

## Chapter 2

# Security Threats and Challenges in the Caucasus after 9/11

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Since before independence, conflict and instability have plagued the South Caucasus region. The ethno-political conflicts in the region that raged in the early 1990s led to the death of over 50,000 people, great material destruction, and contributed significantly to the political instability, economic hardships, and the increase in transnational organized crime that has characterized the region in its first decade of independence. The conflicts came on the heels of the weakening and subsequent break-up of the Soviet Union. These conflicts centered on the territorial status of three regions populated by ethnic minorities: the mainly Armenian-populated Mountainous Karabakh Autonomous Province of Azerbaijan; the Autonomous Socialist Soviet Republic of Abkhazia, and the South Ossetian Autonomous Province, both in Georgia. At present, none of the conflicts in the South Caucasus has found a negotiated solution, and the conflicts are “frozen” along unsteady cease-fire lines.<sup>1</sup> A relapse to warfare is a distinct possibility in all the three conflict areas, as negotiations have yielded no positive results. Besides these active conflicts, other minority regions in the three states have seen tensions between the central government and representatives of ethnic minority populations, demanding higher levels of autonomy. Areas with conflict potential include, significantly, Georgia’s mainly Armenian-populated Javakheti region. The Spring 2004 standoff between the new Georgian central Government and the leadership of the Ajarian Autonomous Republic was resolved peacefully, nevertheless it illustrates the conflict potential in the region outside the secessionist territories. The subsequent standoff with the South Ossetian separatist region escalated to the brink of renewed conflict in July 2004, indicating the difficulties the Georgian government is facing in reasserting its territorial integrity.<sup>2</sup>

In addition to ethnic tensions, which have been the region’s main type of conflict, all three countries have been afflicted by the use of violent means to alter the leadership of the respective states. This has included armed insurgencies that managed to overthrow existing governments in Georgia in 1991, in Azerbaijan in 1993, as well as several unsuccessful attempts made to alter the political

environment since then. Assassination attempts have also been made against leaders, including two failed attempts on the life of Georgia's President and the assassination of Armenia's Prime Minister and Speaker of Parliament in 1999. Georgia's regime change in 2003 was tumultuous but took place in a non-violent manner. To compound this unruly picture, the South Caucasus has in the last few years been increasingly affected by other security threats of a more transnational nature, including organized crime, specifically trafficking of narcotics, arms and persons, and the rise of Islamic radical movements.<sup>3</sup>

While these are all internal security threats, the international environment surrounding the region compounds the regional scene. The South Caucasus has gained importance through its strategic location and its energy resources. The region's strategic location between Russia and Iran and connecting Europe to Asia, as well as its oil and gas resources and the region's position as the chief route for the westward export of Caspian energy resources, has gradually led to an increased geopolitical attention to it. Especially after September 11, 2001, the South Caucasus is no longer a backwater of international politics. With U.S. and allied military presence in Central Asia, Afghanistan and the Middle East, the South Caucasus is a crucial area enabling the connection between NATO territory and military operations in Afghanistan and staging areas in Central Asia. Yet, as Alexander Rondeli has pointed out, the important geopolitical location of the South Caucasus has been as much, if not more, of a liability as an asset to the regional states.<sup>4</sup> International interest in the region has tended to increase the polarization of regional politics, entrench existing conflicts, and thereby make the region's road to stability more complicated. Having dramatically differing and existential threat perceptions, the three South Caucasian states have developed diverging strategies to ensure their security. Armenia, perceiving threats from Turkey and Azerbaijan, has sought security through ties with Russia; Azerbaijan, perceiving threats from Iran, Armenia, and to a decreasing extent from Russia, has sought western and Turkish support; while Georgia, encountering threats from Russia and from internal challenges with links to Russia, seeking mainly American protection. The Azerbaijani-Armenian conflict in particular prevents the emergence of such a cooperative framework. To some degree, external players exploit historic fears to prevent closer regional security, diplomatic and economic cooperation. The alignments emerging out of these differing threat perceptions are contradictory and potentially devastating to regional security, because they cement the division of the region, ensure an unpredictable regional political climate, enable arms races, and prevent the emergence of cooperative regional mechanisms.

**A Caucasian Security Deficit**

There is an acute security deficit in the South Caucasus. In spite of the manifold security challenges to the region, there are no functioning inter-governmental mechanisms or institutions that help build regional stability or provide for meaningful conflict or resolution. International efforts at conflict resolution, sponsored mainly by the Organization for Security and Cooperation in Europe (OSCE) and the United Nations (UN), have so far brought little result.<sup>5</sup> International security assistance to the regional states, such as NATO's Partnership for Peace program and the Collective Security Treaty Organization, have had limited results, while their integration into Euro-Atlantic institutions such as the Council of Europe and European Union has progressed slowly. NATO's involvement has gradually increased, with Partnership for Peace (PfP) being only the main vehicle for the intensified relationship between the Atlantic Alliance and the South Caucasus.<sup>6</sup> Meanwhile, the increasing strategic value of the region and the actual and potential exacerbation of security threats over time imply a prohibitive potential cost of inaction on the part of the international community, especially western powers with increasingly vital interests in the stability, openness and development of the region.

The security deficit in the South Caucasus consists of internal, regional geopolitical, and transnational challenges. The internal component of the security deficit is the risk of civil and political conflict, which, until 2003, was believed to pose a major threat to the stability of Azerbaijan and Georgia. These countries both managed to conduct orderly if very different successions of power, which have not eliminated the risk of internecine political conflict, but strongly decreased it in the short term. The second, intra-regional, challenge to security consists of the unresolved territorial conflicts, which form the single most dangerous threat to security in the region and whose peril, contrary to conventional wisdom, may be increasing rather than decreasing with time, as the renewed violence in South Ossetia in the Summer of 2004 illustrates. The third category is an array of transnational threats posed mainly by terrorism and organized crime which are mounting rapidly, and were virtually unchecked until the Georgian change of Government in late 2003, but remain significant. In addition to these intra-regional security challenges, the countries of the region are compounded by a fluid and unpredictable array of relations with the regional and great power that have interests in the region.

**Intra-Regional Challenges to Security***Political Violence*

No change of government in the South Caucasus has taken place in a completely peaceful, constitutional, and orderly manner. President Elchibey came to power in a mostly bloodless revolution in 1992, as did President Saakashvili in Georgia in 2003. Armed coups unseated Presidents Zviad Gamsakhurdia of Georgia in 1991 and Elchibey in 1993, bringing former Communist-era leaders Shevardnadze and Aliyev to power. A palace coup removed Armenian President Levon Ter-Petrossian and brought Robert Kocharyan to power, while limited violence surrounded the election of Ilham Aliyev in 2003.

Attempts to murder political leaders have also occurred. The 1994 and 1995 coups against Aliyev clearly intended to eliminate him. In Georgia, the 1995 and 1998 attempts to assassinate President Shevardnadze have narrowly failed, and several other coup or assassination attempts have been foiled. The most tragic event took place in October 1999 in Armenia, when armed gunmen entered the parliament in full session and succeeded in killing the NAME Prime Minister who was addressing a plenary session, as well as the NAME Speaker of Parliament and several cabinet members, plunging Armenia into a prolonged political crisis.

Military insurgencies are another problem that has especially plagued Georgia, whose army is in the worst material condition and suffers from poor discipline. A revolt by a tank battalion in Senaki in western Georgia in 1998 led by colonel Akaki Eliava was put down, while a National Guard insurgency in Mukhrovani 15 miles East of Tbilisi in May 2001 was silenced, though it seemed to have more to do with the desperate condition of the soldiers than with politics.<sup>7</sup>

That said, warnings of succession crises triggering civil wars and state collapse in Azerbaijan and Georgia turned out, with the comfort of hindsight, to have been significantly exaggerated. A planned and relatively orderly succession took place in Azerbaijan.<sup>8</sup> Georgia, on the other hand, went through a “velvet revolution”, bringing about an unexpected change of government. In the case of Azerbaijan, opposition protests on Ilham Aliyev’s election briefly turned violent, but failed to generate mass support and were rapidly suppressed. In Georgia, the opposition led by Mikheil Saakashvili capitalized on mass support for their protests against President Shevardnadze’s electoral fraud and succeeded in bringing about a revolution without bloodshed, thanks to U.S. and to Russian efforts at mediating between the two sides.<sup>9</sup> In sum, domestic political threats to security remain present in all three countries, though the potential for unrest should not be exaggerated.

*Unresolved Conflicts*

Three unresolved conflicts are frozen along cease-fire lines in the South Caucasus: that between Armenia and Azerbaijan over Nagorno- Karabakh, and those in Georgia between the central government on the one hand and the secessionist territories of Abkhazia and South Ossetia on the other. Of these, the South Ossetian conflict saw an improvement at the grassroots level, with open communication occurring across the cease-fire line, until renewed fighting erupted in 2004. Karabakh and Abkhazia nevertheless form considerably more acute security threats, given the larger size, tension, and potential for large-scale violence of these conflicts.

*Nagorno-Karabakh.* The unresolved conflict between Armenia and Azerbaijan is the largest threat to peace and security in the South Caucasus and perhaps in the wider region.<sup>10</sup> With every year that the deadlocked conflict continues without a solution, the risk of a resumption of hostilities looms larger, with ever larger implications. At present, political elites in both Armenia and Azerbaijan seem inclined to find a solution by peaceful means. While Armenia has suffered considerably in both economic and demographic terms (due to out-migration) as a result of the conflict, its current leadership refuses to compromise on demands for Karabakh's independence. This is the case in part due to the dominance of a Karabakh elite in Armenian politics: President Robert Kocharian is the former President of the unrecognized republic, and defense minister Serzh Sarkisian is its former defense minister. This elite seems to give at least equal emphasis to Karabakh's distinct interests compared to those of Armenia proper, unlike former President Levon Ter-Petrossian, who concluded by 1997 that Armenia's interests required a compromise on the status of Karabakh. The power of the Karabakh lobby is becoming more overt. In June 2004, an advisor to President Kocharyan, Garnik Isagulian, publicly declared that Armenia's next President should also be from Nagorno-Karabakh, as that area is crucial to Armenia's national interests.<sup>11</sup> The Armenian leadership currently controls the territory of Nagorno-Karabakh and seven adjacent Azerbaijani regions, and therefore feels less urgency in a solution. Armenia is clearly interested in preserving the military *status quo* until it can get a favorable deal. The Azerbaijani society and leadership, on the other hand, is deeply disturbed by the humiliation of losing around a sixth of the country's territory, and the 900,000 refugee and internally displaced persons (representing 11 percent of the country's population) which is both an economic drain and a political concern. In the early 1990s, both Azerbaijan's Communist regime and the Popular Front government under Abulfaz Elçibey saw their demise in great part due to their failures in the war, and the new President, Ilham Aliyev, is well aware of the

centrality of the Karabakh issue in the country's politics. Moreover, popular frustration in the country is on the rise with what is perceived as Armenian intransigence and international disregard to the aggression committed against their country. President Heydar Aliyev's efforts to control the IDP population seems to have been the major reason that spontaneous *revanchist* movements, including paramilitary ones, are not emerging, especially among the refugee population.

The failure of negotiations has worsened matters. When President Ter-Petrossian accepted the 1997 Minsk Group proposal, hundreds of thousands of IDPs rejoiced at the prospect of an imminent return home. In late 1999, an imminent deal was shelved after the October 27 tragedy in the Armenian parliament, while great hopes were again dashed in the Spring of 2001 as negotiations in Key West, Florida, were seen to lead to progress but no concrete progress was eventually achieved as both leaders were unable to make good on their commitments at Key West. In August 2002, President Heydar Aliyev offered the restoration of economic relations in return for Armenian withdrawal from the four occupied territories along the Iranian border. President Robert Kocharyan's refusal to discuss this offer led to a widespread sentiment in Azerbaijan that Armenia's leadership was not interested in a negotiated solution. Local analysts believe that, as a result, a military solution is the only remaining option to restore the country's territorial integrity and enable refugees to return to their homes.<sup>12</sup> Ilham Aliyev's government, which has always kept the military option as a last resort, is now increasingly stressing that the Azerbaijani army is ready to liberate its territory if negotiations fail. If the present deadlock continues, as seems likely, the public and elite mood in Azerbaijan will continue to gradually tilt towards war. Meanwhile, Azerbaijan is recovering economically, and is beginning to receive substantial oil revenues: by mid-2004, the National Oil Fund had gathered a billion dollars and the Baku-Tbilisi-Ceyhan main oil export pipeline had already reached two thirds completion. Azerbaijan is also building its armed forces with Turkish assistance and with Pakistani support – while Armenia's population is shrinking. Sooner or later, a continued impasse and evolution in the bilateral balance of power are likely to lead increasing numbers of Azerbaijanis to feel that the odds are in their favor.

A new war between Armenia and Azerbaijan, should it take place, is unlikely to remain as limited as the previous one was. In 1992-94, the two states had only rudimentary weaponry, and the military forces involved were far from professional. But in the last eight years, both states have acquired more sophisticated and deadly arms, meaning that a new war would almost certainly cause much larger human and material destruction. Perhaps even more alarming is the network of alliances that both states have built, with Russia and Turkey respectively, that are unlikely to remain neutral in the case of a new confrontation.

Fighting would also be likely to take place close to the Iranian border, therefore possibly drawing Iran into the conflict as well. Pakistan is also providing Azerbaijan with military assistance and training, while the United States has crucial interests in the region's stability. As will be discussed below, great power involvement may help prevent a new war, but would give it regional implications of a massive scale if it were to occur.

*Abkhazia.* The conflict in Abkhazia has the same symbolic importance for Georgia as Karabakh has for Azerbaijan. Similarities abound, including a humiliating defeat against a numerically considerably smaller enemy supported by external powers; ethnic cleansing and the creation of a large IDP population; a mutiny during the war that threatened collapse of the state; and protracted negotiations that seem to yield no results. But unlike Karabakh, unrest has returned to Abkhazia several times since the end of large-scale hostilities. Firstly, Georgian paramilitary forces with roots in the IDP population have been carrying on a low-intensity conflict along the border regions of Abkhazia and Samegrelo (Mingrelia) for several years. But more importantly, a brief return to warfare occurred in May 1998, which forced around 30,000 Georgians that had returned to their homes in Abkhazia's Gali region to flee again.<sup>13</sup> Then as now, the Abkhazian side relied heavily on Russian peacekeeping troops that have been considerably closer to the Abkhaz *de facto* secessionist authorities than to the Georgian side. The United Nations Observer Mission in Georgia (UNOMIG), which is responsible for monitoring the situation in the region and the demilitarization of the border, has practically no influence over the Russian peace keepers. These forces, together with Georgian paramilitaries and Abkhaz separatist formations, are heavily involved in the contraband smuggling going through Abkhazia.

Participation in the illegal economy used to extend high into the state hierarchy during the Shevardnadze era and could still be expected to survive. It knows no ethnic limits, and remains one of the few areas where quick enrichment and interethnic cooperation is possible. Strong elements on both sides have economic interests in delaying a resolution to the conflict, although the same forces have no desire in a resumption of hostilities. In short, strong forces have a stake in the status quo. Clashes between peacekeepers and guerrillas in Gali region occur on economic rather than political grounds, involving the redistribution of spheres of influence.<sup>14</sup> There are no guarantees for the safety and dignity of the 40,000 IDPs, who returned to the Gali region after hostilities in May 1998. Russian peacekeepers deployed along the Inguri river have assisted Abkhaz *de facto* authorities to build up a state border with Georgia, and to advance towards the Kodori gorge in eastern Abkhazia, which is out of Sukhumi's control and remains a Georgian outpost in Abkhazia. Kodori became a haven for Georgian guerrillas and Chechen irregulars.

In October 2001, unrest returned to Abkhazia, who launched abortive attack against Sukhumi in October 2001.<sup>15</sup> At that point, Georgian paramilitaries supported by Chechen irregulars under field commander Ruslan Gelayev entered Abkhazia from the Kodori gorge, breaking through Abkhaz defenses before Russian air force jets bombed their positions, forcing them to retreat. The Georgian government denied any knowledge of the events, however high echelons of power were undoubtedly informed. Eye witnesses had seen Georgian interior ministry trucks shipping armed men toward the conflict zone.<sup>16</sup> The episode spurred debate in Georgia on whether a re-conquest of Abkhazia was possible. As of 2004, the Georgian regular army is in no condition to stage a military operation in Abkhazia. However, the size differential is so large that even a small but reasonably well-trained and disciplined Georgian force could alter the balance heavily in Georgia's favor. The U.S. Train and Equip program for the Georgian military could create exactly that. Abkhazian concerns center around on the future potential of Georgian troops using their training and newly acquired equipment in renewed attempts to re-conquer separatist territories in Abkhazia and South Ossetia.<sup>17</sup> The Summer of 2004 saw renewed tensions between the Georgian authorities and Abkhazia, with Georgian President Mikheil Saakashvili threatening to sink ships sailing to unrecognized Abkhazia.<sup>18</sup>

*South Ossetia.* While the conflict in South Ossetia was considerably less severe than the one in Abkhazia and a substantial grassroots reconciliation and return of refugees as well as economic links have occurred since the mid-1990s, the rose revolution in Georgia of November 2003 led to renewed attempts by the central government under newly elected President Mikheil Saakashvili to redouble efforts to reassert Georgia's territorial integrity. These efforts started with the successful reintegration of the autonomous province of Ajaria into Georgian central rule. Ajaria is populated by Georgians, many of whom are of Muslim descent. It had been ruled since 1991 by a regional strongman, Aslan Abashidze, who never sought independence from Georgia but *de facto* acted as an independent regional chieftain, whose main aim was to be left alone in control over Ajaria. He skillfully used his relationship with political and economic circles in Russia and Turkey as well as his financial capital to stay out of the weakened Georgian central government's orbit, among other by threatening to use his financial resources to mount political campaigns in Georgian national politics. This helped him reach consecutive deals with former President Shevardnadze, implying in principle that Abashidze left Shevardnadze alone in Tbilisi as long as Shevardnadze ignored Abashidze's control over Ajaria.<sup>19</sup> Newly elected President Saakashvili saw it necessary to abrogate this deal, capitalizing on strong public support in Georgia including in Ajaria, and managed to force Abashidze to leave the country for



Russia. An implicit deal seems to have been reached between the Georgian and Russian leaderships, whereby Russia's abstention from support for Abashidze was reciprocated by stronger Georgian efforts to rein in Chechen groupings on Georgian territory.

Saakashvili then tried to follow the same strategy in South Ossetia in summer 2004. However, the Ossetian leadership was able to play a much stronger ethnic card to prevent Georgian encroachments among the population. In addition, after a perceived defeat in Adjara, Russia's role was less forthcoming in helping Georgia resolve the conflict and reintegrate South Ossetia. The Georgian government seems to have concluded that a long-term strategy for the reintegration of South Ossetia would be necessary. This includes controlling the smuggling across the separatist region, which functioned as a major artery for contraband goods from Russia through Georgia. Such smuggling has deprived the Georgian government of billions of lari in customs revenues, and provided substantial finances for the separatist South Ossetian leadership. Meanwhile, Georgia tried to wage a public relations campaign in South Ossetia, in order to mitigate the efforts of the Ossetian separatist leadership to keep ethnic tensions alive.<sup>20</sup> The South Ossetia conflict experiences renewed violence for the first time in many years, as Russia organized an influx of Transnistrian, Cossack and North Caucasus "volunteers" into South Ossetia,<sup>21</sup> and Georgian and Ossetian forces exchanged fire in July and August 2004. Russia consistently sided with South Ossetia in this outbreak of hostilities, used its veto power in the OSCE to prevent the organization from taking a greater role in the conflict, and permitted if not encouraged the transfer of Russian citizens from the North Caucasus to South Ossetia where they served as mercenaries for the Ossetian side.<sup>22</sup> The outlook for a peaceful reintegration of South Ossetia into Georgian central control seems dim, as long as Russian support for South Ossetia continues.

### **Transnational Threats**

Transnational threats with both criminal and ideological motivations are present in the South Caucasus today. The trafficking of narcotics, arms and persons in the South Caucasus has gradually increased since the demise of the Soviet Union. Neither of the three states have shown a capability or political will to control the illicit drugs trade, contraband, and other types of lucrative criminal enterprises, given the risks of potential reprisals associated with targeting relatively powerful actors. While transnational crime in the Southern Caucasus does not yet pose the same danger as in parts of Central Asia, the location of the region on the major trafficking routes from Afghanistan to western Europe implies that growing drug

trafficking could become a serious threat to statehood and breed instability. As Afghanistan's production of opium in 2004 is projected to be growing significantly over the already high level of 3,600 tons in 2003, traffickers increasingly use South Caucasus for transit. The trafficking of WMD materials is also a serious issue, particularly in Georgia.<sup>23</sup> Most disturbingly, as transnational organized crime successfully seeks shelter in lawless secessionist territories, it sustains the deadlocked conflicts there, while far-flung criminal organizations are infiltrating government and bureaucracy at central, provincial and local levels.<sup>24</sup>

With persistent economic and political instability in the region, combined with the inability of South Caucasian governments to gain control over all their territory, it remains to be seen, for example, if the new Georgian government will transform its anti-corruption momentum into sustainable policy. As far as the illicit arms trade is concerned, there will remain great demand for weapons until the secessionist conflicts are resolved and the influence of criminal actors is meaningfully reduced.<sup>25</sup> The threat of transnational crime capturing state organs is evident by Georgia's Pankisi Gorge experience, where reliable indications suggest that transnational criminal groups were practically renting the area from former high officials in exchange for large sums of money.<sup>26</sup> While the cadre changes in the ministries of interior and state security in 2001, the Pankisi Gorge clean-up operation in 2002, and the change of government in 2003 have considerably improved the situation, penetration of state by transnational crime is apparent and dangerous in the long term. During periods of instability, for example in the event of a protracted succession struggle or revival of ethnic conflicts, it is conceivable that criminal or terrorist networks in search for a base of operations will seek to find a haven in the South Caucasus – especially given the strategic location of the region.

In the ideological realm, radical Islamic movements are another transnational threat. These groups exist in the South Caucasus, though not on a significant scale. However, dire socio-economic conditions and the continued deficit of democratic governance are factors that could spur the rising influence of radical and militant Islamic movements. Being the only overwhelmingly Muslim country in the region, Azerbaijan is more affected by this problem than its neighbors, though Georgia also experienced its fair share of the problem. In Azerbaijan, Wahhabi Sunni elements have gained strength among marginal segments of the population both in the capital Baku and in the North of the country, which is predominantly Sunni. In the Southern parts bordering Iran, there has been a concomitant growth of Shia's Islamic sentiment, fueled and abetted by Iranian clerics. In Georgia, the main focus of Islamic militancy was in the Pankisi Gorge in 1999-2002, as Chechen and other foreign missionaries took advantage of the lack of state control over the region to make the gorge a base of operations.. While the overall risk of Islamic militancy

and terrorism is comparatively low in the region, the proximity of the war in Chechnya and disillusionment with the ideologies of democracy and market economy are risk factors. The second Chechen war, raging since 1999, has led to a marked increase of Islamic radicalism not only among the Chechens but among neighboring republics of the North Caucasus, including Daghestan. Arab missionaries preach the Salafi (Wahhabi) version of Islam and are gaining a growing popularity among people whose lives have been ravaged by war and economic despair. By 2000-2001, this process had begun to affect the South Caucasus as well. The Sunni north of Azerbaijan has become an area of Salafi influence, whereas both the Pankisi gorge of Georgia and other, not traditionally Muslim parts of mountainous northern Georgia are also affected by Islamic proselytizing. The modest but noticeable rise of Shi'a Islamic radicalism in Azerbaijan developed partly due to the support it has received from Iran, but also because of disappointment among the general public with political, economic, and social conditions. Loss of faith in both communism and market economy increases the appeal of Islam, with its notions of equality, brotherhood and fairness. This could potentially serve as an aggravating factor in the democratic development of the country, while in the short term, the rise of Islamic radicalism is likely to remain manageable.

### **Regional Security Patterns**

The political balance within and between the three Caucasian states and societies is already fragile, however, the weakness of these states has required them to seek foreign patronage and support, while the attractiveness of the region has itself led to a high level of great power interest. The interests of and relationships with foreign powers therefore deeply affect political processes within the three states. Political forces and leaders in the Caucasus remain watchful of their relations with Moscow, Washington, Tehran or Ankara, in the hope that such relations would give them an advantage in domestic political struggles. Combined with the changing policies and uncertain commitment to the region on the part of the great powers, this increases the instability and unpredictability of South Caucasian political processes.

#### *Foreign Policy Formulation in the Three States*

As was alluded to earlier, the three South Caucasus states display dramatically diverging perceptions of threat, which in turn lie at the basis for their divergent and sometimes contradictory foreign and security policies. These enduring and indeed

existential threat perceptions are crucial components of the regional security situation and a part of the mindset of instability in the South Caucasus. Partly due to historical experiences and partly to their bilateral relations, the development of common regional policies among the three states has been eluded. Instead, each regional state has defined their own national interests and threat perceptions regardless of the impact it has on their neighbors. This zero-sum approach has provided a fertile ground for external powers to impose their influence by capitalizing on the threat perceptions of the three weak states of the region.

*Armenia.* Armenia's threat perception is based mainly upon its historical fear of Turkish aggression, going back to the massacres of Armenians in the final decades of the Ottoman Empire. Regaining independence at a time of conflict with Azerbaijan, Turkey's backing of Azerbaijan, the Turkish-Armenian border closure, and attempts to put pressure on Armenia to end its occupation of Azerbaijani territories led to a revival of Armenian fears of Turkish aggression. Diplomatic efforts of the Armenian Diaspora and government are geared toward achieving international recognition of the 1915 massacres as genocide and compensations claims. Turkey, however, denies the Armenian accusations and is irritated by unofficial Armenian territorial claims on the Kars and Erzurum areas of Turkey. Armenia's fears may have been unrealistic as Turkey's foreign policy during the entire period of the republic has been cautious, and its actions in the region have been restricted by diplomatic links to the West and Russia.<sup>27</sup> However, the threat perception has been very real in Armenia, and a strong guiding force in Armenian foreign policy. As a result, in spite of its anti-Moscow stance in the Perestroika era, Armenia rapidly restored its security and military links to Moscow by May 1992. Armenia has relied on Russia as a guarantor of its security, and has been an active participant in the CIS' Collective Security Treaty Organization. For most of its independence, Armenia has followed a self-isolating, pro-Moscow foreign policy. Moscow has regarded Armenia as an important ally in the Caucasus, and most Armenians view a close relationship with Moscow necessary. Russia currently maintains its 102<sup>nd</sup> military base, a division of S-300 anti-aircraft missiles and a squadron of the Russian air force with MIG-29 fighters in Armenia. Meanwhile, Armenia has developed close links with Iran, a crucial trading partner whose interest in preventing the rise of a strong Azerbaijan have helped strengthen Iranian-Armenian relations. Finally, Armenia has in the early 2000s sought to upgrade its relationship with the U.S. and NATO, following its officially stated policy of complementarity, seeking close links with Russia, Iran and the West. In particular, the chilling of U.S.-Armenian relations following 9/11, the blacklisting of Armenian companies for nuclear trade with Iran and Armenia's opposition to the Iraq war have led to a distinct Armenian attempt to improve its relationship

with the U.S. Yerevan sought closer cooperation with NATO, especially in 2003 and 2004, though its participation in the Partnership for Peace program is far less intense than either Georgia or Azerbaijan.<sup>28</sup> The large and wealthy Armenian lobby in the U.S. has been Armenia's main foreign policy asset, as it has long managed to effectively lobby the U.S. congress to secure an earmarked \$90 million annual assistance program for Armenia and ensure equal amounts of military assistance to Armenia as to Azerbaijan. Armenia's foreign policy often seems to juggle increasingly difficult and potentially incompatible relationships with considerable success. Yet the crisis over Iraq is instructive. It shows that the viability of Armenia's foreign policy is directly correlated to the level of relations between the U.S. and Russia; and to the level of tension in the relationship between the U.S. and Iran.

*Azerbaijan.* Azerbaijan from the outset identified Russia and Iran as two leading threats to its national independence and security. Unlike Armenia, Azerbaijan does not perceive an acute external existential threat, though in private Azerbaijani experts and officials mistrust Iran for being opposed in principle to the existence of an Azerbaijani state. Much like Greece's virulent opposition to the creation of a state of Macedonia, Iran was deeply disturbed by the creation of an independent republic of Azerbaijan. Tehran feels insecure over the allegiances of the over 20 million strong Azerbaijani minority, which dominates the provinces of Western and Eastern Azerbaijan and Gilan. There is a large ethnic Azeri population in Tehran and other Iranian cities. These concerns have been enforced by continued tension in Azerbaijani-Iranian political and economic relations, including over delineation of maritime boundaries of the Caspian sea; claims of Iranian support for Shi'a extremist groups in Azerbaijan; Iranian concern over the closeness of U.S.-Azerbaijani relations; and over accusations of ethnic Azeri separatist agitation from the territory of the Republic of Azerbaijan.<sup>29</sup>

Azerbaijan's main foreign policy concerns are the conflict with Armenia over Karabakh; territorial disputes with Turkmenistan and Iran over oil fields in the Caspian Sea and the legal status of the Sea; and the development of East-West transport and trade corridors. Azerbaijan's relations with Russia started out contentiously but has improved. They suffered in the early 1990s due to perceived Russian support for Armenia in the Karabakh conflict, and the fact that weapons worth US\$1 billion were transferred illegally from Russia to Armenia between 1994-96. Bilateral relations nevertheless improved since President Putin came to power, to a point where a full thaw seems to have occurred, though the Azerbaijani leadership is still suspicious of Russia's ultimate intentions in the region.

Perceiving threats from the south, north and west, Azerbaijan has reached out to Turkey and the United States for support and economic and trade relations.

Individual and sympathetic actors like Israel and Pakistan have also been important to Azerbaijan.

Turkey has been Azerbaijan's staunch ally in the political, military and economic sectors. Azerbaijan has also placed great emphasis on cooperation with the U.S. and NATO, becoming a PfP member in 1994 and contributing to peacekeeping missions in Kosovo, Afghanistan, and Iraq. After September 11, Azerbaijan was one of the first countries to render assistance to the U.S., by providing valuable transportation routes and security information. The U.S. Congress then finally waived Section 907 of the Freedom Support act, a bill passed at the behest of the Armenian lobby in Congress in 1992 that restricted U.S. aid to Azerbaijan. This has opened up new opportunities for military and economic cooperation, as illustrated by U.S. Secretary of Defense Donald Rumsfeld's visit to Baku in December 2003 at which the military-to-military relationship between the two countries was significantly upgraded.

*Georgia.* Georgia's perception of external threat is well-defined: since independence, Russia has been the main source of concern for the Georgian state. Russian adversarial behavior included direct pressure, such as refusal to withdraw military bases from the Georgian soil, repeated threats of direct military action, and assassination attempts against the country's leadership, as well as through economic levers such as the politically-motivated severing of gas supplies. Clearly, Russia supported Georgia's separatists in Abkhazia and South Ossetia. Georgia's pro-western and pro-American orientation and efforts to avoid entanglement in the Chechen War have caused severe Russian pressure, as Moscow stalled negotiations on Abkhazia, delayed the withdrawal of Russian military bases, complicated external debt rescheduling, imposed a discriminatory visa regime that exempts residents of secessionist areas of Georgia from the requirement of an entry visa to Russia, and gradually granted Russian citizenship to the residents of Abkhazia and South Ossetia. At present, over 80% of the population of the two regions are Russian citizens. This pattern of relations has altered in form but not in principle since the change in government in Georgia in November 2003. Russia acquiesced to the demise of its former protégé Aslan Abashidze in Ajaria in May 2004. However, this took place as a result of an implicit or explicit understanding that Georgia would be considerably more cooperative on the Chechen issue, and as a result of strong American support for Georgia.<sup>30</sup> The subsequent impasse over South Ossetia has clearly shown Russia's continuing support for the separatist statelets. Russia also pays pensions to residents of the secessionist regions and in some cases also pays the salaries of officials. Unlike in Azerbaijan, the arrival of President Vladimir Putin to power in Russia worsened Russian-Georgian relations.

In response, and given its lack of valuable natural resources, Georgia has tried to market its role as a gateway between the west and the larger Caspian region in the reconstruction of the ancient Silk Road. Tbilisi has therefore reached out to its other neighbors, and has increasingly looked to the West in search of new, alternative, economic and political opportunities. Relations with Europe and especially the U.S. have been a priority for Georgia. Georgia's relations with Turkey were marked by historical tensions, but these are being gradually overcome and in the late 1990s, Georgia has forged a strategic partnership with Turkey. In the energy, transportation, political and military sectors, Georgia and Azerbaijan have been at the forefront of creating a Caucasian 'bridge' between Europe and Turkey, and the Black Sea, the Caspian, and Central Asia regions. . Western interests have largely been determined by the exploitation of the Caspian energy. As the westward export of Caspian oil and gas gradually materializes through Azerbaijan and Georgia, as the Baku-Tbilisi-Ceyhan pipeline reached its two-thirds completion point in early 2004, geopolitical and geo-economic interests are gradually taking root in the region. Azerbaijan and Georgia hope that economic development and Western investments will ensure their security and stability, and provide conflict resolution and the restoration of their territorial integrity. Working in parallel as enthusiastic members of NATO's Partnership for Peace, the two states share a similar outlook on the world and on relations with their neighbors. In fact, as Vladimir Socor has noted, the security of Georgia and Azerbaijan is inseparable: the two stand or fall together.<sup>31</sup>

The relationship between Baku and Tbilisi has strengthened significantly since independence, as both understand that their security is connected. Azerbaijan cannot export its oil without Georgia, which connects it to Turkey and the West; while Georgia partially relies on Azerbaijan's oil exports for its economic and political security. The two have been motors in the GUUAM (Georgia Ukraine Uzbekistan Azerbaijan Moldova) alliance that developed since 1997 as a counterbalance to Russian hegemonic tendencies within the CIS. Armenia, on the other hand, has remained largely isolated from regional transportation schemes and cooperative efforts due to its conflict with Azerbaijan. Geographically, Azerbaijan and Georgia are positioned better than Armenia as a transport and communications route, as they form the corridor between the Black and the Caspian Seas, Hence, any transport conduit can easily bypass Armenia. International pressure has mounted on Azerbaijan and Turkey to open economic relations with Armenia, yet Azerbaijan refuses to do so as long as Armenia occupies almost a sixth of its territory. Although discussions during 2003 and 2004 repeatedly suggested Turkey would open its border for trade with Armenia, the Turkish leadership has made it clear that it is not about to make a U-turn unless Armenia takes a first step and liberates occupied territories. In fact, Turkey has clearly stated it is ready to open

the border as a confidence-building measure, should Armenia and Azerbaijan come to a phased agreement on the resolution of the conflict. Beliefs that Turkey would submit to international pressures to open the Turkish-Armenian border nevertheless proved premature and underestimated the Turkish commitment to Azerbaijan. Moreover, it overestimates the power of the economic incentives that the opening of the Turkish-Armenian border can bring to Turkey.

### **Interests of Regional Powers**

In many ways foreign policy formulation in the South Caucasus has been characterized by a game of balancing allegiances. These states are caught between long-standing links to Moscow that date to before the creation of the Soviet Union and a practical dependence on Russia as a trading partner, and a desire to decrease dependence on Moscow by securing Western support in the form of economic and security guarantees. In order for this to happen, the South Caucasus states need Western support not as a short-term policy game, but rather a long-term commitment. The West has yet to show a commitment to realize its myriad of motivations in the South Caucasus, including reducing Russia's sphere of influence, securing access to Caspian energy resources, and enhancing the South Caucasus as the geographical gateway to Central Asia.

#### *Russia*

Since the independence of the South Caucasus, Moscow has reluctantly seen its influence in the region gradually declining, a process that it has sought to block by the use of various diplomatic, economic, and military means. Moscow has tried to keep the South Caucasus within the Russian sphere of influence, and has to that end tried to prevent the local states from pursuing independent foreign policies and hinder the United States and Turkey from increasing their presence and influence in the region. Russia's ties with Iran have also served this purpose. Russian senior policy makers demanded that all three states acceded to the CIS, accepted Russian border guards on their 'external' border with Iran and Turkey, and allowed Russian military bases on their territory. Moreover, Russia has sought to monopolize the transportation of energy resources from the former Soviet space to world markets, and has sheltered coup-makers and rebellious leaders such as Igor Giorgadze from Georgia and Ayaz Mutalibov and Surat Husseynov from Azerbaijan.

Moscow played a crucial role in the separatist wars in Georgia and in the Armenian-Azerbaijani conflict, effectively using these conflicts as levers to rein in independent-minded Georgia and Azerbaijan. Russian support was crucial in



providing the breakaway statelets with de facto independence; Russia forced both Georgia and Azerbaijan to join the CIS in 1993, and Georgia to recognize its military presence for the next 25 years. Military bases in Vaziani (close to Tbilisi), Gudauta (Abkhazia), Batumi (Ajaria), and Akhalkalaki (Javakheti) promoted Russian influence throughout the country. The bases then engaged in illegal but possibly covertly sanctioned arms trading and strengthening of separatist forces in the minority areas. At the 1999 OSCE Istanbul Summit, Russia agreed to withdraw from the Vaziani and Gudauta bases and to reach an accord with Georgia on the status of bases in Akhalkalaki and Batumi by the end of 2001. Russia, nevertheless, has consistently sought to avoid abiding by these commitments. Moscow demands a multi-year time-frame for withdrawal, while Georgia seeks a three-year time limit. Through the CIS peacekeeping forces, Russia maintains a firm military presence in Abkhazia and South Ossetia. While Russia has not recognized the independence of the Abkhazian and Ossetian enclaves, it provides them with political, economic, and military support. Abkhaz and Ossetians residents were exempted from the entry visa requirement imposed on Georgia in December 2000, and from June 2002, Russian began granting citizenship to the residents of Abkhazia and South Ossetia. This situation in fact could be understood as a de facto annexation of these territories. Meanwhile, the Russian military continues to pursue a harder-line foreign policy towards Georgia; the repeated bombing of Georgian territory in the Kodori and Pankisi gorges, alleging the presence of Chechen militants, are evidence of this, as are the Russian military's military activities in South Ossetia in Summer 2004. Russia has also developed close military ties with Armenia, which has become an outpost of Russian influence in the South Caucasus.

Since President Putin came to power, Russia has adopted a more pragmatic position toward Azerbaijan, leading to an improvement in relations and a more constructive attitude in the Minsk Group negotiations; Russia has also been less vocal toward expanded American and Turkish influence in the region. However, continued strong-arm policies toward Georgia generate doubt as to what Moscow's strategic intentions are. With respect to the stalemated conflicts of the region, Russia's policies have given abundant evidence that Russia finds the present status quo convenient, and does not desire a resolution to any of them.

### *Iran*

The independence of the South Caucasian states took Iran by surprise, especially as the war between Azerbaijan and Armenia revealed deep contradictions in the foreign policy of the Islamic Republic. Disagreements within Iranian ruling circles on dealing with the creation of Azerbaijan and over Caucasus policy in general

have produced mixed signals, but in spite of these differences, Iranian policy has proven remarkably durable. Three main facets have characterized Iranian policy. Firstly, a concern over the emergence of the independent state of Azerbaijan, leading to a gradual tilt toward Armenia in the Armenian-Azerbaijani conflict. Secondly, a dramatic improvement in relations with Russia that, despite a shaky basis given the potential contradictions in the Russian and Iranian policies toward Central Asia and the Caspian region, have developed into a strategic partnership with significant nuclear and military components, as developed in Robert Freedman's contribution to this volume. Thirdly, an increasing desire to influence the development of oil and gas resources in the Caspian Sea, seeking to thwart Turkish and American influence over pipeline routes. Iran's recent belligerence in Caspian naval matters is a rising concern, as viewed below.

Concern over the twenty million strong Azeri minority in Iran has guided Iran's policy toward the Caucasus. Tehran fears increased Azeri nationalism and separatism that could threaten the integrity of the Iranian state. Aware of its waning legitimacy and popularity, the clerical regime seeks to prevent the emergence of a strong and wealthy Republic of Azerbaijan that would act as a magnet for Azeri national aspirations in Iran. Azerbaijani President Elçibey's anti-Iranian attitude worsened relations to the freezing point in 1992, and speeded up Tehran's tilt toward Armenia in the conflict. Iran has also found common ground with Russia on many issues. Beyond economic benefits, Iran and Russia share an ambition to limit Turkish and American influence in their backyard, and to restrict the westward orientation of the South Caucasian nations.<sup>32</sup>

### *Turkey*

Turkey's military and security role in the South Caucasus increased gradually in the early 2000s. After a bout of pan-Turkic euphoria in the early 1990s that frightened Armenia, Iran, Russia, and discomfited Georgia, Ankara has since the late 1990s pursued a pragmatic and stable policy toward the South Caucasus as Ali Koknar contribution to this volume demonstrates. Turkey gives primacy to relations with Azerbaijan, both because of the close cultural and linguistic affinities between the two states, and because of Azerbaijan's pivotal geopolitical and energy position. The Baku-Tbilisi-Ceyhan oil pipeline, scheduled to be online in 2005, and the Baku-Tbilisi-Erzurum gas pipeline have added economic importance to the Caucasus for Turkey. A logical result of Turkey's ambition to become an energy corridor from the Caspian Sea has led to increased Turkish attention to Georgia, the geographic link between Turkey and Azerbaijan and Central Asia. Turkey has improved its relations with Georgia to the level of strategic partnership. After Iranian military threats toward Azerbaijan in July-August 2001, Turkey

strongly signaled that it had taken on a role as guarantor of Azerbaijan's security. Turkey has supervised the buildup of Azerbaijan's military forces, and entertains close military ties with Azerbaijan and Georgia. In a sense Ankara was forging a Turkish-Georgian-Azerbaijani military relationship that is in turn linked to the Turkish-U.S. alliance and Turkish-Israeli ties, even if the latter are in a worse condition than in the late 1990s.

The only South Caucasian country with which Turkey has extremely poor relations is Armenia. As viewed above, Armenia sees Turkey as the chief threat to its security, and still suspects Turkey of having genocidal ambitions against Armenia. Turkey, for its part, refuses to recognize (or the classification of the massacres as genocide of Armenians during the First World War and sees the Armenian government's struggle to achieve international recognition of the atrocities as a step toward territorial demands on Turkey. This fear is compounded by the Armenian government's reluctance to recognize its border with Turkey (Armenia claims it simply refuses to make a superfluous statement to that effect), and exacerbated by the anti-Turkish efforts of Armenian Diaspora organizations, particularly in France and the United States. Turkey's military and security role in the South Caucasus increased gradually in the early 2000s.

#### *United States*

American interest in the South Caucasus began in 1994, spearheaded by the Department of Defense and the energy industry. The Pentagon saw the South Caucasus as a strategically important region to secure access to Eurasia and urged the U.S. Government to help secure the independence and stability of the South Caucasian states. The oil industry sought U.S. government support in its ambition to maximize its market share in the extraction of Caspian oil, and in stabilizing the area to decrease political risks. By the late 1990s, U.S. attention had increased, based on an understanding of the Caucasus as the linchpin of any U.S. role in Central Asia. This perception increased dramatically in the aftermath of September 11, 2001, as the U.S. deployed military units in Central Asia. Within practically 24 hours of the terrorist attacks, the governments of Georgia and Azerbaijan announced their full cooperation with the United States, providing intelligence sharing, and offering blanket overflight rights, refueling facilities, and basing rights. Armenia, like Russia, also provided cooperation, though not as extensive and straightforward. Given the recalcitrance of Iran and the complications involved in overflights over Russian territory (such as detailed prior information on all aircraft, missions, and cargoes of planes), most U.S. and allied flights between the mainland United States and Europe and Afghanistan transited the airspace of the South Caucasus. This graphically illustrated the importance of the South Caucasus'

geopolitical location and the imperative of securing access to the Caucasus for any direct role in Central Asia. In fact, the stationing of American bases in Central Asia further increased the strategic importance of the South Caucasus to policy-makers in Washington. To supply its bases in Central Asia with military hardware and personnel as well as combat missions, the U.S. is hardly in a position to rely on transiting the territory of either Russia, China, or Iran. The remaining options are to supply Central Asian bases from bases in the Persian Gulf area via Pakistan and Afghanistan, or from bases in or through Turkey via the South Caucasus and over the Caspian Sea. The Pakistan/Afghanistan option is feasible, but hardly one the Pentagon would like to be dependent on given the instability of Afghanistan and the anti-American sentiments in parts of Pakistan and the presence of numerous Islamic militants there.. As a result, securing the stability and cooperation of the South Caucasian states became a priority concern for the U.S.

In January 2002, sanctions imposed in 1992 at the behest of the Armenian lobby in the U.S. Congress against Azerbaijan were waived, and the Department of Defense embarked on a large program of military cooperation with Azerbaijan. In February, U.S. troops were sent to Georgia, tasked to train Georgian special forces in a bid to build up the Georgian army and to help Tbilisi assert control over the Pankisi Gorge. In December 2003, Defense Secretary Donald Rumsfeld visited Baku and Tbilisi, indicating the high level of U.S. attention to the region. Rumsfeld visited Baku again in August 2004. The Department of Defense has taken the lead in seeking to raise the security issues in the South Caucasus on the U.S. foreign policy agenda, including potentially an increased role in the resolution of regional conflicts, specifically between Armenia and Azerbaijan. Rumsfeld's December 2003 visit came on the heels of the transitions in the two countries, indicating U.S. strategic support to the new leadership in both states, particularly to the new Georgian government. The U.S. had played an important role in ensuring a non-violent transition as Shevardnadze's regime crumbled, including by putting pressure on the power ministries to abstain from using force should they be asked to. The U.S. then strongly supported the new Georgian government's successful move to reintegrate the semi-autonomous province of Ajaria. American attention to the South Caucasus is hence likely to remain high, and its coordination with Turkey is an important element in its engagement there. The U.S. has been lobbying for a greater role for NATO in the region, with Azerbaijan and especially Georgia seeking a closer connection to the Atlantic alliance. NATO nevertheless does not encourage the publicly stated aim of membership in the alliance that Georgia is seeking with much publicity and Azerbaijan through diplomatic means. European powers, notably, have been significantly less interested in a NATO role in the South Caucasus than the United States.

**Acute External Security Threats**

An overt external military threat to the regional countries remains a possibility. Two main scenarios are possible: a Russian military threat to Georgia under the pretext of anti-terrorism and peacemaking in South Ossetia or Abkhazia, and an Iranian military threat to Azerbaijan, primarily a naval threat in the Caspian Sea. In fact, these scenarios have occurred at a limited scale in recent years. Russia repeatedly accused Georgia of sheltering terrorists, occasionally bombing Georgian territory in the Pankisi and Kodori gorges. Russian media reports in February 2002 that al Qaeda fighters, possibly including Osama bin Laden himself, found refuge in Georgia were stoking pressure for outside military intervention.<sup>33</sup> The Russian Defense Ministry declared that Moscow might feel compelled to intervene militarily to contain Islamic radicals in Georgia, and other Russian officials have asserted Russia's "moral right" to launch an antiterrorist operation in Pankisi. A Russian military move was real threat at the time in the last months of 2001 and early 2002, perhaps forestalled only by the launching of the U.S. Georgia Train-and-Equip Program in early 2002. Yet the continuation of the Chechen conflict indicates a risk that Russia may use the pretext of anti-terrorism to apply pressure, including military action, against Georgia. As far as Iran and Azerbaijan is concerned, the dispute over the Caspian Sea legal status reached a climax after significant oil and gas resources were identified in the Sharq/Alov oilfields, lying in the Azeri maritime sector disputed by Tehran. In July 2001, Iranian warships forcibly evicted a BP-owned exploration vessel operating over the Sharq/Alov field. This was followed by almost two weeks of daily overflights of Azerbaijani waters and land by the Iranian air force, which eventually prompted a Turkish reaction in the form of a visit to Baku of the Turkish Chief of Staff and a squadron of F-5 fighter jets) and in its aftermath, increased American military assistance to Azerbaijan, with a focus on naval defense. Tensions have abated somewhat, but the Caspian Sea status is unresolved and future Iranian moves are not to be excluded, especially given the increasing hardliner control over the government and state machinery.

**Implications of the Caucasian Security Deficit**

The Caucasian security deficit, stemming from the interrelated and unregulated security threats, has plagued the region for a considerable time. The increasing importance of the South Caucasus in the aftermath of the anti-terrorist operation in Afghanistan and the war in Iraq have now made the security deficit a threat not only to regional security but to that of Euro-Atlantic interests as well. The need for

institutionalized security arrangements to manage, reduce and if possible resolve the security threats in the region has become palpable. The dimensions and multi-faceted character of the security deficit are such that they impede not only the regional stability of the South Caucasus and the interests of Western powers, but the political, social and economic development of the three states in the region. In fact, it is increasingly apparent that failure to provide security is impeding the building of viable sovereignty in the region.

The insecurity of the South Caucasus impedes political stability, accountability and democratic development in several ways. Most prominently, insecurity in the early-to-mid 1990s derailed the political liberalization ongoing in the region and legitimized the return of authoritarian rule in all three states. The popular urge for order and stability therefore allowed the governing structures to backpedal on institutional reform of both a political and economic nature. Political instability followed as a direct consequence of the conflicts, as poor government performance led to the rapid loss of popular legitimacy and encouraged armed political contenders to challenge authorities. Moreover, the weakening of government that resulted from the conflicts facilitated corruption and criminal infiltration of administrative bodies at a national and regional level.

In the economic sense, the conflicts and the insecurity they bred severed regional trade linkages. Moreover, fighting brought material destruction, and created an economic burden as well as fall in economic output due to the displacement of hundreds of thousands of people who became refugees in their own countries. The downfall in economic production exacerbated problems with corruption and organized crime, since the collapse of the labor market made corruption and crime not only attractive alternative sources of income, but for some people the only possible one. Moreover, the loss of licit trade was replaced by illicit trade, which has been partially concentrated to separatist territories practically outside government control. The most prominent example is South Ossetia with its Ergneti market functioning as a key point in smuggling of goods from Russia to Georgia. Abkhazia, Ajaria, Javakheti, and Lezgin-populated areas of Azerbaijan have also been marred by smuggling.

On a societal level, the refugee populations remain largely unintegrated into the general population, with specific problems and both material and psychological suffering that impact society as a whole, especially in Azerbaijan and Georgia. In addition, the unresolved conflicts are contributing to fanning the flames of nationalism in the region, thereby impeding the development of civic-based identities and democratic political culture.

## Conclusion

Western aid to the region and to other conflict-ridden areas have often attempted to go around the hard security, trying to work at a grassroots level with confidence-building measures, encouraging economic exchanges, supporting civil society. There was hope that these efforts would help bring about a more positive climate that would in turn lead to improvements in conflict resolution and regional security. The record so far shows the pitfalls of this process. While western assistance has undoubtedly been beneficial to political and economic development in the region, it has failed to alleviate security problems of the region. It is becoming increasingly apparent that insecurity and conflict lies at the base of the problems of the South Caucasus, and that only through addressing the security deficit in the region directly will it be possible for the South Caucasus to develop economically and politically into stable and peaceful societies. One day, such states one day may become net security providers rather than net security recipients.

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