resolve this conflict in time, it subsequently evolved into an open armed confrontation between Armenia and Azerbaijan after both states became independent.

As a result of the military campaign of 1992-1994, almost one-fifth of the internationally recognised territory of the Republic of Azerbaijan consisting of nearly all the territory of the former NKAO and seven districts (Lachin, Kelbajar, Agdam, Jabrayil, Fizuly, Gubadly and Zangilan), adjacent to Nagorno-Karabakh, was seized by the Armenian military forces. Around one million people were displaced and 30 thousand killed in the course of this armed conflict.

In contrast to this conflict, the Georgian-Ossetian and Georgian-Abkhaz conflicts were considered to be Georgia's internal conflicts prior to the Russo-Georgian war. At the same time these ethno-territorial conflicts are also closely linked to the North Caucasus region of the RF. Thus unsurprisingly, both South Ossetian and Abkhaz ethno-nationalists gained control over their former Soviet autonomous entities through the support of Russian troops and North Caucasus fighters as a result of the Georgian – South Ossetian (1991-1992) and the Georgian – Abkhazian (August 1992-September 1993) wars.<sup>2</sup>

### **Unsuccessful mediation efforts**

The OSCE Minsk Group has been mediating the Armenian-Azerbaijani conflict over Nagorno-Karabakh since 1992. Despite the twenty year ceasefire agreement signed in May 1994, which followed mediation efforts, the resolution of this conflict still seems very elusive.

Several resolutions devoted to this particular conflict were adopted by various international organisations such as the UN Security Council and General Assembly, the Organisation of Islamic Cooperation, the Parliamentary Assembly of Council of Europe, European Parliament over the years, which reaffirmed respect for the sovereignty and territorial integrity of Azerbaijan and demanded the immediate, complete and unconditional withdrawal of Armenian armed forces from the occupied territories of Azerbaijan. However, these resolutions remain unfulfilled by Armenia so far.

The corresponding ceasefire agreements were similarly signed in the framework of the Georgian-South Ossetian and the Georgian-Abkhaz conflicts in June 1992 and May 1994 respectively. Despite the mediation efforts of the United Nations and the OSCE, which have taken a lead in the Georgian-Abkhaz and the Georgian-South Ossetian conflicts respectively, during subsequent years, no positive results have been achieved in the negotiation processes. The resumption of the five-day war can be considered as a failure of mediation efforts because "sixteen years of the Georgian-South Ossetian peace process, and one less in the Georgian-Abkhaz context, resulted in neither significant breakthroughs, nor the avoidance of renewed violence".<sup>3</sup>

However, the Russian invasion of Georgia and recognition of the independence of the *de facto* entities of Abkhazia and South Ossetia led to the loss of 20% of Georgia's internationally recognised territory and the establishment of a new balance of power around these conflicts.

### **In search of a balance between the EU and Russia**

The EU has considered the South Caucasus rather peripheral in comparison with the Balkans, Ukraine or Moldova from a security perspective and did not take an active interest in this region in the 1990s.

However, the establishment of a new post, the EU Special Representative (EUSR) for the South Caucasus and the appointment of Finnish Ambassador Heikki Talvitie to this post in July 2003 can be viewed as an important decision to contribute to conflict settlement mechanisms in the South Caucasus. At the same time the EU's commitment to support the settlement of the three unresolved ethno-territorial conflicts was reflected in the respective European Neighbourhood Policy Action Plans of each of the South Caucasian states which were endorsed in 2006.

The EaP initiative was a next step undertaken by the EU, aiming to bring the South Caucasian states economically and politically closer without offering them prospective EU membership. However, the launch of this initiative increased tensions between Brussels and Moscow and confirmed the politicisation of the relationships of the South Caucasian states *vis-à-vis* the EU and Russia.

It also contributed to the launch of a new concept, that of the EEU, introduced by the Prime Minister of the RF, Vladimir Putin<sup>4</sup> in October 2011, although the *Eurasian Customs Union* (ECU) of Belarus, Kazakhstan, and the RF was founded earlier, on 1 January 2010. The EEU, established by a treaty signed by the Presidents of Belarus, Kazakhstan and RF on 29 May 2014, in Astana, came into force on 1 January 2015. The expert community considers the EEU as an alternative integration project to the EaP, targeting first of all the post-Soviet countries, including the three South Caucasian states.

In this context it is important to emphasise that the South Caucasian states differ from each other. They have different political elites and civil society institutions, different levels of economic development based on the distribution of natural resources, different intentions towards EU membership, etc. For example, the majority of Georgia's political elite and civil society always wanted to join the EU, and the Government consistently worked towards signing the Association Agreement with the EU. In contrast to Georgia, Azerbaijanis' European



integration ambitions have always been limited in scope. Meanwhile, Armenia took a decision to please both Brussels and Moscow, through involvement in the preparation of the Association Agreement with the EU while continuing its close collaboration with Russia.

The national security and foreign policy orientations of these states are also diverse. Georgia's desire to move to closer Euro-Atlantic integration through getting accepted into the NATO Membership Action Plan (MAP) as a substantial step towards eventually gaining membership in the alliance, contradicts Armenia's traditional stance in terms of the association of its security with Russia and its membership in the Collective Security Treaty Organization (CSTO), another military alliance, bringing together six post-Soviet states – Armenia, Belarus, Kazakhstan, Kyrgyzstan, RF and Tajikistan. In this context, Azerbaijan pursues a balanced approach using oil and gas resources to build a national security system through diplomatic means. It became a full member of the Non-Aligned Movement (NAM) in 2011 and tries to keep a balance between the EU and Russia.

Georgia signed the Association Agreement with the EU on 27 June in Brussels and its Parliament ratified it on 18 July 2014. Further, the EU-Georgia Association Agreement was ratified by the European Parliament on 18 December 2014. In its turn, Armenia decided to join the ECU and EEU after the meeting of Armenian President Serzh Sargsyan with the President of the RF, Vladimir Putin, in early September 2013. The Treaty aiming for Armenia's accession to the EEU was signed on 9 October 2014, which came into force on 2 January 2015. In contrast, Azerbaijan has never expressed its desire to join these integration projects, and continues to maintain this policy.

Thus, the Governments of all three South Caucasian states have so far chosen different options with regard to the two above-mentioned integration projects, EaP and EEU, which could make the South Caucasus even more fragmented.

## **Security matters**

Security and displacement (refugees and IDPs) are among the most contentious issues in any negotiation process. The *de facto* entities of Abkhazia, South Ossetia and Republic of Armenia, along with the so-called Nagorno-Karabakh Republic (NKR), have always tried to preserve the current *status quo* and achieve international security guarantees on the non-resumption of hostilities, avoid withdrawal from occupied territories and the safe return of IDPs and refugees to the permanent places of residence.

At the same time, Russia played a decisive but ambiguous role in security issues in all three conflicts and also *vis-à-vis* relationships with the EU.

First of all, all three ceasefire agreements have been brokered through Russian mediation efforts.

Secondly, Russian peacekeepers have been deployed in the conflict zones in South Ossetia and Abkhazia for years. In particular, under the South Ossetia ceasefire agreement signed in 1992, Joint Peacekeeping Forces (JPKF), were established in South Ossetia; these included Georgian, Russian, and Ossetian units (the latter being a South Ossetian force under a North



Ossetian commander) and the OSCE also monitored South Ossetian territory. The Moscow Agreement on a ceasefire and separation of forces achieved in regard to Georgian-Abkhaz conflict allowed the formal setting up of a Commonwealth of Independent States Peacekeeping Force (CIS PKF) which in practice consisted of Russian troops as well as the deployment of a UN observer mission (UNOMIG) in Abkhazia in July 1994.<sup>5</sup>

Thirdly, Georgia views Russia as party to both of its internal conflicts, and after the five-day war with Russia over South-Ossetia in August 2008 this idea reflects the reality more than ever. Incidentally, this ceasefire agreement between Georgia and Russia was brokered by Nikolas Sarkozy, President of France and at that time also EU President, and Dmitry Medvedev, President of the RF, and signed by the Presidents of France, RF and Georgia on 12 August, 2008.

Fourthly, Russia maintains a military presence in two of the South Caucasian states; in the breakaway regions of Georgia – Abkhazia and the Tskhinvali region as well as in Armenia. However, Russian bases headquartered in the Batumi and Akhalkalaki regions of Georgia were closed by the end of 2008 under a Russian-Georgian agreement signed in 2006.

After the August war of 2008, Georgia unilaterally withdrew from the Moscow agreement on a ceasefire and separation of forces and questioned the mandates of CIS PKF and UNOMIG. However, these were replaced by regular Russian troops, which had been stationed in a former Soviet military base in Gudauta, under a September 2009 agreement on military cooperation. Russia's troops were also stationed in military base in the Tskhinvali region, with two branches in Tskhinvali and Java districts. According to the agreement, which was passed by the RF's Duma and was ratified by President Dmitry Medvedev in October 2011, the Russian military bases in Abkhazia and the Tskhinvali region will be maintained for an initial term of 49 years, with a possible extension for an additional 15 years.<sup>6</sup>

Moreover, Russia also has a military base in Gyumri, Armenia, which is considered by Armenia as a key element of its national security. In 2010 the lease on this base was extended through 2044. It is apparent that the existence of these military bases is one of the biggest security challenges to conflict resolution and peace building efforts which have been undertaken in the South Caucasian states.

In this context, the deployment of the EU Monitoring Mission (EUMM) of 200 European monitors in Georgia on 1 October 2008 can be considered a positive sign. EUMM is the first EU peacekeeping mission in the EU's Eastern Neighbourhood as well as "the only internationally mandated presence in Georgia after Russia forced the closure of the UN and OSCE mission in Abkhazia and South Ossetia respectively".<sup>7</sup>

The EU has also participated and collaborated as a direct conflict mediator with the OSCE, the UN, the United States, Georgia, Russia and the *de facto* officials from Abkhazia and South Ossetia within the framework of the Geneva forum, the first multilateral forum established on the basis of the six-point ceasefire plan proposed by the EU. However, for the time being at least, this process could not minimise the role of Russia in the conflict resolution process.

In January 2010 Georgia released a "State Strategy on Occupied Territories: Engagement through Cooperation", which aims at a peaceful reintegration of Abkhazia and the Tskhinvali region/South Ossetia into Georgia's constitutional ambit. It pursues this strategy in accordance with the international community's adherence to a non-recognition policy toward Georgia's above-mentioned breakaway territories and its support for Georgia's engagement policy.

Since Georgia signed the Association Agreement with the EU, a new precedent has been present in the region. As a part of the Association Agreement, one of the South Caucasian states will join a comprehensive free trade treaty, integrating more closely with the EU and receiving stronger EU support in conflict resolution and mediation efforts.

Armenia's decision to join the ECU is also closely related to the security issue. The unresolved Armenian-Azerbaijani conflict over Nagorno-Karabakh is one of the main reasons for its choice. Armenia is Russia's closest ally in the South Caucasus and heavily relies on Russia to counterbalance its two other neighbours – Azerbaijan and Turkey. At the same time "Armenia has itself contributed to the region's difficulties. It certainly has not gone out of its way to solve the Nagorno-Karabakh conflict: it still has troops stationed not only in Armenian-inhabited Nagorno-Karabakh, but in much wider swathes of Azerbaijani territory, well beyond the settlement of its ethnic kin".<sup>8</sup> Therefore, this unresolved conflict was Russia's strongest leverage against Armenia to force it to join the ECU.

Azerbaijan has made its energy resources an important factor of its foreign policy and aspires to get tangible results from the international community towards the resolution of the Armenian-Azerbaijani conflict over Nagorno-Karabakh.

In this context the EU current involvement in the resolution of the Armenian-Azerbaijani conflict over Nagorno-Karabakh is very limited. It supports the OSCE Minsk Group's mediation efforts, which unfortunately have been largely fruitless so far.

At the same time if in the case of Georgian internal conflict, there is a very clear recognition on the EU to contribute to the settlement of these based on respect of the sovereignty and territorial integrity of Georgia. The same cannot be said for the Armenian-Azerbaijani conflict over Nagorno-Karabakh. Double standards are clearly evident in the EU's approach to Georgia and Azerbaijan in these specific sections of the respective EU-Georgia and EU-Azerbaijan ENP Action Plans. Perhaps the main reason for such an approach can be explained by the EU's interest to keep some balance and neutral stance with regard to both states – Azerbaijan and Armenia. However this neutrality supports the current *status quo* creating false expectations among the conflicting parties and complicates the peaceful resolution of this ethno-territorial conflict.

## Conclusion

The South Caucasus is a meeting point between the EU and Russia. However, it was historically and largely still is perceived as 'Russia's back yard'. It is firmly believed that Russia has been using the unresolved ethno-territorial conflicts to preserve its influence in the region.

At the same time the EU's role in conflict resolution in the South Caucasus has been limited so far. This can be explained by different factors, one of which is related to "the EU's nature as a sui generis actor which is able to contribute to long-term conflict transformation, rather than with its unmet aspirations to engage in crisis management as a state-like actor".<sup>9</sup> In addition, the concentration of various international organisations involved in mediation and conflict resolution processes in the South Caucasus also hinders the EU.

Meanwhile the EU supported various peace building initiatives with the involvement of Armenian and Azerbaijani, Georgian and Abkhaz, Georgian and South Ossetian civil society leaders over the years. Unfortunately despite some interaction between these groups, the impact is inadequate; conflicting parties have different narratives related to the past and different visions related to the future. These interpretations usually do not overlap, which make extremely difficult to develop a mutually satisfactory solution.

The latest developments in the case of Ukraine demonstrate once more the vulnerability of states which encounter a breach of their territorial integrity. This crisis also reinforced the view that a considerable part of the internationally recognised territories of Azerbaijan and Georgia are currently not under the control of these states, and over a million people have become refugees and IDPs as direct consequences of these conflicts.

Due to Russia's annexation of Crimea and its continued destabilisation of eastern Ukraine, multiple rounds of economic sanctions against Russia have been imposed by the EU and US in recent months. These have mainly targeted Russia's energy, defence and financial sectors. In addition, penalties were imposed on individuals, including government officials close to Russian President Vladimir Putin. It is envisaged that Ukraine will regain control over its entire territory, including Crimea, through such measures.

Although little progress has been made so far in this context, it is obvious that some cooperation between the EU and Russia is urgently needed to overcome the current disagreements between the two integration projects. At the same time it is difficult to say anything positive about the potential of these projects for the greater regional coherence of the South Caucasus region, as two of the South Caucasus states – Georgia and Armenia have already chosen two different projects, respectively EaP and EEU at the moment. Azerbaijan has somehow managed not to choose any.

At the same time a new constructive approach to the conflict resolution should be developed further by the EU and Russia to resolve protracted and new ethno-territorial conflicts in the intermediate Europe<sup>10</sup>, covering six post-Soviet states lying between the Baltic to the Caspian Sea (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine). The unresolved conflicts in the internationally recognised territories of Azerbaijan, Georgia, Moldova, and Ukraine create constant security risks, which can destabilise the close neighbourhood of both the EU and Russia.

If a genuine rapprochement between the EU and Russia will be achieved it can enhance cooperation between these two regional actors and build trust in their future relationship. It will also create an enabling environment for the states in an intermediate Europe to

collaborate with both integration projects on an equal footing. Thus, avoiding excluding and using including policies by the EU and Russia may transform intermediate Europe from a 'contested' region to an area of cooperation in the future.

**Gulshan Pashayeva, Deputy Director, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)**

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# Armenia – Stuck between a rock and a hard place

*Dennis Sammut*

Armenia became a member of the Eurasian Economic Union (EEU) on 2 January 2015, the day this Russian-led organisation formally came into existence. The highly controversial decision to join the EEU and abandon existing plans to sign an Association Agreement (AA) with the European Union (EU) was taken abruptly by Armenian President Serzh Sargsyan in the summer of 2013. There was little consultation with parliament or his cabinet of ministers, let alone wider society. The decision has huge implications for Armenia's future, and will no doubt be debated in Armenian society for many years to come.

All former Soviet republics faced political and socioeconomic difficulties during the transitional period after the dissolution of the USSR in 1991. However, Armenia also had to deal with three specific issues that have hugely impacted the way the newly created state has subsequently developed: the historical baggage, the diaspora, and Nagorno-Karabakh. Though all these three factors are interconnected, each weighs on the Armenian body politic in different ways.

Armenians have a deep sense of history, from which they often draw simple conclusions.<sup>1</sup> For centuries they remained a Christian people surrounded mainly by Muslims. For most of the last 1,400 years they lived with or under the rule of Muslims. The search for alliances with other Christian powers – be it the Byzantine Empire based in Constantinople or the Crusaders from Europe – at times gave short-lived reprieve. Armenian communities spread throughout Asia Minor and the Levant, sometimes coalescing into states such as the Kingdom of Cilicia in the 13<sup>th</sup> and 14<sup>th</sup> centuries. However, for most of the time, Armenians lived without a state they could call their own. The historical borders of "Armenia" are thus difficult to define, while what some writers describe as the "inherited fear of lost land"<sup>2</sup> is never far away.

Ironically, Armenian communities seem to have survived, and at moments in history even thrived in Islamic states such as the Ottoman Empire. Islamic law regulates the treatment of non-believers within the state, and the Ottomans were famously adept at allowing space for Christian minorities within their borders to exist and even flourish. Once the Ottoman Empire began to crumble, Armenians faced serious danger from the emerging Turkic nationalism. For a while before World War I, Armenian and Turkish nationalists collaborated in what they perceived to be the common goal of reforming the Ottoman Empire. However it soon became clear that "the two nationalisms could not co-exist within the same state and the result was the almost total destruction of the Armenian community within the Ottoman Empire".<sup>3</sup> The events of 1915, characterised by modern day Armenians as genocide, resulted in a mass displacement of Armenians from Anatolia, the death of hundreds of thousands of Armenians from violence or starvation, and the creation of a large Armenian diaspora in western countries such as France and the United States. In contrast, the relative safety of those Armenians who were living under Russian rule at the time became starkly clear then, and continued to colour popular perception.

When the first modern Armenian state was created in the wake of the collapse of the Tsarist Empire after World War I, there was much debate among the victorious powers at the Paris

Conference as to its borders, especially as this was a time when landlocked nations were not considered to be viable. Events on the ground moved quickly, however, with Kemalist Turkey swiftly asserting control over Anatolia, and the Soviets regaining the Caucasus for Moscow. From 1920 to 1991 Armenian statehood was subsumed by the Soviet system, and for most of that time Armenia was a union republic within the USSR – a place in which Armenian culture, religion and language prospered, but political aspirations were swiftly and often brutally subdued. The Armenian Republic that emerged after 1991 was recognised within the borders of the former Armenian SSR by the international community. However, in the mind of many Armenians, 'Armenia' is where Armenians live or lived. This history clouds the perception of modern Armenian citizens and their leadership, and needs to be appreciated if the decisions of modern day Armenian leaders are to be properly understood.

The dispersal of Armenian communities throughout the Levant happened over many centuries, but the events of 1915 triggered a wave of mass migration to Europe, the United States and Latin America in the early 20<sup>th</sup> century. Tightly knit Armenian communities, kept together by a loyalty to religion, language and an abstract idea of 'Armenia', worked hard and prospered in the new places they settled in. When the Republic of Armenia (RA) was recreated in 1991, the diaspora communities rallied to its support but also claimed a stake in its governance and future. Regulating this relationship has been a challenge for subsequent Armenian governments ever since. Armenians in the Republic of Armenia, while happy to receive solidarity, investment, remittances and even charity from their overseas compatriots, have not been eager to share the governance of their state. Indeed, domestic elites are critical of anything that is perceived as diaspora interference. If you are sipping champagne in California you cannot possibly know what the priorities are for the hard-working people of Sevan and Gyumri, or so the argument goes. Yet diaspora support is still seen as critically important, especially in influencing the policies of the governments of the host countries on "Armenian" issues. Therefore managing the relationship with the diaspora is one of the major challenges any government in Yerevan faces.

The third unusual characteristic of post-Soviet Armenia is that in the process of regaining its statehood, the Armenian Republic also had to support the birth of a second Armenian polity next to it, the Nagorno-Karabakh Republic (NKR). The chaotic last years of the USSR offered an opportunity to revise the *status quo* that existed under Soviet rule, during which the Nagorno-Karabakh Autonomous Oblast was recognised as being within the political space of Azerbaijan despite the fact that it has had a majority Armenian population for some time. A number of writers argue that Gorbachev's policy of glasnost enabled Armenians to dispute Azerbaijani control of Nagorno-Karabakh, something which in the Soviet period "was fraught with the risk of arrest".<sup>4</sup> The Karabakh issue also contributed to the process of state formation in the Republic of Armenia, since it allowed a fragmented political elite to rally around a single cause.<sup>5</sup> In the conflict from 1988 to 1994 Armenians from Karabakh, the Armenian Republic and the diaspora fought side by side, and from this conflict a new concept of an 'Armenian Trinity' emerged: one Armenia with three different identities.

The relationship between the Armenians of Karabakh and the Armenians of the Republic of Armenia, unlike that between either and the diaspora, is very close. Both share a common Soviet heritage and a proximity to the land of their forefathers that the diaspora, for the most part, does



not. Yet they are not one and the same. The Karabakh war with Azerbaijan, which the Armenians have so far won, is not officially finished. Therefore the emphasis is not on difference but on unity. Within Armenian political discourse, the Nagorno-Karabakh Republic and Republic of Armenia are presented as two equal entities, even if Yerevan is recognised as *primus inter pares*. This partly explains why the official position of both Yerevan and Stepanakert is that the NKR needs to be represented on an equal level with the Republic of Armenia in any negotiations with Azerbaijan. In practise however, the situation is far more nuanced. Since 1998 the Republic of Armenia has been led by presidents who hail from Nagorno-Karabakh, where they formed part of the local elite. The role of Karabakhi Armenians in governing the Republic of Armenia and of Armenians from the Republic in governing Karabakh is a source of concern and even resentment for elites on both sides. The analyst Sergei Minasyan argues that "the role of the 'Karabakh guys' in Armenia's political and economic life reached its peak in the last years of the Levon Ter-Petrossian presidency." Minasyan basis his argument on the fact that the two presidents that followed Ter-Petrossian – Robert Kocharian and Serzh Sargsyan – were both from Karabakh and needed the support of the Yerevan elite to secure their position. They thus promoted many of them to key positions in government.<sup>6</sup> However in a country like Armenia, where the president is all powerful, titles and offices do not have much meaning and the impact of Karabakhi Armenians on the politics of the Republic of Armenia remains substantial. Kocharian and Sargsyan were also careful to keep a close eye on the political situation within the NKR. Sargsyan in particular often uses his own childhood acquaintances within the military and political elite in Stepanakert to micromanage the situation within the NKR.

Serzh Sargsyan, a former Komsomol activist from Stepanakert, became President of Armenia in 2008 in messy circumstances. His election was challenged by the opposition, who claimed the vote was rigged. Before he was even sworn in as president, public protests left ten people dead on the streets of Yerevan, which raised questions about the legitimacy of his leadership. Despite these events, Sargsyan's first term was marked by a foreign policy that given the circumstances can be described as bold and even imaginative. It had three pillars. First, continuing negotiations with Azerbaijan over Nagorno-Karabakh, more with a view to entrenching the *status quo* than to resolve the conflict. Negotiations with Azerbaijan were also necessary to frustrate attempts by the Azerbaijani military to liberate by force the territories occupied by Armenia since the early 1990s. Second, Sargsyan wanted to normalise relations with Turkey, and as a result not only open the borders and break Armenia's physical isolation, but also in the process drive a wedge between Azerbaijan and its main ally Turkey. The third pillar was even more ambitious. It sought to have Armenia benefit from the best of both worlds in the complicated geo-political realities of the Caucasus by extending and widening its defence and security relationship with Russia, while at the same time entering into an AA with the EU and joining a deep and comprehensive free trade area (DCFTA) with EU countries.

Sargsyan has, for the moment, been able to achieve his first objective, although at a great risk and probably not for long. He has failed to achieve his second objective for reasons he was not solely responsible, and has failed completely in his third objective because he lacked the political strength to deliver his own policies.

There has almost been no progress in the Karabakh negotiations since Sargsyan assumed the presidency. From 2008 to 2011 the negotiations, although formally within the framework of



the OSCE Minsk Process, were mainly facilitated by the then Russian President Dimitri Medvedev. Since these negotiations hit a dead end at Kazan in the summer of 2011 they have never quite resumed, although a number of meetings between the presidents took place in 2013 and 2014. Given the secrecy in which the talks are held it is difficult to apportion blame for the failure in the negotiations – both sides blame each other – but overall the outcome is satisfactory for Armenia. It remains entrenched in the territories it occupied around Nagorno-Karabakh. Armenian society in Nagorno-Karabakh, while under siege, is not under immediate threat. There are, however, huge risks. It is not at all certain that large scale military hostilities can be avoided under all circumstances. The number of ceasefire violations and subsequent casualties has been much higher during the Sargsyan presidency than under the previous two presidents, and many attribute this to Azerbaijani frustration at the intransigence of Armenia in the negotiations. However, up until now Sargsyan has not felt able to move ahead with releasing some of the territories back to Azerbaijan, a decision many consider necessary for the negotiations to move forward in a meaningful way. As American-Armenian analyst Richard Giragosian put it recently, after centuries of being on the losing side, Armenians experienced the sweet taste of victory once more in Karabakh in the 1990s, and it is difficult for them to come down from that high point.<sup>7</sup> A nation obsessed with the loss of land throughout its history is finding it very difficult to give up the land it now occupies.

Normalising relations with Turkey was high on Sargsyan's agenda after gaining the presidency in 2008. Given the historical baggage discussed above, it is quite extraordinary that diplomats from Turkey and Armenia, with Swiss facilitation, were able to come to an agreement on the so-called protocols that envisaged the opening of the borders, the establishment of diplomatic relations and joint efforts at resolving outstanding issues. However, in the end neither side was able to see the process through, even if both sides still hope they will be able to pick up the process again in better circumstances. When the protocols were initialled there was a sharp reaction from Azerbaijan, and the Turkish Government was taken aback by Azerbaijan's ability to foment a nationalist backlash against the protocols in Turkish society. Baku understood Armenian strategy, and pulled out all the stops to prevent the protocols from moving forward. The Turkish government was obliged to backtrack and say it would not ratify the protocols until there was progress in the Karabakh negotiations. Since then, the wing in the ruling AK Party in Turkey that is more favourable to good relations with Azerbaijan has been on the ascendancy. Turkey-Azerbaijan relations have never been so solid and based on so many common interests as at present. The Armenian government, while perhaps not the main culprit in the failure of the protocols, is not blameless either. Under pressure, especially from diaspora communities, the government tried to gain time by sending the protocols to the Constitutional Court for an opinion, and entering into a dialogue with the diaspora on their necessity. President Sargsyan was shaken by the response he got when he visited diaspora communities as far afield as the United States and Lebanon. His audiences were often vocally against any normalisation of relations with Turkey, and instead insisted on the need to push for recognition of the events of 1915 as genocide. In the end, Turkish pandering to Azerbaijani sensibilities spared Sargsyan from having to force the issue himself. The protocols are, at least for the moment, in limbo.

President Sargsyan's third foreign policy pillar followed a more surprising trajectory. When the Armenian government embarked on a policy of balancing its defence and security

alliance with Moscow with a close relationship with the EU in the form of an Association Agreement and participation in the DCFTA process, this was hailed as a realistic and imaginative policy, both in Western countries, and by many among Armenia's new and increasingly western educated elite. Armenia's reliance on Russia for defence and security is as much psychological as it is real, and has broad support among the people of the Republic of Armenia and the Nagorno-Karabakh Republic. Russia maintains large military facilities in Armenia and Russian border guards protect the border with Turkey and Iran. Armenia is a full and active member of the Russian-led Collective Security Treaty Organisation, and to cap it all, in 2010 President Sargsyan's government signed additional protocols to a defence treaty with Russia that completely embedded Armenia into Russia's military apparatus, extending Russia's military presence in Armenia until 2044. There was little criticism in western countries of Armenia's decision to do so; there was a lot of understanding of why Armenia felt this was necessary, and a willingness not to let this interfere with wider relations. Thus, almost at the same time that it upgraded and extended its defence agreements with Moscow, Armenia embarked on the process of negotiating the Association and DCFTA Agreements with the EU. The Armenian side in the negotiations was led by Prime Minister Tigran Sargsyan, who became as frequent a visitor to Brussels as President Sargsyan was in Moscow. EU negotiators admired how committed their Armenian counterparts were to implementing the necessary reforms to make the association process meaningful. In the summer of 2013 it was announced that the agreement, hundreds of pages long, had been finalised by the negotiators. While there were one or two political presentational issues that needed to be ironed out, everything was ready for the agreement to be initialled by the end of the year at the Eastern Partnership summit in Vilnius. It was then that President Sargsyan was summoned to Moscow by President Putin on 3 September. Emerging ashen-faced from the meeting, he announced that Armenia will not sign the agreements with the EU, and will instead join the Russian-led EEU as a full member. There had been some rumblings in the weeks and days ahead that somehow the agreements with the EU could unravel. In Armenia the first signs of Russian 'soft power' could already be seen at work. Sleeper politicians who had been nurtured and held in reserve by Russian controllers were activated. A campaign depicting Western liberal values as being incompatible with Armenian social, religious and family traditions went in full swing, targeting feminist groups, gay rights groups and anything else that looked remotely symbolic of an open society. Thus by September Armenian society had already been softened, and while there was shock at president Sargsyan's U-turn, there was not much of an outcry. Many of the heavyweight politicians in Yerevan – government and opposition – have too many vested interests in Russia to be willing to risk an open confrontation. The young elites that were meant to be the cornerstone on which the hopes for a new Armenia were to be built proved to be too compromising, and unwilling to sacrifice their careers. With few exceptions Armenians grumbled, but accepted their fate. Throughout 2014 the Armenian government pushed ahead with accession into the nascent EEU, and when in December this was put to the vote in the Armenian parliament, only the seven MPs of the Heritage group voted against. All the others, including the opposition, voted in favour.

There is considerable bitterness among EU politicians and bureaucrats at this turn of events, not so much at Armenia's decision as to how the decision was taken. There is a lingering suspicion that President Sargsyan was never negotiating in good faith, and was simply using

the EU to strengthen his hand in his negotiations with Moscow. However, it is unlikely that this was the case. Sargsyan's fault was in underestimating the pressure that Putin was ready to exercise in his endeavour to recreate the 'Soviet space', if not the Soviet Union. Sargsyan was unable to press ahead with his own policies in the face of such pressure. Sargsyan's own weakness in Russian eyes also played a part. Moscow was rattled by the results of the February 2013 presidential election in Armenia. Since most of the mainstream opposition parties had decided to boycott the election, Russian officials in Yerevan assumed Sargsyan will have a walk-over. Instead Raffi Hovhannessian, a relative outsider, who is the most pro-western of current mainstream politicians, managed to secure around a third of the vote, nearly forcing a second round of the elections. Moscow wanted answers from both Sargsyan and from its people on the ground in Armenia. It was probably at this point that Mr Putin decided he was not going to take chances, and Armenia was left with no room for manoeuvre.

The implications on Armenia's future of the decision to join the EEU are huge. How huge will depend on the durability of the EEU itself and the longevity of the present regime in Moscow. Some Armenians naively hope that one or the other will unravel soon, but this is unlikely. The present impasse between Moscow and the west on Ukraine and other issues may weaken Russia and its ambitions, but at least in the short term not enough to derail Putin's ambitions completely. In the process, Armenia's statehood and economy may be deformed by its integration into a project which it does not fit into naturally. Furthermore, there is a risk that an embattled Russia is likely to soon be asking for sacrifices from allies. The Armenian economy, already considered over-dependent on Russia in many sectors, is likely to be forced into even further dependence. While Moscow recognises the need to give Armenia financial sweeteners, to calm the domestic social situation if for no other reason, a reduction in remittances from Armenian workers in Russia and a devaluation of the rouble will have a huge impact on the Armenian economy. There are however wider implications. Sargsyan's main argument for opting for membership of the EEU was security. Apparently a long term defence agreement with Russia was not enough. However Armenia realises that even with EEU membership Russia continues to flirt with Azerbaijan, which it sees as a much more important prize. Russia at the moment is Azerbaijan's biggest arms supplier, providing both offensive and defensive weapons. At the same time by rejecting the Association Agreement with the EU Armenia lost an opportunity to have a privileged political position with the EU. The new policy is also having an impact on the domestic politics of Armenia. In the field of governance, if the pattern of 2014 is followed, we will see a further marginalisation of professionals and western educated technocrats in key positions, and a consolidation of the system of clans headed by oligarchs as the cornerstone of Armenian politics.

President Sargsyan's government is struggling to keep options open. It pushed through with abolishing the visa requirement for EU citizens, and has promised to continue with reforms. Having alienated the Brussels bureaucracy, Armenia is trying a charm offensive on EU member states. Foreign Minister Edward Nalbandian has been a regular visitor to European capitals since the EEU decision was taken, but in these visits discussions are often limited to the realm of generalities. Since no one, not even Mr Nalbandian, quite knows where Putin's EEU project is going, these visits are more important for their symbolism than their tangible outcomes.

The Republic of Armenia thus finds itself caught between a rock and a hard place, a victim of itself as much as of its enemies. A new generation of young Armenians are increasingly sensitive to this, yet few are able to articulate a proper response. They can only hope that another chance to break out from this impasse will come along soon, and that this time the opportunity will not be squandered again.

**Dennis Sammut, Member of the EPC's Advisory Council; Director, LINKS (Dialogue-Analysis Research)**

## Endnotes

- 1 The travel writer, Philip Marsden, captures the natural way in which Armenians constantly introduce history in their conversations, citing a chance meeting in a cobbler's shop in Yerevan on his first visit there in the early 1990s. "Soon we were talking about meat shortages and the Azeri embargo and then, quite naturally about Vartan and the Persian Wars of the fifth century, and the Arab invasions of the seventh. And of General Andranik, the hero of Armenian resistance who led a whole series of guerrilla bands against the Turks and is buried in Pere Lachaise." (Marsden, Philip (1994), *The Crossing Place, A journey among the Armenians*, London: Flamingo, p169.)
- 2 Marsden (1994), op cit., p242.
- 3 Panossian, Razmik (2006), *The Armenians, from Kings and priests to merchants and Commissars*, London: Hurst and Company, p. 223.
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- 6 Ibid., p. 64.
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# Iran's policy in the South Caucasus

## Between pragmatism and realpolitik

*Amanda Paul*

The South Caucasus is one of the most complex and security-challenged regions of the former Soviet Union. However, its geographical location between Central Asia and Europe has made it particularly coveted. That is why it has been the site of geostrategic confrontation between regional powers, including the Persian, Ottoman and Russian empires, for centuries.

For Iran the South Caucasus is both a source of opportunity and threat, occupying a not-so-insignificant place in the country's foreign policy. Iran's political elites perceive their country as a natural and indispensable regional power, viewing the South Caucasus as their historical domain where deference of Iran's interests is expected.<sup>1</sup> This perception has been formed by a strong sense of identity and an awareness of Iran's role as one of the region's historical powers.<sup>2</sup> While Iran's foreign policy outreach has been stymied by international sanctions, the country nevertheless remains a significant regional player, not only via its proxies in the Middle East, but also by utilising the other windows it has in its neighbourhood. The South Caucasus is one such window. Furthermore, with the recent breakthrough in the 5+1 nuclear talks, there is cautious optimism that a deal can be reached, which could mark the first step of a process of normalisation of relations with the West. Such a development would have a significant impact on Iran's regional role, shifting the balance of power, and allowing the country a much greater stake in the region both economically and politically, including in the South Caucasus.

### Iran's history with the South Caucasus

Tehran's ties to South Caucasus go back centuries, when the region was part of the Persian Empire. However, with the region being so geo-strategically important, it has been a far from friendly environment. In the 18<sup>th</sup> and 19<sup>th</sup> centuries Tehran had to compete and fight with both Russia and Turkey, while nearby Sunni tribes became independent Arab states. In 1813 and 1828, having repeatedly failed to hold off invading Russian armies, the Persian Qajar dynasty signed the Treaties of Gulistan and Turkmenchay, relinquishing its territorial claims on most of the eastern parts of present-day Georgia and the territories that are now Armenia and Azerbaijan to Russia. In Iran, the word 'Qajar' is still synonymous with territorial loss and national humiliation. Though never colonised by Western powers, the Shah's efforts to carve out an independent foreign policy were impeded by domineering external interests, with the country infiltrated and at some points practically controlled by Great Britain and Russia, and later on the United States (US).<sup>3</sup>

During the Soviet period, Iran feared both an infringement of its territorial integrity by the Soviet leaders, as happened during the Second World War, and ideological contamination of the population within its borders. While foreign interference ended, first with the Islamic Revolution of 1979 and then with the collapse of the Soviet Union in 1991, it left Iran paranoid about external security threats, hostile encirclement and foreign meddling – a legacy that remains intact today.

However, the collapse of the Soviet Union and the diminishing of the 'menace from the north' granted Iran respite for the first time since the 18<sup>th</sup> century, prompting new geostrategic opportunities in the Caucasus and Central Asia and creating a new determination in Tehran to chart an independent foreign policy course.<sup>4</sup> However, competition from Turkey, which aspired to create a pan-Turkic space (with the US promoting the Turkish model to the exclusion of Iran<sup>5</sup>) and the still significant influence of Moscow, led Tehran to take a very cautious and pragmatic approach.

## **A pragmatic approach**

Iran's policy towards the South Caucasus is essentially a pragmatic one, shaped by realpolitik, historical experiences and balance-of-power calculations. So while Tehran may be eager to assert itself as a regional power, it is able to acknowledge the limitations of its own capacity and the constraint of external challenges. Therefore its regional policy is relatively cautious and balanced.

Regional stability and security is of particular importance and have often taken precedence over the ideological preoccupations in Iran's policy choices in the South Caucasus, inherent to a revolutionary and religious regime. Iran has numerous minorities (Azerbaijanis, Turkmens, Armenians, Jews, and Baluchis) yet while the longevity and predominance of the Persian culture have favoured the integration of minorities, Iran has nevertheless remained anxious about separatist tendencies – tendencies which have occasionally been exploited by political groupings and external actors – and violence on sectarian grounds. Fearing that the establishment of a strong and independent Azerbaijani state could lead to a rise of nationalistic aspirations among Iran's own Azerbaijani minority, which numbers some 25 million people (three times Azerbaijan's population and half of Iran's), along with the then Azerbaijani President, Abdulfaz Elçibey, flirting with pan-Turkic ideas coming from Ankara, Tehran adopted a policy of close cooperation with Armenia during the conflict between Armenia and Azerbaijan over Nagorno-Karabakh in the early 1990s, despite Azerbaijan being a fellow Shia state. This led to what has been defined as two regional axes: a non-western axis comprising Russia, Armenia and Iran and a Western axis made up of Turkey, Georgia, the EU and Azerbaijan.

Against this background Iran's main interest in the South Caucasus could be defined as follows: first, to reduce the influence of outside powers, the US and Israel in particular, but also Russia, which is viewed as a security threat. This would reduce Iran's perceived security concerns and give Tehran more space to increase its own influence. However, while Iran, unlike Russia and Turkey, does not sell arms to the South Caucasus states, Iran itself is viewed as a security threat due to its nuclear programme. Hence, Iran has undermined rather than strengthened regional security. Second, to continue to neutralise possible security threats and instability from the South Caucasus, which could have an impact on the broader region. Third, to obtain a bigger foothold through economic and cultural expansion; and fourth, setting the legal regime of the Caspian Sea.

Iran's activities in the region are important as they help alleviate the economic pressure Tehran is under from international sanctions and offer a springboard to other markets. Iran is



the only regional power to have embassies in all three South Caucasus states and has managed to build a useful network. This has been possible for several reasons, including ethnic ties and the presence of significant diaspora communities. Apart from the Azerbaijani diaspora, one of the largest and well-established Armenian diaspora (estimated to be around 90.000) resides in Iran. Other reasons include geographic proximity; relatively easy visa requirements for Iranian citizens to travel to the region, weak rule of law and a culture of corruption that has made it easier to do business in terms of circumnavigating international sanctions. This has been particularly the case in Armenia and Georgia, which are both in urgent need of foreign investment.

Since the collapse of the Soviet Union Iran has carved out very different relationships with each South Caucasus state.

### **Iran and Armenia – Close friends**

Iran's closest relationship is with Armenia. It is based on necessity and a shared sense of isolation. Following the break-up of the Soviet Union, Christian Armenia and Islamic Iran were united by common enemies, with Elçibey frequently speaking about forging an exclusively Turkic-Azerbaijani identity, Greater Azerbaijan and the reunification of the Azerbaijani regions of Iran with Azerbaijan, along with an increase of Israeli-Turkish influence in the region.<sup>6</sup>

Iran is strategically important for Armenia given its landlocked status between Azerbaijan and Turkey. Both states imposed an economic blockade on Armenia as a consequence of Armenia's occupation of Azerbaijani territory during the Nagorno-Karabakh war. Hence Iran represents an important outlet for external trade for Armenia, in addition to Georgia, allowing Armenia to ship goods to the Persian Gulf and onward. Furthermore, Iran represents an important balance for the former's Middle East vector, as Iran stands as a regional power in addition to Turkey, as well as an alternative to Russia, which has significant influence (political, economic, and security-related) in Armenia.

For Iran, Armenia firstly represents an important economic partner. Moreover via strong ties with Yerevan, Tehran is seeking to win support from the influential Armenian diaspora in Russia, the US and France.<sup>7</sup>

There has also been a high degree of cooperation in the energy, transport, communication, agriculture, and healthcare sectors. Armenia is Iran's biggest direct gas customer, especially since May 2009, when Iran and Armenia launched a transnational gas pipeline built by Gazprom, although due to pressure from Gazprom the pipeline has a relatively small capacity (1.1 bcm). Armenia and Iran have an energy exchange system whereby Iran grants Armenia natural gas, which Armenia pays for with electricity. The construction of a hydroelectric station along their common border has also been planned, along with the construction of the Southern Armenia Railway, which will link the two countries more closely. However, the high level of economic cooperation has at times raised concerns over Yerevan's adherence to international sanctions. According to Armenian President Serzh Sargsyan, Iranian sanctions directly concern Armenia, stating that "they (the sanctions) deal

a blow to Iran's and – by ricochet – to our economy, too. But we continue to implement interesting joint projects, specifically in the hydro energy sector [...] and today our relations are developing with success."<sup>8</sup>

Moreover Armenia's membership of the Russian-led Eurasian Union leaves the question to what extent Armenia's economic ties with Iran will change, and in particular, how much economic sovereignty Armenia will maintain in its ability to trade with Iran. Given the vital and strategic nature of Armenia-Iran economic ties, it would be unwise for Armenia to sacrifice any aspects of its trade relations with Iran. One potential development is the possible establishment of a free trade agreement (FTA) between Iran and the Customs Union.

### **Azerbaijan-Iran: cordial distrust**

While Azerbaijan, a fellow Shia-majority country, has close historical and cultural ties to Iran, the countries are vastly different. While Iran is an Islamic theocracy, Azerbaijan is a largely secular society based on the separation of religion and politics, with its culture and lifestyle being significantly shaped by some 70 years under Soviet rule. Azerbaijan sees the growth of political Islam as a threat to its security, something that has been exacerbated following the rise of the Islamic State in Syria and Iraq. Hence it has been a particularly turbulent relationship.

In the aftermath of independence, Azerbaijan was more inclined towards a pan-Turkic outlook, particularly evident when Elçibey and his Popular Front Party was in power, with Elçibey having particularly close ties with Ankara, which was perceived in Tehran as an anti-Iranian stance. At the same time Azerbaijan's belief that Iran sided with Armenia over Nagorno-Karabakh was a significant obstacle in developing ties. Due to its security interests in the South Caucasus, particularly its northern borders with Azerbaijan and Armenia, Iran took on a mediation role in the Nagorno-Karabakh conflict but failed to bring about a positive result.

The issue of how to determine the legal regime of the Caspian Sea, along with disputes over hydrocarbon reserves there, have also plagued the relationship between Iran and Azerbaijan since the first years of the latter's independence.<sup>9</sup> Iran has also had to watch the rapid development of Azerbaijan's energy sector while its own has been hobbled by international sanctions. As a result Tehran has been unable to develop its energy sector and profit from the lucrative EU market. Azerbaijan, on the other hand, has greatly profited from Iran's decrease in power. While Iran has continued to export oil to some countries, Azerbaijan is now the only country in the region that can extract, refine, transport and negotiate its natural resources to the European market, which translates into economic and political power.

A further irritant for Tehran is Azerbaijan's close ties with the West, especially the US, NATO and Israel, with relations with Jerusalem being a particularly thorny issue. Since its independence Azerbaijan has had a very close relationship with Israel, making it one of a handful of Muslim states to enjoy such warm ties. With bilateral trade currently hovering around \$4 billion, Azerbaijan is Israel's top trading partner among Muslim states, and the second largest source of Israel's oil after Russia. However, it is the military-defence cooperation between the two countries that particularly irks Iran. Back in the early 90s Azerbaijan's only access to modern military technology was via Israel. Today, Israel

continues to sell Azerbaijan arms worth billions of dollars, which is not welcomed by Tehran. Iran has also repeatedly claimed that Israel uses Azerbaijan as a base to gather intelligence on Iran, including alleging Israel have a "listening station" in Azerbaijan.

Furthermore, while Iran obsesses over an attempt from Baku to foment secession among Iran's ethnic minorities, Azerbaijani has been concerned about Iranian support for Islamic revivalist groups inside Azerbaijan. Indeed after gaining independence, Azerbaijan was faced with a wave of religious expansion from Iran via radio, TV, the mass export of Shiite literature, the activity of religious preachers, the creation of relief funds, and so on.<sup>10</sup> Azerbaijan's Talysh community, which speak a language akin to Persian, live along the Azerbaijan/Iran border and consequently, the Iranian influence is particularly noticeable in this part of the country.

Yet despite these problems the two countries have developed a pragmatic cooperation, with Iranians travelling frequently to Azerbaijan for business and tourism and increasing bilateral trade between the two. Hundreds of trucks cross the border each day and many Iranians have bought property in Baku. Furthermore, transit across Iran is the only land route to the Azerbaijan's Nakhchivan Autonomous Republic.

Moreover, bilateral frictions began to decrease since Iranian President Hassan Rouhani took over from Mahmoud Ahmadinejad in 2013 and a series of progressive summits were launched to improve bilateral relations. Cooperation in many different areas has begun including border cooperation with plans to expand it, including building a railway link from Russia, across Azerbaijan, to Iran. Turkey has also played an important role in helping Iran and Azerbaijan overcome the tensions in their bilateral relationship, establishing a tri-partite diplomatic dialogue. Furthermore, following Armenia's entry into the Russian-led Eurasian Union and in the aftermath of Russia's annexation of Crimea and war against Ukraine, there has been an effort to strengthen ties, which would indicate that Azerbaijan aims to further balance its foreign policy options as well as end the radical activities of domestic, Tehran-backed Shiite groups who oppose the secular regime in Baku.<sup>11</sup> A further factor pushing Baku and Tehran together is their mutual opposition of ISIS. A signal of this is the fact that the Azerbaijani State Committee for Work with Religious Organisations has intensified contacts with Iranians and adopted a much more lenient attitude to local Shiite Islamists, since Salafis/Wahhabis are now considered to be the main threat.

### **Georgia-Iran: trying to bury the past**

Georgia shares no border with Iran and its history with the country is littered with bad memories, including Iranian invasions that ended with the burning down of Tbilisi at the end of the 18<sup>th</sup> century. This event led the then king to strengthen relations with Russia, fellow orthodox Christians, although this ultimately led to Russia slowly taking over Georgia, followed by the rest of the South Caucasus.

While today's Georgia has little in common with today's Iran there has been a surprisingly high level of contact between the states. Georgia is the only South Caucasus state that has both an Iranian embassy and consulate and the country is an extremely popular holiday destination for Iranians. There are also many economic ties. While Iran does not enter

Georgia's top ten of trade partners, Georgia's access to Western markets across the Black Sea makes it an attractive market for Iranian investors. This led to Georgia coming under scrutiny from the West because of possible links to sanctioned Iranian entities. In February 2014, the US Department of Treasury sanctioned three individuals and a number of their businesses, both in Georgia and overseas. Thereafter the Georgian authorities apparently froze more than a hundred accounts of Iranian nationals and their companies, and revoked a visa-free regime in place since 2011, which had made it very easy for Iranian nationals to visit Georgia and establish businesses there. These actions have led to a decrease in Iranian investment. In 2014 bilateral trade decreased by 15% to \$150.83 billion, and there was no new Iranian FDI in Georgia, compared to 2013 when it had increased by 110%.<sup>12</sup>

As with Azerbaijan, Iran does not appreciate the close ties that Georgia has with the US and its growing partnership with NATO, with Tbilisi making a NATO membership, along with EU integration, a foreign policy priority. Georgia believes that Euro-Atlantic membership is the only way it can guarantee its security and independence. In the aftermath of the 2014 Wales NATO Summit, ties were further strengthened, with NATO establishing a coordination centre in Georgia. Iran does not want to see Georgia develop in a way that could have an impact on its security and stability.

## **The Russia factor**

For the last two centuries Russia has never been far from the centre of Iranian politics; often as a colonial foe, sometimes as a convenient ally against a common enemy.<sup>13</sup> Russian-Iranian relations have even been described as "compelled adversaries, pragmatic pals."<sup>14</sup>

While the West's policy towards Iran over the last three decades has forced Iran into greater cooperation with Moscow (as well as China) Iran has been very cautious in its approach towards Russia, which it still views as a security threat. Besides Russian military bases in Armenia, Russian border guards assist Armenia in protecting its borders with Turkey and Iran. The situation worsened following Russia's war against Ukraine, which demonstrated that Russia is ready to use force when it thinks its vital interests are at stake.

However, at the same time, Iran's relationship with Russia is driven by realpolitik and shared concerns – the hypothetical enlargement of NATO; the economic importance to Western companies of the Caspian energy resources and the transit routes of the region; and the political and military presence of the US in Georgia and Azerbaijan. They both oppose Western influence in the South Caucasus and would also like to exclude non-riparian states from having any economic or military access to the Caspian Sea. Lastly, Russia and Iran express similar concerns related to the Syrian crisis.

Furthermore, the new reality of Western sanctions, which have weakened Russia's economy, has resulted in Russia revising its ties with a number of countries, including Iran, which leaves Iran in an advantageous position.

Following the agreement on a Joint Communiqué in the P5+1 talks Russia immediately agreed on an oil for goods swap with Tehran. Russian President Vladimir Putin also signed a

decree ending a self-imposed ban on delivering the S-300 anti-missile rocket system to Iran, thereby removing a major irritant between the two after Moscow cancelled a corresponding contract in 2010 under pressure from the West.<sup>15</sup>

## Conclusions and prospects

Despite concerns over some issues – the division of the Caspian, the influence of the US/NATO and Israel – Iran has pursued a policy in the South Caucasus that is relatively non-confrontational, particularly when compared to its aggressive rhetoric and proxy support to Yemen, Bahrain, Iraq, Syria, Lebanon, and Palestinian groups.<sup>16</sup> This seems set to continue. When Hassan Rouhani was elected as president in 2013 he stated, in his first address at the United Nations, that his government would pursue a conciliatory foreign policy.

Nevertheless, at the same time it is clear that Iran has not contributed to strengthening security in the South Caucasus. Its controversial nuclear programme has undermined security, while its position on the Nagorno-Karabakh conflict draws the conclusion that Tehran is a *status quo* actor and in no rush to see the conflict resolved. However, Iran's efforts at enhanced dialogue with Azerbaijan, as well as the historical developments regarding its nuclear programme and relations with the US can be seen as a step change by Tehran.

While Iran is never going to be the most influential foreign actor or partner in any of the three South Caucasus states, there can be little doubt that if international sanctions on Iran are lifted, and diplomatic relations with the West – the US in particular – are normalised, Iran's role and influence in the region is going to significantly increase. This will change the balance of power in the region, which will be a challenge for other regional powers, such as Turkey and Saudi Arabia, not to mention Israel.

For the countries of the South Caucasus this could have some significant benefits, but also some negative consequences. Beyond enhancing regional security, with no sanctions Iran would be free to increase trade and economic cooperation with all three states. This would increase the economic prosperity of Georgia and Armenia in particular. Furthermore, it would also allow Iran to transform its energy sector, with many international energy giants eager to do business with Tehran. This would clearly have an impact on Azerbaijan's energy sector given Iran's hydrocarbon reserves, although it is estimated that it would take some ten years to clean up and redevelop Iran's energy sector. Iran could ultimately become a significant energy supplier (of gas in particular) for the EU market. Furthermore, how relations between Iran and Russia would evolve would also affect regional security dynamics and broader developments in the region.

Amanda Paul, Senior Policy Analyst, European Policy Centre

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# Trade, economic and energy cooperation: challenges for a fragmented region

*Vusal Gasimli*

## Introduction

The South Caucasus occupies an important geo-economic position as an intermarium region stretching from the Caspian to the Black Sea, containing natural endowments, but with only a scarcely developed sense of regionalism. If nothing else, the location of the South Caucasus between some of the world's most promising new hydrocarbon resources and one of its largest markets, in the form of Europe, determines its geo-economic weight.

The South Caucasus comprises three differently-oriented countries: Georgia, Armenia and Azerbaijan. The three states have diverse integration perspectives. Georgia signed an Association Agreement (AA) including a Deep and Comprehensive Free Trade Area (DCFTA) with the EU in June 2014; Armenia became a member of the Russian-led Eurasian Union in January 2015. Finally, Azerbaijan has its own independent approach regarding integration prospects. Thus, all three countries have been affected by the incremental rivalry of the EU and Russia.

In spite of geographical proximity and economic complementarity, the South Caucasus as a region suffers from fragmentation. Therefore a single economic space does not exist.

## Foreign trade and the South Caucasus

According to the European Commission, the EU is the main trading partner of all three states. In 2012 trade with the EU represented 27% of overall trade for Armenia, 45.6% for Azerbaijan and 27.2% for Georgia. However, Armenia's and Georgia's share of total EU trade with the world remain low, at around 0.1%. Azerbaijan's share in total EU trade stands at 0.8%.

The main export partner of Georgia is Azerbaijan with a 25% share, while Armenia's dominant export partner is Russia with a 19%. However, Azerbaijan's major export destination is outside the post-Soviet countries: Italy accounts for a quarter of the export volume. Thus, the South Caucasus countries have different export orientations, which further prevents them being described as one region. There are also few similarities among the export profiles of the three states. For example, the lion's share of Armenia's exports is in precious stones, metals and mineral products, while Azerbaijan benefits from its oil and gas exports. Georgia's major export goods are mineral fertilizers, nuts, ferrous metals, wines and spirits. While the low level of export similarity is evidence of regional fragmentation, at the same time it provides opportunities to develop intra-regional cooperation. In the event of a resolution of the Nagorno-Karabakh conflict there would be an opportunity to boost Armenia-Azerbaijan bilateral trade.



## **Trade-off between two Unions: Eurasian and European**

According to the estimations of the Center for Economic and Social Development, the accession of Azerbaijan to the Kremlin-led Eurasian Union would, in the short run, allow GDP to grow at over 2% faster each year. However, at the same time there is a risk that Azerbaijan could lose its independent energy policy while also be faced with a flow of cheap products produced in the Eurasian Union territories, which could crowd out local products. Since Azerbaijan is an almost self-sufficient country, officially Baku prefers to join neither the Eurasian Union nor sign an AA with the EU. Nevertheless, Azerbaijan is increasing its trade turnover and investment activities with both Unions. Within the EU's Eastern Partnership (EaP), Azerbaijan has signed a Mobility Partnership, and Visa Facilitation and Readmission Agreements during the last year. While the EU is the main trade partner of Azerbaijan, Russia holds the title of the biggest non-trade partner.

Fitch Ratings indicates that the AA with the EU will open up EU markets for Georgia's exporters, potentially boosting growth. If implemented and sustained, the DCFTA could increase exports to the EU by 12% and imports by 7.5%. In the long run this could boost national income by 292 million Euro per year. Georgia is also interested in having the Russian embargoes, which were placed by Moscow during the Presidency of Mikael Saakashvili, on some products lifted. Russia is the traditional market for many Georgian exports including food, agricultural products, beverages and wine. Negotiations between the two states have been going on since the change of leadership in Tbilisi with Georgian wine and water back in the Russian market. However, at the same time, Georgia has a cautious approach, and will not allow itself to become over-dependent on Russia as a trade partner.

Georgia's AA with the EU creates technical barriers with Armenia, because the latter is member of the Eurasian Union. Meanwhile, Azerbaijani and Georgian authorities are analyzing the DCFTA for compliance with the Free Trade Area Agreement that exists between the two countries. As the majority of joint Azerbaijan-Georgia initiatives are westward-oriented, Georgia's DCFTA with the EU creates new opportunities for the implementation of such projects. Furthermore, Azerbaijani companies working in Georgia could take advantage of the free trade arrangements with the EU.

As Armenia's weighted average import tariff of 2.9% is less than that of the Eurasian Union – about 10% – Armenia's decision to join the Eurasian Union may generate negative trade-diversion effects for Yerevan. Since the duty rate in Turkey is 6.02%, Armenia's accession to the Eurasian Union could also cause direct negative consequences for Armenian-Turkish rapprochement. At the same time, value-added tax (VAT) and profit tax rates in Armenia are higher than those of the Eurasian Union member countries, which may cause businesses to leave Armenia and move into other Eurasian Union countries with more business-friendly tax rates; however, imposing more favorable taxes in Armenia would create problems for fiscal sustainability. In spite of the disadvantages however, Armenia is reliant on the increase of exports to Eurasian Union markets, especially Russia.

Armenia's wish to include Nagorno-Karabakh in the Customs Union was at first denied by Russia. Russian Foreign Minister Sergei Lavrov said that Armenia is joining the Eurasian

Union as Armenia, the Nagorno-Karabakh conflict has nothing to do with it. According to the President of Kazakhstan, Nursultan Nazarbayev, Armenia will join the Eurasian Union without Nagorno-Karabakh. Nazarbayev raised the issue at the meeting of the Supreme Eurasian Economic Council in Moscow on 24 December 2013. Belarusian President Alexander Lukashenko also considered Azerbaijan's viewpoint on Armenia's entry to the Eurasian Union. Finally, Armenian President Sargsyan stated "Who said we are going to join the Customs Union together with Karabakh? This cannot happen, as Karabakh, at least according to our legislation, and at least in our perception, is not a part of Armenia."<sup>1</sup> Thus the territorial integrity of Azerbaijan was recognised by all members of Customs Union, as well as Armenia.

### **Impact of "exchange of sanctions" on region**

The Ukraine crisis presents a challenge for the countries of the South Caucasus. Ukraine represents a market for Georgian exports worth \$192.7 million, which is vitally important for Georgia. Non-denatured ethyl alcohol and spirits lead in exports from Georgia to Ukraine at \$33.2 million, followed by wine at \$30.4 million; compared to the previous year, in volume terms exports of wine to Ukraine were almost the same as in 2013, but they increased in value by 11.3% year-on-year. Georgia also exported \$29.5 million worth of mineral and fresh water to Ukraine in 2013.<sup>2</sup> In addition, Georgian agricultural exports to Ukraine are 28 times higher than the volume of agricultural exports to the EU.<sup>3</sup> Given Georgia's poor economic outlook, the crisis in Ukraine – its third largest trading partner – is a concern for the Georgian economy.

In turn, trade volume between Georgia and Russia increased 33% y/y to \$779.6 million in 2013, mainly due to a four-fold increase in exports to \$190.2 million. Imports from Russia amounted to \$589.4 million, a 24.4% y/y increase. Thus, Moscow has leverage through a potential embargo on Georgian products. Given the foreign trade deficit of Georgia, it would be undesirable for Tbilisi to jeopardise its trade with Russia.

As Russia holds the title of the largest source of remittances – about half of all money transferred from abroad – for Georgia, any economic slowdown in this country following sanctions would affect the Georgian economy in general, as well as one in every ten people across the country. Migrants' remittances are sensitive to the decline in production in Russia and this has had a significant negative effect on economic development in the recipient countries in the form of a decrease in remittances.<sup>4</sup> From the perspective of the donor country, remittances are considered pro-cyclical, as migrants send less when the donor country faces economic slowdown.

Georgia depends more on Russia in terms of migration, while in terms of FDI and exports it relies more on the EU. Thus, competition between Russia and the EU poses challenges for Georgia in setting long-term goals.

The Ukraine crisis and resulting reciprocal sanctions – the "exchange of sanctions" – have also affected the economic situation in Armenia. For example, according to Armenia's National Statistical Service, Armenian exports to Russia fell by 6.4% to \$134 million in the

first half of 2014.<sup>5</sup> On the other hand, significant amounts of remittances sent home by Armenians working in Russia could be impacted by Russia's economic slowdown. Furthermore, since Russia is financially supporting Crimea and the south-eastern provinces of Ukraine, contributions to Armenia at government level may be reduced. Russia is also the biggest foreign investor in the Armenian economy with a total of \$3 billion investments in 2013 and whose GDP amounted to \$9.9 billion in 2012, according to the World Bank.<sup>6</sup> However, the postponement of Russia's Rosneft's plan to invest in Armenia's Nairit chemical giant is evidence of a declining Russian capacity to continue financing the Armenian economy as before. Armenia's economic situation depends, to a larger extent than those of its South Caucasus neighbours, on Russia's economic development.

Ukraine is also an important country from the perspective of Armenian migrants. In the case of a Ukrainian economic downturn, Armenia could expect a reduction in the remittances it currently receives from Ukraine.

Azerbaijan could be affected less than its South Caucasus neighbours in terms of the economic impact of the Ukrainian crisis. The crisis in Ukraine is unable to influence the development of the Azerbaijani economy the head of the IMF mission to Azerbaijan, Adviser of the Middle East and Central Asia Department Raja Al Marzouqi said: "The economy of Azerbaijan is more focused on the export of hydrocarbons. That's why the crisis in Ukraine can only have an indirect influence on its development. The crisis delays the development of the region. However, the economy of Azerbaijan is able to resist these problems".<sup>7</sup>

Azerbaijan, along with its two South Caucasus neighbours, is seeking ways to fill the gap in the Russian food and agricultural products market following sanctions. Azerbaijan is among the top 10 suppliers of vegetables and the top 15 suppliers of fruit to the Russian domestic market. Having direct land, and water borders with Russia, Azerbaijan enjoys a primary advantage in reaching the Russian food market. Furthermore, Azerbaijan's regions that specialise in the production of fruits and vegetables, such as Guba-Khachmaz and Sheki-Zagatala, are situated along the border with Russia. Both Georgia and Armenia are also increasing exports to Russia, although it is slightly more complicated. The only railway connection between Armenia and Russia, through Abkhazia, is closed, while the overland route connecting Armenia with Russia through Georgia is located in a mountainous area and is limited by natural and political risks.

## **European energy security and the South Caucasus**

After the collapse of the Soviet Union, there was a realisation of the need for a new energy corridor from the Caspian basin to Europe, initiated by Azerbaijan and supported by Turkey and Georgia, and more widely by the West. The Baku-Tbilisi-Ceyhan oil pipeline, Baku-Supsa oil pipeline and South Caucasus Gas Pipeline cemented regional cooperation in the South Caucasus between Azerbaijan and Georgia. Because of occupation of Azerbaijan's internationally recognised territories, Armenia was excluded from all regional energy and transportation opportunities. Georgia, on the other hand, was able to take advantage of its location to become the main transit route between the Caspian basin and Europe.

The Southern Gas Corridor (SGC), which will bring natural gas from the Caspian basin to Europe across Georgia and Turkey, bypassing Russian territory, acquired greater importance following the Ukrainian crisis which has acted as a wakeup call to the EU to speed-up its efforts to reduce its dependence on Russia for hydrocarbons. Since the SGC is expandable, the amount of gas delivered to Europe might increase from the 10 bcm initially foreseen. From the perspective of the EU, the SGC's relevance is multi-layered. First of all it opens an alternative route to deliver Caspian gas to the EU, other than via Russia. Second, it has the potential to attract additional volumes of gas from Iran, Iraq and Cyprus. Thus, the EU will benefit from the diversification of transportation routes and sources. The South Caucasus is important in the implementation of the Corridor from two perspectives: as a source of natural gas and as a transit region. Head of Trans-Adriatic-Pipeline's (TAP) representative office in Italy, Giampaolo Russo, did not rule out indirect competition of TAP with the South Stream because of diversification of gas supplies to Europe when TAP is launched, but the two pipelines can co-exist peacefully.<sup>8</sup>

SOCAR, BP, Botas, E.ON and others companies are involved in the development of the SGC. Out of a total budget of 45 billion dollars, 28 billion dollars is allocated for the production of natural gas in Azerbaijan and its transportation through Georgia. The realisation of the SGC will bring investment flows, while also creating new job opportunities in Georgia. Azerbaijan's decision to send natural gas to the EU rather than Russia has consequences for the orientation of the South Caucasus and regional cooperation. However, at the same time it has not all be plain sailing. In the Italian region of Puglia, environmentalists have protested to prevent TAP, which will transport the gas from the Turkish border, reaching its shores.

## **The Intermodal Silk Road**

The Baku-Tbilisi-Kars (BTK) railway has further consolidated cooperation between Azerbaijan, Georgia and Turkey. After the commissioning of BTK, trade turnover between Azerbaijan and Georgia will increase, and these two Caucasian countries will be able to boost goods and passenger turnover between Asia and Europe along the Great Silk Road. At the same time, Azerbaijan and Georgia have invested huge sums to improve transport and logistics infrastructure in a bid not only to revitalise the Great Silk Road, but also to advance the North-South route. Activities within the Great Silk Road and the North-South route support the development of South Caucasus as a well-integrated region.

The importance of oil and gas transportation infrastructure for the progress of the Great Silk Road was discussed above. At present, the information technology revolution is creating new challenges for the realisation of the Great Silk Road concept. For example, the Trans-Eurasian Information Super Highway (TASIM) was initiated by Azerbaijan to interlink the European key Internet location, Frankfurt, with that of Asia, Hong Kong. The scalable TASIM project will support the South Caucasus to improve the business climate, cybernetic security and regional cooperation. Having been involved in the development of intercontinental Internet connectivity, the South Caucasus is being shaped as a region thanks to Azerbaijani-Georgian cooperation.

Azerbaijan, Georgia and Turkey will also sign an agreement on electricity transmission under the Energy Bridge project by late 2014. At the same time, Ankara decided on permanent

synchronous operation of the Turkish electricity system with that of Continental Europe. Thus, South Caucasus will be incorporated in the exchange of electricity with the EU through Turkey in line with the Great Silk Road concept.

## Conclusion

Cooperation between Azerbaijan and Georgia has proven the viability of regionalism in the South Caucasus. Azerbaijan is among the major trade partners, energy suppliers, investors and taxpayers of Georgia, while Georgia ensures secure passage to run oil and gas pipelines, railroads, highways and electricity grids. Armenia has been left aside from regional cooperation because of its occupation of territories of Azerbaijan. According to the World Bank, opening the closed borders between Armenia, Turkey and Azerbaijan would increase Armenian exports to \$269-342 million, increase GDP by 30-38%, and result in trade volumes exceeding \$300 million. Thus regional cooperation and involvement of Armenia in South Caucasian regionalism should be solved together with the solution of protracted conflicts, such as the quarrel over Nagorno-Karabakh.

**Vusal Gasimli, Head, the Economic Analysis and Global Affairs Department, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)**

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# NATO's South Caucasus paradigm: beyond 2014

Zaur Shiriyev

## Introduction

Before the Istanbul NATO Summit a decade ago, an optimistic political atmosphere inspired a declaration that the "great game of geo-political rivalry between Russia and the West for influence across the Eurasian steppe is over".<sup>1</sup> The gap between that hopeful statement and the current realities provides a stark reminder of the unpredictable nature of politics.

The tense atmosphere of confrontation is the consequence of the developments in Ukraine, notably since Russia's rapid annexation of the Crimean peninsula in March 2014, a violation of Ukrainian territorial sovereignty. The Ukrainian crisis continues, unsettling the fragile frameworks of cooperation between the West and Russia. Russia is pursuing its own geo-political goals, causing the West, and particularly NATO, to view Moscow through a different set of lenses. Although the territory of NATO member states has not been invaded, along the Eastern flank of the Alliance, members are deeply concerned.

In the South Caucasus, NATO relationships are at various stages, national governments are waiting to see how NATO will respond to their different requirements, and how the current developments will affect their integration status.

At the 2008 Bucharest Summit, NATO faced the difficult context of the Russia-Georgia August War. Following the war, Moscow thought it had made its red lines clear to NATO, and that its military action would prevent NATO expansion into the Caucasus. However, Western policy makers have been slow to recognise these new dangers and the security needs of the region's states. NATO's regional approach, particularly in relation to Georgia with its membership ambitions, has been – and seems to remain – that *integration is not a sprint, it is a marathon*. NATO's relationship with Azerbaijan has entailed close cooperation on humanitarian affairs and peace operations, especially in Afghanistan. Cooperation with Armenia is limited due to Moscow's stranglehold on political independence and the influence of the Russian security system.

This paper will identify the priorities and policies of the three South Caucasus states, and outline NATO's policies toward them. This analysis is limited to the 2014 developments, and aims to generate short-term policy recommendations for both the Alliance and the regional states.

## NATO-Georgia cooperation: present and future prospects

While Georgia's Western integration and NATO membership aspirations are the legacy of the Saakashvili government (2004-2012), the current "Georgian Dream" (GD) government has committed to continue along the path of Euro-Atlantic integration. However, under the GD's approach, EU integration has been prioritised, and NATO integration has been limited due to Russian concerns. The main reason for this shift is the launch of a normalisation process



with Russia, aimed at developing a strategic dialogue with Moscow. Under this strategy the NATO integration process has become stronger on defence reforms, as opposed to making anti-Russian and/or pro-NATO statements.

Despite the moderate approach towards NATO and Tbilisi's commitment to a dialogue with Moscow, bilateral relations seem to have taken two steps forward and one step back since 2012. This became clear through Moscow's non-constructive approach during the Geneva talks over the breakaway territories of South Ossetia and Abkhazia, including provocative acts like building fences across the South Ossetia administrative boundary line.<sup>2</sup> In spite of Moscow's unconstructive position in relation to normalising bilateral relations, the Georgian government did not push NATO integration as a priority; it focused on preparing to conclude the Association Agreement (AA) including a Deep and Comprehensive Free Trade Area (DCFTA) with the EU. This echoed advice from the West – 'first EU, then NATO'. The West also believed that Russia would become more accepting of Tbilisi's Western integration when it occurs in parallel with Tbilisi's dialogue with Moscow. But as others have argued, 'trying to bring Georgia and Ukraine into NATO was truly overreaching'<sup>3</sup>, because NATO expansion reflects military necessity and capacity, not political needs of potential members.

Russia's behaviour toward the Eastern Partnership (EaP) countries, especially Ukraine before the Vilnius Summit in November 2013, was the first signal that Moscow's approach was becoming increasingly harsh in opposing the Westernisation of its so-called sphere of interest. By signing the AA/DCFTA in Vilnius, the Georgian government proved its commitment to Euro-Atlantic integration.

Furthermore, despite the more muted approach, the Georgian Defence Ministry has continued to push for NATO integration. Tbilisi was one of the first NATO partners to commit to the NATO Response Force in 2015, and will also join a new Resolute Support mission in Afghanistan from 2015. However, NATO has been concerned by domestic developments in Georgia, as expressed by then-Secretary General, Anders Fogh Rasmussen in 2012,<sup>4</sup> following the prosecution of former government officials. The GD government however, appears unconcerned by NATO's reactions, despite the possible damage to Georgia's image in the West.

#### *Developments and expectation from the Wales Summit*

Crimea's annexation caused a fundamental shift in Georgia's hopes for NATO integration. The Georgian Parliament adopted a resolution before the annexation on 6 March 2014, condemning Russia's actions and asking NATO to speed up the integration process. This led to some changes in Georgia's perceptions.

First, there was a marked change in Georgians' perceptions of Russia as a possible threat. This increased hopes for NATO membership. According to a Caucasus Research Resource Centre public poll, between November 2012 and 2013, the share of the population that claimed Russia was a real and existing threat to Georgia peaked at 36%. In April 2014, this proportion reached 50%.<sup>5</sup> According to National Democratic Institute (NDI) polls in July-August 2014, 54% believe that the country will "benefit more from Euro-Atlantic integration"; the figure stood at 59% in April. There was an expectation among the public that the reality



of Russia's aggression would be understood by the West, and that this realisation would open the doors for Georgia's NATO integration.

Second, there was a new debate as to whether NATO should add new members in order to show Russia that it cannot be intimidated. Defence Minister of Georgia, Irakli Alasania, a strong proponent of NATO integration, stated: "Speeding up the process of Georgia joining NATO should be one of the essential elements of the [NATO's] new policy approach that will better contribute to ensuring [the] stability of the European and Euro-Atlantic area,".<sup>6</sup> But in Washington and among some Alliance members, there were concerns that Moscow would use Georgian membership as a pretext for intervention in Georgia's domestic affairs, as they did in 2008. This view was first presented to Georgia in February 2014, during the Georgian PM's visit to Washington, and officially expressed in June, when NATO decided that Georgia would not receive a membership action plan (MAP) at the summit in Wales, but rather a 'substantive package'.<sup>7</sup> The first significant security package was a pledge by the US in June 2014, to provide \$1 billion for the "European Reassurance Initiative", which includes provisions for increased assistance to build defence capacity in Georgia, and increase interoperability with Western forces.<sup>8</sup>

#### *After Wales, Georgia's Atlantic future*

Given that a MAP was never on the table, the Wales Summit agreed on an enhanced security package to increase capacity building and promote interoperability. This gives Georgia access to operational planning, streamlined participation in exercises, and regular political consultations for NATO's closest and most interoperable partners. NATO also agreed to expand its liaison office in Tbilisi.

Following the NATO Summit, US Secretary of Defence Chuck Hagel visited Georgia in September, a gesture to demonstrate US commitment to providing security assistance and ending the *de facto* arms embargo. Since June 2014, the changing situation has already transformed Georgia's defence strategy, and the Wales Summit and US support will drive these changes further. Back in July, the Georgian Defence Ministry asked for an 11% increase in the MoD's 2015 budget. If the increase is adopted, the budget will be 732 million GEL (\$419 million), enabling Tbilisi to substantially strengthen its defence capacities.

#### **Azerbaijan-NATO: expanding platforms for cooperation?**

Unlike Georgia, Azerbaijan's intentions towards NATO do not include hopes for a Membership Action Plan. In 2011, Baku joined the Non-Aligned movement, a declaration not to join any military bloc. At the same time, to avoid conflict with Russia and Iran, two regional players which strongly oppose NATO's expansion into South Caucasus, Azerbaijan has maintained a careful balance in relation to Alliance relations.

Since the Ukraine events sparked the current level of confrontation between Russia and NATO, Azerbaijan's relationship with NATO has grown stronger. Azerbaijan always supports the territorial integrity of any country, due to the ongoing occupation of Nagorno-Karabakh by Armenia. After Russia's annexation of Crimea, this issue became a priority for NATO and

the EU. Moreover, Azerbaijan holds geopolitical value due to its gas reserves; the country remains the only real alternative for the EU if it wants to decrease dependence on Russian energy exports. For these reasons and despite the changes to the political environment, Azerbaijan's agenda for cooperation with NATO has expanded, and there are three key platforms for cooperation on the country's agenda.

The first platform for future of cooperation with NATO is Afghanistan. Baku does not want to limit its peacekeeping operations to Afghanistan, but at the same time has concerns about joining more general forces such as the NATO Response Force (NRF) as any participant state could "look like a NATO member."

The second issue is Azerbaijan's military reform program, in compliance with NATO standards. In October 2014, the newly appointed Defence Minister, Zakir Hasanov, immediately adopted an ambitious programme to combat corruption, improve the command structure and pursue stronger and more open military relationships with both Turkey and Georgia.

The third issue is that since the Ukraine crisis Azerbaijan would like NATO to reduce its cooperation with Armenia, based on its occupation of Azerbaijan's territories. Baku believes that this could be a means for NATO to contribute to the conflict resolution process. Nevertheless, the prospects for this are dim, as NATO is highly unlikely to take such sensitive action.

#### *The Wales Summit and opportunities for new areas of cooperation*

The NATO's Wales Summit ended as Azerbaijan expected it to, with a declaration supporting the territorial integrity of both Azerbaijan and Armenia, though unlike previous Summit statements, the urgency of resolving the Nagorno-Karabakh conflict was not mentioned. The Wales Summit introduced new cooperation areas for Azerbaijan: energy and cyber security; defence sector reform; and humanitarian assistance.

On critical energy infrastructure, among NATO's partner countries, Azerbaijan is the only country dealing with this issue.<sup>9</sup> The NATO Partnership for Peace Programme (PfP) does not cover this issue, which the Wales Summit declaration emphasised as a major priority in light of recent political developments. Cooperation will address emerging security challenges including energy security, within the formats NATO can provide. Since March 2008, Azerbaijan has been a chair of the Euro-Atlantic Partnership Council (EAPC) informal Partnership Action Plan against Terrorism (PAP-T) Working Group on the Protection of Energy infrastructure, based on its vast experience in the energy security.<sup>10</sup> Azerbaijan would like to further develop its capacity to contribute to energy security. Further, cyber defence cooperation is becoming an important interest area for Azerbaijan. The NATO Science for Peace and Security (SPS) Programme is sponsoring a series of cyber defence training courses in Azerbaijan.<sup>11</sup>

Second, defence security reform is another key area. The MoD is very interested in cooperation in relation to a long term military modernisation plan with IPAP support.

The third area is humanitarian assistance, which Azerbaijan wants to expand via NATO's Trust Funds, which are voluntary, nationally-led and funded projects established under the

framework of the NATO PfP Trust Fund. Under this platform, Azerbaijan supports projects in Afghanistan such as demining, education programs for Afghan civil servants and financing the Board of Trustees of the Afghan National Army.<sup>12</sup>

### **Armenia-NATO: farewell to a limited partnership?**

Armenia, as a member of Collective Security Treaty Organisation (CSTO), the Russian-led security organisation, along with its bilateral security-sector dependence on Russia, has a limited partnership with NATO. Armenia's participation in NATO peacekeeping missions and its implementation of military reforms have been the focal points of the partnership. The NATO partnership entails two main advantages from the Armenian point of view. First, the NATO partnership provides evidence that Western integration is taking place. Second, participation in NATO programmes provides Yerevan with a platform to deflect or prevent diplomatic efforts by Azerbaijan that run counter to its national interests. Notwithstanding these observations, the full rationale behind Armenia's NATO cooperation remains tricky to discern, notably because of Moscow's oversight of Armenian security policy.

By discarding its planned AA with the EU, Armenia has also curtailed the development of its NATO partnership, which in reality posed "manageable" threats to Russia's strategic role in Armenia.<sup>13</sup>

Despite this, one of the fundamental implications of Yerevan's policy shift is the immediate limitation on the country's foreign policy options; in the case of the EU, the door is closed. But in the case of NATO cooperation, in the shadow of the Western-Russian confrontation, Moscow seems interested in downgrading Armenia's partnership with NATO. Armenia has benefited from small-scale NATO defence education projects aimed at strengthening the capacity of the Armenian armed forces. These projects are unlikely to continue, given Moscow's likely opposition to any Western or pro-NATO influence in Armenian Armed forces. Russia can seek to constrain Armenia's participation in NATO-supported military exercises and even block the country's operational contribution to NATO peacekeeping deployments abroad, although it has not done so yet.

The net loss for Armenia would be an obvious setback to defence reforms, a weakening of the position and power of pro-Western team, and the strengthening of the "old guard" of conservative pro-Russians within the Armenian Ministry of Defence.<sup>14</sup> In the wider context, the Ukraine conflict, the Crimea annexation, and the suspension of NATO-Russia cooperation herald another difficult period for NATO-Armenia relations.

### *Armenia: before and after the Wales Summit*

The ongoing conflict in Ukraine, along with the illegal annexation of Crimea, has seen the progressive deterioration of relations between Russia and the West. For the EU and NATO, territorial integrity is a fundamental principle of international law, one that Armenia has violated through its ongoing occupation of Azerbaijani lands. Armenia has not declared support for Ukraine's sovereignty, and controversially backed Crimea's choice to join Russia, supporting the right to self-determination for the peninsula's population.<sup>15</sup> This move

seriously damaged Armenia's relations with Ukraine, despite it coinciding with Yerevan's participation in joint Ukraine-NATO military exercises in Bulgaria in March 2014.

But since then, the CSTO, to which Armenia belongs, has adopted a decision to suspend cooperation with NATO, the consequence of confrontations over Ukraine on 24 April 2014.<sup>16</sup>

The practical implications of this decision did not apply to the Wales Summit, as Armenia had not participated in the last two NATO Summits at the presidential level, due to the Alliance's stance on the territorial integrity of Azerbaijan and on the Nagorno-Karabakh conflict resolution process. The Armenian president's decision to participate in the Wales Summit was based on two main reasons. One is that since the Ukraine events, and especially Armenia's stance on Crimea, the country's diplomatic image in the West has been downgraded. Attending the Summit was seen as a means of restoring or creating the illusion of Yerevan's intention to continue its cooperation with the Alliance, despite its relationship with Moscow.

The other reason was the risk that the NATO Summit would not only end up addressing the territorial integrity of Azerbaijan, but also provide a platform for other Alliance members to air their grievances, notably Turkey. Before the Wales Summit, the Turkish president declared during a visit to Azerbaijan that he was planning to use Turkey's diplomatic clout at the Summit to ask Alliance members to support Azerbaijan's position in the Nagorno-Karabakh conflict.<sup>17</sup>

The Wales Summit declaration expressed support for "the territorial integrity, independence, and sovereignty of Armenia, Azerbaijan, Georgia, and the Republic of Moldova." Similar to declarations in previous years, it made no mention of the right to self-determination, and as such was not welcomed by Armenian leadership.

In general, the post-Summit developments indicate that Armenia's participation in NATO military exercises will be limited, as envisioned by the CSTO's call for its members to suspend contact with NATO. The first sign materialised in 15-26 September, when Armenia was the only South Caucasus country that did not participate in NATO's "Rapid Trident" military exercises in the Ukrainian city of Yavoriv.<sup>18</sup> The current situation echoes the situation following the 2008 Russia-Georgia War. In 2009, Yerevan pulled out of the PfP exercises scheduled to begin in Georgia, citing "the current situation."<sup>19</sup> Yerevan did not say so explicitly, but the likelihood was that they were keen to avoid angering Russia.

## **Conclusion and recommendations**

In the shadow of the Russia-West confrontation, it is crucial for NATO to make the South Caucasus a priority area for cooperation, in order to ensure the region's stability and security. The past year has not generated significant changes in NATO's priorities in the region and it seems that NATO will continue to cooperate with regional states at the bilateral level. In that respect, there has been no paradigm shift.

The optimistic view is that the NATO Wales Summit, which focused on the Ukraine events and the ongoing West-Russia confrontation, will increase cooperation with partner countries

in key areas that have traditionally not benefited from institutional support. These areas include energy security, cyber security and humanitarian cooperation. While these new areas of focus will open up mechanisms for cooperation with countries in the region, it is also true that not all countries will benefit equally from these developments.

Aside from the Ukraine events, the Wales Summit has clarified some of the details of NATO's post-2014 Afghanistan plan. This means that the South Caucasus countries will play a role in the peacekeeping operations in Afghanistan starting in 2015, which will be to their benefit as well.

From the Georgian point of view, the major win of 2014 has been that the US and NATO have promised a security package, as well as ending the unofficial embargo on weapon sales imposed on Tbilisi following the 2008 August War. Although it has gained an 'enhanced partner' status, with substantial access to NATO member benefits, Tbilisi has not obtained a MAP as it had once hoped (though not since June 2014). The MAP discussion will feature prominently in Georgian public discourse in the coming years, because both the public and government are sure that a MAP will benefit national security. Under the previous government, NATO membership was seen as a panacea for all Georgia's security problems, but the current government is much more realistic on this matter. But this has also led to thinking in Tbilisi that if Georgia shifts its priorities away from recovering the occupied territories and toward anchoring itself in Western institutions, then Georgia's integration with NATO could become a real option.<sup>20</sup> Georgia will continue military reforms in line with principles of democratic institutionalisation, which serves the Alliance's interests. If Tbilisi makes concrete progress in this respect, then NATO will need to have something to offer; otherwise, there will be dissatisfaction in Georgia, which could damage the country's Euro-Atlantic prospects. The Georgian Ministry of Defence, particularly Minister Irakli Alasania, was the driving force behind the military reform dimension of Tbilisi's NATO integration. With Alasania's dismissal on 4 November 2014<sup>21</sup>, this trajectory now looks shaky. Alasania's dismissal also provides an insight into internal conflict among the Georgian Dream coalition. Any prospects political uncertainty or chaos could damage the party's standing.

In Azerbaijan's case, it could be said that the West-Russian confrontation has not damaged Azerbaijan-NATO cooperation; Azerbaijan participated in the Ukraine-NATO military exercises in Bulgaria in March 2014 as well as NATO's "Rapid Trident" military exercises in the Ukrainian city of Yavoriv in September 2014. It has also pledged to take part in the Resolute Support programme in Afghanistan starting in 2015, and has provisionally agreed to join NATO's Rapid Forces. The Wales Summit introduced new cooperation areas for Azerbaijan: energy and cyber security; defence sector reform; and humanitarian assistance, which will shape and strengthen NATO-Azerbaijan cooperation.

In Armenia's case, Yerevan's cooperation with NATO has developed under Russia's oversight; Yerevan's participation in the ISAF mission or in NATO military exercises has been realised only following Russian and/or CSTO approval. Prior to the recent Ukraine events and the annexation of Crimea, Armenia's limited partnership with NATO was under threat and Armenia did not participate in NATO's military exercises in Ukraine in September 2014, the first sign of the damage Russia has enacted in relation to NATO-Armenia cooperation. The current situation hints at some developments on the Armenia-NATO front in short-term

period. First, Armenia's participation in large-scale military exercises – even only under the PFP program – is likely to be limited. Second, while Armenia may continue its current low-level support for the mission in Afghanistan, once the Resolute Support Mission in Afghanistan is launched in January 2015, Armenia's role is unclear. The fate of Armenia's military reform under the NATO partnership will reflect the extent of Russia's influence.

Taking into account these various developments, all three countries could experience different development trajectories in relation to NATO, based on their national interests. In light of this, NATO should consider the following options for expanding NATO's cooperation and institutionalising relationships.

Strengthening NATO's Liaison Office in Tbilisi will serve the interests of both Baku and Yerevan, because through the liaison office a range of NATO programmes will be implemented more carefully and rapidly. As a part of this, broadening the scope of the Liaison Office could include appointing a permanent NATO staff officer in Azerbaijan and Armenia respectively. By doing this, NATO will be informed of the needs of its partner countries, which will in turn help consolidate NATO's regional functions.

Expanding NATO's Trust Funds – voluntary, nationally-led and funded projects established under the framework of the NATO Partnership for Peace Trust Fund – could expand cooperation with partner countries. Updating the format of the Trust Fund by providing for effective and timely using of Funds by partner countries will add value for cooperation; all three regional countries could benefit from this.

Focusing on the emerging area of security cooperation, encompassing not only energy security but also cyber security, NATO could share its expertise with partner countries, as it is doing now. In this respect, it would be beneficial to establish a NATO excellence centre dealing with energy and cyber security, which will enable more reliable and stable cooperation.

**Zaur Shiriyev, Senior Research Fellow, ADA University**

*The views expressed here are entirely the author's own and do not represent the institution's position.*

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# **The EU and the South Caucasus – Time for a stocktake**

*Amanda Paul*

The South Caucasus is one of the most security-challenged and fragmented regions in the world. More than two decades have gone by since the collapse of the Soviet Union, and yet the region has not been politically or economically integrated; instead, the three South Caucasus states – Armenia, Azerbaijan and Georgia – have chosen to integrate into a whole host of different, and in some cases opposing, alliances, organisations and programmes, among which are the EU's European Neighbourhood Policy (ENP) and Eastern Partnership (EaP).

Despite hopes that the ENP/EaP could act as transformative tools to help strengthen stability, security, democracy and regional cooperation, as other EU policies have done – for example in the Western Balkans –, this has not been the case in the South Caucasus. Today the region is more fragmented than it was a decade ago.

This paper looks at the history of the EU in the South Caucasus; its relations with the three Caucasus states, the impact of Russia's war against Ukraine and the different scenarios for the future.

## **The EU's history with the South Caucasus**

While the EU has been active in the South Caucasus for some two decades, it can still be considered as the new kid on the bloc when compared to traditional regional powers such as Iran, Russia and Turkey, which have been active there for centuries.

During the early 1990s, following the collapse of the Soviet Union, and with the unfolding wars in the Western Balkans and the collapse of the Iron Curtain in Eastern Europe, the EU had little inclination to think about the South Caucasus, a region that was little understood and broadly considered to be rather 'exotic', and far away from Europe. However, after this somewhat lethargic start, the EU gradually began to develop ties with the region, first with Partnership and Cooperation Agreements (PCAs) at the end of the 1990s, and then later on through the European Neighbourhood Policy (ENP) and Eastern Partnership (EaP).

While this was in part a consequence of the three South Caucasus states reaching out to the West, there are also a number of other reasons why the region became more relevant to the EU: first, the EU came to be geographically closer to the region through its eastern enlargements. Second, in the aftermath of Georgia's 2003 Rose Revolution, the country's new president, Mikhail Saakashvili pushed for greater cooperation with the EU, making EU membership a goal for Georgia. Furthermore, the EU became the main security actor in Georgia following the 2008 Russia-Georgia war. This role became even more important when in June 2009, the OSCE had to end its 17 years monitoring operation, following Moscow's refusal to extend the mission's mandate. Finally, Azerbaijan's hydrocarbons – in particular natural gas – represented an opportunity to strengthen the EU's energy security by diversifying energy sources and routes away from Russia. This became increasingly important

following the 2009 Ukraine-Russia gas crisis when gas exports to 16 EU member states were drastically reduced before being completely cut off for two weeks.

The inclusion of the South Caucasus states in the ENP was a qualitatively new stage in bilateral relations and indicated the EU's willingness to engage in deeper relations, moving beyond existing PCA frameworks.<sup>1</sup> When EaP was launched in 2009, it represented an opportunity for much closer political and economic cooperation, putting on the table Association Agreements (AA), including the Deep and Comprehensive Free Trade Agreement (DCFTA), as well as visa facilitation/liberalisation. With EaP having both a multilateral and a bilateral dimension, there was some optimism that the multilateral track could act as "space" for representatives of Armenia, Azerbaijan and Georgia to meet and cultivate ties including via the Civil Society and Business Forums.

All three South Caucasus states embraced greater cooperation with the EU, not least because it offered an opportunity to balance their ties with the traditional regional actors, Russia in particular. Furthermore, the EU model of governance, along with the fact that the EU has no "historical baggage" in the region, made it attractive to the societies of the three states. Today, the EU is the largest donor in the region as well as the most important trade partner of all three states.

However, while all three states have, to different degrees, deepened ties with the EU, the ENP/EaP have produced only limited results, failing to replicate the transformative power witnessed in the CEE region. The EU's policies have only had a limited impact in terms of strengthening democracy, and have failed to bring about regional cooperation. The only significant regional cooperation that has taken place has been between Georgia, Azerbaijan and Turkey, including on energy, military and trade issues. Furthermore, regional stability and security have become more volatile, not least because of the increasingly consolidated protracted conflicts of Nagorno-Karabakh, South Ossetia and Abkhazia.

This limited impact can be put down to a number of reasons, including the fact that the EU presented holistic policies which it then failed to follow through, with its own commitment to the EaP being inadequate. While the EaP was seen by some member states as being crucially important, to others it was not. Indeed it is not a secret that only a handful of countries – including its initiators – Poland and Sweden – view it as a priority. This division amongst Member States, has not only affected the EU ambitions in the region, but also damaged political and economic support. Because there is no EU membership perspective or short-term tangible benefits, some countries may calculate the costs and benefits of complying with EU standards more critically than candidate countries. A further reason the lack of a genuine will of some of the partner states to really change, along with the absence of a security component.

The work of the multilateral track has also been affected by regional tensions and conflicts. The work of the EaP's parliamentary dimension (Euronest) has often been paralysed by disagreements between Armenia and Azerbaijan. Standard bilateral European Parliament Delegations with South Caucasus (or Eastern European) countries – as is already the case with Moldova, Ukraine and soon Georgia – would be more practical.

## Moving in different directions

Armenia, Azerbaijan and Georgia have chosen, for different reasons, to integrate into different, and in some cases opposing integration projects, including NATO, the Eurasian Union (EUA), the Collective Security Treaty Organisation (CSTO), GUAM, the Commonwealth of Independent States (CIS) as well as the EU. This has left all three states moving in very different directions.

European integration remains a long-term strategic priority for Georgia's foreign and domestic policies. The signing of the AA/DCFTA on 27 June 2014 marked a new phase in EU-Georgia relations, which Tbilisi stated made Georgia's Europeanisation process irreversible. Furthermore Georgia believes that membership of the EU and NATO is the only way to guarantee its security and assure permanent independence from Russia. There is broad support for EU membership in Georgia, from both the government and opposition, as well as from civil society, business and society.

However, with Georgia having a fragile economy, which has been exacerbated by a massive currency devaluation, maintaining the current level of support will not be easy without quick tangible benefits. First, implementing the AA/DCFTA requires painful and expensive reforms. Georgia is being asked to swallow a significant chunk of the *acquis communautaire* without receiving the sort of economic or political support EU candidate countries get for carrying out more or less the same reforms. Second, Russia is seemingly actively engaged in undermining the process via hybrid and covert actions. For example, numerous Russian financed NGOs have sprung up across the country and are engaged in propaganda activities aimed at discrediting the EU.

Furthermore, the fact that Georgia also has no clear membership perspective means the country has to remain in what could be termed as a 'grey zone'. The EU's "the door is neither closed nor open approach" is unlikely to be sustainable in the long term. The fact that Georgia is recognised as an 'Eastern European country' in its AA is of little comfort.

While some steps have been taken to normalise relations with Russia, following the freezing of ties during the Saakashvili presidency, it seems set to be a volatile relationship as long as Georgia remains on the EU trajectory. This was demonstrated in the aftermath of Georgia's ratification of the AA/DCFTA when Russia introduced the Treaty on Alliance and Strategic Partnership with Abkhazia, which significantly integrates the region into Russia on a political, military, economic and social level<sup>2</sup>, while the Treaty with South Ossetia, signed in March 2015, goes even further, with South Ossetia's military and economy to all intents and purposes integrated into Russia's. The fact that the EaP does not address Georgia's security concerns means that the EU could do nothing more than repeat its support to Georgia's territorial integrity, which is of little comfort.

Armenia became a member of the Russian-led Eurasian Union in January 2015 which also includes Belarus, Kazakhstan and Kyrgyzstan. The significant influence that Russia has in Armenia (economic; energy, security) led the country's President, Serzh Sargsyan, to make a geostrategic U-turn on 3 September 2013. He announced that Armenia would be abandoning

plans to sign an AA/DCFTA with the EU after nearly four years of negotiations, and would join the EAU instead.

According to Sergey Minasyan "many Armenians view their country's relationship with Russia to be a natural outgrowth of an inevitable historical dependence, particularly given the context of the 1915 Armenian genocide and the existential threat posed by that event. They perceive Russia to be the only guarantor of Armenia's security"<sup>3</sup>. However, the decision to join the Eurasian Union further strengthened Armenia's dependence on Russia, threatening its national security and sovereignty, and was met with anger by many in the country.

While it might have been possible for Armenia to bear the economic losses caused by aborting the AA/DCFTA with the EU, Yerevan could not risk the loss of security by rejecting their strategic partner Russia, which is their security guarantor. Armenia is the only South Caucasus state to be a member of the CSTO. The country is also included in the united air defence system of the CIS. Russian guards patrol Armenia's borders with Turkey and Iran, and the lease of Russia's military base in Gyumri was recently extended until 2044. Furthermore, for Russia, its presence in Armenia not only contributes to the preservation of Russia's presence in the South Caucasus, it is a strategic military outpost that has significance beyond the region.

Armenia's security reliance on Russia is as consequence of the ongoing conflict with Azerbaijan over Nagorno-Karabakh. This is further exacerbated by the absence of normal diplomatic relations and a closed border with Turkey. However, despite the fact that Russia claims to be Armenia's security ally, Moscow continues to sell arms to Azerbaijan while continues to rile Yerevan. In July 2014 in a rare statement criticizing Russia, Armenian President Serzh Sargsyan stated that "our nation is very concerned about the fact that our strategic partner is selling weapons to Azerbaijan".<sup>4</sup>

While Armenia's U-turn left many in the EU frustrated, given the amount of time that had been vested into the AA/DCFTA negotiations, after what could be called a cooling off period, relations with the EU have now entered a new phase and discussions are underway for the penning of a new agreement with Armenia although what shape this agreement will finally take remains to be seen. As stated by Richard Giragosian "the EU needs to now explore alternative measures to engage and empower embattled Armenia, but based on a more realistic recognition of the limits and liabilities of Armenia as a partner". While the challenge for Yerevan will "center on the country's capacity and its leaders' determination to withstand a possible fresh onslaught of Russian pressure and coercion".<sup>5</sup>

Azerbaijan is not interested in joining either the EU or the Eurasian Union. With its geopolitical position, caught between the interests of Russia, Iran, and the West, Baku tries to preserve its independence, by carrying out a tricky political dance. Azerbaijan's foreign policy is shaped around its geography as well as the security challenges the country faces.

Azerbaijan's relations with the EU are underpinned by energy cooperation, and the country is viewed as a key component in the EU's energy diversification plans. The Southern Gas Corridor (SGC) will be realised thanks Azerbaijan. Gas from Azerbaijan's Shah Deniz II field

will come to the EU market starting in 2019. It will be transited across Georgia and Turkey, via the Trans-Anatolian Pipeline (TANAP). Thereafter the Trans Adriatic Pipeline (TAP) will transport the gas through Greece, and Albania to Italy. While the initial amount of gas – some 10 bcm with a further 6 bcm going to Turkey – is not huge, it is highly symbolic as it will bring the SGC to life and hopefully pave the way for more Caspian gas from Azerbaijan and possibly also from Turkmenistan, Iran and Northern Iraq. During a visit to Baku in February 2015, European Commissioner for the Energy Union, Maros Sefcovic, stated that "Azerbaijan is a very important partner for the EU. At the centre of our strategic energy partnership is the Southern Gas Corridor. This is a project that can encourage greater economic cooperation, improve energy security and create over 30,000 jobs in all the countries along the Corridor".

At the same time Azerbaijan's relationship with the EU is not without problems. The EU remains very concerned over Azerbaijan's record in terms of democracy and human rights, most recently related to the imprisonment of numerous human rights activists and representatives of civil society on what are broadly viewed as bogus charges. This situation has resulted in a very odd relationship. One day, senior EU officials and heads of state congratulate Baku for being such a reliable and important partner, while on the following, statements and resolutions are issued that criticise the country. A second issue that has been constant thorn in relations is related to the failure of the EU to explicitly recognise Azerbaijan's territorial integrity, as it does with the other EaP countries that have territorial disputes (Moldova, Georgia and more recently Ukraine). Azerbaijan has accused the EU of having a double standard policy.

Ultimately Azerbaijan wants a strategic relationship with the EU that is based on mutual objectives and where interests are narrowly defined. Talks have been completed on a Strategic Partnership for Modernisation (SPM), although a date for signing has not yet been confirmed.

Russia has tried to exploit Azerbaijan's problems with the EU. Numerous senior Russian officials, including President Vladimir Putin, have travelled to Baku over the past twelve months. Russia would welcome Azerbaijan's membership in the Eurasian Union. However, given that since 1991, Baku has taken great risks to achieve political independence from Russia, including by securing its future as an energy supplier outside the Trans-Caspian region and former Soviet sphere, being part of a Russian-led integration project has little appeal. The majority of Azerbaijan's political elites, along with society, are not in favour of membership of the Eurasian Union, fearing it would put an end to Baku's independent foreign policy.

## **The EU and Conflict Resolution**

While one of the commitments of the 2003 Security Strategy was for the EU to play a greater role in the "resolution" of the protracted conflicts, some twelve years later these conflicts are more consolidated than ever.

The EU is now the main security actor in Georgia following the deployment of the EUMM in the aftermath of the 2008 war. The EU is also a co-chair of the Geneva Process (GP) peace talks, which are aimed at finding a solution to the protracted conflicts. However, the Geneva Peace Process has done little more than maintain the *status quo*. The six-point peace plan

that was negotiated by the then French Presidency of the EU has only partially been implemented by Moscow. Moreover the EUMM has no access to the occupied territories. Rather, Russia has not only strengthened its hold on the two breakaway regions including through a consolidated military presence, it has taken steps which have increased tensions including by carrying out so-called "borderisation", namely erecting fences between Abkhazia, South Ossetia and territory that is still controlled by Tbilisi. The recent integration treaties signed between South Ossetia, Abkhazia have further strengthened Russia's position.

In terms of the EU's role in the Nagorno-Karabakh conflict, the EU has placed itself on the periphery of the peace process, maintaining a policy of "supporting the efforts of the OSCE Minsk Group". Furthermore, unlike in the conflicts in Georgia and Moldova (Transnistria), the EU has something of an ambiguous position, as it endeavours to maintain a "balanced position" between Armenia and Azerbaijan. As Nicu Popescu writes, "In its quest for neutrality, the EU has moved from a non-policy on Nagorno-Karabakh, to a 'personality split', where one face of the EU recognised Azerbaijan's territorial integrity while the other face of the EU recognised the region's right to self-determination, which is a central principle of the Nagorno-Karabakh's secessionist movement."<sup>6</sup> The EU's main contribution has been via the European Partnership for the Peaceful Settlement of the Conflict over Nagorno-Karabakh (EPNK) and its support to confidence building measures (CBMs). It has also pledged to take up a key role in an eventual post-conflict settlement process, drawing on its experience in the Western Balkans.

## **How the EU underestimated Russia**

While one of the key objectives of the ENP was to prevent the emergence of new dividing lines in Europe by offering neighbouring countries closer political, security, economic and cultural cooperation, as the three states have strengthened ties with the EU, Russia has pushed back. As seen from Moscow, the EaP is a direct challenge to Russia's influence in the former Soviet Union. Russia has been the dominant actor in the South Caucasus for centuries, viewing the region as its sphere of influence. The EU's attempt to provide these countries with better possibilities to modernise and democratise is seen as a geopolitical threat to Russia's leadership. For Russia, the threat induced by the EaP is also clearly not about economic factors, but deeply ideological and political. The EU integration is a threat as it promotes a different political system from what Russia is adhering to.

During a visit to Armenia on 2 December 2013, President Putin declared: "Russia will never leave this region (Trans-Caucasus). On the contrary, we will make our place here even stronger".<sup>7</sup> Russia has exerted the considerable leverage it has in areas such as security, labour migration, energy and trade, along with the Russian church, Russian-financed NGOs, and ethnic Russian minorities in an effort to derail EU processes. Russia's military bases in the region are particularly important as they allow Moscow to project power, while the three protracted conflicts allow it to pursue a policy of divide and rule, being both part of the conflicts and the solutions.

Russia's annexation of Ukraine's Crimean Peninsula and war in the east of the country has further aggravated regional tensions. This act violated Ukraine's sovereignty, representing a fundamental breach of international law; the Helsinki Final Act of 1975 and the terms of the



1994 Budapest Memorandum, whereby the nuclear arsenal stationed on Ukraine's territory after the collapse of the Soviet Union was relinquished in exchange for security assurances of its sovereign territorial integrity. Russia, the US, France and the UK all signed. Furthermore, it has challenged the EU as a foreign and security policy actor in its immediate neighbourhood, including in the three South Caucasus countries. Hence Ukraine has become a test case for the EU in terms of supporting its EaP partners, including by standing up to Russia.

## **Looking to the future**

The increasing fragmentation of the South Caucasus has proved a challenge for the EU, as it traditionally likes to operate in well-defined regions in the belief that regional cooperation leads to integration. This is unlikely to happen in the South Caucasus, where the EU is not the only game in town and Russia aggressively seeks to maintain its influence. Furthermore, while Russia – and to a certain extent other regional powers – has a clear objective in terms of what it wants to achieve in the South Caucasus, the EU does not.

Developments in the South Caucasus have shown that a one-size-fits-all approach does not work and that the EU needs to develop more tailor-made relationships, with a stronger focus on bilateral ties, and moving away from a 'one-menu-for-all' to an approach based on clear objectives and benchmarks; tangible benefits and with clear roadmaps. There also needs to be a shift from political elite-dominated negotiations towards a more inclusive approach, with civil society and other stakeholders taking a key role during the negotiation and implementation of agreements.

While certain elements of the multilateral track should be maintained, there is a need for an overhaul, as in its present form it is impossible to incorporate the growing differences between the three states, which have become even more pronounced since Armenia joined the Eurasian Union.

The war in Ukraine demonstrates the existence of a serious security deficit in the EaP. Ultimately, it is in the EU's interest to have a stable and secure region, not least because of the presence of key energy infrastructure. Security needs to become a core element of the EaP including further considering the full use of the CSDP mechanisms in increasing security and stability in the region. At the very least the EU should strengthen its role in security sector reform, including reforming partners' police forces, border guards and judicial systems, as well as taking a more proactive role in conflict resolution including revisiting the idea of "engagement without recognition". Furthermore, any revised EaP also needs to take into account that Russia is the main threat, as witnessed by its illegal annexation of Crimea and the war in Eastern Ukraine.

There is also a need to enhance the visibility of the EU by further intensifying efforts for comprehensive information and communication campaigns by/in the partner states in order to engage with the population at large, with appropriate support from the EU. Given the EU's attractiveness remains relatively high in all three South Caucasus states, it should ultimately remain more influential than Russian propaganda. Hence it is important for the EU to support people-to-people contacts, grass-root organisations, educational programmes and exchanges, along with civil society cooperation.

The EU can have a positive influence on the development of the South Caucasus if it is able to devise a more long-term strategy with clear objectives for each state while also carving out a more robust and united strategy in terms of dealing with Russia. The Riga Summit on 21-22 May represents an opportunity to send a strong message to the EaP states with the final Declaration. In particular it offers a platform for the EU to underline its political and economic commitment to Georgia, including its readiness to quickly deliver a visa free regime once the relevant criteria are met. Furthermore, the Summit should call on Russia to fulfil its commitments undertaken by the 12 August 2008 Ceasefire Agreement. The EU should not leave Georgia in a "grey zone" and a clear and comprehensive roadmap for the future that goes beyond association, transforming the process into one of integration that gives Georgia a light at the end of a very long tunnel should be put on the table. This is key to keeping the EU's transformative power alive. Georgia can be a role model for the region, representing an opportunity for the EU to demonstrate how adopting key reforms and values can improve the quality of life of the population.

**Amanda Paul, Senior Policy Analyst, European Policy Centre**

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# Turkey's role in the South Caucasus: between fragmentation and integration

*Cavid Veliyev*

## Introduction

Because of its geostrategic location and natural resources, the South Caucasus has been a focus of geopolitical competition among regional and extra-regional powers for centuries. The strategic importance of the region has further increased due to east-west transportation and energy projects in the 21<sup>st</sup> century. The dissolution of the Soviet Union created a power gap in the region, which led to two parallel processes: regional states seeking new internal and external identities, and geopolitical competition among the large regional powers (Russia, Iran, and Turkey) along with the US and to a lesser extent the EU.

Today Turkey is a member of NATO and a candidate country for EU membership, while also having good relations with Russia. During the 1990s this was not the case, as Turkey's foreign policy was aligned with that of the US. Turkey's regional policy was aimed at establishing regional organisations such as the Black Sea Economic Cooperation (BSEC) that were compatible with, and ready to cooperate with, the West. When today's ruling Justice and Development Party (AKP) came to power in 2002, a profound change occurred in Turkey's foreign policy that had an impact on the country's approach towards the South Caucasus. Over the past ten years this policy has become increasingly balanced in terms of Ankara's relations with the West and Russia. This change came about as a consequence of a number of regional events which will be elaborated in this paper including the impact of the 2008 Russian-Georgian War, efforts to bring about Turkish-Armenian rapprochement, the Azerbaijan-Turkey-Georgia trilateral dialogue and the Ukraine crisis.

## From model state to "central" country

As a NATO member Turkey played a key role during the Cold War in shoring up Euro-Atlantic security. During this period Ankara's Western allies promoted Turkey as a role model country with the expectation that Turkey's influence would limit the influence of Russia and Iran in this region.<sup>1</sup> With the end of the Cold War, Turkey lost this mission and its strategic importance as a buffer zone against possible Soviet expansion.<sup>2</sup> Since then Turkey, with its democratic and secular identity and free-market economy, has been promoted as a model for the emerging independent nations of the region.<sup>3</sup>

During the 1990s, Turkey supported the integration process of the South Caucasus with the West in two ways: via their integration into NATO and the EU; and through regional projects, including those related to transport, such as the 'East-West Corridor'.<sup>4</sup> However, economic crises and political unrest during the 1990s prevented Turkey from having an effective regional role. Consequently the role of the 'model' or 'bridge' country that was ascribed to Turkey by the West was inconclusive.<sup>5</sup>

The events of 9/11 increased tension between the East and the West within the Eurasian region and the 2001 economic crisis signalled a new regional order. Along with many other countries, Turkey has repositioned itself by prioritising concepts such as interdependence, economic cooperation, regional integration and a proactive foreign policy, as well as peace and stability.<sup>6</sup>

In these new circumstances the foreign policy principles that are pursued by Turkey have five main pillars: a foreign policy agenda does not focus solely on security issues, but also economic and humanitarian issues; a "zero problem policy towards Turkey's neighbours"; development of relations with neighbouring regions and beyond; and a multi-dimensional foreign policy and rhythmic diplomacy.<sup>7</sup> According to the main architect of Turkey's Foreign Policy, former Foreign Minister and today's Prime Minister, Ahmet Davutoglu, since Turkey is, historically and geographically, a central state between East and West, South and North, one should identify the position of Turkey not as a bridge but as a "central country". As stated in his well-known book 'Strategic Depth', the "country's sphere of influence is the Middle East, the Balkans, the Caucasus, Central Asia, the Caspian Sea and the Mediterranean Sea, the Gulf and the Black Sea country."<sup>8</sup>

As a "central state" in geographical terms, Turkey adopted a multilateral approach in order to diversify its relations with all parties, including Russia and Armenia. On the one hand, Turkey seeks good relations with Russia, while on the other, as a member of NATO, Turkey attempts to coordinate relations between Azerbaijan, Georgia and the West. Despite the different nature of relationships between NATO, Georgia and Azerbaijan, Turkey has supported their integration from the beginning.<sup>9</sup> Azerbaijani military officers have participated in Partnership for Peace (PfP) courses in Turkey, and Turkish officers have visited Azerbaijan for the same reason.<sup>10</sup> The most concrete result of military cooperation in the framework of NATO between Turkey, Azerbaijan and Georgia was in Kosovo when Georgian and Azerbaijani troops served under Turkish command.<sup>11</sup> Thus, Turkey has sought to include other regional players in its South Caucasus policy.

### **Turkey and Western interests diverging in the South Caucasus**

The 2008 Russian-Georgian war and Russia's 2014 annexation of Crimea were the result of Russian and NATO/EU competition within the geography of the Black Sea region. Both wars placed Turkey in a difficult diplomatic position. Although Turkey is a member of NATO and a strategic ally of the US, growing economic and energy ties with Russia influenced Ankara's reaction to developments in the South Caucasus. As Turkey's relationship with Washington and the EU deteriorated as a consequence of both former US President George W. Bush's policy *vis-à-vis* Iraq and Ankara's stalled EU accession talks, the country's relationship with Russia deepened.

US-Turkey relations began to deteriorate following the decision of the Turkish Parliament not to allow the US military to enter Iraq from Turkey during the US military intervention there in 2003. While the US sought alternative countries as strategic replacements for Turkey, Ankara went through a process of repositioning itself in line with the new international setting.<sup>12</sup> Turkey became concerned over what it perceived as a US policy of encouraging the

'colour revolutions' and regime change in Georgia in November 2003, Ukraine in December 2004 and Kyrgyzstan in March 2005. Nationalists in Ankara believed that the "march of freedom and democracy" spearheaded by the US could lead to instability on its borders.<sup>13</sup> Like Russia, Turkey opposed the extension of NATO's Operation Active Endeavour from the Mediterranean to the Black Sea, suggesting that BLACKSEAFOR undertake the relevant tasks.<sup>14</sup> According to some experts, Turkey was also not a strong supporter of NATO's eastern enlargement and was adamantly opposed to US military deployments close to its borders, which, from the Turkish perspective, would diminish the strategic importance of Turkey's geography.<sup>15</sup> In addition, there were preoccupations that NATO's eastern enlargement, seen as a tool for US expansion of influence, could result in instability in pivotal regions. Consequently, US military deployments could cause tensions between the West and Russia which would have a negative impact on Turkey-Russia relations.<sup>16</sup>

While Turkish and US policies concerning Turkey's "near abroad" diverged, Russia and Turkey developed their relations. In particular, groups of nationalists and hard-core Kemalist intellectuals were concerned that following the occupation of Iraq and the colour revolutions, the US now surrounded Turkey.<sup>17</sup> In the opinion of opponents of US policies in the region, the only way forward for Turkey was to establish good relations with Russia, China, Japan and India.<sup>18</sup> Moreover, according to Igor Torbakov, a well-known Russian academic, the emergence of a Russian-Turkish regional alliance was a natural outcome of Moscow's and Ankara's common concerns about the US' "destabilising policies" in the South Caucasus.<sup>19</sup>

Russian President Vladimir Putin and Turkey's President, Recep Tayyip Erdogan enjoy increasingly close ties and have met many times. The first official high-level visit to Turkey in almost 30 years was made by Putin in 2004.<sup>20</sup> In 2002 trade volume between Russia and Turkey was \$6 billion. By 2014 it had reached \$33 billion. During Putin's most recent visit to Turkey on 1 December 2014, Russia and Turkey pledged to increase bilateral trade to \$100 billion by 2020.<sup>21</sup> Turkey's economic interests give Ankara a strong incentive to maintain stable political relations with Russia. Moreover, parts of the Turkish business community have developed a strong economic stake in trade with Russia and constitute an important domestic lobby in support of this trade. They were particularly influential in pushing for the construction of the Blue Stream natural gas pipeline. Indeed, the growing Turkish-Russian economic rapprochement is particularly evident in the energy sphere. Russia supplies over 60% of Turkey's natural gas and close to half of Turkey's crude oil.<sup>22</sup> The growing economic interdependence is beginning to temper traditional Russian attitudes toward Turkey. Increasingly, Turkey is seen more as an important economic partner, rather than a geopolitical rival.<sup>23</sup> This view was strengthened in the aftermath of Putin's surprise announcement in December 2014 that he would abandon the South Stream pipeline in favour of an alternative route through Turkey – Turkish Stream.

It should also be worth underlining that although Turkey publicly supported Georgia's territorial integrity during the Russia-Georgia War, Ankara refrained from embracing the stronger rhetoric coming out of Washington and Brussels. At the time Erdogan stated: "America is our ally and the Russian Federation is an important neighbour".<sup>24</sup> After the war Turkey proposed the Caucasus Stability and Cooperation Pact (CSCP) platform, which

included Turkey, Russia, Georgia, Armenia and Azerbaijan.<sup>25</sup> The CSCP included neither the US nor EU member states nor guarantees regarding their interests, but included Russia.<sup>26</sup> Thus, the Caucasus initiative proposed by Turkey seemed to be aimed at reducing Western strategic involvement in Caucasus affairs and helping to make the region more "self-sustainable" and "dependent on local players".<sup>27</sup>

Moreover the Russia-Georgia war significantly changed the overall geopolitical balance in the entire South Caucasus and Caspian region. The West (and specifically the US) demonstrated both an unwillingness and inability to firmly support Georgia. As a result, in the eyes of Russia's neighbours, the West all but lost credibility as a security counterbalance to Russia.<sup>28</sup> This was further emphasised by Russia's annexation of Crimea and subsequent war in Eastern Ukraine.

Events in Ukraine have had an impact on Turkey's South Caucasus policy. The Ukraine crisis was immediately preceded by a clash between the EU and Russia over Ukraine's geostrategic choice. During the crisis, Azerbaijan and Turkey supported the territorial integrity of Ukraine, while maintaining their economic relations with Russia at the same time. However, despite its support for Ukraine's territorial integrity, Turkey avoided adopting a highly critical position against Russia and refused to join the EU and US in placing sanctions.<sup>29</sup> On the contrary, Turkey used the situation as an opportunity to deepen relations with Russia.<sup>30</sup> Turkey's Minister of Economy, Nihat Zeybekçi, underlined that Russia's trade restrictions served as a window of opportunity for Ankara to bolster its exports of both food and consumer goods to Russia.<sup>31</sup> Putin visited Ankara and the two sides signed four agreements on trade and economy.<sup>32</sup>

### **Turkey-EU-US versus Russia in the South Caucasus**

The Russia-Georgia War had two main outcomes for Turkish foreign policy in the South Caucasus: intensification of the Turkey-Georgia-Azerbaijan triangle and rapprochement between Turkey and Armenia. In both cases, the regional policies of Turkey, the EU and US overlapped.

The Turkey-Azerbaijan-Georgia triangle represents the emergence of the geopolitical realities of the 1990s, revised after the Russia-Georgia war. The war, the reconfiguration of US policy towards Russia, the inefficacy of the EU in the region and proactive Turkish diplomacy resulted in the reactivation of this triangle. The first trilateral meeting among the foreign ministers of the three states was held in Trabzon in 2012 and resulted in a Declaration on four issues of common interest: security, energy, transportation, and trade and economy. The Trabzon Declaration stresses the importance of continued cooperation within NATO's Partnership for Peace (PfP) programme and other areas of cooperation with NATO.<sup>33</sup> On 19 August 2014, during a meeting in Nakhchivan, defence ministers of the three countries agreed to increase cooperation in the military sphere.<sup>34</sup> In May 2014 the three presidents met in Tbilisi. The then President of Turkey, Abdullah Gül, underlined that the main task of the triangle is to integrate with the West politically and economically.<sup>35</sup>

The emergence of this triangle has two main perspectives: security and energy/transportation. From the security point of view, all the declarations signed contain three main aspects: emphasising the sovereignty and independence of states; rejection of separatism and threats



against their territorial integrity; and cooperation against non-traditional security threats. In 2014 Azerbaijan and Georgia wanted to emphasise their sovereignty and independence as both states viewed Moscow's diplomatic manoeuvres related to the Russian-led Eurasian Customs Union as a hegemonic reconstruction of Russia, which they perceived as a threat to their sovereignty and independence. Hence both states refused to become members. In the Ganja Declaration they reiterate "their firm support for each other's sovereignty, territorial integrity and underline the importance of a quick and peaceful settlement of the conflict in and around the Nagorno-Karabakh, and the conflict over Abkhazia, and Tskhinvali region/South Ossetia, on the basis of respect for the sovereignty, territorial integrity and the inviolability of the internationally recognised borders of the states, as well as relevant resolutions and decisions of the UNSC, UNGA, OSCE and COE."<sup>36</sup> However, this triangle is not a military alliance in the traditional sense. The Security Agreement signed on 30 April 2002<sup>37</sup> was targeted at non-traditional security threats, such as terrorism, organised crime and other crimes, rather than traditional threats.

This triangle is pivotal for west-east energy and transportation routes. The Baku-Tbilisi-Ceyhan crude oil pipeline, Baku-Tbilisi-Erzurum natural gas pipeline, the Trans Anatolian Pipeline (TANAP) and Trans Adriatic Pipeline (TAP) link these states like a security belt in the political and economic sense, and each state is part of the EU INOGATE programme that aims to bring Caspian and Central Asian energy resources to the West. As stated by energy expert Alexandros Peterson, "Azerbaijan possesses significant reserves of highly valued natural resources; Georgia serves as a geographically crucial transport corridor; and Turkey has deep and sustained access to world markets and international partners".<sup>38</sup> To enhance their importance for the West and global energy markets, this triangle now attempts to extend their energy links towards Central Asia. The positions adopted in the Declarations include support for the transportation of the energy resources of Central Asian countries to international markets.<sup>39</sup>

As previously observed, the position of Azerbaijan, Turkey and Georgia is pivotal to the east-west corridor as well as the north-south transport axis. Each state is a member of the east-west TRACECA transport corridor including the Baku-Tbilisi-Kars Railway, which will initially carry one million people and ten million tons of cargo. The completion of the Aktau-Urumchi railway and its connection to the Baku-Tbilisi-Kars railway will form the Iron Silk Road of the 21<sup>st</sup> Century. When the Baku-Tbilisi-Kars railway project unites the railway networks of Central Asia, the Caucasus and China with those of Turkey and Europe, it will also facilitate the movement of cargo between the Asian and European continents. All these measures deepen integration with Western institutions, more so than regional projects such as the CIS or Eurasian Union. There are also a number of other regional triangles that have an impact on regional politics, such as Turkey-Iran-Azerbaijan and Turkey-Azerbaijan-Turkmenistan.

The second outcome of the Russian-Georgian War was Turkish-Armenian rapprochement, which was supported by the US and the EU. Although Turkey recognised the independence of Armenia on 18 December 1991, the two states have no diplomatic relations due to Armenia refusing to sign a protocol declaring that Armenia has no territorial claims on Turkey in 1991. Furthermore, the Turkish-Armenian border has been closed since 1993 following Armenia's occupation of Azerbaijan's Kelbejar district during the Nagorno-Karabakh war.



After 1993, all attempts at reconciliation failed. However, in 2007 secret diplomacy was used to intensify efforts, continuing in 2008 with "football diplomacy". First, Turkey's then President Abdullah Gül visited Armenia, which was followed by a visit of Armenian President Serzh Sarkisian to Turkey. This process continued with the declaration of a 'Road Map' agreement for the normalisation of relations between Turkey and Armenia on 22 April 2009. Although there were serious objections both in Armenia and Turkey<sup>40</sup>, on 10 October 2010 Davutoglu, and the Minister of Foreign Affairs for Armenia, Eduard Nalbandyan, signed two separate protocols: a protocol on the establishment of diplomatic relations between Turkey and Armenia and a protocol on the development of relations between Turkey and Armenia.<sup>41</sup>

The US, and President Barack Obama in particular, strongly supported this process. The US considered the opening of the borders between Turkey and Armenia as a means to remove Armenia from Russian and Iranian influence and as an important step in its integration in the West.<sup>42</sup>

During discussions between Turkey and Armenia, Azerbaijan followed the process with interest as the process directly impacted the Nagorno-Karabakh conflict. The fact that there was no mention of Nagorno-Karabakh in the Protocols resulted in a negative reaction from both Azerbaijan's leadership and society in general. Consequently, during his visit to Azerbaijan on 13 May 2009, Erdogan stated that the Turkey-Armenia border could not be opened without the withdrawal of Armenian forces from Azerbaijan's occupied territories. This development was viewed by many experts as undermining the approach.<sup>43</sup> Furthermore, in January 2010 the Armenian Constitutional Court found the protocols incompatible with the Armenian constitution.<sup>44</sup> Thereafter they became frozen.

Since the freezing of the Protocols, Track II diplomacy between Turkey and Armenia has been ongoing, supported and funded by the US and EU. In 2010, a USAID Mission provided \$2.4 million to a consortium of Armenian and Turkish organisations in Yerevan and \$2.3 million for cross-border activities where Turkish and Armenian organisations partnered with US institutions.<sup>45</sup> USAID also provided funding and support for an Armenia-Turkey Rapprochement Project implemented jointly by a consortium of Armenian partners, including Eurasia Partnership Foundation, Yerevan Press Club, Union of Manufacturers and Businessmen of Armenia and International Center for Human Development, and the Turkish-Armenian Business Development Council.<sup>46</sup> Since 2014, a consortium of eight civil society organisations from Armenia and Turkey participated in The Armenia-Turkey Normalisation Process programme funded by the EU under the Instrument for Stability. The official website of this programme states that its objective is to promote civil society efforts towards the normalisation of relations between Turkey and Armenia and towards an open border by "enhancing people-to-people contacts, expanding economic and business links, promoting cultural and educational activities and facilitating access to balanced information in both societies".<sup>47</sup>

Currently, the Turkish government maintains its position on the Nagorno-Karabakh conflict. On 12 December 2013, during his visit to Armenia, Davutoglu stated that Turkey-Armenia normalisation should proceed in parallel with the Nagorno-Karabakh resolution process. By maintaining that there are two different processes with no links, Armenia is attempting to reduce pressure on itself and divide Turkey and Azerbaijan. However, Turkish society still

strongly opposes the opening of the border without solving the Nagorno-Karabakh conflict. Meanwhile, the Armenian diaspora has changed its position regarding the opening of the borders without preconditions. In 2009 the Armenian diaspora demanded, first, recognition of the so-called genocide by Turkey, followed by opening of the borders.

## Conclusion

As a result of regional conflicts, different foreign policy strategies and the geopolitical rivalry of regional and global players, the South Caucasus has become a fragmented region from security, economic and political perspectives. However, two major obstacles continue to have a negative impact on Turkey's South Caucasus policy: first, Russian-Georgian relations, and second, Azerbaijan-Armenia relations due to the occupation of Nagorno-Karabakh. These two problems have limited the effectiveness of Turkey and Turkey's "regional integration strategy".

Today the only regional structure is the Azerbaijan-Turkey-Georgia trilateral cooperation triangle. None of the members of this triangle are opposed to cooperation with other regional countries. As Azerbaijani Foreign Minister, Elmar Mammadyarov, stated in Tbilisi on 19 February 2015, "If Armenia changes its policy and begins to fully support Azerbaijan's territorial integrity and sovereignty, of course, it may join these projects".<sup>48</sup>

While Turkey remains bound to the West through its traditional Euro-Atlantic partners, in particular NATO, at the same time Ankara often feels frustrated that the US frequently does not seem to consider Turkey's interests when carving out policies in Turkey's neighbourhood. This has resulted in Turkish-Russian relations being founded to a large degree on a sense of exclusion by the US, rather than on mutual interests.<sup>49</sup> Furthermore, Russian-Western rivalry coincided with a weakening of ties between Turkey and the West, which has also played a role in strengthening ties between Moscow and Ankara. Thus, Turkey has become a state that no longer acts as the US desires in the South Caucasus. However, despite the deepened economic and political ties, Russia-Turkey competition remains.

Looking to the future, the political framework for a comprehensive nuclear deal between the P5+1 on Iran's nuclear programme that was signed on 4 April 2015 has opened the door to a possible boost for the region in terms of investment, energy cooperation and trade. Azerbaijan declared that the Trans-Anatolian Pipeline (TANAP) could be used for the transportation of Iranian gas to the European market.<sup>50</sup> Connecting Iran to the Southern Gas Corridor would bring substantial benefits to Turkey.

**Cavid Veliyev, Head, Foreign Policy Analysis Department, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM)**

## Endnotes

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# **Policies from afar: the US options towards greater regional unity in the South Caucasus**

*Fuad Chiragov and Reshad Karimov*

## **Introduction**

The US has been a relatively new, or non-traditional actor in the South Caucasus compared to traditional regional powers such as Russia, Iran and Turkey. Washington only started to build bilateral diplomatic relations with the nations of the South Caucasus – Armenia, Azerbaijan and Georgia – after their independence in the early 1990s. Geographical remoteness was a significant factor contributing to Washington's neglect of the region and its being "off the radar" of US interests and national security policies, along with a lack of deep historical, cultural and ethnic ties.

Washington's approach to the region has been determined by other, more important dimensions and relations with other regional players. What was broadly viewed as the 'Russia First' policy of the administration of then US President Bill Clinton – essentially a neglect of the South Caucasus and Central Asian countries – was broadly based on the assumption that these countries would be transformed and integrated into the international community through reforming Russia. In other words, the US has always designed its policies toward the region through the lens of its relations with traditional actors Russia, Turkey and Iran. Moreover, for the most part (the 2008 Russian-Georgian War being one exception) the South Caucasus has never been a key agenda item in Washington's bilateral relations with Russia, Turkey and Iran. In other words, while Washington's approach to Moscow, Ankara and Tehran has always been a key part of the US's approach towards Azerbaijan, Georgia and Armenia, US relations with South Caucasus countries have never significantly affected Washington's policy towards the traditional regional actors. In this respect, some might argue that the region is too small and weak to deserve the special attention of Washington.

Contrary to the approach of the US, since their independence the three South Caucasus countries have viewed the US as a potential counterweight to balance the traditional regional powers and have – more or less – actively sought support from Washington in dealing with their regional affairs. The three countries have consistently sought closer relations with the US and the Euro-Atlantic institutions, including by participating in different international initiatives led by Washington, such as taking part in efforts to combat international terrorism, as well as NATO missions in Iraq, Afghanistan and Balkans.

While since the beginning of the mid-1990s until the present Obama administration the countries of the South Caucasus and Central Asia have enjoyed active US involvement in the region to balance the ambitions of traditional actors, and thanks to regional energy projects and anti-terror operations in Afghanistan, consecutive Clinton, Bush and Obama administrations have not been able to design a consistent, bi-partisan and sustainable foreign policy strategy towards the region. The foreign policy of the US towards the South Caucasus

has been carried out on an ad hoc basis that has changed over different administrations, depending on the international environment rather than being a long-term strategy and commitment towards the concerns of the region.

## **Common history**

For centuries, the destiny of people of the South Caucasus has been significantly shaped by the external policies and interests of the Ottoman and Persian empires. It took a completely different track when, in the 19<sup>th</sup> century, the then outsider and non-traditional regional player Russia invaded the region. After the defeat of Ottomans and Iranians, in 1801, by the decree of Alexander I, Georgia was incorporated into the Russian empire. After the defeat of the Iranians in two wars that ended with the Gulistan (1813) and Turkmenchay (1828) treaties between Russia and Iran, the incorporation of the South Caucasus into Russia was complete. Russia's exclusive dominance of the South Caucasus lasted for some two hundred years, with a brief interlude of independence between 1918-1920, until Azerbaijan, Georgia and Armenia gained their independence in 1991.

However, being part of one empire with multiple economic, infrastructural, cultural and other ties and interdependencies did not lead to deeper and broader cooperation and integration between the South Caucasus countries following their independence. The three states not only experienced a rupture with Russia, but with each other as well. The collapse of a centralised economy and the conflict between Azerbaijan and Armenia over Nagorno-Karabakh played a significant role in the isolation of these countries from one another. As a result today, the geographically small region of the South Caucasus is more divided than it is united, despite facing a range of common challenges, such as economic hardship and broader regional security challenges.

Unfortunately, in the first years of independence, while identifying their own national interests and foreign policy priorities, the regions' political elites became preoccupied with maximalist, unrealistic, and outdated nationalistic rhetoric and expectations of independence movements that further fuelled conflicts, instability, territorial claims and splits among different ethnic groups in the region.

## **Energy and US policy towards the region**

After years of war and domestic unrest, the first steps towards integration began in 1994 with the signing of a ceasefire agreement between Azerbaijan and Armenia over the Nagorno-Karabakh conflict, and of the "Contract of the Century" that was initiated and carried out by the then President of Azerbaijan, Heydar Aliyev. The Contract of the Century, signed with leading western energy companies, brought important and desperately needed investment to the region and paved the way for a number of regional projects, including the Baku-Tbilisi-Ceyhan natural gas pipeline, the Baku-Tbilisi-Erzurum oil pipelines, the Baku-Tbilisi-Kars railway and more recently the Trans-Anatolian natural gas Pipeline (TANAP) project. These developments not only resulted in closer cooperation between Georgia and Azerbaijan, they also increased the geographical significance of the region, including for Washington.



Furthermore, the South Caucasus' potential transit capacity for the large hydrocarbon resources of Central Asia also played an important role in the redesigning of US policy toward the region in the mid-1990s.

It is not a coincidence that the South Caucasus has only been on the US' radar since the mid-1990s, when energy projects enabled the region to gain real value for the US and its allies. Prior to that US policy toward the region was the result of the influential Armenian lobby in Washington. For example, in the aftermath of the Nagorno-Karabakh war, the Armenian lobby played a crucial role in the US Congress adopting Section 907 of the Freedom Support Act, which prohibited any direct US aid to the Azerbaijani government. This ban resulted in Azerbaijan being the only country of the former Soviet Union not to benefit from US financial assistance. This decision not only spoiled Washington's relations with Azerbaijan, but it also put into question the impartiality of the US. While after the 9/11 terrorist attack the US Congress granted the then President, George W Bush, the right to waive section 907, the fact that it has not been completely abolished remains a thorn in relations with Baku.

### **The strengthening of ties via NATO cooperation**

The relations of all three states with Washington have been strengthened through their integration – to different degrees – with NATO. All three countries joined NATO's Partnership for Peace/Status of Forces Agreement (PfP/SOFA) and Partnership for Peace, Planning and Review Process (PARP) in 1994. All three states also supported NATO's operations in Afghanistan, including through the sending of forces. However, the three states have different aspirations for their ties with NATO. While Georgia views membership of NATO as a foreign policy priority, neither Armenia nor Azerbaijan want to go that far. Being a member of the Russian-led Collective Security Treaty Organisation (CSTO) and dependent on Moscow for its security, Armenia needs to carefully balance its ties with NATO. As underlined by former Armenian Foreign Minister, Vartan Oskanian; "Armenia is neither ready to join NATO, nor is NATO ready to accept Armenia." Azerbaijan, while not a member of the CSTO and having a cautious approach, continues to carefully balance between the West and Russia. Nevertheless, as a key component in NATO's Northern Distribution Network, Azerbaijan has been providing a secure route for 40% of the NATO-led International Security Assistance Force's (ISAF) multi-modal transit to and from Afghanistan. Besides working closely with the US Transportation Command and the US Air Mobility Command, Azerbaijan also helps with important over-flight clearance, medical evacuation flights, landing and refuelling operations, thereby supporting ISAF. Moreover, Azerbaijani troops stand shoulder to shoulder with those of the Alliance and other partners in the Balkans, Iraq, as well as those participating in the ISAF operations in Afghanistan. Georgia has also been the largest non-NATO member contributor to ISAF operations. Baku and Tbilisi acted as *de facto* allies of NATO and the US on security.

At the same time, the regional dynamics, with the evolution of the unrecognised separatist regions of Georgia into semi-recognised states (after the recognition of the independence of Abkhazia and South Ossetia by Russia and some other countries), and the ongoing *status quo* in Nagorno-Karabakh, does not mean, however, that a final solution to these conflicts has been found. While the West has supported, albeit to different degrees, the territorial integrity

of Azerbaijan, Georgia, Moldova and Ukraine, it has failed to take any meaningful action beyond its rhetoric. It seems that the logic and tactics of all separatist conflicts in the post-Soviet space are the same. The *status quo* unfortunately serves to undermine regional security while also acting as a handbrake on regional cooperation and development. Some commentators argue that this could have been avoidable, if the West – Washington in particular – had reacted more adequately two decades ago, when the conflicts broke out after the fall of the Soviet Union, which challenged existing internationally recognised borders.

This 'head in the sand' strategy turned out to be a serious security issue. Studies show that the unresolved conflicts, with the clandestine networks operating in areas where state control is either weak or lacking, have a direct and negative impact on the security situation in the South Caucasus, since the unresolved conflicts erode the trust between the state and society. Furthermore, there is also the issue of the West having a policy of double standards, which has most recently come to the surface during the Ukrainian crisis. While explicitly supporting the territorial integrity of Ukraine, the same approach does not apply to Azerbaijan.<sup>1</sup> On 16 June 2014, the first deputy chairman of the Azerbaijan Parliament (Milli Mejlis), Ziyafat Asgarov, accused the West of double standards, stating that while after the events in Ukraine the West rushed to implement sanctions against Russia, "the West is not inclined to project any pressure against Armenia, which keeps under occupation and ignores four resolutions of the UN Security Council".<sup>2</sup>

## **Different tracks**

One can see that today, the South Caucasus forms an arena of two competing integration models. The first one, which is only nascent, envisages the region's anchoring and eventual integration in the Euro-Atlantic security and economic systems with guaranteed sovereignty and modernisation. This model promises reforms in economy, political life and state institutions, democratisation, technological innovations and rule of law as well as integration into the international community.

The second model is Russian and it is based on the idea of restoring the USSR in a new form and regaining influence in the South Caucasus through military presence, manipulation of ethnic conflicts, control over energy supplies, taking over bankrupt industries through debt-assets swaps, and support for Moscow-oriented political forces. This model is consistent with the policies formulated two decades ago by Yevgeny M. Primakov, the mastermind of Russia's foreign policy strategy in the early 1990s regarding the "the newly independent states" that emerged after the collapse of the Soviet empire.

Armenia's close relations with Russia have constrained Yerevan's choices. While Armenia has developed relations with Iran and Georgia, which represent the country's only way out to the outside world, they remain rather limited. Having its borders with both Azerbaijan and Turkey closed as a consequence of the Nagorno-Karabakh conflict has resulted in Armenia becoming increasingly dependent on Russia. While Armenia has taken measures to strengthen ties with the Euro-Atlantic institutions, since its independence all three of Armenia's presidents have taken measures to strengthen Russia's hold over Armenia in

economic, security and energy terms. In addition to choosing Russia-led integration projects, Armenia also extended the Russian military base lease at Gyumri for another 50 years.

The present, as well as the previous Georgian government has made membership of the Euro-Atlantic institutions – NATO and EU – a foreign policy priority. Georgia's policy has been met by fierce opposition from Russia, which considers this strategy as a real threat to its national security. The tension in relations between Russia and Georgia reached its highest point during the Five-Day-War when Georgia attempted to retake control over the breakaway region of South Ossetia. Moscow's recognition of the independence of the separatist regions of South Ossetia and Abkhazia has put Georgian-Russian relations in a deadlock. The results of the recent Wales NATO Summit were important for the security of the South Caucasus. As former Georgian Foreign Minister, Eka Tkeshelashvili, noted: "for Georgia as an aspirant country, the Summit delivered mixed results. It reaffirmed the decision taken in Bucharest in 2008 (and confirmed by all subsequent summits) on NATO membership. However, it is still unclear whether Georgia will get the Membership Action Plan (MAP) anytime soon, or it is already in the process of moving closer to membership without the need of MAP". On the other hand, while in a number of instances, Azerbaijan has also expressed its commitment to greater integration in the Euro-Atlantic community, Baku tries to build its relations on different non-binding formats with the Euro-Atlantic institutions. Taking into account its sensitive geopolitical situation and security concerns, Azerbaijan seeks to build bilateral and more comprehensive relations with all parties.

In terms of regional integration, the most notable has been the deeper cooperation between Azerbaijan and Georgia together with Turkey in terms of political, economic and energy ties – not least related to energy infrastructure. This has demonstrated the fruits to be gained by bilateral cooperation and integration, which has been of significant benefit to both. In their speeches, the leaders of Azerbaijan and Georgia constantly underline the importance and benefits of integration and unification of the South Caucasus under one tenet. No part of the region can be stronger than its weakest link, thereby making regional solidarity a matter of rational importance.

### **Recent US policy in the region**

In his first term, President Obama and his administration attempted to reset relations with Russia, which had deteriorated to such an extent that they were described by Obama as a "dangerous drift" following the 2008 Russia-Georgia War. The Obama administration came up with initiatives to reverse the trend, anticipating that Russia and the US could leave the unpleasant experience in the past and turn a new page in relations. The US administration seemed to believe that the two countries could find common ground for productive cooperation while not undermining the issues on which they could not agree.

It should be noted that while launching the "reset" of relations with Russia there might have been some expectations in the Obama administration about the then presidency of Dmitri Medvedev, who was viewed as a liberal. The Obama administration needed cooperation with Russia on a number of important global issues, such as the new START Treaty; Iran's nuclear programme; the Middle East; maintaining strategic stability; nuclear non-

proliferation and preventing the spread of weapons of mass destruction (WMD) and the role that Russia could play in the withdrawal of troops from Afghanistan.

Though the Obama administration officially declared that the US and Russia "agreed not to agree" on the Georgian issue and called for Moscow to end its occupation of the Georgian territories of Abkhazia and South Ossetia, on 12 March 2013, Graham T.E. argued in his article "In Defense of a Strategic Approach to Russia" in "The American Interest" journal that the US sacrificed Georgia to Russia in exchange for its support on Iran.<sup>3</sup> He also adds that "the (Obama) administration made a conscious decision to downgrade relations with the former-Soviet space, especially Ukraine and Georgia, and to temper public criticism of the Kremlin's domestic politics to gain Russian support for the new START, UN sanctions against Iran, and the northern distribution route into Afghanistan. There were some positive forms of linkage as well, such as active support for Russia's entry into the World Trade Organization (WTO)". On the other hand Trenin argues that, officially, Moscow understood the "reset" policy of Obama administration as a mere excuse and acknowledging the privileges of Russia on its "near abroad". While the crisis in Syria and Ukraine ended all hopes for normalisation of Russia-West relations and forced the US to reconsider its policies toward Eastern Europe and the South Caucasus, it does not necessarily mean that the US and EU will develop a consistent and coherent strategy towards the South Caucasus.

## **Conclusion**

As was mentioned, while the recent turmoil around Ukraine removed the US' rising views of disregard of recent years for the South Caucasus, at the same time, some other global dynamics, such as the US' decreasing dependence on traditional energy sources thanks to the shale gas revolution, could again diminish the importance of the region to the US. However, Washington and Brussels need to understand that the ongoing conflicts in the South Caucasus represent a long-term challenge to promoting security in the whole Euro-Atlantic area. They constitute a serious risk to regional stability, which could lead to severe humanitarian consequences, such as a large number of refugees and human casualties among the civilian populations. A violation of peace and security would also undermine the process of economic development, including the multilateral economic cooperation.

Furthermore, when looking at the map of Eurasia, one thing becomes clear: being an independent state that maintains a strategic relationship with the US comes at a high price. The US needs to show leadership by identifying and supporting its friends, while at the same time, deal effectively with its opponents.

While energy and security – particularly in the aftermath of the 9/11 terrorist attacks and the operation in Afghanistan, along with the ever-deepening ties between the three countries and NATO – brought a greater US focus to the region, and the more recent turmoil over Ukraine has flagged up the relevance of the region in the confrontation between Russia and the West, it remains unclear whether this is going to result in a greater, long-term commitment or broader US policy towards the region, or whether the US will see its short-term interests served before going back to a 'policy from afar' approach. While the integration, unification and prosperity of the South Caucasus is in the best interest of the US and its allies, and it

would be easier for the US to deal with one integrated entity rather than three small entities, Washington has demonstrated neither incentive nor interest for pushing for developments that could bring about a more integrated region.

**Fuad Chiragov, Research Fellow, Foreign Policy Analysis Department, the Center for Strategic Studies under the President of Republic of Azerbaijan (SAM); Reshad Karimov, independent expert**

## **Endnotes**

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## China in the South Caucasus: not a critical partnership but still needed

*Mehmet Ögütçü*

From the dominance over important global resources such as oil and gas in the Caspian Sea, to security fault-lines, to control over communication/transportation routes between the East and West, and the North and South, the South Caucasus holds great geo-strategic importance.

However, the Caucasus has remained a relatively low-priority region for China. China's interests in the South Caucasus are essentially derived from its wider foreign policy goals, particularly given the relatively small size of the potential market, all 17 million citizens that it represents: securing access to new sources of raw materials where possible; creating a stable environment around China's extended periphery; building trans-continental transportation links; and to an extent, opening up new markets for Chinese companies to expand into.

Trade and investment ties between China and this region are on the increase. Given the proportional size of Western, Russian and Turkish economic interests in Azerbaijan, China remains a relatively minor player for the time being, ranking only 10<sup>th</sup> among Baku's external trading partners. Chinese companies have evidently chosen to focus for now on niche areas where the competition is less severe – e.g. development of oil production at some of Azerbaijan's ageing (and thus less commercially attractive) on-shore fields (e.g. Salyan, Garachukhur, Gobustan), and upgrading a hydro-electric power plant at Mingechaur. Regular flights operate between Baku and Urumchi, capital of China's western Xinjiang autonomous region.

Trade turnover between China and Azerbaijan has grown 800-fold during 22 years of diplomatic relations.<sup>1</sup> In the first years following the establishment of diplomatic ties, bilateral trade amounted to only \$1.5 million and jumped in 2004 to \$200 million and \$368 million in 2006. Currently, bilateral trade is around \$1.5 billion.<sup>2</sup> The trade with Xinjiang accounts for a third of the total turnover between Azerbaijan and China. To date, more than 20 agreements have been signed between the two countries. Sixty-nine Chinese companies are now operating in Azerbaijan, mainly in trade, construction, agriculture and communications.

The scale of China's overall presence in the region is modest compared to the inroads it has made into Central Asia, with energy, security and transportation interests in mind. Consequently, the growth in Chinese economic and political interests in the South Caucasus (expanding rapidly, albeit from a low base) has so far gone largely unnoticed.

Yet, the place of Caucasus in China's calculus should not be treated in isolation of Beijing's engagement with the West, Russia, Iran and Turkey in the region. Beijing's growing presence has entailed an economic and political reorientation of the South Caucasian states towards closer (and possibly even strategic) partnerships with China, causing some readjustment in the relative position of other regional players. To some very limited extent, this process could mirror the related developments in Central Asia, where China's growing investments and



trade activities are gradually translating into Beijing's enhanced political leverage and pushing other traditional regional actors, including Russia, to the sidelines.<sup>3</sup>

Having no direct borders with the region, its political cooperation with the South Caucasus is also far less developed than in the case of Central Asia – in particular, there is no South Caucasus equivalent of the Shanghai Cooperation Organisation to serve as a mechanism for China's engagement with the region.

Yet, China is able to approach the South Caucasus unencumbered by some of the negative 'baggage' that affects its relations with its Central Asian neighbours. Unlike in Central Asia, China by definition can have no disputes with the South Caucasus countries over border delineation or water management issues. Nor are there any active concerns on China's part regarding the South Caucasus's role as a haven for Uyghur separatists that pose a security threat to its Xinjiang-Uyghur Autonomous region. And, in contrast to Central Asia, where popular suspicions of China are increasingly visible, there is little evidence to date of widespread concerns in the South Caucasus over the prospect of being 'swamped' by China.

Both Moscow and Beijing are keen on keeping the West out of this region and therefore support the idea of a Sino-Russian partnership to counter the US power in this region, at least in the foreseeable future, while both is likely to have divergence of interests in the longer term. Therefore, geopolitical competition between the US on the one hand, and Russia and China on the other to influence the region is destined to continue in the coming decades.

The South Caucasus states generally view China in positive terms, as an increasingly important trading partner and a source of much-needed investment. Moreover, unlike western countries or Russia, China has the welcome characteristic of 'accepting the host countries as they are' – i.e. it does not bring with it any 'hostile agenda' of its own over human rights, investment climate issues, Eurasian integration.

The South Caucasian states are worried about Russia's aggressive strategy and use of force in the post-Soviet sphere of influence, which was clearly shown during the 2008 war in Georgia and 2014 annexation of Crimea, which reinforced their wary attitude to Russian initiatives and its policy. The Crimean crisis and President Putin's remarks on Kazakhstan as well as Moscow's new policy *vis-à-vis* CIS citizens of Russian ethnic origin give rise to serious concern. China's increased role in the region offers the benefit for all three South Caucasus states of creating a certain degree of leverage to use in their dealings with other outside powers – first and foremost Russia, but also to some extent the US and EU.<sup>4</sup>

## **Energy, trade, investment and infrastructure**

China's intensified search for resources, trade and transport corridors to fuel its booming economy will likely lead to enhanced cooperation between Beijing and the South Caucasian states, pointing to a number of implications for the region and its traditional actors.

Unlike in Kazakhstan and Turkmenistan, China has no energy investments of geo-strategic significance in the South Caucasus at present. China's emergence as serious investor in the

early 2000s came too late for it to compete with major IOCs for stakes in the country's most attractive oil & gas projects.<sup>5</sup> Its main attempt to rectify this was made in 2010, when China's Sinopec expressed interest in taking over the 5.6% share of the US's Devon Energy in the international consortium operating the giant Azeri-Chirag-Guneshli oil & gas project (eventually the stake was sold to BP for \$2 billion).

Although no more than a theoretical idea, a Trans-Caspian Gas Pipeline capable, in principle, of shipping Azeri gas into Central Asia and onwards to China had been publicly discussed. To date however, there is no evidence of serious negotiations having been held over such a possibility as Turkmen, Kazakh, Uzbek and Russian gas will be more than enough for China's needs.

**Armenia**, the region's smallest state by GDP, has in proportional terms the most significant economic relationship with China, which is currently its third largest trading partner after the EU and Russia – bilateral trade with China was valued at \$317 million in 2011.<sup>6</sup> Although the majority of this is accounted for by Chinese imports, China is also looking to increase its role as an investor in Armenia.

Chinese companies have refurbished two thermal power plants in Armenia in recent years, and talks have been held (albeit so far without concrete results) regarding Chinese participation in a planned new railway between Armenia and Iran. There is also evidence of Chinese interest in mining for rare elements in Armenia, particularly molybdenum. Unusually, there is also one case of a reverse project within China (in its northern Shanxi province), where a joint Chinese-Armenian rubber factory operates using Armenian-supplied technology.

Back in 1999, media reports indicated that China had agreed to supply Armenia with eight 'Typhoon' missile systems. However, it is unclear whether these were in fact delivered, and China evidently concluded afterwards that its interests would be best served by refraining from supplying weapons to either side in the conflict over Nagorno-Karabakh.

Officials in Beijing, having realised the potential negative consequences of the scandal, rushed to apologise – quickly blaming private Chinese companies for the mistake.<sup>7</sup> The Chinese government promised not to repeat the same mistake in the future. Indeed, the entire scandal once again showed that China was not interested in becoming involved in the conflict. Furthermore, economic and energy cooperation with Azerbaijan seemed much more attractive to the Chinese leadership than its ties with Armenia.

China's presence is the most diversified of all in **Georgia**, for whom China is currently its fifth largest trading partner. Chinese companies have invested here in raw materials (timber production and marble mining), electricity (construction of a hydro-power plant in Kakheti, eastern Georgia) and infrastructure (refurbishment of Rikoti tunnel on Georgia's main east-west highway). There is also expressed Chinese interest in investing in copper mining, a railway bypass route around Tbilisi, and in a free-trade zone in Kutaisi.

Chinese officials have announced plans for China's total level of investment in Georgia to reach \$1.7 billion by 2017. Alone among the South Caucasus states, there are signs of a putative popular reaction against this expansion of China's presence, in particular over the

sharp and visible increase in the number of Chinese migrant workers entering the country as a result.<sup>8</sup> A small public protest over this latter issue, organised by a fringe group of Georgian nationalist parties, was held in Tbilisi in February 2013.

### **Rail "Silk Road" through the South Caucasus**

Beijing announced plans to develop a high-speed railway system that would promote China's exports to Europe through what is an efficient and extremely fast transportation network, thus enhancing the position of the Caspian and South Caucasus regions as regional interconnectors.

The real impetus to China's relations with this region will likely come when the Kars-Akhalkalaki-Baku railway, connecting Asian and European railway systems, will be completed. This trans-continental railway, discussed during President Aliyev's visit to Beijing in March 2005, will likely increase the Chinese presence and trade opportunities in the South Caucasus region.

This rail link from western China to Turkey via Central Asia, Azerbaijan and Georgia (with a ferry link across the Caspian Sea from Turkmenistan to Baku) has been floated as a top initiative designed to revive the concept of a 'Silk Road' transportation network linking China to Europe via the Caspian region. From Beijing's standpoint, the potential attraction of such a route lies in its contribution to diversifying China's access to international markets and reducing its vulnerability to disruption of sea-based exports.

After the completion of the railway, it is expected that the transportation of goods from Europe to China will be twice as cheap and transport time will be reduced significantly. Overall, the trade turnover through this new railway-corridor is expected to reach nearly 20 million tons per year.<sup>9</sup>

However, financial, technical, bureaucratic and political problems stand in the way of this transportation initiative. Also, Armenia opposes this strategic project, insisting on the use of Kars-Gyumri-Tbilisi link that has not functioned since the closure of the Turkish-Armenian border in 1993. For Tbilisi, which seeks to position itself as a regional transit corridor, this project is important and supports it strongly. While the Chinese-backed project is still underway, the Western-supported Transport Corridor Europe-Caucasus-Asia (TRACECA) and Central Asia Regional Economic Cooperation (CAREC) regional transportation projects are also proceeding.

### **China on the regional issues and disputes**

In sharp contrast to some other major powers, China's leaders are prepared to deal with the governments in the Caucasus countries without challenging their domestic arrangements or approach to democracy and human rights. They focus exclusively on economic and geopolitical interests from a realist perspective, something that governments in the region appreciate especially as they have been stung by the criticism of others.

To the south Caucasus and the "frozen conflicts", namely between Georgia and the Russian Federation, and between Armenia and Azerbaijan, China brings its unique experience of

working with Taiwan, a place that Beijing insists is *de jure* part of China, but one that it interacts with as a *de facto* independent country. For Tbilisi, Moscow, Baku and Yerevan, that experience is at least suggestive of some of the possible ways forward in dealing with the so-called "breakaway" republics of Abkhazia, South Ossetia and Karabakh.

At the same time, the region is beset by growing anger in Baku about the Organisation for Security and Cooperation in Europe (OSCE) Minsk Group's failure to resolve the Karabakh conflict, ongoing fears in Tbilisi that Moscow will continue to back Abkhazia and South Ossetia. As a result, China might be asked to play some role in both cases, but few in the region and quite possibly few elsewhere or even in Beijing itself now foresee this.

The growing cooperation between the South Caucasus and China will necessarily involve Central Asia, which is itself witnessing China's rapid rise in its neighbourhood. While the South Caucasus is a corridor for the West's energy resources in Central Asia, Central Asia is a transit point for China to the energy-rich Caspian and South Caucasus regions. This offers significant opportunities for the Central Asian region, which can effectively capitalise on its rapidly expanding role as a conduit of continental trade and platform for investments in the transportation sector. The resolution of Central Asia's complex border, water, and security issues is nevertheless a key to reigniting the region's potential in spurring East-West energy, trade and transportation flows to the benefit of all parties.

While maintaining the vital strategic interest in Central Asia, China does not express a similar high interest towards South Caucasus. The Central Asian region is of great strategic significance to China. It is not only a barrier for security guarantee in western China, but also a buffer zone between China and Russia and between China and regional powers such as Turkey and Iran.

China's "balanced" position on Nagorno-Karabakh, South Ossetia and Abkhazia serve its interests well, with the regional states returning the favour by supporting the "one China" policy and Beijing's regional economic presence.

Some commentators have suggested that as China's economic footprint in the South Caucasus expands, it will eventually wish to become more directly involved in conflict-resolution processes there. Specifically, in relation to Nagorno-Karabakh, the notion has been put forward that China might usefully seek to promote the 'one country, two systems' policy that it has adopted with regard to Taiwan as a possible basis for a peaceful settlement of the dispute.<sup>10</sup>

To date however, there is no evidence of any official interest from Beijing in pursuing such a role. Although China generally defers implicitly to Russia in this part of the world, it is not prepared to do so unconditionally when it feels its national interests are at stake (as was the case with Moscow's recognition of South Ossetia and Abkhazia). At the level of military cooperation with the Central Asian and South Caucasian states, China cannot compete with Russia and the US. Beijing has no military bases in the region.

Over Nagorno-Karabakh, Beijing did not want to involve or assist any side; it maintained political neutrality and recognised the official policy of the UN. This implied that China

followed the international community's recognition of Azerbaijan's territorial integrity with Nagorno-Karabakh being under Azerbaijan's jurisdiction. Prior to Aliyev's 1994 visit, China already backed the UN Security Council's resolution demanding the unconditional withdrawal of Armenian military formations from the occupied Azerbaijani territories. Indeed, China's support of Azerbaijan's territorial integrity was of great importance for the newly independent country.

China's political interests in the South Caucasus are largely indirect ones (most notably averting the even theoretical possibility that pan-Turkic elements promoting Uighur separatism might gain a foothold in the region, of which there is no sign at present). Beijing shows no appetite for involvement in attempts to solve the region's conflicts, and in general appears content (as in Central Asia) to defer to Russia in dealing with the region's internal politics.

Russia is pressuring its neighbours to join the Eurasian Economic Union (EEU). Moscow worries, with reason, that the South Caucasus countries prefer to align with the European Union. While Armenia recently joined the EEU, there is presently little sign that either Azerbaijan or Georgia will follow suit. However, Moscow's dispute with Ukraine and veiled threat to Kazakhstan could presage tougher stances with other neighbours.

Russian influence in the independent states of the South Caucasus (and Central Asia) will remain strong. Economic pressure, energy dependence, multilateral groupings, diasporas and the re-application of a Russian cultural education are all used to sustain the old but recently revived fantasy of a Eurasian Union.

But these countries have been looking for alternative ties to reduce Moscow's influence. In the South Caucasus, Armenia has already succumbed to Russia economically and in the security realm, with ramifications for its sovereignty. But Azerbaijan and Georgia, via different paths, have tried hard to move away from Russia's embrace. In Central Asia, the overall picture is more complex, especially with the relatively enhanced Chinese presence. But Kazakhstan is leading a multi-dimensional strategy and the other Central Asian states are following in their pursuit of new partners and increased room for manoeuvre in economic and foreign policy areas.

## **Prospects**

Clearly, despite its limited geostrategic interests, China is interested in the South Caucasus for the expansion of trade with the petroleum-rich Caspian basin countries, the establishment of land-based transportation and communication links between Asia and Europe, the recognition of China as a rising super power, and, above all else, political stability. China is not at ease with Russia's takeover of Crimea, given that it has a number of secessionist claims to deal with (Taiwan, but also Xinjiang and Tibet). The South Caucasus is riddled with these problems. It might be difficult for China to remain silent on these issues.

In the South Caucasus as in other regions, China takes a long-term approach to all issues also linked to Beijing's strategic engagement with the West, Russia, Turkey and Iran, which are active in this region.

Chinese leaders do not feel compelled to show progress in this or that year but instead work to advance Beijing's interests over decades or even longer. Others may seek to exploit that approach especially if they are interested in maintaining the *status quo* or oppose a resolution that would change it. But this vision gives China some real advantages because it means that Beijing's representatives can focus on their own pragmatic interests rather than on playing to the crowd and getting actively engaged in the disputes. And its promotion of these interests over the longer term means that China will support the maintenance of existing borders.

Beijing is clearly a reluctant new player in the complex geopolitical game in the South Caucasus, and could potentially become a partner of choice in this region, thus reducing traditional Russian control over the post-Soviet area.

The South Caucasus is but one region that is experiencing a growing Chinese presence. While this relationship has not yet reached the maturity of those enjoyed by Beijing's regional geopolitical contenders, it will increase in importance as China more effectively translates its interests into actions through expanded trade and investment. As part of this process, China's future engagement with the South Caucasus will increasingly rest on its pursuit of energy resources, trade and transportation corridors, posing serious challenges to the influence of traditional actors in the region.

**Mehmet Ögütçü, Chairman, Global Resources Partnership (UK); Executive Chair, The Bosphorus Energy Club (Istanbul).**

He is also an independent non-executive director on the board of Genel Energy PLC and a special envoy for The Energy Charter in Brussels for MENA/Eurasia  
[m.ogutcu@globalresourcepartnership.com](mailto:m.ogutcu@globalresourcepartnership.com)

## Endnotes

- 1 <http://en.trend.az/business/finance/2166332.html>
- 2 <http://www.trade2cn.com/news/130419110212K7Q-1.html>
- 3 <http://old.cacianalyst.org/?q=node/5342>
- 4 [https://www.gov.uk/government/.../China\\_in\\_the\\_South\\_Caucasus.doc](https://www.gov.uk/government/.../China_in_the_South_Caucasus.doc)
- 5 Again, in contrast to Kazakhstan and Turkmenistan, where Chinese energy companies are now established as serious rivals to their western counterparts for stakes in major upstream projects.
- 6 Source: DG Trade, European Commission.
- 7 [http://www.silkroadstudies.org/new/docs/CEF/Quarterly/February\\_2007/Ismailzade.pdf](http://www.silkroadstudies.org/new/docs/CEF/Quarterly/February_2007/Ismailzade.pdf)
- 8 Currently estimated to number around 50 - 60,000 although the reliability of such figures is questionable.
- 9 [http://theses.lse.ac.uk/322/1/Gayoso\\_Russian%20hegemony%20in%20the%20CIS%20region.pdf](http://theses.lse.ac.uk/322/1/Gayoso_Russian%20hegemony%20in%20the%20CIS%20region.pdf)
- 10 [www.ceps.be/system/files/book/1855.pdf](http://www.ceps.be/system/files/book/1855.pdf)



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European Policy Centre  
Rue du Trône / Troonstraat 14-16  
1000 Brussels  
Belgium

Tel: +32 (0)2 231 03 40  
Fax: +32 (0)2 231 07 04  
Email: [info@epc.eu](mailto:info@epc.eu)  
Twitter: [@epc\\_eu](https://twitter.com/epc_eu)  
[www.epc.eu](http://www.epc.eu)

SAM | Center for Strategic Studies  
M. Ibrahimov str. 8  
Baku AZ 1005  
Azerbaijan

Tel: +994 (12) 596 82 39  
Fax: +994 (12) 437 34 58  
Email: [info@sam.gov.az](mailto:info@sam.gov.az)



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