



**SOUTH CAUCASUS:
PERCEPTIONS AND CHALLENGES OF THE REGION**

Roger Williamson

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1 Introduction

Fifteen years after independence from the Soviet Union, it is a good time to take stock of progress to date. Armenia, Azerbaijan and Georgia have all posted high levels of growth in recent years. Azerbaijan's at 36% was particularly high at the current time. The key growth drivers for each country are as follows:

- Armenia – construction, base metals and services;
- Georgia – manufacturing, construction, services and the Baku-Tbilisi-Ceyhan pipeline;
- Azerbaijan – the energy sector and services

The key issue is whether sectoral booms can be converted into sustainable growth across the economy. In terms of economic performance, the South Caucasus is near the top for the CIS but behind advanced countries. The bottlenecks differ from country to country but include red tape, a weak judiciary, unfair competition, poor tax and customs administration, some lingering corruption, limited access to finance and underdeveloped infrastructure.

Georgia, Armenia and Azerbaijan need to view themselves as a region as they seek the common interests of the region. Neighbouring countries often discover that regional economic integration develops their own economies. However, a number of conflicts remain within the region. These include Abkhazia, the closure of the Nakhichevan railway, South Ossetia and the Nagorno Karabakh problem. As well as the efforts of the countries in the region, a number of international organisations are seeking to help efforts to help stability, including the Organisation for Security and Cooperation in Europe (OSCE), the European Union (EU) and the Council of Europe.

Each of the three countries in the region have shown that they have a capacity for economic growth but this needs to be consolidated. Each of the countries has democratic shortfalls compared with accepted norms of governance and human rights, but the situation in each of them is considerably better than the pessimistic prognoses, immediately after independence, which prophesied collapse. It remains a slow process fully to establish the rule of law and democracy within the region.

Compared with fifteen years ago, in spite of the conflicts, the situation in the region is still more stable. As a result of the unsolved Nagorno Karabakh problem, Armenia still has to regularise its relations with Azerbaijan and Turkey. However, there has been a cease-fire between Armenia and Azerbaijan since 1994.

A key issue for the South Caucasus and movement of people is its relationship with the European Union. It has always been an area characterised by population movement and migration. Since 1991 one million Armenians, Azerbaijanis and Georgians have emigrated to Russia, the USA, Europe and the Middle East. The Diaspora has considerable function for development for Armenia in particular.

2 Post-Soviet Democracy: How deep is the change?

While the countries of the South Caucasus have each recently enjoyed high growth rates, it is worth considering the transition countries as a group. The period of transition seems to be a strictly limited window of opportunity to join the developed world. Unless this opportunity is taken, the transition countries could find themselves in a new category - that of the non-developing countries. A number of contradictions can be observed in the transitional state. The first is the contradiction between democracy and the affirmation of the principles of democracy and a weak civil society. Unless civil society is strong, democracy cannot be guaranteed. The second contradiction emerges from the weakness of states and governments in transition countries. There is a need to build up the state and its structures and to exercise government control effectively. However, the only way to legitimate power is to hold elections and to win them. The usual result of elections in the post-Soviet space is to weaken the power of the ruling party. The third contradiction occurs when a country declares that the economy has been liberalised, but the state does not allow free competition and, in effect, monopolises the economy for the political elite. This clearly has attractions for the ruling elite, but is not the most efficient way to run an economy. The fourth contradiction is when different concepts of democracy are developed according to a "Chinese model", an "Indian model" or a "Russian model", rather than multi-party democracy.

There are many contradictory aspects of the current situation of transition countries. Nine of the twelve countries of the former Soviet Union voted for the preservation of the Soviet Union in 1991. Only two of the three countries in the region, Georgia and Armenia, are full members of the World Trade Organisation. Azerbaijan does not yet have this status. In spite of the impressive growth rates (over 30% per annum in Azerbaijan, 12% in Armenia) this prosperity could be threatened if the money is used for an arms race between the two countries.

It is argued that the reform process must go deeper. Even where the principles of reform have been implemented, the results have not yet fully followed.

The broad involvement of society in a national project is necessary if it is to succeed. While there were opposition movements in a number of the transition countries, including Armenia, independence came primarily because of the collapse of the Soviet Union rather than a struggle for national liberation. After independence, eleven of the twelve countries were led by former communist party leaders, with Armenia as the exception. As has been tellingly stated; "one cannot go to bed as a communist and wake up in the morning as a democrat". Apart from Ukraine, where a real transfer of power has occurred, the other countries are closer to a "one-and-a-half party state" than multi-party democracy. In Azerbaijan, the son of the former ruler has replaced his father in a dynastic succession.

With the exception of the Baltic States, none of the countries of the former Soviet Union have achieved the ideal combination of liberal democracy with free market economic principles.

3 Armenian Perspectives

Armenia's policy, from the outset, has been dictated by its perception of its national interests. These must be taken together and not as individual policies. National interests cannot be based on a short-term evaluation, but depend on relations with neighbours within the region and also with major regional and global powers. Armenia, therefore, is seeking to resolve the conflict in Nagorno Karabakh and also to improve relations with Azerbaijan and Turkey. It is also taking into account its relations with the USA, Russia, Iran and the European Union. Armenia's orientation has been to balance foreign policy and domestic challenges, to move forward on economic liberalisation and political reform. Having inherited a centralised command economy, Armenia had to adapt quickly to a liberal economy and overall has succeeded, with double-digit growth figures in the last six years. This involved embarking on serious economic reforms. It was the first of the South Caucasus countries to privatise land and has engaged in the continuous process of reform. The second generation of economic reforms is now being undertaken and this is unlocking resources within the country.

At the political level, Armenia is determined to become a fully democratic country. The trend and direction is positive. In foreign policy, the Nagorno Karabakh issue is plagued with competing conceptions. Armenia is concerned at the level of spending on the military by Azerbaijan and the more rigid positions which have emerged as a result of oil wealth being spent for military purposes. The Armenian government is also looking to improve its relations with Turkey and feels that Turkey should "rise to the occasion". Armenia has set no pre-conditions for recognition. Armenia regards the historical recognition of the genocide as a moral obligation and not a pre-condition for normal diplomatic and political relations with Turkey.

The European Neighbourhood Policy is seen by Armenia as vital approaches in developing as a European country. Relations with the EU have developed since independence, based on the principles of partnership and cooperation. Armenia was the first of the former Soviet countries to engage in land privatisation. There had been some problems in the areas of agriculture and services, but progress is being made on democratisation, the rule of law and political and economic reforms. Democracy is seen as a source of strength in Armenia and there is no alternative as a political system. 35% of Armenia's trade is with the European Union and the EU provides 40% of the investment. Armenia's identity, values and self-understanding are all European.

On the other hand, there is no real sense of regional identity. The countries of the South Caucasus shared a common state for a short period from 1918. Armenia was able, even during the Soviet period, to keep its own national language. Because of tensions over Nagorno Karabakh, Azerbaijan refuses to engage in regional co-operation projects with Armenia. In economic terms, as well as seeking to cooperate with its neighbours, Armenia is also in a competitive relationship with Azerbaijan and Georgia. Georgia has aspirations to become a full member of the European Union. Armenia has a more pragmatic approach seeing maximum advantage from the European Neighbourhood Policy as the current goal. Armenia has always sought to find a *modus vivendi* with its neighbours and also values the strategic partnership with Russia.

4 Georgian Perspectives

Georgia is pleased with its economic growth within this dynamic region. It has shaken off the legacy of political bankruptcy and poor national reputation and has progressed swiftly to democracy, with a modern army and western-style education. In terms of liberal democratic values, much still remains to be done. This involves a development of civil society, human rights reforms and governance issues and law enforcement. In economic terms, investment is increasing and the Government has sought to maintain an attitude of responsible growth and development within the private sector. According to the evaluation of the World Bank, Georgia is in the top ten of countries who have made the most progress in terms of 'doing business'.¹

These developments fit in with the aspiration of Georgia being a truly European country in terms of its geographical location, politics and economics. It is also a country of the South Caucasus and wants to establish a region of peace and prosperity. Increasingly, Georgia also sees itself as the eastern border of the European Union.

Energy security is high on the European agenda as it is for Georgia, not least because of its experiences with Russia. The Georgian government insists that it does not seek military solutions to the conflicts within its borders, but is of the opinion that Abkhazia and South Ossetia have hurt themselves through the conflicts. The Georgian government does not want to continue conflict but wants these issues resolved. The proposals for peace have been endorsed by the OSCE with support from the EU.

The resolution on the conflicts during the 61st Session of the UN General Assembly stressed peacekeeping and peaceful resolution of conflict as a result of direct dialogue. The EU and US are included in this process and efforts have been made to engage Russia as a facilitator or guarantor. However, killing and kidnapping are happening on a daily basis in the conflict zones. The safe return of refugees is required. There is no law and order and the Georgian government cannot allow these simmering volcanoes to continue, as they could erupt at any time. It is not the intention of Georgia to oust Russia from the peace process. Georgian perceptions are that the Russian encouragement of secessionist movements in Georgia has backfired. The Georgian government wants Russia to be part of the solution, not part of the problem. Georgia clearly opposes the use of economic measures by Russia and argues that the approach of regional partnership would be better as a route to guarantee stability in the region. Involvement of all the parties is essential and resolution of the conflicts would help Georgia's progress towards full democracy.

¹ World Bank and International Finance Corporation, Doing Business in 2006: Creating Jobs.
<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20643009~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>

5 Azerbaijani Perspectives

2006 marks the first year of major oil revenues flowing into the state finances. It is therefore not surprising that Azerbaijan's current situation is one of growing confidence. Azerbaijan looks back on fifteen years of economic growth, consistency in foreign policy, aspirations to regional leadership and political stability. Since independence from the Soviet Union, Azerbaijan has cultivated ties with the West, broadly defined. Officially, relations with Russia are good, but Russia's reputation has declined considerably in Azerbaijan because of its stance on Nagorno Karabakh, which included several grants of weaponry to Armenia.

In the next fifteen years Azerbaijan is projected to have an income of \$150 billion from oil revenues. As a result, Russia is reassessing its relations with Azerbaijan, as exemplified by President Putin's visit with a large business delegation of Russian exporters earlier in 2006. The Georgian government is making overtures to NATO and the European Union. Armenia is involved in the Collective Security Treaty Organisation with Russian leadership and this allows the Baku government to play a balancing role for the time being.

Azerbaijan's perspective is that the Organisation for Democracy and Economic Development, the former GU(U)AM has developed strongly in the last fifteen years as a result of Russian foreign policy miscalculations.² Through supporting the conflicts in Transdnestria, Nagorno Karabakh, South Ossetia and Abkhazia and its policy towards Ukraine, Russia has lost much of its public opinion support in Moldova, Georgia, Azerbaijan and Ukraine. Russia has thus weakened its influence in the region in a way which Moscow would not have wanted and few could have predicted fifteen years ago.

Azerbaijan is using its position in the region to continue the isolation of Armenia from regional projects and to undermine Armenia's economic development in response to the still unresolved Nagorno Karabakh conflict. Armenia has already been cut out of energy transit projects, particularly the Baku-Tbilisi-Ceyhan pipeline.

Even though political opposition in Azerbaijan has failed to achieve a transition of power, pressure on the government has had some results. Azerbaijan has become a member of the Council of Europe which means that its human rights provisions are under scrutiny. Azerbaijan's European aspirations are written into the European Neighbourhood Policy Action Plan and Azerbaijan is one of the leading countries in the Extractive Industries Transparency Initiative and, according to Transparency International, has begun to improve in terms of corruption.

However, some new issues are emerging for Azerbaijan. There are concerns that the huge influx of oil wealth has meant that government spending is not being properly controlled and that sound macro-economic policy is being undermined.

² The coalition of Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova. <http://www.guam.org/>

Azerbaijan has shown, through its co-operation with Georgia on issues of energy security, that it wants a prosperous neighbourhood. The problems with Nagorno Karabakh remain and no obvious solution is in sight.

6 Normalisation of Turkish-Armenian relations

Historically, the Turkish-Caucasian border has been the front line between Turkey and Russia. The boundary between the Russian and Ottoman empires has often been a battlefield. Since the early 1990s, the days of Turkey sharing a land border with Russia/USSR have ended. For the first time for several centuries, Turkey and Russia do not have a common land frontier (with the exception of the short period from 1918-1920). From this point, Turkey had a 276 kilometre long border with Georgia, 325 kilometre long border with Armenia and an 18 kilometre long border with Azerbaijan (the autonomous Republic of Nakhichevan). In 1991, Turkey quickly recognised Azerbaijan, Georgia and Armenia. In the early 1990's, Turkey was exploring business contacts and the normalisation of bilateral relations with Armenia. Turkey helped Armenia in November 1992 by delivering 100,000 tons of wheat to Armenia, but bilateral talks became deadlocked in the context of the Nagorno Karabakh war.

Now that the issue of normalisation of Armenian-Turkish relations is linked with the Karabakh conflict, it is difficult to de-link it. But does this make Turkish policy a hostage of Azerbaijan? Would normalisation of Turkish-Armenian relations be tantamount to betrayal of Azerbaijan? Has Turkish policy towards Armenia strengthened Azerbaijan's position in search of a political settlement? Are the fears that opening the border would encourage Armenian intransigence in peace talks well founded?

At the same time, Turkey does not pursue an aggressive policy towards Armenia. There are already trade links, an air corridor and tolerance of Armenian citizens working illegally in Turkey. It is also clear that normalisation of relations would enhance prospects for peace with increased Turkish regional diplomacy.

Settling the Karabakh conflicts may not be enough to lead to normalisation of Turkish-Armenian relations. The genocide issue is also now a serious obstacle. Opening the border could launch a confidence-building process, since the border itself is not disputed. There are also possibilities in the border region for discovering a common history. Ani and Mount Ararat are advocating joint tourism packages as happened in the pilgrimage of 2001.³

It is clear that opening the border would be important for Armenia but it would also help to revitalise eastern Anatolia and the Turkish Black Sea coast. These are regions which Turkey seeks to develop further. Development of transport routes across the Southern Caucasus to Turkey would boost regional integration.

³ See the report by Burcu Gultekin, presenter at this conference, on the pilgrimage: <http://www.tabdc.org/news.php?id=67>

The Kars-Tbilisi-Baku railway project between Georgia, Turkey and Azerbaijan will further underline Armenia's isolation. If this could be augmented through the Armenian railway system joining Turkey with the Russian/Soviet railway network this would have a further benefit in terms of transport integration.

The increased oil revenues as a result of the Baku-Tbilisi-Ceyhan pipeline means that substantial additional revenues will be available to the region. If the closed borders could be re-opened this would provide good prospects for economic development across the region.

7 Energy Perspectives

The International Energy Agency (IEA) estimates that \$20 trillion in energy supply investment is needed to meet the basic scenario for global energy demand from 2005 to 2030. Of this, \$4.3 trillion will be for oil and \$3.9 trillion for gas. It is predicted that Caspian oil supply is likely to increase from about 2.5% to 7.5% of the global total between 2005 and 2030. In coming year, there will be large quantities of oil and gas being transmitted through the South Caucasus. Azerbaijan will be providing 1 million barrels per day by 2008-2009. By 2012-2013 these figures are likely to decline unless there are developments in deep level prospecting. Kazakhstan could easily double its supplies. Kashagan has giant resources and is likely to produce its first commercial oil in 2010. If Kazakhstan were to import six drilling platforms, it could exploit its reserves much quicker than if it insists on building five in-country. The issue of Kazakh exports is highly political as they have huge reserves and can choose from a range of options.

While the Iranian nuclear issue is not resolved, it is unlikely that international partners will look to transport oil and gas through Iran. It is clear that Russia is increasingly keen to use its gas commercially and also politically as part of its dispute with Georgia. There is also the question of the lack of availability of surplus gas for the west European market. Russia has an aspiration to increase supplies of gas to the hard cash market. It is unclear what investment levels in Russian gas will be and, as the IEA has said (7 November 2006) 'There are doubts, for example, whether investment in Russia's gas industry will be sufficient even to maintain current export levels to Europe and to start exporting to Asia.'

Clearly, Azerbaijan - as a major repository of fossil fuels - will be economically well placed. Armenia, however, will be looking for its least cost energy plan involving nuclear energy, diversification and regional integration. By 2016 it will have to decommission its current nuclear power facilities. Energy ministers from Iran, Armenia and Georgia have met recently to try to develop a co-ordinated strategy.⁴

Georgia must look to resolve its differences with Russia to achieve energy security. There is no stable investment climate in Turkmenistan. The Asia-Pacific market could prove an outlet for Caspian oil and gas. China is looking for gas prices comparable to cheap Chinese coal. There is unlikely to be a trans-Caspian pipeline in the absence of a legal settlement of the Caspian issue.

⁴ <http://www.gasandoil.com/GOC/news/ntm64399.htm>

Climate change and pressures towards energy efficiency have not yet impacted on Russia in terms of changing the energy subsidy structure. This will eventually have to come.

8 Is there a new great game in the South Caucasus?

Donald Rumsfeld's distinction between 'old' Europe and 'new' Europe has been much quoted. The 'new' Europeans are often considered to be keener to assert their nationality and be realistic about military issues. Since the mid-1990's both Russia and the US have taken a keen and intelligent interest in the region. Latterly Russia has been a bit passive. However, it must be recognised that Russia has no interest in instability in the region. The US, with its preoccupations with Iraq, Iran and Afghanistan, is also not looking for new areas of instability. The European Union is not keen to become involved in any military involvement in the South Caucasus. Turkey and Iran are certainly not interested in conflict. Russia and the EU are unlikely to get beyond parallel approaches to the region. There is unlikely to be co-operation and co-ordination between their responses in this foreign policy area. From the point of view of the region, the Russian and US responses are regarded as the 'hardware' of political response, whereas the EU is seen as providing the 'software' of diplomatic response. The EU in particular seems to have maintained relations with all three countries in the region even though the Russian-Georgian tensions represent a serious conflict. Even here it is felt that confidence-building measures could have their place. It remains to be seen how far the European Neighbourhood Action Plans can contribute solutions to any of the conflicts in the region. It is also clear that the energy market will be a dominant factor in the regional economy.

9 Russian Policies towards the Caucasus: Drivers and Prospects

Russia regards half of the Caucasus as being within Russia and half outside, with the South Caucasus regarded as Trans-Caucasia. Russian policy has been to establish normal relations with three countries going in their different ways with three separate national policies.

The presidential succession and identification of an heir to President Putin in 2008 is a key issue for Russia and all its policies. Anti-immigrant pressure and anti-Caucasian prejudice are increasing in Russia and the Russian leadership is keen to project an image of strength at home. In foreign policy, Russia asserts its independence and is cautious of multilateral structures where it does not play a leading role, such as the OSCE. The foreign policy orientation has also shifted from the immediate post-Soviet era when the concept of the 'near abroad' played an important role. Now much greater emphasis is focused on Russia and its immediate borders. Neighbours will therefore be dealt with on a much more pragmatic manner based on an assessment of benefit to Russia.

Russia enjoys good neighbourly relations with Azerbaijan; the leader of Azerbaijan was in Moscow at the time of the conference. Trade has recently doubled and there is a Russian diaspora within Azerbaijan. Armenia is an ally of Russia, and Russia has helped Yerevan get out of an impasse. Russia has little influence on Armenian-

Turkish or Armenian-Azerbaijani relations. President Kocharian was also in Moscow recently.

The most difficult part of Russia's relations with the region is the relationship with Georgia. At present, most commentators agree that this is not a successful discussion. Why is this going so badly? In Russia's view this is to do with the unconditional western orientation and nationalism of the Georgian leadership. From a Russian perspective, the Georgians need to understand that they cannot achieve positive results by alienating Russia. Russian policymakers argue that Georgia should abandon "anti-Russian rhetoric". This characterisation of Georgian government policy was rejected by Georgian participants at the conference who, in turn, suggested that Russia was being intransigent. From a Russian perspective 'measures' which are in place are a warning or signal to the Georgian leadership. The gas and electricity supplies are continuing.

There are certain issues with a highly charged symbolism. NATO (especially the intention of former Soviet countries to join NATO) is highly charged. President Saakashvili has also raised the symbolic temperature in the Russia-Georgia relationship. Policy making in Russia has become more coherent and centres around the presidential administration. The military are less powerful than previously, but Defence Minister Sergei Ivanov is an individual politician who is assessed to have considerable influence.

In the South Caucasus, the Georgians have raised the profile of the conflicts in South Ossetia and Abkhazia. These are unlikely to be formally recognised by Russia unless full-scale hostilities develop. If and when a political decision is made to incorporate Georgia into NATO, Russia is likely to abandon any efforts to persuade Abkhazia and the South Ossetians to seek to re-integrate into Georgia or to resolve the conflicts peacefully. Some commentators argue that Georgia must decide, if and when accession to NATO becomes a realistic option, whether it is prepared to pay the price of losing these territories.

For Georgia, the price of gas is linked to its political attitude towards Russia. In other countries, Russia is investing seriously, having purchased many key assets in Armenia. Azerbaijan, particularly the energy sector, is the most lucrative country, for investment in the region. Caspian security is an increasing concern for Russia (Iran and Islamist terrorists and drug dealers) but the Black Sea Security Initiative has stalled. Russia is seeking to regularise its energy pricing policy by raising the energy price for former Soviet countries.

Azerbaijan is likely to be the key country for the South Caucasus for Russia because of its energy reserves and the importance of Turkey and Iran for Russia is likely to grow in the medium term.

10 US Perspectives on the Region

US perspectives on the region are changing and developing, but the key area of policy continuity towards the region is that the US wants all of the multilateral initiatives (from the OSCE, the EU and NATO) to succeed. In addition, the US values its involvement in the Minsk Group.⁵ The fact that there are three successful independent countries in the region, in spite of many doubts fifteen years after independence, must be viewed as positive.

The US regards Russian and Iranian interests in the region as legitimate. American interests are not primarily economic; the primary concern is avoiding instability in the region. It is an important region in which Russia, Iran and Turkey are involved and US policy agrees that it is essential that three such important states co-exist in an area of security. The EU Neighbourhood Policy has possibilities for further development. The USA is concerned that there are some signs of fragility in the Nagorno Karabakh conflict and the Georgian conflicts.

In evaluating US and Russian policies, it is interesting to note that different ministries deal with the policies in the two countries. It is also now a widely shared view that multiple pipelines to ensure energy security (both from the supply and demand side) are beneficial. It remains to be seen whether the Russia-Georgia tensions are indicative of a prolonged crisis. Both the Georgia situation and the Armenia-Azerbaijan tensions are potentially serious. The overall US judgement of the region is that it is not yet playing to its full potential, held back by the continuing conflicts and incomplete economic reform.

11 A Region Without Conflicts: Realistic Prospect or Elusive Dream?

Many examples can be adduced to show the difficulty of conflict resolution. The situation in Kosovo could again lead to a major breakdown of peace and security. Quebec continues to engage in what has been referred to the 'Neverendum', the ongoing attempts to change the status of Quebec within Canada. Underlying conflicts can continue for a great length of time as the 800 years of Irish opposition to British rule has shown. However, the Quebec situation in Canada is not a real threat to peace and security and even in the Ireland context, there is a strong sense that enough ground has been won that the stability of peace is not seriously doubted. In Cyprus, the situation is less promising and the failure to resolve the issue is one of the points which throws into question Turkey's accession to the EU.

As Azerbaijan becomes richer and increases its military budget, there is a fear that there could be a military attempt to redraw the map. If, however, there is no determination to or likelihood of using military force, what is the purpose of the military build-up? From the Russian point of view, the use of 'measures' or economic pressure on Georgia over Abkhazia and South Ossetia does not seem to be bringing resolution of the conflicts nearer.

⁵ <https://www.osce.org/item/21979.html>

In all of the conflicts in the region, there needs to be a greater perception that the benefits of regional economic prosperity far outweigh the interests which can benefit from continuation of the conflicts. Only if the borders can be opened and regional economic integration and prosperity achieved will the prospects be promising for the entire region.

Armenia insists that the stages which could lead to a solution are already visible with the proposal for an interim status for Karabakh and a referendum in the future. The right of self-determination remains important. However, if state building fails in Kosovo, this could set a dangerous precedent for the South Caucasus. Armenian analysts stress that it is necessary to exclude the use of force as a means of resolving the Nagorno Karabakh conflict in the future and to spend much more energy in preparing the public for a peaceful resolution of the conflict.

Each of the conflicts in the region has its own characteristics, whether one is discussing Nagorno Karabakh,⁶ South Ossetia⁷ or Abkhazia.⁸ One of these conflicts is dealt with by the UN and two by separate Mandates of the OSCE. Efforts to find a resolution depend on the local circumstances. Those with experience in the negotiations suggest that the format for addressing the issues is not the key question; rather it is the readiness of the conflict parties to make progress. There is also a need to understand the interplay between the leaders, who have an ultimate responsibility for resolving the conflicts, and the local populations who have strong views on these subjects. Taking the risk to move towards a negotiated settlement also requires influencing public opinion. There is a general fatigue in all the nations of the South Caucasus regarding unresolved conflicts. Many ordinary people simply want to live a decent life with a predictable future and a rising level of income. No-one wants to live under a threat of future violence. Dialogues must be established which can lead to minorities feeling sufficiently safe and not living under threat. The issue of refugees and displaced people must also be addressed for a reconciliation process to begin which will heal the wounds of history. Economic co-operation and sharing the benefits of such economic co-operation is important.

The Nagorno Karabakh conflict has addressed all of the key issues in an attempt to find a solution. There is substantial agreement, but there can be no deal until all of the substantive issues are addressed. At the conference, the hope was expressed that the meeting of Foreign Ministers on the 14th November would pave the way for a meeting of the Presidents of Armenia and Azerbaijan, as a further step on the road to resolving the Nagorno Karabakh conflict.⁹

⁶ On OSCE initiatives with Nagorno Karabakh, see: <https://www.osce.org/item/13668.html>. The Minsk Group is co-chaired by France (Ambassador Bernard Fassier), Russia (Ambassador Yuri Merzlyakov) and the USA (Ambassador Matthew Bryza).

⁷ For recent responses by the Georgian government to OSCE initiatives, see: http://www.osce.org/pc/item_1_21888.html

⁸ On the UN presence in Georgia for the Abkhazia conflict, see: <http://www.ohchr.org/english/countries/field/georgia.htm>

⁹ For a comment on the meeting from Azerbaijan see: <http://www.azembassy.com/new/news.php?id=357>

12 A Region without Conflicts: NGO Perspectives

Some NGO observers have suggested that there is slippage in the democratic processes within countries in the South Caucasus. Democracy exists for narrow elites, but opposition voices are often marginalized and find it hard to get a real footing. This has implications for peace processes which are often initiatives of an elite. On Nagorno Karabakh, Ter Petrosyan could not achieve a deal and nor could Heidar Aliev, who was probably the most authoritative leader in the region. It is a particular difficulty when political leaders seek to negotiate seriously, but then resort to harder-line rhetoric outside the conference room.

External observers also advise that greater engagement with *de facto* but unrecognised political entities is necessary. Obviously, from the side of the states involved, they are reluctant to do anything which seems to confer legitimacy to such *de facto* entities. However, the approach of seeking to isolate, blockade and engage in hostile rhetoric towards these populations has not proved successful in terms of moving towards a solution of the conflicts.

For state leaders to engage in hostile rhetoric has also not proved successful in achieving agreement. Those engaged in these conflicts must also realise that, whilst there is international interest in their resolution, the level of international attention is considerably lower than that applied to the Middle East or the Balkans regions. In the final analysis, it is for the local conflict-partners to find a resolution to the conflicts in question. These are not 'frozen' conflicts; the conflicts in Georgia in particular are regarded as precarious. Time is not on the side of those who wish to achieve peaceful resolution. The price of the *status quo* is very high and keeps hostile rhetoric alive. The separatist leaders seem more determined than ever and there is a lack of younger people involved in active engagement towards peace.

It is also important for the international community to look ahead to beyond the settlement as, particularly in Nagorno Karabakh, it will be necessary for there to be peacekeeping after a settlement.

13 What are the costs of unresolved conflict and what are the dividends of peace?

In order to get new impetus behind moves towards peace, it is important to consider the incentives which can be applied. One has to assess how and why blockages are present and how these can be removed.

Despite external interest in the region and the impact of oil, there are still pockets of poverty existing even in Azerbaijan. The engagement of civil society is needed, not least for addressing issues related to internally displaced people and refugees. It is still the case that there is a lack of contact between those on different sides of the conflicts and that public attitudes are often dominated by fear and uncertainty. However, both NGO and business contacts are increasing. There is also a need for increased information about the work of regional institutions and the possibility of using EU Action Plans as a stimulus for increased contact.

A positive focus on peace dividends would be a forward-looking approach which might assist in moving towards resolution of the conflicts. The role of external NGOs in facilitating contacts and the formulation of positive visions for the future is important.

A key to moving communities in conflict forward is to show the costs of the status quo and the benefits of a resolution. It is clear that the current situation is not working, although, for example in the Nagorno Karabakh conflict, twelve years of ceasefire is a considerable improvement on open hostilities. A solution based on popular acceptance and the rule of law is vital. Blockades have not led forward and reconsideration is necessary.

14 Public support for regional peaceful co-existence

Any programme of reform is bound to fail unless it has popular support and is led by popular demand. However, it is often not the case that plans worked out at government or international level, for example, the European New Neighbourhood Policy, have popular understanding and support. NGOs working with the grassroots pick up sentiments such as the following:

- 'The President went to negotiate, but we do not know what was discussed';
- 'The Government is removed from the people and nobody asks ordinary people what should be done';
- 'The Government should discuss with people often and also provide information to them so that the population is ready for a compromise solution';
- 'The Government says we are moving towards Europe, but what does that mean? What difference will it make?'

Ordinary citizens in Armenia involved in discussions on the future of Nagorno Karabakh were concerned that a fair and peaceful solution should be reached. It can be assumed that there are similar concerns on the Azeri side.

Obviously, it is difficult for leaders to divulge the content of negotiations while they are in progress, yet more could be done in terms of public information. The issue of Nagorno Karabakh is one of real concern to a large percentage of the population of Armenia and Azerbaijan.

The strong demand from citizens who were asked by NGOs about the peace process is to be involved in discussion of the process. Ordinary citizens claim the rights to be informed and to express themselves and to be heard.

15 The South Caucasus as a crossroad of cultures

Perceptions of reality are central to how one views one's world and responds to it. Whether the approach is from the sociology of knowledge (Berger and Luckman) or the world of representation in film (Kurosawa's *Rashomon*), the perception of reality determines how one responds to it. One great power's '*cordon sanitaire*' is seen as a threat to others. It is clear that the East has shrunk and the West has expanded in

the last twenty years and this is difficult for the Russians to accept. The promotion of democracy and the alternative ways of looking at the world are important.

The countries of the region, having asserted their individual identity, now need to look at pooling their sovereignty, to some extent, to foster a regional identity. Questions must be asked, from within the region, 'Who are we? Where do we come from? Where are we going?' The South Caucasus is a region which has to adapt to the policies and perceptions of Russia, the USA, the European Union, Iran and Turkey as well as aspirations and policies of the countries within the region. Iran wants to break out of its enforced isolation. Armenia has quite straightforward relations with Iran and understands that Iran does not wish to be hemmed in. The earlier fear of Turkic expansion in Central Asia has proved over-stated. However, Armenia's traditional links to Europe cannot be seen as an easy route to integration into the EU. There is unlikely to be a seamless and continuous enlargement of the EU, not least because of complications with Turkey. Countries from the Balkans are also queuing up for accession.

Diaspora groups, particularly in the Armenian case, are very anxious about national identity, whereas the Armenians who live in Armenia are not anxious in the same way. Relations with outside partners can help. For example, Hungary and Romania were helped by the European Union to avoid serious tensions.

16 European Policies towards the South Caucasus

Relations between the European Union and the South Caucasus countries have never been better than they are today. The EU wants a stable, prosperous neighbourhood. From the early 1990s, the European Commission was providing technical assistance. The EU has also been active in Partnership and Co-operation Agreements. These were just some of the many approaches from the EU's side. The Action Plans submitted by Armenia, Azerbaijan and Georgia were all accepted in late 2006.¹⁰ They outlined an ambitious set of goals, tailor-made for five years. The approval of the Action Plans occurred through the Co-operation Council. The Action Plans written have been quite diverse, but must comply with European structures and standards. The concept underlying them is one of joint ownership and the countries of the South Caucasus are not just the object of new policies. They do, however, indicate the developments which are needed in justice and home affairs, economic relations, trade and energy. They also represent a financing and policy instrument. Two of the priorities for the European Neighbourhood Policy towards the region are conflict resolution and regional co-operation. The EU is not directly the instrument for conflict resolution and is not there to intervene directly in negotiation of conflicts. The EU is not seeking to multiply new commitments, but rather to ensure that decisions that have been taken are fully implemented. A revitalised dialogue with the EU is seen as a goal, as is the further development of neighbourhood policy. Germany wants this to continue, with co-operation around the Black Sea. It is not the aspiration of the EU to have first- and second-class neighbours, but rather to formulate a coherent approach. Financial approaches will be augmented through the work of the EBRD. There is some concern that European Neighbourhood Policy is a

¹⁰ http://www.delarm.ec.europa.eu/en/eu_and_armenia/european_neigh.htm

'consolation prize' and that only accession to the EU is decisive. The key issue is whether the governments of the region are committed to a reform agenda and have the will to change.

Georgia became a member of the Council of Europe in 1999 and Armenia and Azerbaijan joined in 2001. The Council of Europe along with other organisations is committed to peaceful resolution of conflicts, and also insists on members applying the European Convention on Human Rights, which includes an anti-torture mechanism and the abolition of the death penalty. The standard setting of the Council of Europe is also important for helping countries develop new laws. The Council of Europe is also involved in election monitoring in the South Caucasus.¹¹

As regards orientation to western security structures, both Georgia and Azerbaijan aspire to eventual full membership of NATO, whereas Armenia is still interested in good co-operation with NATO but with no aspiration to join.

The European Bank for Reconstruction and Development (EBRD) is working in the region and encourages micro-, small- and medium-sized enterprises. It also works in natural resources, the financial sector, agribusiness, transport infrastructure, municipal and environmental infrastructure and energy. The prospects for the region are that strong economic growth should continue, but unless longer-term bottlenecks such as political instability and unresolved conflicts, lack of economic diversification and a weak financial sector are addressed, the prospects might not be so good in the future. Barriers to inter-regional trade must also be addressed.

Other challenges include diversification of the economy, promoting competition, restructuring the economy, minimising corruption and improving access to capital through increased bank intermediation.

17 A Vision for the Region

For each of the countries in the South Caucasus, the threat perception will be different. Issues facing each of the countries in different measure are terrorism and organised crime, trafficking and being in a possibly unsafe wider neighbourhood. The conflicts in Chechnya and the Pankisi Gorge are clearly threats to security in Georgia. As regards internal processes, there has been considerable success in the democratic transformation of the state and the development of viable policies to resolve conflict. Economic transition has occurred and there is strong incentive for foreign and local business. For Georgia, with its aspiration to eventually be involved in NATO, the question presents itself 'What kind of neighbour will Russia be? Will it be a deepening problem or will it be a genuine partner with the intention of being a good neighbour? Georgia tends to define its own role so that the last fifteen years have not been in vain. Georgia intends to play its part in the international struggle against global terrorism on land and on sea. As regards Central Asia, it is looking for a transit of energy and transport corridors. Georgia has watched with concern the

¹¹ See the election monitoring activities on Georgia <http://assembly.coe.int/Main.asp?link=/Documents/AdoptedText/ta05/ERES1415.htm>; and Armenia <http://assembly.coe.int/>

way in which the Ukraine has been put under pressure with the cutting off of energy supplies and therefore seeks to diversify its own supply sources from the Caspian region. Georgia will also seek, in its foreign policy, to ensure the South Caucasus is on the radar screens of the EU and NATO. It seeks to have a more constructive dialogue with Russia, which will clearly remain an important player in the region.

Other views from the region, particularly from Armenia, stress the need for a balance in the relationships between Russia, the EU and the US. Iran and Turkey will remain, as they have been traditionally, actors in the area.

Many in the region aspire to a comparison with the Baltic States and their ultimate goal is to join the EU and NATO. It is clear that there is an element of enlargement fatigue within the EU and that Russia is resistant to countries joining the EU and NATO. It employs energy as an effective tool of its policies. Western Europe is becoming more alert to the issues of energy security. It remains the case that there is an objective tension between Georgia and Russia and that this is not moving forward. It is hoped that Russia adopts a more pragmatic approach to the region than it has done recently in relations with Georgia.

It remains promising that the region has enjoyed fifteen years of independence and that economic progress continues. There are still obstacles to travelling freely in the region and even more obstacles to inter-regional co-operation. Considerable attention is given to the final arrangements for Kosovo, in particular the extent to which the wishes of the local population (for self-determination) will be respected. Furthermore, developments between Iran and the wider international community will also have an impact on the region. Fifteen years have passed since independence and there is still the legacy of conflicts which have not yet been resolved.

A recent television documentary asked villagers who had been involved in the Nagorno Karabakh conflict about their views on the region. Many commented positively on their former lives and reflected on the tragic period of war. None, however, see the possibility of going back to the situation which pertained before the war, but they find it hard to forgive and to move forward. It is unthinkable that the region could sustain another fifteen years of hostility. Confidence-building measures are necessary to help the region to move forward and resolve the outstanding conflicts.

It remains the case that the South Caucasus is a fractured region, with natural and political barriers, blockades and sanctions. Nonetheless, it remains a realistic aspiration that by 2010 the region could be more united, more prosperous, more democratic and have greater security.