



RESEARCH PAPER

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Research Paper

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Editorial

In 2004 the NATO Defense College's Academic Research Branch organized its 13th Partnership for Peace International Research Seminar in Helsinki, Finland, entitled "The South Caucasus: Promoting Values through Cooperation". It was a first look at a fascinating but troubled region, where common interests, residual antagonisms, and different cultures co-exist. Subsequent International Research Seminars in 2005 in Constanta, Romania, and in 2006 in Istanbul, Turkey, focused on related topics, respectively the Wider Black Sea Area and Central Asia. It was not until October 2006 that we had a chance at a closer look at the South Caucasus. Visiting Georgia, Armenia and Azerbaijan in the company of my colleagues, Prof. Dr. David Yost and Dr. Andrew Monaghan, on a tight schedule was a challenging but rewarding experience. Thanks to the hospitality and cooperation of independent experts, governmental officials, and representatives of civil society and the business community, we gained a host of impressions, summarized in the following articles on the three countries of the region.

Inextricably linked by geography and history, the three South Caucasian countries harbor both commonalities and differences. The picture we present will not be a surprise to well-informed readers, who have undoubtedly already made their own assessment of the situation. For the less initiated I venture to submit some of our main conclusions on the present situation in the region:

- All three states face problems caused by separatist conflicts. The ceasefires agreed during the 1990s have not given way to lasting peace. Small scale clashes continue with the potential to escalate, notably in Nagorno-Karabakh. Politically, the parties to the conflicts remain entrenched over key negotiation points.
- Influential elements in each state favor conflict resolution by force. Given rising military expenditure in each state, a resumption of hostilities cannot be ruled out. Any resumption would have dramatic consequences for the region as a whole, and would probably draw in third parties.
- Each state faces an array of domestic problems. Poverty is rife, unemployment high, corruption widespread, and economic development in its infancy. Democratic institutions, including freedom of the media, are weak. Ongoing governance problems and lack of internal cohesion hamper harmonious development, although there have been noteworthy recent improvements in Georgia.
- All three states face pressure from external powers that have sought to increase their influence in the region. The three countries have long been at a collision point of great powers and regional power interests, but the introduction of energy security interests in the equation has strongly enhanced their strategic value and position.

The situation in the South Caucasus is dynamic, and may become volatile or even worse if not properly addressed. Therefore, the main challenge in this geopolitical power game is not so much balancing the interests of major foreign players, but engaging their active cooperation in establishing greater stability in the South Caucasus.

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NB: The views expressed in these papers are the responsibility of the authors and should not be attributed to the NATO Defense College or the North Atlantic Treaty Organisation.

Les opinions exprimées dans ces articles sont celles de leurs auteurs et ne peuvent être attribuées ni au Collège de Défense de l'OTAN ni à l'Organisation du Traité de l'Atlantique Nord.

Armenian Perceptions of International Security in the South Caucasus

David S. YOST¹

Despite the prolonged lull in combat operations, Armenia remains effectively at war with Azerbaijan, having supported the bid for independence and self-determination by the ethnic Armenians of Nagorno-Karabakh and having occupied seven additional districts of Azerbaijan. Although the UN Security Council has since 1993 repeatedly called on Yerevan to withdraw its forces from Azerbaijan, Armenia continues to occupy 13.62 percent of Azerbaijan's territory; and about 750,000 people live as displaced refugees in Azerbaijan.² The prospects for a peaceful negotiated settlement of the Nagorno-Karabakh conflict appear doubtful from Yerevan's perspective. Azerbaijan was unwilling to conclude a settlement in the years before its oil revenues began to soar, observers in Yerevan noted. Baku's growing wealth is making Azerbaijan increasingly resistant to pressure from Russia, the United States, the European Union, and other external powers. As a result, several Armenians said, each side continues to think that time favors its interests. Armenians tend to reason that the longer the *de facto* situation persists, the harder it will be to reverse it, while Azerbaijanis are inclined to believe that their expanding wealth and population will eventually give them the advantage. Experts in Yerevan noted that Azerbaijan's military budget will soon exceed the entire state budget of Armenia.

Problems in Georgian-Russian relations often have immediate repercussions for Armenia, notably with regard to trade and energy supplies. Armenia therefore strongly favors positive Georgian-Russian relations. It is also important for Armenia to maintain positive relations with Georgia because its borders with Turkey and Azerbaijan are closed and because communications via Iran are generally much less reliable and relevant for trade with the rest of the world. Armenians are concerned about various aspects of Georgian policy, in addition to decisions in Tbilisi that have irritated Moscow. For example, it seems to at least some Armenians that Tbilisi does not pay enough attention to the economic hardship that the potential withdrawal of Russian forces might cause for ethnic Armenian workers at Russian military facilities in Georgia.

Some Armenians said that their country is Russia's only reliable partner in the region, and that Armenia is reliable only because it has been reduced to the status of a satellite dependent mainly on Moscow for its energy supplies. Russia is seeking control over the pipeline from Iran to Armenia which is to be completed by the end of 2007 because this would enable Russia to maintain maximum control over the supply of gas to Armenia and to cut off the supply of gas to Georgia without hurting Armenia.³ Yerevan wanted the pipeline from Iran to serve as a transit line to other destinations. However, according to Armenian observers, Moscow insisted that the line go solely to Armenia. Russian conglomerates, often state-owned, dominate the energy, telecommunications, and construction sectors of the economy. One Armenian summed up Russian supremacy by declaring that "The real governor of Armenia is Putin."

Another source of Russian influence in Armenia is the local fear of Turkey. The Russian military presence in Armenia is viewed as a hedge against Turkey as well as Azerbaijan. According to Armenian observers, Yerevan feared that Turkey (and/or Iran) might intervene in the context of the Nagorno-Karabakh conflict in 1992-1993.⁴ These observers said that Russian warnings may have deterred Ankara from undertaking military action against Armenia. Some Armenian observers added that the risk of hostile action by Turkey makes it imperative for Yerevan to be able to call upon Russia to honor its Collective Security Treaty Organization (CSTO) commitments. Turkey has asked Armenia to recognize officially the existing common border established by the Kars and Gümrü Treaties of 1920-1921, but Yerevan has declined to do so and has indicated that the issue should be addressed in conjunction with the establishment of diplomatic relations.⁵

Armenia is striving to improve cooperation with NATO and the European Union, although it recognizes that membership in these organizations is a distant and hypothetical prospect. One Armenian advanced the judgement that the European Union will be even more important than NATO in the long term for Armenia, because the EU could do more than NATO concerning human rights, the rule of law, poverty-reduction, and above all lessening the country's dependence on Russia.

¹ Professor, Naval Postgraduate School, Monterey, California, currently on secondment to the NATO Defense College, Rome, as a Senior Research Fellow. The views expressed are the author's alone and do not represent those of the Department of the Navy or any U.S. government agency. This paper is a report of findings from interviews in Yerevan in October 2006.

² These figures are provided in the outstanding scholarly study of the conflict: Thomas de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War* (New York and London: New York University Press, 2003), pp. 285-286.

³ Interview sources in Yerevan disagreed as to how long Russia could cut off the gas supply to Georgia without hurting Armenia. One expert said that ten days is the maximum amount of time before an interruption in the gas supply to Georgia would hurt Armenia, while others said that Armenia has storage capacity sufficient to withstand a month-long interruption.

⁴ With regard to Armenian fears of a potential Turkish intervention, an expert in Yerevan recommended the account by the first Greek Ambassador to Armenia: Leonidas T. Chrysanthopoulos, *Caucasus Chronicles: Nation-Building and Diplomacy in Armenia, 1993-1994* (Princeton, New Jersey, and London: Gomidas Institute Books, 2002), pp. 27, 76-78, and 155.

⁵ Armenia's Declaration of Independence, signed on 23 August 1990, refers in Article 11 to the eastern Anatolian part of Turkey as "Western Armenia." According to Armenian observers, this reference does not represent a territorial claim, but simply a statement of historical fact. The Constitution of the Republic of Armenia specifies in Article 13 that the nation's coat of arms will depict Mount Ararat, which is in Turkey. Armenian observers maintain that this is likewise not a territorial claim, but merely an allusion to an ancient symbol of Armenia.

Another said that Armenia is “not against” EU membership and is “fully willing” to pursue it, but the prospect is “so far away” that it is wiser to take day-by-day steps that are consistent with the goal of eventual accession than to announce an intention to join the EU.

Some Armenian observers described their country’s participation in cooperation and dialogue activities with NATO as part of a policy of establishing balance among the external powers interested in the south Caucasus region. The Individual Partnership Action Plan is being implemented on schedule, and even ahead of schedule in some areas — for instance, with regard to new national security and defense strategy documents. Armenia’s cooperation with the NATO-inspired defense reform process is contingent in some important areas on progress in resolving the Nagorno-Karabakh conflict because about 80 per cent of the armed forces are on the front line, and reforms can only be undertaken in areas not affecting current combat readiness. Some observers in Yerevan said that Armenia cannot reduce its armed forces in current circumstances, and that the conflict therefore constitutes an obstacle to defense reform and economic development. Armenia maintains 43,000 troops in its armed forces, but experts in Yerevan said that its economy should optimally support only 14,000 troops. The ongoing conflict also limits Armenia’s ability to contribute forces to NATO-led operations. Since February 2004 Armenia has deployed a platoon of 34 troops in Kosovo as part of the Greek battalion in the NATO-led Kosovo Force (KFOR). Yerevan is considering contributing troops to the NATO-led International Security Assistance Force (ISAF) in Afghanistan, and it could draw upon the large number of Armenian soldiers who had experience in Afghanistan during the Soviet intervention from 1979 to 1989.

Experts in Yerevan contrasted the roles of the Armenian diaspora in Russia and the United States. While many ethnic

Armenians (and Armenian citizens) live and work in Russia, they have virtually no influence over Russian policy. In contrast, experts in Yerevan stated, Americans of ethnic Armenian origin have remarkable influence over U.S. policy in the south Caucasus and succeed, at least to some degree, in countering the weight of American oil companies inclined to favor Azerbaijan over Armenia. Some Armenian observers said that the over \$1.5 billion in assistance provided by the United States to Armenia since 1992 may be partly attributed to the political power of the Armenian diaspora in America. Russian influence in Armenia has nonetheless remained predominant.

Of the main external powers concerned with the Nagorno-Karabakh conflict, it appears that only France and the United States strongly favor reaching a settlement in the near term. Russia finds advantages in keeping both Armenia and Azerbaijan distracted and Armenia dependent on Russia, and Moscow would only support a settlement if it was the chief guarantor power and gained greater influence in the region. Iran evidently favors the status quo, with the conflict unresolved, because it keeps Azerbaijan preoccupied and unable to stir up discontent in the large ethnic Azerbaijani population in northern Iran.

Turkey supports a settlement of the Nagorno-Karabakh conflict, because this would improve prospects for political and economic cooperation in the south Caucasus region. However, it appears that Turkey attaches little urgency to opening its border with Armenia as long as Yerevan refuses to restore the territorial integrity of Azerbaijan. While several Armenians deplored the Turkish government’s 1993 decision to close the border with Armenia and thereby show solidarity with Azerbaijan, some Armenians said that keeping the border closed — and perpetuating the Nagorno-Karabakh conflict — serves the economic interests of the Armenian businessmen that have established trade monopolies.⁶

Azerbaijan’s Key Role in the South Caucasus

Andrew MONAGHAN¹

Azerbaijan’s roles as an energy producer and transit state mean that it is emerging as a state of global strategic significance. However, its role in the unresolved conflict with Armenia undermines both its own domestic situation and that of the wider South Caucasus. Furthermore, Azerbaijan’s relations with its larger neighbours are interwoven and complex, and Azerbaijan, while asserting its independence, must balance a number of conflicting interests and external influences.

Azerbaijan’s role as a major energy producer and its role in the unresolved Nagorno-Karabakh conflict tie it into a

complex web of relations with Georgia and Armenia. Georgia seeks to develop positive relations with Azerbaijan since it hopes to court it as an energy supplier: Tbilisi benefits greatly from the Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum pipelines, which provide some measure of diversity from Russia. Moreover, there is a significant Azerbaijani diaspora in Georgia, and there are concerns in Tbilisi that a resumption of hostilities between Armenia and Azerbaijan could therefore spill over into Georgia.

Azerbaijan’s role in the unresolved conflict of course has a significant impact on Armenia. Armenia faces a blockade to

⁶ The extent to which opening the Turkish-Armenian border would benefit the Armenian economy is disputed, with estimates of an increase in GDP ranging widely, from 2.7 to 30 percent. Since 1993 Armenian-Turkish trade has been conducted mainly via Georgia. In recent years it has amounted to about 3 percent of Armenia’s overall foreign trade, with imports of an estimated \$40 million a year of Turkish goods. See, among other sources, Haroutiun Khachatryan, “Report: No Big Gains to Armenia if Turkey Lifts Blockade”, *Eurasia Insight*, 9 August 2005, available at www.eurasianet.org.

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the east, where there is a tense cease-fire line, along which some 80% of Azerbaijan's armed forces are deployed. Furthermore, Armenia's border with Turkey is blocked, and will not be reopened until, among other things, the conflict is resolved. These blockades, and the related avoidance of Armenian territory in the construction of energy pipelines from Azerbaijan limit Armenia's economic development, adding a serious economic dimension to the major strategic military threat the conflict poses to Armenia.

The impact that Azerbaijan has on the region therefore is lopsided – the wealth created in the region by Azerbaijan's growing energy wealth will benefit Georgia but not Armenia, unless the conflict is resolved. Such economic imbalance will foster political instability.

Furthermore, prospects for the resolution of the conflict in the short term do not seem favourable, and the optimism of 2006 has faded with the stalling of negotiations over the return of two territories (Kelbajar and Luchin) and the nature of any referendum. Baku does not seem to consider the pause in negotiations to be detrimental to its interests, however, since it believes that its growing wealth will give it the advantage. Indeed, a resumption of hostilities in the medium term may be more likely because of the tensions caused by the increasing expenditure on defense: Baku's loud rhetoric states that its defense budget will reach US\$1 billion this year, approximately equal to Armenia's entire budget.

The conflict acts as an ulcer to Azerbaijan, both bleeding its existing strength and preventing it from gaining weight and strength. It poses serious questions for the leadership, particularly how to handle both the fall out from the conflict (especially the large number of refugees), and the increasing pressure on the government to convert the growing wealth derived from the energy resources into kinetic strength to reverse the defeat.

Both points serve to exacerbate an already difficult domestic situation. Political reforms remain incomplete and seem to be regressing. Poor governance remains a key problem, with Azerbaijan having weak institutions, weaker policy making capacities, dominant bureaucracy and high levels of corruption. The private sector remains nascent, property rights remain ill-defined, legislation only patchily implemented and unemployment high. The freedom of the press remains limited and seems to be regressing – also illustrating a wider poverty of debate about Azerbaijan's political evolution, its place in the region and its role in the wider world.

Important questions remain also about electoral freedom and fairness. Yet the political opposition remains very weak, both in its ability to influence the political agenda, since it does not have an active dialogue with the government, and in the alternative it offers the public. The opposition is widely considered to be similar to the government – if they were to come to power, they would do the same as the current incumbents. Thus the opposition neither plays an active role in decision-making in politics nor is it popular.

Despite Azerbaijan's energy wealth, Azerbaijan as a whole currently remains poor. The infrastructure, particularly the road network, even in central Baku, is dilapidated. If a large amount

of construction is taking place, it is true that many of the buildings in Baku are old and also dilapidated. Furthermore, wealth remains limited to Baku. The surrounding countryside is poor and in recession: even previously flourishing sections of the economy, such as wine making, are dying off. A significant role in the economy is played by the diaspora, which contributes by sending money home to relatives. But this also illustrates the limitations of Azerbaijan's economy: there is a clear negative effect both of a brain drain and a strength drain, since it weakens the available domestic work force.

Government inaction, the lack of a political dialogue and economic difficulties have combined to create a political vacuum in Azerbaijan, which according to some is being filled in part by non-state influences such as extreme religious groups (Azerbaijan is a secular state). Though it was not a unanimous view, some interviewees noted the rise in strength of religious movements in Azerbaijan, even in Baku. Wahhabist groups, some from Dagestan, have been active in building support among students and refugee camps by providing financial and rationing support.

The vacuum is also in part filled by external state influences. Foreign companies, particularly energy companies such as British Petroleum, play an important role in Azerbaijan's economy. Turkey is Azerbaijan's most important international state partner, providing substantial military, political and economic support. Azerbaijan benefits from significant Turkish investment and there has been a recent intensification of economic ties between the two states.

Relations with Russia have improved under Ilham Aliyev's presidency, mostly through the development of economic ties. Recognising Russia's important role in the South Caucasus, Azerbaijan has sought to assert its independence from Russia while not antagonising it. But by early 2007 relations have become increasingly tense as Russian energy giant Gazprom sought to raise gas prices to Azerbaijan while reducing supplies by two thirds – while leaving prices for Armenia unchanged. In reply, Azerbaijan stopped exporting oil via Russia (through the Baku-Novorossiisk pipeline) and switched to fuel oil to replace gas. Moreover, Aliyev was dismissive of the Commonwealth of Independent States and Baku has announced that it will stop broadcasting Russian television channels from July (other international beacons have also been, or are being closed).

Officially, relations with Iran are good and there is a mutual desire to maintain good neighbourly relations with good economic links. But there is friction over rights to energy reserves in the Caspian Sea and tension over Azerbaijan's relations with NATO and the USA. Moreover, there is some domestic political pressure on Baku to press Tehran on improving rights for the 30 million Azerbaijanis in Iran. Some observers also noted that the large minority in Iran plays a role in Iran's position on the Nagorno-Karabakh conflict, suggesting that Iran provided assistance to Armenia to "perpetuate Azerbaijan's headache", and prevent it from turning south to focus on the interests of the Azerbaijanis in Iran.

Officially, Azerbaijan seeks a "strategic process of integration" with the Euro-Atlantic community. In its IPAP cooperation with NATO, Azerbaijan has taken on 45 commitments, including in

energy security, and cooperation has been better than expected. NATO has been assisting Azerbaijan in redrafting its national security concept and developing awareness of how Azerbaijan fits into the region; Azerbaijan contributes to NATO's Kosovo and Afghanistan missions. Baku has made it clear that it seeks to develop interoperability and partnership with NATO but not membership.

However, Azerbaijan remains some way away from NATO standards, and in some respects is moving away from them, particularly in terms of societal norms. There also seems to be a lack of depth and breadth to Azerbaijan's commitment to NATO, and some experts have commented that Azerbaijan seeks to develop interoperability with NATO to serve its own interests – most particularly in seeking military advantage in case of a resumption of hostilities with Armenia.

While Azerbaijan's economy is growing rapidly, and the government seems confident, Azerbaijan clearly faces important challenges, not least the management of the huge influx of money economically and politically. Furthermore, a resumption of hostilities in 3-5 years cannot be ruled out, with a resultant major impact on the South Caucasus as a whole and the viability of the strategic pipeline networks more broadly. Also there is no guarantee that Azerbaijan would win a renewed conflict.

The complex inter-relationship with its neighbours means that Baku has to perform a balancing act with one eye on the present situation and one eye on the future: how will both Russia and Iran look in five years time? NATO remains in the background, but how to engage a somewhat reluctant Azerbaijan in the face of Russian and Iranian opposition to NATO involvement in the region is a key question.

Georgia and International Politics in the South Caucasus

Cees M. COOPS¹

The Rose Revolution of 2003 has fundamentally altered the political landscape in Georgia. Credible democratic alternatives are rapidly replacing the last remnants of the country's Soviet past with undiminished popular support. President Mikhail Saakashvili's pro-Western course put him at odds with Russian president Putin, and the ensuing deterioration in the bilateral relations, culminating in 2006, is not conducive towards restoring Tbilisi's authority over the two Moscow-supported breakaway Georgian provinces of Abkhazia and South Ossetia. An indivisible part of the ancient Silk Road, Georgia is regaining its former geo-strategic importance due to its attraction as an energy conduit for Azerbaijan and further beyond, for the Caspian region. The Baku-Tbilisi-Ceyhan (BTC) pipeline became operational in July 2006, and will be supplemented by the Baku-Tbilisi-Erzurum (BTE) gas pipeline in the near future. Recently an agreement was signed in Astana between the companies involved in the exploitation of Kazakhstan oil, to create a trans-Caspian transport system feeding into the BTC pipeline. Free from Moscow's coercive interference, and a viable alternative to the Russian controlled oil pipeline of the Caspian Pipeline Consortium (CPC) that runs from Tengiz, Kazakhstan, to the Russian Black Sea port of Novorossiysk, the new pipelines will further enhance Georgia's geo-strategic significance.

Wedged between Turkey and Azerbaijan, and bordering the Black Sea, Georgia is an integral part of the land corridor between Europe and Asia. Since the conflict on Nagorno-Karabakh effectively sealed neighboring Armenia's eastern and western borders, Georgia has become the only feasible link between East and West in the South Caucasus, and a lifeline to landlocked Armenia. The country maintains good relations with the two feuding parties in the Nagorno-Karabakh conflict, despite the differences in political culture. Baku and Yerevan, valuing their good relations with Tbilisi, are not inclined to interfere in Georgian domestic affairs, to

the dismay of important Armenian and Azerbaijani minorities living in Georgia. Poverty among them is widespread, unemployment high, and not speaking Georgian, they feel discriminated against. Demonstrations have occasionally turned violent. The Georgian population, already suffering from a sense of betrayal by the breakaway Abkhazians and Ossetians, offers little sympathy. The probability of new secessions however is remote. Pro-active minorities and decentralization policies are devised and partly in place, but their acceleration could contribute to defusing tensions and to creating a sense of citizenship and allegiance in this multicultural society.

Relations with Ankara, Tbilisi's most reliable strategic partner in the region, are excellent. Georgia is Turkey's only feasible conduit to Central Asia, and it heavily invests in the further development of this relationship. Georgia may be very different from Turkey and Azerbaijan, but updating and reconditioning the Silk Road with new ideas, goods, services, pipelines and railway lines gives the three stakeholders a shared feeling of purpose in this endeavor. Iran is close, and relations are good, but not very intensive. As Iran has no common borders with Georgia, and its theocratic system offers no appeal for its inhabitants, it can only have a very limited influence on the country. Still, Tbilisi is well aware that Tehran could play a stronger role in the Caucasus if it wanted to, and recognizes that good relations with Iran are important to landlocked Armenia.

Less than excellent are Georgia's relations with its northern neighbor, Russia. Georgia, once part of the Soviet empire, went through a revolutionary process in 2003 that fundamentally changed its attitudes and perspectives. Russia, the old motherland, is rather pursuing a policy of imperial restoration, trying to regain its lost influence in areas considered vital to its interests. Consequently, Tbilisi's new assertiveness is not highly appreciated in Moscow.

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Georgians blame Russian hegemonic aspirations, and perceive Moscow's position as trying to alter the political course in Georgia, being angry at the independent course of its ex-colony. The bilateral border is closed since last year, after severe clashes between Presidents Saakashvili and Putin, whose personal dislikes do not help in overcoming their political differences. At offering the only viable alternative for energy transport from Central Asia and the Caspian to the West, Tbilisi effectively thwarts Moscow's monopolistic aspirations. On the other hand, Tbilisi strongly believes that Moscow holds the key to the restoration of Georgia's territorial integrity – and withholds it. Fears expressed by several observers in the fall of last year, that war could not be excluded anymore, have subsided somewhat after the resignation of hawkish Georgian defense minister Irakli Okruashvili, but tensions remain.

Russia's impartiality as a peacekeeper in the area may be questionable, but the history and the reality of the two former autonomous republics within Georgia are more complex than generally portrayed by Georgian leaders, and an equitable solution to the conflicts will be difficult to achieve. Abkhazia and South Ossetia are the main "internal-external" challenges to President Saakashvili, who has declared the restoration of Georgia's territorial integrity his government's top priority. Timing may have been the main reason. The UN Security Council repeatedly recognized Georgia's territorial integrity, stating that a solution should be found within Georgia's internationally recognized borders (most recently in UNSC resolution 1666 of 31 March 2006), but thirteen years of standoff makes it difficult to restore the status quo ante.

About 60.000 Abkhazians are the first ones to agree: Abkhazia will not voluntarily be reintegrated into Georgia. Although approximately 200.000 ethnic Georgians who fled the region during the 1992-1993 fighting and live their lives as internally displaced persons (IDPs) in Georgia are of a different opinion, Abkhaz secessionists feel rather secure with their Russian passports and Moscow's military and financial support. South Ossetian Moscow-oriented separatist leaders do not want to be part of Georgia either. An estimated 40.000 Ossetians living in the area are said to have voted overwhelmingly for independence in the unofficial elections in November last year. However, independence is not a feasible option for a small area with a thoroughly mixed population: a Tbilisi-organized counter-election counted 23.000 votes in favor of negotiations with Georgia. Unification with North Ossetia, and integration into the Russian Federation, as also suggested by separatist leaders, would therefore not be a solution either. About 50.000 South Ossetians fled to North Ossetia at the beginning of the 1990's, but there are still an estimated 100.000 living in Georgia proper.

Claims are based on competing interpretations of history, international law and ethnicity, as in most territorial conflicts, and peaceful solutions therefore have to be political, as the successful re-integration of Ajaria demonstrated. The installation of de jure governments by Tbilisi in Abkhazia and South Ossetia can be considered as a move on the political chessboard, but it does little to defuse tensions. Neither does Moscow's hinting at precedents possibly emanating

from Kosovo. Unless conflict resolution is taken up more seriously, security and stability will remain severely impaired in an area of growing geo-political importance.

President Saakashvili used the momentum and the legitimacy of consensus among the population on transformation pragmatically to extend reform far beyond the security sector. Georgia was a weak state, if not a failed one, before the Rose Revolution of 2003, and its rebirth as a nation state is almost a miracle. Especially the eradication of pyramid-style corruption and the complete overhaul of the educational system have created an enormous social impact with the population, but no less important are the resurrection of the economy, the revamping of the tax system, the abolition of the notorious traffic police and the reorganization of the customs. Public service has increased substantially. The winds of change permeating Georgian society have left few areas unaffected, but there are limits to what can be done in a short period of time. The complete overhaul of the judiciary, for instance, will not have effect before the first batches of non-corrupt, well-trained judges arrive in 2010. In many "cleaned" organizations institutional memory is lost. Well-meant policies have sometimes unintended consequences, like the zero-tolerance policy against crime, leading to unacceptable situations in the prisons.

But the main and immediate domestic challenge for the government is to reduce the number of people below the poverty line. It means reducing unemployment, attracting foreign direct investment, and finding new markets for Georgia's mainly agricultural products because of the closure of the Russian border. The president remains highly popular, but parliament is weak, and so are local government, the media and civil society in general. Democratic principles are not yet engrained in society, and long term sustainability is not yet assured, especially because President Saakashvili's governing team is rather small.

The president actively pursues integration into Euro-Atlantic structures. Joining NATO is his foremost policy objective, supported by more than 75% of the population. The Intensified Dialogue is appreciated as recognition of the country's efforts to demonstrate its fitness as a security provider in the NATO framework, but it has not stilled the appetite for full membership. The Individual Partnership Action Plan (IPAP), embraced in 2004, and its derivatives, notably the Partnership Action Plan on Defense Institution Building, has done a lot to sustain NATO's image. By widening their scope, the reform programs are instrumental in transforming the ex-Soviet state to modern Western standards in such distinct areas as security, politics, economy and the judiciary.

Joining NATO may be the number one foreign policy objective for Tbilisi; EU membership is a close second, even if long term. Membership is seen as the ultimate fulfillment of the country's aspirations to Euro-Atlantic integration. Ottoman and Russian regional domination belong to the past: NATO and the EU are the future. The driving forces behind this ambition are stability and security; economic considerations are secondary. Georgia's leadership is well

aware of its vulnerability at increasingly important strategic crossroads in the Caucasus, and the unwavering political support from the US continues to play a very constructive role.

In conclusion: Georgia's transformation into a modern Western state is an ongoing project, with many uncertainties involved. The country appears to be on the right track with its reforms and its orientation, led by President Saakashvili's

dynamic and enthusiast team. Its main domestic challenge is poverty eradication; its main "internal-external" challenge to find an acceptable solution for its breakaway provinces. The antagonistic relationship with the Russian Federation is explicable in historical and cultural terms, and the perception that the great power game is on in the South Caucasus. Defusing tensions would be in the interest of conflict resolution, but given the geo-strategic interests involved it is a tall order.

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