The South Caucasus in a Reconnecting Eurasia

U.S. Policy Interests and Recommendations

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A Report of the
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16  About the Authors
In January 2014, the CSIS Russia and Eurasia Program launched its Eurasia Initiative. The vast Eurasian landmass, stretching from China in the east to Europe in the west and from the Arctic Ocean in the north to the Indian Ocean in the south, includes some of the world’s most powerful and dynamic states, as well as some of the world’s most intractable challenges. Scholars and analysts are accustomed to focusing on Eurasia’s various regions—Europe, the former Soviet Union, East Asia, South Asia, and Southeast Asia—rather than on the interactions between them. The goal of this initiative is to focus on these interactions, while analyzing and understanding Eurasia in a comprehensive way.

Today, more than any time since the collapse of the Silk Road five centuries ago, understanding these individual regions is impossible without also understanding the connections between them. Over the past two decades, Eurasia has begun to slowly reconnect, with the emergence of new trade relationships and transit infrastructure, as well as the integration of Russia, China, and India into the global economy. Even as this reconnection is under way, the center of economic dynamism in Eurasia, and in the world as a whole, continues shifting to the East. The impact of these shifts is potentially enormous, but they remain poorly understood because of intellectual and bureaucratic stovepiping in government and the broader analytic community.

The report you are holding in your hands is one of the fruits of the Eurasia Initiative. Following the production of six reports as part of our 2015 series on *Central Asia in a Reconnecting Eurasia*, the CSIS Russia and Eurasia Program is now proud to announce the release of the next installment: *The South Caucasus in a Reconnecting Eurasia*. This four-report series includes detailed analytic reports on the foreign economic and security interests of Armenia, Azerbaijan, and Georgia, as well as a summary report laying out the challenges and opportunities for U.S. policy in the region. Long an important transit corridor between the western and eastern parts of Eurasia, the South Caucasus continues to face a range of geopolitical challenges, exacerbated by tectonic shifts taking place around the region’s borders: the crisis in Ukraine, growing confrontation between Russia and Turkey, turmoil in the Middle East, and reduced appetite for engagement in both the European Union and the United States.
To better understand the geopolitical and geoeconomic environment confronting the South Caucasus states, starting in 2014, members of the CSIS Russia and Eurasia Program traveled to the region and conducted interviews with a wide range of government officials, experts, private-sector actors, and representatives of international organizations to understand how elites in Armenia, Azerbaijan, and Georgia perceive the economic and security environment changing around them.

This report and the others in the series reflect what we gleaned from these interviews, along with analysis of published data and secondary literature, to provide a broad overview of how the world looks from the perspective of the South Caucasus. As in our earlier report series on Central Asia, the emphasis in these reports is the foreign economic and security policies of the three states. While we are cognizant of the complex situation surrounding domestic politics and human rights in some of these countries, the focus of this particular project is the strategic implications of a reconnecting Eurasia—in other words, how the states of the South Caucasus interact with each other and with the outside world. We address domestic issues, including human rights, corruption, and authoritarian practices, to the extent that they affect the interactions between Armenia, Azerbaijan, and Georgia, on the one hand, and the rest of the world, on the other.

The South Caucasus has throughout history been a political and civilizational fault zone between Europe, Turkey, Russia, and Persia. Since the Soviet collapse, the South Caucasus states have themselves acquired agency in international politics, even as they remain buffeted by the larger forces swirling around them. For the United States and other Western governments, effective policymaking in the South Caucasus requires a nuanced understanding of the interests, objectives, worries, and levers of influence available to the South Caucasus states. The South Caucasus in a Reconnecting Eurasia report series is designed to give a regional perspective to foreign officials, activists, investors, and others to help them better navigate the complex environment of the South Caucasus.
Acknowledgments

We would like to take this opportunity to express our gratitude to the many institutions and individuals who made this report and the others in the series possible. The project would not have been possible without the generous financial support of the Smith Richardson Foundation, the Ministry of Foreign Affairs of the Republic of Kazakhstan, and Carlos Bulgheroni. We are also extremely grateful for program support provided by the Carnegie Corporation of New York to the CSIS Russia and Eurasia Program. Additionally, we are grateful to the many government officials, experts, NGO staff, and private-sector actors who shared their insights with us during research trips to the region and in Washington, DC. Thanks are due as well to the embassies of Armenia, Azerbaijan, and Georgia in Washington, whose staff helped facilitate our travel to their respective countries, and in particular to Ambassadors Tigran Sargsyan (Armenia), Elin Suleymanov (Azerbaijan), and Archil Gegishidze (Georgia). The assistance of Hrachia Tashchian at the Embassy of Armenia, Mammad Talibov at the Embassy of Azerbaijan, and Tinatin Mikiashvili and Giorgi Khelashvili at the Embassy of Georgia is also worthy of special thanks.

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Figure 1. Geopolitical Map of the Caucasus Region

Source: Wikimedia Commons.
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For a region with an aggregate population of fewer than 20 million people and a combined gross domestic product (GDP) of just over $100 billion, the South Caucasus has presented U.S. policymakers a disproportionate challenge in the quarter century since the region’s three states became independent. The South Caucasus matters to the United States because it is at once an important corridor connecting Europe to Asia, a source of and transit route for Caspian oil and gas, a fracture zone hosting three protracted conflicts (in Abkhazia, South Ossetia, and Nagorno-Karabakh), and an arena for the competing ambitions of regional powers Russia, Turkey, and Iran.

The objectives for U.S. policy have been and remain (1) to promote the sovereignty, independence, and territorial integrity of each state in the region, (2) to maximize the South Caucasus states’ ability to leverage their transit potential, including as an additional route to world markets for the export of Caspian energy, (3) to foster economic growth in the region and reinforce peaceful and productive ties between the three South Caucasus states and the transatlantic community, (4) to avert regional conflict or (5) to avoid the region’s domination by a regional hegemon, likely Russia. That multifold challenge is all the greater today as a result of escalating tensions between Armenia and Azerbaijan, slowing reform and rising instability throughout the region, Russia’s continuing occupation of the Georgian regions of South Ossetia and Abkhazia and its continued pressure on Georgia’s pro-Western government—along with the broader crisis in U.S.-Russian relations.

1. According to World Bank figures, the 2014 GDP of Armenia was $11.64 billion, while Azerbaijan’s GDP was $75.2 billion and Georgia’s was $16.53 billion, or $103.37 billion combined, which is comparable to the GDP of Ecuador ($100.92 billion). See World Bank, “GDP (current US$),” http://data.worldbank.org/indicator/NY.GDP.MKTP.CD.
stemming primarily but not exclusively from Russian aggression against Ukraine—and more recently the crisis and uncertainty in Turkey following the coup attempt of July 2016.

Although the South Caucasus remains a deeply fragmented region on account of the conflict between Armenia and Azerbaijan as well as the competing interests of neighboring powers Russia, Turkey, and Iran, Washington nevertheless needs an overarching approach, one that reflects the region’s significance as both a transit corridor and a crossroads—and a region that needs Western support to balance the pressures from the large, often competing regional powers on its borders. Of course, the United States (and the European Union) would be better served by strengthening relations with all three states while seeking to ameliorate disputes among them as well as external threats. Because of its (still incomplete) embrace of democracy, liberalism, and a pro-Western strategic orientation, Georgia should remain the focal point for U.S. engagement in the region. Engagement with Armenia and Azerbaijan should focus in the first instance on preventing a slide toward conflict over Nagorno-Karabakh, while helping both Yerevan and Baku secure their sovereignty and develop their transit potential. At the same time, the level of U.S. support and engagement with Armenia and Azerbaijan will remain to some extent conditioned on the degree to which they embrace liberalization and reform.

A significant finding of our field research in the South Caucasus was the nearly universal desire for greater U.S. engagement as a hedge against meddling by the neighboring regional powers. Key U.S. priorities should thus include:

- Maintaining productive bilateral ties with all three South Caucasus states, including continued encouragement of progress on political and economic reform and tailored security cooperation, particularly with Georgia.
- Sustaining efforts to resolve, or at least ameliorate, the Nagorno-Karabakh conflict, which is a tall order given the extent of mistrust between Armenia and Azerbaijan and the fanning of nationalist passions by leaders in both countries.
- Reinvigorating efforts to promote regional connectivity and reduce the risks and costs of transport, particularly through Azerbaijan and Georgia. Energy will remain an important component of regional connectivity, but, given changes in the global energy market, more attention ought to be paid to projects outside the energy sector that offer opportunities for greater regional and global integration; of course, connectivity between Armenia and Azerbaijan will remain impossible absent significant movement on Nagorno-Karabakh.
- Working with partners including the European Union to promote political and economic reform, using the carrots of market access and visa liberalization (as well as additional incentives contained in Georgia’s EU association agreement) to encourage progress.

While it may be tempting for U.S. officials to approach the South Caucasus as a chessboard in a bigger geopolitical struggle with Russia, over the longer term such a zero-sum approach is liable to be counterproductive given Russia’s proximity and economic and political influence in the region and the concomitant risk of alienating the South Caucasus states themselves if they perceive themselves being forced into a binary choice between the United States and Russia. U.S. support for connectivity and reconciliation should include all countries—though the closure of
Armenia’s borders with Azerbaijan and Turkey remains a serious constraint. Nor should U.S. engagement be exclusive of cooperation with Russia or close relations between Moscow and at least Baku and Yerevan (Georgia for its own reasons is likely to continue viewing Russia as more threat than partner), even though U.S. interests will frequently diverge from those of Russia and other regional players, including on the issue of energy transit where the U.S. supports pipeline routes both through Russia (e.g., the Baku-Novorossiysk oil pipeline) and independent of it (e.g., the Baku-Tbilisi-Ceyhan pipeline).

THE REGIONAL CONTEXT

The South Caucasus region is bordered by three regional powers—Iran, Russia, and Turkey—whose contemporary, often conflicting interests have roots going back centuries. Adjacent to the region and with population groups straddling borders, Tehran, Moscow, and Ankara will always have a greater stake in the South Caucasus than Washington, even as their own interests frequently diverge. Navigating among the competing interests of these regional powers at a time when U.S. engagement in Eurasia is perceived to be waning will remain a major challenge.

Russia, of course, is the most recent imperial power to dominate the South Caucasus. Russia remains sensitive to developments in the South Caucasus because Moscow’s greatest internal security challenges stem from nationalist and Islamist groups just across the border in its own North Caucasus republics. Though the Caucasus mountain range creates a natural frontier between the South Caucasus states and the Russian North Caucasus, numerous connections between north and south exist. Significant populations of Lezgins and Avars, for example, live in Azerbaijan as well as in Russia’s Dagestan. Ahead of Russia’s 2008 intervention in Georgia, Moscow charged that Tbilisi had failed to root out anti-Russian insurgents from its Pankisi Gorge region. At the same time, the closure, due to the Abkhazia conflict, of rail and road transport between Russia and the South Caucasus is a large impediment to north-south economic connectivity.

Russia’s annexation of Crimea and subsequent support of the insurgency in the Donbas region of Ukraine beginning in 2014 brought on the biggest crisis in post-Soviet relations between Russia and the West, and this situation has deeply impacted the states of the South Caucasus. For Armenia and Azerbaijan, which have sought to maintain balanced engagement with Russian and Western partners, the Ukraine conflict has increased the pressure to take sides, even as Baku and Yerevan continue their own protracted struggle over Karabakh. For Georgia, the conflict has reinforced the perception, first established in 2008, that the West is unwilling and unable to protect the smaller post-Soviet non-NATO member states from Russian aggression.

The most complicated regional relationship is that between Turkey and Armenia, due both to the legacy of the Ottoman Empire’s World War I–era extermination of its Armenian population (whom the Ottoman government accused of collaborating with the invading Russians), as well as Ankara’s more recent support for Azerbaijan in the conflict over Nagorno-Karabakh. Today, Azerbaijan and Turkey maintain a close strategic partnership that also, in some contexts, encompasses Georgia, while Turkey’s border with Armenia remains closed.
The Turkish-Armenian standoff is a source of complications for the United States. Turkey is a NATO ally and in recent years has been a key partner in U.S. efforts to stabilize the Middle East, even as Washington also has had generally good relations with Armenia, thanks in part to the large and influential Armenian diaspora in the United States. U.S.-backed efforts to promote Turkish-Armenian reconciliation circa 2009–2010 foundered, due in part to opposition from Azerbaijan and much of the Armenian diaspora. With Turkey increasingly consumed by the fallout from the Syrian conflict and rising domestic instability following the attempted coup d’état of July 2016, opportunities for reinvigorating the process of reconciliation will be few. Instead, U.S. efforts should focus on ameliorating the conflict in Nagorno-Karabakh, which faces the prospect of renewed fighting and remains the major roadblock to the normalization of relations between Yerevan and Ankara.

Any crisis between Russia and Turkey also has the potential to spill over into the South Caucasus. Russia has moved additional military hardware and forces into Armenia along the border with Turkey. A resumption of hostilities over Nagorno-Karabakh could also exacerbate Russo-Turkish tensions. The risk will depend in part on the success of recent efforts by Russian president Vladimir Putin and Turkish president Recep Tayyip Erdoğan to patch up relations following the downing of a Russian aircraft by the Turkish air force in late 2015.

While Iran and Azerbaijan have made some effort to improve ties, relations have long been strained because of sensitivities in Tehran about the large ethnic Azeri population in Iran who could look to an independent Azerbaijan as a model and partner, as well as Azerbaijan’s strategic partnership with Israel. Conversely, Iran has been a close partner of Armenia, providing an economic lifeline in the face of the Azerbaijani-Turkish blockade. The gradual reintegration of Iran into the global economy following the lifting of international sanctions offers new opportunities for connectivity, such as shipment of more Caspian energy to northern Iran in return for takeout at Kharg Island. The gradual warming of Iranian-Azerbaijani relations in the past few years may help accelerate this process.

One result of these cross-border ties with Iran, Russia, and Turkey has been the emergence in the South Caucasus of competing east-west and north-south axes. The east-west axis comprises Azerbaijan, Georgia, and Turkey and includes both infrastructure projects like the Baku-Tbilisi-Ceyhan (BTC) oil pipeline as well as political and security cooperation. Given Turkey’s membership in NATO and aspiration to EU membership, along with Georgia’s “civilizational choice” in favor of Europe, this axis is largely pro-Western. Though Azerbaijan is less tightly bound to the transatlantic West than Turkey or Georgia, Baku’s participation in trilateral projects with Ankara and Baku helps cement its westward orientation, though Western concerns about the worsening political and human rights climate in Azerbaijan, as well as Baku’s own ambivalence, will continue to limit ties with the West. Russia still views Azerbaijan, in contrast to Georgia, as being “in play.” Recent Russian diplomacy around Nagorno-Karabakh appears designed in part to reorient Baku toward Moscow.

2. Baku feared that a premature reconciliation between its ally Turkey and Armenia would remove the strongest piece of leverage it had to alter the status quo in and around Nagorno-Karabakh. President Ilham Aliyev of Azerbaijan threatened to “reconsider” relations with Ankara should Turkey go ahead with normalization absent major concessions from Armenia on Nagorno-Karabakh. The failure of the so-called Zurich protocols effectively cemented the link between the fate of Karabakh and Turkish-Armenian normalization.
The north-south axis, meanwhile, connects Russia to Iran via Armenia and, to a lesser degree, Azerbaijan—though both routes face difficulties. The Iranian railway network is not connected to the railway through Russia and Azerbaijan. Baku has said it may finance an extension of the Iranian railway to the Azerbaijani border, but economic difficulties could delay this development. Meanwhile, Tbilisi blocks the Russian railway through Abkhazia, which formerly connected Russia, Armenia, and Georgia. Of course, Yerevan would like to diversify its international ties, including deepening its economic relationship with Europe, but the closure of its borders with Azerbaijan and Turkey and the presence of more than 5,000 Russian troops on its territory limit Armenia’s options. The existence of these perpendicular axes and the geopolitical fragmentation underpinning them complicates the task of simultaneously deepening U.S. and transatlantic engagement with all three states of the South Caucasus, since efforts to engage Armenia or Azerbaijan in particular are often perceived by regional actors in zero-sum terms.

THE SOUTH CAUCASUS AND U.S. GLOBAL STRATEGY

The significance of the South Caucasus for the United States has further increased in recent years because of the region’s proximity to ongoing conflicts in nearby Syria and Iraq, as well as its continuing, though declining, role in facilitating logistical support to the U.S.-led military effort in Afghanistan. Both Georgia and Azerbaijan played essential logistical roles as part of the Northern Distribution Network to supply U.S. and allied troops in Afghanistan. Both countries also provided their own forces to these conflicts, in part as a means of emphasizing their ability to contribute to U.S./Western security objectives and generating goodwill in Western capitals.

Another interest for Washington since the 1990s has been the region’s role both as a producer of and transit corridor for oil and gas to European markets. Caspian oil and gas help limit Europe’s dependence on Russian hydrocarbons. They are also a critical resource for the region’s economies. Azerbaijan saw its per capita GDP swell from less than $500 in the mid-1990s to almost $8,000 in 2014, more than enough to qualify for the World Bank’s “upper middle income” category, on the back of its oil and gas resources, while transit revenues have been an important contribution to Georgia’s state budget for the past decade.

Perhaps most importantly for the region, these resources give the United States and its European allies a direct stake in the independence and sovereignty of the South Caucasus states, bringing U.S. and European support to bear against Russian efforts to establish a protectorate over the region. At a moment of renewed Russian assertiveness and questions about U.S.-EU staying power, Washington has a strong interest in maintaining its support for expanding east-west transit

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4. According to the World Bank, Azerbaijan’s per capita GDP in 2014 was $7,885. In comparison, Armenia’s was $3,874, and Georgia’s was $4,435. See World Bank, “GDP per capita (current US$),” http://data.worldbank.org/indicator/NY.GDP.PCAP.CD. Azerbaijan’s GDP declined precipitously in 2015 as energy prices plummeted. According to World Bank figures, it fell to $5,500 in 2015.
through the South Caucasus and opposing efforts by Moscow to constrain, control, or direct the region’s energy or transit infrastructure.

As our three-country study reports in this series illustrates, the countries have chosen very different paths and priorities in terms of both their domestic development and their foreign policy orientations. Georgia has most clearly made an unambiguous choice to prioritize integration with Western political, economic, and security institutions, despite indications that its current leadership is hedging its bets out of concern that the U.S./European commitment to Georgia is slipping. Armenia, mainly because of the conflict over Nagorno-Karabakh and a long-standing sense of vulnerability toward Turkey, has chosen to prioritize relations with Moscow and security guarantees from the Collective Treaty Security Organization (CSTO). Nevertheless, Yerevan seeks to maximize its engagement with Western institutions subject to the constraints imposed by its dependence on Moscow. Azerbaijan has occupied more of an independent position between Russia and the West, though it also maintains a critical bilateral relationship with Turkey.

Given the highly diverse orientations of the three states comprising what is conventionally referred to as the “South Caucasus,” developing a strategy for the region as whole will continue to be a challenge for U.S. policymakers. While it may be more productive to think in terms of policy approaches for the three states individually, it is quite unlikely that the states, individually, will be high-priority partners because of their small size, distance from the United States, and complicated relationships with regional players—with the partial exception of Georgia. All three South Caucasus states would benefit from greater regional cooperation, but given the Armenia-Azerbaijan conflict and the competing north-south and east-west strategic axes, the South Caucasus is liable to remain fragmented for the foreseeable future.

The rest of this report is organized into discussions of each country and several transboundary challenges, with a concluding section of recommendations for U.S. policymakers to consider.

GEORGIA

Among the states of the South Caucasus, Georgia’s people and political class have made the most unequivocal decision in favor of integration with Western multilateral political, economic, and security institutions, as well as close bilateral relations with the United States. Georgia is the most democratic of the (non-Baltic) post-Soviet states, and its commitment to and progress toward strengthening democratic and free-market institutions is likewise more advanced than any other former Soviet republic. Georgian support for U.S.-led military interventions in Iraq and Afghanistan exceeded that of many NATO allies—as many as 1,500 Georgian troops were deployed in Afghanistan, where they suffered over 400 casualties. While the United States should support Georgia’s democratic transformation and reward Georgia’s commitment to transatlantic integration, this support must also reflect the realities of regional geopolitics.

Calibrating Georgia’s relationship with NATO is the most delicate challenge. While the alliance went on record at the 2008 Bucharest summit in asserting that Georgia (and Ukraine) eventually

would be admitted to NATO, in practice the 2008 war with Russia and lukewarm support for Georgian membership on the part of many European states means that actual membership is, at best, many years off.

While the Bucharest Declaration affirmed Georgia’s sovereign right to seek NATO membership, NATO itself retains a sovereign right to make membership decisions on the basis of its own interests and those of its members. Given the likely negative implications on relations with Russia—not to mention questions about how Georgian membership would advance the security interests of current NATO members—focusing on the question of Georgian NATO membership or the conferral of a membership action plan (MAP) on Tbilisi is, at this point, counterproductive. In any case, Georgia’s per capita GDP is half that of NATO’s poorest member, Bulgaria; most likely Georgia will be unable to join the NATO alliance until it closes all or most of this gap.

Our Georgian interlocutors, both officials and experts, were resigned, if in many cases deeply disappointed, that a MAP and eventual NATO membership were not a near-term possibility. Yet they recognized that fixating on the question of NATO membership could distract from developing a concrete, pragmatic agenda for developing a viable territorial defense and otherwise strengthening Georgia’s security and linkage to the West. Instead of fixating on the question of whether Georgia will get a NATO membership action plan, they would like to see concrete steps to solidify Tbilisi’s linkage to and identification with the transatlantic West. Initial steps in this direction were taken by NATO at its 2016 summit in Warsaw.

With the United States, Georgian desiderata include greater bilateral security cooperation, a visa liberalization agreement, and (less realistically) a free-trade deal. Bilateral security cooperation, including the sale of lethal defensive weapons and other advanced military systems (e.g., counter-battery radar), could help raise the cost of renewed aggression against Georgia. Other U.S. assistance could help Tbilisi respond to nontraditional threats, such as the radicalization of its Muslim minorities (a small number of whom have gone to fight in Syria and Iraq) and the growth of organized crime.6

Georgian military participation in Iraq and Afghanistan provided significant and useful boosts in training and capabilities that enhanced the ability of Georgian forces to defend their own country. Georgian officials and experts expressed their interest in continuing to develop Georgia’s capacity to serve as a training and transit center for U.S. and allied troops—for instance, in the event of deployments to the Greater Middle East. This notion fits in with Tbilisi’s goal of finding ways and reasons for the United States to have a greater military presence in Georgia that is not explicitly predicated on countering Russia.


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As regards economic cooperation, while Georgian officials and businesspeople expressed the desire for a greater U.S. commercial presence in Georgia, they recognize that stronger engagement with the European private sector is their most realistic mechanism to help advance Georgian modernization. Under current conditions, U.S. companies’ appetite for investment in Georgia is likely to remain limited despite Tbilisi’s impressive accomplishments in promoting transparency and rooting out corruption. Europe, however, is geographically proximate and, since 2014, linked to Georgia by a Deep and Comprehensive Free Trade Agreement that dramatically lowers the barriers to Georgian exports—though serious constraints remain on Georgian agricultural exports to the European Union. Working with European partners, the United States could do more through the U.S. Agency for International Development (USAID) and other government agencies to assist Georgian companies achieve competitiveness in European markets.

The United States can also help Tbilisi develop new infrastructure, such as the new port facilities at Anaklia that will enhance Georgia’s value as a transit corridor. Just as the BTC pipeline and other infrastructure projects laid the foundation for a deeper strategic relationship with Azerbaijan and Turkey, projects like Anaklia will provide value to new partners (in Europe and beyond) who will then have a stake in Georgia’s security and stability. The United States should also continue to encourage Georgia to expand and diversify its international economic ties and be open to foreign investment.

None of this cooperation need be explicitly directed against Russia. Of course, the United States should continue to strongly support Georgia’s territorial integrity by condemning Russia’s occupation of South Ossetia and Abkhazia as well as the creeping annexation of additional Georgian territory through “borderization,” and by making it easier for Georgia to defend itself against future threats—not all of which come from Russia. It should also help Georgia reduce its economic dependence on Russia and oppose Russian efforts to take over strategic pieces of Georgian infrastructure. Yet, to the extent Georgia has a diverse range of economic and political options available, there is no reason for the United States to oppose efforts on the part of Tbilisi to normalize relations with Moscow or to develop economic ties on a commercial basis.

ARMENIA

Like its South Caucasian neighbors, Armenia also aspires to conduct a multivector foreign policy, but faces major constraints stemming from the barely frozen conflict in Nagorno-Karabakh and extensive Russian influence. As a result of the conflict, Armenia’s borders with both Turkey and Azerbaijan remain closed, and Yerevan is highly dependent on Moscow for its security, which, in turn, limits its ability to engage politically, economically, and militarily with the West—especially given the deterioration of U.S.-Russian relations in the past few years.

Three times in recent years Armenia has expended major diplomatic energy to extricate itself from this corner, and three times it fell short. Yerevan initially embraced the diplomatic push by the administration of U.S. president Barack Obama to normalize Armenian-Turkish relations in 2009–2010. This effort ultimately failed as Azerbaijan leaned heavily on Ankara to maintain resolution of the Nagorno-Karabakh conflict as a precondition for normalization and opening of the Turkish-Armenian border.
The second disappointment occurred in June 2011, when the three cochairs of the Organization for Security and Co-operation in Europe’s Minsk Group (the U.S., Russia, and France) agreed to a set of core principles for resolving the conflict that the leaders of Armenia and Azerbaijan were expected to sign at a summit in the Russian city of Kazan. The Kazan agreement, which resulted from the increased investment of time and political capital by the three cochairs, not to mention the thaw in U.S.-Russian relations that prevailed during the presidency of Dmitry Medvedev, was seen by observers at the time as an opportunity for a real breakthrough. The Kazan meeting, however, failed to produce as much agreement between Baku and Yerevan as the mediators had hoped, in part because of concerns about the potential for a domestic backlash in both countries. With the failure at Kazan, the favorable political conjunction passed, not least because leaders in both Baku and Yerevan increasingly sought to play the nationalist card to stay in power as opposition to their rule mounted. The chill between Washington and Moscow that broke out following Putin’s 2012 return to the Kremlin also made coordination among the Minsk Group cochairs more difficult.

Third, in the fall of 2013 Armenia and the European Union had virtually completed lengthy and complicated negotiations on an association agreement that would create a Deep and Comprehensive Free Trade Area (DCFTA), like those the European Union successfully concluded with Georgia and Ukraine, when Armenian president Serzh Sargsyan made a sudden about-face and abandoned these negotiations, announcing that Armenia would be joining the Russian-backed Eurasian Economic Union instead. Our conversations in Yerevan lent support to the view that Moscow directly intervened to convince Sargsyan to abandon the DCFTA, something that Sargsyan all but acknowledged in his public remarks about the decision. Despite the breakdown in negotiations with the European Union, Yerevan continues looking for ways to deepen its economic and strategic engagement with the West to help balance its dependence on Russia. Armenia has resumed negotiations with the European Union in an effort to reach a set of agreements that would include much of the substance of an association agreement while remaining compatible with its commitments as a member of the Eurasian Economic Union. While these negotiations are being conducted between Yerevan and Brussels, the United States should nonetheless support Armenia’s efforts at multivector engagement.

A core element of these efforts must be renewed attention to political reform in both Armenia and Azerbaijan, and to resolving the conflict in Nagorno-Karabakh. Tensions and violence across the Karabakh line of contact as well as the undisputed Armenian-Azerbaijani border have been increasing for several years, and the worst fighting since the 1994 cease-fire broke out in April 2016, leaving dozens or even hundreds dead on both sides. The April 2016 fighting changed facts on the ground, with Azerbaijani forces capturing several strategic heights across the line of contact. It also underscored the fragility of the status quo, along with the potential utility of military force to alter it. The


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outbreak of another war between Armenia and Azerbaijan would be disastrous for both sides, as each is far more heavily armed than back in the early 1990s. Moreover, an Armenian-Azerbaijani conflict holds the potential to draw in Russia, as well as Turkey.

Unfortunately, the Minsk Group has not been successful in more than two decades in brokering a solution to the conflict. The most recent round of fighting demonstrated the extent to which Russia has emerged as the pivotal external broker, with Russian military officials negotiating a cessation of hostilities while the Armenian and Azerbaijani presidents later flew to Moscow to hammer out a more formal cease-fire. The United States (and France) runs a risk in outsourcing more of the responsibility for conflict resolution to Moscow, which in turn would leave both Armenia and Azerbaijan more dependent on Russia for their security and with less room for maneuver. Any resulting wavering by Azerbaijan on its commitment to east-west connectivity, especially its role as in the East-West transit of Caspian energy, would be damaging to Western interests. At the same time, allowing Moscow to dictate a settlement on its terms would also complicate Armenia’s pursuit of a multivector foreign policy, not to mention the pursuit of normalization with NATO-member Turkey.

**AZERBAIJAN**

Thanks to effective development and management of its hydrocarbon resources, Azerbaijan’s economy has grown the fastest of the South Caucasus states since independence in 1991, and today Azerbaijan’s per capita GDP is nearly double that of Armenia and Georgia. This hydrocarbon wealth, coupled with the development of east-west linkages via Georgia to Turkey and thence to Europe, has also afforded Baku greater strategic autonomy than its neighbors. Azerbaijan has in consequence eschewed integration with either Western-led or Russian-led economic, political, and security multilateral institutions while mostly inclining toward the West. Yet Baku has not embraced Western-style reforms of the type that Georgia has pursued, and increasingly autocratic rule coupled with signs of grassroots discontent create worry about Azerbaijan’s fragility and the sometimes-unpredictable nature of its foreign policy. The objective for U.S. and EU policy should be to emphasize political and economic reform as a means of reinforcing Azerbaijan’s long-term stability and ability to make fully sovereign decisions about its strategic priorities, and to support its pursuit of integration with Georgia and Turkey. Reforms are more likely to succeed if Azerbaijani (including the government) believe that without them, the country will be more vulnerable to both internal and external threats. In turn, this suggests that the United States should more tightly couple support for reform efforts with security cooperation, while also more actively pursuing diplomatic efforts on Nagorno-Karabakh.

The loss of Nagorno-Karabakh and the seven regions surrounding it remains a deep preoccupation for the Azerbaijani leadership. Russian support for the Armenians in the 1990s war contributed to Azerbaijan leaning more to the West for political support. In more recent years, though, a palpable disappointment with the West and particularly the United States for not more clearly supporting Baku’s position in the dispute has emerged. The contrast between the West’s clear support for Ukrainian territorial integrity and its more equivocal position on Nagorno-Karabakh was a source of
frustration for many of our official and unofficial interlocutors in Baku. Anger over Section 907 of the U.S. FREEDOM Support Act, which bans direct aid to the government of Azerbaijan, lingers in the background as well, even though U.S. presidents have waived application since 2001. In particular, our interactions with members of civil society, students, and even some experts were infused with a sense of anger, betrayal, and frustration at the continued occupation of Nagorno-Karabakh and the surrounding regions—but also at corruption and repression at home.

On edge in this volatile environment, the government, meanwhile, undertook a crackdown against independent journalists and human rights activists that has worsened relations with Europe and the United States. At least some analysts blame the renewal of hostilities in Nagorno-Karabakh on a desire by Baku to mobilize nationalist anger at Armenia to reconsolidate the government’s legitimacy at home. The connection between domestic instability and the potential for renewed conflict in Nagorno-Karabakh provides yet another reason why the United States and its allies should make support for reform and conflict resolution a priority.

CONCLUSION

The South Caucasus has been the most violence-prone region in the post-Soviet region since the collapse of the USSR. Today, violence continues to lurk just below the surface, potentially swallowing up all three countries in the region, spreading beyond the South Caucasus, and jeopardizing the efforts to build new transit corridors through the region that have been at the heart of U.S. policy for more than two decades. The only party that stands to benefit from instability and conflict in the South Caucasus is Russia, which could continue aggrandizing its territory at Georgian expense or use renewed fighting between Armenia and Azerbaijan as a pretext for imposing its own solution to the Nagorno-Karabakh conflict—one that would presumably weaken if not exclude Western influence in the region. Given its concerns about instability spreading to the North Caucasus, though, even Moscow would prefer to avoid a major conflict in the South Caucasus.

The situation in the South Caucasus is becoming more volatile. The resumption of fighting in Nagorno-Karabakh in the spring of 2016 set a dangerous precedent: not only did it show that the status quo could be altered by force, it stirred up nationalist passions in both Armenia and Azerbaijan that will be hard to tamp down, even with the best of intentions on the part of the two governments. Continued outbreaks of fighting also highlight the extent to which current approaches to the conflict have been unable to make significant progress in the more than two decades since the original cease-fire.

Despite the current Georgian government’s efforts to maintain semi-normal relations with Moscow, renewed Russian aggression remains conceivable, particularly if Moscow judges that the United States, the European Union, and NATO are losing interest and remain unwilling to provide Georgia with more substantial security assistance. The potential pretexts are numerous, not least the flow of fighters from areas like the Pankisi Gorge to Syria and Iraq.

Exacerbating the problem are the complex maneuverings between Russia and Turkey. While the annexation of Crimea and the war in Syria put an end to the strategic partnership between Ankara
and Moscow that had prevailed since the early 2000s (a rupture sealed by the downing of the Russian warplane), Turkey’s mounting difficulties both at home and abroad led Erdoğan to seek a rapprochement in mid-2016. On the one hand, resumed fighting between Armenia and Azerbaijan could imperil this rapprochement and spark a proxy conflict with implications beyond the South Caucasus. On the other, Russia’s efforts to impose itself as a mediator could come at the expense of Turkish influence in Baku.

Washington can also take measures to raise its own credibility as an honest broker in the region by refusing to view regional dynamics simply through the prism of a zero-sum competition with Russia. Each of the three South Caucasus states wants to remain able to pursue a multivector foreign policy, even if its accents vary. Presenting engagement as a zero-sum choice (as happened at times with Ukraine before its 2013–2014 revolution) undermines these countries’ sovereignty and raises the likelihood of conflict.

A more durable peace in the South Caucasus will ultimately require more secure and legitimate governments in Armenia and Azerbaijan willing to risk a nationalist backlash in order to move toward reconciliation, as well as improved relations among the United States, the European Union, Russia, Turkey, and Iran. For the foreseeable future, numerous of these regional powers will remain at odds. Absent sustained Western involvement, developments in the South Caucasus are more likely to be a source of confrontation than a source of reconciliation. Consequently, the foundation of U.S. policy in the region must be the Hippocratic oath: first, do no harm.

But getting beyond this minimalist principle, we suggest the following steps for the future of U.S. policy in the region:

• The United States should seek to simultaneously deepen bilateral relations with all three South Caucasus countries, being careful not to disrupt the regional balance in particular between Armenia and Azerbaijan. All three states would like a higher-profile U.S. role, including additional security assistance, as a way of maintaining a more fluid regional balance and ensuring their ability to pursue an independent foreign policy course. Such support should be conditioned to some extent on democratic progress (with particular emphasis on Georgia) as well as peaceful relations with neighbors.

Greater U.S. military engagement is also desired by all three countries; even in Yerevan, officials we interviewed argued that more robust U.S. security engagement with the region could contribute to greater stability, as long as it was done in a balanced way that did not favor either Armenia or Azerbaijan. While this kind of engagement could be a comparatively low-cost way of promoting regional security, Washington ought to focus on regional confidence building and resilience rather than strengthening national capacities, which would only risk exacerbating the danger of renewed conflict. Some security cooperation is already evolving within the Azerbaijan-Georgia-Turkey triangle, and Washington should explore how it might be able to engage with these partners, especially on their core competency of protecting critical transit and other infrastructure. But simultaneously, Washington should also explore how it can engage in cooperative military efforts with Armenia, which already has sent troops to support the U.S.-led mission in Afghanistan and maintains a good relationship with NATO despite its membership in the CSTO.
Improving bilateral relations with each of the three countries of the South Caucasus would help signal continued U.S. commitment to the region while providing Armenia, Azerbaijan, and Georgia a degree of flexibility in their international engagements. Given the complex regional environment, especially the deadly rivalry between Armenia and Azerbaijan, it is important for U.S. policy not to tilt, or be perceived to tilt, in favor of one or the other. But qualitatively and quantitatively upgrading engagement and assistance to all three countries in a balanced way would help change the perception that Washington is turning its back on the South Caucasus and giving the regional powers, notably Russia, a freer hand.

- Washington should renew and elevate its efforts to address the Nagorno-Karabakh conflict. The level and frequency of Russian participation, both inside and outside of the Minsk Group, significantly outstrips the efforts of its Minsk cochairs, the United States and France. Russia’s de facto position as first among equals within the Minsk Group gives Moscow significant advantages in terms of its ability to influence the outcome. Allowing Moscow to play a larger role would not be problematic if Russia and the United States shared a common vision. Unfortunately, apart from avoiding a descent into full-scale war, it appears that U.S. and Russian approaches to the conflict diverge across multiple dimensions. If anything, Moscow seems to have an interest in keeping the conflict smoldering to ensure it maintains leverage over both Baku and Yerevan. A resolution on Moscow’s terms would deprive Armenia as well as Azerbaijan of the strategic flexibility they both crave, in the process undermining efforts to expand east-west connectivity (which Moscow generally opposes) through the South Caucasus. It would also cement Russia’s position as the critical power broker not only in the Caucasus, but throughout the post-Soviet region.

While formal negotiations should remain in the context of the Minsk Group, the United States can also do more on the bilateral side with both Armenia and Azerbaijan to promote security and reconciliation. This includes deepening security cooperation, in parallel, with both states, fostering various track 2 and track 1.5 dialogues between Baku and Yerevan, and otherwise working to improve badly frayed trust.

Working with its cochairs as well as Turkey, the United States should also make a renewed push for implementation of the Madrid Principles, which provide the internationally recognized basis for peace in Nagorno-Karabakh. A first step could be the return of some of the occupied territory outside Nagorno-Karabakh proper to Azerbaijani control in exchange for a partial lifting of the Azerbaijani/Turkish blockades. Unfortunately, the prevalence of hard-line nationalism on both sides in the aftermath of the April 2016 fighting and the need for both governments to maintain legitimacy in periods of economic uncertainty do not augur well for the success of such efforts. Keeping the Madrid Principles alive should nonetheless remain a priority as they represent the only realistic path to normalization without a return to war.

- Although new infrastructure through the South Caucasus will depend primarily on commercial considerations, political support from the United States and the European Union can help keep such projects on the agenda, sending a signal that can reduce perceptions of political risk. Indeed, without such political support and signaling, neither the Baku-Tbilisi-Ceyhan oil pipeline nor the Trans-Anatolian Pipeline (TANAP) for gas would have come to

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fruition. Today, with Russia continuing to push for alternatives to the Southern Gas Corridor (including revived plans to build the so-called Turkish Stream pipeline through Turkey) and low energy prices making companies reluctant to invest, consistent expressions of political support for expanding the Southern Gas Corridor are important for pushing these projects forward.

The United States and its European allies should work to find investors interested in boosting TANAP’s capacity. While the pipeline’s initial completion (planned for 2018) will represent an important step forward for the Southern Gas Corridor, in its initial phase it will only bring 6 billion cubic meters of gas a year to European markets. To have an appreciable impact on European energy security, TANAP and the Southern Gas Corridor, more broadly, need to be much larger. Political support from the United States and European Union, including coordination with Azerbaijan, Georgia, and Turkey, will be important to finding backers willing to invest in expanding the pipeline, especially with Russia again pushing ahead on Turkish Stream as an alternative.

On its own, Azerbaijan will not be able to produce enough gas to appreciably wean Europe off its dependence on Russia. Doing so would require extending the Southern Gas Corridor across the Caspian Sea, adding gas from Central Asia. Even if the odds of building a proposed Trans-Caspian Gas Pipeline (TCGP) remain slim, the United States can work with the governments of Kazakhstan and Turkmenistan to make their gas available for sale to Europe (whether moved across the Caspian by ship or by pipeline) and to mediate the disputes between Baku and Ashgabat that have held up greater energy cooperation.

• While direct U.S. economic interests are fairly marginal, the United States should continue to engage in assistance efforts to those states that seek to improve governance, reduce corruption, and make their economies more attractive to more diverse sources of foreign investment. This is an essential component of their multivector foreign policies designed to enhance their own sovereignty. Such assistance should, to the extent possible, be coordinated with the European Union, which is more important as a trading partner and source of investment for the region. Along with Brussels, Washington should provide support for Georgia’s efforts to implement its commitments under the DCFTA as a means of deepening Tbilisi’s economic integration with Europe and improving standards of living.

U.S. foreign assistance, especially to Armenia and Azerbaijan, has been comparatively small, while Georgia has received more aid, in part as a result of its greater commitment to democracy and a pro-Western orientation. That said, all three countries have areas where additional U.S. assistance could make a real difference. For Georgia, this could include efforts to comply with the terms of the DCFTA, to raise standards and reorient production away from Russian markets, and to strengthen security. For Armenia, which maintains a not insignificant number of peacekeepers abroad in places like Lebanon (which has a large ethnic Armenian minority), U.S. aid to train and support peacekeeping missions would be a
low-cost, low-risk way of improving Yerevan’s capabilities in the security sector. Additionally, the United States could also help Armenia carry out rule-of-law and economic reforms that would make the country a more attractive place for foreign firms to do business. Azerbaijan would also like more assistance on the capacity-building front, though more with an eye to developing non-energy sectors of the economy. Repealing Section 907 of the FREEDOM Support Act would be at the top of Baku’s wish list, but remains unlikely without a major democratic breakthrough in Azerbaijan or an end to Baku’s closure of its border with Armenia.

As we approach the 25-year anniversary of Armenia, Azerbaijan, and Georgia’s independence, the South Caucasus states and the extended region around them are again in great flux. The conflicts in and around Abkhazia, South Ossetia, and Nagorno-Karabakh are no longer “frozen” in the way they were prior to 2008. Russia has more assertively declared its interest in maintaining a protectorate over the South Caucasus and limiting Western influence in the region. Meanwhile, relations between Russia and Turkey remain uncertain, even as Iran is being cautiously brought in from the cold. Continuing to manage the problems of the South Caucasus, as the United States has been doing since the mid-1990s, is becoming less sustainable as pressures for U.S. retrenchment rise and frustration builds at the lack of democratic progress in Armenia and Azerbaijan. It is time for the United States to take a fresh look at the region and think creatively about how it can advance the cause of security and prosperity in this complex, fragmented region.
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The South Caucasus in a Reconnecting Eurasia

U.S. Policy Interests and Recommendations

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