

Three Mirages and Two Markets Understanding the South Caucasus

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Twenty years after the end of the Soviet Union, the South Caucasus—the countries of Armenia, Azerbaijan, and Georgia, as well as associated territories between the Black and Caspian seas—presents us with a sad picture. The map is still torn up by war, with three de facto statelets—Abkhazia, South Ossetia, and Nagorny Karabakh—in a twilight zone, separate from their Soviet-era “parents,” Georgia and Azerbaijan, but not sovereign states either.

The region’s two longest borders, between Armenia and Azerbaijan and between Georgia and Russia, are still wholly or partially shut, while corrupt bureaucrats make even the nominally open borders closed to free trade. Poverty and unemployment are ubiquitous. Hundreds of thousands of refugees remain displaced by war. Millions more work away from home as migrant workers, mainly in Russia.

If you look at the world GDP table, oil-rich Azerbaijan has climbed in the ranks but is still barely half as wealthy as Russia or Turkey, while Armenia and Georgia lag even further behind. Their former Soviet co-republic Estonia is three times wealthier than Azerbaijan and six times richer than Armenia or Georgia. An enormous human potential is being disgracefully squandered.

Both locals and outsiders share the blame for creating this miserable picture. The outsiders are at fault in part because of failures of perception and interpretation that have, in my view, only made bad local politics worse. In this regard, I identify what I call three mirages—three misguided approaches to this region that obscure proper understanding of the way it works. But I also want to cite the surprising example of two multi-ethnic markets as a positive counter-example of how well things *can* work in this region.

I start from one principle—the South Caucasus is a region, deserves to be treated as such, and benefits from a holistic regional approach. Treating it as a single organism increases the health of all its parts.

Many observers disagree. Some argue that the notion of a South Caucasus (or its Russo-centric variation, the Transcaucasus) is just a Russian colonial construction and that it is better to jettison the concept altogether or include it in a “wider Black Sea region.” Others say that the three main parts of this fractured whole are so distant from one another that each needs to be addressed

separately. No definition should be a straitjacket but I want to make the case that there is indeed a South Caucasus region.

Begin with the map. It shows a geographical space defined by three strong natural borders, the Black and Caspian seas and the Great Caucasus range, the highest mountains in Europe that, in the Greek geographer Strabo's famous phrase, "form a rampart to the isthmus which separates one sea from another." This makes for a geographical space that is neither fully Europe, nor Russia, nor Asia, nor the Middle East—a bridgehead of three small nations surrounded by much bigger neighbors.

The peoples here share traits that an anthropologist will quickly recognize, expressed in common rituals, family responsibilities and obligations, and business practices—not to mention music and food. This has more than just folkloric interest: it helps dispel the myth of "ancient hatreds" dividing Caucasians from one another.

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In fact, as long as no overarching political dispute hangs over them, the peoples of the Caucasus actually work, trade, and interact well with one another. Outsiders are often amazed to see how well Armenians and Azeris work and trade together in Moscow or Iran.

A shared history within the Russian empire and Soviet Union has also left its mark. It fixed—bloodily—the region's southern and western borders with Iran and Turkey and contained its peoples within a new state with a distinct political culture, both more secular and Europeanized and also more politically oppressive than that of its Islamic neighbors.

Finally, economic infrastructure makes this a region and a communications corridor. Russian railroad engineers literally blasted this economic region into existence in 1890 when they carved out a rail tunnel through the Surami highlands of central Georgia. By doing so they properly united western and eastern Georgia for the first time and also laid the way for the world's first "kerosene pipeline" linking the new oil boom town of Baku and the Black Sea coast—the forerunner of today's Baku-Tbilisi-Ceyhan pipeline. A new web of railways was laid in all directions, giving the South Caucasus the chance to become a commercial crossroads on the borders of Europe and Asia.

This shared economic space is a fragile system of inter-dependent parts, vulnerable to small shocks. During the 1905 Revolution, Marxist revolutionaries cut Georgia in half in one stroke and stopped the tsarist governor from sending troops to the west of the country by the simple act of blocking the Surami railroad tunnel with wrecked railway engines at either end.

But Georgia is in fact less vulnerable geographically than its two neighbors. Land-locked Armenia has generally shared Georgia's problems but few of its benefits, while Azerbaijan must rely on Georgia as its corridor to the west. The August 2008 war in Georgia hurt both neighboring countries. Armenia lost its land connection with Russia and, as a result of the destruction of the Grakali rail bridge in central Georgia, saw all of its imports from Georgia's Black Sea ports halted for a week, costing it an estimated half billion dollars. Azerbaijan suffered vast loss of revenue, as the war shut down its oil and gas pipelines to Europe.

As these examples show, the South Caucasus can be a dynamic hub or, as it is today, a tangle of checkpoints and closed roads and railways. And, unfortunately, the tendency to break down is nothing new.

Recurring Disorder

We have been here before. Here is the report of one foreign observer:

The three Governments from an occidental standpoint are now thoroughly inefficient, without credit, and undoubtedly corrupt. Alone each faces inextricable financial difficulties. Religious differences, added to racial, threaten to embroil them unless brought under a common control. Two of them have no outlet to the Black Sea except through Georgia over the railroad. They have no present intermonetary, postal, or customs union, and, as stated, no definite agreement for common control and use of the railroad, and are in continual squabbles over boundaries. Azerbaijan has no educated class capable of well administering a government; Georgia is threatened by bolshevism; Armenia is in ruins, and partial starvation.¹

The year was 1919 and the observer was U.S. General James Harbord, sent to the region by President Woodrow Wilson to study the feasibility of adopting independent Armenia under an American mandate.

Harbord was witnessing symptoms of a recurring historical condition, which were even more acute in 1918–1920, following the collapse of the tsarist empire, than they were in the 1990s. On both occasions, as soon as the Russian hegemon who played the role of policeman disappeared, the locals were left in a state of chronic insecurity. Harbord drew the almost utopian conclusion that the region could be adopted under an American mandate. “If we refuse to assume it,” he wrote, “for no matter what reasons satisfactory to ourselves, we shall be considered by many millions of people as having left unfinished the task for which we entered the war, and as having betrayed their hopes.”

The call for a U.S. mandate was Harbord's ambitious answer to the historical challenge of how to provide the South Caucasus with both liberty and regional security. In 1919, as in 1991, the South Caucasus seemed to have the former without the latter. Harbord also acknowledged in a caveat that the “taking of a mandate in this region would bring the United States into the politics of the Old World, contrary to our traditional policy of keeping free of affairs in the Eastern Hemisphere.”

By admitting the limits of U.S. power, Harbord was discerning what I call my first mirage—the illusion that the Caucasus is a “Great Chessboard” where the big powers determine their goals and then push the locals around like pawns. That is not what actually happens here. It was less true than it looked in 1919 and it is certainly less so today.

In fact, the geopolitical weather changes but the locals manipulate the outside powers more than the other way around. The cost is high but they always survive. In the twenty-first century the Caucasus is still the Caucasus, in all its complexity and variety, and not an assimilated province of Russia, Turkey, or Iran. The small peoples of the Caucasus may be too insecure to cooperate and too weak to prosper, but they are strong enough to withstand their bigger neighbors.

You could call this a “balance of insecurity.” Over the course of history Armenians, Azerbaijanis, and Georgians, as well as the other smaller ethnic groups of the region, have all survived invasion and resisted assimilation. But the price of survival has come in the form of Faustian alliances with other Great Powers.

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What General Harbord saw was a regional rivalry in which, to protect themselves, Azerbaijanis allied themselves with the Turks and the British; Georgians with the Germans and the British; and Armenians, Abkhaz, and Ossetians with the Russians. By doing so, these small peoples inevitably ended up warring against one another and as the proxies in Great Power conflicts.

General Harbord and his American colleagues departed, of course, and the outside power that determined the region’s fate in 1920–1921 was Bolshevik Russia, not the United States. The Georgian Bolshevik conqueror of the Caucasus, Sergo Orjonikidze, proclaimed that the Red Army had put an end to half a dozen civil wars and that the locals had “sighed with relief.” In fact the Bolsheviks did not so much resolve the contradictions of the Caucasus as smother them, bringing an end to conflict through suffocating authoritarian rule.

As Soviet power waned in the late Gorbachev period, the pendulum swung again. In a close replica of what had happened prior to 1921, Abkhaz and Ossetians sought Russian assistance against what they considered a Georgian nationalist threat, while a newly independent Georgia looked to new Western allies to protect itself against a perceived Russian threat. In Soviet times a conflict between Georgians and Ossetians would have been unthinkable: the two ethnic groups had the highest levels of inter-marriage in Soviet Georgia and were inseparable trading partners. But the unhealthy dynamics of the post-Soviet era drove each to seek the protection of different patrons in Washington and Moscow and eventually South Ossetia turned into the arena of the worst clash between Russia and the United States since the end of the Cold War.

It is better to describe this picture not as a giant chessboard, but as a castle of dominoes where the whole construction totters if you dislodge one piece. If you try and treat this region as a game of chess, everyone loses.

The Mirage of Russian Hegemony

This brings us to Russia and another mirage, that of the Russian bear looming over this region ready to maul the small Caucasian peoples. The view is persistent, not least because many Russians still share it, but I believe it is highly exaggerated.

Let me be clear about this. Russia is still the most powerful outside actor in the region, if only by default. In the 1990s parts of its military meddled disastrously in the region's conflicts; it now has troops in Akhgori, 30 miles from Tbilisi. Yet Russia's capacity to control events here is always smaller than it seems and its power is never fully consolidated.

The peoples of the South Caucasus have spent two centuries cultivating the skill of playing off Russia and quietly getting on with their own agenda. Again geography plays the determining role. In the North Caucasus, first the tsarist empire and then the Soviet Union often used genocidal policies to subjugate its small Islamic mountain peoples—although Moscow is forced to govern here very differently from the rest of Russia and relies heavily on local elites.

South of the mountains, Russia's capacities are stretched even further. First of all, the physical barrier of the Greater Caucasus range presents a formidable obstacle. The main road across the mountains, the winding Georgian Military Highway, was completed only in 1817. Add to that the stronger histories of statehood in the southern Caucasus and you find that Russia was forced to rely on local leaders to maintain its rule.

In the twentieth century Bolshevik and Soviet rule of the region was never a fully Russian affair. Local comrades, led by two Georgians, Joseph Stalin and Sergo Orjonikidze, spearheaded the Bolshevik takeover of 1920–1921. From the beginning, locals led the new Soviet republics of Armenia, Azerbaijan, and Georgia.

Of course ultimate authority for the Soviet Transcaucasus resided in Moscow, and Moscow ordered mass repression there, as it did in the rest of the USSR. But its administration was a shared Russian-Caucasian project, not a project for Kemalist-style assimilation into Russia. The number of ethnic Russians was always small and is now less than 2 percent of the total population. Russia has very few levers to pull here.

In 2008 many Western analysts saw the August war as evidence of Russia's neo-imperialist plans for domination in the South Caucasus and the "near abroad" in general. In fact, very different trends have been in play: having lost Georgia, Moscow has spent much of the last two years offering incentives to Armenia and Azerbaijan, while President Dmitri Medvedev has personally invested time and effort in the Nagorny Karabakh peace process in partnership with the United States and France.

Even Russia's recent consolidation of a military alliance with Armenia cannot disguise a long-term strategic retreat from the Caucasus where the local players, including the Armenians, prefer to have multiple partnerships rather than just one. In other words, Russia is slowly adjusting to living with a neighborhood where it is one of several international players. As such, it is relying more and more on economic tools to retain any influence. Russian business still works to maintain a strong presence even in Georgia, while Georgia quietly continues to import Russian gas.

This misreading of Russian actions stems in part from a failure to appreciate that Abkhazia and South Ossetia are special cases and exceptions to this rule of diminishing Russian control. Both border the Russian North Caucasus and in the twentieth century both looked to Russia as a counter-balance to the perceived threat of Georgian assimilation. Both accepted de facto Russian control as a price for their de facto secession from Georgia after bloody conflicts in 1992 and 1993.

Yet even here, Russia is more vulnerable than it looks. In the cold light of day, Moscow has created new problems for itself in both Abkhazia and South Ossetia. It is investing millions of dollars in the territories that it needs elsewhere. Almost no one has followed Russia's example in recognizing the two territories as independent, while the move has stirred up discontent in the North Caucasus. Russia has bitten off a lot more than it can swallow here.

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So the Russian bear is something of an illusion, a prickly and unpredictable beast certainly, but not an all-powerful one and one with whom others can do business in the South Caucasus. The United States and Russia now share a nearly common approach to the Karabakh conflict and could agree on a truly historic shared security framework that can be applied if the Armenian and Azerbaijani leaders have the courage to sign an agreement.

A truce is also eventually possible over Abkhazia and South Ossetia. Continued international deadlock over these two territories reduces Moscow's ability to deal with an even more urgent security problem, its own turbulent North Caucasus. It cannot stabilize the northern side of the mountains on its own but eventually needs the help of Georgians, Abkhaz, Ossetians, and the West to do so. Coming to agreement over Abkhazia is likely to be a long process, but a deal over South Ossetia—which was always economically part of Georgia and is linked to Russia by just one tunnel through the mountains—is certainly achievable in the next decade.

The Mirage of Strategic Significance

Western Europe and the United States have properly rediscovered the South Caucasus only in the past twenty years, sometimes with great enthusiasm. But this enthusiasm has its downside. My third mirage is the perception of the South Caucasus as an area of great Western strategic interest. Paradoxically, talking up the Caucasus in these terms can actually do more harm than good.

Two big projects have treated the South Caucasus in these grand strategic terms, looking at it as though from a satellite photograph, as a bridgehead to be seized. These are the projects that treat the region as a new, essential energy corridor for the West and as a zone for NATO enlargement.

In energy terms, the South Caucasus is indeed an important transport corridor for Caspian Sea oil and gas, and there were good reasons why Azerbaijan needed pipeline routes independent of Russia and Iran. Oil pumped through the Baku-Tbilisi-Ceyhan pipeline has also brought billions of dollars of much-needed revenue to Azerbaijan—and less money to Georgia. Caspian Sea gas has lessened the reliance of both countries on Russian gas.

My concerns are twofold. First, the grand energy vision was not part of an integrated economic strategy. Resource extraction tends to benefit elites and foreign companies more than it does ordinary people. Certainly it creates very few jobs; less than 2 percent of the Azerbaijani workforce is employed in the oil and gas industry. Without a broader economic upturn, energy wealth has the capacity to aggravate social divisions rather than ease them.

Secondly, too many Western policy makers treated pipeline policy as a big strategic game of “you win/I lose.” In the 1990s several new Caspian enthusiasts allowed themselves to believe extravagant claims about the oil reserves in the Caspian Sea, comparing them to those of Kuwait or Saudi Arabia. One Washington commentator who worked for the Clinton administration wrote, “The United States simply cannot afford to allow Russia and Iran to dominate the energy resources of the Caspian, with the enormous political leverage that would confer in the region and even in Europe... Increasingly, the Caspian region is emerging not only as a critical component of Western energy security, but also as a linchpin in the evolving balance of power in Eurasia, Asia and the Middle East.”² These claims later turned out to be highly exaggerated.

A pair of unhelpful metaphors made things worse by winding back history. The image of a “new Silk Road” stretching from Central Asia across to the South Caucasus, pretty though it is, conjured up a medieval era of pre-modern principalities before Russia was involved in the region. And the idea of a “Great Game”—comparing the new interest in the South Caucasus with the struggle for influence between tsarist Russia and Great Britain in Central Asia and Afghanistan in the nineteenth century—cast the locals in the role of passive objects, not subjects, and Moscow as a deadly rival. In retrospect, strategic ambitions to establish a position in the region ran ahead of a more sober assessment of its place on the European energy map and its economic needs.

The second grand strategic vision imposed on the Caucasus was that of NATO expansion into Georgia. The issue is not Georgia’s right to join NATO—something that the Georgian public

approved by a good majority in a referendum. The issue is whether active pursuit of this goal was a good policy for either Georgia or NATO; it is now clear that it was not.

The bid to join NATO did not improve Georgia's security and the alliance was not ready for a country with undeveloped armed forces and weak state institutions as well as two unresolved conflicts on its soil in which Russia had a declared interest. But the Russian leadership identified the move as a threat, and the Abkhaz and South Ossetians turned even closer to Russia to be their protector, widening the conflict divide. Up until the last moment, Georgian President Mikheil Saakashvili appears to have believed he had far more support in Washington for his actions in South Ossetia than he actually did. In mid-August 2008, when the conflict had played itself out, Georgia was left with neither Abkhazia and South Ossetia nor a Membership Action Plan for NATO.

Far better than this kind of rhetorical and selective strategic engagement would have been more targeted, lower-level investment in institution-building, constructing states from the bottom up. That would at least allow the locals to make sober assessments of their own capacities and what they themselves should ask from Western patrons with limited attention spans. This leads to the paradoxical conclusion that a healthy dose of *strategic insignificance* would be very positive for the South Caucasus and would allow all parties with a real interest in the region to concentrate on helping solve its everyday problems.

Making a Region

The many problems of the South Caucasus are linked and cannot be solved in isolation. A re-think of policy towards the region should begin with Dwight Eisenhower's dictum, "If you can't solve a problem, enlarge it."

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To calm its security problems, the South Caucasus would be well served by some kind of truce between the latter-day Great Powers, in which they accept the interests of other external countries so long as their intentions are peaceful. The agreement would cover Turkey, and sooner or later include Iran, which has an ancient historic interest in the region. Chiefly it would concern Russia and the West. The outsider countries should agree not to provide offensive weapons to the region and to work together to halt any slide toward conflict.

That vision only makes sense if the region belongs to no single security organization—its in-between status makes it a zone of neutrality rather than conflict. At the moment that vision is clearly utopian, given the heavy Russian presence in Abkhazia and South Ossetia and the smoldering volcano of the Karabakh dispute. Still, outsiders have greater freedom to imagine a different future, however distant, than the locals do and can frame their policies with that destination in mind.

Hand in hand with a vision for greater security is an economic vision, which only makes sense as a regional project, with the South Caucasus region imagined as a free trade zone and communications hub, radiating out to five points of a star: Russia, the Caspian Sea, Iran, Turkey, and the Black Sea. The day the railway line is reopened through Russia, Abkhazia, Georgia, Armenia, and the Azerbaijani exclave of Nakhichevan to Iran—with a sideways connection to the Black Sea, Turkey, and Europe—is the day the South Caucasus regains its role as a region with real prospects for the future.

Few locals and outsiders think in these terms. Narrow bilateralism is an abiding problem in Caucasus policy, boosted by the multiple policy agendas of a country such as Russia or the United States. Despite some honorable exceptions, I am afraid that Washington has less a unified South Caucasus policy than three bilateral policies, each with its own adherents.

An Armenia policy is driven mostly by Congress and the more than one million Armenian Americans who make up a powerful domestic lobby. Advocates of the Azerbaijan policy work for the energy companies and the military, and are focused narrowly on that country as a source of oil and gas and as a transit station for troops and supplies headed to Afghanistan. And the Georgia policy was for a time the prize exhibit in President George W. Bush's "democratization agenda."

Bilateralism helps to reinforce these divisions. Many members of the Caucasian governing elites certainly have an institutional suspicion of regional cooperation, which reduces their own power and cuts into the profits of cartels and monopolies run by their friends and allies. They also prefer to keep the population as economic clients, not independent actors. Even the most reformist government in the region—that of Saakashvili in Georgia—rules from the center by fiat, moving from one favored project to the next. Saakashvili is said even to have chosen himself the color of the new buildings in his mass redevelopment of the port city of Batumi.

The most promising agents of change in the Caucasus are also currently a marginal group: small businessmen and traders. There is huge entrepreneurial energy here but sadly too many of its people expend their talents working as migrants outside the region, not working to enrich the region itself. One day these people could follow the trail blazed by the businessmen of Anatolia, who spearheaded Turkey's dynamic economic growth over the past decade by challenging the corporatist oligarchic structures that dominated Turkey then as they do the Caucasus now.

Small traders do not respect borders or ethnic difference and the mythical "ancient hatreds" that politicians sometimes conjure up to mobilize loyalty and hatred. International organizations have spent millions of dollars over the past two decades on peace-building projects in the South Caucasus, but the two most effective catalysts for cross-border cooperation were two wholesale markets that were entirely spontaneous.

One market was located outside the village of Ergneti on the administrative border between South Ossetia and Georgia's Gori Region. It was so large that buyers would drive up and down it on motorcycles. Georgians and Ossetians traded almost everything there from cars to matches, and the profits of the market sustained South Ossetia for a decade.

The second market was located in the village of Sadakhlo inside Georgia but near its borders with both Armenia and Azerbaijan, two countries in a virtual state of war. Yet there were almost no Georgians to be found here, as thousands of Armenians and Azerbaijanis bought and sold all kinds of household goods and agricultural produce.

Georgian and Armenian politicians closed both of these markets in the earlier part of the last decade, saying that they were a massive source of illicit goods, smuggling, and tax-free trade. Technically speaking both markets were havens of contraband. But it would have been far better to keep them open, work to legalize their operations, and channel these vast manifestations of dynamic commerce and community interaction in a more legitimate direction.

As it happened, the closure of Ergneti instantly re-oriented the South Ossetian economy away from Georgia toward Russia, setting the territory on a path of division and conflict. The closure of Sadakhlo shut down a place that had vaccinated thousands of Armenians and Azerbaijanis against the virus of ethnic hatred. The lesson of the two markets is that, despite its exterior of nationalist unanimity, the Caucasus is still a place of dynamic individuals. In short, if the Great Game plotters want to make a positive difference here, they should consider retraining as small business consultants.

As for Western policy makers, I believe they should ask themselves two questions every time they decide to intervene in the South Caucasus: “Is my action helping to open borders and free up a blocked region?” and “Does it empower ordinary people and not just governments?” There is a multitude of talent in this region. Outsiders should work harder to make that talent effective, to help direct it toward breaking down barriers and not entrenching them.

Notes

¹ James G. Harbord, *Conditions in the Near East: The American Military Mission to Armenia, 1920* (Washington, D.C.: Government Printing House, 1920), 14. Available at www.armenianhouse.org/harbord/conditions-near-east.htm.

² Sheila Heslin, “The New Pipeline Politics,” *New York Times*, November 10, 1997.

The South Caucasus in 2010



Credit: Christopher Robinson

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