

# The Caucasus: A Challenge for Europe

Svante E. Cornell  
S. Frederick Starr

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## Preface

This *Silk Road Paper* was written by Svante E. Cornell and S. Frederick Starr at the request of the Policy Planning Unit of the Finnish Ministry of Foreign Affairs. It was commissioned after a joint seminar s conducted in Helsinki in January 2006, focusing on priorities toward the Caucasus and Central Asia for the Finnish EU Presidency in the second half of 2006.

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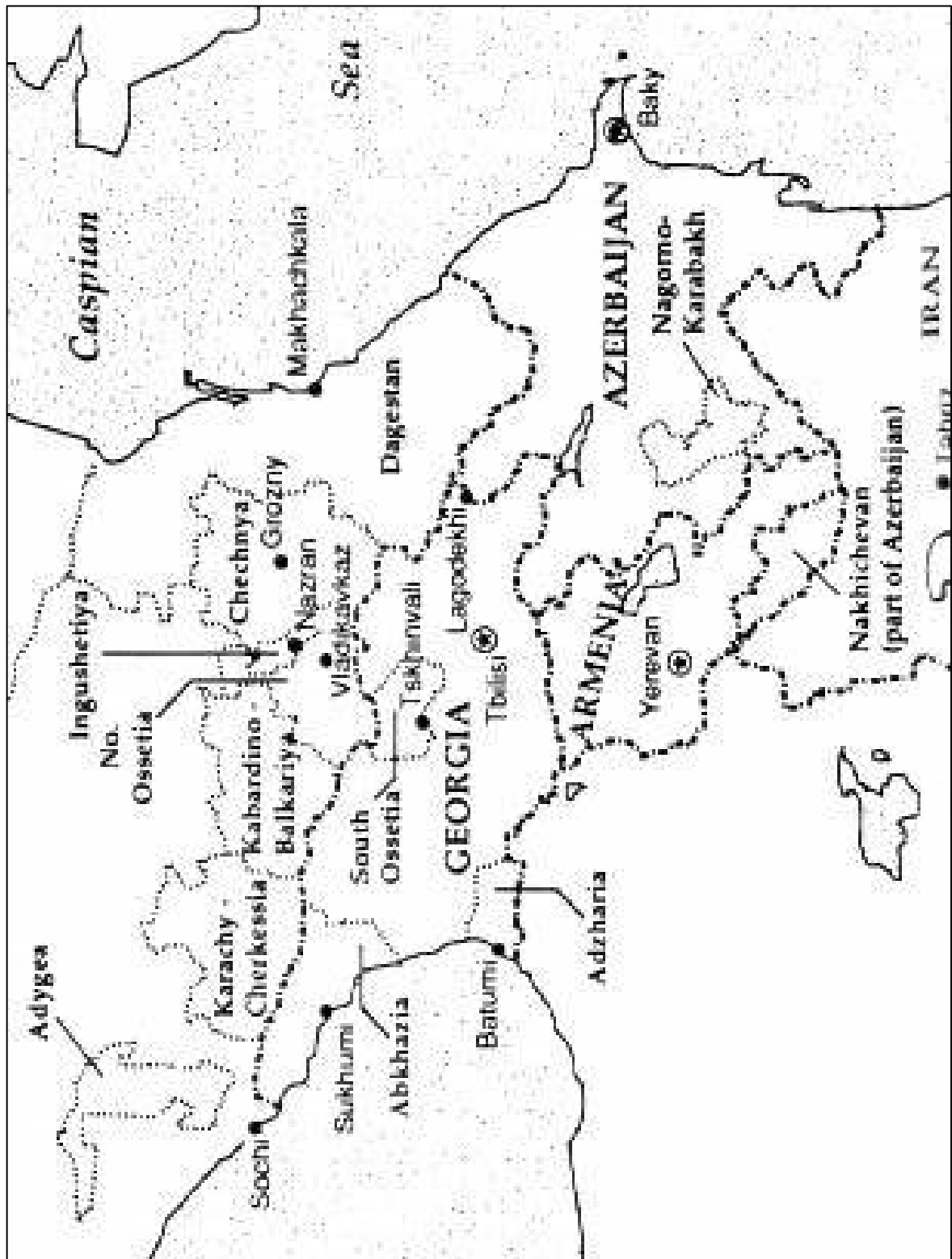
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Figure 1: Map of the Caucasus





## Summary and Recommendations

Over the past decade and a half, Europe has gone from the role of a bystander to the affairs of the Caucasus to that of an interested party with increasingly clearly defined interests in the region. As the Council of Europe, NATO, and finally the EU itself expand eastward, Europe in general and the EU in particular is coming closer to the Caucasus. With the pending EU membership of Romania and Bulgaria, the EU will be a neighbor of the Caucasus through the Black Sea. This southeastern shift in the EU's center of gravity is combining with the increasing importance of the Caucasus in world affairs, and compels the EU to identify its interests in the Caucasus and to develop its strategies for achieving these interests.

This reports argues that Europe has three sets of inter-related interests in the Caucasus: governance, energy, and security. It is in Europe's interest to see the states of the Caucasus develop into strong sovereign states based on the rule of law, with strengthening democratic institutions and upholding the rights of their citizens. Europe also has an interest in expanding its import of energy from and through the Caucasus, as this serves both Europe's own energy security and the interests of the nations of the Caucasus. Finally, Europe has an increasing interest in the security of the Caucasus, both as security threats in the region affect Europe and as the Caucasus is increasingly important for European states and organizations in global security, primarily through access to Central Asia.

Far from being conflicting, these three 'baskets' of interests can and should be mutually reinforcing. It is by engaging with the states of the region and by developing broad-based relations in multiple fields, including security and energy, that the EU can best work for the long-term strengthening of sovereignty, governance, and democracy in the Caucasus. The three sets of interests hence need to be advanced in parallel and in a coordinated fashion, with none being allowed to take precedence over the others.

As this report points out, the Caucasus is nevertheless replete with serious challenges, which form a threat both to the security of the region's populations and to the EU. The fundamental problem of the Caucasus is the unresolved armed conflicts of the region. Long neglected by the international community, the conflicts that have torn apart the Caucasus and continue to do so are a major security threat in their own right. Moreover, they are strong contributing factors to the deficit in governance, slowness of economic development, widespread poverty, and rise of transnational threats including organized crime and radicalism in the region. Without addressing the conflicts, the underlying cause of the security deficit in the Caucasus, there can be little hope for a stable, peaceful and prosperous Caucasus.

In this context, Russia has exerted and continues to exert a paramount and primarily negative influence on the region's developments. Russian policy appears to have been guided by a long-standing perception of an inexorable link between the South and North Caucasus – dictating a policy of ensuring dominance over the South in order to stabilize the North. Since the 1990s, this has meant constant interference into the internal affairs of South Caucasian states, which nevertheless failed to ensure stability. Instead, Russia's policies proved counter-productive, exacerbating separatist violence that in turn served as an impetus for Chechen secessionism.

The increasing dominance of the security services in the formulation of Russian policy has furthermore undermined the fragile balance in Russia's North Caucasus. Moscow's policy of 'Chechenization' of the conflict in Chechnya has failed to solve that problem. Meanwhile, increasing centralization, repression and mismanagement in the other republics is triggering the destabilization of the entire North Caucasus. A deadly mix of poverty, unemployment, corruption, organized crime and Islamic radicalism is brewing there, with the Russian government seemingly unable to stop the slipping of the region into anarchy. Today, more military operations take place outside Chechnya than in the war-torn republic itself. This forms a threat to the South Caucasus and beyond: given the proximity of the North Caucasus to Europe, the slipping into anarchy of the region is all the more worrisome as Europe has almost no ability to influence the situation.

In spite of the many problems of the region, encouraging signs are also present, particularly in the South Caucasus. These include the launching of

the Baku-Tbilisi-Ceyhan pipeline, economic recovery and growth in all three states, and increasing headway toward political and economic reform.

Formulating an EU strategy to deal effectively with opportunities and challenges in the Caucasus will be no easy task, given the number of EU agencies and member states involved. Nevertheless, this report concludes with nine recommendations for the EU in its policies toward the region.

1. First, the EU should conceptualize the Caucasus in the framework of a greater Black Sea Region. Aside from making sense given the EU's southeastern expansion, it would give the Caucasus a natural place in the EU's emerging southeastern dimension, and a role more specific than that provided by the Neighborhood Policy.
2. Second, in its approach to governance and democracy in the region, the EU should adopt a long-term approach focusing on state-building rather than simply on elections. This should build on and learn from the EU's experience in Romania, the more recent EU Rule of Law mission to Georgia, and focus on the strengthening of functioning and accountable core state institutions which will in turn provide the framework for democracy to grow.
3. Third, the EU should incorporate the Caucasus in its dialogue with Russia. The EU can make use of its functioning relations to Russia to seek to influence Russian policies in the Caucasus, in a non-confrontational yet determined manner.
4. Fourth, the EU should take advantage of the beginning of negotiations on Turkish membership to re-engage Turkey in the South Caucasus, making use of Turkey's activity and role in the region for a coordinated European approach.
5. Fifth, building on a realization of the near-identical interests that Europe and America share in the Caucasus, the EU should develop a close partnership with the United States, and both powers should coordinate their policies toward the region, taking advantage of complementary strengths and roles in the region.
6. Sixth, and related to the two previous points, the EU should support NATO's role in the Caucasus, which is crucial in advancing security in the region. As happened in southeastern Europe previously,

coordination of NATO and EU policies in the region and toward the states of the South Caucasus would accelerate the pace of reform.

7. Seventh, the EU should take on a more active role in the unresolved conflicts of the South Caucasus and in peacekeeping. While recognizing that present structures remain locked in the reality of the early 1990s, the task will be to involve without replicating or duplicating the role of other international organizations. In particular, the EU should take on a role in the South Ossetia conflict, where no international negotiation format exists. The current EU involvement in Transdniestria could partially serve as an example of a format of cooperation with Russia and other interested parties over negotiations and peacekeeping. Likewise, in the Armenian-Azerbaijani conflict, the EU should push for an amendment of the Minsk Group format to pave the way for a EU co-chair position replacing France's. In parallel, this new format should also raise the political level of discussions by appointing, aside from the diplomats serving as co-chairs, a senior political figure interacting between the negotiating team and the highest levels of government, in order to ensure high-level political attention to the conflict.
8. Eighth, the EU should take the opportunity created by the completion of the BTC and SCP pipelines to extend the European energy transportation infrastructure across the Caspian Sea, to provide a direct channel for East Caspian producers to market their energy to Europe. Given Chinese and Indian demand, the EU will have to invest politically in order to ensure this oil and gas flows to Europe.
9. Finally, the EU should Revitalize the visionary TRACECA program, launched in the mid-1990s to create a transport corridor linking Europe and Asia over the Caucasus. The conditions at present are much more opportune than a decade ago, and could revolutionize continental trade, recreating the ancient Silk Road. In so doing, the EU should broaden TRACECA to include Turkey; ensure it coordinates with energy infrastructure; and include Afghanistan as to link with South Asia and not only with China.

## European Interests in the Caucasus

In spite of past neglect, Europe is gradually beginning to realize the existence of important interests in the Caucasus. This process is taking place in a less than coordinated way, yet the emergence of clear European policy priorities in the fields of governance, energy and trade, and security in the region are increasingly clear.

### **The Development of European Policies**

For the first ten years after the collapse of the Soviet Union, the Caucasus did not take an important place in Europe's perceived interests. During the conflicts in the South Caucasus in the early 1990s, European states and the EU as a whole remained weary of involvement, the exception being the consecutive role of Italy, Sweden, and Finland in the OSCE Minsk Group on the Armenian-Azerbaijani conflict. As far as the North Caucasus was concerned, European involvement was severely limited by the Russian government's efforts to prevent any external involvement, whether humanitarian or of a political nature. European states nevertheless gradually did become important donor countries to the South Caucasus in terms of development cooperation, primarily assisting Georgia and Armenia; the EU launched its visionary project of the TRACECA (TRANsport Corridor Europe Caucasus Asia), which nevertheless was allowed to slip into oblivion; France assumed co-chairmanship of the OSCE Minsk Group in 1997; and British corporate interests in Azerbaijan's energy sector made London aware of the region. That said, Europe's approach remained cautious and tentative.

Europe was hampered by much more urgent and nearby crises, primarily the Balkan wars, and by the absence of a common European Foreign and Security Policy. Indeed, the Balkan experience showed the difficulties for European states to act rapidly and in unison to manage serious crises in its own neighborhood. Yet at the bottom, Europe did not feel that it had

important interests at stake in the Caucasus, and therefore remained largely aloof from the region. That said, some projects with regional importance developed, chief among which was the INOGATE project – Interstate Oil and Gas Transport to Europe – which was launched in the mid-1990s and worked for the integration of oil and gas pipeline routes to Europe to increase the security of supply.

By the dawn of the twenty-first century, Europe itself had changed, with an ambition to act more cohesively in the external arena. Moreover, the need for a more visible presence in the Caucasus had come to be recognized.<sup>1</sup> The Chechen war was raging, European corporate interests had interests in the Caspian energy resources, and European focus on democratization and good governance in its neighborhood was increasingly emphasized in the South Caucasus. Georgia joined the Council of Europe in 1999, and Armenia and Azerbaijan followed suit in 2001. Add to that the military operations in Afghanistan in late 2001, in which many European states participated, which increased European as well as American perceptions of the strategic value of the Caucasus corridor to Central Asia. During the 2001 Swedish Presidency of the EU, the EU troika led by Anna Lindh made its first ever visit to the three countries of the South Caucasus. From oblivion, the Caucasus was slowly becoming an ‘issue’ in Europe. Successive EU presidencies groped for a way to deal with the conflict-ridden and elusive region, yet never managed to accord the Caucasus a priority position in their six months of fame. It became clear that unlike other areas, the Caucasus did not have important member state ‘sponsors’, who could bring the region up to a prominent position on the EU agenda. Moreover, the three states of the South Caucasus had differing agendas as concerned Euro-Atlantic integration. Georgia was the most vocal and ambitious, desiring both NATO and EU membership; Azerbaijan has been more discrete but equally committed; while Armenia has been forced to deal with its dependence on Russia, yet in the past several years accelerated its interaction with NATO and the EU very substantially.

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<sup>1</sup> See Dov Lynch, “The EU: Toward A Strategy”, in Lynch, ed., *The South Caucasus: A Challenge for the EU*, Chaillot Paper no. 65, EU Institute for Security Studies, December 2003, for the perhaps most eloquent description of the evolution of EU thinking on the Caucasus.

The states have gradually come to adopt similar views and policies, in spite of Georgia seeking to march ahead at a faster pace, whose candidature to membership in NATO is no longer a distant dream but an actual possibility.

In Spring 2003, when the EU launched its ‘Neighborhood Policy’, the states of the South Caucasus were left out, reduced literally to a footnote in the document. This was the case in spite of the inclusion of countries like Libya and Syria in the ENP – who unlike the states of the South Caucasus were not members of Euro-Atlantic Institutions such as the Council of Europe or NATO’s Partnership for Peace, and whose foreign policies had much less of a European vocation. This decision caused consternation in the region, and came rapidly to be understood as a mistake even in Brussels.

A series of circumstances since then contributed to make the Caucasus distinctly more present in European thinking, making the EU revise its decision and incorporate the South Caucasus into the ENP in Spring 2004. Between these dates, in July 2003, the EU appointed a EU Special Representative to the South Caucasus, Finnish Ambassador Heikki Talvitie. Talvitie was based in Helsinki and not in Brussels, financed by Finnish funds, and had a relatively circumspect mandate. This solution showed the evolution of European intent, but betrayed the lack of institutional readiness on the part of the EU to seriously take a role in the region.

Next, the most important single event was the ‘Rose Revolution’ in Georgia, which increased the Caucasus’ prominence in the European debate, just as the EU was getting ready to include a number of post-socialist countries in Central and Eastern Europe. This brought the states of the South Caucasus publicity but also what it had lacked until then – a



constituency of EU members with an interest and understanding for the region.

Following the revolution, Georgia indeed underwent highly significant reform. The new government embarked on a full-ranging reform of the state apparatus, coupled with an impressive anti-corruption program. Indeed, within less than two years, Georgia turned from a failing state into an increasingly functioning democracy. Whereas some authoritarian tendencies and corruption have lingered in the country, the changes in Georgia have been notable, leading rapidly to a tripling of the state budget and to a far-reaching cleanup of the police and interior ministry, the restoration of state control over Ajaria, and a series of other reforms, including successes in the fight against rampant organized crime.

While Georgia became the new poster-child of political development in the region, the South Caucasus as a whole has seen impressive economic growth and reform that further increased European interest. Indeed, the three states of the South Caucasus were all part of the top ten economies in the world in terms of projected GDP growth for 2006. While this poses challenges, especially for Azerbaijan to manage the inflow of cash without overheating the economy, it is a substantial change from the free fall of the mid-1990s. The seriousness of economic reforms in both Armenia and Azerbaijan, with the creation of the state oil fund in the latter, also contributed to making the regional states credible economic and trade partners in spite of enduring problems with bureaucracy and corruption.

The Caucasus was no longer only a cause of troubles, but also a source of potential. The subsequent 2004 Orange revolution in Ukraine further emphasized the changes and challenges in the wider Black Sea region, to which the Caucasus is a part. Finally, in 2005, the launching of the Baku-Tbilisi-Ceyhan pipeline occurred at a time of increasing concern in Europe regarding Russia's reliability as an energy supplier, following the increasingly blatant Russian use of energy as a political lever against Ukraine, Moldova and Georgia.

All these factors contributed to increasing European awareness of the Caucasus region. When Swedish diplomat Peter Semneby was appointed to



succeed Heikki Talvitie in 2006, he took up an office in Brussels and his mandate was expanded to enable a more active EU role in the Caucasus.

If European interest in the Caucasus has been growing, how are then Europe's interests in the Caucasus defined? They can be divided into three inter-related sets of issues. A first is governance, democracy and human rights; a second is energy and trade; and the third is security. As will be discussed below, these three sets of interests are often seen as contradictory; yet this neither has to be or is the case.

### **Sovereignty, Governance and Democracy**

An important European interest is to support the building in the South Caucasus of sovereign states based on the rule of law with strengthening democratic institutions. Likewise, as far as the North Caucasus is concerned, it is in Europe's interest that Russian rule over this region take a participatory form. Sovereignty, good governance and democratization are important to Europe both in principal terms, and as an instrument to economic development, free markets, and long-term political and social stability. The case for this argument is uncontroversial: it is accepted that authoritarian forms of government, plagued by corruption and mismanagement, yield neither long-term political stability nor economic development. Yet it is also equally obvious that expecting the states of the South Caucasus to develop into full-fledged democracies overnight would be illusory.

It is important here to recall that the scholarly literature on democratization has come to substantially revise the previously dominant 'transition paradigm', which strongly influenced western policies toward countries 'in transition' in the 1990s. The basic assumption was that "any country moving away from dictatorial rule can be considered a country in transition toward democracy".<sup>2</sup> This proved right in Central and Eastern Europe, the areas most closely linked to western Europe, where European support was strongest, and where the carrot of NATO and EU membership was

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<sup>2</sup> Thomas Carothers, "The End of the Transition Paradigm", *Journal of Democracy*, vol. 13 no. 1, 2002, p. 8.

consistently present. But it has not proven right elsewhere, as other form of semi-authoritarianism in many localities have come to replace the socialist state systems. Aside from its determinism, as Thomas Carothers notes, the transition paradigm also erred in over-emphasizing elections as the motor of democracy promotion, and in failing to “give significant attention to the challenge of a society trying to democratize while it is grappling with the reality of building a state from scratch or coping with an existent but largely nonfunctional state.”<sup>3</sup> Western approaches in the 1990s that neglected state-building and favored the building of electoral democracy and civil society have demonstrably failed to produce the desired results. As far as the Caucasus is concerned, for example, one scholar noted that “the resources allocated by the EU in the South Caucasus –over a billion euros for the period 1991-2000 – have not produced the desired results”<sup>4</sup> , leading to an increasing consensus, or a “new conventional wisdom”, that the building of functioning, sovereign states – what Fukuyama calls ‘stateness’ – is a prerequisite for the development of representative and participatory institutions.<sup>5</sup> This point is best presented in Fukuyama’s recent book *State-Building*.<sup>6</sup> Fareed Zakaria takes the argument one step further, arguing that the premature imposition of electoral democracy on a country can do more harm than good, especially when it ignores the development of what he terms “constitutional liberty”, implying the rule of law and basic state institutions. In such conditions, electoral democracy can lead to the

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<sup>3</sup> Carothers, pp. 8-9.

<sup>4</sup> Bruno Coppieters, “An EU Special Representative to A New Periphery”, in Dov Lynch, ed., *The South Caucasus: A Challenge for the EU*, Chaillot Paper no. 65, EU Institute for Security Studies, December 2003.

<sup>5</sup> “The development-policy community thus finds itself in an ironic position. The post-Cold War era began under the intellectual dominance of economists, who pushed strongly for liberalization and a minimal state. Ten years later, many economists have concluded that some of the most important variables affecting development are not economic but institutional and political in nature. There was an entire missing dimension of stateness—that of state-building—and hence of development studies that had been ignored amid all the talk about state scope. Many economists found themselves blowing the dust off half-century-old books on public administration, or else reinventing the wheel with regard to anticorruption strategies.” Francis Fukuyama, “The Imperative of State-Building”, *Journal of Democracy*, vol. 15 no. 2, 2004, 17-31.

<sup>6</sup> Francis Fukuyama, *State-Building: Governance and World Order in the Twenty-First Century*, Ithaca: Cornell University Press, 2004.

development of *illiberal* rather than liberal democracy, or to popular authoritarianism or even fascism. Hence elected rulers, if not subjected to strong constitutional limitations on their power, are vulnerable to populist pressures, and often end up ignoring legal limits and even depriving their citizens of rights, ruling by decree and doing little to develop civil liberties.<sup>7</sup> Russia and Venezuela, and their development since Zakaria's book was written, are excellent examples. Zakaria instead argues that the best examples of emerging liberal democracies are those where a strong constitutional liberal infrastructure developed, sometimes under liberal authoritarian regimes.<sup>8</sup> Chile, Singapore, and South Korea are examples, and Turkey could be added as an earlier case, following Atatürk's reforms in the 1920s.

It is in this broader context that the present paper emphasizes the interrelationship between the three concepts of sovereignty, governance and democracy. This is nowhere more relevant than in the Caucasus, one of the most striking characteristics of which has been the failure to build sovereignty, starting at its very basis: state control over its territory. This is true both for the South Caucasus, with the breakaway regions of Karabakh, South Ossetia and Abkhazia; and for the Russian North Caucasus, most prominently but not exclusively Chechnya.

*Sovereignty*, the control by the state of its recognized territory and its ability to exercise authority over it, is the precondition for a functioning political system that can provide law and order as well as a regulatory framework, and enable the political participation of its citizens and guarantee their rights. *Governance* is the second element of this equation. Although western observers frequently view the states of the region as authoritarian or semi-authoritarian, they are in fact under-governed. As in Central Asia, the

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<sup>7</sup> In his original article "The Rise of Illiberal Democracy", published in *Foreign Affairs*, November 1997, Zakaria argued the case as follows: "Democratically elected regimes, often ones that have been re-elected or reaffirmed through referenda, are routinely ignoring constitutional limits on their power and depriving their citizens of basic rights and freedoms. From Peru to the Palestinian Authority, from Sierra Leone to Slovakia, from Pakistan to the Philippines, we see the rise of a disturbing phenomenon in international life -- illiberal democracy".

<sup>8</sup> Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad*, New York: W.W. Norton, 2003.

powers of the presidents may be large on paper in each state, but in fact the ability of the leadership of any state to govern their country effectively is severely limited by a lack of resources and trained officials, as well as the persistence of strong regionally- and kinship-based networks that wield real power outside the capitals, thwarting central governmental authority from expanding. Bad governance or the actual lack of governance precludes the building of ties of loyalty between state and society, increase the risk of social conflict and prevent the resolution of existing conflicts, and makes true democracy impossible. Finally, the building of *democracy* – free elections, but also equally importantly the rule of law, participatory government, and the respect for human rights – is a course that Europe seeks to promote and that the local states have all committed to follow in various international agreements, most obviously through their membership in the Council of Europe. Yet the same reasons that prevent the building of sovereignty and good governance – armed conflict, and the strength of entrenched and non-transparent informal networks – also thwart the aspirations of the people of the Caucasus to live in safety, protected by law, and able to participate in political processes and select their own leaders. Even in Georgia, the democratic government coming to power following the Rose Revolution realized that it needed to strengthen and not weaken the functioning of the state in order to be able to reform the country and pull the country up from the predicament it was in. These measures attracted substantial western criticism, but need to be understood from the perspective of governments with weak resources seeking to tackle a daunting array of problems.

It is clear that the failure to build sovereignty in the Caucasus is directly related with the failure of governments to provide good governance and with the weakness of their democratic credentials. It is hence in Europe's long-term interest to work in tandem for the building of sovereignty, governance and democratic government in the Caucasus. Failing to achieve this will ensure the continuation of instability, conflict, and poverty. It will also in turn contribute to the proliferation of radical ideologies, whether based on nationalism or religion or a combination of both, as well as organized crime in the region. As the EU follows NATO in expanding eastward to the Black Sea, this would directly impact Europe, as it to some extent already does. This makes the strengthening or restoration of sovereignty; the promotion of

a constitutional liberal infrastructure through state-building and the rule of law; and the consolidation and development of democratic institutions a central long-term European interest.

### **Energy and Trade**

The Caucasus holds importance to Europe also in economic terms. This involves primary European import of energy resources, but also in terms of the wider project of building an East-West transportation corridor. This corridor is most widely associated with oil and gas pipelines, but carries much larger significance. The Caucasus has for the past decade been viewed as a major opportunity to create a transit route connecting Europe to Central Asia, China and India via the Black Sea, Georgia, Azerbaijan and the Caspian Sea. While presently limited, the potential for continental trade to develop across this route is enormous. Georgia and Azerbaijan are the key bridge countries in this regard, on which the East-West corridor depends. The building of a railroad connecting Kars in Turkey to Akhalkalaki in Georgia, and the rehabilitation of the Akhalkalaki-Tbilisi rail line, will connect Istanbul to the Caspian sea by rail. Together with the building of rail lines linking Kazakhstan to China, this creates a rail connection from Istanbul to China, making it possible to ship goods fast and relatively inexpensively across Asia.<sup>9</sup> The importance of this transportation corridor was implicitly recognized by the European Union's TRACECA program in the mid-1990s. Unfortunately, the EU did not follow up this initiative properly; yet the economic growth and relative stability of the Caucasus and Central Asia in the past several years have provided renewed hope for the development of this transport corridor.

More obvious has been the development of a Caucasian energy corridor. In the late 1990s, the pipeline politics in Eurasia made it much less than obvious that the Baku-Tbilisi-Ceyhan pipeline would be built. Nevertheless, due to the consistent commitment by American, British, Turkish, Georgian and Azerbaijani governments, the increase of oil prices, and the support of the major oil companies as well as international financial institutions, the

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<sup>9</sup> Taleh Ziyadov, "The Kars-Akhalkalaki Railroad: A Missing Link Between Europe and Asia", *Central Asia-Caucasus Analyst*, 19 April 2006, 5-6.

pipeline was eventually approved, financed and constructed. This signified a major victory for the western-sponsored concept of Multiple Pipelines, serving to deny any one state a monopoly over Caspian energy exports. It should be noted that this policy never sought to exclude Russia: quite to the contrary, one of the three pipeline projects sponsored by the West was the Caspian Pipeline Consortium, which linked the Kazakhstani city of Tengiz with Russia's Black Sea Port of Novorossiysk. The third, the only one that has yet to be realized, was the Trans-Caspian gas pipeline linking Turkmenistan to Europe over the Caucasus. The construction of the BTC pipeline was a milestone in the region's development and specifically in connecting it, both factually and psychologically, with Europe's economy and security.<sup>10</sup> In an environment of increasing demand for energy with decreasing growth in oil production, the BTC pipeline brings much-needed energy resources to Europe at a critical time. Just as Europe is waking up to the risks involved in its energy dependence on Russia, this makes the Caucasus increasingly important to global economic and energy security, and specifically crucial for Europe.

BTC has been followed by the construction of the South Caucasus Gas Pipeline (SCP) linking the Shah-Deniz gas fields in the Caspian with the Turkish energy system. This pipeline increases the importance of the South Caucasus, and thereby Georgia, in regional energy security by making it a conduit not only of oil but also of gas toward European markets.

Finally, the completion of the BTC pipeline and the finalization of the SCP pipeline changes the realities of the transportation systems of the region. If a few years ago, connecting Central Asian energy resources with Europe seemed utopian, the completion of BTC and SCP makes this prospect utterly realistic. Energy transportation networks that link to Europe are now available on the West coast of the Caspian, implying that they become a real option for East Caspian producers, including Kazakhstan's oil and Turkmenistan's natural gas. Indeed, Kazakhstan has already committed to exporting oil through an expanded BTC pipeline; while Turkmenistan has

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<sup>10</sup> S. Frederick Starr and Svante E. Cornell, eds., *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, Washington and Uppsala: CACI&SRSP Joint Center, 2005.

shown a renewed interest in gas export opportunities that are not controlled by Russia. While the shipment of Turkmen gas would only be possible through a Trans-Caspian pipeline, the shipment of Kazakh oil can and is taking place more incrementally, initially through barges across the Caspian, to be supplanted by a pipeline if quantities become large enough.

Since the inauguration of the BTC pipeline, the discussion on Trans-Caspian pipelines has been reinvigorated. The emerging European debate on energy security and a possible energy strategy are occurring as Kazakhstan faces the decision over the export of its giant Kashagan field. As already recognized in some quarters, Europe's long-term energy security would be well-served by the building of Trans-Caspian pipelines providing Central Asian resources to Europe through the South Caucasus. This, in turn, further increases the importance of the South Caucasus in energy security matters: the region becomes not only a producer region but potentially also a transit region for westward-bound energy.

### **Security**

Soon after the smoke cleared over the Pentagon and World Trade Centre, it became clear that the United States and its primarily European allies in NATO – most of which are also EU members – would pursue military action in Afghanistan. That action substantially altered the importance of the southern regions of the former Soviet Union. The South Caucasus and Central Asia appeared indispensable for military operations and the provision of peacekeeping in the heart of Asia. The former Central Asian republics, in particular Uzbekistan, became crucial for the basing of troops, for intelligence and for humanitarian cooperation, as illustrated by military bases being set up in Uzbekistan and Kyrgyzstan. The South Caucasus states were equally vital for logistical reasons. Transporting troops and heavy materiel from Europe to Central Asia posed additional challenges, as coalition forces faced a virtual 'Caspian bottleneck.' Given the impossibility of transiting Iranian airspace and complications in using Russian airspace,<sup>11</sup>

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<sup>11</sup> Russia opened its airspace for humanitarian and logistical flights, but refusing to grant the use of Russian airspace to U.S. and coalition combat aircraft. Adam Albion,

the South Caucasian states – most notably Georgia and Azerbaijan – were the only realistic route to Central Asian bases and Afghanistan.

This development has only been reinforced by the subsequent developments, including the 2003 war in Iraq and the brewing confrontation between the West and Iran. If the South Caucasus was a transit route with regard to Afghanistan, the pre-eminence of issues relating to Iraq and Iran in international politics puts the Caucasus center-stage in the most critical security issues of the day. It is also important to note that the states of the South Caucasus are not merely weak recipients of security. By their role in the global anti-terror coalition, their readiness to provide access to Central Asia to NATO, and their participation in peacekeeping missions, these countries are positive contributors to regional security. Azerbaijan and Georgia have been particularly avid contributors to peacekeeping, sending soldiers to the Balkans, Afghanistan, and Iraq, where Georgia has 850 troops. In spite of a slower start, Armenia is also an increasing contributor to peacekeeping missions

In this sense, Europe and America share similar interests in the security of the Caucasus. But Europe is especially concerned of the region's stability given the increasing proximity of the EU to the Caucasus. With the inclusion of Romania and Bulgaria into the EU, the EU will become a Black Sea power, hence sharing a sea border with both the North and South Caucasus. Turkish EU membership would make the EU a direct neighbor of the region. Security in the South Caucasus is hence an increasingly important element to European security more broadly. Indeed, the EU has a positive interest in a stable Caucasus as part of the European neighborhood that provides access to the Caspian sea and beyond, including its energy resources; but also an interest in managing and helping to resolve the many security issues in the Caucasus, because of the adverse effects that crises in the Caucasus could have for Europe itself. Immediate adverse effects would include the humanitarian crises and migration flows that would result from re-emerging warfare in the South Caucasus; more long-term concerns include

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“U.S. Men and Materiel Reportedly Land in Uzbekistan”, *RFE/RL Central Asia Report*, vol. 1 no. 10, 28 September 2001.



the growth of Islamic radicalism and organized crime in the entire Caucasus should the situation fail to stabilize.

### **Balancing the Three Sets of Interests**

In sum, Europe has three inter-linked sets of interests in the Caucasus region. These are often understood as mutually conflicting or contradictory. Western interest in the region for the sake of energy or security is routinely portrayed as conflicting with the ambition to build democracy in these states. Yet this neither needs to be, nor is it the case. The argument that interests in security and energy harm democratization stems fundamentally from a view of the governments of the region as monolithic and authoritarian. It is the same view that has made European and American policies focus on bringing about change through support for NGOs outside the government, rather than with government offices themselves. Working with governments and assisting governments is understood as strengthening authoritarian rule; by the same token, western interest in energy or security cooperation would provide the said governments with instruments to withstand reform and sustain authoritarian rule. Yet in practice, understanding governments in the Caucasus or Central Asia as monolithic is a flawed perspective. In all governments of the region, forces favoring reform coexist with forces favoring authoritarian rule, and often deeply involved in corruption. Aware of the western emphasis on democracy promotion, the latter forces are typically opponents of a western orientation and of Euro-Atlantic integration. They instead favor a closer relationship with Russia, which pays little or no attention to the domestic characteristic of a government. On the other hand, advocates of reform are typically pro-western, seeing in western institutions the tools, assistance, and guidance for meaningful reform. In this situation, ignoring or shunning away from state institutions undermines the very progressive forces that are the best hope for democratic reform, and strengthens the hand of the autocratic forces that western policies are designed to counter. Isolation, exclusion and finger-pointing, which some forces in Europe advocate as policy toward countries perceived not to hold elections complying fully with international standards, are the safest ways to ensure the victory of the authoritarian-minded forces in all regional countries. Moreover, the moral integrity of such argument is severely

challenged by the fact that they mostly target smaller countries, ignoring much worse practices in more powerful countries.<sup>12</sup>

It is instead engagement and the development of broad-based relations in multiple fields that provide the best course of action for the long-term strengthening of sovereignty, governance, and democracy. The development of relations in the energy and security sectors can hence have an important and positive effect on internal reform in the states of the Caucasus. In particular, the role of NATO in the democratic reform of armed forces is an example of the positive role of security cooperation. Clearly, interests in security or energy should not be allowed to stifle the agenda of democratic and institutional reform in the region;. But neither should excessive demands for these countries to overnight achieve a level of democracy comparable to leading EU members be allowed to suppress legitimate security and energy interests, or for that matter the development of trade relations. Therefore, it is in the EU's interest to advance these three sets, or 'baskets', of issues in parallel, not allowing one to take precedence over the other. Only by the parallel promotion of its interests in the governance, energy and security sectors can the EU succeed in striking a balance among them and contribute to its own security and development, as well as to that of the countries of the Caucasus.

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<sup>12</sup> Hence arguments that the Council of Europe should suspend Azerbaijan from its Parliamentary Assembly due to less than perfect parliamentary elections rings, or otherwise scale back cooperation, were voiced in 2005-2006 among other by the International Crisis Group. Against the background of the absence of similar demands targeting Russia, in spite of the massive human rights violations in Chechnya, the logic behind these arguments is difficult to comprehend.

## Challenges to a Peaceful and Prosperous Caucasus

For the past two decades, the primary characteristic of the Caucasus region has been the succession of armed conflicts that plagued the region since the transition from Communism. Unlike the Balkans, none of the conflicts in the Caucasus have found a solution, and hence the state of conflict has come to be a major determinant of the political and economic realities of the region. The strikingly similar conflicts have impeded the development of stable, prosperous societies in both the North and South Caucasus, and have ensured the persistence of an acute security deficit in the entire region. This security deficit has stifled the task of constructing viable and strong sovereignty in the region, and been at the core of most of the region's problems. This includes widespread economic dislocations and poverty, corruption, and the resilience of authoritarian structures, networks, and ideologies in both state and society. The strength of ethnic nationalism, the surge in radical Islam, the influence of opaque regional and kinship-based networks, the slow pace of democratization, and the salience of organized crime can all be subsumed under this heading. In addition, the conflicts have contributed to making the region internally weak and divided, and hence increased its vulnerability to external actors, including regional powers as well as non-state actors.

### **Armed Conflicts in the Caucasus**

The Caucasus has for the past decade and a half been plagued by the persistence of three unresolved ethno-territorial conflicts in the South Caucasus and of one spreading major war turned into a spreading low-intensity conflict in the North Caucasus. The main conflict in the South Caucasus has been the Armenian-Azerbaijani conflict over Mountainous Karabakh, which erupted in 1988 and was suspended by a cease-fire in 1994, which led to the Armenian occupation of close to 17 percent of Azerbaijani territory, including Mountainous Karabakh itself as well as seven adjoining

formerly Azeri-populated provinces. Georgia experienced two armed conflicts, with the secessionist provinces of South Ossetia and Abkhazia. The South Ossetian conflict emerged in 1989, but erupted into war in 1991-92, leading to a cease-fire in July 1992 that left slightly over half of the territory of South Ossetia controlled by Russian-supported separatist forces and the remainder under Georgian control. The war in Abkhazia broke out immediately after the conclusion of the cease-fire in South Ossetia, with the Russian-supported Abkhaz separatist forces eventually gaining control over the near-entirety of Abkhazia's territory in Fall 1993. The defeat in the latter conflict led to a near state collapse in Georgia, with a civil war between rivaling Georgian military groupings. In the North Caucasus, a short war between North Ossetia and Ingushetia erupted in mid-1992, partly as a result of an exodus of Ossetians from Georgia to an already troubled ethnic situation in parts of North Ossetia. Yet the major conflict in the North Caucasus has been the one in Chechnya, resulting from the Chechen declaration of independence in late 1991. Chechnya went through two periods of "no war, no peace", between 1991 and late 1994, and again between August 1996 and September 1999; as well as two wars. The first war, raging between late 1994 and August 1996, was mainly waged on national grounds, and led to the withdrawal of Russian forces from Chechnya. Nevertheless, Russian *revanchism* and Chechnya's inability to build a functioning polity led to the second Chechen war, from September 1999 until the present. This war has had a much more prominent religious character. While major military operations have been concluded and urban parts of Chechnya somewhat normalized, the war is far from over; instead, it has morphed into a low-intensity conflict spreading across the entire North Caucasus involving substantial terrorist elements.<sup>13</sup>

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<sup>13</sup> The conflicts in the Caucasus are covered in Svante E. Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, Richmond: Curzon Press, 2001. On Karabakh, see Thomas de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, New York: New York University Press, 2003; and Michael P. Croissant, *The Armenian-Azerbaijani Conflict: Causes and Implications*, New York: Praeger, 1998. On Chechnya, consult specifically Carlotta Gall and Thomas de Waal, *Chechnya: A Small Victorious War*, Basingstoke, 1998; Svante E. Cornell, "The War against Terrorism and the Conflict in Chechnya: A Case for Distinction", in *Fletcher Forum of World Affairs*, vol. 27 no. 2, Fall 2003.

*Similarities and Dissimilarities*

While the conflicts in Karabakh, Chechnya, South Ossetia and Abkhazia are unique and different, they share many similarities. First, they were all territorial conflicts resulting from the rebellion of a titular nation of an autonomous region in the Soviet ethno-federal structure, seeking to alter or enhance its status within that structure on the basis of ethnic nationalism. Only the Chechen war has to some extent changed character, adopting a more transnational, religious character. Second, the size differential between the minority population and the state was huge in all four cases: it was small minorities consisting of less than two percent of the population that revolted.<sup>14</sup> Third, the three conflicts of the South Caucasus are remarkable for the crucial role of external political and military support for the rebellious movements – Armenian support for Karabakh and Russian support for Abkhaz and Ossetian separatists. In Chechnya, on the other hand, little support manifested in the first war, while international non-state Islamic actors played a substantial role in the second. Fourth, the conflicts shared a similar outcome: the victory of small, externally supported minority groups and their achievement of a de facto independence with strong ties to external patrons that facilitated the victory in the first place. Again, Chechnya differed – it gained victory in 1996 but had no external sponsor, and succumbed to renewed warfare as Russia invaded again in 1999. The outcome of war resulted in massive humanitarian crises, involving up to 2,5 million displaced people – 10 percent of the population of the Caucasus. Fifth, peaceful negotiations have failed to resolve even a single conflict. The South Caucasus conflicts remain frozen along cease-fire lines, while a low-intensity conflict with increasingly strong Islamic elements is pervasive in the North. Seventh, the conflicts all saw systematic gender violence. Particularly in the Armenian-Azerbaijani and Abkhazian conflict, rape was used as a tool of war in ethnic cleansing; and ethnic hostility affected women to a greater extent than men. Finally, the conflicts have had a devastating effect on the economic and political development of the states involved. In all three states,

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<sup>14</sup> The titular population of the minority regions in question ranged from 0,6% of the state's population (Chechnya) to 1,4% (South Ossetia), 1.8% (Mountainous Karabakh) and 2% (Abkhazia).

the conflicts contributed to weakening or reversing democratic movements and reform, instead increasing the authoritarian character of government in the name of stability. Likewise, by cutting important trade links, the conflicts led to the worsening of the economic disruption that the collapse of the Soviet Union had implied. Indeed, by the mid-1990s, the three Caucasian states had seen an economic collapse compared to their 1990 levels that was only paralleled by equally war-plagued Tajikistan among former Soviet republics.

### *Prospects and International Efforts*

Efforts to resolve the conflicts in the South Caucasus have been half-hearted at best. All three conflict resolution processes in the South Caucasus remain deeply flawed, providing a disproportionate role for Russia, in spite of its active role as a party in several of the conflicts. International efforts at conflict resolution, sponsored mainly by the OSCE and the UN, have so far brought little result.<sup>15</sup> These mechanisms all suffer from a common defect: created in the early 1990s, they continue to reflect the geopolitical realities of the time, although the situation in the region has undergone significant change. Hence Russia still dominates peacekeeping and negotiations in the South Ossetian and Abkhazian conflicts, and has a leading role as permanent co-chair in the OSCE Minsk Group tasked to resolve the Nagorno-Karabakh conflict. This in spite of the gradual integration of the three countries with Euro-Atlantic institutions and, in the case of the Abkhazian and South Ossetian conflicts, the explicit objection of the Georgian government to Russian dominance of these processes and Georgia's attempts to internationalize both peace processes and peacekeeping.

**Karabakh.** The international role is most prominent in the Armenian-Azerbaijani conflict, where the OSCE's Minsk Group is tasked with conflict resolution. Since 1994, Russia has a position of permanent co-chair of the Minsk Group, with other OSCE countries rotating in the other co-chairman position; since 1997, the U.S. took on a position as a third and permanent co-

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<sup>15</sup> Istvan Szönyi, "The False Promise of an Institution: Can Cooperation between OSCE and NATO be a Cure?", *Center for International Security and Arms Control*, January 1997.

chair, whereas France, appointed to the rotating co-chair position in the same year, has stayed in the position, creating a situation with three effective permanent co-chair positions. France has opposed suggestions that its co-chairmanship be turned into an EU co-chairmanship. Cooperation among the co-chairs has often been severely complicated, and the trust of the conflict parties to the process is bleak. The Minsk Group advanced proposals in 1997 and 1998 that were rejected by one of the parties, and facilitated high-level negotiations in 2001 and 2006 over the conflict in Key West, Florida, and Rambouillet, France, respectively. Yet these negotiations failed to produce any result in spite of strong optimism on the part of Minsk Group representatives at the time. Prospects of a solution have hinged on a deal over the status of Karabakh, yet parties have failed to come to an agreement on the eventual status of Karabakh and how it is to be determined. The 2006 talks discussed a referendum to be held, perhaps 10-15 years into the future, to determine Karabakh's status. The negotiation process has been plagued by the intransigence of the parties, the influence of external powers, and the inadequacies of the Minsk Group format have exacerbated the situation. Minsk Group proposals in 1997 and 1998 reflected a poor analysis of the logic of the conflict and thinking in the two governments; while excessive publicly stated optimism in 2001 and 2006 seemed to have little relation to the mood in Baku and Yerevan at the time.

Efforts in 2006 to arrive at a solution have brought greater hopes than previous attempts, and indeed both parties seemed closer to an agreement than previously. However, both seemingly doubt the urgency in reaching a negotiated solution. Armenian leaders believe that the prolonged status quo will lead to acceptance of Karabakh's status as separate from Azerbaijan; while Azerbaijani leaders are convinced that the substantial and rapidly growing economic imbalance between the countries will improve their negotiating position. Both may be right, and hence both may be wrong. However, Azerbaijan's oil-driven economic growth will enable it in 2007 to increase its military budget to \$1 billion, the size of Armenia's national budget. With yearly GDP growth of over 25 percent in 2005 and 2006, Azerbaijan's position is indeed visibly improved. This takes place at a time when Azerbaijani officials perceive themselves in a 'Camp David syndrome', seeing themselves as offering Armenia compromises that would be extremely

hard to sell domestically, but meeting little will to compromise from Yerevan. The Rambouillet talks in particular generated doubt in Baku, and other capitals, regarding Armenia's commitment to a negotiated solution through compromise. Yet Azerbaijan's increasing self-confidence also has risked leading to over-confidence, provoking changes in its negotiating position that hamper the chances of success. It is clear that the public and elite mood in Azerbaijan is increasingly strongly tilting in favor of a military solution, while the Armenian leadership seems less than alarmed about such a prospect.

The Armenian-Azerbaijani conflict, in sum, is in the condition of an unsustainable status quo. With every year passing without a solution, the risk of a renewed armed conflict is increasing. The international community and its efforts to resolve the conflict seem unwilling or unable to adapt to this reality. If the 2006 talks do not lead to visible progress, it will be time to discuss the very format of the Minsk Group and seek to alter the demonstrably unsuccessful mediation efforts. In this context, the main difference that could be made is through a EU presence in a new negotiation format. The possible agreement on the main principles of a solution, while a breakthrough in itself, would only heighten the need for an international and European role in the arduous process toward long-term peace.

**South Ossetia and Abkhazia.** The problems in the structure of international mediation in the conflict over Karabakh pale in comparison to the situation in Georgia. The UN has a mandate in the Abkhazia conflict and the OSCE a circumscribed mandate in South Ossetia; implying that different organizations with different organizational cultures are involved in the two conflicts, thereby complicating the possibility of coordination, in spite of the obvious linkages between the two conflicts.

The South Ossetia cease-fire is monitored by a Joint Control Commission, which has five parties: Georgia, South Ossetia, Russia, the Russian Republic of North Ossetia, and the OSCE Mission. Meanwhile, the Peacekeeping force in the conflict zone has been a joint Russian-Georgia-Ossetian one and the lead in the negotiations has been Russian, with the OSCE lacking a role. The JCC format itself is clearly deeply flawed. Russia is a strong supporter of the South Ossetian side, and the position of North Ossetia, a Russian



republic ethnically linked to South Ossetia, in the JCC implies that three votes are already present in support of South Ossetia. To that, Russia holds a veto in the OSCE, thereby implying that it can hinder the OSCE Mission from playing a meaningful role. Georgia is hence left against one neutralized and three hostile actors in the JCC. As for negotiations, there is no role foreseen for the OSCE or any other international body in the conflict. By default, negotiations have been hosted by Russia, which is increasingly clearly identifiable as a party in the conflict.

In Abkhazia, the United Nations has played a cautious role. While the Georgian government requested a UN peacekeeping force in Abkhazia, the UN sent only an observer mission (UNOMIG) with ca. 100 observers, in great part since Russia, a permanent member of the UN Security Council, was opposed to UN peacekeeping on the territory of the former Soviet Union. Instead, a CIS peacekeeping force was deployed, which nevertheless was staffed exclusively with Russian forces. As concerns conflict resolution, the UN designated a special envoy for the conflict. The first representative, Eduard Brunner, displayed little interest or activity, whereas post-1997, the appointment of a more active envoy, Liviu Bota, led to some progress. This included the initiation of a Geneva process of discussions and the formation of a Group of Friends of the UN Secretary General on Abkhazia, comprising leading western nations and hence reducing the total dominance of Russia in the process. Nevertheless, the low level of international interest in the conflict has made Abkhazia an unresolved conflict and an uncontrolled territory on the Black Sea coast, soon a direct neighbor of the EU through the Black Sea.<sup>16</sup>

Both conflicts, unlike Karabakh, have seen relapses of violence. In 1998 and 2002, renewed violence erupted in Abkhazia as a result of Georgian irregular forces, affecting especially the ethnic Georgian returnees to Abkhazia's Gali region, overwhelmingly Georgian-populated before the conflict. In South Ossetia, conflict was renewed in 2004 following the Rose Revolution as a result of Georgian attempts to stem contraband smuggling across South Ossetia and to restore control over its territory. This was met by direct

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<sup>16</sup> S. Neil MacFarlane, "The Role of the UN", in *Accord 7: The Georgia-Abkhazia Peace Process*, ed. Jonathan Cohen, September 1999.

Russian military support for South Ossetia. Since this time, as viewed below, the Russian influence in Abkhazia and South Ossetia grew further, with the direct seconding of high-level Russian security services personnel to the security structures of these two de facto governments.

Nevertheless, Georgian efforts to internationalize peacekeeping and negotiation formats have persisted. In 2005, the Georgian parliament passed legislation forcing the government to report in Spring and Summer 2006 on the performance of Russian peacekeeping structures in South Ossetia and Abkhazia, with a view of demanding their withdrawal in case a continued bias in their operations was observed. Georgia seeks the imposition of a neutral peacekeeping force composed of countries that lack a direct role in the conflict, and these measures were taken in the hope of securing western support for this policy. Such support has nevertheless not materialized. As relations between Georgia and Russia worsen, as viewed in the next chapter, the two territories are effectively being annexed by Russia and the international community is failing to respond to the blatant violations of international law taking place there or to constructively engage the parties to the conflict in a dialogue. As in Karabakh, the present situation is unsustainable.

**Chechnya and the North Caucasus.** The conflict in Chechnya never experienced a strong level of international involvement. Like Abkhazia and South Ossetia, these conflicts constitute intra-state conflicts pitting an ethnic minority against a central government, yet the adamant Russian refusal of any international role in finding a solution to this conflict has precluded the international community from involvement in a conflict on Russia's territory. An OSCE mission in Chechnya tasked with observing the respect for fundamental rights and freedoms had existed since 1995, but the mission was closed at the end of 2002 as a result of a failure of the OSCE and Russia to reach an agreement on its continued mandate. The Russian Foreign Ministry noted that "the OSCE had failed to assess the new reality in the breakaway republic", claiming the situation was normalizing.<sup>17</sup>

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<sup>17</sup> Valentinas Mite, "Caucasus: OSCE Closes Chechnya Mission with Little Protest", *RFE/RL*, 2 January 2003.

Yet the situation in the North Caucasus is far from normalizing. It is true that the Chechen resistance fragmented as a result of the assassination of its major leaders, including elected President Aslan Maskhadov, and that major military operations are not conducted any longer. Instead, Moscow capitalized on a policy of 'Chechenization' of the conflict, seeking to turn its role over to ethnic Chechen militias under its control. Hence the former Mufti of Chechnya, Ahmad Kadyrov, was appointed as a loyal leader in the republic. After Kadyrov's murder in May 2004, real power in Chechnya transited to his son, Ramzan, although the presidency was given to the Interior Ministry head in Chechnya, Alu Alkhanov. Under Russian protection, Kadyrov has brutally entrenched his power in the republic and at present seems unthreatened. Yet the broader societal trends in Chechnya and the North Caucasus, as a result of the war, are leading to a spread in violence to the neighboring republics.<sup>18</sup>

Indeed, a resurgence of violence with an increasingly visible terrorist element has taken place in the North Caucasus, centered around Chechnya but combining local grievances with the struggle by Chechnya-based Islamist leaders such as Shamil Basayev. This development is most directly to be traced to the change in character of the Chechen war. Having been mainly based on ethnic nationalism in the 1990-96 period, the Chechen struggle for independence had little resonance among other Muslim groups in the North Caucasus. But the shift to a more Islamic rhetoric that took place in the inter-war period changed that. The second war took up a religious character at a time when an Islamic revival was spreading across the region, led by imported *Salafi* forces linked to the Middle East that had established a presence in Chechnya and Dagestan. Though only a small minority of the population of the North Caucasian republics were attracted to these radical ideologies, it was enough to ensure a trickle of fighters to Chechnya. These then returned to their home republics and began to spread the message in what turned out to be very fertile ground, given the rampant unemployment,

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<sup>18</sup> Emil Souleimanov, "Russian Chechnya Policy: 'Chechenization' Turning Into 'Kadyrovization'?", *Central Asia-Caucasus Analyst*, 31 May 2006; Kevin Daniel Leahy, "Kadyrov's Bluff: Why Chechnya's Strongman Continues To Test His Political Boundaries", *Central Asia-Caucasus Analyst*, 17 May 2006.

corruption, and misrule in the region that Moscow has proven unable to reverse.

Following the murder of Ahmad Kadyrov in May 2004, a mixed group of Chechen and Ingush raided the capital of Ingushetia in June, attacking the headquarters of the Interior Ministry in Ingushetia and several other government buildings and official structures in several towns. This was the first large-scale rebel infantry attack in several years, and the first on a territory outside Chechnya since 1999. 62 policemen and officials were killed, with numerous civilians. Moreover, by being a direct assault rather than a hit-and-run action of a bombing, the attack proved that the rebel forces possess planning and coordination capabilities that many observers thought they were now incapable of. Then, following the Kremlin's effort to rig presidential elections in Chechnya on August 29, three terrorist attacks rocked Russia: the downing of two commercial airliners by female suicide bombers, and the horrific seizure of a school by terrorists of predominantly Chechen and Ingush ethnicity in Beslan, North Ossetia, on September 1. Subsequently, in October 2005, a similar mixture of local and Chechen radicals carried out a raid on Nalchik, capital of Kabardino-Balkaria. But these high-profile acts were only the tip of the iceberg. Across the North Caucasus, from Karachai-Cherkessia to Dagestan, previously calm areas are now regularly reporting clashes between local militants and security forces; and assassination attempts against public figures, primarily in Dagestan. Between March and October 2005, 42 percent of recorded military operations in the North Caucasus took place in Dagestan, almost as many as in Chechnya, 51 percent. Hence by late 2005 only half of the military operations in the region were in Chechnya, indicating the rapid rise of instability and conflict in the North Caucasus. In the formerly placid republics of Karachai-Cherkessia and Kabardino-Balkaria, 35 and 25 percent of respondents to an opinion poll stated they were ready to or considering 'confronting the government'.<sup>19</sup> As viewed below, the Kremlin has proven unable to confront the deteriorating security situation in the region, and opted for ever stronger

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<sup>19</sup> Murad Batal Al-Shishani, "From Grozny to Nalchik: Is the North Caucasus Heading Back to the Nineteenth Century?", *Central Asia-Caucasus Analyst*, 19 October 2005.

centralization policies. Yet there is little question that the Russian leadership is aware of the situation in the region: in July 2005, a memo written by President Putin's special representative to the North Caucasus, Dmitry Kozak, indicated a high level of awareness of the acute crisis in the region. Among other, the report noted that "Further ignoring the problems and attempts to drive them deep down by force could lead to an uncontrolled chain of events whose logical result will be open social, interethnic, and religious conflicts in Dagestan".<sup>20</sup> The report was surprising partly because it was leaked, but also due to the blunt and alarmist language in which it described the situation in the region.

### **Economic Development**

A second and related characteristic of the Caucasus region is the economic collapse that has plagued the region, and which in turn is very much related with the conflicts of the region.

#### *Economic Collapse*

The early 1990s were a period of rapid economic collapse in the Caucasus. The economies of Armenia, Azerbaijan and Georgia were aside from Tajikistan and Moldova the ones in the former Soviet Union to experience the worst decline in production. Already affected by the disruptions of the Soviet command economy which led to economic declines particularly everywhere, the wars in the Caucasus further contributed to worsening the economic collapse.

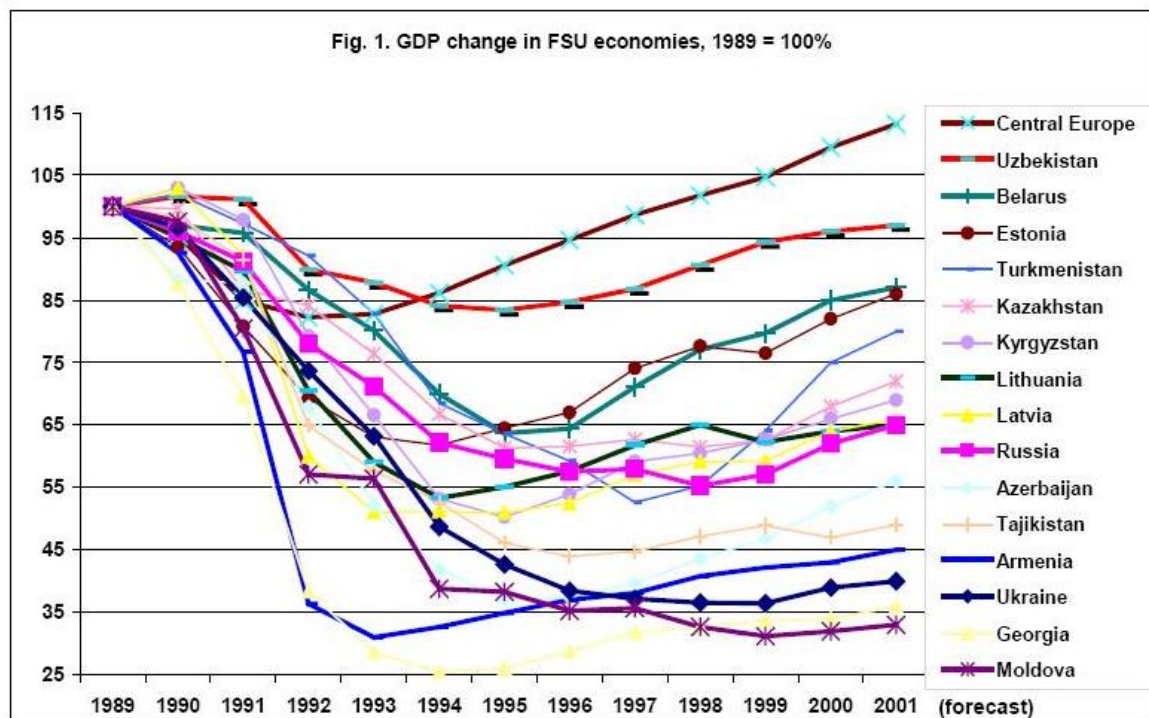
In Georgia, economic production in 1995 was at 30 percent of its 1989 levels, with a slump of 30% only in 1993; while Armenia registered the steepest single-year decline in 1992 with the Karabakh war and the closure of the Azerbaijani and Turkish borders. As figure 1 illustrates, by 2000, only Azerbaijan had been able to arrive at 50 percent of its production level in 1989.<sup>21</sup> The situation was similar in the North Caucasus, where the collapse of

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<sup>20</sup> As published in *Moskovsky Komsomolets*, 8 July 2005. See Andrei Smirnov, "Leaked Memo Shows Kremlin Fears Collapse of Dagestan", *Eurasia Daily Monitor*, 14 July 2005.

<sup>21</sup> Source: World Institute for Development Economics Research, Press Release, Ten Years of Transition, 1 November 2001.

the USSR took away much of the ability of the central government to subsidize the republican government – something to which they were dependent for up to 80 percent of their budgets, as in the case of Dagestan. The extent of this economic collapse is difficult to grasp, as it had few precedents in recent history. Societies where a certain living standard, education and healthcare had been achieved were suddenly propelled backwards to an extent that reduced some of these countries to the levels of some of the poorest countries in the world.



### *Poverty and Unemployment*

Poverty and unemployment have hence become intrinsic features of the post-Soviet Caucasus. By the mid-1990s, up to half of the population of the South Caucasus lived below the poverty line, and though less reliable, figures in the North Caucasus were even worse. These figures also do not always record the plight of the refugee and internally displaced populations, the largest groups of which are the Azerbaijani, Chechen and Georgian exiles from the conflicts of the early 1990s who were reduced to living in extreme poverty in refugee camps for years. A concomitant problem has been the depopulation of the Caucasus. Given these extreme economic hardships, several million

people likely migrated to Russia and elsewhere as economic migrants, sending back remittances to their families that constitute an important safety net especially for the rural regions of the Caucasus.

That said, the situation since the mid-1990s has changed, creating a growing gulf between the North and South Caucasus. Following macroeconomic stabilization programs in the South Caucasian states in the mid-1990s, their

**Figure 2: Subsidy Share of Budget, North Caucasus Republics**

Republic	Share of budget from federal center
Adygeia	58,1%
Chechnya	79,4%
Dagestan	81,3%
Ingushetia	88,3%
North Ossetia	59,2%
Karachai-Cherkessia	62,5%
Kabardino-Balkaria	73,4%

economies began growing at a relatively steep rate. In both Georgia and Azerbaijan, the coming to power of younger and more reform-minded leaders in 2003 boosted the economic development of the countries. In Georgia, President Saakashvili's far-reaching political reforms were crucial in making Georgia's state function, collecting taxes, imposing a new tax code, and reforming the economy. In

Azerbaijan, reforms were off to a slower start, but have picked up great speed, especially in the economic sector, as President Ilham Aliyev's position consolidated. Armenia had already embarked on a series of economic reforms a few years earlier, making it a leader in this field.

By 2006, the three states all ranked among the top ten countries in the world in terms of economic growth, with Azerbaijan leading the world growth figures at 26 percent. Yet Armenia and Georgia have equally produced sustained and significant growth, including double digit growth in Armenia for several years. This growth, even in Azerbaijan, is not only growth in the oil sector: while the oil sector is leading the country's economic boom, the non-oil sector actually grew faster than the oil sector in 2000-2005.<sup>22</sup> Concerns remain on the distribution of the increased wealth in the countries.

<sup>22</sup> Presentation by Heydar Babayev, Minister of Economic Development, at the sixth U.S.-Azerbaijan Chamber of Commerce Business and Investment Conference, 27 April 2006.

Nevertheless, the poverty reduction strategies that all countries have produced and their cooperation with international agencies in this regard inspire hope that the economic growth will continue on a solid basis and that it will result in substantial poverty alleviation over the next several years.

By contrast, the situation in the North Caucasus has grown increasingly dim. The Kozak report cited that the shadow economy constituted an estimated 44 percent of Dagestan's economy, as opposed to 17 percent in Russia as a whole; 50 to 70 percent of Dagestanis with some form of employment are thought to work in the shadow economy.<sup>23</sup> Unlike in the South Caucasus, the economic collapse of the region and its ensuing social malaise is far from being reversed: the republics of the North Caucasus are ever more dependent on subsidies of the Central Government, with figures ranging from 59 to 88 percent.<sup>24</sup> Yet the opaque character of governance in the region, and the appointment of politicians according to loyalty rather than efficiency indicate that in spite of Moscow increasing spending in the region, this is having little effect. The clan structures of the region are not well understood by Moscow, conditions for investments are dismal, and the region is experiencing a rapid population increase while the educational system is collapsing. This indicates that the problems of the region are only beginning. Indeed, the North Caucasus appears to be a rapidly pauperizing region in the wider Black Sea region, where the international community has little access or ability to affect developments – but without a guarantee that developments there will refrain from affecting Europe.

### **Governance and State-Building**

The conflict of the Caucasus also contributed directly to the reversal of the processes of political liberalization that had been occurring in the region since the period of Perestroika. Indeed, in the late 1980s, the Caucasus was one of the primary areas of political mobilization in the former Soviet Union, rivaled only by the Baltic republics. By late 1990, both Armenia and Georgia

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<sup>23</sup> Charles Blandy, *North Caucasus: On the Brink of Far-Reaching Destabilisation*, United Kingdom Defence Academy, Conflict Studies Research Center, Caucasus Series, 05/36, August 2005, p. 6.

<sup>24</sup> Liz Fuller, "North Caucasus: No Clear Strategy in Region", *RFE/RL*, 2 October 2005.



had elected non-communist governments to power within the framework of Soviet elections; Azerbaijan's popular front was by far the most democratic and active movement in any Muslim republic of the USSR; and even in Chechnya, popular mobilization led to the formation of a Chechen national congress that wrested power from the Communist leadership in late 1991 – the only autonomous republic in Russia where this happened. By mid-1992, all four entities had seen national movements coming to power through popular support. Yet these movements may have emerged out of a liberalized political system, but this did not guarantee their adherence to liberal democratic values nor did it imply they were equipped to handle the transition from command to market economics. In most cases, they were neither. Instead, it was nationalism that motivated these movements. Without functioning democratic institutions let alone a democratic political culture, the coming to power of nationalist forces directly contributed to the eruption or exacerbation of ethnic conflict in the South as well as North Caucasus. This in turn prevented any of the national leaderships from focusing on economic transformation, which hence was unattended to until the mid-1990s. But conflict and mismanagement brought down the nationalist governments in Azerbaijan and Georgia, and allowed for the restoration of semi-authoritarian rule under the well-tested former Soviet leader Heydar Aliyev and Eduard Shevardnadze. These leaders came to power on an agenda of restoring order, at the cost of civil liberties if necessary. Given the chaos of transition, the population was happy to oblige: it had come to equate democracy with war, chaos and poverty. In Armenia, as in Dudayev's Chechnya, it was the national movement itself that transitioned into a more authoritarian style of government – something that had occurred in Gamsakhurdia's Georgia and Elçibey's Azerbaijan as well, but to a lesser degree since those governments did not stay in power long enough to adopt a strongly authoritarian character though signs did exist that this was happening.

This explains for the resilience of authoritarian structures in these societies, and also the continued public acceptance among the population for semi-authoritarian structures, as long as they deliver order and basic services to the population. Yet at a deeper level, the economic and political chaos of the

transition period also laid the ground for the extremely weak statehood that has been characteristic of the Caucasus.

For the past decade and more, one of the most striking characteristics of the Caucasus has been the weakness of sovereignty. Instead of four governments controlling defined territories (Yerevan, Baku, Tbilisi, and Moscow in the North Caucasus), de facto these capitals did not exercise control over these territories. Instead, the de facto situation in the South Caucasus was one of multiple entities with differing level of state control. Hence the region had outright secessionist territories (Chechnya, Karabakh, Abkhazia and South Ossetia) as well as autonomous republics that often behaved independently and in contravention of governments (Ajaria in Georgia until 2004 and Russia's North Caucasus republics in the 1990s).

In spite of this context, Armenia and Azerbaijan succeeded in gradually building relatively strong state authority over their territories, aside from Karabakh and the Armenian-occupied lands in the case of Azerbaijan. Yet both Georgia and Russia, more multi-ethnic in their composition, have been strongly challenged in their efforts to build sovereignty over their territory. In Georgia's case, the central government failed to exert control over most of its territory until 2003, as not only Ajaria but the regions of Javakheti, Svaneti and other areas were virtually outside government control. While this made Georgia in some ways a failed state during the Shevardnadze era, the present government after the Rose Revolution began to strengthen sovereignty over its territory with some success. In Russia's North Caucasus, the opposite is true: in the 1990s, aside from Chechnya, Moscow managed to maintain overall control in the North Caucasus republics through a form of federalism that while flawed, did provide for local governments that were in touch with their population and navigated local societal structures. Yet the increasing centralization of 2000-2006 had counter-productive effects, alienating local populations and exacerbating an already precarious situation. Moscow now seems to be losing control over several republics in the North Caucasus, leading to question whether a part of Russia – the North Caucasus – is becoming a failed state.

Under the conditions of weak statehood that were pervasive in the 1990s, alternative sources of power emerged. These included paramilitary structures

across the region, institutionalized in the national army in the case of Armenia, whose political power grew. It also included entrenched kinship- or regionally based networks, whose strength dated from the Brezhnev era, which imposed their influence on the state structures across the Caucasus and in many cases became power-brokers that the Presidents could not ignore. These forces were leading in appropriating the assets liberated through privatization; sought to achieve controlling stakes in the largest industries in the region; and supervise and informally 'tax' trade and investments. As the 1990s progressed, these forces hence developed into virtual shadow economic conglomerates.

Within state structures deprived of resources and function, power hence fell into the hands of these informal, wealthy and patrimonial networks that exercised power in the narrow group interest – what in the West has been called 'clans'. These forces maintained their power, being co-opted by the Presidents of the states as the only option for governing. Only in Armenia did the national movement itself co-opt the 'clan' structures and introduce the military as the perhaps strongest example. In Azerbaijan and Georgia, the nationalist movements were ousted to a great extent through the actions of the 'clans', which later imposed their position on the returning presidents Aliyev and Shevardnadze. In the North Caucasus, continuity was assured as the Soviet-era Nomenklatura, itself based on such informal structures, remained in power. In secessionist areas, the local kingpins themselves became the heads of similar networks.

Any reform-minded politician in the Caucasus faces the reality of these resilient, entrenched structures that serve narrow group interests instead of the common good and are adamant upholders of the status quo. Attempting to deal with this problem, political leaders have sought different options: In Russia, President Putin took to appointing security service personnel in their place in the North Caucasian republics. In Georgia, President Shevardnadze became entrapped and incapacitated by them, while his successor, Mikheil Saakashvili, had seen the system from inside and confronted these structures head-on. He appointed in their place young, western educated officials who, while generally honest, have faced great difficulties grappling with the remaining tentacles of these structures. In Azerbaijan, Heydar Aliyev

through the authority of his personality managed to balance these forces against each other; while his son and successor, Ilham, has adopted the cautious policy of modernizing and reforming the state from within in a gradual but determined manner, replacing old guard officials with younger, more efficient forces.

In sum, through the resilience of informal power structures, the Caucasus has been plagued by a dichotomy between formal and informal, official and unofficial politics. The West deals with the formal, official structures, but is often unaware of the real, that is the unofficial, power-brokers. This poses a tremendous developmental problem for the entire region, one which is slowly receding but remains a formidable contender for forces seeking greater transparency, rule of law, and participatory government. Aside from this, the resilience of authoritarian ideologies in society has had a detrimental effect on prospects of national integration and regional cooperation. Ethnic conceptions of the nation have been engrained in the psychology of the region, preventing citizenship-based conceptions of belonging to the nation from evolving. Likewise, the focus on nationalism and internal grievances, and the outright conflict between two of the region's states, have made any type of regional cooperation a non-starter.

### **Transnational Threats**

The emergence and exacerbation of armed conflict created *de facto* war economies in which paramilitary forces became well-versed at securing materials and weaponry through illicit channels in order to support their cause. Furthermore, the instability of conflict created natural black economies that often acted as the only outlet through which certain products could be accessed. Combined with expanding black markets trading in arms and narcotics, these groups often embodied what is fast becoming a main new security threat of the twenty-first century: the conflation between criminality – initially as one of the only available sources of financing, and ultimately as an end in itself – and politically motivated violence, whether in the guise of secessionist territories, loyalist paramilitaries, or Islamic radicals groups. As a result, the Caucasus has been plagued by considerable organized

crime as well as radicalism. These problems have been worst in the North Caucasus and in Georgia, where state controls have been the weakest.

### *The Rise of Organized Crime*

Due to its location on major smuggling routes, the weakness of its state institutions, its economic collapse, and the ungoverned or uncontrolled territories of the region, the Caucasus has been a major smuggling conduit. The Caucasus is situated along both the 'Balkan' and 'Northern' smuggling routes and is an important international centre for narcotics, human, and arms trafficking. Given its proximity to Russia, Turkey and the Arab world, the South Caucasus acts as a natural channel for arms smuggling. Separatist and civil conflicts also led to a flood of weapons pouring into the region since 1989 from Russia, Turkey, Iran, Greece and Western states. Given the unresolved nature of these conflicts, there is both a great demand for arms in the region and a steady supply. The majority of illicit trafficking operations in the South Caucasus are conducted by criminal groups, as opposed to terrorists or individuals. Criminal organizations involved in the large scale trafficking of arms and drugs tend to be highly organized entities with influential leaders and connections to key state institutions, in some cases directly connected to the upper echelons of government. This has in some cases led to an alarming criminalization of state structures – occurring when the informal networks mentioned above engage systematically in organized criminal activity while exercising decisive influence over government institutions. Georgia before the government reshuffle in 2001, and most republics of the North Caucasus, especially Dagestan, are examples of this. Thanks to its regional isolation, Armenia has been slightly less affected by organized crime, though it is far from absent in the country. Azerbaijan has become a major smuggling route, not least for drugs from Central Asia, but the relative strength of the Azerbaijani economy, the role of the oil industry, and strength of state have prevented organized crime from achieving a controlling degree of influence on the state. Nevertheless, it is of great concern to the region as well as to Europe that the Caucasus is affected

strongly by organized crime, affecting the political, economic and societal security of the region.<sup>25</sup>

Most damaging in this context has been the interaction of crime and conflict. It is well known that organized crime is attracted to conflict zones, and the Caucasus is no exception. The problem is particularly rife in secessionist territories, which remain under the control of self-appointed separatist authorities, with little to no accountability and remain virtually isolated islands where international treaties do not apply and official international presence is absent.

South Ossetia forms perhaps the most obvious illustration of this point.<sup>26</sup> In the late 1990s, it developed into the leading channel of contraband goods from Russia into Georgia. In particular, the Ergneti market in territories controlled by the South Ossetian *de facto* government developed into a giant illicit free trade zone where all kind of legal as well as illegal merchandise was readily available.<sup>27</sup> This provided a crucial income to the separatist government; but would not have been possible without the participation of Georgian law enforcement structures. Indeed, with the consolidation of power of Mikheil Saakashvili's government, the Ergneti market was blockaded and disbanded in Georgia's 2004 confrontation with South Ossetia.<sup>28</sup> It is clear that criminal enterprise has become, together with Russian support, a major factor sustaining the separatist republics on Georgia's territory. As for Abkhazia, both the secessionist government and Georgian paramilitary groups

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<sup>25</sup> For a more detailed analysis, see Alexandre Kukhianidze, Aleko Kupatadze, Roman Gotsiridze, *Smuggling through Abkhazia and Tskhinvali Region/South Ossetia*, Tbilisi: American University Transnational Crime and Corruption Center, 2003; Svante Cornell, "The Growing Role of Transnational Crime in the South Caucasus", *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, Paris: EU Institute of Security Studies, Chaillot Papers, 2003; Tamara Makarenko, "Smuggling Operations Degrade Security in the Caucasus", *Jane's Intelligence Review*, November 2003.

<sup>26</sup> Theresa Freese, "Georgia's War against Contraband and Its Struggle for Territorial Integrity", *SAIS Review*, vol. 25 no. 1, pp. 107-121.

<sup>27</sup> Alexandre Kukhianidze, Alexandre Kupatadze, Roman Gotsiridze, *Smuggling through Abkhazia and Tskhinvali Region of Georgia*, Tbilisi: American University Transnational Crime and Corruption Center Georgia Office, 2004.

<sup>28</sup> See reporting by Theresa Freese in the *Central Asia-Caucasus Analyst*, Summer 2004, and Theresa Freese, "Georgia's War against Contraband and Its Struggle for Territorial Integrity", *SAIS Review*, vol. 25 no. 1, pp. 107-121.

operating in the territory have strong links to various forms of organized crime. In Ajaria, the demise of regional strongman Aslan Abashidze in 2004 led to the unraveling of the system of direct supervision over various forms of illicit trafficking that was directly supervised by the family of Abashidze and leading circles in his government.

Likewise, in the North Caucasus the undefined status of Chechnya's territory in 1991-94, before the Russian invasion, made the region a free-trade zone for all type of contraband including drugs and weapons. This signified the inability or unwillingness of General Jokhar Dudayev's government to provide order in Chechnya; but it was also an illustration of the use that Russian elites had for an ungoverned territory through which they could conduct illicit activities. The criminalization of the Chechen resistance occurred in part as a result of the difficulties the rebels have had to seek funding for their struggle. Indeed, in the mide-1990s, a large portion of the Chechen resistance's funding came from semi-legal or illegal Chechen business in Russia, including the notorious Chechen organized crime groups. However, in Chechnya, the criminal connections between the various elements of the resistance and Russian military or law enforcement units are numerous. Moreover, a trend could be seen where Chechen separatists had for long relied on links to Chechen organized crime and not moved to self-involvement in criminal activities; but by the turn of the millennium, a higher degree of self-involvement has been observable.

### *Islamic Radicalism*

The lack of good governance and economic prospects, the traumas created by conflict, and the growth of instability and crime all contribute to the rise of radical ideologies. Hence across the Caucasus, religious extremism is on the rise, a factor particularly harmful in the Muslim areas of the Caucasus given the existence of a strong, well-financed, and determined global Islamic radical movement with an apparently compelling ideology. Indeed, the rise of religious radicalism in the North Caucasus has already been alluded to; the activity of Islamic radical groups has also been observed with increasing frequency in Azerbaijan.

Most obvious has been the radicalization of the Chechen resistance, and the spread of the *Jihadi* ideology to other parts of the North Caucasus. This has taken place with the help of radical Islamic movements from the Middle East, but their spread has been made possible by the socio-political frustration in the region and the widespread anger directed at Moscow's policies in the North Caucasus. The cycle of violence in the Chechen war has now been spread to other republics, where the security services are using exactly the same methods – repression, disappearances, torture – that led to the radicalization of the Chechen resistance. It should also be noted that the *Salafi* ideology has a much stronger base in Dagestani society than it does in Chechnya. Indeed, it is from Dagestan that many of the most radical religious groups in the North Caucasus are based and operating.

In the final analysis, the North Caucasus is sinking into a vicious cycle of violence, Islamic radicalism, corruption and mismanagement, and organized crime. As will be analyzed in the next section, Russian policies have far from improving the situation actually been the major cause of their exacerbation.

### **A Divided Region**

An additional particular result of the armed conflicts has been the diverging threat perceptions and foreign policy priorities of the three states. In ideological terms, the Caucasus is divided into two states that strongly support the principle of territorial integrity, Georgia and Azerbaijan, whereas Armenia equally strongly advances the principle of self-determination. This in turn has implied that the main dividing line in the region, that between Armenia and Azerbaijan, has been compounded by increasing mutual suspicion in the relations between Armenia and Georgia, as the countries' interests on this issue differ diametrically.

In parallel, this fundamental dividing line has also been the basis for the diverging foreign policies of the South Caucasian states. Given its conflict with Azerbaijan and its hostile relationship with Turkey, Armenia early on allied with Russia, seeing Moscow as its only possible security provider. Azerbaijan and Georgia, conversely, saw Russia as a leading threat to their security and independence, and hence sought security through relations with the West and Turkey. As a result, the states of the South Caucasus do not



speak with one voice in regional and international affairs, instead often being on different sides of the divide. This in turn poses difficulties for external powers viewing the South Caucasus as one region, as the priorities of the three regional states fundamentally differ. As such, no mechanisms let alone organizations for regional cooperation in the South Caucasus exist.

This situation has changed somewhat in recent years, as both Armenia and Azerbaijan have developed more balanced foreign policies. Armenia has with increasing vigor sought to develop its relationship with the west, paying great attention to cooperation with NATO and being perhaps the leading country in the region in terms of reforms especially in the economic sphere that harmonize with the EU. Meanwhile, Azerbaijan since 2000 developed increasingly positive relations with Russia as well as a rapprochement with Iran. This implies that the geopolitical divisions accompanying the Armenian-Azerbaijani conflict have somewhat diminished, increasing chances for its resolution. On the other hand, Georgia's worsening relations with Russia have added a further complication in regional politics.

## **Conclusions**

Substantial impediments exist for the vision of a peaceful and prosperous Caucasus to be realized. As noted above, the threats to the region's future are many, deep, and structural. The key problem to the Caucasus is the unresolved armed conflicts, which have formed a cancer that has tightened its grip on most aspects of the region's life: the politics, economy, society and even psychology of the Caucasus are deeply affected by fifteen years of conflict and war.

Yet in spite of this, the guiding principle of western development cooperation in the South Caucasus since the mid-1990s has been to avoid the region's main problem: the regional ethnopolitical conflicts. Although these clearly pose the main threat to the development and stability of the South Caucasus, development cooperation has operated under the assumption that the conflicts cannot be solved with the resources at hand. This assumption led to a two-pronged approach: firstly, to institute "processes" that have come to serve mainly as an excuse for inaction on the part of the international community. Indeed, the OSCE Minsk Group and the Group of

Friends of the Secretary-General on Abkhazia have developed few initiatives over their decade operations, with a partial exception for the Minsk Group in 2006. The second leg of the implicit strategy has been to circumvent the conflicts. Development cooperation has worked on everything but the conflicts, seeking to build civil society, governance, transparency, agriculture, gender equality, education, etc. The problem is that these efforts have failed to change the fact that the unresolved conflicts remain at the heart of the failure of reform and visible progress in all of these sectors. Ten years of experience has shown that the failure to work on the conflicts has been a recipe for the failure to build strong, let alone democratic societies in the South Caucasus. It is therefore time for western aid to the South Caucasus to be invested in efforts to work, at different levels, toward the management and resolution of the overt conflicts and prevention of the latent or potential ones. Especially small countries with few if any own agendas in the region can function as ideal parties in this regard.

## Russia's Role and Policies in the Caucasus

Russian policies in the Caucasus have been eerily similar to historical precedents of Russian policies in the nineteenth century and during the first world war. Two hundred years ago, Russia established its hegemony over the South Caucasus by annexing Georgia in 1801, and establishing control over present-day Armenia and Azerbaijan after wars with Persia, cemented by an 1828 treaty. Yet the North Caucasus remained out of Russian effective control, with fighting there raging until 1859 in Chechnya and Dagestan and 1864 in the northwestern Caucasus. Hence Russia securely controlled Georgia over half a century before it established control over the North Caucasus. Subsequently, following the first world war, a weakened Russia allowed the South Caucasus to declare independence, but almost immediately made use of the differences and conflicts among the three countries to reassert its control, which it did by 1921.

In the post-Soviet era, Russian policies have been guided by similar concerns. To begin with, as in 1918, a weakened Moscow allowed the formal independence of the South Caucasus in 1991, only to rapidly seek to restore its control in the region, faster and more decisively than in any other part of the former Soviet Union. This policy was guided by the perception of an inexorable link between the North and South Caucasus. In Russian thinking, Russian dominance over the South Caucasus was seen as necessary for maintaining Russian control over the North Caucasus, which in turn was perceived as central to Russian statehood and Russia's position as a great power. Moreover, control over the South Caucasus was seen as important also in keeping a buffer zone between Russian territory and the Islamic world to the South.

The problem is that Russia's aspirations for control over the South Caucasus have been utterly destabilizing for the region and counter-productive for Russia. Russian policies helped consolidate the fragmentation of the states of the South Caucasus, in turn destabilizing Moscow's efforts at pacifying the

North Caucasus. Instead of three strong states with control of their territory that could function as partners, Moscow has helped fragment the region into weak states and unrecognized statelets that are both unable and occasionally unwilling to function as a partner in building security. Moreover, Russia's policies in both parts of the Caucasus have been heavily determined by coercive diplomacy and the use of force. This has had a counter-productive effect in both areas, increasing the determination of the South Caucasian states to seek a future apart from Russia, while also alienating the populations of the North Caucasus. Concomitantly, Moscow's attitude to foreign presence in the Caucasus has been jealous, viewing the actions of western actors (Europe, America, and Turkey) in zero-sum terms in spite of efforts by western powers to emphasize the mutual interests in the security and prosperity of the Caucasus. Instead of cooperating with western partners to stabilize the Caucasus, Moscow has seen their presence as a threat, and sought to prevent western influence at the cost of endemic instability in the region.

It is in this sense that Moscow's policies are a fundamental part of the problem of the current situation in the Caucasus, while a peaceful and prosperous Caucasus would require Moscow to become part of the solution. This in turn poses a particular enigma for the West, including Europe. As western interests in the region and its stability grow, they clash with the simultaneous objective of developing a solid and friendly relationship with Russia.

### **Russian Policy in the South Caucasus**

The independence of the three South Caucasian states in 1991 was accompanied by Chechnya's aspiration to join the community of independent nations. This implied secession not only from the Soviet Union but also from the Russian Federation. In spite of this direct challenge to Russian statehood, Moscow initially focused its energy on reasserting control over the South Caucasus, while ignoring Chechnya's de-facto independence for almost three years.

Russia's modern-day *reconquista* began almost immediately after the dissolution of the union, and much like in the nineteenth century, Russia

focused on securing control over the South Caucasus *before* it attempted to reassert control of Chechnya. Moscow was heavily involved in the conflict over South Ossetia, threatening military action against Georgia on more than one occasion, and played an important role in all conflicts of the region given its ability to provide arms for various fighting factions – often simultaneously to both warring parties. Overtly, Russian policy was based on three major principles. First, the Caucasian states should be members of the Commonwealth of Independent States, which Georgia had never joined and Azerbaijan had not ratified. Second, the ‘external’ borders – meaning Soviet external borders with Iran and Turkey – of these states were to be guarded by Russian border troops. Third, Russian military bases should be present on the territory of the three states.<sup>29</sup>

In practice, Moscow first succeeded in asserting a dominant influence over Armenia. This was facilitated by Yerevan’s growing involvement in warfare on the territory of Azerbaijan, and its needs for external support. A military agreement was signed in May 1992, whereby Armenia complied to Russia’s three demands. After Armenia, Russian policy focused on Georgia. In July 1992, Moscow enforced a cease-fire agreement between Georgia and South Ossetia which led to South Ossetia’s *de facto* independence, and the interposition of Russian troops on the administrative border separating the region from the rest of Georgia. Russia had repeatedly offered Georgia military assistance conditional on its acquiescence to Russia’s three demands.<sup>30</sup> Shevardnadze nevertheless refused. As soon as the guns went silent in South Ossetia, turmoil began in the northwestern Autonomous republic of Abkhazia. Abkhaz leaders displayed a self-confident attitude and claimed that Abkhazia was ‘strong enough to fight Georgia’ in spite of their

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<sup>29</sup> Fiona Hill and Pamela Jewett, *“Back in the USSR”: Russia’s Intervention in the Internal Affairs of the Former Soviet Republics and the Implications for United States Policy Toward Russia*, Cambridge, Mass: Harvard University JFK School of Government, Strengthening Democratic Institutions Project, January 1994; Richard F. Staar, “Moscow’s Plans to Restore its Power”, in *Orbis*, vol. 40 no. 3, Summer 1996.

<sup>30</sup> Interviews with high-level Georgian government officials, Tbilisi, 1998.

debilitating numerical inferiority.<sup>31</sup> As Abkhazia declared independence, undisciplined Georgian paramilitary forces invaded Abkhazia, committing grave violations on their way. By October, Georgian forces faced a well-armed Abkhaz counter-offensive, supported by heavy artillery, North Caucasian volunteers, and naval and air support. The origins of these weapons was obviously Russian. Later in the war, Russia's direct involvement was blatantly exposed as an unmarked fighter aircraft was shot down, whose pilot turned out to be a Russian air force officer in full uniform.<sup>32</sup> By October 1993, Abkhazia had militarily gained the upper hand, evicted Georgian forces as well as over 200,000 ethnic Georgian civilians from Abkhazia after Abkhaz heavy weaponry stored by Russian forces in a cease-fire found their way back into Abkhaz hands.<sup>33</sup> After the loss of Abkhazia, a large-scale mutiny took place in the Georgian military, threatening to lead to the total disintegration of the Georgian state. Georgian President Shevardnadze was forced to accept Russia's demands, and Russian forces moved in to help Shevardnadze crush the mutiny as quickly as it had emerged. Russia took control over Georgia's Turkish border, and established four military bases in strategic locations around Georgia: at Vaziani just outside the capital; in Gudauta in Abkhazia; in Batumi in Ajaria, an autonomous republic independently ruled by a local chieftain; and in Akhalkalaki, center of the restive Armenian minority. Georgia's parliament never ratified these agreements, making the legal status of the Russian military presence highly questionable. Furthermore, in the 1999 Istanbul summit of the OSCE, Russia took on an international contractual obligation to vacate these bases, depriving them altogether of legal standing. Yet only in 2006 was Georgia able to reach an agreement with Russia on the withdrawal of Russian bases and troops from Georgian territory.

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<sup>31</sup> "Georgia: Abkhazia 'Strong enough to Fight Georgia'", *BBC Monitoring Service* 30 July 1992. The Abkhaz number only 100,000, whereas Georgians were over four million, with more than 200,000 Georgian in Abkhazia at the time.

<sup>32</sup> Irakli Kakabadze, "Russian Troops in Abkhazia: Peakeeping or Keeping Both Pieces", *Perspectives on Central Asia*, vol. 2 no. 6, September 1997. ([www.eisenhowerinstitute.org](http://www.eisenhowerinstitute.org)); Thomas Goltz, "Letter from Eurasia: The Hidden Russian Hand", *Foreign Policy*, Fall 1993, 108.

<sup>33</sup> *Times of London*, 30 September 1993; *Economist*, 2 October 1993.

In Azerbaijan, a renegade military commander, Surat Huseynov, had withdrawn his troops from the Karabakh front in Spring 1993, leading to the Azerbaijani loss of Kelbajar to the west of Karabakh, and retreated to his native Ganja, barracking near the Russian 104<sup>th</sup> airborne regiment's base. The Azerbaijani government had that year managed to secure Russian agreement to leave the country. In May, the 104<sup>th</sup> regiment left Azerbaijan six months ahead of schedule, an unprecedented event for Russian military forces abroad. The forces left the better part of its armaments to Huseynov, who subsequently revolted. This led to the collapse of the Popular Front government and to general defeat in Karabakh. Heydar Aliyev managed to take power before Huseynov could, though he was forced to appoint the warlord prime minister. Azerbaijan joined the CIS, and promised substantial discussions on basing rights and border troops, but insisted that it wait until the war in Karabakh ended. By early 1994, the conflict had come to an equally hurting stalemate for both sides, and a cease-fire was signed, which has held ever since.

Aliyev nevertheless continued to refuse Russian border troops or military bases, focusing instead on developing the oil resources of the Caspian sea through negotiations with western oil companies. This would bring Azerbaijan economic resources and increase the country's importance in western capitals. Russia remained adamantly opposed to unilateral exploitation of oil resources by littoral states of the Caspian. Hence only days after the signing of a US\$7 billion Production Sharing Agreement, Huseynov staged a coup to unseat Aliyev, which failed. Huseynov fled the country through a Russian radar station in northern Azerbaijan.

Enter the North Caucasus dimension. Azerbaijan's path to true independence was its oil resources, and the only operational pipeline to carry its oil to world markets was the Baku-Novorossiysk pipeline. Oil companies faced a major challenge in identifying the best route for a major export pipeline. Compared to the prohibitive cost of options through Turkey or Iran, the existing Russian route from Baku to Novorossiysk could be upgraded for a reasonable cost to carry the envisaged amounts of oil. Only, the pipeline route passed through Chechnya, where General Dudayev was presiding over a self-proclaimed unruly independent state. Whereas Moscow would have

preferred to establish control over the South Caucasus before dealing with the problems in the North as it had in the previous century, Russian control over Azerbaijan and hence the South Caucasus had now become directly related to control of Chechnya. Numerous other factors undoubtedly intervened, but a major reason for the timing of the invasion of Chechnya in late 1994 was related to Azerbaijani oil.

*The Slipping of the Caucasus, 1996-99*

If Russia had succeeded in subduing Chechnya, it would probably also have succeeded in remaining the dominant power in the South Caucasus. Yet instead, the Chechen victory of August 1996 dramatically changed the situation in the Caucasus. Azerbaijan increased its pro-western orientation, and investments in its oil industry grew at a massive speed. It was joined by Georgia, which despite Russian troops and border guards developed an equally pro-western attitude adamantly opposed to what it termed Russian imperialism. Western attention grew accordingly, with the U.S. in particular declaring a growing interest in the region. Turkey now re-engaged the Caucasus, supporting the reform of the Azerbaijani military and rapidly developing its ties to Georgia to the level of a strategic partnership. By 1998, Georgia and Azerbaijan openly spoke of their aim of NATO membership, Azerbaijan even going so far as to float the idea of NATO military bases on its territory.<sup>34</sup> Meanwhile, Russia desperately hung on to its regional anchor Armenia, delivering among other complimentary arms shipments worth over US\$ 1 billion.<sup>35</sup> By 1999, even Armenia had begun to question its excessive dependence on Russia, and Armenian leaders began to develop their western linkages. Imminent headway in negotiations over Mountainous Karabakh threatened to deprive Moscow of its Caucasian anchor, as peace with Azerbaijan would also in all likelihood lead to the partial normalization of Turkish-Armenian relations, and thereby dramatically reduce Armenia's dependence on Moscow.

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<sup>34</sup> As stated by Presidential advisor Vafa Guluzade to *Nezavisimaya Gazeta*, 27 February 1999.

<sup>35</sup> As revealed by a federal investigation conducted by General Lev Rokhlin, then Chairman of the Russian Duma's Defense Committee in April 1997. See "Rokhlin Details Arms Supplied to Armenia", *Sovetskaya Rossiya*, 3 April 1997.



*1999: Vladimir Putin and the Turning of the Tide*

Coming to power in 1999, Vladimir Putin identified Chechnya as the cause of Russia's weakness, and the emboldening of pro-western forces in the South Caucasus. The Russian defeat in 1996 had extinguished the prospects of the Baku-Novorossiysk pipeline and by default made the BTC pipeline increasingly feasible, in spite of its exorbitant price tag. It was the defeat in Chechnya that prevented Moscow from projecting its influence in the South Caucasus while other powers increasingly did so. Only by addressing the problem at its roots, obliterating the source of instability and restoring firm control over the North Caucasus, could Russia reclaim its lost ground in the South. The logic of the nineteenth century was now stood on its head: control over Chechnya was needed to restore control over the South Caucasus.

While restarting the war in Chechnya, President Putin also focused on restoring the vertical of power by reasserting control over state bodies, effectively abolishing Russian Federalism, and staffing state institutions with security service personnel. Foreign policy was re-focused on the 'Near Abroad'. One of the most important elements of the policy was to embark on a new offensive in the South Caucasus, focusing especially on Georgia, though initially, Azerbaijan was equally a target. Moscow blamed the two for hosting Taliban fighters heading for Chechnya, without any evidence being presented. Moscow then followed up by gradually increasing its pressures on Georgia, with a mixture of economic and subversive levers, while normalizing relations with Azerbaijan, in great part thanks to the personal relationship between Putin and Aliyev.

Russia continued using, and refining, time-tested strategies of utilizing ethnic tensions and unresolved civil wars that it had itself helped instigate, in order to weaken Georgia. After having imposed a discriminatory visa regime that slammed visas on Georgians but exempted residents of Abkhazia and South Ossetia from this requirement, Moscow began to extend Russian citizenship *en masse* to the populations of these two regions. This was followed by a claim to defend the interests of Russian citizens abroad; the staffing of government officers in Abkhazia and South Ossetia with active-duty Russian security service personnel; and discussions of Russian

annexation of these regions. Meanwhile, Russia resisted all efforts to internationalize mediation, negotiation, and peacekeeping in the conflict zones; and by 2005 overtly calls for a 'Kosovo' model to be applied to these territories, whereby a referendum of independence would be held, leading to the separation of the territories from Georgia. All these measures indicate a continuation of the use of the territorial conflicts to undermine Georgia's stability and its thwarting its prospects of regaining its territorial integrity – and oblivion of the precedent this would set for the North Caucasus. Indeed, Russia in the early 1990s supported the de facto establishment of separatist mini-states in Georgia and Azerbaijan, which in turn strengthened the Chechen leadership's conviction a few hundred kilometers away that separation was possible and achievable. Likewise, Moscow's overt call for a Kosovo model to be applied to Abkhazia and South Ossetia would be equally if not more applicable to Chechnya.<sup>36</sup>

To that, Russia added new instruments of policy, exploiting the economic dependence of Georgia and other post-Soviet states like Ukraine and Moldova on Russia. Georgia's energy dependence on Russia was repeatedly used to cut gas supplies, often at times of tense political negotiations over Russian bases, and even at times when gas supplies had been prepaid, as was the case in 2001. In 2006, coinciding with the Russian-Ukrainian energy crisis, supplies to Georgia were cut after mysterious explosions on Russian territory had destroyed the pipelines and power lines carrying gas and electricity to Georgia – just as the price of gas had been doubled. Only months later, Russia imposed a total ban on imports of Georgian and Moldovan wine (almost 80 percent of the market for both producers) citing health concerns – an obviously political and discriminatory decision lacking factual basis, taken

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<sup>36</sup> Chechnya resembles Kosovo more than Abkhazia does, given the demographic situation in the region and the human rights violations conducted by the central government – these were present in Georgia's case as well, but were much more one-sided in the case of Chechnya. Russia's argument was that Chechnya was not outside Russian control any longer and that it was in any case a terrorist, not separatist conflict. The short-sightedness of this policy is remarkable, given that the situation in the North Caucasus could further destabilize, in which case Russia would have itself set a precedent that could be used by separatists in its own territory – in Chechnya or elsewhere.

the same week as a final agreement on the withdrawal of Russian bases in Georgia had been signed.

Russian use of economic levers, especially energy, as a tool of Russian policy has continuously grown. In tandem with Gazprom for natural gas and UES for electricity, Moscow has successfully acquired a near-monopoly over the transport and export of natural gas in the former Soviet Union. This has entailed using political levers to acquire long-term deals to buy Central Asian producers' gas at low prices, to the tune of \$50 per thousand cubic meters; gas that Russian then swaps for export capacity resold to European countries for ca. \$250 per thousand cubic meters – a profit margin of a factor of five, possible only because Russia prevents Central Asian producers from marketing their gas independently. As for electricity, UES has managed to acquire control over production as well as distribution of electricity in most CIS countries, including in Central Asia as well as Armenia and Georgia. A favorite technique has been the use of debt-for-asset swaps, in which state debts to Russia are written off in exchange for controlling stakes in strategic enterprises, such as electricity distribution lines, Armenia's nuclear power plant, etc – giving Russia a long-term economic influence over these countries that no political upheavals or even future membership in NATO or the EU could reverse.<sup>37</sup>

This process of reassertion of Russian might was exacerbated by the revolutions in Georgia and Ukraine, which brought pro-western forces to power, and alarmed the Russian leadership that it was rapidly losing influence. The revolutions also introduced an ideological element into the geopolitics of Eurasia, one that Moscow sought to manipulate by offering to protect the regime security of concerned authoritarian leaders faced with ever stronger western calls for democracy. Hence by 2005, Russia helped convince Uzbekistan's leadership to close down the American base at Kharshi-Khanabad, and began to work for the complete removal of America's military presence in Central Asia.<sup>38</sup> In Moldova, Russia continued to support the

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<sup>37</sup> Tajikistan had a \$250 million debt-for-asset swap in 2004; Armenia had an almost equally large one in 2002-2003.

<sup>38</sup> See Vladimir Socor, "The Unfolding of the U.S.-Uzbekistan Crisis", in John C.K. Daly, Kurt H. Mepper, Vladimir Socor and S. Frederick Starr, *Anatomy of a Crisis:*

Transdniestria separatist region that remained outside Moldovan control, while exerting pressure on Ukraine to refuse EU pressures to impose customs controls on its borders with Transdniestria.<sup>39</sup>

The evolution of Russian policy in the former Soviet space is clear. From 1999 onwards, Putin's Russia has increasingly moved in a nationalistic direction, and sought to prevent western encroachment in what it views as its backyard. In the Baltic states and Ukraine, not to mention Georgia and Moldova, Russia has used both traditional diplomatic methods as well as subversion and coercion to safeguard its interests and prevent the slippage of these countries into what Moscow views as a 'western sphere of influence'. In other words, Moscow has blatantly interfered in the internal affairs of these countries, utilizing their economic dependence on Russia and manipulated territorial conflicts to undermine the stability, independent policy formulation, and development of these countries. The purpose of the policy seems obvious: to maintain the dependence of the South Caucasus countries on Russia, making Russia the primary and ideally sole arbiter in the international politics of the Caucasus and generally speaking the former Soviet space.

That said, Russia's role should not discount or obscure the existence of real divisions and conflicts in the South Caucasus. Indeed, Russia's role is often exaggerated in the region, and Moscow blamed for all possible ills affecting a country. This is particularly true in Georgia. There is hence a tendency for politicians to blame Russia in order to avoid taking responsibility for their own internal shortcomings or mistakes.

### **Russian administration in the North Caucasus**

Meanwhile, Russia's policies in the North Caucasus have failed to stabilize Chechnya, instead leading to the destabilization of the entire region. This has been caused by the failure of the policy of 'Chechenization', and Moscow's failure to stabilize the North Caucasus. In turn this failure has been caused by the spread of Islamic radicalism in the North Caucasus; Moscow's

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*U.S.-Uzbekistan Relations, 2001-2005*, Washington and Uppsala: CACI & SRSP Silk Road Paper, February 2006, 44-65.

<sup>39</sup> "Ukraine Blockades Export from Transdniestria", *Kommersant*, 6 March 2006.

inability to improve socio-economic conditions in the region; and the disastrous policies of centralization that unraveled the political balance in the North Caucasus and accelerated the deterioration of the region – what could be termed the ‘Afghanization’ of the North Caucasus.

*The Second Chechen War and the Failure of ‘Chechenization’*

The second Chechen war, launched in Fall 1999, was supposed to be a rapid affair, yet as was the case in the first war, Russia proved unable to conclude military operations and secure its objectives. After September 11, 2001, Moscow skillfully painted the Chechen campaign into the mold of the global war on terrorism, in order to shore up legitimacy, if not support, for the Russian army’s violent crackdown in Chechnya.<sup>40</sup> This campaign was part and parcel of a five-step strategy to reduce the negative fallout of the war in Chechnya.<sup>41</sup>

The first component of the strategy was to isolate the conflict zone and prevent both Russian and international media from reporting on the conflict independently. The kidnapping of Andriy Babitsky, a reporter for Radio Liberty, early on served as a warning for journalists of the consequences of ignoring Moscow’s rules on reporting the conflict. Since then, only a few journalists have actually been able to provide independent reporting from Chechnya. The second prong in the strategy was to rename the conflict: instead of a ‘war’, it was an ‘anti-terrorist operation’. Third, and stemming directly from this, Russia sought to discredit the Chechen struggle and undermine or eliminate its leadership by accusing the Chechen opposition individually and collectively of involvement with terrorism. Russia’s campaign against Chechen President Aslan Maskhadov’s chief negotiator, Akhmed Zakayev, is one example of this. This nevertheless backfired as first Denmark and then Great Britain refused to extradite Zakayev to Russia, Great Britain instead providing him with political asylum. Likewise, Moscow tried to have Maskhadov’s Foreign Minister, Ilyas Akhmadov extradited from the United States on the basis of terrorism. Akhmadov, like

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<sup>40</sup> See Janusz Bugajski, ‘Beware of Putin Bearing Gifts’, *The Washington Times*, 10 October 2001.

<sup>41</sup> This is discussed in further detail in Svante E. Cornell, “The War in Chechnya: A Regional Time Bomb”, *Global Dialogue*, vol. 7 no. 3/4, 2005.

Zakayev, was instead granted political asylum. Moscow then moved to assassinate moderate field commanders such as Ruslan Gelayev, and then Aslan Maskhadov himself, effectively leaving itself with no counterpart to negotiate with, even should it so desire. Fourth, Russia sought to 'Chechenize' the conflict and turn it into an intra-Chechen confrontation by setting up a and arming a brutal and corrupt but ethnically Chechen puppet regime in Grozny, under the leadership of the former Mufti of the republic, Akhmad Kadyrov and subsequently his successor and son Ramzan. This would reduce Russian casualties and enable hostilities to be depicted as a war between Chechen factions that Russia was helping to stabilize. Fifth and finally, having branded the war as an anti-terrorist campaign, sought to discredit the rebel leadership, and tried to turn the war into a civil war among Chechens, Russia declared that the war was over.

The policy has nevertheless failed, for several reasons. First, the policy of Chechenization instead led to an excessive reliance on one local power-broker, the Kadyrov family and its forces, known as the *Kadyrovtsi*. Though Moscow at first sought to retain balancing forces against the Kadyrov clan in order to reign it in if necessary, the expansion of the *Kadyrovtsi's* power has been such that no faction in Chechnya, whether loyal to Moscow, separatist or radical Islamist, could challenge it. Meanwhile, Kadyrov's power is based mainly on fear, both among the fighters that join the *Kadyrovtsi* and are loyal to his person, and among the general population. Kadyrov himself has clearly grown into being an independent force, with strong tension between him and the Russian military.<sup>42</sup> The loyalty that he has is a personal loyalty to President Putin himself, and it remains unclear whether this loyalty is transferable on either end. First, the succession to Putin in 2008 may produce a new mode of government at the center that gradually rethinks its North Caucasus policy, implying new rules of the game to which Ramzan Kadyrov may not accede. Second, it is unclear what the demise of Kadyrov, for example if assassinated as his father was, would imply. Whether a successor would emerge and whether this successor would be able to keep the *Kadyrovtsi's* together as a coherent unit loyal to the Kremlin is very much an open question. Moscow's Chechnya policy is hence in the long term hardly

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<sup>42</sup> Leahy, "Kadyrov's Bluff...".

sustainable. This entirely aside from the fact that Moscow needs Kadyrov almost as much as Kadyrov needs Moscow's support; and that the possibility exists that Kadyrov could turn against Moscow at some point.

In the meantime, the *Kadyrovtsi* rule Chechnya with an iron hand, with crimes against the civilian population routinely committed. The disappearance of persons, for example, remains a significant problem generating widespread fear in Chechnya, and providing a continued basis of recruitment for the resistance.

### *Centralization Policies and the Unraveling of the Political Balance*

In the rest of the North Caucasus, as discussed previously, Moscow has been cognizant of the deteriorating situation. In the 1990s, a *modus vivendi* existed whereby the leadership of the North Caucasian republics – typically representatives of the most powerful clan or alliance of clans in the respective republic – retained a significant real autonomy from the central government. This was a two-edged sword: on the one hand, the local rulers were based in the opaque clan politics of the region, and their loyalty to Moscow was not absolute. Corruption was rife, and central government abilities to implement central policies in the region were therefore thwarted by the entrenched power structures in the North Caucasus. But at the same time, these forces kept a status quo in the region that was a prerequisite for Moscow's policies in Chechnya as well as in the South Caucasus. Moreover, the power structures had understanding and respect for local sensitivities and could with some credibility portray themselves as defenders of local interests against the center, hence boosting their popular legitimacy. On the whole, this arrangement served Moscow well. No ethnic conflicts emerged in the North Caucasus during the 1990s, aside from the brief Ingush-Ossetia war. On the contrary, emerging unrest in Dagestan, Karachai-Cherkessia and Kabardino-Balkaria failed to explode into armed conflict in spite of fears to that effect; and no credible, separatist, anti-Russian movement emerged in any republic. Most of all, the leaders of the North Caucasus republics kept their territories and populations neutral in the Chechen war. Ruslan Aushev was perhaps the master of this tightrope: in spite of the Ingush' close ethnic connection to the Chechens and the lack of a demarcated boundary with the Chechen republic, he used his autonomy and leeway from Moscow to

navigate an intricate neutrality between Moscow and Grozny during the entire 1990s, something that would likely have been impossible if Ingushetia had been controlled from the center.

In this context, Putin after coming to power began to implement his centralizing reforms. Their logic was understandable, as Yeltsin's Federalism had led to Russia's regions running astray and undermining the state and its ability to function either economically or politically. But in the North Caucasus, the Kremlin after the initial phases of the second Chechen war began to implement a policy of forcible centralization that backfired. Hence Moscow abandoned the policy of basing its presence on an alliance with local forces entrusted to exercise most facets of power, and instead moved to appoint its own representative as the leading power-broker, with or without the support of the local networks of power. This policy seems to flow directly from the 'Kadyrovization' of Chechnya.<sup>43</sup>

Hence in 2002, Putin had decided to remove the charismatic but autonomous Aushev in Ingushetia. Aushev was forced to resign, and in his place, a Federal Security Service (FSB) officer of Ingush descent, Murad Zyazikov, was muscled through a farcical election. Zyazikov had little popularity in the republic, and lost the first round of elections, polling only 19 percent. Federal forces then broke into the offices of his main contender, and exerted other types of pressure to ensure Zyazikov's victory – which was achieved in the second round through widespread fraud that led *Izvestiya's* headline to proclaim "Ingushetia's President elected by Russia's President".<sup>44</sup> This proved a harbinger of things to come in two ways: first, by the practice of appointing security service personnel to lead the North Caucasus republics, and second, as it effectively annulled elections to the presidencies of the autonomous republics, a move that would be formalized in 2004, with renewed reforms that made the governors of Russia's regions, including presidents of republics, appointed instead of elected. The results of this policy – intended to assert increasing control on wayward republics and

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<sup>43</sup> See Charles Blandy, *North Caucasus: On the Brink of Far-Reaching Destabilisation*, p. 3.

<sup>44</sup> See Matthew Evangelista, "Ingushetia as a Microcosm of Putin's Reforms", PONARS Policy Memo, no. 346, 2005, also reprinted in *Global Dialogue*, vol. 7 no. 3/4, 2005.



stabilize them – is instructive. Zyazikov’s advent to power broke the tacit balance of power and understanding among local power-brokers and clans which had generated stability during Aushev’s tenure. As a central appointee, Zyazikov followed Moscow’s orders rather than balancing those policies with local concerns. The result was increased repression of independent religious activity, and the importation of policies that had contributed to the quagmire in Chechnya, such as the arrest and disappearance of increasing numbers of individuals, particularly young men. Zyazikov’s mismanagement, insensitivity to local power-brokers and repression alienated considerable parts of the population and led some young Ingush not only to sympathize with Chechen separatists but to join forces with them. Hence the above-mentioned June 2004 raid by Chechen and Ingush militants on the capital of Ingushetia were directly related to Moscow’s steamroller politics – accentuated by massive repression after an April assassination attempt against Zyazikov.

The situation in Kabardino-Balkaria developed along similar lines. Here, however, Moscow did not have to replace the republican head, as President Valery Kokov – a vestige of the Soviet-era nomenklatura in power for twenty years – rapidly realized the direction of events and turned himself into an avid supporter and implementer of Putin and his centralization policies. Yet the consequences were the same: mounting repression against religious individuals not affiliated with the corrupt and illegitimate state-controlled religious authorities (known by the Soviet-era term ‘official Islam’) were subjected to ever greater repression. Following the September 2004 Beslan terrorist act, the republican leadership decided that only one Mosque would be allowed in the republic, inciting increasing numbers of people to join the radical Islamist cells formed by veterans of the Chechen war, in this case a cell known as “Yarmukh”.<sup>45</sup>

Similarly in Dagestan, the role of the FSB in running the republic have increased, while the inter-ethnic struggle in Dagestan has shown signs of growing. In 2006, the long-serving head of the republic, ethnic Dargin Magomedali Magomedov, resigned, officially for health reasons, paving the

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<sup>45</sup> See Gordon M. Hahn, “The Rise of Islamist Extremism in Kabardino-Balkariya”, *Demokratizatsiya*, vol. 13 no. 4, 2005, p. 574.

way for a repetition of the centralization policies in that republic. Former Communist Part leader Mukhu Aliyev, an ethnic Avar, was appointed President of Dagestan – a position that had purposefully not been created in the republic, in order to avoid centralization of power among one clan. This decision in turn breaks the equilibrium existing among the ruling ethnic groups and clans in the republic. Strongly multi-ethnic, Dagestan has traditionally been ruled by a state council where fourteen ethnic groups are represented. A consensus mechanism has, in spite of mutual acrimony, corruption and tensions, worked to prevent the collapse of the republic. With a centrally appointed leader answerable to the President of the Federation but not to the council, the system that provided a balance among local forces has been broken. In turn, Aliyev is known as a politician without strong clan connections, increasing his dependence on Moscow. A similar policy was used in Kabardino-Balkaria in September 2005, when the ailing President Kokov retired after 20 years at the helm of the republic. In his place, an ethnic Kabardin Moscow businessman without strong ties in the republic, Arsen Kanokov, was appointed.

Across the North Caucasus, these centralization policies have brought repression that alienated the local population and empowered the already existent radical Islamic cells that have strong links to Chechnya. But the policies have also undermined the inter-ethnic stability in the region, by undoing the fragile inter-ethnic coalitions ruling the mainly multi-ethnic republics of the region such as Dagestan, Kabardino-Balkaria and Karachai-Cherkessia. This has upset long-standing balances and rekindled competition for power, which easily takes on an ethnic aspect given the strength of nationalism in the region. Hence instead of making the North Caucasus republics easier for Moscow to manage from the center, as was intended, the reforms risk making these republics truly ungovernable as the republican leaderships increasingly lose control over the independent-minded forces in the region, be they variously ethnic, clan, or economic-based entities. This further leaves room for the radical Islamic resistance to grow, as discussed below.

To add fuel to the fire, Moscow has begun to tamper with the very internal borders of the Federation in the region, proposing the abolition of the

Adygeia republic and its incorporation into the Krasnodar province.<sup>46</sup> This has in turn spurred nationalist feelings among the Circassian peoples (Adygs, Kabardins and Cherkess) and re-kindled demands for the recognition of what nationalist groups view as the Genocide of the Circassians in 1864, when the majority of the Circassian peoples were forcibly exiled to the Ottoman Empire. Calls for the repatriation of the descendants of the exiles have increased, as have embryonic demands for a greater Circassian republic.

Faced with these internal and largely home-grown problems, President Putin in a lightning visit to Dagestan in July 2005 instead seemed to emphasize the purported external sources of the problems of the region, ignoring evidence that much of the violence is home-grown and a result partly of Putin's own policies. Hence he defined the strengthening of Russia's southern border as the main task at hand, while also ordering the eradication of organized crime and the formation of specialized mountain brigades to fight terrorism in the region.<sup>47</sup>

#### *The Spread of Islamic Radicalism*

Clearly, all problems in the North Caucasus are not the direct result of Kremlin policies. Indeed, the spread of radical Islam across the North Caucasus is a key factor that has exacerbated the situation. Even in the face of the blatant overreaction by authorities, this threat is real and has external linkages. Yet this radicalization of Islamist groups in the North Caucasus is mainly a result of the lingering ulcer in the region, the conflict in Chechnya. The emergence of the militant cells in the other republics of the region follows a general pattern: they are typically formed by a small number of individuals that have fought in Chechnya and received training by militants linked to Chechen radicalized formations, led by Shamil Basayev and in the past also by the Arab leaders in the Chechen *Jihad*, Al-Khattab and Abu Al-Walid. They are then sent back to their home republics, where they silently developed a greater following by recruiting young and disaffected members. At this point, the tightening of repression in the region had an adverse effect.

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<sup>46</sup> Pavel K. Baev, "Russian Quasi-Federalism and Georgia's Non-Existent Territorial Integrity", *Central Asia-Caucasus Analyst*, 3 May 2006.

<sup>47</sup> Blandy, *North Caucasus: On the Brink of Far-Reaching Destabilisation*, p. 9.

Young and frustrated men without jobs or prospects for either creating a family or self-realization are then further alienated from the political leadership of their republic, and attracted to the radical message of the Islamic *jamaats*.<sup>48</sup> In this way, the local militant groups have been able to grow and multiply. Clearly, they still form a small minority of the population, yet the mismanagement by the region of the federal and republican authorities demonstrably increases the number of people either willing to or considering taking up arms against the government.

#### *The 'Afghanization' of the North Caucasus*

This process could be termed a process of 'Afghanization', which first affected Chechnya but is now spreading to the entire North Caucasus. The term is chosen to evoke the development of Afghanistan in the mid-1990s, as a combination of war, human suffering, poverty, organized crime and externally sponsored Islamic radicalism combined to generate an explosive situation, which the authorities are increasingly unable to respond to – and which, failing to understand the web of problems correctly, end up exacerbating.

Afghanistan in the early 1990s is illustrative as it is an example of how warfare leads to the destruction of the fabric of a society. Most civil wars shake society and endanger the lives of citizens during the wartime, but civil war does not automatically destroy the possibility of restoring peaceful conditions of life after hostilities cease. The economic and psychological effects of the war may be tremendous, but a basic economy, basic education, health care, social norms of behavior, etc. do remain in many post-conflict situations; and the social capital of the society remains in place. However, due to its brutality and the length of war, the conflict in Afghanistan sparked by the Soviet invasion destroyed the very foundations of society. In principle, the entire population of Afghanistan was directly affected by two decades of war. One out of ten Afghans is thought to have been killed; a similar number wounded or maimed; 6 million or slightly below a third of the population made refugees in other countries, and several million forced

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<sup>48</sup> Hahn, "The Rise of Islamist Extremism in Kabardino-Balkariya", provides an excellent account of this phenomenon.

into internal displacement. Over half the population was directly affected by death, injury, or displacement. Beyond this staggering human toll, the very infrastructure of society was destroyed. Materially, the communication systems, from roads to telecommunications, were destroyed; the health care and educational systems were wiped out. Economic livelihood was made dangerous because of the 10 million landmines that were distributed; the law and order system broke down, to be replaced by anarchy and lawlessness with the “Kalashnikov culture” spreading in the country. Organized crime grew ever stronger as a result of the collapse of the economy. Pillage, killings, and rape were no longer exceptional events. This situation formed the breeding ground for the emergence of the Taliban movement, which exemplified the destruction of both traditional and modern social norms. The tribal structures of authority were undermined through the war; the traditionally tolerant Afghan society was invaded by alien, extremist ideas that gained dominance, a process that only culminated with the Taliban – a group originating in the refugee communities in Pakistan, young men that never knew peace, that grew up in war and knew nothing but war, a movement whose way of thinking was a direct product of the war that had devastated the families and lives of the members and forced them in exile where extremist militias inculcated them with their austere and violent-prone beliefs.

The dire picture of Afghanistan unfortunately applies to Chechnya in far too many ways, and increasingly to the entire North Caucasus. A similar share of Chechnya’s population has been killed, over 100,000 people which implies one in ten Chechens. As in Afghanistan, over half of the Chechen population has been affected by death, injury, or displacement. Likewise, the extreme brutality of the Russian military’s campaign in Chechnya has destroyed the foundation of society in Chechnya. People are being killed, maimed, abducted, tortured and raped at will by the authorities that are supposed to uphold law and order; no one is safe at any time in Chechnya, and the culture of fear is spreading across the region. The foundations for an economy have also been destroyed by conflict and a failed economic transition, which has only emboldened organized crime. Externally sponsored radical Islamic movements are finding a fertile ground, and the same mix of poverty, organized crime, radicalism and terrorism is emerging. Afghanistan was a

failed state as a result of the Soviet invasion, and in spite of the Russian government's increasing strength, it is unable to prevent slipping of the North Caucasus over what long-time Caucasus analyst Charles Blandy calls "the brink of far-reaching destabilization".

### **Chief Forces Driving Russian Policy**

The Constitution of the Russian Federation assigns foreign policy to the President with the concurrence of the parliament (*Duma*). In practice, Russian policy towards the South Caucasus is driven by a peculiar amalgam of entrenched forces exercising extensive powers that lie outside of the Constitution.

Of these, the most important is the Foreign Security Service (FSB). Successor to the KGB and Putin's own career base, the FSB was initially assigned the task of destabilizing Georgia during the period of Eduard Shevardnadze's presidency. Shevardnadze, himself a former Soviet official, had committed the ultimate sin of apostasy. The FSB's task was to bring him down, which it pursued through two unsuccessful attempts on his life and by promoting the separation of Abkhazia from Georgia. In this latter activity, the FSB employed the Chechen troops led by Shamil Basayev against Georgian forces in Abkhazia. Little did it matter to the KGB that this same Basayev would shortly afterwards turn against Russia in his activities within Chechnya itself. Thus were the fates of the North and South Caucasus closely entwined with one another.

Closely linked with the FSB but institutionally separate is the Russian Army. Since the 1820s, the Russian Army has seen the Caucasus as a whole as the field where Russia's power would be affirmed and her valor attested. Having been humiliated in Afghanistan, Moscow's post-Soviet Army's high command looked to the Caucasus as an ideal place at which to reassert its dignity as the main bulwark of the Russian state. Such thinking was inevitable given the near-total continuity between the late Soviet and early post-Soviet general Staffs. This assignment was all the easier since the Army maintained two bases in Georgia even after the establishment of Georgian independence in 1991-2.

The third arm of Russian policy in the South Caucasus is comprised of the many large Russian firms in which the Russian state has maintained or reestablished a dominant interest. Especially active among them are the main producers of electric energy (RAO-UES) and natural gas (Gazprom). Both are nominally privatized but both are controlled by Kremlin appointees on their boards and by Kremlin-appointed CEOs. Down to 2005, the Army was Russia's lead force in the Caucasus. In the period since autumn, 2005, this role shifted to the state-controlled monopolies. Both the Army and monopolies are guided in their endeavors in the region by the FSB.

In all these activities, the Ministry of Foreign Affairs plays only a minor supporting role. Typical of this situation is the fact that the Ministry's representative to the OSCE Minsk Group negotiations on Karabakh accepted a negotiated settlement involving Azerbaijan, yet was met with a much less enthusiastic approach at the last minute by those in the Kremlin who control Caucasus policy.<sup>49</sup> Thus, when the EU seeks to address South Caucasus issues with Russia's Ministry of Foreign Affairs it is not dealing with those who actually control Russia's policy there. Encouragement of the EU by the Foreign Ministry is as much a tactic for overcoming its own policy irrelevance within the Putin government as it is a means of driving negotiation towards a mutually satisfactory outcome.

### **The Interrelationship between the North and South Caucasus**

Our conceptual division of North and South Caucasus is a result of the fact that post-Soviet Russia retained control of the North but not of the South. Otherwise, the concept has little meaning in history, ethnography, or geography. Inevitably, the two artificial zones of a single region influence one another in diverse and significant ways.

The South Caucasus influences the North because the three main peoples there attained sovereignty and independence after 1991. This has exerted an inevitable attraction for those in the North Caucasus seeking greater self-rule. The situation is thus comparable to the appeal that Finland held for Estonians, Latvians, and Lithuanians between 1939 and 1991.

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<sup>49</sup> Personal communication to authors from diplomat, 2006.

Growing prosperity in Azerbaijan will soon add an important element to this trans-border attraction in the Caucasus. One can expect migration from impoverished areas of the North Caucasus to Baku, resulting in closer interactions overall.

In the meanwhile, the most significant interaction of North and South Caucasus is the danger to independent Georgia and Azerbaijan posed by instability and poverty in the North. Even if Moscow shares its new oil/gas wealth with its southernmost citizens, the gap between the North Caucasus and Russia's home regions is bound to remain. This will feed continued instability in the North Caucasus, even as poverty diminishes. This in turn will assure a continuing large-scale Russian Army presence there, along with the corruption this engenders. And Russian officers will continue to find it convenient to blame the continuing chaos in the North on their southern neighbors, and to consider aggressive actions against them.



## The Way Ahead: A European Agenda for the Caucasus

As the European Union faces the challenge of engaging the Caucasus region, it is clear that serious impediments exist of the realization of what would be a best-case scenario from a European perspective: a stable, peaceful Caucasus where both North and South develop ever stronger democratic institutions, experience economic growth that is divided equitably among the population. Such a scenario would entail a Caucasus that becomes a contributor to European security through energy supplies, trade corridors, and a bulwark against extremism and crime.

Some developments in the region indeed provide hope that this scenario can, at least in part, be realized. Yet this has almost exclusively been the case for the South Caucasus. The economic growth in the three states of the South Caucasus indicates that long-term economic stabilization and poverty reduction is realistic. In parallel, the striking progress in Georgia's political system has shown that old patterns can indeed be broken and that the building of functioning state institutions and the promotion of a democratic future is feasible. Georgia's successes have also increased expectations on the two other states of the region, undoubtedly a strong indirect influence on the accelerating pace of gradual reform in Azerbaijan following Ilham Aliyev's consolidation of power. All three countries are presently progressing substantially toward the consolidation of statehood and the building of modern economies and political systems on a western model.

Meanwhile, other European institutions such as the Council of Europe and NATO have engaged the three countries to a degree that western influence on their political systems can not be neglected; these strongly support the reform constituencies that have grown stronger, immensely so in Georgia following Rose Revolution, and more incrementally and gradually in Azerbaijan and Armenia. The completion of the BTC pipeline and progress on the parallel gas pipeline is making the region a supplier of energy to

Europe, while the states of the Caucasus provide western access to lands beyond the Caspian, and their contributions to peacekeeping operations indicate both their willingness and ability to contribute to European security. Negotiations on the region's main conflict, the Armenian-Azerbaijani conflict, have been more upbeat than ever, inspiring hope that a path toward a resolution could still be found. Unfortunately, the situation in the North Caucasus does not inspire comparable hope, posing a particular problem for outside actors as their ability to influence the situation in that region is highly limited even as Russia fails to stabilize the region.

Yet as surveyed in the above sections, the challenges remain plentiful even in the South Caucasus, generating fear that the modest progress being made in the past few years could be undone. The chief danger remains the unresolved conflicts of the region, which, as discussed above, are more and not less dangerous as time passes by. Closely related is the problematic role played by Russia in the region, not least in stalling a resolution to the conflicts of the South Caucasus; and in endangering regional security by failing to provide security in the North Caucasus.

Faced with the mix of European interests and challenges in the Caucasus, a European strategy of dealing with the region is called for, keeping in mind the discussion above regarding the three sets of inter-related European interests in the security, energy, and governance sectors. Formulating such a strategy will undoubtedly be a complex task, given the number of EU agencies and member states involved. In the following paragraphs, nine suggestions are presented concerning crucial long-term steps that would serve Europe in this context. In addition to these, the report also endorses the more specific and concrete recommendations provided in 2003 by Dov Lynch, some of which are reiterated below.<sup>50</sup>

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<sup>50</sup> Lynch, "The EU: Toward A Strategy", pp. 187-190. Providing students from the Caucasus with scholarships to the EU, supporting development projects in minority regions, and conducting informational campaigns to ensure the EU's functioning is better understood are specific items in Lynch's study that deserve mention.

**Conceptualize the Caucasus in the framework of a greater Black Sea Region.**

The pending membership of Bulgaria and Romania and the more distant prospect of Turkish membership is bringing the EU to the shores of the Black Sea. This makes the Caucasus a direct neighbor of the EU, but it also provides a logical framework for the EU to conceptualize its relationship with the Caucasus in a more specific manner than the Neighborhood Policy. Viewing the entire Caucasus within the prism of a greater Black Sea region makes sense politically as well as economically. Security challenges in the wider Black Sea region will have a growing potential to affect the EU as a whole; while transportation and communication networks for trade and energy across the region will develop the EU's economic interdependence with the region. In this context, the Caucasus is a discernible geographical entity forming an important eastern pillar in the Black Sea region, and hence a gateway to both Central Asia and Iran for the EU.

Viewing the Caucasus as part of the greater Black Sea region is not a novel approach. Quite to the contrary, the South Caucasus was part of the Black Sea Economic Cooperation project launched in the early 1990s by Turkey's initiative, and subsequent efforts to promote the Black Sea region have included the three states. The North Caucasus has more seldom been included in a Black Sea context, aside from being part of Russia's territory. In paying more attention to the Black Sea as an emerging hub of European security, the EU can further strengthen the legitimacy of its concerns and interests for both the South and North Caucasus as part of its Neighborhood.

In this context, Romania's efforts in the past several years in taking a lead as a convener of Black Sea politics deserve praise, and are together with Turkey's long-standing role in promoting Black Sea cooperation an important pillar to build on. The concept of a 'Black Sea dimension' in European security affairs, comparable to the 'Northern Dimension' idea, could be further developed and institutionalized, a process in which the prospective EU members that are Black Sea riparians, and the EU Special Representative for the South Caucasus could play a key role. Clearly, an added benefit of this is that aside from the Caucasus, this would constitute a way for the EU to bring Ukraine into the framework.

The benefit from such an approach would be complementing the existing Neighborhood Policy, which is primarily a set of bilateral relationships between the EU and the individual states. Through the individual action plans, ENP can prove to be an effective tool to enhance institutional development in the respective countries, but the ENP structure fails to provide a context to these individual bilateral links, or a greater regional framework. A Black Sea dimension, in which the Caucasus would be firmly anchored, would constitute a measure to change the mental map of the region, and a way of addressing the many regional issues that cannot be resolved solely through bilateral ties.

### **Adopt a long term approach to governance focusing on state-building**

In seeking to strengthen governance and develop democratic institutions, the EU is well advised to take a long-term and incremental approach to these issues. This entails the strengthening of sovereignty, supporting state-building, and supporting institutional reform. In the first place, the EU must be more unequivocal in basing its relations with the region on partnership with the three recognized governments of the South Caucasus. This implies affirming that these relations are based on international law, implying the sovereignty and territorial integrity of the three states of the region. That said, the EU should support conflict resolution efforts and support any solution that the parties to the conflicts will agree on, as discussed below. In this context, the presence of carrots in the form of economic assistance or security guarantees will be important. Secondly, there is a need to reduce the excessive international focus on elections, and instead shift the focus of European attention on building a basis for good governance and democracy, that is functioning and accountable state institutions. Most important in this regard is emphasizing the rule of law and hence focusing efforts on reform of the security sector and judiciary bodies. A significant precedent in this context is the EU's policies in Southeastern Europe in the early 1990s, which through broad engagement helped turn Romania from a country widely perceived as a problem to a functioning democracy that, in spite of problems,

came on track to EU membership.<sup>51</sup> Another was the EU Rule of Law Mission to Georgia in the aftermath of the Rose Revolution, which was a step in this direction.<sup>52</sup> It should be noted that the EU's proposed Action Plans for the regional states, particularly Georgia, do have the Rule of Law as a chief priority, which is encouraging.

A continued and further enhanced emphasis on promoting the rule of law and state-building more generally across the region, contributing to the development and empowerment of core state institutions, will lead the EU to be able to more harmoniously apply pressure for reform in these countries. Meanwhile, a key strategy should be identifying and supporting constituencies for change within state institutions, which are often dependent on western support for pushing their reform agenda forward in the face of resistance by predominantly older, entrenched, and often corrupt elites. Seeking to influence the aid programs of member states in this direction would be a positive step.

While the EU is not in a position to offer membership perspective to the states of the South Caucasus, this is not excluded in the very long term in the region. This deprives the EU of its perhaps most powerful agent of change – the carrot of membership. Yet in the meantime, it is possible and desirable for the EU to promote harmonization policies to EU standards in the local countries. This is not an issue of imposing the entire *Acquis Communautaire*, but perhaps to work for the imposition of specific parts of the *Acquis* into the governance structures of the region, for example in terms of the judiciary or education sectors.

Part of this strategy should also include the struggle against organized crime. The recommendations made by Lynch in 2003 to further develop the South Caucasus Anti-Drug (SCAD) program should be reiterated, given the rising problem of drug trafficking and drug addiction in the region. To this should

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<sup>51</sup> See eg. Marian Chiriac, "Deadlocked Romania", *Current History*, March 2001, pp. 124-128; Aneta Borislavova Spendzharova, "Bringing Europe In? The Impact of EU Conditionality on Bulgarian and Romanian Politics", *Southeast European Politics*, vol. 4 no. 2-3. pp. 141-156.

<sup>52</sup> Ahto Lobjakas, "EU Set to End Successful 'Rule of Law' Mission", *RFE/RL*, 19 April 2005.

also be added a parallel and integrated initiative against Human trafficking and smuggling, which is a growing problem in the region – and an issue in which Turkey has lately made significant progress that could help the states of the Caucasus.

### **Make the Caucasus a key part of the EU-Russia dialogue**

Whereas Russian policies are part of the problem in the Caucasus, a peaceful and prosperous Caucasus will be difficult if not impossible to accomplish if Russia is alienated and pursues counter-productive policies both on its own territory in the North Caucasus or toward the independent states of the South Caucasus. Among international players, the EU is in an advantageous position to discuss the Caucasus with Russia, not being seen by Moscow as a hostile force. As the EU becomes a riparian to the Black Sea and develops a focus on the greater Black Sea area, it will also be in a position to legitimately lift the Caucasus on the agenda of EU-Russian discussions. These should naturally focus on the South Caucasus, but may gradually come to involve discussions on the North Caucasus and ways for the EU to advise and assist Russia on stabilizing this region. In such a dialogue, it will be crucial for the EU to emphasize in a non-confrontational manner its own interests in the Caucasus and its intention to pursue them, while keeping the door open to doing so in cooperation with Russia. It should be clear that this will not mean giving Russia a veto on European activities and policies in the South Caucasus. Instead, discussions should be geared toward issues of mutual interest, such as countering organized crime and establishing the rule of law.

### **Re-Engage Turkey in the South Caucasus**

With the beginning of negotiations for Turkey's membership in the EU in 2004, a breakthrough was accomplished in a number of ways. Aside from being a logical step in Turkey's half-century long European vocation, most attention has been paid to the role of Turkey as a large and democratic Muslim country. But Turkey is also a neighbor to the Caucasus, with developed relations with the region, strong interests there, and a record of a driving force in Black Sea cooperation. Turkey's increasingly cordial relations with Russia are an important asset in this context as well. Yet very much because of the Turkish government's focus on the EU process and the

unrest in Iraq, Turkey has lost some of its momentum in the Caucasus in the past few years. Indeed, Turkey is losing some of its role as a leading force in the Black Sea region.

It would only be logical for the EU, as part of its deepened and broadened dialogue with Turkey, to engage Ankara in re-invigorating the Black Sea and Caucasus dimension of its foreign policy, and to do so in coordination with the EU. EU and Turkish interests in the region strongly overlap. Developing an institutionalized dialogue with Turkey on the South Caucasus within a larger Black Sea dimension would hence be an important step for the EU to take, one in which the EU could support a leading role for Turkey in the region. This would provide the EU with the possibility of taking advantage of Turkey's instruments of influence in the Caucasus, and its experience and expertise in security matters in the region. In addition, in membership negotiations that will likely involve substantial amounts of tension, a dialogue on the South Caucasus would provide a significant boost to a sense of joint interests between Brussels and Ankara.

Turkey's relationship with Armenia is a problematic issue in this context, yet it is essential for such a dialogue to be constructed in a way that does not permit the Armenian border issue of holding the dialogue hostage or dominating its agenda.

### **Develop a Close Partnership with the United States**

While opening a dialogue with Russia and coordinating with Turkey, the EU would also find it natural to develop a partnership with the United States on Caucasian affairs. Indeed, the interests of the EU and the U.S. in the Caucasus are for all practical purposes identical, and the above-mentioned three sets of European interests in the region are equally applicable to the U.S. As Transatlantic relations are recovering from the test of the Iraq crisis, the Caucasus is an area where a solid partnership based on mutual interests could be built, which would further build trust and confidence and constitute an example of useful cooperation between the EU and the United States. In addition, the two parties have complementary elements of influence. The U.S. will continue to be the main provider of military assistance and focal point of hard security issues in the region; whereas the EU's emphasis will

likely develop along the lines of soft security. These two are complementary, in particular as concerns the conflict resolution. Where the U.S. can act more rapidly as a result of being a single government, the EU can contribute with economic assistance for post-conflict reconstruction, as well as with its experience of the police component that is increasingly crucial in post-conflict peace-building and peacekeeping and where it has a comparative advantage.

### **Advance Security by Strengthening NATO Presence in the South Caucasus**

NATO is a political-military alliance, and hence plays an important role also in the strengthening of democratic institutions and in reforming the militaries of the region to professional, civilian-controlled entities capable of contributing to international security. NATO has hence been an underestimated force in bringing about crucial reform in the security sector of former socialist states. NATO's role is particularly crucial for the South Caucasus, because the organization unlike the EU does offer these countries a membership perspective. Given the accepted role that the carrot of membership in the EU and NATO has had for Central and Eastern European states, NATO's ability to bring about meaningful change should not be discounted.

NATO is also the organization that brings together the U.S., most EU states, and Turkey, and where coordination of policies regarding the South Caucasus can take place. NATO is already a substantial factor in the South Caucasus through PfP, and is considered by all regional states as a positive force and a provider of security. If Georgia has developed furthest toward NATO standards and in terms of political readiness to take the step toward membership, Azerbaijan is more discretely pursuing similar objectives, and Armenia has in the past several years developed increasing enthusiasm on cooperation with NATO.

In strengthening NATO's role in the region, the first step will be to support the granting of Membership Action Plan (MAP) status for Georgia as soon as possible, paving the way for the inclusion of Georgia into the alliance. Parallel to this, it is in the EU's interest to support NATO's role in Armenia



and Azerbaijan, and in coordinating its own activities with NATO in order to maximize benefit.<sup>53</sup>

### **Activate the EU's Role in the Unresolved Conflicts and in Peacekeeping**

A necessary element in accomplishing EU interests in the Caucasus will be to activate the EU's role in the unresolved conflicts. The task will be for the EU to do this without replicating or duplicating the role of other organizations, especially considering the dubious success of international efforts at conflict resolution in the region. Yet there are at least two specific areas where the EU – based on its non-antagonistic relationship to all major actors, including Russia – can play an important role. These are first the hopelessly outdated situation in South Ossetian conflict, and the reform of the negotiation structures regarding the Armenian-Azerbaijani conflict.

#### *Reform peacekeeping and negotiation formats in South Ossetia*

As discussed previously, the South Ossetia conflict is the only conflict in the South Caucasus where there is no accredited international role in conflict resolution. At present only a minor OSCE role in supervising Russian-led peacekeeping exists. Meanwhile, the EU has proven able to assert a role for itself in the Transdnestrian conflict in Moldova, where discussions are under way to create a new Peacekeeping Force jointly with Russia and with third parties, such as Ukraine. It would hence be natural for the EU to offer to take up a more active role in this specific conflict, both as regards peacekeeping and as regards conflict resolution. Concretely, this is very timely given the Georgian efforts to internationalize peacekeeping in this conflict. Given its *modus vivendi* with Russia, the EU is in a singular position to develop, jointly with Moscow, a peacekeeping format involving a joint EU-Russian force, possibly with the inclusion of third states like Ukraine, which has stated its willingness to contribute to peacekeeping in Georgia's conflicts. Directly related to this would be the setting up of a new conflict resolution structure in the South Ossetia conflict, where the EU could take a

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<sup>53</sup> For a detailed analysis of NATO's role in the South Caucasus, see Svante E. Cornell, Roger N. McDermott, William O'Malley, Vladimir Socor and S. Frederick Starr, *Regional Security in the South Caucasus: The Role of NATO*, Washington: Central Asia-Caucasus Institute, 2004. ([www.silkroadstudies.org](http://www.silkroadstudies.org))

lead as a neutral convener of negotiations. The EU could solicit interest among member states for a leading role in this regard, in which smaller countries that are not NATO members could be expected to take up a role, which would be perceived as less confrontational by Moscow. Finland and Sweden are possible countries in this regard. Both have previous experience of conflict resolution in the South Caucasus; both have provided EU Special Representatives to the South Caucasus; and both Finnish President Halonen and Swedish Prime Minister Persson have shown an interest in the region by being among the few heads of EU states and governments to visit Georgia. Clearly, a suitable form of coordination with and inclusion of Russia in this process should be worked out.

#### *An EU role in the Karabakh conflict*

Whether the 2006 talks on the Armenian-Azerbaijani conflict are successful or not, there is a need for revamping the Minsk Group conflict resolution process. The Minsk Group has seen changes of its composition before, and it is time for a new reform. The very format of the Minsk Group would ideally need to be rethought, and the question of whether the OSCE has a role to play in the conflict at all merits discussion. Irrespective of the outcome of such discussions, it is clear that both the U.S. and Russia will maintain a role in conflict resolution. It is now time to also make the EU a full party in a tripartite negotiation format, replacing France. This would enable the possibility of Europe taking a lead in the conflict resolution process in coordination with the U.S. and Russia, building on its soft security focus, its ability to provide post-conflict reconstruction, and its positive image in the region.

In so doing, it will also be necessary to fundamentally change the level of the discussions, by appointing a senior European statesman to the role of co-chair of this negotiation format, which would ideally but not necessarily be removed from the OSCE framework. The same would be done by the U.S. and Russia, providing for a more senior group of officials involved. In fact, the Minsk Group provides for such a format already: aside from co-chairs of the Minsk Group, there is also the more honorific position of co-chair of the *Minsk Conference*, the final conference once scheduled to be held in Minsk to finalize a resolution of the conflict. It would hence be possible to keep the

current American and Russian co-chairs of the Minsk Group, adding to them the EU Special Representative to the South Caucasus, and appointing senior, possibly retired, figures to a position above the direct negotiating group. This would have the advantage of providing a layer of officials above the diplomats involved in the day-to-day negotiations which could interface with the higher levels of government, and ensure a higher degree of attention to the conflict on the part of leading figures. Possible candidates for this position could include former Finnish President Ahtisaari and former Swedish Prime Minister Bildt, to name just two figures.

*Reconstruction and engagement in conflict zones*

As noted by Dov Lynch in a 2003 report, directing EU assistance to reconstruction efforts in the accessible areas of the conflict zones, such as the Zugdidi and Gali regions around the Abkhazia cease-fire line, is also still called for. This is also true for conducting needs assessment studies for the Armenian-occupied territories in Azerbaijan and areas of Abkhazia outside Gali.<sup>54</sup> Moreover, the EU should state its readiness to contribute significantly to post-conflict reconstruction should a negotiated settlement be achieved in either conflict. This would be an important element of projecting EU soft power toward conflict resolution.

Aside from this, the EU's growing focus of achieving reform through 'soft power' could come to very fruitful use in the separatist conflicts. At present, the separatist areas are isolated, which has prevented the dissemination of European values in the region, contributed to their continued dependence on Russia, and sustained the dominant role of ethnic nationalism there. This is particularly true in Abkhazia and South Ossetia, whereas Karabakh is so closely integrated to Armenia that its isolation is somewhat reduced. European engagement of the separatist areas, particularly Abkhazia and South Ossetia, could contribute to the 'Europeanization' of their elite as well as population, in the longer term strengthening their attachment to a European future. Otherwise, the societal changes taking place in the rest of the South Caucasus would not be replicated there, making them a kind of time capsule of the late Soviet era that mirror more the values and way of life

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<sup>54</sup> Lynch, pp. 187-188

of that era compared to a modern, European way of life. EU engagement of these areas through increased exposure to Europe in general and cultural and educational exchanges in particular could help gear the separatist areas toward the same goal and aspirations of a European future as their mother states. It should be noted, however, that this process must be undertaken only through a dialogue with the recognized governmental authorities in these territories – i.e. the Georgian and Azerbaijani governments. Failing to do so, i.e. acting in these areas without coordination with the recognized governments, would not only constitute a breach of international law but also be deeply counter-productive to the European agenda in the region, as it would generate doubt as to European commitment to the principles of international law, undermine the sovereign states of the South Caucasus and estrange them from Europe, and reduce the chances of negotiated solutions to the conflicts. To the extent possible, these efforts should also be geared toward confidence-building and projects involving populations from both the separatist areas and the recognized states, thereby contributing to dialogue and compromise and fighting deeply seated mutual prejudice.

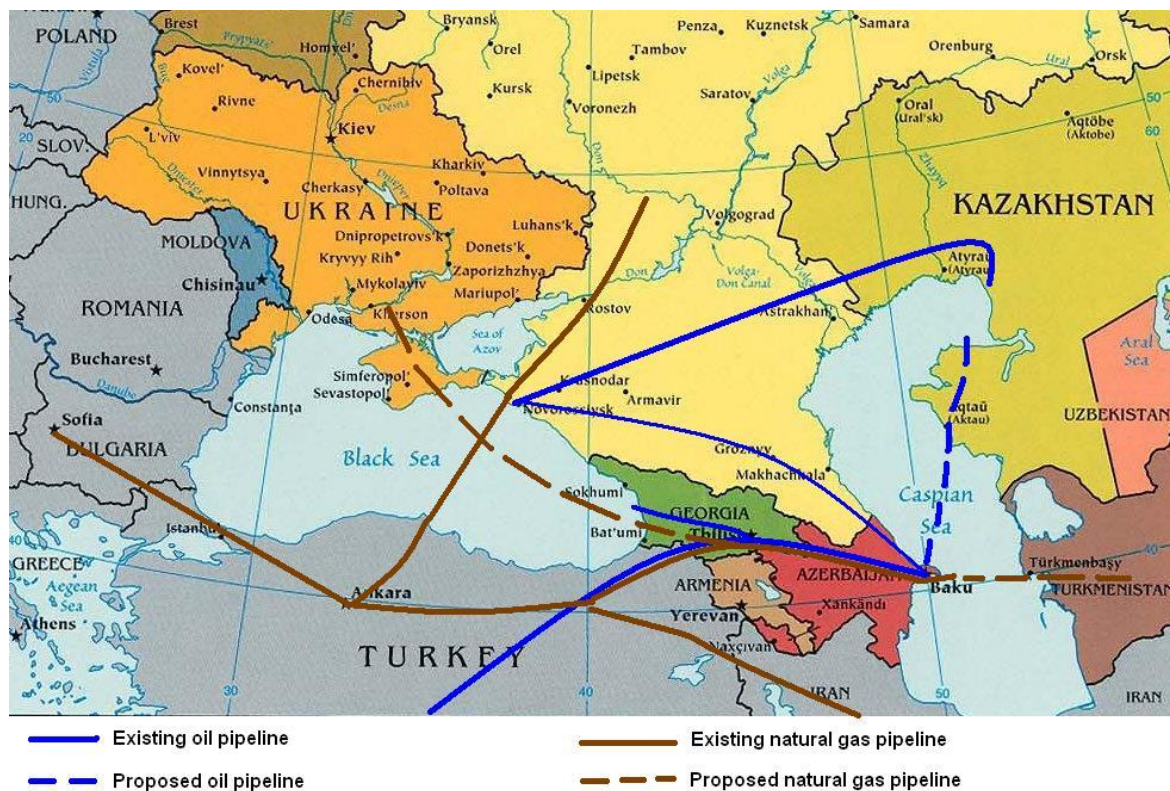
### **Take the Opportunity to Extend by Baku-Ceyhan to East Caspian**

The completion of the BTC and South Caucasus pipelines is an important milestone for European energy security, by diversifying supply and simultaneously bolstering a new partner region to the EU in energy security. This also constitutes the most significant geopolitical accomplishment in the Caucasus since independence. It is important to recall that this took place as a result of a Euro-American consortium of states and companies over thirteen years, which survived regime changes in all countries concerned – Azerbaijan, Georgia, Turkey, the UK, Norway and the U.S. It is a project that affects and advances all three areas of European interests – security, energy and governance – if taken advantage of properly.

But the completion of the twin pipelines should not be a cause of complacency. Indeed, it constitutes the starting point for the leap over the Caspian sea, a step toward providing the lands East of the Caspian Sea with a direct connection to Europe that does not depend on former colonial overlords. For Central Asian energy producers, the completion of BTC and

SCP makes the export of energy independently to Europe a distinct possibility and not only a pipe dream. Given the proximity of the South Caucasus to Europe, there was never a strong argument for Azerbaijani oil to be exported eastward to Asian consumer markets. But as Kazakh oil and Turkmen gas is concerned, greater proximity to India and China and the booming energy demand there makes export eastward an attractive option, while both states can also take advantage of the South Caucasian transport corridor by building connecting pipelines over the Caspian sea. Indeed, BTC came online at exactly the time when Kazakhstan began debating how to export the resources of the Kashagan oil field, the largest single oil field discovered globally in the past two decades. Kazakhstan's stated interest in exporting oil through BTC is an encouraging sign that Europe should take advantage of by supporting politically and financially, through export credits, the building of Trans-Caspian oil as well as gas pipelines.

Map of existing and possible oil and natural gas pipelines



BTC was realized in great part thanks to substantial American government support. In spite of being the primary beneficiaries, European states were mainly passive bystanders, with the partial exception of the United Kingdom. This time, however, Trans-Caspian pipelines are unlikely to be realized unless Europe take a strong interest in the matter. To put it simply, given current Russian monopoly, and growing Chinese and Indian demand, the Central Asian energy resources are Europe's to lose.

### Revitalize TRACECA

In the mid-1990s, the EU launched a visionary project to link Europe to Asia via the Caucasus, the TRACECA project. The project envisaged the building of rail and road connections that would link Europe through the Black Sea and Turkey, via the Caucasus, through ferry connections across the Caspian into Central Asia and beyond. The project, if realized, would revolutionize continental trade and re-establish the ancient Silk Road with impressive benefits to both Europe and the states of the region.

Yet little came out of TRACECA, and the project was for most practical purposes allowed to slip into oblivion. At present, it is time for the EU to revitalize and re-energize TRACECA, which would in the long term be the most significant step the EU could take to assist the economic development of the Caucasus as well as Central Asia. The development of continental trade that TRACECA could engender would be an important contribution to job generation as well as increased trade and contacts with the outside world.

In revitalizing TRACECA, the EU should also amend the project in several ways. A *first* step, in line with the re-engagement of Turkey, is to include Turkey in a much more active capacity in the project, taking advantage of the rapid modernization of Turkey's infrastructure, notably including highways along the Black Sea coast to Georgia and the Kars-Akhalkalaki railroad connection, which will for the first time provide a rail link between Turkey and Georgia, and moreover link Istanbul to Baku. A *second* element is to broaden Traceca to include or coordinate its activities with the development of energy infrastructure. Obviously, economies of scale could be won by the further coordination of energy, rail, and road infrastructure as well as telecommunications networks. *Third*, TRACECA aims to restore the Silk

Road, but does not include Afghanistan, the heart of the ancient Silk Road. Yet the Silk Road linked Europe not only to China but to South Asia, through Afghanistan. When TRACECA was conceived, incorporating Afghanistan may have seemed remote, but the changes in Afghanistan makes its inclusion into TRACECA very timely. With the substantial infrastructural projects going in Afghanistan, linking those to TRACECA would imply facilitating further trade extending to South Asia, assisting the rehabilitation of Afghanistan but also further increasing the potential gains to the Caucasus in terms of transit trade.

Clearly, revitalizing TRACECA will require substantial funds, ranging over time in the billions of Euros. But the visionary character of TRACECA, coupled with the changed circumstances in the region, makes this not only desirable but also timely. If TRACECA was in fact ahead of its time in the mid-1990s, now is an excellent time to re-launch this project.