

Chapter 6

Whither the South Caucasus?

Thomas de Waal

Twenty five years after Armenia, Azerbaijan, and Georgia became independent states, the South Caucasus remains a strategically sensitive region between Europe and Asia, Russia, and the Middle East. It is still struggling with the legacy of the conflicts that broke out as the Soviet Union collapsed. Economic development lags behind its neighbors and unemployment and emigration are enduring problems.

The South Caucasus is still a region more in potential than in reality. The three nation-states have grown apart and resemble one another far less than they did 20 years ago. The future development of both Armenia and Azerbaijan is still hostage to the most dangerous unresolved conflict in wider Europe, the dispute over Nagorny Karabakh. An outbreak of fighting in April 2016, in which up to 200 people died, was a reminder that this is a smoldering conflict that is currently nearer to full-scale war than to peaceful resolution.

The long-term cost of the Karabakh conflict on Armenia and Azerbaijan is high. Armenia, the victorious party in the war of the early 1990s, still has its borders with Azerbaijan and Turkey closed, and is overly dependent on Russia as its security patron. Azerbaijan has mostly resolved the acute humanitarian problems it suffered as a result of the Karabakh conflict and it has benefited from a decade of oil-fuelled prosperity after 2003. But the end of the boom and a turn to more authoritarian rule has made Azerbaijan much more inward-looking and fragile.

This makes Georgia a strong contrast to its two neighbors. Unlike its neighbors, Georgia has acquired the “habit of democracy” and held genuinely competitive elections in October 2016. A pro-Western consensus has been maintained through the very different periods when the country was led by Eduard Shevardnadze, Mikheil Saakashvili and Bidzina Ivanishvili. Its institutions—parliament, courts, media, civil service—are growing stronger.

Importantly, Georgia is helped by the fact that its unresolved conflicts in Abkhazia and South Ossetia are not a brake on domestic progress and aspirations for Euro-Atlantic integration. Opinion polls show that ordinary Georgians still care about the loss of the two breakaway regions but that domestic issues are uppermost in their minds. Also, the 2008 war with Russia and Moscow's recognition of Abkhazia and South Ossetia as independent states is a huge obstacle to any ambitions Russia has of pulling Georgia back into its orbit. The de facto loss of the two territories is painful for Georgia, but also leaves it free to move faster towards Europe.

Russia continues to be the most important big neighbor for all three South Caucasus states. Since 2013 it has managed to strengthen its relationship with Azerbaijan, while incorporating Armenia into the Eurasian Union. Trade and communication links between Russia and Georgia have been restored since 2012, even though the two countries still have no formal diplomatic relations.

Yet a quarter-century of independence has confirmed the statehood of the three countries and given them plenty of tools to resist Russian influence and advice if they wish to. Knowledge of the Russian language and exposure to the Russian media are all slowly decreasing and Russia's image has suffered as a result of the Ukraine conflicts.

Both the crisis in Ukraine and the conflict in Syria have had a generally negative impact on the region. The sight of the Maidan movement in Ukraine helped persuade the government of Azerbaijan to crack down harder in order to stifle dissent. As the crisis began in 2013, Armenia, under pressure from Moscow, went down "the road not taken" by Ukraine, agreeing to abandon its plans for an Association Agreement with the EU and to join Russia's Eurasian Union instead.

The Syrian conflict, which is not far from the Caucasus geographically, also had a direct impact on all three South Caucasus countries. Armenia took in tens of thousands of Syrian Armenian refugees. Azerbaijan and Georgia (as well as the Russian North Caucasus) saw recruits from their countries join the ranks of so-called Islamic State and must now craft policies to deal with returnees from Iraq and Syria.

More broadly, these two crises have pushed the Caucasus down the agenda in both the United States and the European Union. With resources stretched and no obvious breakthroughs in sight, "conflict management" is now the order of the day. Ten or 15 years ago, when the peace processes in the region were more dynamic it was possible to recommend radical

steps and hope for full resolution of the conflicts. Now, it is more realistic to pursue incremental change and to see the protracted conflicts in the context of societal development in the region as a whole.

25 Years of Relations with the West

After a surge of romantic expectations in the 1990s, relations between Western countries and the three states of the South Caucasus are much more pragmatic than they were. Georgian scholar George Mchedlishvili sums up the mood as “Adoration No More.”¹ Yet behind this more pragmatic relationship lies a much thicker web of relationships than 20 years ago, especially in Georgia.

Expectations about the transformative role the West would play in the region after the break-up of the Soviet Union look rather naïve in retrospect. Western leaders would never give a very high priority to a region with 15 million people—certainly in comparison to their close neighbor and former imperial power, Russia.

Arguably, the occasions when U.S. leaders have paid the closest attention and pushed certain policies for the region have also produced mixed results. Three times in the last 25 years, the South Caucasus has been a “policy project” in Washington. The first time was when the Clinton administration strongly promoted the idea of the Baku-Ceyhan oil pipeline in the 1990s. BTC, as it became, was ultimately a success, but initial high-level U.S. backing for it politicized the project in a way that probably made it harder to accomplish. The project was seen in the 1990s by the energy companies as commercially unviable and was only vindicated in the early 2000s when economic circumstances changed.

The second project was when President George W. Bush adopted post-Rose Revolution Georgia as a model of democratic change and visited Tbilisi in 2005. This was a boost to reformers in Georgia but also emboldened President Saakashvili to be more intolerant of his domestic opposition and to be more antagonistic towards Russia than was wise. As Georgia headed towards conflict in 2008, its government had unrealistic expectations about the degree of support they would receive from Washington. A third project was support for the Armenia-Turkish normalization process

¹ George Mchedlishvili, “Changing Perceptions of the West in the South Caucasus: Adoration No More,” Chatham House, February 12, 2016, <https://www.chathamhouse.org/publication/changing-perceptions-west-south-caucasus-adoration-no-more#sthash.29MlrB7J.dpuf>.

in 2007–2009. This was the right policy, but close U.S. involvement complicated the process, as the U.S. government wanted to resolve its own domestic political Armenian issue and probably pushed the process too hard and too fast as a result.

In contrast to these high-profile interventions, a slower policy of appealing to the hearts, minds and wallets of the citizens of Armenia, Azerbaijan and Georgia has been less visible but more effective over the longer term. Here again the contrast is striking between Georgia's relationship with its Western partners and that of Armenia and Azerbaijan.

In the early 1990s, the three countries started from a roughly level position. Armenia and Georgia in particular were recipients of some of the highest per capita aid grants from the United States of any countries in the world. (Azerbaijan was held back by Section 907 of the Freedom Support Act imposed by the U.S. Congress in 1992 at a time when it had the upper hand in the Karabakh conflict against the Armenians).

One persistent disappointment for Armenia is that it has a large and prosperous worldwide diaspora, that is, by some estimates, twice as large as the three-million-strong population of the Republic of Armenia itself, and yet Armenia remains one of the poorest of the post-Soviet states. In 2015 Armenia's GDP per capita was \$3,500, compared for example to around \$9,000 in Russia and Turkey and \$17,000 in its former Soviet co-republic Estonia.² There are evidently missed opportunities here, on both sides. On the side of the government of Armenia, there has been a reluctance to allow diaspora Armenians to invest on a "level playing-field" which has deprived the country of potentially huge amounts of investment. On the diaspora side, there has been a reluctance to invest in the "real economy" of Armenia and back a political reform agenda, with foreign Armenians preferring to put their money in churches or cultural projects or to lobby for genocide resolutions in foreign parliaments. Now that the centenary of the 1915 Armenian Genocide has passed, there is an opportunity for the U.S. Armenian diaspora in particular to re-focus its energies on the socio-economic problems of Armenia.

All this leads to the conclusion that supporting long-term state-building is more valuable than the short- and medium-term pursuit of strategic alliances in the South Caucasus.

² World Bank, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

Changing Aid Priorities

In the early 1990s, there was an understandable focus on post-conflict aid. Gradually, years of post-conflict humanitarian assistance have mostly eliminated the problems faced by internally-displaced persons (IDPs) from the conflicts. Azerbaijan's tent-camps have closed down and its hundreds of thousands of IDPs have mostly received new housing. The main issues that still face these IDPs are of being more integrated into the Azerbaijani economy and having more input in decisions about their futures.³ In other words, IDPs suffer more from political marginalization than economic hardship that stems from their status.

A World Bank study on Georgia from February 2016 reports that IDPs and non-IDPs now have roughly the same levels of poverty, although IDPs have higher levels of unemployment.⁴ The study advocates making a transition from a status-based approach in which the status of IDP automatically qualifies someone for financial support to a needs-based approach that focuses more on the economic condition of the aid-recipient in question.

Generally, the focus now is for long-term development aid to the three countries. Georgia is by the far most suitable candidate to receive this kind of aid, chiefly for two reasons: it has dramatically lower levels of corruption than the two other countries, and its civil society is much stronger. After the 2003 Rose Revolution, Georgia received a large influx of aid from bilateral donors, especially the United States (this went mainly to the government, which had the perverse result of weakening civil society for a while). In 2008, following the war with Russia, Georgia received an unprecedented aid package of one billion dollars from the United States, one quarter of which was in direct budgetary support.

Two sectors of U.S. aid to Georgia are worth singling out: defense and security, and education. The United States' support for the Georgian security sector dates back notably to the launch in 2002 of the 18-month-long \$64-million-dollar Train and Equip Program with the Shevardnadze government in Georgia.⁵ Although nominally launched to combat the threat

³ International Crisis Group, "Tackling Azerbaijan's IDP Burden," February 27, 2012, <https://www.crisisgroup.org/europe-central-asia/caucasus/azerbaijan/tackling-azerbaijan-s-idp-burden>.

⁴ World Bank, "Georgia. Transitioning from Status to Needs Based Assistance for IDPs," February 2016, <http://documents.worldbank.org/curated/en/49398146803031770/pdf/IDP-PSIA-Georgia-revised-Feb-2016.pdf>.

⁵ Globalsecurity.org, "Georgia Train and Equip Program (GTEP)," <http://www.globalsecurity.org/military/ops/gtep.htm>.

of terrorism in the Pankisi Gorge, it set the precedent of bringing U.S. troops to Georgia and began a period of close military cooperation. Georgia subsequently committed troops to the U.S.-led missions in Iraq and Afghanistan and has received substantial U.S. funding to modernize its armed forces.

The United States has persistently lobbied for Georgia to get a Membership Action Plan and be put on the pathway to NATO membership. However, resistance from France, Germany, Italy and others consistently blocks Georgia's membership perspective. In the absence of that, NATO strengthened its relationship with Georgia by making it an Enhanced Opportunity Partner in 2014. That led to the creation of the NATO-Georgia Joint Training and Evaluation Centre (JTEC) in 2015, which trains the Georgian military and a further package of assistance in 2016.

Given the skepticism of several leading NATO members—and what many would say is a *de facto* veto on membership from Russia—this pursuit of a strong bilateral military relationship both with NATO and with the United States has achieved much of what a MAP would deliver without the formalities: a professionalization of the armed forces and strong links with the world's major military power.

Armenia and Azerbaijan have spent heavily on their militaries for the wrong reason—to prepare for war with each other over Nagorny Karabakh. That has also prevented Western countries from playing a direct role in military reform in both countries. Russia is the major supplier of weapons to both countries and Armenia's security patron. Yet modernization has also taken place and, thanks to one section of the Armenian Defense Ministry, Armenia has a surprisingly good relationship with NATO.

Education is another example of aid from both the United States and EU countries which has made a difference. A whole generation of younger Georgians has studied in Western universities. In acknowledgement of the effectiveness of this, it was announced that the number of Fulbright scholars going from Georgia to the United States would be doubled to 16 every year. The Second Compact of the Millennium Challenge program for Georgia, which came into force in 2014 and is worth \$140 million over three years, focuses on education and in particular on science, technology, engineering, and math (STEM). One big success story is GIPA, the Georgian Institute for Public Affairs.

The main caveat is that there has been a too strong focus on higher education as opposed to school education, and that investment in education

is too much of an elite project. This dilemma faced the strategists of the Millennium Challenge—as they planned an investment in higher education in Georgia, they were concerned that the secondary school system was not turning out graduates who were capable of taking advantage of the new opportunities.

Again, Georgia is ahead of its peers. Armenia also has a good higher education system, but it suffers from lack of funding and an old-fashioned Soviet-era approach to teaching. With the exception of two elite institutions (the Oil Academy and Diplomatic Academy), Azerbaijani higher education is unimpressive. Very little of the revenues from the oil boom went into education, which now receives only 2.1 percent of overall spending from the state budget—well below the European average of 4.8 percent.⁶ In August 2016, one of the country's few independent universities, Caucasus University, was shut down and then brought under the control of the state, because of its alleged ties to the Fethullah Gulen movement in Turkey.⁷ Many of its Turkish instructors were dismissed and deported.

A Differentiated European Approach

The European Union has become an important actor in the South Caucasus, again much more in Georgia than the other two countries. EU policy has evolved towards the three countries to demonstrate that a deeper commitment receives more support. This is illustrated by the evolution of the Eastern Partnership (EaP) project, launched in 2009. Initially it offered similar things to all six countries in the project. Then, as it became obvious that some countries were more serious than others about collaboration and integration with the EU, the slogan “more for more” was devised. More recently, the EU has acknowledged that while the idea of the EaP has a bureaucratic purpose and means that the six countries involved command more attention in Brussels as a result, it needs an individually tailored approach to each country in turn.

In Armenia and Azerbaijan, the ruling elites are too focused on preserving their own regimes and the oligarchic economic structures to welcome the EU's normative democratization agenda. In Azerbaijan, the relationship has been renamed “strategic” and is focused almost exclusively

⁶ World Bank, <http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS>.

⁷ Rebecca Vincent, “Azerbaijan Attacks Gülen Movement Ahead of Referendum,” Little Atoms, <http://littleatoms.com/news-society/turkey-style-crackdown-no-one-watching>.

on energy. In Armenia, efforts are underway to salvage parts of the Association Agreement that was under discussion in 2013, when the Armenian leadership opted instead to join the Russia-led Eurasian Union. Talks on a new Partnership and Cooperation Agreement are said to be friendly but slow, as the two sides identify what can and cannot be a part of the package. The fact that membership of the Eurasian Union is incompatible with the EU's DCFTA, necessarily narrows the fields of collaboration between Brussels and Yerevan.

In Georgia, the EU provides more than €100 million in funding annually (not counting aid from the member states), not counting its role as a security provider through the European Union Monitoring Mission, set up after the 2008 conflict.

The Association Agreement which came into force in July 2016 deepens the relationship with the EU. It promises Georgia an important carrot of visa liberalization (Georgia fulfilled the criteria the EU demanded of it however final approval was delayed in September 2016). The Deep and Comprehensive Free Trade Agreement (DCFTA) also promises Georgia preferential access to the EU market, although the consensus is that this will take up to seven years to have an impact. Hopes that visa liberalization and the DCFTA will, as in Moldova, prove attractive to Abkhazia are almost certainly over-optimistic, but they serve the long-term aim of making Georgia a more attractive and less threatening country for the Abkhaz and South Ossetians.

The EU lags behind the United States in one key respect in Georgia: its communication is poor. The United States is much more effective in delivering a message, advertising its aid programs and making an impact on the Georgian public. The EU is hampered by its multi-national structure, bureaucratic language and failure to project a clear message. This raises an interesting question: can Washington and Brussels work more effectively together to maximize their strengths, with the EU having greater leverage and the United States a stronger public profile in Georgia?

Dealing with Enduring Conflicts

The United States has had an active role in the negotiating processes for the three conflicts in the South Caucasus: the Armenian-Azerbaijani conflict over Nagorny Karabakh and the conflicts over Abkhazia and South Ossetia.

It is very important to differentiate between the Karabakh conflict and the Georgian conflicts. Despite the factor of the Armenians of Nagorny Karabakh—who started the dispute in 1988 and should never be underestimated—it is essentially a full inter-state conflict between Armenia and Azerbaijan, each of whom are able to compete diplomatically in the international arena to influence others. Partly for this reason, the role of Russia is also very different in this case. Moscow is a co-mediator on Karabakh with Washington, and since the late 1990s France, Russia and the United States have collaborated well as co-chairs of the Minsk Group. There are differences, but they are not fundamental ones. In Georgia, Russia intervened directly on the side of Abkhazia and South Ossetia and became a party to the conflict in 2008.

Karabakh

There is little room for innovation or radical thinking in the Karabakh conflict. The contours of a possible peace agreement are well known, all good ideas have already been proposed. For several years, the focus has been more on conflict management than on conflict resolution.

As a co-chair of the OSCE Minsk Group on Nagorny Karabakh, the United States must also act in the knowledge that Russia is the most active and controversial of the three mediators. Moscow has a close relationship with both sides and works with Baku and Yerevan on a number of other bilateral issues. Russia has reasons for wanting to maintain the status quo and also reasons for wanting to see the conflict resolved.

However, it is a mistake to think that the keys to the conflict lie in Moscow. The local actors are the main decision-makers—even if they find it useful to blame the Russians from time to time. The basic problem is that resistance to resolution of the conflict from Baku and Yerevan—for both of whom the dispute is also a useful instrument of regime legitimization—is always greater than external pressure to make peace. There is no appetite for an imposed solution from the Great Powers to what is regarded as a serious but not urgent problem. In Western capitals, the conflict makes it on to the agenda only when there is a serious breakdown of the ceasefire.

Currently, there is an increased sense of urgency amongst the mediators since April 2016 when the most serious fighting between the two sides broke out since the 1994 ceasefire. This fighting cost up to 200 lives on both sides and was fought with new sophisticated weaponry supplied by Russia to both sides. The cause of the violence was probably a calculation

on the part of Azerbaijan that a limited military operation would disturb the composure of the Armenians, re-focus international attention on the conflict and distract public opinion from economic problems.

Since the four days of fighting, Presidents Ilham Aliiev and Serzh Sargsyan have been considering a phased peace-plan, authored by Russian foreign minister Sergei Lavrov, that focuses on the first phases of the “Basic Principles” framework agreement first drafted on paper on 2007. This would allow the two sides to move forward on initial steps in a peace plan without having to tackle the almost-impossible issue of final status of the disputed territory itself. The Armenians will return some Azerbaijani territories outside Nagorny Karabakh, tens of thousands of IDPS will be allowed to return, communication routes will re-open, a peacekeeping force will be installed on the eastern border of Nagorny Karabakh, which will also receive enhanced international status.

What can Washington do within these constraints, beyond continue to push the current peace plan? First of all, together with France, the United States should act as a brake on any attempt by the Russians to promote any unilateral initiative, one for example that involves Russian peacekeepers on the ground. Second, the United States can do more to be the public face of the OSCE Minsk Group, which has become closed and impenetrable to the publics on both sides of the conflict. Third, the United States, together with its European partners, can start working on fleshing out the substance and details of a future agreement: the details of how a peacekeeping force can be deployed, of economic reconstruction, restoration of transport links and so on. This will reinforce the push for peace as it faces resistance on the ground. In the meantime, the small OSCE ceasefire monitoring group needs to be substantially increased and given a stronger mandate—it was devised at a time when the Line of Contact was far less dangerous than it is today.

Georgia

It is currently unrealistic to talk of “conflict resolution” in Abkhazia and South Ossetia. The best that can be hoped for is slow “conflict transformation.” As far as Russia and the Abkhaz and South Ossetians are concerned, Moscow’s recognition of Abkhazia and South Ossetia as independent states in the wake of the August 2008 war with Georgia “solved” the conflicts there and created new irrevocable realities on the ground, backed up by extra deployment of military forces. Although no other major states have followed Russia’s example, it is almost impossible

to anticipate Moscow revoking its decision of 2008, which means that the Abkhaz and South Ossetians have no incentive to engage on status or sovereignty issues for the foreseeable future. Two bilateral treaties signed in 2010 further integrated the economies and governments of the two territories into the Russian Federation. That means that conflict resolution here will be a very protracted business. In the case of Abkhazia, people-to-people contacts across the boundary with Western Georgia are limited, in South Ossetia there are virtually no contacts at all.

There is a difference in tone, if not in substance, between the U.S and European approaches to these conflicts. Both express support for Georgia's territorial integrity and call for a peaceful resolution to the disputes.

These conflicts are multi-dimensional. Their origins are indigenous to the region and due to the negative dynamics of Georgian-Abkhaz and Georgian-Ossetian relations stretching back at least to the beginning of the 20th century. However, the Russian factor became an issue in both conflicts in the 1990s, and from 2008 we can talk about a Georgia-Russia conflict being mapped on to the earlier conflicts in and around these territories. Many in Georgia now retrospectively represent the conflicts as being Georgian-Russian from the start in what looks like an attempt to efface Georgians' own responsibility for what happened in the years 1989–1992.

The consensus view in the United States, reinforced by Russia's annexation of Crimea in 2014, is that the conflicts in Abkhazia and South Ossetia are solely about Russian occupation. The Congressional Appropriations Bill for 2017 promised increased assistance for Georgia as part of an overall aid package worth \$930 million, "which will help countries such as Ukraine to respond to instability caused by Russian aggression."

A strong focus on the Russia angle of the conflicts leads to the conclusion that the local actors have no agency and that the only solution lies in Russian "de-occupation." Given, Russia's long-term investment in these territories, this risks being a counsel of despair.

The European Union has a slightly different emphasis, having adopted a strategy of "non-recognition and engagement" for Abkhazia and South Ossetia in December 2010. This balances a firm policy of not recognizing the sovereignty of the breakaway territory with a policy of reaching out to the societies there and also to the de facto governments. South Ossetia remains closed, but the EU has a package of programs in Abkhazia in education, healthcare and even the police. Although very compared to the spending coming from Russia, they are a demonstration of goodwill and

keep the door open for fuller engagement in the future. The post-2012 Georgian government has accepted this strategy.

The EU is also one of the three co-chairs of the Geneva talks, which are held four times a year and are the only forum where all the parties to the conflict can meet in one place. Achievements here are very minor and there are far more quarrels than agreements, but the format also keeps alive the possibility for resolution of bigger issues in the future.

The United States should engage with Abkhazia in this spirit and give opportunities for its residents to travel and study abroad on a “status-neutral” basis. This would be a reminder to the people in Abkhazia that they are still citizens of the world and constitute a commitment to keep borders open as much as possible in the hope of transforming the conflict for the better in the future.

Policy Proposals

- Continue a policy of broad-based incremental support and assistance in the South Caucasus on the basis of state-building rather than “strategic alliances.”
- Encourage the U.S. Armenian Diaspora to focus on more practical policies in Armenia and back a reform agenda.
- Keep up a focus on education, with a greater emphasis on higher education.
- Coordinate with the EU on better messages and presentation of programs.
- Continue to build a bilateral military relationship with Georgia, in the absence of a NATO perspective. Continue to promote NATO cooperation with Armenia and Azerbaijan with an emphasis on wider international issues beyond the region.
- Maintain U.S. support for the Nagorny Karabakh OSCE Minsk Process, while promoting more open debate in society. Enhance European engagement through a more active French role in coordination with the EU as a whole.
- Create a “technical experts’ group” for the Karabakh conflict that can work on scenarios for peacekeeping, reconstruction, rehabilitation of transport links, assisting the return of IDPs etc. This will make the Minsk Group’s draft political plan more credible and be a

pledge of international assistance if the local leaders show more political will to agree to a settlement.

- Declare a policy of “non-recognition and engagement” for Abkhazia and South Ossetia in coordination with the EU.
- Within that policy, devise more ambitious schemes for assistance in the education and health sectors in Abkhazia.

