



WORKING PAPER

# **The South Caucasus and its Wider Neighbourhood**

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## Abstract

The South Caucasus is subject to the often conflicting geopolitical influences of Russia, the European Union (EU), Turkey, and the United States (US). Even though other actors have less clout in the region, Iran is likely to have a more influential role in the future. China's economic influence is on the rise and Central Asian 'neighbours' Kazakhstan and Turkmenistan have some economic bearing on the region. The South Caucasus countries – Armenia, Azerbaijan and Georgia – are far from being helpless pawns in this geopolitical contest for influence and affiliation. Indeed, to a certain extent they play external actors against one another – Armenia looks north to Russia for support; Azerbaijan is wary of integration initiatives but close to Turkey; and Georgia's objectives are fixed westwards towards the EU and the US. Together, the three South Caucasus countries and the seven 'external' actors in the region constitute a dense web of interdependent relationships that affects democratic governance and regional affiliations; security and conflict; and trade and energy.

This paper addresses these interdependencies in a rapidly evolving regional setting. It does so in light of recent developments, in particular the increasingly tense EU/US-Russia relations and the war in Ukraine, but also international tensions over Syria. Second, the interests of the EU, Russia, Turkey, the US, Iran, China and Central Asia in the South Caucasus are discussed. The paper concludes by presenting a few basic steps that the EU should take to strengthen its posture in the region.

## About the author

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# 1. Introduction<sup>1</sup>

The South Caucasus comprises the former Soviet states of Armenia, Azerbaijan and Georgia. It lies at the crossroads of Europe, the Middle East and Asia and is subject to the often conflicting geopolitical influences of Russia, the European Union (EU), Turkey, and the United States (US). It is also probable that Iran will have an influential role in the region in the future. Other actors are of less significance, although China's economic influence is on the rise in the region and Central Asian 'neighbours', foremost Kazakhstan and Turkmenistan, play a mostly economic and energy related role. Armenia, Azerbaijan and Georgia are far from being helpless pawns in this geopolitical contest for influence and affiliation. Indeed to some degree they play these external actors off against each other. Armenia looks north to Russia for support; Azerbaijan is wary of integration initiatives but close to Turkey; and Georgia's objectives are fixed westwards towards the EU and US. Together these three countries and the five 'external' actors constitute a dense web of interdependent relationships that affects governance and values; security and conflict; and trade and energy.

Russia, however, is by the far the most dominant power as recent and on-going conflicts illustrate: the Russia-Georgia war of August 2008 and the current war in Ukraine show very clearly that Russia is quite prepared to use force to safeguard its interests in neighbouring regions. It will not tolerate closer EU and NATO relationships with former Soviet republics. Meanwhile, the political will to devote attention and resources to the South Caucasus is much more modest in Ankara, Brussels and Washington, not least because of other pressing matters such as the conflicts in Ukraine and especially in Syria where Russia's participation is further complicating the situation. Clearly not every region can be a top priority for the EU, US or Turkey. This paper argues, however, that more awareness and possibly cooperation are needed on the part of Ankara, Brussels and Washington to counter Russian influence and spur development and stability. After all, the South Caucasus remains a highly combustible powder keg – especially the Nagorno-Karabakh conflict – with the potential to have impacts well beyond its small mountainous area.

This paper addresses three main questions. What are the main interdependencies among external actors and South Caucasus states in a rapidly evolving regional setting? How are the policies of the EU, US, Russia, Turkey, Iran, China and Central Asian republics towards the South Caucasus evolving? And what are the main challenges for the EU in promoting democracy and security in the region?

The paper draws on desk research, including the development of a set of country case studies, as well as on a series of non-structured interviews carried out in Brussels with EU experts and policy makers and several interviews by the author in Armenia and Georgia. The paper also builds on a previous FRIDE working paper – *Challenging the South Caucasus security deficit* (April 2011)<sup>2</sup> – that argued that the EU needed to focus on the

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<sup>1</sup> This CASCADE deliverable is an updated and extended version of the earlier paper: Jos Boonstra, 'The South Caucasus concert: Each playing its own tune', *FRIDE Working Paper*, No. 128 (September 2015).

<sup>2</sup> Jos Boonstra and Neil Melvin, 'Challenging the South Caucasus Security Deficit', FRIDE, Working Paper No. 108 (April 2011), [http://fride.org/download/WP108\\_South\\_Caucasus\\_Eng.pdf](http://fride.org/download/WP108_South_Caucasus_Eng.pdf)

Caucasus to fill the security vacuum left by the partial withdrawal of regional and international organisations such as the Organisation for Security Cooperation in Europe (OSCE). It also proposed that the EU develop a road map outlining objectives for the region, particularly in the field of security. This suggestion remains valid today as the EU reviews its European Neighbourhood Policy (ENP) and drafts a new Global Strategy for Foreign and Security policy.

Although the paper looks at these issues from a European perspective, it also follows on recent papers from two US think-tanks. The first by the Central Asia-Caucasus Institute – *A Western Strategy for the South Caucasus* (February 2015)<sup>3</sup> – stresses the need for increased US-EU cooperation and attention to the region, while outlining a series of proposals to inject new life into western strategic involvement. The second by the Brookings Institution – *Retracing the Caucasian Circle* (July 2015)<sup>4</sup> – makes the case for increased US, EU and Turkey cooperation in the South Caucasus.

The first part of this paper addresses the main interdependencies among external actors and the South Caucasus in a rapidly evolving regional setting. It does so in the light of developments over the last year, especially tense EU/US-Russia relations and the war in Ukraine. The second part discusses the interests of the EU, Russia, Turkey, the US and Iran (with its potential return after more than a century) in the South Caucasus. The third and final section outlines basic steps that the EU can take to influence democracy and security in the South Caucasus.

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<sup>3</sup> Svante E. Cornell, S. Frederick Starr and Mamuka Tsereteli, 'A Western Strategy for the South Caucasus', *Central Asia-Caucasus Institute*, Silk Road Paper (February 2015), <http://www.isdp.eu/images/stories/isdp-main-pdf/2015-cornell-starr-tsereteli-a-western-strategy-for-the-caucasus.pdf>

<sup>4</sup> Fiona Hill, Kemal Kirisci and Andrew Moffatt, 'Retracing the Caucasus Circle. Considerations and Constraints for U.S., EU, and Turkish Engagement in the South Caucasus', *Brookings Institution*, Turkey Project Policy Paper No. 6 (July 2015), <http://www.brookings.edu/~media/Research/Files/Reports/2015/07/south-caucasus-engagement/south-caucasus.pdf?la=en>

## 2. Interdependent relations

The security, governance and economic development of the South Caucasus are adversely affected by the complex fractious relationships between the individual countries themselves and the geopolitical rivalries and conflicting approaches of powerful external actors that seek to influence the region. This complex situation influences affiliations and integration initiatives, as well as trade, energy, security and conflict. Tensions between the EU/US and Russia over Ukraine are further entrenching these interdependent relations and hampering development in the South Caucasus. Russia essentially considers Eastern Europe, including the South Caucasus, as its direct sphere of influence where it can act militarily if it feels cornered. For its part, Turkey has sought to tread a fine diplomatic line in its dealings with the region so as to maintain good trade relations with both the South Caucasus countries and Russia while remaining on good terms with the EU and the US. This explained its moderate response to Russia's annexation of Crimea. However, Turkey's approach could change as relations with Russia continue to worsen after Turkish air forces shot down a Russian bomber jet in November. Moscow has retaliated with sanctions against Ankara, which include putting on hold some large infrastructure projects. Meanwhile, the EU and the US are all too aware of increasing Russian influence in the South Caucasus but are unsure as to how to counter it. They fear that a tougher stance over Russia's involvement could lead to conflict, and with so many demands from other regions of the world, especially the Middle East, they do not regard the South Caucasus as a priority.

### 2.1 Democracy and affiliation

The South Caucasus democratic development has stood still over the last 10 years. In Freedom House's annual Freedom in the World Index, Georgia has hovered around 3.5 (1 best, 7 worst) as partly free, followed by Armenia with an average of 4.5 (also partly free). Both countries have shown only minor variations over the years. Azerbaijan scored 5.5 in 2014 and 6 in 2015 and is classified as 'not free'.<sup>5</sup> Other democracy-related indexes such as Transparency International's Corruption Index or the Bertelsmann Transformation Index (BTI)<sup>6</sup> on democracy trends and projections confirm the central finding of a largely stagnant political landscape. Even though the EU and the US have sought to promote democracy in the region, results have been meagre and most reforms only scratch the surface – even in frontrunner Georgia democratic reforms remain superficial so far and have not managed to break down the prevalent patronage system.<sup>7</sup> Meanwhile, the Azerbaijani government is increasingly authoritarian and seeks to further curtail freedoms.

The Maidan revolution and subsequent war in Ukraine sharpened the divide between the EU's Eastern Partnership (EaP) programme and Russia's Eurasian Economic Union (EEU) project; both projects seek to influence the involved countries and tie their development to the EU and Russia, respectively. The South Caucasus states have felt obliged to choose to develop an Association Agreement (AA) with Brussels (without the

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<sup>5</sup> For more information and democracy-related indexes see: [www.freedomhouse.org](http://www.freedomhouse.org)

<sup>6</sup> For more information see [www.transparency.org](http://www.transparency.org) and Bertelsmann Transformation Index. New Generation Democracy Reports, 'Post-Soviet Eurasia', [http://www.bti-project.org/uploads/tx\\_itao\\_download/NGD\\_Eurasia\\_03.pdf](http://www.bti-project.org/uploads/tx_itao_download/NGD_Eurasia_03.pdf)

<sup>7</sup> Interview European diplomat, Tbilisi, 24 March 2014.

prospect of membership) or to integrate with Russia. Armenia has joined the EEU and Georgia is implementing an AA.<sup>8</sup> Meanwhile Azerbaijan has been able to avoid picking sides thanks to its abundant oil and gas reserves which make it much less dependent on external powers. The choice between the EU and Russia has become more important as regional organisations – the OSCE and the Council of Europe (CoE) – have largely lost their authority and influence in the South Caucasus, while the North Atlantic Treaty Organisation's (NATO) role remains modest despite Georgia's membership ambitions.

*Box 1. Azerbaijan's strident approach*

Over the last decade, the Azerbaijani government has quashed all political opposition and curtailed media freedom. Throughout 2015, the authorities have sought to silence other critical voices by closing foreign-funded civil society organisations and think tanks, imprisoning human rights activists, lawyers and journalists. On 13 August this year two of the most well-known human rights activists, Leyla and Arif Yunus, were sentenced to eight and a half and seven year sentences respectively on trumped up charges. Three weeks later investigative journalist Khadija Ismayilova was also sentenced to seven and a half years in prison. The country has been scaling back or disrupting cooperation with European multilateral bodies: the credibility of the Council of Europe suffered with Azerbaijan's chairmanship in the second half of 2014 and last June, the OSCE office in Baku was closed.

In the face of EU criticism, Azerbaijan has limited its participation in the EaP framework. The country's relations with the US have also suffered because of its anti-democratic actions. Despite a no show of EU dignitaries at the first European Games in Baku last June, President's Aliyev's confidence seems undiminished. Responding to German Bundestag criticism over religious freedom, Aliyev said: 'Is the German Bundestag master of the world, ruler of the world, should everyone obey them? We don't want anything from them, while they, on the contrary, need our gas, contracts, oil and our activity in this region'.<sup>9</sup> Relations with Russia have strengthened over the past year, especially since the Azerbaijani leadership feels that Russia is the only real power in the region that is capable and ready to act.<sup>10</sup> Still, Azerbaijan cannot afford to only look north as Russia is an ally of Baku's rival, Armenia, and a competitor in the energy market. Meanwhile Azerbaijan should be careful of antagonising Western external actors to the limit, as energy exports can only compensate for so much.

There are some signs that indicate that the Azerbaijani authorities are slowly beginning to grasp the damage their policies are doing to the country's image (despite their investment in advertising campaigns on foreign media) and to relations with the US and Europe. Notably, in November and December 2015 Arif and Leyla Yunus were released from prison on medical grounds although their sentences still stand.

<sup>8</sup> See also: Jos Boonstra and Laure Delcour, 'A broken region: Evaluation EU policies in the South Caucasus', *FRIDE/CASCADE Policy Brief*, No. 193 (January 2015), <http://www.cascade-caucasus.eu/wp-content/uploads/2015/01/PB-CASCADE-Jan15.pdf>

<sup>9</sup> Nailia Bagirova 'Azeri leader rejects Western criticism over rights, Karabakh', *Reuters*, 13 July 2015, <http://www.reuters.com/article/2015/07/13/us-azerbaijan-rights-aliyev-idUSKCN0PN2HW20150713>

<sup>10</sup> View expressed by one of the speakers from the South Caucasus during the seminar 'New trajectories of integration in the Caucasus: the Challenge for conflict and security, SIPRI-GFSIS-Cascade seminar, Tbilisi 2 June 2015.



The choice of affiliation with the EU or Russia also involves choosing a specific economic and political development path. Deeper ties with the EU should imply democratic reforms, while integration with Russia's EEU project normally entails strengthening existing regimes that rely on Moscow for economic benefits and security guarantees. Essentially the EU (plus the US) and Russia seek the exact opposite in their relations with these countries. However, both seem to be better in blocking the other's plans (an enlarging EEU or a successful EaP) than achieving their own goals (a Moscow-loyal Armenia that is averse to EU cooperation or a fully democratic and secure Georgia resulting from EU association).<sup>11</sup>

Efforts to promote Western-style democracy have not brought many concrete results and the level of attraction of the EU to the South Caucasus population is also mixed. In 2013, support for EU membership in Georgia stood at 65 per cent.<sup>12</sup> In Armenia, 55 per cent of the population were in favour of Eurasian Economic Union membership, while 40 per cent were in favour of joining the EU.<sup>13</sup> In Azerbaijan, only 34 per cent would support EU membership.<sup>14</sup> That said, the majority of the South Caucasus population does associate the EU with democracy and reform and the EU's popularity could improve if people begin to demand better governance and an end to corruption (as happened in Ukraine in 2013 after the government back tracked on an AA with the EU sparking the Maidan protests).

Russia's direct influence through both coercion (security guarantees and discount energy) and threats (military action and trade embargos) is also omnipresent in the region. On top of that, Russian soft power is still influential. Given the long shared history between Russia and the three South Caucasus countries, the Russian language is still in use (although less and less) and there is some cultural proximity. 'The Kremlin's soft power tools include cultural and linguistic programmes, scholarships for foreign students, well-equipped media outlets, Christian Orthodoxy, and a visa-free regime with many neighbours that makes Russia's labour market relatively accessible.'<sup>15</sup> Next to this, Russia presents itself as the defender of traditional values, unlike the 'West'. However, results have been mixed so far. In Georgia, despite increasing investments in media and civil society organisations, Russia's traction there remains very low.<sup>16</sup> In Armenia, Russian soft power influence is substantial, although Armenians are increasingly critical of Moscow (see Box 3). In Azerbaijan, Russian influence is modest as the country nowadays looks to Turkey (with which it has close linguistic and cultural connections). The current stand-off over values and affiliation between the EU and US on the one hand (Turkey does not actively promote democracy although is an EU candidate itself) and Russia on the other will make it difficult for respective integration projects to succeed.

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<sup>11</sup> Also see: Laure Delcour and Kataryna Wolczuk, 'Spoiler or facilitator of democratization?: Russia's role in Georgia and Ukraine', *Democratization*, Volume 22, No. 3 (May 2015), 474, <http://www.tandfonline.com/doi/pdf/10.1080/13510347.2014.996135>

<sup>12</sup> Caucasus Barometer 2013 Georgia, <http://caucasusbarometer.org/en/cb2013ge/codebook/>

<sup>13</sup> Caucasus Barometer 2013 Armenia, <http://caucasusbarometer.org/en/cb2013am/codebook/>

<sup>14</sup> Caucasus Barometer 2013 Azerbaijan, <http://caucasusbarometer.org/en/cb2013az/codebook/>

<sup>15</sup> Eleonora Tafuro, 'Fatal attraction? Russia's soft power in its neighbourhood', *FRIDE policy brief*, no. 181, May 2014, [http://fride.org/download/PB\\_181\\_Russia\\_soft\\_power\\_in\\_its\\_neighbourhood.pdf](http://fride.org/download/PB_181_Russia_soft_power_in_its_neighbourhood.pdf)

<sup>16</sup> Interview with a Georgian researcher, Tbilisi, 26 March 2014.



## 2.2 Security and conflict

The different allies of the South Caucasus countries do not guarantee their national security. Armenia is a member of the Russian-dominated Collective Security Treaty Organisation (CSTO), but it cannot be sure that Russia would intervene in any renewed war over Nagorno-Karabakh. Azerbaijan is closely allied with Turkey, but cannot count on Ankara should it go to war with Armenia. Georgia has sought NATO membership for some time but beyond the 2008 NATO Bucharest Summit's vow that one day it will join, it has not moved much closer to full membership. This geopolitical landscape makes the region unstable and open to a range of security threats including organised crime and Islamic State (IS) recruitment.

Georgia's potential NATO membership is one of the most incendiary issues. Russia regards it as a direct threat to its own political, military and energy interests in the region (and towards Russia itself). On 27 August NATO Secretary-General Jens Stoltenberg argued in Tbilisi that Georgia is already on track to move towards membership, although he could not say if a Membership Action Plan (MAP) will be on the cards at the July 2016 NATO Summit in Warsaw.<sup>17</sup> NATO did not come to Georgia's defence in 2008 when Russia invaded, and would be unlikely to do so today. Western policies have offered democratisation prescriptions backed up with funding but have neglected to attend to national security concerns of South Caucasus countries; giving Russia in turn a free hand.<sup>18</sup> In Georgia, the defence reform process launched by the Saakashvili government largely continues under the current Georgian Dream coalition government. Public support for NATO membership remains high (78 per cent in March 2015),<sup>19</sup> but Georgians understand that they will need to win more 'hearts and minds' among NATO members to obtain a MAP. US support has been steady and Turkey's is increasing.<sup>20</sup> Meanwhile, the Georgian contribution to the EU's Common Security and Defence Policy (CSDP) mission in the Central African Republic shows Tbilisi's commitment to cooperation and integration with the EU.

Russia plays an essential role in the protracted conflicts of the region. The conflicts over Abkhazia and South Ossetia will not be resolved as long as they remain centrepieces of Russia's influence in the South Caucasus and Georgia more specifically. These two areas' integration with Russia seem to only differ on paper and in name with Russia's annexation of Crimea: In November 2014 Russia signed a 'Treaty of Alliance and Strategic Partnership' with Abkhazia, and in March 2015 (on the one year anniversary of the Crimea annexation) Moscow sealed the 'Treaty on Alliance and Integration' with South Ossetia, in effect incorporating the strip of Georgian territory into Russia.

The Geneva talks – the format that brings together Russia and Georgia as well as representatives from Abkhazia and South Ossetia and chairs from the EU, OSCE and the United Nations (UN) – have not had substantial results after 32 rounds of talks. In the last

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<sup>17</sup> 'Stoltenberg: NATO-Georgia "Substantial Package Delivering Tangible Results"', *Civil Georgia*, 27 August, <http://www.civil.ge/eng/article.php?id=28527>

<sup>18</sup> Svante E. Cornell, S. Frederick Starr and Mamuka Tsereteli, 'A Western Strategy for the South Caucasus', *Central Asia-Caucasus Institute*, Silk Road Paper (February 2015), 38, <http://www.isdp.eu/images/stories/isdp-main-pdf/2015-cornell-starr-tsereteli-a-western-strategy-for-the-caucasus.pdf>

<sup>19</sup> IRI Georgia poll, 31 March 2015, <http://www.iri.org/resource/iri-georgia-poll-georgians-are-less-optimistic-continue-desire-deeper-ties-west-wary>

<sup>20</sup> Interview at the Georgian Ministry of Defence, 27 March 2014.

session of 1 June 2015, Russia complained that Georgia's integration into NATO would be a security threat to the South Caucasus, objecting to the planned NATO-Georgia Joint Training and Evaluation Centre and NATO exercises in Georgia.<sup>21</sup> While these talks were previously described as frank, open and even constructive, Russia increased its involvement in drawing borders. A week later on 10 July Russia continued its earlier demarcation of the 'state-border' between South Ossetia and Georgia one and a half kilometres on Georgia-proper territory, swallowing up farmland and houses of Georgian residents, coming dangerously close to Georgia's East-West Highway, and taking control of one kilometre of the BP-operated Baku-Supsa oil pipeline. Other external actors had no response besides expressing disapproval and concern. Georgia is the main partner of the EU and the US in the Caucasus; a situation that is constantly threatened by Russia.<sup>22</sup>

### *Box 2: Georgia's vulnerability*

The renewed Russian border demarcation of South Ossetia in July showed Georgia's vulnerability to Russian influence. Besides creating tensions over Abkhazia and South Ossetia, Russia is probably capable of stirring up tensions in other regions of the country with large minorities, foremost the Samtskhe-Javakheti region that is largely inhabited by Armenians or claiming that Georgia's North-East region (Pankisi Gorge) is a sanctuary for terrorists threatening Russian security. Although Russia currently has almost no grip on mainstream Georgian politics and pro-Russian civil society is weak, the Russian Orthodox Church has some influence on its Georgian counterpart.

Russia's economic influence is substantial and it can exploit it to coerce or punish the Georgian authorities as necessary. Many Georgians work in Russia and families rely on their remittances (although less than before as a result of Russia's economic downturn). The threat that Russia might send migrants home is therefore a powerful one. In addition Russia is a significant player in Georgia's energy sector through ownership and involvement in electricity production and distribution. It invests in Georgia's oil and chemical industries and agricultural products, and is an important export market for Georgian products.<sup>23</sup> To Tbilisi's surprise Georgian products did not feature on Russia's 13 August list of banned imports – although Georgia aligned with Western sanctions against Russia. This could indicate that Georgia is growing in economic importance to Russia since it needs access to EEU member Armenia.

<sup>21</sup> 'At Geneva Talks Russia Says Georgia's NATO Integration Poses Security Threat to Region', *Civil Georgia*, 2 July 2015, <http://www.civil.ge/eng/article.php?id=28403>

<sup>22</sup> George Mchedlishvili, 'West Will Rue Ignoring Russia's Moves into Georgia', *Chatham House*, Expert Comment, 20 July 2015, [http://www.chathamhouse.org/expert/comment/west-will-rue-ignoring-russia-s-moves-georgia?dm\\_i=1TYG,3JLZA,BLOLXC,CPLP1,1](http://www.chathamhouse.org/expert/comment/west-will-rue-ignoring-russia-s-moves-georgia?dm_i=1TYG,3JLZA,BLOLXC,CPLP1,1)

<sup>23</sup> Interview with a Georgian researcher, Tbilisi, 26 March 2014.

Last year's events in Ukraine have affected national security thinking in Armenia and Azerbaijan. Armenia wonders what would have happened if they had signed an AA with the EU and passed on Russia's EEU offer – restricted energy flows; or worse, withdrawal of support to Armenia's defence? Azerbaijan meanwhile interpreted the Maidan protests as a sign of what Western governments could possibly be preparing in Baku: As a reaction, foreign-funded NGOs and think tanks were evicted or shut down while persecution of critics intensified. On a very different note, the Azerbaijani government is also disappointed with the EU/US stance supporting of Ukrainian territorial integrity, but not offering similar support for Azerbaijan's territorial integrity concerning Nagorno-Karabakh.

The largest security threat in the South Caucasus is the Nagorno-Karabakh conflict between Armenia and Azerbaijan, with regular incidents on the line of contact and a constant threat of these incidents spiralling into mass conflict between the two sides. The current economic downturn in Armenia (due to its closeness to the Russian economy) and Azerbaijan (due to low oil prices) could be another destabilising factor in the protracted conflict as both governments might want to distract the population's attention from their economic problems. In other words, long-detected risk factors – instability in Armenia or Azerbaijan and military miscalculation – remain a matter of significant concern, alongside an international conflict resolution mechanism that lacks drive and resolve.<sup>24</sup>

Over the last few years the 18-year old OSCE Minsk format – which brings together the warring parties and co-chairs from the US, France and Russia – has proven to be ineffective at conflict resolution though remains the only format to manage the conflict. 'For the time being, both adversaries seem satisfied with the status quo and negotiations are held to give the impression that something is happening – one could regard it as "diplomatic tourism".'<sup>25</sup> The 2007 'Madrid principles' by the OSCE Minsk Group were one of the last attempts at resolution. The failure to have Armenia and Azerbaijan endorse the principles was quickly followed by a Russian initiative led by then President Medvedev until 2011 which also ended without a result. The EU and the US had accepted a Russian lead hoping that Moscow could persuade both sides into an agreement. However, it is now evident that resolving the conflict is actually not in Russia's interest since it would reduce Armenia's dependence on Russia while offering new opportunities for Azerbaijan. A resolution to the conflict currently seems further way than ever.

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<sup>24</sup> 'Armenia and Azerbaijan: A season of risk', *International Crisis Group*, Europe Briefing no. 71, September 2013, <http://www.crisisgroup.org/~media/Files/europe/caucasus/b071-armenia-and-azerbaijan-a-season-of-risks.pdf>

<sup>25</sup> Remarks by an observer of Caucasus protracted conflicts at a conference organised by Spectrum, Armenia, 'NATO's partnerships and the South Caucasus: A strategic approach to regional security', 21-22 March 2014.

## 2.3 Trade and energy

The South Caucasus countries depend on each other and on external actors in the trade and energy fields, which makes them vulnerable in some respects.

*Table 1: Top 5 trading partners South Caucasus – total trade 2014<sup>26</sup>*

<b>Armenia</b> (100 per cent)	<b>Azerbaijan</b> (100 per cent)	<b>Georgia</b> (100 per cent)
1. EU 25.8	1. EU 33.8	1. EU 27.6
2. Russia 24.9	2. Russia 14.3	2. Turkey 20.1
3. China 9.5	3. Turkey 14	3. China 8.5
4. Turkey 5.3	4. China 7.6	4. Azerbaijan 7.4
5. Iran 4.7	5. US 6.1	5. Russia 6.7
Other: 29.8	Other: 24.2	Other 29.7

The EU is Armenia's number one trade partner. Regionally, Armenia does not have trade dealings with Azerbaijan. Its imports from Turkey are modest and its exports there insignificant – the closed border between both countries implies high transportation costs, mostly via Georgia. Armenia largely depends on Russian energy supplies and to a large extent on transit through Georgia, as it has no direct border with Russia. An expansion of trade with Iran would be welcomed.

Oil and gas account for about 95 per cent of Azerbaijan's total export revenues<sup>27</sup> and, alike all South Caucasus countries, the EU is its largest trading partner. Efforts to diversify the economy have been meagre and so Azerbaijan will become increasingly dependent on new gas markets and current oil markets. Deliveries to Turkey – again through Georgia – are essential: From 2019 onwards Azerbaijani gas going west could reach EU countries in modest quantities when the TANAP pipeline through Turkey to South East Europe becomes operational. So far Azerbaijan has been wary of potential competition from other gas-producing Caspian littoral states – Turkmenistan or Iran.

Georgia is dependent on transit revenues and delivery of Azerbaijani gas for its own consumption although it has a substantial hydroelectric sector. Georgia plays an important role as a transit country due to its strategic position between Turkey and Russia and given its good relations with both Armenia and Azerbaijan.

The differences between the South Caucasus countries in terms of inward foreign direct investment are high. In 2014, Armenia received only \$382.8 million, compared to \$4,430.4 million that went into Azerbaijan and \$1,279.1 million to Georgia.<sup>28</sup> While

<sup>26</sup> European Commission, DG Trade

Armenia: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113345.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf)

Azerbaijan: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113347.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf)

Georgia: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113383.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113383.pdf)

<sup>27</sup> Azerbaijan exports, <http://www.tradingeconomics.com/azerbaijan/exports>

<sup>28</sup> UNCTAD statistical data, <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>

Azerbaijan has a much larger population and economy than Armenia, this gap reflects both outside interest in Azerbaijan's energy resources and Armenia's relative isolation.

*Box 3: Disquiet in Armenia*

In the middle of July this year Armenians took to the streets to protest against a 16 per cent rise in the price of electricity. The protests quickly grew and were mostly attended by young people. After police violence against the protesters and the invention of a catchy Twitter hashtag (#ElectricYerevan) comparisons with Maidan in Ukraine were quickly made. Russia accused the US and Europeans of initiating another violent protest and overthrow of a government by Western funded civil society. But the EU and US were also taken by surprise. The protests quietened down after the government pledged to pay for the price increase until an international audit of the electricity company was completed.<sup>29</sup>

Electric Yerevan was no Maidan-like protest, but the Armenian authorities have been warned that civil society will take to the streets if provoked. There is also broad dissatisfaction among the population over corruption and nepotism. Meanwhile anti-Russian sentiment is on the rise as the national electricity company is Russian-owned and implicated in serious corruption allegations. In early 2015 Armenia already witnessed anger against Russia after a Russian soldier killed an Armenian family of seven. Anti-Russian sentiments, disappointment on the EEU, frustration over corruption, economic hardship coupled with unhappiness over the country's isolation could also prompt future protests.

Despite taking a u-turn towards Russia by joining the Moscow-led Customs Union in September 2013 and becoming a founding member of the EEU in January 2015, Armenia remains keen to strike a deal with the EU. Ideally, a new agreement with Brussels would consist of the terms under the Association Agreement negotiated with the EU up until September 2013 minus Armenia's obligations under the EEU.<sup>30</sup> On 7 December, Brussels and Yerevan began negotiations for a 'comprehensive' new agreement.<sup>31</sup> Meanwhile, new street protests have started in Armenia in response to a 6 December 2015 referendum that voted in favour of evolving from a presidential governance system to a parliamentary one. The opposition believes that this is not a move to forward democratisation but to prolong the rule of current President Serzh Sarkisian.<sup>32</sup>

<sup>29</sup> Karena Avedissian 'The power of Electric Yerevan', *Open Democracy*, 6 July 2015, <https://www.opendemocracy.net/karena-avedissian/electrified-yerevan>

<sup>30</sup> Interview with a Brussels-based think tank researcher, 3 June 2015.

<sup>31</sup> EEAS Press Release, 'EU and Armenia launch negotiations for a new agreement', Brussels, 7 December 2015, [http://eeas.europa.eu/statements-eeas/2015/151207\\_04\\_en.htm](http://eeas.europa.eu/statements-eeas/2015/151207_04_en.htm)

<sup>32</sup> 'How Democratic Are Proposed Armenian Constitutional Amendments?', *Radio Free Europe*, 5 December 2015, <http://www.rferl.org/content/caucasus-report-armenia-constitutional-referendum/27408756.html>

In the energy sphere external actors are fairly (inter)dependent on their small South Caucasus neighbours (both as a source of energy and as important transit routes).<sup>33</sup> For the EU, gas imports from Azerbaijan and beyond would constitute a welcome addition to the mix of imports, but would not substantially lessen dependence on Russian gas (plus others, foremost Norway), especially for Central and Eastern European countries. Turkey relies on Russian gas deliveries (mostly via the Blue Stream pipeline through the Black Sea) for over half its needs, but also has other sources (Azerbaijani gas for instance); a Southern Corridor as foreseen by the EU would be the basis of Turkey's envisioned geopolitical role as an energy transit hub. In that sense Russian President Putin's proposal of building Turkish Stream (instead of a South Stream that bypassed Turkey) was welcomed, though not at the expense of Southern Corridor plans with the EU and Azerbaijan. The incident between Turkey and Russia over the downing of a Russian bomber has led to the suspension of the Russian pipeline project. If tensions persist or eventually lead to even harsher confrontation between Ankara and Moscow, the project (and a Russian contract to build a nuclear plant in Turkey) could be scrapped altogether. For Russia the main dependency is on the South Caucasus not becoming a viable and substantial alternative for the EU – and even Turkey – to Russian gas. The US plays no direct role in this configuration in the South Caucasus beyond the business interests of large energy companies, while Iran for the foreseeable future is unlikely to be able to complicate the current configuration of Russian obstruction, Turkish opportunism and EU hesitation.

So far trade and energy relations between the South Caucasus countries and 'external' actors have not led to deeper regional integration nor helped bring protracted conflicts closer to a resolution. In fact, trade is a field where Russia and the EU are at odds in the region given their respective economic integration plans with shared neighbours. Overall, the small South Caucasus countries are very economically dependent on their big neighbours in a configuration that seems to be deadlocked as long as the EU's AAs (including the DCFTAs) and the EEU are perceived as rival programmes and Armenia remains isolated from Azerbaijan and Turkey.

Overall, the hostile relations between Russia and the West have a negative effect on the development of the South Caucasus. They have increased Armenia's dependence on Russia, emphasised Georgia's strategic importance as well as vulnerability at the expense of its development and strengthened Azerbaijan's confidence that it can exploit its energy resource strength to play Russia and the EU/US off against each other. These hostile relations have also severely limited any opportunity for Georgia-Russia rapprochement over Abkhazia and South Ossetia while paralyzing efforts to resolve the Nagorno-Karabakh conflict.

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<sup>33</sup> See also Leila Alieva and Natalia Shapovalova (eds.), 'Energy security in the South Caucasus: Views from the region', CASCADE Working Paper, November 2015, <http://www.cascade-caucasus.eu/wp-content/uploads/2015/12/CASCADE-D8.3-Working-paper-Energy-Security.pdf>



### 3. The external actors in the South Caucasus

As a result of the Ukraine crisis and Russian aggression, external actors in the South Caucasus have fortified their already entrenched positions, interests and preferences. Current tensions between EU member states, the US, Russia and Turkey over the fight against IS and the situation in Syria further complicate short-term progress on issues concerning the South Caucasus. All major external actors have their own interests: What are these and how can they be categorised?

#### 3.1 The European Union

Top 3 EU interests in the South Caucasus	
1.	Stability and development
2.	Trade and energy
3.	Democracy and human rights

Through the 2009 EaP (which is part of the broader 2004 European Neighbourhood Policy) the EU has become a major investor and actor in the South Caucasus countries. It is the largest donor to the region (under the European Neighbourhood Instrument well over €1 billion has been committed for the period 2014-17 for the three recipient states excluding regional funding, global EU instruments and individual member state assistance).<sup>34</sup> The EU is also the largest trade partner of all three countries: Armenia (25.8 per cent of total trade), Azerbaijan (33.8 per cent) and Georgia (27.6 per cent) (see Table 1). The aim is to use development aid, democratic reform and a broad (and often fragmented) policy of engagement to promote stability and development in the region and forge closer ties. Nonetheless Brussels' clout in the South Caucasus remains modest. The difference between Europe's expressed interests and what it actually can achieve remains substantial, mostly due to the lack of a hard security component and limited political interest. This is shown by the EU's lack of involvement and influence in helping to resolve the region's protracted conflicts or presenting a reliable counterweight to Russia's hard security influence. EU soft power has little bearing on settling the Abkhazia or South Ossetia conflicts in Georgia or the Nagorno-Karabakh conflict between Armenia and Azerbaijan. As long as the EU lacks hard-power leverage it will achieve little with the often uncooperative Georgian breakaway regions.<sup>35</sup> That said, in 2016 Georgia will likely obtain a visa-free regime,<sup>36</sup> which in turn could motivate Abkhazia to develop relations

<sup>34</sup> European Neighbourhood Instrument (ENI) 2014-2020:

Indicative allocation Armenia 2014-20: €252 – 308 million, [http://eeas.europa.eu/enp/pdf/financing-the-enp/armenia\\_2014\\_2017\\_summary\\_of\\_the\\_programming\\_document\\_en.pdf](http://eeas.europa.eu/enp/pdf/financing-the-enp/armenia_2014_2017_summary_of_the_programming_document_en.pdf)

Indicative allocation Azerbaijan 2014-20: €139 – 169 million, [http://eeas.europa.eu/enp/pdf/financing-the-enp/azerbaijan\\_2014\\_2017\\_summary\\_of\\_the\\_programming\\_document\\_en.pdf](http://eeas.europa.eu/enp/pdf/financing-the-enp/azerbaijan_2014_2017_summary_of_the_programming_document_en.pdf)

Indicative allocation Georgia 2014-20: €610 – 740 million, [http://eeas.europa.eu/enp/pdf/financing-the-enp/georgia\\_2014\\_2017\\_summary\\_of\\_the\\_programming\\_document\\_en.pdf](http://eeas.europa.eu/enp/pdf/financing-the-enp/georgia_2014_2017_summary_of_the_programming_document_en.pdf)

<sup>35</sup> Interview with South Caucasus diplomat in Brussels, 1 July 2015.

<sup>36</sup> 'The European commission said Georgia has fulfilled all the benchmarks of its visa liberalisation action plan and it will propose in "early 2016" to the EU-member states to allow visa-free travel to the Schengen area for Georgian citizens'. 'European Commission Backs Visa-Free for Georgia', *Civil Georgia*, 18 December 2015,



with the EU and thus intensify ties with Georgia. This is likely to have a lesser impact on South Ossetia, which is much smaller than Abkhazia and almost fully controlled by Russia.<sup>37</sup>

The gap between rhetoric and action also has its bearing on energy and values. Efforts to secure reliable gas imports from Azerbaijan (and beyond from Central Asia and the Middle East) to reduce EU dependence on Russian gas imports, are often highlighted as a priority but little has been achieved over the last decade. Three significant problems have blocked the EU's objective of building a Southern Corridor. First, imports from Turkmenistan and Iran via the Caspian Sea and South Caucasus will be very expensive because of pipeline production costs, and will need to overcome many hurdles regarding Caspian demarcation and relations between Azerbaijan and third states. Second, most of the countries that could provide gas to such a corridor are fairly unstable dictatorships (Turkmenistan) or non-proven potentially expensive new options (Iran). Third, Azerbaijan alone will not provide much more gas to the EU, even after completion of the TANAP pipeline in 2019.

Democracy and human rights constitute a third priority and are a major part of EU foreign policy. The track-record of EU democracy promotion has been weak so far with the exception of Georgia. Armenia has not shown much progress in its democracy ratings over the last decade while Azerbaijan has substantially regressed. Where human rights are concerned the EU has a mixed record as well. In the case of Azerbaijan, while criticism and concern has been expressed (with the European Parliament leading the way) against Azerbaijan's declining human rights record (despite the recent release of Arif and Leyla Yunus),<sup>38</sup> Brussels has also sought to bring the unwilling and annoyed Azerbaijanis back into the fold of EaP mechanisms. Meanwhile, the review of the European Neighbourhood Policy seems to implicate that the EU plans to place 'greater emphasis on shared interests rather than on the Union's own values'.<sup>39</sup> There is a risk that this approach could lead to a situation in which the EU downplays its values-based policy in relations with partners that are uninterested to engage on that level, hoping that it will benefit energy or security ties. Such a development would not strengthen long-term stable relations with partner countries.

### 3.2 Russia

Top 3 Russian interests in the South Caucasus	
1.	Friendly regimes (maintaining influence)
2.	Manageable conflicts
3.	Energy infrastructure

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<http://www.civil.ge/eng/article.php?id=28866>

<sup>37</sup> Interview with a think tank researcher in Brussels, 3 June 2015.

<sup>38</sup> Interview with an EU official, Brussels, 22 April 2015.

<sup>39</sup> Steven Blockmans, 'The 2015 ENP Review: A policy in suspended animation', *CEPS Commentary*, 1 December 2015, <https://www.ceps.eu/system/files/SB%20ENP%20Review%20CEPS%20Commentary.pdf>

Russia is the dominant power in the Caucasus and is itself a Caucasus country. One of its main concerns is controlling the borders between the Russian northern Caucasus republics (most of which remain unstable and violent) and the South Caucasus. Importantly, Russia sees the region as both an internal (North Caucasus) as well as an external (South Caucasus) matter that should be brought together in a broader Transcaucasian approach. In the South Caucasus Russia's main interest is not to lose ground to EU and possibly US interests – Turkey has presented itself as less of a threat since it does not seek to influence South Caucasus countries directly, and was until recently regarded as a partner by Moscow despite its NATO membership. In the wake of Russia's declining trade position in the region and its feeling of being besieged by NATO and the EU, Moscow seeks to maintain the status quo rather than encourage new initiatives in the region. This also applies to energy diplomacy where Russia seeks to avoid the establishment of a Southern Corridor that would link Azerbaijan, Turkey and Europe at the expense of Russian exports and control of infrastructure. In broader terms, renewed conflict in the Caucasus is not currently in the interest of Russia, as Moscow remains active in Ukraine, has started a military campaign in Syria, and is confronted with Turkey. These developments will severely constrain Russia's economic clout and military capacity to take action in other theatres.

Russia's primary interest is to help shape regimes in neighbouring countries that are friendly to Moscow's interests; do business in a similar way and want to integrate into joint structures (the EEU and CSTO). To this end Moscow also uses soft power mechanisms, foremost through Russian media active in Armenia, Azerbaijan and to a lesser extent Georgia (also see section 1.1). It tends also to use coercive instruments such as military action and trade embargos. However, South Caucasus countries prefer to keep integration with Russia at bay while seeking a constructive relationship with their northern neighbour. This has led to a situation in which Georgia sees Moscow as a direct threat but pursues practical ties in trade and talks to Russia via special envoys in informal setting and in the official Geneva talks<sup>40</sup>; Armenia feels forced to accept Russia's patronage but explores modest alternatives through cooperation with the EU; and Azerbaijan develops relations with Russia as part of its policy to play third parties off each other.

Since Russia cannot rely on healthy relations with its three southern neighbours it tries to apply a divide and rule policy through protracted conflicts: In recent years Moscow has beefed up and modernised its military presence in Armenia, Abkhazia and South Ossetia. In Georgia the conflicts of Abkhazia and South Ossetia are controlled by Russia, in part because these regions border Russian territory and have been largely incorporated into the Federation. Russia also plays a substantial role in the conflict in Nagorno Karabakh through its role as a peace broker, support to Armenia and weapon deliveries to both (to ensure a military balance). Russia is not keen to help resolve any of these conflicts as it uses the managed instability to its advantage, placing the other countries in a dependent situation. Russia mixes diplomacy with military might in such a way to keep the region in limbo and avert its potential for development and local integration. Russia's objectives and interests are therefore diametrically opposite to those of the EU, the US and Turkey that all three seek development of the South Caucasus, stability and increased energy and trade links.

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<sup>40</sup> Views expressed by speakers from the South Caucasus during the seminar 'New trajectories of integration in the Caucasus: the Challenge for conflict and security', SIPRI-GFSIS-Cascade seminar, Tbilisi, 2 June 2015.

Russia is essential to the region and other external actors (the EU, Turkey and the US) might not be ready to step in if Russia's role suddenly declined as it did in the early 1990s after the collapse of the Soviet Union. While thwarting the resolution of protracted conflicts in the South Caucasus and carefully managing simmering tensions there, Moscow is also an important actor in avoiding new violence. This is worrisome since, according to some observers, 'Russia is adrift without definable purpose. Its ruling cabal has no sustainable view of a wider purpose than its self-preservation.'<sup>41</sup> Instability in Russia would entail far-reaching consequences for Eastern Europe, the South Caucasus and Central Asia. This makes all the more important for other actors to be engaged in these regions and be able to react to potential destabilisation.

### 3.3 Turkey

Top 3 Turkish interests in the South Caucasus	
1.	Energy and trade
2.	Nagorno-Karabakh and subsequent relations with Armenia and Azerbaijan
3.	Cultural and ethnic ties

Turkey is an important player in the South Caucasus but has yet to achieve its full potential. The reason for this is that other crises demand more urgent attention (foremost Syria, IS and the Kurds) and Ankara prefers to pursue its energy and trade interests and avoid increased tensions that could aggravate Russia. Turkey is partially dependent on Russian and Azerbaijani gas, but also seeks to become an important transit hub for both producers and European customers which implies a balancing act. Turkey has sought to court Russia, the EU and Caucasus countries when necessary but is also able to partially curb them if Ankara's security interests are tested to the limit.<sup>42</sup> Increased tensions between Turkey and Russia following the downing of a Russian jet by Turkish air forces in November could also lead to larger competition between the two in the South Caucasus. It seems more likely, however, that Turkey will seek to lessen tensions with Russia without losing face. This would make an increasingly active Turkish stance in the South Caucasus unlikely though not impossible in the future.

While Ankara will need to develop a South Caucasus policy that carefully balances different interests, it is also a NATO member and has deep historical ties with all three South Caucasus states. Turkey has thus the capacity to go beyond the role of a trading partner and also promote values (through its civil society) or provide hard security. Prospects for Turkish involvement however remain dim as the ruling Justice and Development Party's (AKP) primary priorities are of a domestic nature – including President Tayyip Erdoğan's claim to power and political survival – while its main foreign policy concerns are also linked to internal matters: the refugee crisis, the Kurds, and Syria.

<sup>41</sup> Andrew Wood, 'Russia and Europe in 2030: Conflict or Cooperation?', *Federal Academy for Security Policy*, Security Policy Working Paper, No. 12, December 2015, [https://www.baks.bund.de/sites/baks010/files/working\\_paper\\_12\\_2015.pdf](https://www.baks.bund.de/sites/baks010/files/working_paper_12_2015.pdf)

<sup>42</sup> Nigar Göksel, 'Turkey's Russia conundrum: To court or to curb?', FRIDE Policy Brief, No. 185, September 2014, [http://fride.org/download/PB\\_185\\_Turkeys\\_Russia\\_conundrum.pdf](http://fride.org/download/PB_185_Turkeys_Russia_conundrum.pdf)

Turkey would like to normalize relations with Armenia, and was engaged in an initiative in 2007-10 to this end. However, this initiative was not received well in Baku, which demands that Ankara maintain the link between opening its borders with Armenia and progress in the resolution of the Nagorno-Karabakh conflict. In the South Caucasus, the Turkish ‘zero-problems’ foreign policy did not fare well in the face of various interdependencies with Azerbaijan and Russia in 2010. Since then Turkish efforts to seek progress on the border with Armenia or play a role in resolving the Nagorno-Karabakh conflict have been mostly low-profile and behind the scenes. International commemorations this year of the 1915 Armenian genocide did not help on both matters.

A third Turkish interest – or maybe better, set of assets – are kinship, business and civil society relations. Ankara might not be in the business of democracy promotion like the EU and the US, but it plays an important soft power role throughout the South Caucasus through historic, ethnic, cultural and language ties. It is these relations that make Turkey – also geographically as a partially Caucasus state – a direct stakeholder. Turkey’s broad informal influence and contacts can be used for a variety of purposes, from promoting development and education to playing a subtle role in conflict resolution.

Given the rising geopolitical tensions between key powers in and around the South Caucasus, it is unclear whether Ankara can continue its balancing game between Russia and the EU/US. In any case, Turkey’s influence in the region helps keep Russia’s in check. Among these actors Turkey has become a linchpin country as both Russia and the West seek Turkey’s cooperation; Russia in energy and trade preferring Turkey to not get too involved in the region, and the EU and US in seeking Turkish activism (as an EU candidate country and NATO member) in the South Caucasus.

### 3.4 The United States

Top 3 US interests in the South Caucasus	
1.	Stability in the wake of Russian expansionism and an unstable Middle East
2.	Democracy promotion
3.	Resolution of protracted conflicts

Among the main external actors in the South Caucasus the US stands out since it is geographically so far removed from the region. However, the US has been active in the South Caucasus since the fall of the Soviet Union and is the only country with a truly global reach. American priorities in the South Caucasus are difficult to define. Over the last decade, US interest in the region has been rather low and it has tended to rely on its close partners’ more active involvement – the EU and Turkey (as well as confidence in Russia in 2009-12 as part of the then US-Russia ‘reset’). Currently US energy and trade dealings are small and its main interests are stability and democracy promotion. With this stability the US hopes that the region can be a bulwark against Russian revisionism and an unstable Middle East.<sup>43</sup>

<sup>43</sup> For a more recent analysis on US policy concerning the South Caucasus see for instance: Fiona Hill, Kemal Kirişçi and Andrew Moffatt, ‘Retracing the Caucasus Circle. Considerations and Constraints for U.S., EU, and Turkish Engagement in the South Caucasus, *Brookings Institute*, Turkey Project Policy Paper No. 6 (July 2015),

From the 1990s to the mid-2000s the US was an active player in South Caucasus energy politics, and took initiative in the Minsk Group on Nagorno-Karabakh. After the December 2003 Rose revolution, Georgia became central to almost all US priorities in the region. The US has been inclined to extend NATO membership to Georgia but its European allies have been hesitant owing to concerns about Russian reactions. Armenia is also relevant to Washington, in part because of the politically vocal Armenian diaspora in the US. Meanwhile Azerbaijan played an important transit role for the US and NATO in Afghanistan, although current relations have been severely damaged (as with the EU) over human rights and the notion in Baku that the US might be developing plans for a democratic revolution in Azerbaijan.

Washington's democracy promotion agenda in the South Caucasus has long focused on Georgia (as a 'beacon of democracy' in President George W. Bush's narrative) although ample resources have also been allocated to Armenia and Azerbaijan in the past. While the EU sees Azerbaijan as a potential energy provider and is thus more cautious about criticising the Azerbaijani regime, the US is more interested in Azerbaijan's secularism and strategic position in the wake of an unstable Middle East and questions about Iran's future direction. In that sense the EU is primarily a trade partner for the South Caucasus and the US a security actor, although both seek to promote democracy in the region.

The US is keen to see the South Caucasus develop, solve its conflicts and further integrate into Europe – but the time when Washington could initiate these processes is over, and the EU plays a more influential role given its proximity and economic influence. Nowadays the US is likely to support any initiative taken by Ankara or Brussels that could help resolve conflicts, especially to counter Russian revisionism in Georgia, Ukraine and/or elsewhere. The US role remains limited – though indispensable for Western influence in the region – curtailed by distance and Russia's anti-Americanism; in that sense the US policy towards the South Caucasus is now part of a broader policy of countering Russia.

### 3.5 Iran

Top 3 Iranian interests in the South Caucasus	
1.	Differences with Azerbaijan
2.	Potential of energy infrastructure
3.	Expand trade with Armenia and Georgia and beyond

Iran has no direct or indirect (via regional organisations) security involvement in the region. Due to its long absence from the Caucasus scene, Tehran does not play a role in conflict resolution initiatives and would find it difficult to find a place at the crowded negotiation tables. However, Iran does play a role in trade, which could be enhanced if international sanctions are fully lifted.

Given that Iran is home to over 15 million ethnic Azerbaijanis, Azerbaijan (population just over 9.5 million) is a major priority for Iran. There is also a religious component to their relationship as both populations are largely Shiite but live under different systems: Azerbaijan's secular government (with a Soviet heritage) and Iran's theocracy. There are a few bones of contention between the two. Iran maintains good relations with Azerbaijan's arch enemy Armenia. Similarly Baku has dealings with Israel. In addition, a dispute over the delimitation of the Caspian Sea and its resources influence bilateral relations.<sup>44</sup>

Although Iran boasts the second largest gas reserves in the world it has not been able to export; it even imports gas from Turkmenistan. It will take enormous – Chinese or Western – investments to start producing and exporting in either direction. Iranian gas could render the Southern Corridor a more significant source of natural gas for Europe, but this depends on how Tehran positions itself with regards to the West – and how keen Azerbaijan is to block access by Iran or profit from transit as well.

Tehran's likely third priority is trade with Georgia and foremost Armenia. For the latter Iran has been the only open shared border besides Georgia. Armenia will be keen to expand further on trade and on energy cooperation, while Georgia (though a staunch Western ally) is also keen to extend its business and trade through links with Iran. These prospects could constitute a positive role for Iran in the region without much cost for other external actors.

Iran's role in the South Caucasus is unclear. It seems unlikely that Tehran will become a substantial factor in the near term as energy infrastructure (if agreed on and built) will take many years to come into being. In addition the region is not a top priority for Tehran given its other pressing priorities such as the rivalry with Saudi Arabia, its policy towards Israel, and broader Middle East challenges, foremost IS. In that sense Iran – like Turkey, the EU and the US – is not interested in becoming too involved in South Caucasus conflicts, leaving Russia to dominate the region from a security point of view. Although Russia would like to have a partner in countering the West, it is unlikely to welcome much Iranian influence in the South Caucasus which it firmly considers its sphere of influence.

### 3.6 China

Top 3 Chinese interests in the South Caucasus	
1.	Transit to Europe
2.	Energy
3.	Stability of the 'neighbours of the neighbours'

China is foremost an economic actor in the South Caucasus. It has concluded trade partnerships with Armenia, Azerbaijan and Georgia.<sup>45</sup> Trade levels have steadily risen over the last decade; China is now the third or fourth trade partner of South Caucasus

<sup>44</sup> Thomas de Waal, 'Iran in the Caucasus: A long haul', *Carnegie Commentary*, 8 April 2015, <http://carnegieendowment.org/2015/04/08/iran-in-caucasus-long-haul>

<sup>45</sup> Tony Rinna, 'The South Caucasus and China's rising presence', *New East Europe*, 3 December 2015, <http://www.neweasterneurope.eu/interviews/1811-the-south-caucasus-and-china-s-rising-presence>



states (see Table 1). China's Silk Road Economic Belt programme (together with its maritime Silk Road) presented in October 2013 and which now incorporates a development fund of \$40 billion – mostly for infrastructural projects – is meant to revive the silk road trade land route from China through Central Asia and the Caucasus to the Middle East and Europe. The South Caucasus states will also benefit from these investments as China considers the region as a transit route to Europe as well as an interesting region for investments; a market for its products; and a potential source of Azerbaijani energy. Recently, Georgia and Azerbaijan received their first 'Silk Road Cargo' train, which travelled from China through Kazakhstan by land, then through the Caspian by ferry to Baku and from there continued by rail to Georgia and onwards to Turkey.<sup>46</sup>

Whereas China is a visible geopolitical actor in Central Asia (primarily through trade and investment),<sup>47</sup> it sees the South Caucasus as a transit route and as the 'neighbours of the neighbours' – similar to the EU's perception of Central Asia. From this standpoint, China is interested in stability in the Caucasus in order to ensure an open corridor to Europe but is not directly concerned with the region. Second, Beijing does not wish to step on Moscow's toes in the South Caucasus, while relations between the two countries feature a mix of competition and partnership (via the Shanghai Cooperation Organisation) in Central Asia. Third, China has not taken sides on conflict issues and it has built economic ties with all three countries in the region. China does not play an important role in the domestic affairs of the South Caucasus as do Russia and the EU. One observer noted that while the EU tends to focus on ties with governments and civil societies, China seeks to liaise with governments and oligarch/elites in its relationships with Central Asian and Caucasus countries.<sup>48</sup>

### 3.7 Central Asia

Top 3 Central Asian interests in the South Caucasus	
1.	Energy transit to Europe
2.	Caspian littoral state disputes
3.	Kazakh investment in Georgia

Central Asia plays a minor role in the South Caucasus; only Kazakhstan and Turkmenistan have substantial trade ties concerning energy flows with the South Caucasus. Kyrgyzstan, Tajikistan and Uzbekistan do not play any significant role. 'Azerbaijan's bilateral relations with Central Asian countries are centred on energy, transport routes and trade. Georgia sees Central Asia as important in strengthening its energy security and in diversifying foreign investments. Armenia's bilateral contacts with Central Asian countries are

<sup>46</sup> Georgia Welcomes "'Silk Railway'" Cargo Train from China to Turkey', *Civil.ge*, 13 December 2015, <http://www.civil.ge/eng/article.php?id=28852>

<sup>47</sup> For more on China's geopolitical role in Central Asia see: Sebastien Peyrouse, Jos Boonstra and Marlene Laruelle, 'Security and development in Central Asia. The EU compared to China and Russia', *EUCAM working paper*, No. 11, May 2012, [http://www.eucentralasia.eu/uploads/tx\\_icticontent/WP11.pdf](http://www.eucentralasia.eu/uploads/tx_icticontent/WP11.pdf)

<sup>48</sup> Remarks at the workshop 'China's West meets Europe's East – The Neighbourhood Policies of the EU and China in comparison' at the East China Normal University, Shanghai, 3 December 2014.



limited.’<sup>49</sup> In 2014 Kazakhstan ranked among Azerbaijan’s top ten trading partners (ninth with 2.4 per cent)<sup>50</sup> and the Kazakhs have invested substantially in Georgia’s energy infrastructure (for example through the purchase of a Georgian gas company and an oil terminal in Batumi).

The main issue between the South Caucasus and Central Asia, however, involves the Caspian and its littoral states – Azerbaijan, Kazakhstan and Turkmenistan, as well as Russia and Iran. Disputes over how to define the Caspian – a sea or a lake, which has implications for further negotiations over use and ownership as there are no international agreements concerning lakes but there is an extensive international legal regime for the seas – and concrete tensions between Azerbaijan and Turkmenistan over shared energy reserves in the Caspian are likely to continue dominating the Caspian energy agenda and the relations between these states for the foreseeable future.

Azerbaijan, Kazakhstan and Turkmenistan are concerned with Russia’s use of the Caspian Sea to launch strikes against adversaries in Syria.<sup>51</sup> Turkmenistan is a very closed country with little diplomatic activity that seeks to maintain strict neutrality. Russia’s military activities in the Caspian and the standoff between Russia and Turkey have placed Azerbaijan and Kazakhstan in an uncomfortable position as these Turkic-language speaking countries have very close ties with Turkey but are also closely linked with Russia through security and trade (and in Kazakhstan’s case also EEU membership). Both walk a tight diplomatic rope as they attempt not to offend either disputing country.<sup>52</sup>

## 4. European Union engagement

On 20-22 July this year, European Council President Donald Tusk visited Armenia, Azerbaijan and Georgia. Tusk encouraged all three to intensify cooperation with Brussels through the EaP, but also devoted ample attention to the protracted conflicts by speaking out against new border demarcation activities by Russia in South Ossetia, and by urging Armenia and Azerbaijan to curb the violence on the line of contact in Nagorno-Karabakh. While not spectacular news, it constituted an important expression of interest by Brussels. The South Caucasus needs increased attention from the EU, specifically more high-level visits by officials from the EU and its member states to complement the work of the EU’s Special Representative (EUSR) and the European External Action Service (EEAS) activities in the region. Increased contact and visits need to be accompanied by a clearer vision. The following four avenues of potential EU policy thinking could help strengthen the EU’s position in the region to the benefit of the South Caucasus and the EU alike:

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<sup>49</sup> Tika Tsertsvadze, ‘The South Caucasus and Central Asia, *EUCAM*, National Policy Series, No. 4, July 2012, [http://www.eucentralasia.eu/uploads/tx\\_icticontent/PB4\\_SC.pdf](http://www.eucentralasia.eu/uploads/tx_icticontent/PB4_SC.pdf)

<sup>50</sup> European Commission, DG Trade: Azerbaijan: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113347.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf)

<sup>51</sup> Evan Gottesman, ‘The Caspian States in Russia’s Military Bind’, *The Diplomat*, 27 November 2015, <http://thediplomat.com/2015/11/turkey-russia-tensions-put-caspian-states-in-a-bind/>

<sup>52</sup> Bruce Pannier, ‘Walking The Tightrope Between Russia And Turkey’, *Radio Free Europe*, 7 December, <http://www.rferl.org/content/qishloq-ovozi-balancing-russia-turkey-relations/27412210.html>

## *4.1 Reviewing EU policies*

The EU is reviewing several policies this year and next. Most notably Brussels has recently adopted a policy document outlining steps to renew the European Neighbourhood Policy (including its Eastern Partnership component)<sup>53</sup> and is developing a Global Strategy for Foreign and Security Policy to be ready by June 2016 to replace the landmark 2003 European Security Strategy.

In a recent preparatory study for the new Global EU Strategy, High Representative Federica Mogherini assessed the current global environment including the EU's role with regard to its eastern neighbours: 'Our approach towards our eastern partners needs to include robust policies to prevent and resolve conflict, bolster statehood along with economic development, and foster energy and transport connectivity'.<sup>54</sup> These aspects certainly apply to the South Caucasus and are central parts of a European approach to the region alongside democracy promotion and human rights.

The EU does not need to formulate a specific South Caucasus strategy as it has done for other regions such as Central Asia or the Sahel: this would constitute just another rhetorical document with goals the EU alone cannot achieve. Most essentially the South Caucasus needs to be regarded as part of Europe, and should be approached as such: this would mean stepping up engagement on all fronts, as relations with the South Caucasus directly affect the EU in terms of security (conflicts, energy, and potential refugees). The South Caucasus is not only a matter for foreign policy but also for 'internal European policy'. This means increasing EU visibility in South Caucasus countries as well as highlighting relations with European neighbours from the South Caucasus in EU member states. If framed well, such an approach should also help to enhance integration without the issue of membership being central to the relationship.

The basis for external action should not lie in creating a new mini-region within the EaP, but building stronger tailor-made bilateral ties with each of the countries: deepening integration with Georgia; building the maximum possible relationship (in the wake of its EEU membership) with Armenia and; being open to cooperation with Azerbaijan that goes beyond energy if the regime becomes more amenable to remedying its human rights shortcomings.

## *4.2 Democracy and human rights*

As numerous EU policy documents already state, the development of democracy and respect for human rights should form the basis of EU foreign policy. Among all the reviews and redrafting of EU policies by the 'new' EU leadership, the review of the 2012 EU Strategic Framework and Action Plan on Human Rights and Democracy that resulted in a new action plan (2015-19)<sup>55</sup> has not received much attention.<sup>56</sup> The EU has found it

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<sup>53</sup> 'Review of the European Neighbourhood Policy', Brussels, 18 November 2015,

[http://eeas.europa.eu/enp/documents/2015/151118\\_joint-communication\\_review-of-the-enp\\_en.pdf](http://eeas.europa.eu/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf)

<sup>54</sup> 'The European Union in a changing global environment. A more connected, contested and complex world', 30 June 2015, [http://eeas.europa.eu/docs/strategic\\_review/eu-strategic-review\\_strategic\\_review\\_en.pdf](http://eeas.europa.eu/docs/strategic_review/eu-strategic-review_strategic_review_en.pdf)

<sup>55</sup> Council conclusions on the Action Plan on Human Rights and Democracy 2015-2019 Brussels, 20 July 2015, <http://data.consilium.europa.eu/doc/document/ST-10897-2015-INIT/en/pdf>

difficult to ensure member-state support and interest in this core field, possibly because many see democracy support and human rights as rather distinct matters. This also applies to the South Caucasus. Human rights are of a universal nature and leave little room for interpretation; the South Caucasus states have signed up to numerous international human rights regimes including the CoE and should be held to this. The EU plays an important role in making their policies conditional on the human rights situation in partner countries – this means that the EU should not deviate in its reaction to human rights offences merely because of the countries strategic value for Europe. The recent ENP review document states that ‘Differentiation and greater mutual ownership will be the hallmark of the new ENP, recognising that not all partners aspire to EU rules and standards, and reflecting the wishes of each country concerning the nature and focus of its partnership with the EU.’<sup>57</sup> This is not promising for the EU’s approach to values in its neighbourhood policy. For example, it might lead to a one-sided relationship with Azerbaijan centred around energy that leaves human rights defenders in the cold. It does not bode well for frontrunners such as Georgia either, that is committed to eventual democratisation but prefers to work with Brussels on attracting investment benefits rather than taking decisive steps to strengthen media freedom.

The EU should uphold democratic values in its external policies to the South Caucasus but deviate its funding and intensity of support along what is possible and welcome. This means that, in countries that are not open to democracy, their civil society needs substantial support (including educational programmes) to engage people, while less or no funding should go to a government that is averse to reform. And countries that have chosen a reform path – where democratisation and state-building go hand in hand – need substantial help that is flexible and conditional on all fronts. Thus, ‘more for more’ and ‘different for less’ in EaP jargon.

The EU needs to understand that its democracy promotion efforts have had little effect so far, but that the Union is still a potential pole of attraction for the average citizen in the South Caucasus. This asset – as well as practical democratisation assistance – should be used to counter Russian propaganda and support for authoritarian rule. However, demands for reform from the population – sometimes inspired by EU reform rhetoric – need to be answered by the EU with strong support; the EU cannot preach values and then not be prepared for the day when countries are ready to move forward.

### *4.3 Developing a security roadmap*

In the absence of an official strategy for the South Caucasus, the EU could develop a simple and clear security roadmap for the region. Such a short document could bring together current EU involvement in security matters – the EUMM border monitoring mission in Georgia, the EUSR’s work, and several EU projects aimed at borders, Internally Displaced People (IDP), and so on – and add a list of new initiatives, for instance on security sector reform (reform of security agencies and strengthening oversight mechanisms). A road map could also devote more attention to the EU’s contribution to the OSCE and outline cooperation with NATO (owing to the EU’s large

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<sup>56</sup> Richard Youngs, ‘Assessing the EU’s New Democracy and Human Rights Action Plan’, *Carnegie Europe* (23 July 2015), <http://carnegieeurope.eu/strategiceurope/?fa=60822>

<sup>57</sup> Review of the European Neighbourhood Policy’, op. cit.

investment in the OSCE and substantial overlapping membership with NATO). Most importantly the roadmap would present ideas and options on the EU's role with regard to the protracted conflicts:<sup>58</sup> a clear position on Abkhazia and South Ossetia and; an effort, with others, to initiate talks between Armenia and Azerbaijan over Nagorno-Karabakh. It could also beef up support to bring Armenia's and Azerbaijan's civil societies together in concrete projects and thereby help build confidence between the two sides. All this is badly needed as 'the EU's role in security is mostly limited to some diplomacy by the EU Special Representative, while the EU more broadly is slowly being pushed out of the region'.<sup>59</sup> A push that is partly self-inflicted through a lack of interest and hard power on the one hand, and Russia's assertive posture on the other hand.

The roadmap would not constitute a full strategy, but would serve as a list of ongoing items and projects as well as new ideas and plans. Such a vision would also counter criticism that the EU either has no security role in the South Caucasus or that the modest role it plays is too dispersed over CSDP, European Commission and EEAS involvement. A roadmap could also assure South Caucasus partners that the EU takes an interest in their security and the link between security and democratisation. Some of the ideas will bear fruit; others will be most likely blocked by the regional and external actors but the EU's position would be clearer and its commitment to security issues more evident.

#### *4.4 Cooperation with Turkey and the US*

There is a significant overlap of interests between the EU, Turkey and the US. As the South Caucasus is not a top priority for these allies, concrete cooperation and joint action might be difficult but not impossible. The EU should act more strategically in the South Caucasus forging alliances with partners on topics where results can be achieved. Cooperation will need to focus on concrete matters: a discussion of conflict resolution in the case of Nagorno-Karabakh and a united position on Georgia's protracted conflicts. In addition, they could make joint efforts to develop and protect the Southern Gas Corridor. On the ground the EU and the US will need to coordinate their democracy-related assistance more closely as well as comparing notes on security assistance. The EU could facilitate the involvement of Turkish civil society with their EU and South Caucasus counterparts, for instance through the EU's EaP Civil Society Forum. The fact that the EU and Turkey decided at the end of November to open new chapters in the (stalled) accession negotiations and acknowledged 'that a structured and more frequent high-level dialogue is essential to explore the vast potential of Turkey-EU relations, which has not been realised fully yet'<sup>60</sup> could have a positive bearing on the EU and Turkey joining forces on issues of mutual interest in their neighbourhood, including in the South Caucasus.

Since Russia has by and large diametrically opposing objectives to the EU, Turkey and the US, geopolitical difficulties are unavoidable. Every move that the EU/US make will be met with a response by Russia; the opposite is not necessarily the case as the EU and

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<sup>58</sup> For more on this issue see: Neil Melvin and Giulia Prelz Oltramonti, 'Managing conflict and integration in the South Caucasus: A challenge for the European Union'. *SIPRI – CASCADE policy brief*, November 2015, <http://www.cascade-caucasus.eu/wp-content/uploads/2015/11/CASCADE-D7.1-Conflict-and-integration.pdf>

<sup>59</sup> Interview with an EU official, Brussels, 22 April 2015.

<sup>60</sup> Meeting of heads of state or government with Turkey. EU-Turkey statement, 29 November 2015, <http://www.consilium.europa.eu/en/press/press-releases/2015/11/29-eu-turkey-meeting-statement/>

NATO will not be ready to respond to every Russian action. Unfortunately there is little scope for cooperation with Russia although diplomatic efforts should continue. The South Caucasus is also a place where both sides meet in diplomatic and civil society circles (as far as independent civil society actually still exists in Russia). Although Iran is unlikely to play a substantial role in the South Caucasus for the time-being, the other actors should not regard Tehran as a threat but instead offer to listen to its ideas, which are likely to focus almost entirely on the economy.

## 5. Conclusion

The South Caucasus is a complicated region of interdependent relations over governance and affiliation; security and conflict; and trade and energy. The events in Ukraine and the rift between the West and Russia have held back the region's potential development; current tensions between Russia, Turkey and the US over the approach to Syria could worsen this trend. In the light of weakened influence of regional and international cooperation mechanisms, every powerful actor in the region will need to tread carefully. The risk of Russian intervention in Georgia if it further integrates into Euro-Atlantic structures remains present; the potential for protests and turmoil in all three states remains high; and the risk of escalation of the conflict in Nagorno-Karabakh remains alarming.

External actors play a crucial role in shaping events in the South Caucasus; often not by meeting their own policy objectives but by blocking the policies of other actors. This most strongly applies to the competition between the EU's EaP programme and Russian-driven EEU membership. Although Russia has lost its position as number one trade partner to the EU, it is the most powerful actor and quite prepared to use military force. As Russia's economic and military potential becomes ever more strained as a result of low oil prices, Western sanctions, the costs of annexing Crimea and supporting secessionists in Ukraine and its Syria campaign, Moscow will want to see stability in the Caucasus (even though it will probably not be ready to cooperate to solve the protracted conflicts with Georgia). Whereas Russia and Turkey are currently at odds, the latter is unlikely to want to aggravate Moscow further by stepping up its South Caucasus activities. As for the EU and the US, they will both want to avoid a new crisis in the South Caucasus. The region cannot be ignored, not least because neither could afford a vacuum in case Russia is no longer able to fulfil a 'first fiddle' role due to internal turmoil.

Someday Iran might be a new actor on the scene, but with little capacity beyond its troublesome relations with Azerbaijan and modestly increasing trade. China is an economic force in the South Caucasus but remains a minor actor compared to Russia or the EU, and it plays no political role. Central Asia is linked to the region through broader Silk Road infrastructural and investment initiatives, and Kazakhstan is an economic actor in its own right.

The EU's position on the South Caucasus as well as that of the EU-US and Turkey (including NATO), is part of their broader relationship with Russia. They have two options: confront Moscow by increasing support for countries that seek closer ties, are willing to reform, and are open to negotiate to end their protracted conflicts; or avoid confrontation and accept Russia's prerogative to dictate how South Caucasus neighbours will develop. The first option could of course prompt a reaction from Russia that could

increase instability in the region but it definitely has more merit. It would need to be backed by political will and resources that link the national security of the South Caucasus nations to democratisation.

The EU will need to seek closer coordination with the US and seek practical ways to include Turkey more directly, also through the EaP structures. Brussels will need to devote ample attention to Russia and the South Caucasus in the current reviews it is undertaking. As part of this exercise it could formulate a security road map of objectives and initiatives. It should further fine-tune its efforts on democratisation and adhere to one standard for human rights, condemning all violations in neighbouring countries. Russia will argue that the EU and the US are conducting the South Caucasus concert while Brussels and Washington firmly believe the opposite is the case. The EU needs to make sure its tune is harmonious for all the peoples of the South Caucasus.