

MANAGING CONFLICT AND INTEGRATION IN THE SOUTH CAUCASUS: A CHALLENGE FOR THE EUROPEAN UNION

SIPRI–CASCADE Policy Brief

November 2015

NEIL MELVIN (SIPRI) AND GIULIA PRELZ OLTRAMONTI (ULB)

INTRODUCTION

During 2014–15, the South Caucasus entered a new phase of its post-Soviet development.¹ Georgia's conclusion of an Association Agreement (AA) with the European Union (EU) in June 2014 and Armenia's accession to the Russian-led Eurasian Economic Union (EEU) in January 2015 crowned a decade of efforts to engage the South Caucasus with the parallel integration projects.

Conflict in the South Caucasus has been an important driver of these integration processes. The 2008 Georgia–Russia war provided a particularly strong impetus both to EU and Russian efforts to link the South Caucasus to wider regional projects. In 2009, the EU established its Eastern Partnership (EaP) to strengthen relations with its eastern neighbours, including the states of the South Caucasus. Since Vladimir Putin's return in 2012 as the Russian president, Eurasian integration has been a priority for Russia.² The EEU is seen as the means to establish Russia as an economic and political centre in an emerging polycentric world and to counter Euro-Atlantic efforts to expand into the post-Soviet space.³

Despite the EU's interest in conflict resolution in the South Caucasus, its flagship EaP policy does little to mitigate directly the region's protracted conflicts.⁴ Instead, the EU's approach to the South Caucasus implicitly assumes that association on its own creates economic prosperity and political stability, which in turn promotes conflict resolution. This assumption may have been accurate in the decade and a half following the cold war

¹ The South Caucasus is composed of the Republic of Armenia, the Republic of Azerbaijan and the Republic of Georgia.

² Putin, V., [A new integration project for Eurasia: the future in the making], *Izvestia*, 3 Oct. 2011.

³ Popescu, N., *Eurasian Union: the Real, the Imaginary and the Likely*, Chaillot Paper no. 132 (EU Institute for Security Studies: Paris, Sep. 2014).

⁴ The South Caucasus contains three protracted conflicts: Georgia–Abkhazia and Georgia–South Ossetia (Russia became a party to the conflicts with the Georgia–Russia war of 2008) and Azerbaijan–Nagorno-Karabakh (which has transformed into a wider Armenia–Azerbaijan conflict).

SUMMARY

● Parallel extra-regional integration projects in the South Caucasus culminated in June 2014 with Georgia's conclusion of an European Union (EU) Association Agreement and in January 2015 with Armenia's accession to the Russian-led Eurasian Economic Union. Azerbaijan remains outside either project. The implementation of these projects risks an increase in regional fragmentation and a further destabilization of the South Caucasus, notably the protracted conflicts of Abkhazia, Nagorno-Karabakh and South Ossetia. To counter the potential negative impacts of its integrationist policies in the South Caucasus, the EU should increase political and diplomatic engagement to mitigate conflict dynamics, and seek ways to lessen the destabilizing aspects of EU–Russia competition in the South Caucasus. To this end, this policy brief offers four recommendations to strengthen the EU's conflict-resolution and stability-building policies in the region.

ABOUT THE AUTHORS

Neil Melvin (United Kingdom) is a Senior Researcher leading work at SIPRI on armed conflict and security in Eurasia.

Giulia Prelz Oltramonti (Italy) is a research and teaching assistant at the Université libre de Bruxelles (ULB).

years, which were comparatively benign geopolitically. During this period, the possibility of eventual EU membership offered the promise of socio-economic modernization and security, which together created the political leverage, through conditionality, necessary for the EU to craft conflict solutions, most notably in the Balkans.

Under the current conditions—including competition from the EEU, opposition from Russia and the EU's lack of appetite for enlargement—'Europeanization' has lost its traction as a means of conflict management and termination. Indeed, in the new political, economic and security realities of Eurasia, the emergence of competing integration projects in the South Caucasus has itself had a destabilizing impact on the region's conflicts.

Resolution of the South Caucasus conflicts is a key issue for political stability and economic prosperity in the region. During 2015–16, as the EU looks to reshape its role in the South Caucasus through reviews of its European Neighbourhood Policy (ENP) and its European Security Strategy (ESS), it will need to identify how it can build effective strategies to resolve the protracted conflicts in the absence of a membership prospect.

To achieve this, the EU should pursue a twin-track approach to the conflicts of the South Caucasus. Firstly, there is no alternative to increasing political and diplomatic engagement to mitigate conflict dynamics. Secondly, the EU should focus on lessening the destabilizing aspects of EU–Russia competition in the South Caucasus, including around the two integration projects.

CONFLICT AND INTEGRATION IN THE SOUTH CAUCASUS

Conflict has been a defining feature of the South Caucasus over the past 30 years. The collapse of the Soviet Union and independence for Armenia, Azerbaijan and Georgia in the early 1990s was accompanied by the emergence of three major secessionist armed conflicts: Nagorno-Karabakh in Azerbaijan (where fighting commenced in 1988 and intensified in 1991–94), and South Ossetia (1991–92) and Abkhazia (1992–93) in Georgia.

While ceasefire agreements were eventually agreed and international conflict management mechanisms established in all three cases, the agreements did not translate into peace agreements. During the 1990s and much of the 2000s, conflicts in the South Caucasus continued under the conditions of no peace, no war.

While 'hot' large-scale violence was largely absent, the conflicts were not, as they have characteristically been described, 'frozen'. Abkhazia, South Ossetia and Nagorno-Karabakh were, to different extents, consolidated as de facto states. Thus, what had originally been localized disputes gradually solidified as state-to-state conflicts. Armenia and Azerbaijan became all-out adversaries in relation to Nagorno-Karabakh, and Russia became more involved in the Georgia conflicts. From the early 2000s, the Euro-Atlantic community strengthened its presence in the South Caucasus.⁵ In this shifting context, the protracted conflicts took on a regional security significance.

⁵ Delcour L., and Duhot, H., *Bringing South Caucasus Closer to Europe: Achievements and Challenges in ENP Implementation*, College of Europe, Natolin Research Paper 03/2011 (College of Europe Natolin Campus: Warsaw, Apr. 2011), pp. 7–8; and Zarifian, J., 'U.S. foreign policy in the

The transformation of the conflicts of the South Caucasus from localized violent disputes to interstate war was laid bare with the 2008 Georgia–Russia war, which concluded with Russia de facto occupying both Abkhazia and South Ossetia and recognizing them as independent states. Multilateral efforts to manage the conflicts in Georgia collapsed with the United Nations and the Organization for Security and Co-operation in Europe (OSCE) withdrawing their missions. The EU deployed its own monitoring mission and became a co-chair of the Geneva International Discussions on the Georgia conflicts.

Following the 2008 war, the EU's involvement in the South Caucasus was channelled into the EaP, which was designed to promote engagement with the South Caucasus and Eastern Europe and, implicitly, to counter Russia's influence. In bilateral terms, this evolved into a roadmap for AAs with Armenia and Georgia, which included a Deep and Comprehensive Free Trade Area (DCFTA). The EU and Georgia signed an AA/DCFTA in 2014.⁶

While the EU was developing its integration agenda, a group of Eurasian states led by Russia was formulating its own initiative. In 2010, Belarus, Kazakhstan and Russia established the Eurasian Customs Union, which was followed by the formation of the Single Economic Space two years later. In 2011, the three states agreed to establish the EEU, which entered into force on 1 January 2015. The EEU aims to greatly expand the scope of the Eurasian Customs Union and the Single Economic Space by creating a single market for goods, services, capital and labour. In September 2013, following a meeting between the presidents of Armenia and Russia—in which President Putin sought to leverage Russia's key security and economic support for Armenia—Armenia opted to join the EEU rather than conclude an EU AA.⁷

After six years of engagement with the EU's EaP, Azerbaijan has so far declined both to conclude an EU AA or to join the EEU.⁸ Thus, by 2015, the three South Caucasian breakaway regions ostensibly operate in different economic and political spaces yet appear to simultaneously be de facto integrated (to differing degrees) into the EEU market.

RISING INSTABILITY

Abkhazia and South Ossetia

Georgia's adoption of the EU AA/DCFTA was viewed as a key success for EU policy in the South Caucasus, but it has had little positive impact on the protracted conflicts. Initially, there was some thought in the formulation of the AA that economic growth stimulated by the agreement could act as a 'pull factor' on Abkhazia and South Ossetia. This is unlikely to be the case: Abkhazia's economy will not be significantly affected by the AA/DCFTA

1990s and 2000s, and the case of the South Caucasus (Armenia, Azerbaijan, Georgia)', *European Journal of American Studies*, vol. 10, no 2 (Summer 2015).

⁶ Association Agreement between the European Union and the European Atomic Energy Community and their member states, of the one part, and Georgia, of the other part, signed on 27 June 2014, *Official Journal of the European Union*, L 261, 30 Aug. 2014. The agreement was applied provisionally from 1 Sep. 2014 pending parliamentary ratification.

⁷ Giragosian, R., 'Armenia's strategic u-turn', Policy Memo, European Council on Foreign Relations, 22 Apr. 2014.

⁸ Alieva, L., 'The Eastern Partnership: the view from Azerbaijan', Food-for-thought Paper, European Council on Foreign Relations, 19 May 2015.

given that few sectors would benefit from access to EU or Georgian markets, and South Ossetia's tiny economy is essentially closed to Georgia following the effective establishment of an international border after the 2008 war. Most importantly for the two breakaway regions, the modest benefits of economic association fail to overcome the key issue of security.

Currently, it is the Russian market that counts for Abkhazia and South Ossetia, while Russian private and state finances are central to the two regions' economies.⁹ With Russia using its influence on the two regions' foreign and security policies to discourage connections between the regions and Georgia the AA/DCFTA has little prospect of moving the conflicts in a positive direction.

The decision of Georgia to move forward with EU integration has, however, been accompanied by increased instability. Russia has responded to the AA/DCFTA by reinforcing its position in the regions. Russia concluded a Treaty on Alliance and Strategic Partnership with Abkhazia in January 2015 and agreed a comprehensive Alliance and Integration Treaty with South Ossetia in March 2015, further integrating the two regions' security and economies with Russia. At the same time, Russia has demonstrated its ability to control developments on the ground through a process of borderization, whereby a de facto international frontier has been built inside Georgia.¹⁰

Nagorno-Karabakh

Equally, Armenia's EEU membership is unlikely to have a significant economic effect on Nagorno-Karabakh. Armenia's decision to join the EEU rather than the EU AA did, however, serve to feed growing tensions between Armenia and Azerbaijan over Nagorno-Karabakh. Given the lack of customs controls between Nagorno-Karabakh and Armenia, Armenia's accession to the EEU was viewed in Azerbaijan as effectively marking the integration of Nagorno-Karabakh's economy, via Armenia, into the EEU.

This step was seen as further consolidating the conflict status quo, which Azerbaijan views as against its interests. It sought to challenge Nagorno-Karabakh's de facto incorporation into the EEU, thereby raising tensions with Armenia. In this way, the wider regional instability generated by the struggle over the geo-economics of integration projects fed into the intensification of armed clashes between Armenia and Azerbaijan from July 2014 through to October 2015.¹¹

The fallout from the Armenian Government's decision to eschew the EU AA offer under security and economic pressure from Russia also affected domestic stability. For many in Armenia the decision fed into a rising resentment against its increasingly asymmetric relationship with Russia.¹²

⁹ According to one estimate, Russia sends annually around \$300 million to Abkhazia and at least \$100 million to South Ossetia. 'Russia spends \$5 billion annually propping up "statelets"—report', *Moscow Times*, 16 Sep. 2015.

¹⁰ Markedonov, S., 'Why Russia's "borderization" strategy makes Georgia so nervous', *Russia Direct*, 29 July 2015.

¹¹ Melvin, N., 'Nagorno-Karabakh: the not-so-frozen conflict', *Open Democracy*, 9 Oct. 2014; and Fuller, L., 'OSCE Minsk Group condemns "unacceptable escalation" of hostilities between Armenian, Azerbaijani forces', *Radio Free Europe/Radio Liberty*, 30 Sep. 2015.

¹² In 2015, a Russian soldier based in Armenia compounded tensions about the Armenia-Russia relationship with the murder of a local family. Rising resentment about Russia's influence in

In May 2015, the Russian-owned Armenian electricity company Inter RAO UES announced steep price rises of up to 53 per cent. This was the catalyst for the emergence of the 'Electric Yerevan' protest movement. While the focus of the demonstrations was on corruption and deteriorating economic conditions, protestors also expressed unease about Russia's influence over Armenia, raising the prospect of a Maidan-style movement emerging in the country and prompting concerns in Russia.¹³

INTEGRATION PROJECTS AND REGIONAL FRAGMENTATION

The AA/DCFTA and the EEU are still at an early stage, nevertheless their implementation is already raising important issues about their impact on the conflicts of the South Caucasus. To reach peaceful resolution of the protracted conflicts, building confidence, interdependence and trust among the states of the region will be vital. Regional cooperation is a key means to promote such values. The launch of the two integration projects means, however, that the South Caucasus is more divided and less open to regional cooperation as a result of their introduction: Armenia is in the EEU, Georgia is associated with the EU and Azerbaijan is pursuing its own course outside both projects.

The weakening of regional links as a result of integrating the South Caucasus into the EU and EEU political systems and markets, is not confined to high politics. The introduction of two competing integration projects risks deepening intra-regional political fault lines through the creation of 'harder' local customs borders within the region. Such a development could have a particularly negative impact on cross border communities.

The Samstkhe Javakheti region in Georgia (bordering Armenia and largely inhabited by an Armenian minority), for example, is an area where ethnic, economic and political boundaries overlap. Residents of Samstkhe Javakheti have been crafting livelihoods through cross-border trade since the 1990s, while many in the region work in Russia and have Russian citizenship. With Armenia/Russia and Georgia in different economic and trading systems, the people in the region have become concerned about their future and their ability to sustain livelihoods operating between the AA/DCFTA and the EEU. An important issue is uncertainty about the concrete impact on cross-border trade of increased customs tariffs and new regulations on standards for goods and services.

As the post-Soviet history of the South Caucasus has shown, it is precisely in areas such as Samstkhe Javakheti that resentments, expressed in communal or ethnic terms, can emerge and raise the spectre of territorial and even secessionist movements.¹⁴ Given this, it is important to ensure that the application of the AA/DCFTA and the EEU border and customs regimes does not harm the interests of groups caught between the two blocs and to ensure that communities are fully informed of how they will be affected by the changes.

Armenia was further exacerbated when Russia's key role in arming Azerbaijan emerged. Kucera, J., 'Report: Azerbaijan gets 85 percent of its weapons from Russia', Eurasianet.org, 17 Mar. 2015.

¹³ Cecire, M., 'Whose Armenia?', *American Interest*, 8 July 2015; and Bershidsky, L., 'Kremlin fears a revolution in Armenia', *BloombergView*, 24 June 2015.

¹⁴ Boonstra, J. and Melvin, N., *Challenging the South Caucasus Security Deficit*, FRIDE Working Paper no. 108 (FRIDE: Madrid, Apr. 2011), p. 17.

On an economic level, the impact of the implementation of the AA/DCFTA and the EEU is also problematic. The push to integrate local economies with trading blocs outside the region undercuts efforts to build regional economic ties. Not only is this harmful for prosperity, but also for conflict resolution. Regional economic ties are widely viewed as being crucial to promoting the shared interests (and institutions) that are vital for political rapprochement among the conflict parties. It is, therefore, important to ensure that the few regional economic links that exist are not harmed by the existence of different economic blocs in the South Caucasus.¹⁵

CONFLICT TRUMPS ECONOMIC ASSOCIATION IN THE SOUTH CAUCASUS

The protracted conflicts are a strategic vulnerability for the countries of the South Caucasus. After a quarter of a century, the conflicts seem no nearer to resolution. Indeed, they continue to evolve and destabilize with the risk that they could return to violence. As the competition between the Euro-Atlantic community and Russia in the South Caucasus has grown over the past decade, the conflicts have become central to the regional struggle.

The conflicts in the South Caucasus constitute a particular challenge for the EU. In seeking to overcome the conflicts in the region, the EU has facilitated its engagement through the ENP, with the AA/DCFTA at its core. This approach reflects the long-standing EU approach to interventions in conflict-affected countries by focusing on top-down governance reforms. The geopolitical context and power relations that underlie and fuel conflicts are largely eschewed in favour of technical and financial support, and legal reform.

To date, this approach has failed to make a substantial impact on the South Caucasus' regional security agenda. Indeed, in the context of a competing integration project led by Russia, the EU approach has become part of a wider process of destabilization in the region around the protracted conflicts. The EU will be unable to advance its influence and interests significantly in the South Caucasus if it cannot find a way to engage in conflict resolution effectively.

The reviews underway of the ENP and the ESS offer the EU an opportunity to move forward to address the shortcomings of its current approach. In this context, the following four recommendations are made to the EU in its efforts to strengthen its conflict-resolution and stability-building policies in the South Caucasus:

Link the European Neighbourhood Policy and the Common Foreign and Security Policy

Reform of the EU approach to the South Caucasus will need to begin with security issues generally and the protracted conflicts specifically. This points to a closer link between the ENP and the EU's Common Foreign and Security Policy (CFSP). The EU engagement and resources contained in

¹⁵ A good example is the Georgia used-car market that until recently served as a regional hub for the trade in second hand cars but has now been hit by the economic downturn and the new customs regime of the EEU. Miller, M. J., 'Georgia: once an economic driver, used car market turning into a lemon', Eurasianet.org, 30 Sep. 2015.

the ENP should be shaped by and underpin conflict prevention, management and resolution efforts undertaken by more ‘political’ and diplomatic mechanisms such as the EU Special Representative. Such mechanisms will also need to be upgraded with stronger political backing from EU member states and increased resources.

Given the EU’s good relations with the Georgian authorities, the comparative advantages in terms of popular support enjoyed by the EU in Georgia and the need for the EU to demonstrate an ability to counter Russian policies of destabilization in its neighbourhood, the protracted conflicts of Abkhazia and South Ossetia should be the EU’s regional priority. Resources should be focused on preventing further integration of the breakaway regions with Russia and on crafting—within the political framework of ‘engagement without recognition’—a genuinely attractive offer to Abkhazia so as to open channels of communication with the EU.

While the OSCE Minsk Process remains the best means to manage the Nagorno-Karabakh conflict, the EU can contribute more effectively to promote the conditions for an eventual peace agreement. Resources should be targeted on a coordinated effort to build political support for a settlement in key constituencies and to link civil society to the high-level diplomatic process.

Take account of Russia

The EU will need to take account of Russia in terms of its policies on and interests in the conflicts and the South Caucasus region. This suggests a pragmatic approach as to how the AA/DCFTA and the EEU can coexist in the region, which is exemplified by the case of Armenia. The EEU rules that will actually apply to Armenia remain vague and come with numerous exemptions. Against the backdrop of public discontent and domestic instability, the Armenian Government is seeking to return to its earlier twin-track external policy, balancing the influences of the EU and Russia. In May 2015, the United States and Armenia signed a Trade and Investment Framework Agreement. Armenia is also pressing ahead with a new EU–Armenia agreement compatible with the EEU.¹⁶ This should allow space for cooperation and continuing openness between the AA/DCFTA and the EEU areas.

Special attention should be given to preventing interface regions between the EU and Russian-led integration projects from becoming a source of tension. Instead, with the necessary support from the EU, the border regions of Georgia could be an example of how the two integration projects can work together to promote stabilization. Such practical cooperation could serve as a useful demonstration on the utility of strengthening regional cooperation.

Respond flexibly to shifting political economy

The current EU AA/DCFTA offers a medium- to long-term prospect of improved standards of living as a result of a top-down governance approach, with some technical and financial assistance. The South Caucasus economies are, however, facing immediate challenges stemming from the drastic slowdown of Russia’s resource-driven economy, which is

¹⁶ Alexe, D., ‘EU, Armenia to restart talks on common agreement’, *New Europe*, 2 Nov. 2015.

negatively affecting trade and, notably for Armenia, remittance income.¹⁷ New economic pressures are likely to have a political impact in the region with regard to social fragility and protest.

The EU's engagement should be flexible enough to respond to the shifting political economy of the region, notably taking account of how the economic downturn may promote instability and even conflict. The ability to recognize and act on changing circumstances should be strengthened, particularly in the EU delegations, to ensure that resources can be redeployed quickly and effectively to help mitigate economic distress.

Prepare creative contingency plans

The EU has often found itself poorly placed to anticipate developments with respect to the protracted conflicts of Georgia. Looking ahead, in the conditions of a significant economic slowdown in Russia, the financial assistance provided by Russia to Abkhazia and South Ossetia—which together with Russian military force underpins the breakaway regions—may not be sustainable. In this changing situation, there may be new opportunities for EU engagement, notably with Abkhazia, and a new interest in external ties, for example, if the local economy suffers as the Russian market falters. It is strategically important that the EU looks beyond the current status quo to anticipate opportunities for engagement and is ready to move quickly when such moments arrive. Developing creative contingency plans

The EU has often found itself poorly placed to anticipate developments with respect to the protracted conflicts of Georgia. Looking ahead, in the conditions of a significant economic slowdown in Russia, the financial support provided by Russia to Abkhazia and South Ossetia—which together with Russian military force underpins the breakaway regions—may not be sustainable. In this changing situation, there may be new opportunities for EU engagement, notably with Abkhazia, and a new interest in external ties. It is strategically important that the EU looks beyond the current status quo to anticipate opportunities for engagement and is ready to move quickly when such moments arrive.

¹⁷ Grigoryan, M., 'Armenia: Eurasian Union malaise puts government in budget hole', Eurasianet.org, 6 Aug. 2015.



**STOCKHOLM INTERNATIONAL
PEACE RESEARCH INSTITUTE**

Signalistgatan 9
SE-169 70 Solna, Sweden
Telephone: +46 8 655 97 00
Fax: +46 8 655 97 33
Email: sipri@sipri.org
Internet: www.sipri.org

CASCADE is an international EU-funded research project designed to explore the linkages between societal challenges, political developments and conflicts in the Caucasus region. A particular focus is the relationship between security and democratization. SIPRI is leading the work on the conflicts of the Caucasus within CASCADE. The project runs from 2014 to 2017.

SIPRI is an independent international institute dedicated to research into conflict, armaments, arms control and disarmament. Established in 1966, SIPRI provides data, analysis and recommendations, based on open sources, to policymakers, researchers, media and the interested public.