

# The Policy of 'Regional Cooperation in the South Caucasus'

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## Introduction

'Regional cooperation in the South Caucasus' is a policy, promoted by the Western states, with the United States (US) and the European Union (EU) as major proponents. The essence of the thesis will be unfolded in the Introduction. The latter will be delineated into the following parts: a) it will identify the research context and objective; b) it will resort to defining the key concepts in order to scrutinize their application to the South Caucasus; c) it will disclose how the policy has been implemented; and d) it will expose the structure of the research.

### 1. Research Context and Objective

The Western states have understood the South Caucasus as one region. They have, accordingly, embarked on carrying out numerous initiatives to achieve the perceived panacea of regional cooperation. Seemingly, the belief of the Western states that the policy would be a success has been based on the idea that cooperation is beneficial for the actors involved since it yields gains. The Western states appear to see cooperation among the geographically adjacent small states, namely, Armenia, Azerbaijan and Georgia, as natural. This is because of the example provided by the former Soviet Baltic bloc of states of Lithuania, Latvia and Estonia, institutionalized in the Council of the Baltic Sea States (CBSS).<sup>1</sup> Thus, the Western states have targeted their policy at the South Caucasus by labeling it as a 'region' and, thus, assigning the three states a destiny whereby they should cooperate trilaterally.

The 'South Caucasus' is a political artifact. Although other political constructions have been a success, the thesis will argue that this one might never become one. The reasoning behind this argument is as follows: while the policy of regional cooperation has been generated externally, there have not been any internal attempts on the part of Armenia, Azerbaijan and Georgia to cooperate trilaterally. Consequently, the anticipation that the Western states have towards trilateral cooperation on the part of the three states might be regarded as somewhat immature. Should this supposition be true, the policy would turn out to be a costly waste of time. Therefore, the feasibility of trilateral cooperation in the South Caucasus, encompassing the three states of Armenia, Azerbaijan and Georgia, requires thorough analysis and that is the objective of this study.

### 2. 'Regional Cooperation in the South Caucasus' Conceptually Sliced

Before beginning the analysis, the policy of 'regional cooperation in the South Caucasus' should be accurately understood. The concepts of 'region', 'cooperation' and 'integration', which appear in the literature on the topic, should be defined.

Van Langenhove (2003, p. 6) defines a 'region' 'as something that every area on earth can be, given suitable historical, geographical, economic, cultural and social conditions'. 'Regions', he argues, 'are both a part of physical reality and the result of a process of social construction' (*Ibid.*). It can be deduced from this that a) there are no natural groups of states that are destined to form a region and b) a geographical space cannot enter into the political jargon as a 'region' unless proposed by political actors. With application to the case-study, the political discourse has proposed that the South Caucasus is a region. In this vein, the existence

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<sup>1</sup> These states became full-fledged members of the EU on May 1, 2004.

of a potential bloc of states, which are to form a region, has been taken for granted by the Western states.

The concepts 'cooperation' and 'integration' have been used simultaneously by the South Caucasian experts during the Conference on 'Transcaucasia Today: Perspectives of Regional Integration' (American University of Armenia, 1997) and the Round Table on 'From 'Transcaucasus Dialogue' to Conception of Regional Security' (The South Caucasus Institute of Regional Security, 2002a, The South Caucasus Institute of Regional Security, 2002b). Parallel usage of both terms can be explained by the fact that neither have the Western states been precise about the purpose of the policy nor have Armenia, Azerbaijan and Georgia grasped the essence of it. Such a misunderstanding with regard to the policy is disadvantageous not only for the policy-donors, the Western states, but also for the policy-recipients, the three South Caucasian states. The drawback is replete with problems regarding the capacities of the South Caucasian states and the expectations of the Western states. Therefore, it is necessary to define them.

Edwards (2004, pp. 3-4) proposes that 'cooperation implies reciprocity (not complete equality), a willingness to give as well as take, the voluntary acceptance of limits on all sides rather than one'. Moreover, it entails 'a harmonious patchwork quilt of self-governing, self-provisioning communities interacting with each other through consensus, in order to call higher-level institutions to account' (Edwards, 2004, p. 11). Welsh and Willerton (1997, p. 37) go a step further by stating that cooperation requires 'at the most basic level, the presence of common problems and tasks, which lead to a commonality of expectations and the overlapping of interests on the part of the nation-states'. Above all, cooperation is initiated out of 'concrete needs', which are often linked to the perception of 'crisis' (*Ibid.*). Thus, cooperation is a voluntary act undertaken by the parties for a common purpose.

Haas (1958, p. 16) defines 'integration' as a 'process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectation and political activities to a new centre whose institutions possess or demand jurisdiction over the pre-existing national states'. Lindberg (1963, p. 6) provides a more extensive definition of the concept, identifying it as 'the process whereby nations forgo the desire and ability to conduct foreign and key domestic policies independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to new central organs' and 'the process whereby political actors in several distinct settings are persuaded to shift their expectations and political activities to a new center'. Marks (1997, p. 24-25) defines 'integration' as 'a self-conscious political creativity', which differs from such an institution as a state by its 'diversity, coherence, and sheer number of political actors who have to be mobilized, negotiated with, cajoled, or defeated in the process of power distribution and institutional creation'. 'Interest aggregation and political coordination' serve as mechanisms for institutional engineering (*Ibid.*). According to Wallace (1990, p. 9), integration takes place as 'a creation and maintenance of intense and diversified patterns of interaction'.

In contrast to cooperation, whereby autonomous national stances are brought together for the achievement of a common goal on a bilateral, trilateral or multilateral platform, integration requires collective decision-making, the product of which is usually determined by consensus. Cooperation does not presuppose the transfer of power from the state, while integration obliges supranational institution-building. This difference does not exclude the chance that cooperation may eventually lead to integration; however, the former is a necessary but not sufficient condition for the latter. With reference to the South Caucasus, it is crucial to state that it is untimely to employ the term 'integration'. While the concept 'cooperation' may be germane, 'integration,' as will be demonstrated later, is very unlikely between the South Caucasian states. Chapter One will look at how these concepts apply to the South Caucasus. For now, it is worthwhile to explore how the Western states have attempted to create the South Caucasian panacea.

### 3. The Policy Operationalized through Initiatives

The policy of regional cooperation in the South Caucasus dates back to the end of the 1990s. The benefactors of the policy have been the Western governments, inter-governmental organizations and international non-governmental organizations, while the objects have been both states and civil society in the South Caucasus. These benefactors have carried out the policy through a multiplicity of initiatives (treaties, conventions, programs, projects, workshops, conferences, seminars, etc.), working either on an independent mandate or in partnership with others. The initiatives have promoted 'regional cooperation in the South Caucasus' striving to employ it in Armenia, Azerbaijan and Georgia. They have been extensive in range and scope. Some of the initiatives have been formally binding, while others have been informal; some of them have been short-term, others - relatively long-term; some have focused on one particular domain, while others have covered a number of spheres.

The Table below provides an overview of the Western institutions that have been funding (and implementing) the policy of regional cooperation in the South Caucasus by domain of activity. It reveals the weight that has been put on the policy of 'regional cooperation in the South Caucasus'.

Table 1. Western Funding (and Implementing) Institutions

	GOVERNMENTAL	INTER-GOVERNMENTAL	NON-GOVERNMENTAL
Political	United States Department of State (USDS) Swedish International Development Cooperation Agency (SIDA) British Foreign and Commonwealth Office Government of the Netherlands	UNIFEM (United Nations Development Fund for Women) OSCE (Organization for Security and Cooperation in Europe) Council of Europe (CoE) EU (European Union)	Eurasia Foundation Freidrich Ebert Stiftung London Information Network on Conflicts and State-Building (LINKS) Open Society Institute (OSI) Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) Friedrich Naumann Foundation
Security	USDS British Foreign and Commonwealth Office	UNIFEM CoE EU NATO (North Atlantic Treaty Organization)	Freidrich Ebert Stiftung GTZ Friedrich Naumann Foundation
Economic	USDS Bureau of Educational and Cultural Affairs (BECA)	OSCE World Bank CoE	Freidrich Ebert Stiftung Eurasia Foundation OSI

	USAID UK Department for International Development Canadian International Development Agency (CIDA)	EU	GTZ
Environmental	USDS/BECA USAID SIDA UK Department for International Development Danish International Development Agency (DANIDA) Swiss Agency for Development Agency CIDA Government of the Netherlands Government of Italy	OSCE CoE United Nations Development Program (UNDP) UNEP (United Nations Environment Program)	OSI GTZ
Social	USDS/BECA UK Department for International Development CIDA	CoE UNDP UNEP EU	Eurasia Foundation Freidrich Ebert Stiftung GTZ
Cultural	USDS/BECA UK Department for International Development	UNESCO (United Nations Educational, Scientific and Cultural Organization)	East-West Institute OSI Carnegie Corporation of New York
Technical		World Bank	
Technological	USDS/BECA	UNESCO	
Legal	USDS	CoE EU	GTZ Planning and Management

#### 4. Structure

The thesis will be structured as follows: Chapter One will provide a historical glimpse of the evolution of the South Caucasus as a region. Tracking the concept of 'region', the chapter will a) highlight the 18-19<sup>th</sup> century imperial trends towards 'Transcaucasia', b) detect the emergence of the early 20<sup>th</sup> century regional unification imperatives and c) unveil the outcome of independence on the 'region' by the end of the 20<sup>th</sup> century in the 1) security and 2) economic domains. The intention is to find out whether there are any premises for perceiving the South Caucasus of today as a 'region' and what are the prospects that the policy of the US and the EU, as most active proponents, will succeed in achieving the desired result.

Chapter Two will, firstly, narrate the activities of the US and the EU in the South Caucasus. It will, secondly, investigate the rationale of the policy of 'regional cooperation in the South Caucasus'. The rationale will be disclosed as a bundle of two sets of interests, namely, a) economic interests of the US and the EU and b) their power-related interests. The chapter will help to explore why a) the Western states have treated South Caucasus as a region and b) attempted to solidify this political construction by stimulating trilateral cooperation.

With an aim to make projections about the type (e.g. economy-, security-, identity-based) and form (e.g. bilateral, trilateral, multilateral) of regional cooperation in the South Caucasus, Chapter Three will, firstly, analyze the political visions of Armenia, Azerbaijan and Georgia with respect to trilateral cooperation. Secondly, it will criticize the prognosis made by political scientists on alliance-building models along east-west and north-south axes by appealing to the changing political trends.

##### 1. 'Region' of Transcaucasia (South Caucasus) and 'Cooperation'

Provided the fact that the South Caucasus is looked upon as a 'region', it is useful to understand how the South Caucasus came to be treated as a single geo-political entity. A historical detour will clarify if the term 'region' is applicable to the South Caucasus. The chapter will also trace back the attempts of cooperation and even integration by the three majority ethnic groups in the South Caucasus.

##### 1.1. Eighteenth-Nineteenth Century

The term 'Transcaucasus' or 'Transcaucasia' (meaning current South Caucasus) incorporates the area lying south of the diagonal Caucasus Mountain range on the isthmus between the Black Sea and the Caspian Sea. According to O'Ballance (1997, pp. 27-28), the term did not exist in the 16<sup>th</sup> century when the Persian-Ottoman rivalry started. The enmity between the two Empires resulted in partitioning the area; much of the present-day Georgia fell under Turkish influence, while the terrain to the east fell under Persian influence. In 1639 a large part of today's Armenia was ceded to the Turks. In the 18<sup>th</sup> century Persian expansionism waned and its vassal ethnic groups obtained autonomy.

This was a window of opportunity for the Russian Empire. After Peter the Great's failed Persian expedition in 1722 Catherine the Great purported to fulfill the aspirations of Tzarist Russia to secure trade routes and a war fleet in 1783. Amidst the dispute between the Persian and the Ottoman Empires over Georgian sovereignty, Russia fortified its position in the 'region' by annexing Georgia in 1801. Russian domination extended to Armenia, while by 1805 Russia had entered the Azeri khanates, controlled by the Persian Shahs. The Treaty of Gulistan signed between Persia and Russia in 1813 marked an armistice. By this time, the whole of Georgia and Abkhazia together with eight (out of twenty) mainly northern Azeri khanates, which later formed today's Azerbaijan, were ceded to the Russian Empire.

By conquering Transcaucasia, the Russian Empire pursued a twofold strategy. For the Empire Transcaucasia was an important terrain not only because of trade interests but also because of being on its southern flank: access to the Persian Gulf would be ensured across Transcaucasia. Still in 1816 the Russian Commander Paulucci advised to 'develop commercial

relations' among the ethnic groups of the Caucasus 'so as to generate among them needs that they still do not feel' (Cornell, 2001, p. 31). This tactic of promoting cooperation was intended to ensure success for the Russian strategy.

The Treaty of Turkmenchai, signed in 1828, stood out as a document whereby the Transcaucasian Republics approximately with the same geographical shape as the South Caucasus of today came under Russian control. The Russian conquest meant assertion of Russian power to the disadvantage of the Persian and Ottoman Empires, which were already experiencing decline. After acquisition of an advantageous position in the 'region' Russia was faced with two policy-options that could be adopted *vis-à-vis* Transcaucasia, i.e. a) establishing colonial rule over the territory or b) making the 'region' a part of the Empire. The former presupposed that Transcaucasia would not be incorporated outright into the Russian Empire but would remain under its rule. The latter envisaged that the 'region' would obtain a status, equal to other provinces. The choice fell on the first option, demonstrating that 'Russia was not overwhelmingly interested in the South Caucasus', other than strategically (*Ibid.*, pp. 33-34).

The discovery of oil in Transcaucasia in the mid-19<sup>th</sup> century became the primary interest of the not-yet industrialized Russia (O'Ballance, 1997, p. 29). 'A few hundred hand-dug pits' were put into exploitation and in the 1870s private investments were allowed (Kargiannis, 2002, pp. 15-16). The 'region', thus, became a nest where the economic interests of the Empire rested.

Meanwhile, the majority ethnic groups in Transcaucasia, namely, Armenians, Azeris and Georgians, resolved to take charge of their own fate. They attempted to achieve integration. The Transcaucasian Commissariat, created as an executive body by the Armenian Dashnakcutyun Party, Azeri Musavat Party and the Georgian Mensheviks in November 1917, aimed at withering away the Ottoman threat and ascertaining independence from the Russian Empire. The Commissariat dissolved in February 1918. The multiparty Seim, the legislative assembly of Transcaucasia, consisting of Dashnaks, Musavatists, Georgian Mensheviks and Socialist Revolutionary Party members, convened its first session on April 9, 1918.<sup>2</sup> It declared the inception of the Transcaucasian Democratic Federative Republic. The primary goal of both the Commissariat and the Seim was independence of Transcaucasia from socialist Russia (Menabde, 1970, p. 51).

The signing of the Brest-Litovsk Treaty by the Bolsheviks and the Ottomans deprived the Transcaucasian people of the provinces of Kars and Ardahan, and the city of Batumi. The Transcaucasian Seim did not recognize the surrender of the territories and declared a war against the Ottomans. Before Transcaucasia would manage to build its governing institutions, the Seim found itself at the brink of dissolution. The Azeri support of the Ottoman occupation of Kars and Ardahan and the Ajarian support of the Ottomans in the battle of Batumi led to disbanding of the Seim on April 22, 1918. The territorial claims of Armenians towards the Armenian-populated Kars and Ardahan aroused tension between the pro-Turkish Azeris and the Armenians. The take-over of Batumi by the Ottomans angered the Abkhazians. As a result, the Seim disintegrated.

The ethnic groups did not renounce their desire to integrate. An independent Federative Republic of Transcaucasia with Tbilisi as its center emerged. However, the territorial issues, which had led to divergence among the three ethnic groups within the Seim, persisted. Surrender of Kars by the Federative Republic of Transcaucasia led to recognition of the latter by the Ottoman Empire. The Empire, additionally, demanded the districts of Akhaltsikhe, Akhalkalaki, Echmiadzin and Alexandropol. An internal struggle burst out among the deputies of the Seim with respect to this demand: the Azeris again clung to their pro-Turkic orientation, the Georgians relied on Germany that could discipline its ally Turkey and the Armenians were pro-Russian.<sup>3</sup> Followed by the Georgians, the Armenians and the Azeris announced their

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<sup>2</sup> The Seim comprised 125 members.

<sup>3</sup> The orientation of the Azeris originated from the fact that they did not have anything to lose from the Ottoman territorial demands. The Georgians feared that the progress of the Turkish army might not stop in Abkhazia but creep into the Georgian territory. The Armenians, fearing to lose their territories as a result of the Ottoman incursions, took the side of the enemy – the Russian Empire.

decision to exit the Transcaucasian Federation and declared their independence in 1918. Immediately, territorial contentions came to the forefront: Azerbaijan demanded the Zakatala district from Georgia, and Armenia - the southern Georgian territories. Another attempt to integrate had failed.

The defeat of the Ottomans in the World War One left Transcaucasia under British rule.<sup>4</sup> Extermination of the counter-revolutionary Menshevik forces in Russia and Georgia was followed by re-annexation of the Transcaucasian territories by Bolshevik Russia. In 1920 Armenia and Azerbaijan and in 1921 Georgia were subjugated to the Kremlin (Cornell, 2001, pp. 140-141). Moscow, still viewing Transcaucasia as a single whole, pursued the goal of generating political, economic and social unity among the nations of the 'region'. On April 14, 1921 Lenin, Chairman of the Council of People's Commissars of the provisional Russian Socialist Federative Soviet Republic (RSFSR), attracted the attention of the communists of Transcaucasia to the presence of energy resources in the Caspian Basin.<sup>5</sup> He called for the creation of a unified national economy for the development of Transcaucasia. It was, obviously, in pursuit of economic interests that Lenin proposed the creation of the Transcaucasian Federation. In the meantime, he underscored the importance of the preservation of the sovereignty of the three states of Georgia, Armenia and Azerbaijan. The decision was codified on November 3, 1921 at the plenum of the Caucasian Bureau of the Central Committee of the Communist Party. It stated that the Caucasian Bureau thought that it was necessary to establish a federal union among the Republics, primarily in the military, economic, financial and foreign policy spheres (Menabde, 1970, pp. 95-96).

In March 1922, a Federal Union of Soviet Socialist Republics of Transcaucasia (FUSSRT) was formed. In the same year, due to the decision taken by Stalin, a People's Commissar, the three South Caucasian Republics, as Autonomous Republics, were joined to the RSFSR.<sup>6</sup>

Despite Lenin's objection, the Central Committee of the Communist Party in Moscow reiterated that Transcaucasia would be a single Transcaucasian Federated Soviet Socialist Republic (TFSSR). It was with the aim to thwart the revival of territorial disputes among Armenians, Azeris and Georgians that Stalin had insisted on engineering the TFSSR. The latter became a constituent subject of the Union of Soviet Socialist Republics (USSR) in December 1922 and, thus, the significance of holding the three states together dissipated. In 1936 the TFSSR dissolved into three Soviet Socialist Republics (SSRs) of Armenia, Azerbaijan and Georgia (Cornell, 2002, pp. 136-145).

It can be concluded that the political artifact, called Transcaucasia, was incepted, firstly, by Tzarist Russia and then by Soviet Russia, both in search of economic and security advantages that the 'region' could offer. The common crisis – imperial advent and perceived danger of losing their ethnic identity and territorial sovereignty, combined with the will to jointly overcome it - became the driving force of cooperation among the three majority ethnic groups in Transcaucasia. Armenians, Azeris and Georgians even undertook attempts to integrate: they managed to create new institutions but did not manage to maintain them because of lacking consensus on the political orientation of Transcaucasia as a whole. This resulted in disintegration of the Transcaucasian Commissariat, Transcaucasian Seim, the FUSSRT and the TFSSR.

Elucidation of these historical developments has helped to understand whether there is ground for the current policy of regional cooperation, promoted by the Western states. The 70-year period of Soviet domination of the 'region' can be omitted from the study because of its irrelevance to the orientations of the independent Armenia, Azerbaijan and Georgia and their visions with respect to regional cooperation. Depicting the security and the economic environment in the 'region' since the collapse of the USSR and searching for premises of trilateral cooperation can help to justify the western policy.

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<sup>4</sup> British troops left Transcaucasia in 1920.

<sup>5</sup> The RSFSR was afterwards transformed into the USSR.

<sup>6</sup> Stalin later became the First Secretary of the Communist Party of the USSR.

## 1.2. Soviet Union and Independence

The geographic shape of the South Caucasus was fixed by Stalin. The 'region' comprises the three states of Armenia, Azerbaijan and Georgia. Armenia occupies an area of 29,800 sq km, Azerbaijan – 86,600 sq km and Georgia – 69,700 sq km. Within Georgia, there are the two autonomous republics of Abkhazia and Ajaria and the autonomous region of the South Ossetia. Azerbaijan has been granted the autonomous region of Nagorno-Karabakh. The regional contour of the South Caucasus has been preserved despite the fact that Abkhazia, South Ossetia and Nagorno-Karabakh have embarked on separatism. Small in terms of its geographical size, the 'region' is surrounded by Russia (bordering on Azerbaijan and Georgia), Iran (sharing borders with Armenia and Azerbaijan) and Turkey (with Armenia and Georgia to its east). Georgia has access to the Black Sea, Armenia is a landlocked country, while Azerbaijan opens up to the Caspian Sea.

### 1.2.1. Regional Security

The security atmosphere in the South Caucasus is unstable. The 'region' is a nest of three decade-long frozen conflicts, which erupted in Nagorno-Karabakh (on the part of the Armenian population), Abkhazia and the South Ossetia (instigated by Abkhazians and South Ossetians, respectively) inside the Georgian SSR. Although by the end of 1991 the three states of Armenia, Azerbaijan and Georgia cheered their independence, by 1988 they had already had to confront the grievances of the ethnic minority groups living in the 'region'. Intending to take advantage of the regime change from communism to democracy, the minorities rebelled, blaming the titular state for social discrimination, political oppression and economic deprivation. As a result, the state- and nation-formation processes in independent Armenia, Azerbaijan and Georgia were accompanied by ethnic clashes and wars. Despite the fact that the conflicts between Abkhazia and Georgia and South Ossetia and Georgia have been hindering the security of the 'region', it is only the Nagorno-Karabakh conflict that has been an intra-regional stumbling-bloc and, has been hampering regional cooperation.

The ethnic claims of the Nagorno-Karabakh Armenians have sprung out of the fact that the mostly Armenian-populated enclave was allotted by Stalin to the Azeri SSR in 1921 (Galstyan, 2001).<sup>7</sup> Deprived of minority rights, Karabakh Armenians constantly appealed to the Armenian authorities and to the Kremlin but, being ignored, resorted to clashes with the Azeris in 1968, 1977 and 1980s (Kaufmann, 2001, p. 54). The issue of Nagorno-Karabakh lured more extensive political attention in late 1987, at the brink of the USSR's collapse, when it flared up as the first political ethnic problem to emerge in the South Caucasus. It was expressed as a popular demand to Moscow to transfer the autonomous region from the Azeri jurisdiction to the Armenian one. Armenians in Armenia and Nagorno-Karabakh subsequently held large demonstrations. By early 1988 Karabakh Armenians filed a petition to Moscow, requesting the latter to allow unification with Armenia. The rejection of this appeal and the restoration of the region to the Azeri jurisdiction by the Kremlin resulted in the intensification of ethnic resistance and the holding of a referendum for independence in 1989. The subsequent pogrom violence by the Azeris in the Azeri cities of Sumgait and Baku was responded to by Armenian raids in the Azeri town of Khojali. With ethnic cleansing taking place both in Azerbaijan and in Armenia, extensive refugee flows commenced between the two countries.

Armed conflict erupted into a full-blown war, in the course of which Azerbaijan was deprived of the whole of Karabakh, as well as adjacent territories. A most strategic military victory on the part of Armenians was the take-over of the Lachin corridor, connecting Armenia with Karabakh. Before the 1994 cease-fire stalled the hostilities, the Armenian troops had penetrated into Azerbaijan proper and occupied 20% of the Azeri territory (Jim & Kim, 2001).

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<sup>7</sup> The population of Nagorno-Karabakh was estimated by the Soviet census of 1990 to comprise 76% Armenian and 23% Azeri inhabitants.



Even though Armenia has officially partaken in the war of Nagorno-Karabakh only through military aid, the independence of the Nagorno-Karabakh, a self-proclaimed republic, has been placed at the top of its foreign policy agenda (Martirosyan, 2003). While Karabakh has established its own institutions identical to those of a state and called for international recognition, Azerbaijan has demanded the return of the breakaway region and occupied territories.

This clash of interests between Armenia and Azerbaijan over the Nagorno-Karabakh enclave has led to deadlock. Numerous attempts, initiated by the United States, France, Russia (acting as co-chairs of the OSCE Minsk mediator-Group together with Sweden, Italy and Turkey), Iran, Kazakhstan, as well as the inter-governmental organizations, such as the OSCE and the UN, have not contributed to the resolution of the conflict. Regaining Karabakh with military force is a threat that constantly ignites in the Azeri governmental rhetoric (Weinstein, 2004). Baku has frequently stated that once the peaceful mechanisms of conflict resolution are acknowledged as inefficient, it would take hard measures (Huseynova, 2004, p. 45). Such a threat is justified by Azerbaijan as a counter-strategy to Armenian 'aggression' against Azerbaijan's territorial integrity and the IDPs who have been driven out of their homes. The official position of the Armenian government has rested on the argument that the secession of the Nagorno-Karabakh fell within the provisions, ingrained in the Soviet Constitution. Furthermore, the so-called 'aggression' has taken place mutually in the framework of ethnic clashes and conventional warfare. Occupation of the Azeri territory has been a by-product of the latter.

Against the background of this tense security atmosphere, referral to cooperation (whether in the security domain or in other fields, primarily, economic) has been in vain and has always brought up the issue of Nagorno-Karabakh. Although the Armenian government has expressed willingness to cooperate with Azerbaijan, the latter has conditioned any form of cooperation by demilitarization and the pullout of Armenian manpower from the Azeri territories. On the whole, the relations between the two states have been 'hampered by the *impasse*' over the Nagorno-Karabakh (Sherwood-Randall, 1998, p. 4). Besides, military spending of both states is being increased (Charlick-Paley, Williams & Olikier, 2003, p. 35; Rusulzade, 2005). The 'no war-no peace' situation has also affected the economic development of Armenia, Azerbaijan and Georgia.

### 1.2.2. Regional Economy

The old Soviet central planning system ensured distribution of goods and services among all the constituent republics, including the Armenian, Azeri and Georgian SSRs. This is how the supply-demand ratio was balanced. Armenia had a strong industrial sector, supplying machine tools, textiles, shoes and manufactured goods to other republics in exchange for raw materials and energy. The bulk of the Azeri industrial capacity was involved in drilling and processing oil and gas commodities. Concomitantly, however, the non-energy sector remained in shatters. The Georgian economy was centered on Black Sea tourism, cultivation of citrus fruits, tea and grapes, mining of manganese and copper and production of wine, metals, machinery, chemicals, and textiles (EastWest Institute, 2003b). Georgia suffered from energy shortages and imported the bulk of its energy needs. Thus, the Soviet regime ensured interaction among the Armenian, Azeri and Georgian SSRs.

After independence the Soviet-style industrial complex turned out to be antiquated and unable to compete in the open market. The agricultural sector also experienced a shock because of abolition of collective ownership and speedy privatization. All the former Soviet states were confronted with the urgency of restructuring their economies on their own and anew.

By resuming the operation of the Metsamor nuclear power plant in October 1995 Armenia became a net energy exporter. In addition, the country focused on export of minerals, nuclear fuel, metals, cut-diamonds and jewelry, as well as textiles and shoes produced from imported materials (Ministry of Trade and Economic Development of the Republic of Armenia & UNDP, 2003). Since independence Armenia's major economic partner in the 'region' has been

Georgia; the amount exported to Georgia has accounted for 1.5% of the total export and import - 2.6% of the total as of 2003. Trade turnover between the two countries has been expanding (International Trade Center, 2003a).<sup>8</sup> As far as technical cooperation is concerned, the completion of the construction of the road between Sadakhlo (on the Georgian-Armenian border) and Marneuli (in Georgia) is supposed to bolster trade in the future (Central Intelligence Agency, 2004).

The economic relations between Armenia and Azerbaijan have not been equally promising. Because of the Nagorno-Karabakh conflict Azerbaijan has imposed an economic embargo on Armenia. Officially, there is no reciprocity in trade between Armenia and Azerbaijan because of the unresolved status of Nagorno-Karabakh.

Oil production in Azerbaijan was resumed in 1997 after the signing of production-sharing agreements with an extensive number of foreign firms (Karagiannis, 2002, p. 19).<sup>9</sup> It has been hoped that the long-term oilfield development in proportion to the Western interests in the Caspian hydrocarbons (see Chapter Two) could generate the funds needed to spur industrial development. As a result of investments in the energy sector, export of oil and gas, the non-energy sector would also benefit and growth would follow (EastWest Institute, 2003a). Consequently, Azerbaijan's number one export is oil – amounting to 90%, taking the lead in relation to other commodities, such as machinery, cotton, foodstuffs. According to the statistics of 2003, Azerbaijan's oil and gas exports to Georgia comprise about 4.5% of its total export (International Trade Center, 2003b).

Georgia's geographic position with access to the Black Sea and, thus, the West is advantageous. Two of the strategically valuable ports of Batumi and Soukhumi, however, belong to the separatist regions of Abkhazia and Ajaria, respectively. Therefore, Georgia's prospect of economic development is tied to preservation of its sovereignty and territorial integrity. Simultaneously, Tbilisi has always cherished the construction of Baku (Azerbaijan) - Tbilisi (Georgia) - Ceyhan (Turkey) oil and Baku (Azerbaijan) - Tbilisi (Georgia) - Erzurum (Turkey) gas pipelines,<sup>10</sup> which would raise investments in the Georgian economy (Central Intelligence Agency, 2004; Chikava 2001). Internally torn since the collapse of the Soviet Union, Georgia has managed to sustain economic relations both with Armenia and Azerbaijan.

Thus, although bilateral cooperation has been underway in the South Caucasus qua Armenia's cooperation with Georgia in the sphere of economy and Azerbaijan with Georgia in the economic and security fields, there is no formal reciprocity between Armenia and Azerbaijan in either of these spheres. The South Caucasus, has, therefore, been devoid of trilateral cooperation.

Apart from detection of bilateral frameworks of cooperation, due regard should also be given to the multilateral ones. Among these, some IGOs and the trans-regional organizations should be mentioned. The former have helped to foster some of the Western initiatives,

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<sup>8</sup> To specify, the year 2004 surpassed the year 2003 by 51.1% in trade turnover.

<sup>9</sup> The state preserved 80% of the crude oil reserves, while all the share-holders together could take hold of the remaining 20%. This was distributed as follows: State Oil Company of Azerbaijan (SOCAR) possessed a share of 10%, British Petroleum – 17%, American Amoco – 17%, Russian LUKoil – 10%, American Pennzoil – 10%, American UNOCAL – 9.5%, Norwegian Statoil – 8.5%, Turkish Petroleum (TPAO) – 6.8%, American Exxon – 5%, American McDermott – 2.5%, Australian Remco – 2% and Saudi Arabic joint venture Delta-Nimir – 1.7%.

<sup>10</sup> Four billion USD-worth Baku-Ceyhan pipeline, opened in May, 2005, would be carrying up one million barrels of Azeri oil to the world markets per day. Baku-Erzrum gas pipeline, alternatively called South Caucasus Pipeline, would transport at least 20 million cubic meters of natural gas daily once it is put into full operation in 2006.

Today the shares in the Baku-Ceyhan consortium are distributed as follows: British Petroleum – 30.1%, State Oil Company of Azerbaijan (SOCAR) – 25%, American Unocal – 8.9%, Norwegian Statoil – 8.71%, Turkish Petroleum (TPAO) – 6.53%, Italian ENI – 5%, French TotalFinaElf – 5%, Japanese Itochu – 3.4%, American ConocoPhillips – 2.5%, Japanese Inpex – 2.5% and joint venture of Saudi Arabic Delta Hess with American Amerada Hess – 2.36%. The ownership of the Baku-Erzrum gas pipeline is as follows: British Petroleum – 25.5%, Norwegian Statoil – 25.5%, State Oil Company of Azerbaijan (SOCAR) – 10%, French TotalFinaElf – 10%, joint venture of Russian LUKoil with Italian Agip – 10%, Iranian OIEC – 10% and Turkish Petroleum (TPAO) – 9%.

targeted at South Caucasian cooperation, while the latter have been served as alternative frameworks of 'regional cooperation' (see Chapter Three).

### 1.2.3. Multilateral Cooperation

#### 1.2.3.1. IGOs

In the 1990s Armenia, Azerbaijan and Georgia aspired to integrate with the West by eagerly requesting membership in Western IGOs, founded on the principles of democracy and market liberalism. As a result, the three states of the South Caucasus became members of the UN, OSCE, CoE, etc. and financial institutions, such as the World Bank, IMF, etc. The latter have offered opportunities for exchange of views on the part of permanent governmental missions, parliamentary delegations (as in the UN, OSCE and the CoE), local and regional authorities (as in the Council of Europe), as well as various INGOs (international non-governmental organizations). Thus, even if trilateral cooperation has not been taking place, these multilateral platforms have provided opportunities to Armenia, Azerbaijan and Georgia for articulation of their national interests. The trans-regional IGOs have identically stimulated at least indirect dialogue between Armenia and Azerbaijan.

#### 1.2.3.2. Trans-Regional IGOs

##### 1.2.3.2.1. The Commonwealth of Independent States (CIS)<sup>11</sup>

Incepted by the Russian Federation in 1991, the CIS was intended to 'replace' the Soviet Union by encompassing the states of the dismantled USSR. Ironically, the CIS has never set integration as a goal, being created, instead, according to President Putin 'for a smoother divorce' with the formerly Soviet Republics (Kazinyan, 2005). This has given the leeway to the CIS member-states to adapt their orientations. Armenia has opted out for partnership with Belarus, Kazakhstan and Tajikistan, which, in spite of diverging interests in some issue areas, have grouped around Russia. From among the three South Caucasian states Armenia is the only signatory state to the CIS Collective Security Treaty, envisioning cooperation in the security domain. Azerbaijan and Georgia, together with Ukraine, Moldova and Uzbekistan, have, in the meantime, formed another organization, namely, the GUUAM.

##### 1.2.3.2.2. Georgia, Ukraine, (Uzbekistan,) Azerbaijan, Moldova (GU(U)AM)

GUAM was founded by Azerbaijan, Georgia, Moldova and Ukraine in 1997. In 1999 its membership was complemented by Uzbekistan and the acronym GUAM underwent modification, turning into GUUAM. With convergence of national interests in many domains, unlike the pro-Russia CIS group, the GUUAM states have had the intention to institutionalize the organization 'in view of Russia's hostile attitude' (Cornell, 2001, p. 399). Unwilling to see the continuation of the Russian spillover into their internal affairs, the member-states of the organization, have unanimously declared their objective of strengthening state sovereignty. The latter implied their commitment to the peaceful settlement of regional conflicts, instigated in Abkhazia and South Ossetia (Georgia), Nagorno Karabakh (Azerbaijan), Crimea (Ukraine), Transdniestria (Moldova) and Ferghana Valley (Uzbekistan), due to the principle of territorial integrity.

Cooperation among the GUUAM states has ensued coordination of policies in the security and economic realms. The member-states have expressed willingness to cooperate closely with NATO within the framework of the Euro-Atlantic Partnership Council (EAPC) and the Partnership for Peace (PfP). Critical of the CIS peacekeeping mechanism's efficiency, the five states have been determined to fight against international terrorism and extremism separately from the CIS (Berlin Information Center for Transatlantic Community, 1998).

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<sup>11</sup> The membership of the CIS comprises Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The organization was founded in 1991 after the dissolution of the Soviet Union by the decision of the joining states to cooperate in various areas of interest. The institutional bodies of the CIS are the Council of Heads of State, the Council of Heads of Government, the Council of Foreign Ministers, Defense Ministers and Border Troops Commanders, the Inter-Parliamentary Assembly, the Executive Committee and the Interstate Economic Committee of the Economic Union.

On the economic level, Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova committed themselves to establishing a Free Trade Area at the Yalta Summit of July 2003. They have also expressed willingness to reduce their dependence on Russian energy and pipeline infrastructure and look after the security of transport corridors and pipelines on their own. This pledge was encapsulated in the Memorandum of Understanding on the Trade and Transportation Facilitation Project and the Joint Statement of GUUAM and the US (GUUAM, 2003).

Being 'predicated on collaboration' and reminding of the success stories of the Baltic and Scandinavian states, as well as Poland and Ukraine, GUUAM has received the backing of the US (Sherwood-Randall, 1998, p. 4). Washington has regretted Armenia's isolation from the grouping (Ibid.).

#### 1.2.3.2.3. The Black Sea Economic Cooperation (BSEC)<sup>12</sup>

The creation of the BSEC was proposed by Turkey at the Istanbul Summit of 1992. Currently, the organization comprises eleven states (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine) and, in comparison with the CIS and GUUAM, is institutionalized with a permanent international secretariat based in Istanbul. Since its founding the BSEC has highlighted economic cooperation in the Black Sea region as its primary focus. In order to facilitate this, the organization has aimed at developing strong market-institutions and financial systems, communication networks, transport infrastructure, unified energy system and free trade without tariff and non-tariff barriers. Its Charter has also envisioned that environmental, social and security issues should also be allocated adequate attention. However, the BSEC has kept a low profile on the security dimension. In the meantime, economic cooperation has implied the idea of making the Black Sea area a haven of peace and stability.

It has been shown that the collapse of the Soviet Union has burdened all the three independent Republics of Armenia, Azerbaijan and Georgia with security environment that is unstable and economies that had to be built from scratch. Because of the Nagorno-Karabakh issue mutual strain between Armenia and Azerbaijan has persisted, petering out decisions and steps, directed at regional cooperation. Azerbaijan and Georgia have coordinated some military activities under the Western guidance. Armenia and Georgia, as well as Azerbaijan and Georgia have collaborated closely on economic matters.

In addition to bilateral forms of cooperation, multinational IGOs and trans-regional organizations have served as platforms for Armenia, Azerbaijan and Georgia to cooperate multilaterally. Nonetheless, multilateral discourse has neither led to elimination of political discord between Armenia and Azerbaijan and, thus, nor encouraged trilateral cooperation.

## Conclusion

Designed to serve the Armenian, Azeri and Georgian grievances for independence, the various projects of Transcaucasian integration of the early 20<sup>th</sup> century, did not end in particular success. Torn among the neighboring Empires, the three major ethnic groups of the 'region', confronted with crises, did cherish a goal - sustaining their independence. In the meantime, integration was an instrumental undertaking, not based on a common political vision for the future. Therefore, it constantly failed. The Armenia, Azerbaijan and Georgia were annexed by the Russian Empire, which maneuvered with their territorial claims. The dissolution of the Soviet Union brought the latter to the surface in the form of inter-ethnic clashes between the Armenians and the Azeris, as well as the Abkhazians, the South Ossetians, on the one hand,

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<sup>12</sup> The BSEC has a secretariat working under the supervision of the Secretary General – a Minister of Foreign Affairs of a member-state, elected for three years. The Regional Energy Center (Varna, Bulgaria), the International Center for Black Sea Research (Athens, Greece), the Balkan Center for Support for Small and Medium-Sized Business (Bucharest, Romania) and The Black Sea Bank for Trade and Development (Thessaloniki, Greece) have been created to fulfill supra-national tasks.

and the Georgians, on the other. These rivalries generated a hostile atmosphere in the South Caucasus whereby not integration but even trilateral cooperation was missing. While in the beginning of the 20<sup>th</sup> century the Transcaucasian three majority ethnic groups opted for integration, at the end of the 20<sup>th</sup> century cooperation was an 'exotic' product that it had to be exported by the West. Chapter Two will proceed to the core of the thesis. It will deal with the American and European rationale of exporting 'regional cooperation' to the South Caucasus.

## 2. Policy Rationale

This chapter will tease out the rationale of the policy of 'regional cooperation in the South Caucasus'. It will identify a) the activities and b) the two sets of interests, specifically, the economic and the power-related ones, of the US and the EU. By doing so, the research will underscore the reasons that have motivated the US and the EU to implement the policy through the afore-mentioned initiatives. Finally, it will conclude by characterizing the politics behind the 'regional cooperation' policy.

### 2.1. Activities

#### 2.1.1. US

Since the collapse of the USSR the US has become a facilitator of independence and democracy in all the emerging new 15 republics. This commitment has found its material embodiment in the fact that the US has become the largest donor to the countries of the South Caucasus; the superpower provided aid for humanitarian purposes, as well as non-proliferation and disarmament (Baran, 2002, p. 223). At the time when Europe found itself taken aback by the events that accompanied the fall of the Berlin Wall, the United States began introducing the ideas of democracy, human rights, rule of law, security and market liberalism to the countries of the former Soviet Union both unilaterally and multilaterally (Paye & Remacle, 1996; Hill, 2001; Jones, 2001).<sup>13</sup> By doing so, the US injected the above-mentioned ideas in both the political and economic spheres in all the post-Soviet countries, replacing communist totalitarianism and centrally planned economy.

'But it was not until major oil contracts were signed between US oil companies and the governments of Kazakhstan and Azerbaijan in 1993-1994' that the South Caucasus and Central Asia 'began to register on the radar screens of the American public'. Oil and gas extraction represented venues for capital investment for the American multinational corporations (Hill, 2001). Thus, 'the commercial interests of US oil companies in exploiting new energy reserves' gave the American policymakers 'a specific interest to protect' in the South Caucasus and Central Asia (*Ibid.*). Hardly was it a coincidence that the three countries of Armenia, Azerbaijan and Georgia became signatory to the NATO PfP Framework Document in 1994. The security interests seem to have followed the economic ones. By 1996 the American policy towards the region has become more assertive (Sherwood-Randall, 1998, pp. 3-5); the South Caucasus was announced to be 'vital' to the US (Hovsepian, 1999).

In late 1997 the Clinton administration started a campaign for Baku-Ceyhan oil and Baku-Erzrum gas pipelines, which would guarantee transportation of the Caspian (Azeri, Turkmen, Uzbek and Kazakh) energy via a terminal on Turkey's Mediterranean coast to the Western markets (Baku-Ceyhan Campaign, 2005; Valinakis, 1999). It stressed the strategic importance of the pipelines as part of the 'Eurasian Transport Corridor' (Baran, 2002, p. 221). Since then 'regional cooperation in the South Caucasus' became a part of the American ideology that promised development to the states, rehabilitating from the Soviet agony (*Ibid.*)

In Omnibus Appropriations for FY 1999 (P. L. 105-277) the Silk Road Act authorized enhanced US policy and aid for economic development and transport linkages in the South Caucasus and Central Asia (Jim & Kim, 2001). As Hill (2001), however, points out, 'had it not been for the re-discovery of the energy resources of the Caspian Sea' the South Caucasus and Central Asia 'would have likely remained a marginal backwater for crafters of US foreign policy'.

In 2001 the US became resolute with its security mission in the South Caucasus as a 'region' with pending conflicts. House Resolution 2506 for the FY 2002, the Foreign Operations Appropriations Bill of July 2001, established a South Caucasus funding category, 15% of which

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<sup>13</sup> INGOs, such as International Research and Exchanges Board (IREX), American Councils for International Education (ACTR/ACCELS), Civic Education Project (CEP), Project Harmony, World Vision, etc. were founded and funded by the US Department of State Bureau of Educational and Cultural Affairs (USDSBECA) after the collapse of the Soviet Union. With offices in almost all the Soviet countries, they became active propagators of western values and standards.

was allocated to the peace settlement of the Abkhazian and Nagorno-Karabakh conflicts. Within the boundaries of the same Bill, congressional earmarks were provided to Armenia and Georgia (Jim & Kim, 2001).

September 11<sup>th</sup> shed light on the South Caucasus as a potential transit corridor for the Middle Eastern terrorists. The tragic event became a catalyst in motivating the US to allocate aid for combat with the terrorism, drug-smuggling, spread of weapons of mass destruction (WMD), etc., pushing the security matters to a higher level on the American foreign policy agenda. The hegemony has tried to strengthen its operational bases in the South Caucasus in the name of fight against terrorism. In May 2002 the US launched a 64 million USD-worth Train-and-Equip Program, aiming to upgrade Georgia's anti-terrorist and military capabilities (Devdariani & Hanchilova, 2002). The assistance program was meant to seal off Georgia's borders from the Russian southern regions of Chechnya and Daghestan where terrorist networks abounded. The US has also pledged 10 million USD to Azerbaijan. The amount would be spent on strengthening border security, improving the communications infrastructure and training the Azeri naval fleet to protect the oil-rich state's offshore drilling platforms. Pentagon planners also negotiated with Baku about establishing a joint military program and basing their forces in Azerbaijan (AzerNews, 2004).

In the aftermath, Washington's security interests in the South Caucasus gained more impetus. Praising Azerbaijan's and Georgia's participation in the peacekeeping operations in the Balkans, Afghanistan and Iraq, the US welcomed them as active members of the American-led antiterrorist coalition-of-the-willing. The decision taken at the Istanbul Summit in June 2004 was the peak of American security commitment to the South Caucasus (Socor, 2004). It referred to the appointment of the NATO Secretary General's Special Representative and liaison missions for the South Caucasus and Central Asia. At the Summit NATO stated about its 'special focus' on the South Caucasus and welcomed the decision by Azerbaijan, Georgia and Uzbekistan to develop Individual Partnership Action Plans with NATO (Berman, 2004-2005, p. 66; Socor, 2004). Intending to relocate some of its bases in the southeast of Europe, the US must have considered the South Caucasus and Central Asia as proper terrains to host its troops. In light of American incursions in the Middle East, the South Caucasus has become and will be a crucial spot for American security interests.

In a nutshell, the US became involved in the South Caucasus after the oil lobbies began to advocate their interests. The interest in striking economic deals must have also signaled the need for security guarantees. Thus, Washington led its activities in the 'region' on two parallel fronts simultaneously. The economic interests prevailed over the security ones, although the latter obtained greater importance after September 11<sup>th</sup>.

### 2.1.2. EU

The EU has become engaged in the territory of the former Soviet Union, including the South Caucasus primarily by providing economic assistance and humanitarian aid. Having launched the grant-financed TACIS (Technical Assistance to the CIS) program in 1991, the EU has been monitoring the transition process in the former Soviet states. The aim of the program has been to enhance market economy and democracy through technical assistance, information exchange and education. Under the auspices of TACIS the EU generated the TRACECA (Transport Corridor Europe-Caucasus-Asia) program.<sup>14</sup> The latter has been put into operation in 1993 in order to facilitate trade and economic relations by dealing with the development of transportation infrastructure (road, rail and telecommunications routes, as well as imposition of a single tariff system for railroad and sea transport through legal harmonization) and creation of a web thereof (Iyigungor, 2003, p. 81; Darbinian, 2005; Mangasarian, 2003).<sup>15</sup>

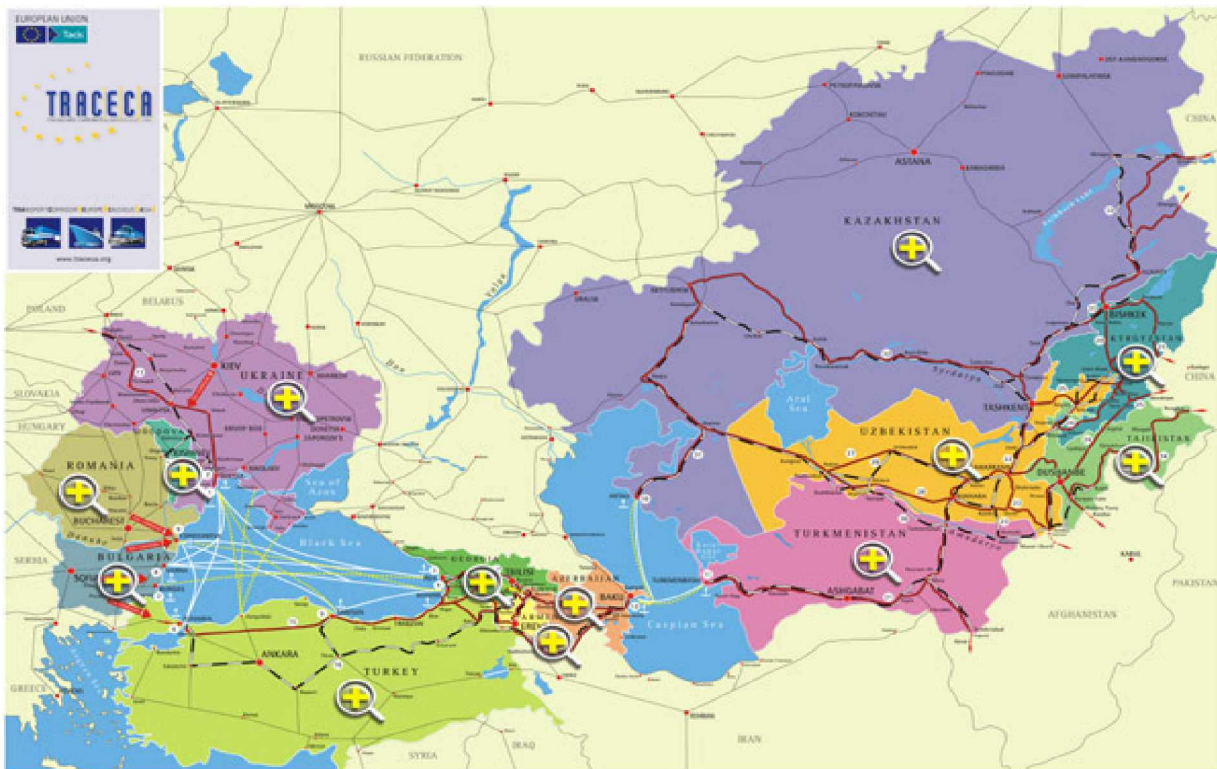
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<sup>14</sup> TACIS covers Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

<sup>15</sup> The beneficiaries of TRACECA are Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkey, Uzbekistan, Ukraine, and Turkmenistan. Within the boundaries of the program it is

Otherwise, the EU has been capacity-wise incapable and ideology-wise reluctant to undertake security activities outside its borders after the immediate downfall of the Soviet Union. Map 1 gives an idea about the scope of TRACECA; the South Caucasus is the geographical nucleus of the program.

Map 1. TRACECA (TRACECA, 2005)



Taking a wait-and-see approach, the EU has refrained from getting engaged in the vicinity of Russia. Rather, it interacted with the South Caucasian states indirectly via the bilateral activities of its member-states. In June 1999, however, the EU embarked on a common policy towards the 'region' by offering the Partnership and Cooperation Agreements to Armenia, Azerbaijan and Georgia.

As the Caspian energy resources appeared lucrative to the EU, many European companies indulged themselves into the region. To back up the private sector, in July 1999 the EU initiated the INOGATE (Inter-State Oil and Gas Europe) program.<sup>16</sup> Map 3 shows what the INOGATE is.

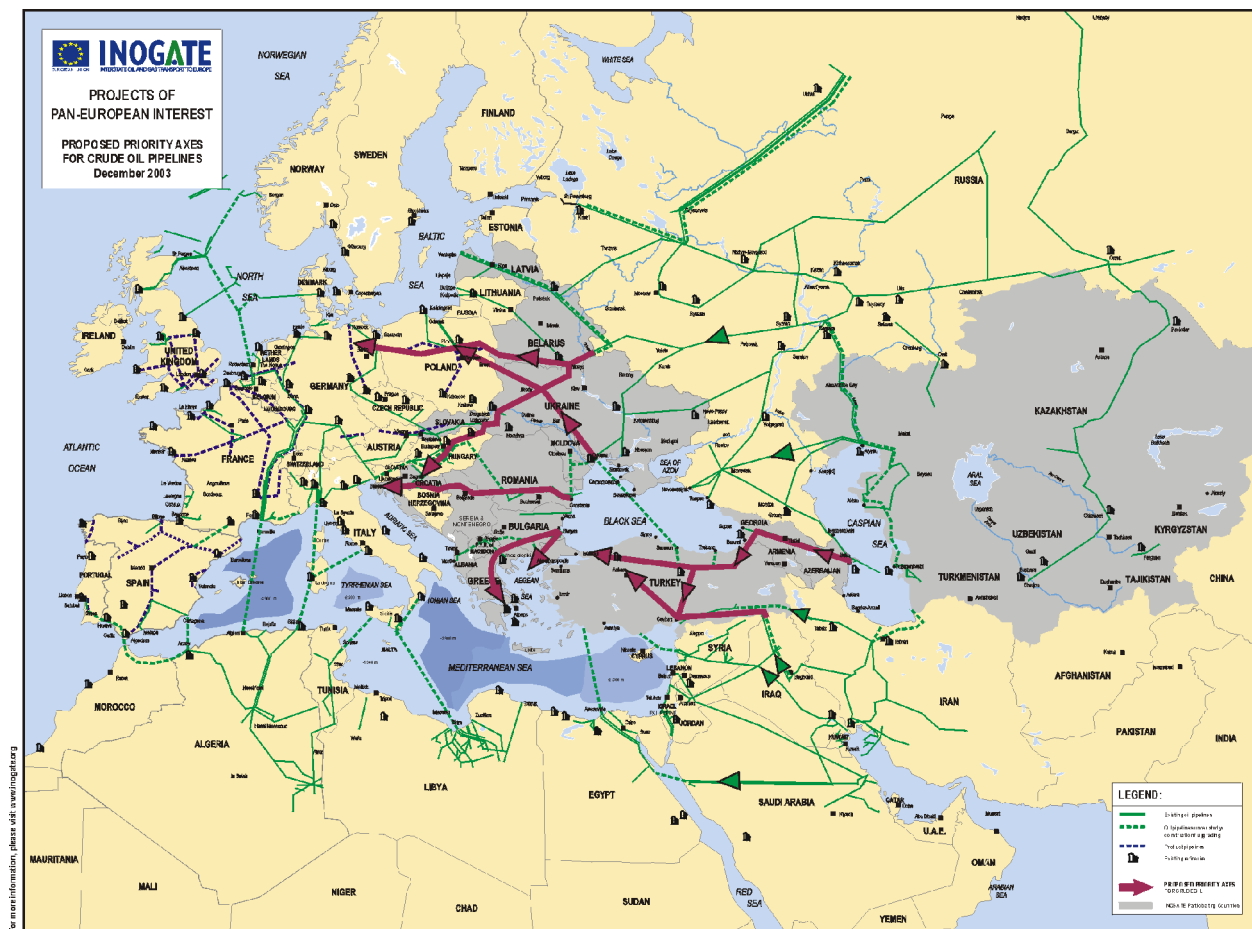
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foreseen that Yerevan, Tbilisi and Baku highways would be restored, cargo terminals at Karmir and Gyumri (Armenia) would be built, while the post facilities at Poti and Batumi (Georgia) would be upgraded and railways from Kars (Turkey) - Gyumri (Armenia) - Yerevan (Armenia) - Nakhichevan (Azerbaijan) - Baku (Azerbaijan) and Kars (Turkey) - Akhalkalaki (Georgia) - Tbilisi (Georgia) - Baku (Azerbaijan) would be functioning.

<sup>16</sup> Twenty-one countries (Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Georgia, Greece, Kazakhstan, Kyrgyzstan, Latvia, Macedonia, Moldova, Romania, Slovakia, Tajikistan, Turkey, Turkmenistan, Uzbekistan, Ukraine and the FRY) acceded to INOGATE Umbrella Agreement.



Map 3. INOGATE (INOGATE, 2003)



Through the latter the EU has pursued a two-fold purpose: a) attracting private investors and financial institutions into the Caspian area and b) improving the security of Europe's energy supply by promoting a network of oil and gas pipeline systems and facilitating shipment of hydrocarbons to the West (Iyigunor, 2003, p. 81).

Simultaneously, formulating the European Security and Defense Policy (ESDP) in 1999, the EU decided to apply it, among others (the Balkans, the Mediterranean and Africa), to the territory of the former Soviet Union. It desired to 'export stability' with an attendant goal of increasing its prestige not only as an economic but also as a political player (Gorbatova, 2001). In 2001 the EU reiterated this determination. The EU's major interest, notably, steering the policy of 'regional cooperation in the South Caucasus', has been stated as follows:

'There is perhaps as much oil under the Caspian Sea as under the North Sea and a huge amount of gas there and in Central Asia - good news for energy-hungry Europe. The Caucasian corridor is the fastest way from southern Europe to central Asia and beyond; peace would help realize the potential for transporting goods and energy from the Caspian region and central Asia. Peace in the Caucasus would also boost the security of the whole continent. This is why the EU is involved in helping all three governments to develop their economies and promote regional cooperation' (Patten & Lindh, 2001)

In 2002 the European Commission started adopting Country Strategy Papers and Indicative Papers for Armenia, Azerbaijan and Georgia, which would be in force until 2006. It, additionally, adopted the TACIS Regional Cooperation Strategy Paper and Indicative Program, which would apply to the countries of Eastern Europe (meaning South Caucasus) and Central

Asia. The reason behind them is that 'it is of the interest to the EU to support programs that reflect current and future needs of the countries in Eastern Europe and Central Asia and encourage them to cooperate among themselves in addressing these needs' (European Commission, 2001). In the same year the European Council adopted the New Neighborhood Initiative. The incentive to develop more effective policies towards the states on the Union's borders that did not have an immediate prospect of acceding to the EU resulted in adoption of a White Paper published by the European Commission in March 2003. The latter called for the inclusion of the South Caucasian states in the Wider Europe program in order to facilitate their closer economic and political integration with the EU. In July 2003 the EU made a decision to include the South Caucasus together with its door-to-door neighbors in 'A Secure Europe in a Better World' (European Council, 2003). After the appointment of a Special Representative for the South Caucasus in July 2003 the EU has been employing a 'range of foreign policy tools', including regional (among the three states) and intra-regional (including also the separatist-enclaves of Nagorno-Karabakh, Abkhazia and South Ossetia) cooperation (Lynch, 2004, p. 125; European Parliament, 2004). The major task of the appointee has been the creation of a political profile for the EU in the 'region'.

The findings show that the strategy of the EU with respect to the region has changed in the course of time. The exploration of the copious Caspian energy resources and the interest in their transposition to the West have driven the EU's security interests in the South Caucasus.

As analyzed, the US and the EU have been interested in buttressing regional cooperation in the South Caucasus. Three stages can be identified in the American and European activities/interests towards the 'region'. The findings have shown that the policy came to the fore after the oil lobbies became vocal. Originally, the policy of regional cooperation in the South Caucasus must have implied energy politics. The US and the EU, however, realized that the economic dimension is susceptible to security volatilities especially in such a region as the South Caucasus. In this way, security and economic interests have become intertwined. As a result, energy politics has been turned into security-backed energy politics. The third stage began when the South Caucasus became a security hot-spot after the announced war on terror, substantiated by the American involvement in the Middle East. The EU likewise decided to strengthen its security role in the 'region' beyond its involvement under the auspices of the OSCE and the UN (Baran, 2003; European Parliament, 2002). From 2001 onwards the economic and security interests of the two Western actors have become equal priorities.

## 2.2. Economic Interests of the US and the EU

To make a more specific demarcation, the interests of the US and the EU in the South Caucasus relate, firstly, to the oil and gas reservoirs in the Caspian Basin and, secondly, expansion of trade. The former can be explained by the way that the benefit calculations of the US and the EU are conditioned by the 'availability of inexpensive' and uninterrupted import of oil (Compert, Green & Larrabee, 1999). This factor is crucial since in the next two decades both the US and the EU are expected to have a rise in demand of oil by 14% and 35%, respectively ("Facing Responsibility", 2002). In light of this forecast, 'the importance of additional reserves is obvious' (Hovsepyan, 1999).

In the meantime, two thirds of the world's proven oil reserves lies beyond the disposal of the US and the EU: fifty seven percent of them are concentrated in the volatile Persian Gulf and the Caspian is the third largest oil reservoir, ranking after Russia (US Energy Information Administration, 2004a, b). The oil and gas reserves 'along the shores of Azerbaijan, Kazakhstan, Turkmenistan, Russia and Iran... are equal to those of Kuwait and represent two-thirds of Saudi Arabia's energy riches' (Onay, 1999, pp. 10-11). Natural gas deposits of the Caspian are estimated at 7.9 trillion cubic meters, which places the area third in order after the Middle East and Russia (*Ibid.*). Consequently, the hydrocarbon resources of the Caspian Sea could augment and diversify the supply to both the US and the EU. Should there be supply cut-

offs in the volatile Middle East, the US and the EU would be less vulnerable, provided their access to the Caspian storages (Jim & Kim, 2001).

The need for energy has also determined the necessity for building routes, stretching from Azerbaijan and other oil- and gas-rich countries around the Caspian Basin to the West. In December 1994 the Azerbaijan International Operating Company (AIOC) insisted that investments and the pace of oil drilling would accelerate if pipelines were built. Meanwhile, the AIOC proposed to speed up the transmission of 'early oil' instead of waiting until more reliable routes would be laid down for greater volumes of 'main oil'. The 'early oil' transportation has taken place via two pipelines, namely, the existing Baku (Azerbaijan) – Grozny - Tikhoretzk - Novorossiysk (Russia) and a new Baku (Azerbaijan) - Supsa (Georgia).<sup>17</sup> The aforementioned Baku-Ceyhan and Baku-Erzurum oil and gas pipelines, respectively, would secure 'main oil' transfer. The map below shows the pipeline routes, passing across the South Caucasus.

Map 2. Pipelines (Caspian Development and Export, 2005)



While oil and gas would be drilled in Azerbaijan, the necessity of transit arteries across the terrain of Armenia and Georgia must have urged the US and the EU to call for cooperation among the three states of the South Caucasus. Having invested immense sums in the pipeline, the Western governments had to ensure that the project would not become adverse to the expectations of the Western private investors. Thus, the vested interest in access to energy must have hinted at the policy of 'regional cooperation in the South Caucasus'. Should this not

<sup>17</sup> The Baku-Novorossiysk pipeline is also called Northern Route Export Pipeline (NREP), while the Baku-Supsa pipeline is referred to as the Western Route Export Pipeline.

be the case, the long-laid transmission lines of Baku-Ceyhan, as well as Baku-Novorossiysk and Baku-Supsa might not be utilized. Moreover, should the ethnic tension between the Azeris and Armenians persevere, the normal functioning of the completed Baku-Ceyhan could become a target for attack.

Of less but tangible significance for both the US and the EU is the interest in trade inside and across the South Caucasus. The two Western actors must have strived for the revival of the formerly economically vital link between the east and the West – the Silk Road. Map 1 demonstrated that the South Caucasus is at the heart of EU's TRASECA, which has been referred to as Silk Route or Silk Road. The American Silk Road Act was named after the trade route. The restoration of the latter, however, presupposes cooperation among the three states of the South Caucasus.

In the meantime, as investigated in Chapter One, although there is trade exchange between Azerbaijan and Georgia and Armenia and Georgia, the potential capacity is far from being fully exploited. For example, only 8-10 trucks a day cross the Georgian-Azeri border of which 60% is transit traffic and 'on average one truck a day passes the Georgian-Armenian border at Sadakhlo' (The World Bank, 2000, p. 5). The port of Baku remains underutilized by 87% and the cargo terminal at Armenia's Zvartnotz airport is operating at below 20% capacity. In their turn, technical obstacles also encumber transfer of commodities intra-regionally. The freight costs that top up on goods are extremely high. For example, moving a container from Baku to Poti by road costs about 2,200 dollars (*Ibid.*). All these costs will fall once trilateral cooperation is embarked upon.

In addition, the South Caucasian markets are 'individually too small to be attractive to investors since both the infrastructure and the legal systems end at national borders' (Friedemann, 2001, p. 174). Trilateral regional cooperation, as borne by the Western initiatives, would create new opportunities for business and foster competition, restoring the fragile economies of the South Caucasus. In this way, the small economy of the South Caucasus with a market of 15 million consumers and a domestic product of 10 billion USD, would become self-sustainable and less reliant on Western subsidies and loans (Ministry of Trade and Economic Development of the Republic of Armenia and UNDP, 2003). A free trade zone in the 'region' with a customs union towards third countries would pave the path to prosperity (Friedemann, 2001, p. 175). Economic growth would open up new venues for the Western businesses (Jim & Kim 2001). For the EU, much like the US, the South Caucasus - a geographical corridor, connecting Europe and Asia – is worthy to invest in (European Parliament, 2002). Last but not least, internal regional prosperity could spill beyond the 'region', raising the living standards in the neighbouring Central Asia and the Persian Gulf.

Ultimately, by the policy of 'regional cooperation' the US and the EU have sought to ensure smooth inflow of capital, expecting outflow of revenues. It can be deduced, that the US and the EU have fervently pushed the policy of 'regional cooperation in the South Caucasus', putting an onus on Armenia, Azerbaijan and Georgia to establish trilateral ties to secure success for their interest-based expeditions.

### 2.3. Power-Related Interests of the US and the EU

Identification of the activities and the economic and security interests of the US and the EU was necessary in order to understand why these actors have played a pivotal role in the South Caucasian cooperation. Yet, the plethora of initiatives that the Western actors fund in the 'region' in order to drum up cooperation also requires understanding of their power-related interests. In fact, the US and the EU have openly articulated the advantages that would spring from cooperation among Armenia, Azerbaijan and Georgia (see previous subchapter). Less eloquent have they been with respect to their power aspirations. This chapter will take the challenge of eliciting the latter. Power-politics, alongside the economy and security-driven politics, could have triggered the policy of 'regional cooperation in the South Caucasus'.

This step is necessary since the following question still remains unanswered: why have the US and the EU desired that cooperation in the South Caucasus be trilateral? Indeed, why have they wished that cooperation of Azerbaijan and Georgia be complemented by Armenia? After all, the economy- and security-related interests of the US and the EU must have been satisfied by the cooperation between Baku and Tbilisi since the inception of the construction of the Baku-Ceyhan and the Baku-Erzrum pipelines and their commitment to NATO, respectively. What is, then, the value that Yerevan's joining would add to their cooperation?

These questions can be answered only if the South Caucasus is looked upon not through the narrow regional prism but a wider one projecting its immediate neighborhood. In other words, a good account of the policy rationale cannot be assured if the scope of research is not magnified to include the three states, surrounding the South Caucasus region, namely Russia, Iran and Turkey. The importance of this endeavor can be attributed to that fact that regional cooperation and the orientations of Armenia, Azerbaijan and Georgia depend on the policies of the three big neighbors of the South Caucasus.

### 2.3.1. Contemplation over Regional Dynamics in the Literature

The power-related interests of the US and the EU, as a driving force behind the policy of 'regional cooperation in the South Caucasus', are assumed to have been tied to the prognosis about future trends in the 'region'. Radvanyi (2003, p. 25) has singled out two parallel axes of alliance-building: a) the east-west axis, namely, Azerbaijan-Georgia-Turkey-US and b) north-south axis, notably, Russia-Armenia-Iran. According to Onay (1999, p. 11), the agreement for the Baku-Ceyhan pipeline 'solidified a strategic alliance among what might be called the 'Baku-Ceyhan bloc' (Azerbaijan, Georgia, Turkey and the United States) and fuel the creation of an opposing bloc consisting of Russia, Iran and Armenia'.

The link between this prognosis and the 'regional cooperation' policy is supposedly the fear on the part of the US and the EU that the region would split into contending blocs unless measures were taken to prevent appearance of a new constellation of powers. The latter could inhibit the economic and security interests of the US and the EU. To put it bluntly, trilateral regional cooperation must have been promoted by Washington and Brussels to preclude the emergence of a potential geopolitical entity, comprising Russia, Iran and Armenia.

### 2.3.2. American Power-Related Interests

Wary of Russia, the largest successor of the Soviet Union, and Iran, a dictatorial and clerical Muslim state, the US has been aware that the way these states 'think and act strategically in Central Asia and the Caucasus will influence geopolitical alignments in the region' (Kolt, 2000). In the meantime, the 'allegiances' of the South Caucasus directly appealed to the American economic and security interests (Oliker, 2003).

Therefore, the US has sought to buttress the independence and sovereignty of Armenia, Azerbaijan and Georgia by supporting them against external powers that might have the intention of dominating them. Last but not least, the utmost interest of the superpower has been to promote cooperation in the South Caucasus so that it would become a trio, which no outside state would be able to dominate to the detriment of American interests. In line with this interest, the US has pertained to containment of Russia, isolation of Iran and endorsement of secular-Muslim NATO-ally Turkey. Meanwhile, the policies of Russia, Iran and Turkey in the South Caucasus should be scrutinized in their own right.

#### 2.3.2.1. Containing Russia

##### 2.3.2.1.1. Security Field

Although the Russia of today is security-wise weak in comparison to its predecessor – the Soviet Union, it still remains a mighty actor with which both the US and the EU have to handle world issues. In relative sense, Russia remains strong for the formerly peripheral Soviet states. Meanwhile, Russia is still viewed by the West as 'an authoritarian state with neo-imperial'

tendencies (Kuchins, 2005). This characterization has given ground to surmise that Russia is a potentially dangerous player for the South Caucasus and Central Asia over the next 10-15 years because it could seek foreign adventurism (Oliker, 2003). 'Putin's sweeping policymaking and the concomitant rise of an increasingly assertive' foreign policy in the Kremlin has been another warning factor (Berman, 2004-2005, p. 59). Because of this Washington has treated Moscow with vigilance.

Russia's attitude towards the South Caucasus has been shaped in the dynamism of decline of the Russian leading position in the 'region'. According to the 'Foreign Policy Concept of the Russian Federation', adopted by Foreign Minister Kozyrev at the end of 1992, the South Caucasus formed a part of Russia's 'near abroad'. Kozyrev did not advise Russia to abandon the territories that for a long time were under its dominion (Shloma, 2001). Given the historical affinity of Russia with the South Caucasus, it is not surprising that the Kremlin has been very unwilling to retreat from the 'region'. The economic and security importance of the South Caucasus has hardly faded away for Russia. Both under the presidency of Yeltsin and Putin, Moscow has viewed the foreign activities in its backyard as a 'form of hostile encroachment' on the part of the Western states (Oliker, 2003, pp. 195-196). Having been deprived of a superpower status, Russia has developed a complex of inferiority. To compensate the latter Moscow has tried to preserve its formerly Soviet affiliates and 'demonstrate to the world that the United States and its allies have not weakened Russia entirely' (*Ibid.*). Besides positing itself firmly against the adversaries, Russia has clung to every tiny chance of staying in the South Caucasus, one of its 'top strategic priorities' (Onay, 1999, p. 4).

This determinism has run contrary to the American interests. The Russian overtures in the region have been seen by the US as attempts to keep the formerly Soviet countries in its 'orbit' (Jim & Kim, 2001). The Russian presence in the South Caucasus has presented a barrier to the American involvement. Therefore, the US has aimed at bringing the three Caucasian states under the NATO *niche*, as the 'sole efficient mechanism' for containing Russia (Shloma, 2001). During his visit to Central Asia NATO's Secretary General de Hoop Scheffer noted that 'NATO does not compete with Russia' and that the states hosting Russian military bases are free 'to choose their partners' (Socor, 2004). 'Choice', in the meantime, implies the aforementioned incompatibility between NATO and Russia. Evidently, the two cannot coexist on the same terrain.

#### 2.3.2.1.2. Economic Domain

Surpassing Saudi Arabia in February 2002 as the world's leading oil producer, Russia's energy has been translated into increased governmental control over energy. The Yukos affair, which burst out as a controversial issue between the West and Russia, testifies to the fact. The trial of Khodorkovsky, head of the Russian second largest oil company, who was accused of tax evasion, corruption, fraud and underground planning for seizure of political power in Russia, led to adoption of more restrictive legislation with respect to Russian natural wealth. More precisely, the legislation prohibited private control over strategically important resources of the country and, hence, hindered the expansion of Western 'foothold' in Russia.

While the US has sought access to the fossil-fuel resources of the Caspian seabed, this wish has been pursued by deferral of other states with similar interests, primarily Russia and Iran. This has been done by 'breaking Russia's Soviet-bequeathed monopoly over oil and gas transport routes', 'encouraging pipelines that do not transverse Russia', opposing construction of pipelines that pass across Iran and assisting ally Turkey (Jim & Kim, 2001). Although by 1999 there were more than seven oil and four natural gas pipeline-route designs available to the scrutiny of the petroleum consortia and banks, the chosen routes were supposedly targeted at minimizing the domination of Russia and, to a lesser extent, that of Iran. Truly, the US has favored the more expensive energy projects to the less costly alternatives, passing through southern Russia and/or northern Iran (Karagiannis, 2002, p. 30). In this way the US policy has strayed away from utilization of multiple routes by giving preference to the projects of Baku-Ceyhan and Baku-Erzrum (Onay, 1999, p. 11). The schemes of the projects have aimed at easing the dependence of the supply-states on the contending Russian and Iranian oil

and gas (Makovsky, 2001, p. 527). In addition, Washington has craved for reducing the position of Russia as the second largest world oil and first largest gas exporter. Shipping the Caspian resources via Turkey would limit the investment opportunities in the Russian energy infrastructure (Valinakis, 1999). It would also to prevent the 'revenue-draining monopoly' (i.e. purchase of fossil fuel and sale at high prices) of Moscow (Socor, 2003). In this manner, the Caspian states (Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan) would be economically freed from the Russian control (*Ibid.*).

### 2.3.2.1.3. Russian Security and Economic Moves in the South Caucasus

Russia has not seen any alternatives to economic and security development of the South Caucasus, rather than under the aegis of the CIS (Mansourov, 2002). The Kremlin has forced both Azerbaijan and Georgia to become members of the organization (Onay, 1999, pp. 5-6). By doing so, Moscow has, in its turn, attempted to derail the emergence of Azerbaijan-Georgia-Turkey axis (Karagiannis, 2002, p. 112).

Russia has been interfering in the regional conflicts of the South Caucasus by retaining the status quo inertia, and, thus, distrust among the conflicting parties, i.e. Azerbaijan and Georgia, on the one hand, and the separatist states on the other (Danilov, 1996). Russian military assistance has helped Karabakh to attain self-rule and Abkhazia to maintain its *de facto* independence (Karagiannis, 2002, p. 40; Jim & Kim, 2001). In South Ossetia Russia has gained the Ossetian loyalty. In 2000 Moscow has imposed a visa regime on Georgia without extending it to Abkhazia and South Ossetia (Lynch, 2004, pp. 80-81). To consolidate its position in the economic realm, Russia has sealed economic deals with the separatist states. Consequently, Gazprom has been supplying energy and other consumption goods to Abkhazia at basement rates, while private investors have already made purchases in the Abkhaz tourist sector. By these acts Russia has sustained the division lines among the states and their ethnic groups.

As far as the states proper are concerned, Russia has kept its military contingents on the Armenian and Georgian soil. In November 2003 Moscow has sealed an accord with Yerevan on military cooperation. Due to the latter, the Kremlin would modernize the Armenian military forces and expand the training programs (Berman, 2004-2005). The importance of the Russian military presence for Armenia is that Russia is the guarantor of peace on the borderline with Turkey. Given the fact Turkey has been perceived as presenting a formidable threat to the Armenian independence and ethnicity for over a century, stationing of Russian troops has been approved by Yerevan. The Russian garrison has also guarded the Armenian border with the Azeri region of Nakhichevan.<sup>18</sup> The idea has been to bar Turkey's direct access to Azerbaijan (Trenin, 2001, p. 191). Russia has also been guarding Armenia's frontiers with Iran.

Having a stake in the Georgian demand on the Russian government to move out its troops from Georgia, the US allotted 10 million USD for the closure of the Russian bases. In addition, the Security Assistance Act of 2000 earmarked military aid for Georgia (Jim & Kim, 2001). The security interest of the US was manifested by the staging of American troops in Georgia under the pretext of fight against the Chechen insurgents in the Pankisi Gorge on the Russian border (Baran, 2002, p. 224).<sup>19</sup> Meanwhile, Russia has received a refusal from Tbilisi for mobilizing its own forces inside Georgia. When the same call by the Georgian authorities was repeated in 2004 with respect to the two remaining bases in Batumi and Akhalkalaki, the US proposed to finance the pullout of the Russian troops (The Russia Journal, 2004; Embassy of Georgia to the USA, Canada and Mexico, 2005).<sup>20</sup>

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<sup>18</sup> The historical fate of Nakhichevan is identical to that of Nagorno-Karabakh. Allocated by Stalin to the Azeri SSR, Nakhichevan has entirely lost its Armenian population as a result of the war.

<sup>19</sup> Populated with Kistins, Georgian citizens of Chechen origin, the Pankisi Gorge has been believed by the Yeltsin administration to be a place where Chechen rebels and terrorists were harbored since the second war in Chechnya.

<sup>20</sup> Russia had closed down its bases in Gudauta (Abkhazia) and Vaziani in 2001. However, the Russian government delayed the withdrawal of its bases from Batumi and Akhalkalaki, justifying it by inability to cover the expenses of the pull-out, amounting approximately to 150 million USD.

Apart from maneuvering in the security domain, forging a new 'liberal empire', Russia has been projecting power in the South Caucasus 'in new ways' (Giragosian, 2005). Although President Putin has stated that Russia does not oppose American actions in the region, Russia has tried to establish control over energy sector, taking grip of electricity export. As a result of the debt-for-equity deal, signed between Russia and Armenia in 2002 in order to facilitate the pay-off of the Armenian financial liabilities to Moscow, Russian Gazprom currently controls 45% and Itera – 10% of the Armenian energy market. In addition, Russia has taken over the management of Armenia's sole nuclear power plant at Metsamor (*Ibid.*).

Witnessing the incessant Russian moves in the South Caucasus, the US must have decided to foreclose historical reiteration of divergence in orientations of Armenia, Azerbaijan and Georgia in a strategically vital geopolitical corridor with the policy of regional cooperation. Recruiting Azerbaijan and Georgia into the Euro-Atlantic security system, and leaving Armenia in the hands of Moscow, could reinforce the dividing lines and leave the region in instability. While the US has tolerated the exclusion of Armenia, a condition set by Azerbaijan, from participation in the pipeline networks, it has been calling for the inclusion of Armenia in the regional energy project (Jim & Kim, 2001). In fact, this condition has helped to accelerate the construction of the Baku-Ceyhan pipeline before resolution of territorial disputes between Armenia and Azerbaijan, it has exacerbated the dependence of Yerevan on Moscow. To repeal the mistake before the prognosis on alliance-building could come true the US seems to have found a remedy - 'policy of regional cooperation in the South Caucasus'.

#### 2.3.2.2. Isolating Iran

Iran's geographical location makes it vital for the US.<sup>21</sup> Iran is a Caspian littoral state, the second largest oil producer of the Organization for Petroleum Exporting Countries (OPEC) and second largest possessor of gas reserves in the world with 9% of the world's oil and 15% of the gas reserves being situated on the Iranian territory. Rich in energy resources, Iran represents a potential route for the transfer of energy resources of the Persian Gulf and Caspian Sea. Nonetheless, the US government has refused the idea of transporting oil and gas through Iran, in contrast to the interests of Western business companies.

Washington has been critical of the political regime in Tehran: President George W. Bush has defined the state as belonging to the 'axis of evil' and Condoleezza Rice, the US Secretary of State, - as an 'outpost of tyranny'. The belief of the US that Iran is developing nuclear weapons might, therefore, make it a destination for another American intervention, succeeding Afghanistan and Iraq. Vice President Cheney's statement about 'destruction of the Iranian nuclear potential by sheer strength of arms' was a clear disapproval of Tehran's in compliance with the Western demands to abandon its pursuit of nuclear technology (Kuchins, 2005). After all, as an authoritarian state, Iran is in the list of the least desirable ones to possess such a capacity.

Although faced with sanctions by the US as a rogue state since November 1979, Iran has, nonetheless, traded with third states, including Armenia, Azerbaijan and Georgia. Armenia has been Iran's most trustworthy partner; cooperation between the two states has been taking place in the technical and economic spheres. Purchases of natural gas and electricity from Iran have been launched by an agreement signed for a 20-year period in 1995. Being imposed a blockade by Azerbaijan and Turkey, the Iranian outlet, in addition to the Georgian one, ensures Armenia's connection with the world. The agreement signed in May 2004 solidified the grounds for the construction of a gas pipeline that would become operational before January 2007, transmitting 1.1 billion cubic meters of gas annually. The pipeline, amounting to 70-90

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<sup>21</sup> Iran borders on Turkey, Iraq in the west and Afghanistan and Pakistan in the east, the Persian Gulf in the south and Armenia, Azerbaijan and Turkmenistan in the north with access to the Caspian Sea.



billion USD, would solve Armenia's energy shortage problem. It is noteworthy that Russia has shown interest in the construction of the route via Gazprom (Martirosyan, 2004). The construction of the Iran-Armenia gas pipeline is taking place to the disdain of the US (Iranian Trade, 2000).

Iran's relationship with Georgia has been promising in the economic, notably, energy sphere. Over the past decade Tehran has signed agreements with Tbilisi for elimination of double taxation, encouraging investment, air, surface and sea transportation, and customs and trade cooperation. The volume of trade transactions between the two countries has been going up steadily (Islamic Republic News Agency, 2004).

In the field of economy, Tehran has diverged with Baku over the exploitation of the energy resources of the Caspian seabed and the emergence of Azerbaijan as an oil-rich supplier (Cornell, 2001, pp. 326-327).<sup>22</sup> Seeing Azerbaijan as an emerging pro-Western competitor Iran has disfavored Baku's special relationship with Ankara. These issues have precluded constructive cooperation between Baku and Tehran.

Although security-wise Iran has not made any bold steps towards the South Caucasus, economy-wise it has not abandoned trade with Armenia and Georgia. Having a large Azeri minority and being loath to encounter secessionist moves within its borders, Iran has preserved a neutral position with respect to the Nagorno-Karabakh conflict. Having little incentive to intermingle in the volatile South Caucasus, Iran has readily succumbed to other powers by relinquishing its security interests in the region but not its economic interests. The latter, however, have been sufficient to cause concern in the US. After all, Tehran would more quickly yield to the demands of Washington, DC if third countries refused entering into economic deals with it. Otherwise, the embargo imposed by the US might never punish Iran. It can, therefore, be concluded that the American policy of 'regional cooperation in the South Caucasus' has also been targeted at diversion of Armenia and Georgia from cooperation with Iran.

### 2.3.2.3. Thwarting the Russia-Iran Axis

The 'multifaceted' Iranian-Russian cooperation as a blend of security and economic domains has irritated the US (Onay, 1999, p. 7). With the help of Russian technology Tehran has spared both time and energy in developing a ballistic missile program, which is the largest in the Middle East (*Ibid.*). Identically, with the help of Russian technology and expertise, Iran has been constructing a nuclear power plant in Bushehr. Russia and Iran have also traded in strategic equipment. By 2007 Russia is planning to sell to Iran weaponry and nuclear reactor technology, worth three-billion USD. While Tehran has been pushed to the corner by the US, Russia has often acted as Iran's mouthpiece in the West.

Eventually, ensuring protection from Russian-Iranian cooperation has been a top point on the American security agenda. Wary of the policies of the two players, the US has been eager to terminate the proliferation of weapons of mass destruction and prevent or at least limit their access to the Caspian energy deposits. Moreover, the superpower has feared that Iran, despite insisting that its nuclear program is strictly meant for civilian purposes, might produce highly enriched uranium in order to develop nuclear weapons. In the meantime, the US has probably believed that preclusion of both Moscow and Tehran necessitates the

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<sup>22</sup> Iran and Russia earlier diverged with Azerbaijan over the division of the Caspian seabed. Russia and Iran pressured Azerbaijan for joint exploitation of the hydrocarbon resources in mid-1990s. They claimed that there should be an international regime created in the Caspian where all the resources would be jointly exploited by the Caspian states. They stated that the Caspian is not a sea since it has no natural outlet to other seas but rather is a giant lake where the maritime law does not apply. Azerbaijan and Kazakhstan together with Turkmenistan stated that the Caspian is an enclosed sea and therefore, could be divided into national sectors and economic zones. Thereby the resources could be unilaterally exploited. Eventually, Russia submitted to the Azeri claims, realizing that Azerbaijan had received the 'blessing' of the west. Not to miss the opportunities that its companies could grab for extraction of the Azeri energy resources, Moscow settled the quarrel with Baku. Iran, however, remained loyal to its argument.

existence of a robust Western-oriented South Caucasian trio because the latter could become a buffer zone between them.

#### 2.3.2.4. Endorsing Turkey

Historically, containment of the Soviet Union was the kernel of American strategic interest in Turkey. Following the Truman Doctrine, Turkey (in tandem with Greece) was recruited into NATO to stall the threat of communist invasion into Europe from behind the Iron Curtain. Supplying Turkey with arms and financial aid, Washington was using Turkey as a 'proxy' on the Southern edge of NATO (Larrabee & Lesser, 2003, p. 165). The relationship between the US and Turkey, termed by President Clinton as 'strategic partnership', has attained greater significance in the post-Cold War period. During the presidency of Bush the September 11 terrorist attacks and the war in Iraq underscored the importance of Turkey.

As far as Ankara's aspirations in the South Caucasus are concerned, immediately after the collapse of the Soviet Union Turkey took the chance of spreading the ideas of pan-Turkism in the South Caucasus and Central Asia. This strategy, one of the junctures of Russian-Turkish confrontation, was buttressed by the US. Another juncture was the Nagorno-Karabakh issue: when Ankara threatened to use force against Armenia Russia promised to counteract by usage of nuclear weapons against Turkey. Due to the statement made by the Chief of the Headquarters of Turkish troops in 1994, Russia was 'the only state posing a military threat to Turkey' (Safrastryan, 2005).

##### 2.3.2.4.1. Turkey and the South Caucasian States

Taking advantage of its proximity to the South Caucasus, Turkey has promoted its interests in the Caspian energy and transportation routes. By supporting the territorial integrity of Azerbaijan and Georgia, Ankara has received Baku's and Tbilisi's gratitude. While Turkey's relationship with Azerbaijan is based on ethnic kin, religious and cultural ties, relations with Christian Georgia have become stronger. For Azerbaijan Turkey has been a secular Western-oriented Islamic model to follow, while for Georgia it has been a 'harbor' away from Russia.

Although Turkey has not made any formal security commitments to Azerbaijan and Georgia, it has supervised the participation of the two South Caucasian states, as a part of the Turkish contingent, in the NATO-led peacekeeping in Kosovo. Being against the Russian presence on the Georgian-Turkish border, Turkey has provided military assistance to Georgia, including training, refurbishment of bases and equipment (Cornell, 2001, p. 309). In the economic sphere, Turkey is the biggest trade partner of Azerbaijan and Georgia. Whereas the bulk of inter-state trade consists of energy, Baku, Tbilisi and Ankara have looked to the financial benefits to be exerted from the oil and gas transfers to the West. All three have, henceforth, been interested in minimizing the control of Russia over the South Caucasus.

Lack of diplomatic ties between Turkey and Armenia relate, first and foremost, to the issue Armenian 'genocide'. Both the Armenian government and the Diaspora have accused Turkey, as an heir of the Ottoman Empire, of planning and instigating an ethnic cleansing policy against its Armenian population in 1915. A second issue is the blockade of Armenia by Turkey, justified by the latter as a punishment of the former for continuous 'occupation' of the Azeri territory as a result of the Nagorno-Karabakh war. Both of these issues have generated political friction between Turkey and Armenia.

While Turkey has been deterred from the South Caucasus by Russia's clear opposition (Oliker, 2003, p. 188), the US has trusted Turkey, as a NATO ally and an aspirant for EU membership, in instilling the Western values of democracy and market economy in the South Caucasus. Against the background of Ankara's approval of the 'regional cooperation' policy, Washington must have presumed that alignment of the South Caucasian states with Turkey would bring Armenia, Azerbaijan and Georgia closer to the West.

Therefore, Washington has been a guru in convincing Turkey and Armenia to reconcile with history once and for all so as to commence diplomatic relations (Socor, 2003). Evidently,

the superpower has realized that as long as the orientations of Armenia, Azerbaijan and Georgia diverge, as the historical record suggests, trilateral regional cooperation among the three would hardly take place. The US has conceived that the enmity in the Armenian-Turkish relations is an historical remnant that should be repealed. As will be discussed later, Brussels has been in agreement with Washington over the issue. Despite this harmony, the power-related interests of the EU have differed from those of the US.

### 2.3.3. European Power-Related Interests

Although both the US and the EU have been eager to foster regional cooperation in the South Caucasus and had similar economic and security interests with respect to the region, there is a variation in their power-related interests. To demonstrate the differences, the European power-related interests will be evaluated along the same lines as the American ones.

As far as containment of Russia is concerned, the EU and its member-states have not shared the power-related interests of the US. This can be deduced from the fact that the UK, France and Germany see Russia as a major security guarantor in the South Caucasus since they do not want to interfere in the unstable 'region', should a conflict erupt. Moreover, pursuing economic interests, they would not like to enrage Moscow. The reason behind the EU's reluctance to participate in the regional conflict-resolution efforts as a mediator could have been the same. Moreover, France, a steering country of the EU, has not had difficulty with the presence of the Russian bases in the region because the latter have represented an obstacle to American overstretching in the world security affairs. The UK and Germany have reasoned their tolerance of Russia's influence in the South Caucasus by referral to economic matters. Having made investments in Russia, the British government has diverged from the American interest of neutralizing Russia. Germany has seen Russia as an essential part of the emerging energy and transport networks (Muradian, 2004, p. 57). As a supra-national player, the EU has supported the idea of multiple pipeline routes (Gorgiladze, 1998, p. 19). A reason for the difference in the power-related interests towards the goal of regional cooperation in the South Caucasus between the US and the EU has been the following fact: export of Russian natural gas accounts for one third of the EU's gas needs and almost 90% of those of the new ten EU member-states (Giragosian, 2005).

The other aspect for comparison is whether the EU has employed the same policy that the US has with regards to Iran, namely, isolating the Middle Eastern dictatorship. Here again, the answer is negative. Instead, engaging Iran has been considered by the EU as the best way to moderate the Middle Eastern state. During 1992-1997 the EU has held a 'critical dialogue' with Iran with consent of the Clinton Administration, while in 2002 Iran and the EU have formally negotiated on a trade pact that would lower tariffs or increase quotas for Iranian exports to the EU (Katzman, 2003). Thus, by promoting the policy of 'regional cooperation' the EU has not had the incentive of drifting Iran away from the South Caucasus. On the contrary, they have expressed an interest in the gas-pipeline stretching from Iran to Armenia.

The green light given to Turkey for the start of accession talks, have heralded a new future shape for the EU. The preliminary 'yes' given to Turkey in December 2004 and the supposed start of the accession negotiations in October 2005 mean that the borders of the Union would overlap with those of the South Caucasian states (specifically, Armenia and Georgia). It could, therefore, be surmised that the EU would be favoring Turkey over Russian and Iran as much as the US and would be interested in the affiliation of the South Caucasus with Turkey to an equal extent, if not more. Nevertheless, this has not been the case.

A question, then, arises: if the centerpiece of the European policy of 'regional cooperation in the South Caucasus' has not been containment of Russia, isolation of Iran and endorsement of Turkey, what has it then been? The EU must have foreseen that repudiation of political actors, like Russia and Iran, is ripe with undesirable ramifications not only for the South Caucasus and the West, but also for the world politics. The European Parliament (2002) has advised that the Common Strategy towards the South Caucasus be focused on 'prevention of conflicts and the promotion of a framework for security and cooperation both between the three countries of the

region and between them and neighboring countries'. The European Parliament has called on 'the neighboring countries Russia, Iran and Turkey to contribute constructively to the peaceful development of the South Caucasus region' (*Ibid.*). It has urged Russia 'to fulfill commitments to downgrade its military presence' and requested Turkey 'to take appropriate steps' for reconciliation with Armenia by termination of the blockade and recognition of the Armenian genocide (*Ibid.*). In short, from the perspective of the EU, not only the three South Caucasian states but also the surrounding neighboring ones should be recruited in the regional cooperation. In this way, the latter would be sustainable.

This difference between the power-related interests of the US, on the one hand, and the EU, on the other hand, towards Russia, Iran and Turkey, is at first sight bizarre. It could be explained by the lack of superpower mentality and military capacity on the part of the EU as of yet. Moreover, historically being a positive-sum player used to outcomes whereby every stakeholder gains in the absolute sense, the EU has nurtured an inclusive approach. In contrast, the US, a zero-sum player, used to win-or-lose outcomes has pertained to an exclusive approach.

The EU has considered emancipation of the South Caucasian states from the domination of Russia, Iran or Turkey as possible only if Armenia, Azerbaijan and Georgia cooperated with all the three big states. Indeed, given the regional geopolitics and the world dynamics, hardly would a closed South Caucasian triangle with only one exit to the west endure long. As such, the three states would also remain vulnerable and prone to both security and economic disturbances. Evidently, the EU has been trying to avoid such problems in a period when the EU has pledged to expand further eastwards and even incorporate Turkey. With the accession of Romania and Bulgaria in 2007 the EU would gain a littoral border with the Black Sea and, thus, Georgia. When Turkey becomes a candidate for EU membership, the Union would have a land border with Armenia, Azerbaijan (notably, Nakhichevan region) and Georgia. Therefore, creation of a friendly outer circle for the South Caucasian states would have positive economic and security repercussions for their neighbor-to-be EU. This would foster peace and open the gates in the region for investments.

## Conclusion

By fostering the policy of 'regional cooperation in the South Caucasus' the US and the EU have pursued power-related interests. The latter have differed in approach but not in goal: for both of the Western actors the policy of 'regional cooperation' has been a political plot to pursue their power-related interests.

Individually, for the US these interests have been deterrence of Russia and isolation of Iran. Endorsing Turkey, Washington has aimed at minimizing Russian influence on the three states of the 'region' and pushing Iran back into its own orbit by creating a South Caucasian trio, oriented towards the West. This is how the US has paved the path for pursuing its economic and security interests. The European power-related interests behind the policy of 'regional cooperation in the South Caucasus' have hinged on the fact that Armenia, Azerbaijan and Georgia as a unity should cooperate with the neighboring Russia, Iran and Turkey. This would assist in realizing their economic and security interests as well.

Disclosure of the policy rationale through the American and European interests, although valuable in its own right, has manifested how the policy of 'regional cooperation' is conceived externally. Accomplishment of this task cannot, however, fully help to foresee whether the policy could be a success in the 21<sup>st</sup> century. This can be done only if the focus of the study shifts towards the internal regional dynamics.

### 3. 'Regional Cooperation in the South Caucasus' in Perspective

This chapter will, firstly, analyze the intricacies of the political visions of Armenia, Azerbaijan and Georgia in order to find out whether the three regional states are willing to cooperate. In the meantime, it will pay attention to their orientations so as to see whether there is convergence in purpose or whether adherence to the policy of 'regional cooperation' is a mere instrument towards individual state interests. Clarifying this will help to avoid historical repetition and help the US and the EU assess the policy of 'regional cooperation in the South Caucasus'. Secondly, it will return to the prognosis made by Radvanyi (2003, p. 25) and Onay (1999, p. 11) regarding the emergence of potential alliances in order to test their validity against the background of the new trans-regional trends.

#### 3.1. Political Visions of Armenia, Azerbaijan and Georgia

As defined in the Introduction, 'cooperation' *per se* implies voluntary commitment and not inducement. It is, thus, an internally-generated phenomenon. Chapter One traced back the cooperation undertakings by Armenians, Azeris and Georgians in the beginning of the 20<sup>th</sup> century, which were short-lived because of divergence in their orientations. Since the collapse of the Soviet Union only bilateral and multilateral forms of cooperation have been embarked on. Despite the fact that trilateral cooperation has not been materialized so far, this chapter will aim at finding out whether there could be potential convergence among Armenia, Azerbaijan and Georgia. Moreover, it will scrutinize their political visions so as to understand what form and type this convergence could possibly take.

##### 3.1.1. Georgia

Still in 1992-1993 President Shevardnadze promoted the idea of 'Common Caucasian House', which was later transformed into the 'Peaceful Caucasus Process' initiative. The latter carried the message of integrating the South Caucasus into the EU. To attain this goal, in compliance with the policy of the Western states, Georgia has been eager to found regional institutions that would serve the idea of cooperation and integration (Libaridian, 1997). The Georgian government has also stated its readiness for the creation of an economic cooperation circle, encompassing the states of the South Caucasus. It has claimed that revitalization of commercial ties could lead to conflict resolution.

Tbilisi has desired that the issues concerning the South Caucasus 'feature high on the US-EU Transatlantic agenda' (Aptsiauri, 2001, pp. 61-62). President Saakashvili has called on the EU to take action in the 'region' as a peace guarantor (Embassy of Georgia to the USA, Canada and Mexico, 2005). It has even requested the EU to mediate the Georgian-Russian relations and engage Russia in this process (European Policy Centre, 2005). Meanwhile, Georgia is unequivocally oriented towards the EU and the West.

In the meantime, Georgia has left it to the EU to determine 'a concrete model of multilateral cooperation in the South Caucasus' (Aptsiauri, 2001, pp. 61-62). After all, the primary goal of Tbilisi has been accession to NATO and EU (Gorgiladze, 1998, p. 19). If trilateral cooperation is the price for that, Georgia would take it on board, be it in regional (the South Caucasus), trans-regional (GUUAM, BSEC) or multilateral (UN, OSCE, WTO, NATO and EU) forms (Aptsiauri, 2001, pp. 59-65). Tbilisi has not even ruled out other alternatives, for example, cooperation among states around the Black Sea, as 'a positive and viable option' (*Ibid.*). It has also requested the EU to judge the South Caucasian states on an individual basis (European Policy Centre, 2005). In fact, Georgia's 'separate historical and socio-political identity from Armenia and Azerbaijan', distinguishes it from its South Caucasian neighbors (EastWest Institute, 2004). Furthermore, Georgia has claimed that it has been moving 'towards Europe faster than others' (LINKS, 2004).

In short, 'regional cooperation' is an instrument that Georgia has been utilizing in order to become a full-fledged part of the West. Trilateral cooperation has not been viewed by Tbilisi

as a goal. Meanwhile, on its way towards joining the European family of nations, Tbilisi is aware that support of Georgia by the US could be helpful in light of the precedent set by Turkey (European Policy Centre, 2005). Georgia cannot but recognize the Russian weight as well, realizing that for a small state, like itself, it is better to be a partner than a rival of its northern neighbor.

### 3.1.2. Armenia

Being a party to blame for lack of economic and security cooperation intra-regionally, Yerevan has not unequivocally stated its readiness for cooperating. Instead, it has opted for a moderate policy. Armenia has proposed that regional cooperation should start from the formulation and accomplishment of concrete doable tasks (Libaridian, 1997). Karapetian (2001, p. 219), Head of Defense Cooperation Division of the Ministry of Foreign Affairs, formulated the position of Yerevan as follows: 'Armenia... believes that close cooperation in the region, whether political, economic or security-based, will help to bring lasting stability and prosperity based on a sense of solid and shared emergent values'. According to Shougarian (Ministry of Foreign Affairs, Republic of Armenia, 2003b), Deputy Minister for Foreign Affairs of the Republic of Armenia, economic cooperation could be 'a vehicle to resolve persisting frictions'. The latter can take place within the existing inter-governmental organizations (Ministry of Foreign Affairs, Republic of Armenia, 2003a). Meanwhile, Armenia sees it initially evolving within the BSEC and the CIS.

Pronouncing about the determination of Armenia to stay devoted to its policy of 'complementarity' with Russia, Iran and US, Karapetian (2001) went on to advise the neighboring Azerbaijan and Georgia to adopt the same policy. While the relations with Turkey are strained, Armenia has pertained to the belief that any model of regional cooperation should not neglect the interests of Russia, Iran, Turkey and the US. According to the results of the public survey conducted in August 2004, 49% of respondent-citizens and 52% of experts think that Armenia, Azerbaijan and Georgia should 'be in a united system' of security, while 88% of experts (the figure is higher than that for the US and Russia, Iran or Turkey) think that Armenia should develop security relations with the EU (ACNIS, 2004).

As far as integration with the West is concerned, Foreign Minister Oskanian has stated that accession to the EU is Armenia's policy goal. In 2003 President Kocharyan confirmed that the 2015 could be the proper timing for seeking membership (Halpin, 2004, p. 2). Still, the statements made by the Armenian politicians have been more reserved than those of the Georgians.

Yerevan still has to 'win' the Karabakh game and, therefore, it needs extensive Russian support. Utter allegiance to the EU and NATO could anger Moscow, which could shift its favoritism from Armenia to Azerbaijan. At the same time, orientation both towards the EU and the US has been in Armenia's interest. In sum, Armenia has tried to combine its orientations towards Russia in the north, Iran in the South and the EU and the US in the west.

### 3.1.3. Azerbaijan

The position of Baku is mostly negative towards trilateral regional cooperation. Azerbaijan has expressed its reluctance to collaborate with Armenia until the Karabakh conflict is resolved and all the occupied territories are returned to the Azeri jurisdiction (Libaridian, 1997). Baku has feared that partnership with Yerevan could be taken as a legitimization of Karabakh's *de facto* sovereignty, as it stands.

According to the statement made by Mammadyarov (Ministry of Foreign Affairs, Republic of Azerbaijan, 2004b), Minister of Foreign Affairs of Azerbaijan, by occupying the Azeri territories 'Armenia not only isolates itself from the countries of the region and from the regional cooperation but also impedes the integration of the entire region to Europe'. According to Azimov, Azeri Deputy Minister of Foreign Affairs, lack of sustainable peace in the South Caucasus has been blocking cooperation (NATO Parliamentary Assembly, 2004).

The statement of Azeri MP Molladze underscored that 'Euro-Atlantic integration' is the track Azerbaijan will opt for, given the views of the major political parties and more than 75%

of the population. At the same time, Azerbaijan's national security is 'multidimensional', its interests are 'multifaceted' and 'can be defined by urgency' (LINKS, 2004). This means that Baku prefers to have leeway for forming *ad hoc* allegiances with the neighboring Russia, Iran and Turkey, as well as the Western states simultaneously. Secondly, Azerbaijan does not rule out cooperation within the framework of the CIS, BSEC, Economic Cooperation Organization (ECO),<sup>23</sup> GUUAM, as well as Summits among the Turkic states (Mammadyarov, 2005; Efendiev, 2001, p. 217).<sup>24</sup> Having Azerbaijan's top priority is striking profitable energy deals.

During the visit of Heikki Talvitie, EU Special Representative, to Baku, President Aliyev declared that the strategic choice of Azerbaijan falls on integration with the European structures (Huseynova, 2004, p. 41). Taking into account Azerbaijan's special relationship with Turkey as a passage and leader towards the EU and the West, Baku, like Tbilisi is oriented westward.

Ironically, Azerbaijan, together with the other two South Caucasian states, does not quit making projections about the possibility of becoming a regional leader (Ministry of Foreign Affairs, Republic of Azerbaijan, 2004c). Azerbaijan hopes that the petroleum depositories and revenues could make it the hub of the South Caucasus. The Georgian strategy is aimed at trying to stand out as a relatively more pro-democratic and European-rooted country than Armenia and Azerbaijan. A most feasible scenario for Armenia's leadership in the region has been the proposition to develop high-tech industry (Akhinov, 2004, p. 33). Thus, there is an 'unhealthy competition' among the three states (Sammut, 2004).

It can be deduced that Armenia, Azerbaijan and Georgia are at different levels of accepting trilateral regional cooperation. Tbilisi is a guru, Yerevan is an obedient follower, and Baku is resistant. Meanwhile, for all the three South Caucasian actors trilateral cooperation is not a purpose that they are eager to pursue. This is obvious from fact that there is no common conception or doctrine for future development of the region (Shugaryan, 2002, p. 12). Therefore, it might be difficult for the US and the EU to encourage trilateral cooperation in the South Caucasus. Meanwhile, all the three, although having differing but not incompatible orientations, are keen on trans-regional cooperation. The common denominator in their orientations is their ambition 'to integrate into Europe' (Demuryan, 2005).

### 3.2. Recent Trends

Chapter Two identified the power-related interests of the US, proposing that they were intertwined with the fear reflected in the prognosis on alliance-building across the east-west and the north-south axes. The recent trends, however, have been discrediting the prognosis since the assumed alliances of Azerbaijan-Georgia-Turkey-US and Russia-Armenia-Iran have neither become actualized nor may they ever be. Analysis of these trends will manifest that there are no facts to account for emergence of the above-mentioned alliances. Hereby the prognosis will be refuted.

#### 3.2.1. Alliances?

Exclusion of Russia, Iran and Armenia from the so-called east-west axis (comprising the Western main-oil and gas pipelines) could have given ground for assumptions regarding alliance-building, as stated in the previous sub-chapter. Onay (1999, p. 11) and Radvanyi (2003, p. 25) assumed that the three excluded states would form a confrontation bloc and, thus, a possible north-south axis. The latter would, in its turn, exclude the affiliates of the

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<sup>23</sup> The ECO comprises Turkey, Iran, Pakistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and Afghanistan.

<sup>24</sup> The following states identify themselves as Turkic: Turkey, Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan.

east-west axis, namely, Azerbaijan, Georgia and Turkey. Today, however, the political developments around the South Caucasus are discrediting these assumptions.

A major step forward is the Azeri-Iranian relationship. While the relations between the two states could not be described as congenial, the recent trends portray a different picture. The visits of the Azeri President Heydar Aliyev to Tehran in 2002 and President Khatami to Baku in 2004 were sealed by memoranda of understanding on expansion of bilateral cooperation in the areas of transport, customs, energy, agriculture, environment, trade, security and culture (Ismailov & Polukhov, 2004; Islamic Republic News Agency, 2005).<sup>25</sup> Above all, the agreement on the north-south project, signed in St. Petersburg, pursues the aim of building arteries joining Russia and Iran across the territory of Azerbaijan. In contrast, Armenia's membership in the north-south artery transport is still under consideration of Moscow and Tehran. This testifies to the fact that the assumption about Armenia's unconditional affiliation with Russia and Iran against Azerbaijan-Georgia-Turkey-US alliance has been proved to be groundless.

To proceed to the relations between Baku and Moscow, it should be stated that the relations between Azerbaijan and Yeltsin's Russia were antagonistic because of the Kremlin's shift of support to Armenians during the Karabakh war. As a result, Azerbaijan has refused to allow the stationing of Russian troops on its soil and has continually rebuffed the Russian efforts to rebuild bilateral relations. President Putin's ascent to power has been accompanied by gradual improvement in the Azeri-Russian relationship. In 2001 President Aliyev and Putin signed the Declaration of Baku, which aimed at raising the level of economic cooperation. In September 2002 the agreement signed between Azerbaijan and Russia settled the dispute over the legal status of the Caspian. There has also been a *rapprochement* in the security field. Russia was given the right to lease the Azeri Gabala radar station for ten years. Above all, a military cooperation agreement signed in February 2003 covered arms sales, modernization of military equipment and training of the Azeri military by the Russian experts. Meanwhile, since his ascent to power in October 2003 President Ilham Aliyev has tried to gain Russian favoritism, understanding that the resolution of the Karabakh conflict would be easier with an impartial Russia than a Russia, favoring the rival Armenia (Torbakov, 2004).

The improvement of the Russian-Georgian economic relations also strikes the eye and runs against the mentioned prognosis. The Russian-Georgian relations have taken a positive turn: Tbilisi has granted Moscow shares in the strategically vital state gas and electricity companies.<sup>26</sup> The Georgian government has given concessions to the Russian capital in order to stimulate investments in the country. The long-cherished Russian dream, frustrated by the US, namely, building a pipeline running from Novorossiysk to Supsa, which could be linked to Baku-Ceyhan, was put to discussion at a Russian-Georgian economic forum. A major issue of discussion at the forum was the restoration of the Moscow-Tbilisi railway route, passing through Abkhazia. Another issue was the opening of the railway ferry Caucasus-Poti, sealed by an Agreement between the Ministry of Economic Development of Georgia and the Ministry of Transport of the Russian Federation in March 2005. The ferry would increase the volumes of cargo transportation not only on behalf of Russia and Georgia but also Armenia (Margaryan, 2005).

The prognosis has also proven to be invalid in the security sphere. The resignation of the pro-Russian Ajarian leader Abashidze in May 2004 was met by neutrality in the Kremlin; Defense Minister of the Russian Federation took part in mediating 'calm restoration of Tbilisi's

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<sup>25</sup> To specify, in the technical sphere projects, such as linking railways systems, rebuilding the highway between Baku and Astara, building three bridges on the Iranian-Azeri border, opening of an additional border control between Daghestan and Azerbaijan, are foreseen. In addition, Azerbaijan and Iran have committed themselves to imposing uniform tolls on goods and services at the customs. In the economic sphere they have primarily aimed at the following projects: electricity transmission from Iran to Nakhichevan, building a power plant in Azerbaijan, as well as joint exploitation, refining, transfer and sale of oil and gas via routes running across the Caspian shore.

<sup>26</sup> Due to the agreement signed in August 2002 the Itera obtained control of the Georgian Tbilgazi company, regional gas distributor in Tbilisi. In its turn, the agreement signed in May 2003 sealed a 25-year preliminary strategic cooperation with Gazprom.



control over the Ajarian fiefdom' (Giragosian, 2005).<sup>27</sup> The tension over the delayed pull-out of the Russian troops from the Georgian bases in Batumi and Akhalkalaki is also being settled pursuant to the Joint Declaration of the Foreign Ministers of the Russian Federation and Georgia on May 30, 2005. Although the entire withdrawal will be completed by 2008, Russia's financial incapacity to maintain its bases abroad is reinforcing a soft-line approach by the Kremlin.

Changing Armenia's orientation was assumed within the frames of this thesis to be a key factor that could have driven the policy of 'regional cooperation'. Today when Russia is rethinking its role in world affairs, given the weakening of its economic and military capacities, Armenia has got leeway in making its choices. Thus, the intention of the US seems to have been realized. In April 2004 Yerevan signed an agreement with Washington on joint military exercises. Moreover, Armenia has given the right to the American air-force to land in the Armenian airports (Harutyunyan, 2004). Throughout 2004-2005 Armenia and NATO have given momentum to the Individual Partnership Action Plan has gained momentum. Considering Yerevan's loyalty to Moscow over the past decade, these steps represent a qualitatively new drift from the conformist behavior of the former.

The Turkish-Armenian relations have been obtaining a new quality. Although open political discourse on the genocide issue has not been initiated, attempts made on the part of the two governments to embark on such a discourse. In Armenia, the results of the already mentioned public survey have shown that almost 43% of citizens and 64% of experts have a positive attitude towards opening of the Turkish-Armenian border (ACNIS, 2004). As far as the economic sphere is concerned, the amount of trade turnover between the two countries has been annually increasing (Ismailov & Polukhov, 2004, p. 54-55).

While attention has been paid to the public sphere, the private domain has been neglected. Turkish-Armenian Business Development Council (TABDC), established in 1997, has pledged to promote cross-border and regional cooperation in the field of economy. For example, independently from Ankara, the north of Turkey has established trade relations with the Azeri district of Nakhichevan, Armenia and Georgia (p. 54). Turkish goods have always found place in the Armenian markets. The TABDC has been active in talks for opening the Armenian rail and highway systems for shipment of goods through Armenia. Specifically, it has been lobbying for the reconstruction of the Mersin (Turkey) - Baku (Azerbaijan) railway. Establishment of a free trade zone, harmonized banking, industrial and agricultural sectors, promotion of package tourism in Eastern Turkey and Armenia, as well as joint cultural activities have been seen by the TABDC as seeds that could result in abundant 'harvest' (Turkish-Armenian Business Development Council, 2005).

These activities and plans of the TABDC are in line with the intentions of the US and the EU. The US Congress and the French Senate have consented to TABDC's dedication to develop links with the EU. Economic cooperation could lead to overcoming the political friction over the stifling genocide issue. Moreover, if Turkey remains firm in its commitment to European standards and EU membership, this decade might witness Armenian-Turkish political reconciliation. This would fully eradicate the prognosis on emergence of alliances across the South Caucasus.

### 3.2.2. Containing Russia, Isolating Iran and Endorsing Turkey?

The US policy towards the three states, surrounding the South Caucasus, has changed. Containment of Russia seems to have been set aside. The Bush-Putin Summit of February 23, 2005 proved that enmity between the US and Russia in many geopolitically crucial regions (including the South Caucasus) has been transformed into constructive competition. The Summit signified that there is common need for American-Russian cooperation especially in the security sphere (Giragosian, 2005).

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<sup>27</sup> This happened during the Ajarian crisis. The latter reached its culmination point when Abashidze declared a state of emergency and closed the Ajarian transit routes because of suspecting President Saakashvili of a ploy to overthrow him.

Washington has adopted a different foreign policy style towards Iran. After the lack of unanimity in positions between the US and the EU over Iraq, the two Western actors vowed to avoid a similar disagreement with regard to Iran. They have committed themselves to curbing Iran's nuclear enrichment program together by taking the issue to the UN Security Council for possible sanctions. Fearing a legitimacy crisis and aggravation in the Trans-Atlantic relations, the US has refrained from unilateralism with respect to Iran and submitted to the diplomatic coercion mechanisms of France, Germany and the UK. The concessions indicate to a shift in the formerly hard-line policy of Washington towards Tehran. Above all, the US has decided not to block Iran's accession to the WTO.

The US might have also reconsidered endorsement of Turkey. Turkey's reluctance to commit troops to the American operation in Iraq made the US understand that domestic stability and approval of the EU were of more importance for Ankara than support of its guardian NATO ally. Washington did not reprimand Ankara for its fear of revival of the Kurdish separatist claims regarding establishment of an independent Kurdistan together with their ethnic kin in Iraq. Nor did it become angry with Turkey or for trying to score points at the doorstep of accession to the EU. The superpower did, however, deduce that hardly such a Turkey should be 'loved' unconditionally. The shift in American policy towards Russia, Iran and Turkey are omens that the power-related interests of the US have been changing, becoming akin to those of the EU. Washington has maintained its 'good will' towards Ankara but with some reservation.

A trend that has also been omitted from the analysis of trans-regional developments across the South Caucasus is the evolving Russian-Turkish relationship. The latter, although strenuous after the collapse of the Soviet Union, underwent a qualitative shift in the second half of the 1990s when economic interests gained momentum. Since then shuttle trade, Turkish investments in Russia and Russian gas export to Turkey have made the two countries partners. By this time, Turkey had also realized the euphoria connected with the ambition to unify the Muslims under its banner and had quit the idea, alleviating the tension in the relationship. Today Turkey imports approximately 90% of oil. Russia supplies about half of Turkey's oil and 70% of its gas demands. Although gas accounts only for 13% of Turkey's energy, estimates show that demand will rise dramatically in the coming years (Oliker, 2003). This is likely given the fact that Turkey is experiencing economic growth and will continue to do so as it draws itself closer to the EU. Although the already operational Baku-Ceyhan pipeline will relieve Turkey's need of energy import, Ankara would hardly cut Russian supply since it wants to diversify and supplement its resources.

The meetings between President Putin and Turkish Prime Minister Erdogan at the end of 2004 and the beginning of 2005 have given a new 'shade' to the Turkish-Russian relations, which could mean 'the starting period of the real strategic process' (Safrastyan, 2005). The unprecedented *rapprochement* may lead to consistent long-term cooperation.

Another relationship that has not received sufficient attention is the Turkish-Iranian relations. Since 2001 Ankara and Tehran relations have aimed at settlement of security issues including terrorism, organized crime, etc. In July 2005 the two states committed themselves to establishing friendly ties in the field of economy. Iran has already started to export natural gas to Turkey and provided Turkish companies with investment opportunities in Iran and cooperated. These two relationships between Russia and Turkey and Iran and Turkey provide additional support for the argument that the prognosis on alliance-building is inappropriate.

The recent trends have run against the prognosis on the emergence of axes of cooperation across the South Caucasus. The US policy towards Russia, Iran and Turkey around the 'region' has been changing in parallel. The US seems to have trusted the EU's inclusive approach towards regional cooperation and even tacitly subscribed to it.

Conclusion

Armenia, Azerbaijan and Georgia have not refrained from regional cooperation, although they have different conceptions about the form it should take. The prognosis made on formation of alliances cutting across the South Caucasus has not come true. Baku and Tbilisi do not exclude relations with Russia and Iran and shifts are taking place to achieve reconciliation between Turkey and Armenia. These relations are based more on economic premises than security or identity-ones. In their turn, while the relations between the US and Russia have been ameliorating, the US-Turkey magic bond has been losing its relevance. Additionally, the US has changed its hard-line rhetoric with respect to intervention in Iran. These recent trends have shown that Azerbaijan-Turkey-US and Russia-Armenia-Iran potential alliances can be discarded altogether.

## Conclusion

The study has proven that the policy of 'regional cooperation in the South Caucasus', promoted by numerous initiatives on the part of the Western states, is an external political construction. It is judged to be such because of the fact that the South Caucasus has been assumed to be a compact entity, namely, a region. Therefore, it has been construed that in tandem with the Baltic states, the South Caucasian states would also embark on cooperation. The thesis has undertaken a policy-evaluative research, exerting the rationale behind the policy of the US and the EU.

Chapter One of the thesis has looked at how the South Caucasus came to be viewed as a region in the course of history. It has argued that, in fact, Transcaucasia is not a geographically delimited area but rather a political creation by the Russian Empire, searching for economic and security advantages. The integration attempts by Armenians, Azeris and Georgians in the beginning of the 20<sup>th</sup> century turned out to be short-lived because of being instrumental in nature. The tantamount purpose hidden behind the integration was preservation of their own independence by countering annexation of the 'region' by the rival Ottoman and Russian Empires. The collapse of the Soviet Union and the gaining of independence by Armenia, Azerbaijan and Georgia not only did not lead to trilateral cooperation but also reawakened the postponed rivalries. As a result, the frozen Nagorno-Karabakh conflict has impeded constructive relations between Armenia and Azerbaijan, leaving the region short of trilateral cooperation. Exchange of views, however, has taken place multilaterally within the boundaries of IGOs and trans-regional organizations, such as the CIS and the BSEC.

Chapter Two has identified the rationale behind the policy of 'regional cooperation in the South Caucasus'. It has elucidated the interests of the US and the EU. While the economic and security interests of the US and the EU have coincided, their power-related interests have been fostered by different approaches. By containing Russia, isolating Iran and endorsing Turkey the US has been an exclusionist with respect to regional cooperation in the South Caucasus. In contrast, the EU with its support for a model, consisting of Armenia, Azerbaijan and Georgia plus Russia, Iran and Turkey has favored an inclusive approach.

Chapter Three has assessed the 'regional cooperation' policy from an internal perspective. It has analyzed the political visions of Armenia, Azerbaijan and Georgia. The research has, consequently, revealed that the three South Caucasian states favor trans-regional cooperation, which can potentially be more easily approximated to the European approach rather than the American one. Still, trilateral cooperation is an instrument, which Armenia, Azerbaijan and Georgia are willing to utilize to integrate with the West.

Meanwhile, the prognosis on emergence of alliance-building has been losing its validity against the background of the recent trends. It was predicted that Armenia would align with Russia and Iran, forming a north-south axis, while Azerbaijan and Georgia together with Turkey would choose a Western course. Meanwhile, the American relationship with Russia has been improving. Moreover, Washington has changed its position towards Iran by shifting from its hard-line advocacy to a soft-line one, similar to that of the EU. The US has also understood that Turkey is not an ever-loyal follower of its decisions. Thus, both the political visions of the

three South Caucasian states and shifting trends point to emergence of a wider cooperation network in across the South Caucasus than assumed by the US.

To ponder the form and the type of regional cooperation in the South Caucasus the research has given grounds to conclude that it is more likely that multilateral rather than trilateral form of cooperation would take shape. The analysis of the political visions of Armenia, Azerbaijan and Georgia has allowed detecting this. Provided the types (economy-, security-, identity-based) of cooperation, convergence in the economic sphere would most likely be the first stage. The recent trans-regional trends among the three South Caucasian states and the neighboring Russia, Iran and Turkey testify to the fact. Given the tension that has marked the relationship between Armenia and Azerbaijan, it is more likely that all the three would most likely be treading slowly and cautiously towards cooperation in the security field. Trans-regionally, so far, they have been either opting for Russia or for NATO. While it is unlikely that Azerbaijan and Georgia will be eager to have military affiliation with Russia, Armenia desires to accommodate both. Although cooperation on the basis of common South Caucasian identity should not be excluded, the road towards this type would be a long one.

Given this, the Western states should probably try to promote these interests, pursued by Armenia, Azerbaijan and Georgia if the paramount goal of the policy is promoting economic prosperity and political stability in and across the 'region'. The approach implemented towards the Baltic states would not be applicable to the South Caucasian states. The reason for the supposition is not only the fact that the latter are inclined towards multilateral cooperation and gradualism as far as cooperation in different domains is concerned but also because the major stimulus for the Baltic states - potential accession to the EU and integration with the West – has not been promised. Should the US and the EU make such a proposal Armenia, Azerbaijan and Georgia might rethink their political course of action.

By refining the externally-generated policy of 'regional cooperation in the South Caucasus' in compliance with the internal aspirations of Armenia, Azerbaijan and Georgia, the Western states would avoid wasting time and money in future. Moreover, by doing this, the Western states would prevent the South Caucasian states from paying lip-service in order to appease the external interests that do not correspond with their own. This would ensure success for the 'policy of regional cooperation in the South Caucasus'.

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## Abbreviations

BECA - Bureau of Educational and Cultural Affairs  
BSEC – Black Sea Economic Cooperation Council  
CoE – Council of Europe  
CIS – Commonwealth of Independent states  
EAPC - Euro-Atlantic Partnership Council  
ECO – Economic Cooperation Organization  
FUSSRT - Federal Union of Soviet Socialist Republics of Transcaucasia  
GTZ - Deutsche Gesellschaft für Technische Zusammenarbeit  
GU(U)AM – Georgia, Ukraine, (Uzbekistan,) Azerbaijan, Moldova  
IDP – internally displaced person/people  
IGO – international governmental organization  
INGO – international non-governmental organization  
INOGATE - Inter-State Oil and Gas Europe  
LINKS - London Information Network on Conflicts and State-Building  
NATO – North Atlantic Treaty Organization  
OPEC – Organization for Petroleum Exporting Countries  
OSCE – Organization for Security and Cooperation in Europe  
OSI - Open Society Institute  
PfP – Partnership for Peace  
RSFSR - Russian Socialist Federative Soviet Republic  
SIDA - Swedish International Development Agency  
SSR – Soviet Socialist Republic  
TABDC – Turkish-Armenian Business Development Council  
TACIS – Technical Assistance for the Commonwealth of Independent states  
TFSSR - Transcaucasian Federated Soviet Socialist Republic  
TRASECA - Transport Corridor Europe-Caucasus-Asia  
USSR – Union of Soviet Socialist Republics  
UN – United Nations  
UNDP – United Nations Development Program  
UNEP – United Nations Environment Program  
UNESCO – United Nations Educational, Scientific and Cultural Organization  
UNIFEM – United Nations Development Fund for Women  
USDS – United States Department of State  
WMD – weapons of mass destruction  
WTO – World Trade Organization