The Wider Black Sea Region in the 21st Century:

Strategic, Economic and Energy Perspectives

Edited by

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and

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Preface

Daniel Hamilton and Gerhard Mangott

The wider Black Sea region has become a new strategic frontier for Europe, Russia and the United States in terms of energy security, frozen and festering conflicts, trade links, migration, and other key policy areas. Prospects for the Black Sea in the 21st century will be shaped by the interaction between major external actors, the ambitions of states and peoples in the region, and the region's role as a crossroads of civilizations.

In this volume leading scholars from Europe, Russia, the U.S. and the region itself address the dynamics of the wider Black Sea. They examine whether this expanse of land and sea can justifiably be described as a coherent region; outline aspirations and challenges; discuss major issues of conflict; and identify potential for cooperation. The many issues raised by this dynamic region give rise to various perspectives, many at odds with each other. Rather than engaging in the dubious task of forcing consensus on our diverse and notable set of authors, we have preferred to offer the reader a deeper appreciation of the region's challenges, as well as its promise, by presenting a number of different—and sometimes sharply conflicting—views regarding the wider Black Sea region.

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The Wider Black Sea Region in the Twenty-First Century

Charles King

The place of the wider Black Sea region in the wider Europe has never been a straightforward matter. "We have just crossed the Terek [River], upon a very indifferent raft," wrote the wife of a Russian imperial official in 1811, "and are now out of Europe."[1] For many travelers in the nineteenth century, moving across the Terek or Kuban rivers in the north Caucasus, crossing the Caucasus mountains, or sailing across the Black Sea involved moving out of Europe and into Asia, from one clearly defined and civilized space into the realm of the primitive and the unknown. But that view was not universal. Karl Marx once remarked that he regarded the squelching of two inchoate revolutions—the Polish rebellion of 1830 and the Russian expulsion of Caucasus highlanders in the 1860s—as the two most important "European" events of his lifetime.[2] The German diplomat Max von Thielmann stretched the boundaries even further. "Europe ceases at the Place du Théâtre," he wrote in 1872, referring to a square in Tiflis, modern Tbilisi.[3]

The Black Sea region—defined as the land- and seascape from the Balkans to the Caucasus and from the Ukrainian and Russian steppe to Anatolia—is once again squarely within the field of view of European policymakers. The European Union (EU) and NATO now border the Black Sea on the west. Turkey, an EU accession country and NATO member, borders it to the south. Members of the Council of Europe and two NATO aspirants border it on the north and east. A region that a decade ago was on the far edge of Europe's consciousness

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[1] Frederika von Freygang, *Letters from the Caucasus and Georgia* (London: John Murray, 1823), p. 32.

[2] Karl Marx to Friedrich Engels, June 7, 1864, in Marx and Engels, *Collected Works* (New York: International Publishers, 1975), 41:538.

[3] Max von Thielmann, *Journey in the Caucasus, Persia, and Turkey in Asia*, trans. Charles Heneage (London: John Murray, 1875), 1:222.

has now become the next frontier of European strategic thinking in terms of energy security, trade links, migration, and other key policy areas.

At various points in history, a distinct region defined by the Black Sea and its hinterlands has been a commonplace of European affairs, although the limits of that region have fluctuated over time. Over the last two decades, there has been considerable effort to revive Black Sea regionalism, in part through the establishment of the Black Sea Economic Cooperation forum (BSEC) in 1992 and its upgrade to the status of a full-fledged organization in 1999. Furthermore, the process of EU enlargement, the EU's need to develop a clear set of policies regarding the future of its "neighborhood" to the east, U.S. dependence on allies around the sea during the Iraq war, and Russia's revived desire for influence across Eurasia have all made the Black Sea region of considerable strategic interest.

This chapter places this newfound engagement with the wider Black Sea world in its historical context, offering a look back at the grand historical sweep of the region and its fitful engagement with Europe. It seeks to place the region's current challenges in the broad context of the many projects for Black Sea regionalism that have defined this zone in the past. The essay is organized around three sets of questions: First, what is a region, and is the Black Sea one? Second, how have projects for making the Black Sea into a region fared historically, and what are the obstacles to Black Sea regionalism today? Third, what are the likely prospects for and pitfalls of Black Sea region-building in the early twenty-first century?

What is a Region?

Searching for a set of timeless, objective traits for establishing what sets off a real region from an imagined one is futile.[4] There are no clear criteria for distinguishing a "genuine" region from any other piece of real estate. Some areas that share cultural, linguistic or historical commonalities are divided into mutually antagonistic states. Other areas that have few common historical or social features manage to sustain a sense of mutual identity and engage in cooperative foreign

[4] This section draws on Charles King, "Is the Black Sea a Region?" in Oleksandr Pavliuk and Ivanna Klympush-Tsintsadze, eds., *The Black Sea Region: Cooperation and Security-Building* (Armonk, NY: M. E. Sharpe, 2004), pp. 13-26.

policy relationships. Thus, where regions emerge as political concepts, they do so in the main because of self-conscious projects to build them, whether cooperatively or through the tried-and-true mechanisms of imperial expansion and state conquest. In the end, regions exist where politicians and strategists say they exist.

Where do regions come from? How do they become consolidated? Why do only a few of them succeed in creating integrated interests? These are some of the central questions in the now vast literature on regions and regionalism. Within this body of research, three themes stand out. First are the sources of regional connections and identities. How do patterns of migration and trade connect communities over time and space? How do speakers of different languages, with allegiance to different cultural, national or religious traditions, come to see themselves as part of larger territorial entities beyond local communities and across nation-states? What is the relationship between regional integration in one sphere, such as economic interdependence, and connections in other domains, such as culture or politics?

A second theme is the way in which outsiders come to conceive of particular territorial zones as regions. What is the relationship between how outsiders perceive regional boundaries and the way the inhabitants of those zones understand themselves and their immediate neighbors? What constellations of power—political, military, economic, intellectual—enable one group of people to reify innocuous geographical or cartographical boundaries into meaningful frontiers of culture, power, and identity?

A third theme is the problem of regionalism itself, that is, distinct projects for crafting a sense of belonging to a broad community based on territorial proximity, common domestic policies, or cooperative foreign policies. These projects might be limited to a territory within a particular country (the regionalism of the American South or of the Scottish Lowlands, for example) or may focus on bringing together a group of nation-states (the regionalism of the Pacific Rim). But why do some succeed while others remain quixotic efforts to crafting a regional space in the face of powerful countervailing interests? Like nations, regions may be "imagined" by political elites, but they are not imagined out of thin air.[5] Defining who is inside and outside a region

[5] Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism*, rev. ed. (New York: Verso, 1991).

is an essentially political process involving systemic constraints, the goals of political elites, domestic institutions, international organizations, and transborder communities, none of which may have exactly the same vision of what constitutes the proper boundaries of the region in question.[6]

Scholars have offered radically different answers to such questions. Systemic theorists and political economists usually see the growth of regions as a function of rising or declining hegemony, or as a response to the pressures of globalization.[7] Neoliberal institutionalists and constructivists emphasize the existence of common foreign policy goals or shared identities. Both may be reciprocally enhanced by the very institutions of cooperation that they originally spawned.[8] State-level explanations focus on the patterns of interaction among states with similar regime types or domestic interest groups, or the multilevel interaction between domestic elites and international institutions.[9] Other theorists see "regional security complexes" not as aberrations in a world of nation-states, but rather as some of the basic building blocks of the international system.[10]

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[6] See Ole Waever, "Three Competing Europes: German, French and Russian," *International Affairs*, Vol. 66, No. 3 (July 1990), pp. 477-493; Iver B. Neumann, "A Region-Building Approach to Northern Europe," *Review of International Studies*, Vol. 20, No. 1 (January 1994), pp. 53-74.

[7] For accounts of regionalism based on power relationships and hegemony, see Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987); Charles A. Kupchan, "After Pax Americana: Benign Power, Regional Integration, and the Sources of a Stable Multipolarity," *International Security*, Vol. 23, No. 2 (Fall 1998), pp. 40-79. For political economy perspectives, both welcoming and wary of regional trade arrangements, see Jagdish Bhagwati, *The World Trading System at Risk* (Princeton: Princeton University Press, 1991); Edward D. Mansfield and Helen V. Milner, "The New Wave of Regionalism," *International Organization*, Vol. 53, No. 3 (Summer 1999), pp. 589-627; Edward D. Mansfield and Helen V. Milner, eds., *The Political Economy of Regionalism* (New York: Columbia University Press, 1997).

[8] See Volker Rittberger, ed., *Regime Theory and International Relations* (Oxford: Oxford University Press, 1993); Gregory Flynn and Henry Farrell, "Piecing Together the Democratic Peace: The CSCE, Norms, and the 'Construction' of Security in Post-Cold War Europe," *International Organization*, Vol. 53, No. 3 (Summer 1999), pp. 505-535.

[9] Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Princeton: Princeton University Press, 1998).

[10] Barry Buzan and Ole Wæver, *Regions and Powers: The Structure of International Security* (Cambridge: Cambridge University Press, 2003); David A. Lake and Patrick M. Morgan, eds., *Regional Orders: Building Security in a New World* (State College: Pennsylvania State University Press, 1997).

One of the central findings in this variegated literature is that common identities are not an essential component of regions as historical phenomena or as political projects. Rather, regions involve a set of essential connections and interests that bind together peoples and polities. In this regard, the Black Sea is a reasonable candidate for status as a distinct region. There is no "Black Sea identity" common to Romanians, Turks, Georgians, and others; even in coastal areas where such an identity might once have been found, it has long been supplanted by loyalty to the nation-state. Yet depending on the criteria we use, the wider Black Sea has clear qualities as a distinct—although elastic—zone. In ecological terms, it stretches from central Europe to the Ural mountains. The rivers that run into the Black Sea drain all or part of twenty-two countries, and the effluents carried in those riverways have a profound effect on the sea's ecology. By contrast, if the criterion for membership is a border on the sea itself, then the Black Sea region is much smaller, including only six countries. If the criterion is membership in a political organization, then the region is rather larger, including the twelve countries united in BSEC.

Over the long stretch of history, the degree to which the Black Sea has been a united region has fluctuated, a long sine wave oscillating between cooperation and conflict. But even during those times when the sea has been a zone of confrontation, it has remained a unique playing field on which the interests and aspirations of the peoples and polities within it have been played out.

The Black Sea in Historical Perspective

For most of the last two centuries, the strategic environment of the Black Sea zone has been shaped by the interaction of three factors: the shifting balances of power among European and Eurasian states and empires; the political ambitions of smaller states and peoples directly affected by the actions of these powers; and the status of the region as a transit point for goods on global east-west and north-south trade routes. In many ways, these factors continue to define the issues and interests in the Black Sea world today, and it is thus worth an examination of their historical roots and how interactions among them have changed over time. Moreover, regionalism as a political program—the attempt to define the Black Sea world as a distinct place whose con-

stituents should be bound by common interests—has itself repeatedly emerged as a response to these same issues.

The year 1774 saw the crucial opening of the Black Sea to Russian-flagged commercial vessels, a concession that Catherine the Great had received from the Ottoman sultan as a result of her victory in the Russo-Turkish war of 1768-1774. Russia had been engaged in the Black Sea world long before the 1770s. The first diplomatic contacts between Russia and the peoples of the north Caucasus, for example, run back to the reign of Ivan IV (the Terrible) in the sixteenth century. Nearly two centuries later, Peter the Great began a series of military campaigns on the northern littoral of the Black Sea as well as along the western coast of the Caspian, forays that were eventually abandoned, with territory retroceded to Ottoman or Persian authority. However, by the 1770s, Russia's aspirations in the region were bound to two clear strategic goals: opening up the sea to European commerce, which would be controlled and directed in the interests of the Russian state; and unseating the Ottoman sultan and placing a Russian prince on the throne of a revived Byzantium.

The first goal entailed encouraging commerce along the northern rim of the sea. The establishment of new trading depots and cities such as Odessa and Kherson created points of exchange where European merchants, Russian officials, and traders, peasants, and nomads from the hinterland could interact. The second goal—political and military dominance—went unrealized. Although the Ottomans were now a faltering empire, they proved far more resilient than the military defeat of 1774 had suggested. Moreover, as it became increasingly clear to European strategists that Russia aimed to profit at the sultan's expense, Europeans were quick to buttress the sultan as a buffer against Russian encroachments. Not only had Catherine made the sea something of a Russian commercial lake, but she and her successors also strengthened their ties with the regional powers of the hinterland. In 1801 Russia annexed the kingdom of Kartli-Kakheti—which comprised much of modern Georgia—and thereby established a clear foothold south of the Caucasus mountains. Further territorial acquisitions in 1812 placed Russia in effective control of the coastline from the Danube, across the northern littoral, and toward the Caucasus coast.

The fear of Russia's intentions around the Black Sea was only enhanced by the wars of the early nineteenth century. Two conflicts

between Russia and the Ottoman and Persian empires in the 1820s sealed the territorial gains of the late eighteenth century and hardened Russia's position along the Danube, along the Caucasus coast, and south of the main chain of the Caucasus mountains. These changes set the stage for the Crimean war, the only conflict of the nineteenth century that involved all the strategic players that had, by now, attained a clear interest in the fate of the Black Sea zone. Russia was defeated in 1856 by the combined forces of Britain, France, the Ottomans, and Sardinia; the Russian Black Sea fleet, which had opened the war with a stunning attack on Ottoman forces wintering on the sea's southern coast, was scuttled and coastal defenses, by treaty, destroyed. Yet that setback was only temporary. By 1870 Russia had repudiated the terms of the postwar treaty and launched a modernization and rebuilding program of its coastal defenses and naval vessels.

Throughout the long period of Russian expansion to the south, the interests of local elites played a significant, if often background, role. The princes of Kabarda in the north-central Caucasus sought Russian protection against the depredations of the Nogay, Kalmyks, and other nomadic peoples. The kings of Kartli-Kakheti appealed to the tsar for assistance against attacks from Persians and Dagestani highlanders. Nobles in the Danubian principalities of Wallachia and Moldavia looked to Russia as a lever against their nominal sovereign, the sultan.[11] Yet from the 1870s forward, the complex interaction of local interests with imperial designs would become one of the defining features of the Black Sea strategic environment.

The Russo-Turkish war of 1877-1878 began with Russian concerns for Christian populations in the Ottoman empire, concerns that were enhanced by local minorities' appealing for intervention on their behalf. The Treaty of San Stefano, which formally ended the war, created a massive Bulgarian principality, a state that was still formally a dependency of the Ottomans but was in practice influenced by Russia. As had happened earlier in the century, however, the European powers grew concerned about Russia's rising influence in the Near East and held an international conference to revise the terms. The resulting Treaty of Berlin whittled down the Bulgarian principality, but many of the other provisions of San Stefano remained in place. The Black Sea

[11] See Sean Pollock, "Empire by Invitation? Russian Empire Building in the Age of Catherine the Great" (Ph.D. dissertation, Harvard University, 2006).

world became not simply a battleground between empires but a strategic environment that was profoundly influenced by the interests of new states recognized as fully independent in the wake of the last Russo-Turkish conflict: Serbia, Montenegro, Romania, and eventually a fully independent Bulgaria as well.

By the end of the nineteenth century, the Black Sea region had become a zone not only of strategic importance but also of growing commercial significance. Between 1880 and 1914, the level of European and global engagement with the sea was greater than perhaps any time since the Middle Ages, when Italian merchants crisscrossed the sea on their way to and from China. The coal deposits of the southern coast, the grain fields of the north, and the oil wells of Romania and the Caucasus attracted a host investors and businessmen. The region was no longer a far-off frontier but a vital resource for European empires, nation-states, and commercial enterprises.

The next major conflagration around the sea—the First World War—engulfed all the old empires and newer nation-states. When the war ended, four states now encircled the sea, all four of which were, in different ways, young countries. All were built on the ruins of older states or empires, but each had either new borders or, in the case of republican Turkey and the Soviet Union, radically new bases for state-building and social order. For three of these states, the central strategic conundrum was how to deal with the existence of the fourth. The organizing idea embraced by Romania, Bulgaria, and Turkey—nationalism—was at odds with a Soviet ideology that abjured the notion of nationality and proclaimed its own universality: the liberation of all toiling masses from imperialism and capitalist exploitation. The international relations of the Black Sea region thus necessarily concerned how to build a system of alliances to ward off the Bolshevik threat while consolidating the independence and borders of the new states that had emerged from the post-war peace treaties.

In this environment, several of the leading political figures in each of the non-Bolshevik states banded together to form a political movement that represented the first modern attempt to think about the Black Sea as a distinct political unit—the earliest instance of modern Black Sea regionalism. Their aim was to create a community of small states across the Near East to ensure secure borders and real independence against the attempts of neighboring states or outside powers

to exercise hegemony on or around the sea. The so-called Promethean project—named after the Paris-based journal *Prométhée*, the project's flagship publication—consisted originally of a group of Eurasian émigrés and exiles, all dedicated to the liberation of the captive peoples of the Soviet Union. With the active financial support of the interwar Polish government, the Prometheans lobbied foreign governments and attempted to expose the injustice of the absorption of Ukraine and the Caucasus states into the new Soviet Union. In the 1930s, the Prometheans called for the creation of a political and economic alliance of Black Sea states, including Turkey, Romania, and Bulgaria, as well as a future independent Ukraine and Georgia. As one Ukrainian Promethean declared, the strategic value of such an alliance was clear: "With its left wing touching on Poland, passing by the friendly lands of the Cossacks of the Don, Kuban, and Urals, and with its right wing reaching out to the oppressed peoples of Asia, Turkestan, and other areas, this bloc of states will stop once and for all the imperialist tendencies of Russia, whether of the Red or White variety."[12]

The Promethean project ultimately failed, of course, at least for the better part of the twentieth century. The Second World War ushered in the triumph of Communism in Romania and Bulgaria, effectively creating a unified strategic front on three of the sea's four coasts. During the war, policies of ethnic cleansing and genocide were energetically pursued by both the Axis and the Soviets, with entire populations deported and the demographic features of the seacoasts radically transformed. The result was the integration of politics, culture, and economics from the Balkans to the Caucasus on a scale that had never before been seen. Trade, agriculture, and industry were carried on within the confines of state-regulated plans, which were in turn coordinated with the production targets and needs of the Soviet Union. The southern coast remained outside this scheme, since Turkey was taken under the defensive umbrella of the West, joining NATO in 1951.

For most of the second half of the twentieth century, the Cold War produced a period of relative peace on the sea. The same period saw the development of the coastal regions on an unprecedented scale.

[12] Dmytro Boug, "La Mer Noire," *Prométhée*, no. 73 (December 1932), p. 22. On the Prometheans see Charles King, *The Ghost of Freedom: A History of the Caucasus* (New York: Oxford University Press, 2008) and Timothy Snyder, *Sketches from a Secret War* (New Haven: Yale University Press, 2005).

The riches of the sea were now the property of four states, each with a government-directed program of rapid development, from Romania's building of the Danube-Black Sea canal, to the Soviet Union's investment in intensive agriculture on the plains of Ukraine, to Turkey's expansion of fishing fleets and upgrading of coastal roads. All were engaged in a contest to catch up with the rest of Europe and break through to modernity, and all would equally suffer the unintended consequences that such a contest produced.

Serious environmental change was the most immediate result. Environmental transformation is not new around the Black Sea. The grasslands in the north and west began to disappear in the late eighteenth century, broken by ox-drawn plows. Wooded riverbanks were clear-cut at the same time, as were dense forests in the upland Caucasus. In the latter half of the twentieth century, however, the combination of mechanized agriculture, industrialization, urban growth, and new energy technologies accelerated change along the coastline and began to transform the sea itself. According to Laurence Mee, one of the world's leading experts on Black Sea ecology, the sum of these developments was, by the end of the twentieth century, "an environmental catastrophe."[13] Hypoxia—the draining of oxygen resources from the sea due to the build-up of excessive organic matter—is a problem in many of the world's inland seas, but the rapid growth of agriculture and urban centers over the last half century has had a particularly deleterious impact on the Black Sea. From 1973 to 1990 the area affected by hypoxia increased from 3,500 square kilometers to some 40,000 square kilometers, particularly in some of the shallowest reaches of the sea, the northwestern shelf along the coasts of Romania and Ukraine.[14] Over the last two decades, hypoxia levels have fluctuated considerably, and there has even been some indication of an improvement. But the basic problem remains: With massive levels of organic matter flowing into the sea from some of major rivers of Europe and Eurasia—including the Danube, the Dnepr, and the Don—oxygen

[13] Laurence David Mee, "Protecting the Black Sea Environment: A Challenge for Co-operation and Sustainable Development in Europe," Centre for European Policy Studies (Brussels) and International Centre for Black Sea Studies (Athens), 2002, p. 4. From 1993 to 1998, Mee coordinated the Black Sea Environmental Program in Istanbul.

[14] Yu. Zaitsev and V. Mamaev, *Marine Biological Diversity in the Black Sea: A Study of Change and Decline* (New York: United Nations Development Program, 1997), p. 15.

depletion and the attendant decline of major fish species present considerable challenges.

The human consequences of these changes have been profound in the last few decades. Fishing fleets have been dry-docked. Fish processing centers have closed. A major source of protein has progressively disappeared from regional diets, especially along the southern coast. Migration from the coastal areas to urban centers inland has increased and has fueled the growth of cities such as Istanbul, Ankara, Kyiv, and Tbilisi. Tourist facilities, troubled by coastal erosion and polluted beaches, have declined in many regions. Today, human communities and countries that ring the littoral face perhaps the greatest environmental, economic, and social crisis in the sea's entire history. For more than two millennia, empires, states, and nations have staked out claims to the waters of the Black Sea. In the twenty-first century, the major question will be whether the sea—depleted of resources and presenting more of a threat than an opportunity to the citizens of the region—will still be worth having.

Prospects and Pitfalls

The countries around the modern Black Sea region have inherited a long history of conflict, cooperation, and interaction. This history will form the context for future debates about the Black Sea's strategic, economic, and even natural environment.

The remarkable feature about the Black Sea today, however, is that despite the many territorial disputes and the mutual distrust inherited from the past, armed conflict among the states of the Black Sea zone is now unlikely—although not unthinkable. In only one instance has a territorial dispute between two states led to war: the Armenia-Azerbaijan war over Nagorno-Karabakh, which ended in a stalemated ceasefire in 1994. The only other major instance of potential international strife concerned the status of the old Soviet Black Sea Fleet, whose ships and personnel were claimed by both independent Ukraine and the Russian Federation. That stand-off was settled in 1997, when the two governments agreed to divide the naval assets and to provide Russia with a lease on the port at Sevastopol. (The Russian lease is due to expire in 2017, however.) Relations between Russia and Georgia have fluctuated from tense to inimical, but neither country has yet had an

incentive to engage in all-out war. In a part of the world where modern borders have frequently been changed by force, the near absence of international conflict is a notable feature of the regional security complex that has emerged around the sea in the last two decades.

Today, it is not the strategic ambition of states but rather their internal weakness that represents the chief threat to peace and stability. With some exceptions, poverty is deep and endemic; it is not merely the result of the transition from state planning to the market, but rather a structural and long-term feature of local economies. Moreover, the eastern Balkans, Turkey, Ukraine, and the Caucasus are significantly behind other parts of east-central Europe in terms of democratic reform.[15] Even in the most reformed countries, the newest EU member states of Romania and Bulgaria, levels of civic freedom and civic engagement are closer to those in Honduras than in Hungary. Several countries—Armenia, Azerbaijan, Ukraine—have actually regressed on the democratization scale since the early 1990s, despite the hopeful "color revolutions" of 2003 and 2004.

The farther east one moves across the zone, the less able government institutions become. In some areas, they work simply because they happen to provide revenue sources for office holders, in the form of bribes and kickbacks. Even within the region's EU member states, social services are often inadequate, and in many others, daily survival often depends on social networks of family, clan and ethnic group, which in turn discourages individuals from thinking of themselves first as citizens and only secondarily as members of a distinct communal group.

Environmental degradation and potential ecological disasters represent hazards to both present and future generations. Transit migrants and asylum seekers increasingly regard the region as an accessible waiting room for eventual migration, whether legal or illegal, into the EU. Refugees and displaced persons from armed conflicts in the Caucasus—some of them displaced for more than a decade—have placed further burdens on states that have difficulty providing for their own citizens, much less those of neighboring countries. It is no exaggeration to say that the population movements of the 1990s and the early 2000s—the flow of economic migrants, asylum-seekers,

[15] Freedom House, *Annual Survey of Freedom Country Scores*, www.freedomhouse.org.

transit migrants, and refugees—may yet transform the demographic structure of the region in as profound a way as the region's last major period of mass population movement: the multiple rounds of ethnic cleansing and war-time displacement that took place from the 1860s to the 1920s.

The particular problems of weak states are most striking in the outcome of the region's secessionist wars. In the early 1990s, several small wars and insurgencies raged across the wider Black Sea zone, but by the middle of the decade most had settled into relative stability. In the Balkan and post-Soviet conflicts, full-scale peace agreements or temporary ceasefires were signed; in some instances, large-scale international reconstruction efforts were put in place and foreign peacekeepers deployed. In four important instances, however, the end of all-out war did not produce a real solution to the conflicts. Instead, unrecognized but functional states grew up in the former conflict zones, de facto countries that have done an exceptional job of surreptitiously acquiring the accoutrements of sovereignty.

South Ossetia, Abkhazia, Nagorno-Karabakh, and Transdniestria have spent the better part of a decade as really-existing entities in the wider Black Sea zone. The internationally recognized governments that host them—Georgia, Azerbaijan, and Moldova—have continually called for outside help in settling the disputes, and multiple rounds of peace talks have been underway since the early 1990s, sponsored by the Organization for Security and Cooperation in Europe (OSCE), the United Nations, the Russian government, and Western countries. But in no case is a final resolution any closer than in the period from 1992 to 1994, when ceasefires were agreed in each conflict. The secessionists won the wars of the Soviet succession, and it should not be surprising that the unrecognized victors have been loath to cede control back to the recognized governments that they vanquished.[16]

In this limbo between war and peace, Eurasia's unrecognized states have created real institutions that are now brakes on the reintegration of these territories into the recognized countries. All have the basic structures of governance and the symbols of sovereignty. All have military forces and poor but working economies. All have held elections

[16] For a full discussion of the unrecognized states, see Charles King, "The Benefits of Ethnic War: Understanding Eurasia's Unrecognized States," *World Politics* (July 2001); Dov Lynch, *Engaging Eurasia's Separatist States* (Washington: U.S. Institute of Peace, 2004).

(in some instances reasonably democratic ones) for political offices. All have set up currency structures, border regimes, and educational systems separate from those of the recognized states. Most current maps show only six states around the Black Sea, but if a baseline test of a "state" is simply the ability to exercise sovereign control over a defined piece of territory, then there are in fact at least ten, perhaps more, depending on who is doing the counting.

It was in part to deal with the problems of state weakness and to ensure that internal disputes would not erupt into international war that the littoral states and their neighbors launched a program of regional cooperation in the early 1990s. In June 1992, at a summit meeting in Istanbul, the heads of state of all the Black Sea littoral countries and other regional neighbors met to proclaim the emergence of a broad cooperation program, a set of initiatives that would eventually include policy areas such as the environment, crime and corruption, investment, taxation, and education. Six years later, the eleven member states—Russia, Ukraine, Turkey, Georgia, Romania, Bulgaria, Albania, Armenia, Azerbaijan, Moldova, and Greece—signed a charter that upgraded BSEC to the status of an international organization and created a permanent secretariat, now located in an impressive villa just up the Bosphorus from central Istanbul. (The charter came into effect in 1999, and Serbia and Montenegro joined as a single country in 2004.) A Black Sea parliamentary assembly, an investment bank, a multinational naval unit, a summer university, and a policy research center were also established.

Clearly the most pressing area of concern was the environmental degradation of the sea itself. Already in April 1992, all six Black Sea coastal states signed the Bucharest Convention on environmental protection; a year later, in a meeting in Odessa, they agreed to establish conservation zones in the coastal areas of each state, coordinate antipollution policies in the river systems that feed into the sea, and—for the first time ever—share vital scientific information on pollution and biodiversity. In 1996, under the aegis of BSEC, the first multi-country analysis of the causes of Black Sea pollution was completed, with assistance from the United Nations and other international organizations, and every five years, scientists in all coastal countries work together to issue a "state-of-the-sea" report, a diagnostic venture that is a major step

away from the mutual suspicion that prevented such efforts during the Cold War.

There are already some signs of improvement. Nutrient enrichment has declined over the course of the 1990s and early 2000s, which has in turn produced a slow-down in oxygen depletion that threatened many species. Industrial pollution has also eased somewhat, while overfishing has been scaled back (although confrontations between Ukrainian and Turkish fishing vessels remains common due to a lack of clear demarcation of territorial waters). Industrial pollution, still acute in some areas, has become less of a problem on the sea as a whole simply because of the shutdown of large industrialized centers from Bulgaria to Georgia. As the economies of littoral states begin to recover, though, serious environmental problems will no doubt return.

In areas other than the environment, BSEC has not lived up to its original grand vision. BSEC member states conduct only a small percentage of their trade with other members. National airlines are far more likely to connect their capitals with major European and North American hubs than they are with neighboring states. Heads of state meet at summits, ministers travel to ministerial conferences, nongovernmental organizations occasionally work out action plans on an issue of common concern. But the emergence of a genuinely vibrant and cooperative region stretching from Greece to Azerbaijan is still a long way away.

The reasons for BSEC's difficulties are not difficult to uncover. A regional organization that includes three mid-size powers with divergent interests and goals—Greece, Turkey, and Russia—has inevitably faced problems of definition and direction. Each of these anchor states has its own vision of a foreign policy role in the region, but none is sufficiently wealthy to finance the kinds of programs that would have made that vision a reality. Moreover, BSEC's emergence was less the result of any genuine commitment to regional cooperation than the product of a peculiar concatenation of geopolitical interests. In the early 1990s, Turkey sought a new regional role, perhaps to demonstrate to the EU its potential as a force for stability and prosperity. The newly independent states of Eurasia were eager to join any international organization that would have them. Greece and Russia, in turn, were eager not to allow Turkey to define a new regional organization without them. The far trickier issue, however, has been to fig-

ure out what this new club is supposed to do, now that the membership list has been finalized. Moreover, other forms of regionalism have inevitably competed with BSEC in defining the Black Sea space. For example, GUAM (the generally pro-Western caucus of George, Ukraine, Azerbaijan, and Moldova, established in 2001) represents a latter-day echo of the old Promethean project—with the attendant aim of defining the region in such a way as to check Russian influence.

No politician around the sea today believes that BSEC should be a substitute for the kinds of regionalism that really matter: membership in NATO and the EU. While presidents and prime ministers in BSEC countries repeatedly affirm their commitment to building a Black Sea region, in practice there is little incentive to cooperate fully with countries whose prospects for membership in the truly important organizations are even slimmer than their own. From time to time, Romania has expressed an interest in using its new status as an EU member state to help craft a forward-looking policy of engagement with the Black Sea zone, but other regional players, from Turkey to Russia, have not been enthusiastic. The latest EU initiative in the region—the Black Sea Synergy project—may yet turn out to be a competing form of regionalism in a zone that has already seen many failed attempts to encourage cooperation.[17] For all the energetic summitry that has defined BSEC and related forms of regionalism around the sea, meetings of heads of state and government ministers have resulted in the main in agreements to meet again. Today, it continues to be the processes of EU enlargement, NATO expansion, and U.S. and Russian foreign policy that are the driving forces behind the international politics of the Black Sea zone.

As the century progresses, the politics of energy will also bring together the countries and peoples of the wider Black Sea zone in new ways and will remain a source of rivalry in others. In the early 1990s, the promise of oil and gas from the fields around the Caspian Sea, one of the largest sources of marketable hydrocarbons outside the Middle East, sparked an energetic contest among individual states and multinational corporations. For much of the decade, the various channels that Caspian oil might take were the subject of wide-ranging debate. Some companies and governments advocated traditional routes to

[17] "Joint Statement of the Ministers of Foreign Affairs of the Countries of the European Union and of the Wider Black Sea Area," Kyiv, February 14, 2008.

ports on the eastern coast of the Black Sea and then via tanker to the Mediterranean. The Turkish government objected that the resulting increase in traffic though the Bosphorus would surely lead to a major environmental catastrophe, such as an oil spill along the heavily populated coasts, in the heart of Istanbul. Others argued for a new pipeline that would bypass the Black Sea region altogether and head south through Iran, a proposition rejected as politically unpalatable by the U.S.

The politics of pipelines finally ended with an agreement to construct an underground transit system from the south Caucasus to the eastern Mediterranean. By 2009 the Baku-Tbilisi-Ceyhan (BTC) pipeline is expected to carry a million barrels of oil per day. BTC has already had a measurable effect on the economies of the transit and terminus countries. But the future political and even strategic impact of BTC and other proposed oil and gas routes is uncertain. On the one hand, increased revenue can fund vital infrastructure projects and contribute to rural development in some of the most endemically poor parts of the Black Sea zone. On the other hand, increased revenue coming to the Georgian and Azerbaijani states may well be earmarked for military modernization and create the conditions for an eventual attempt to retake lost territories—Abkhazia and Nagorno-Karabakh—by force. The politics of oil and gas have not only strategic-level implications for the entire region but also domestic political and security dimensions in the countries that currently benefit most directly from the region's hydrocarbon wealth.

Toward a New Regionalism?

On the face of things, none of this would seem to bode well for the future of Black Sea regionalism. A set of relatively weak states can hardly hope to build a strong region. A zone with widely different levels of development in terms of the domestic economy and democratization is an unlikely candidate for interstate cooperation. Moreover, the widely divergent foreign policy orientations of the region's constituents have made real cooperation a challenge. The general rapprochement between Turkey and Russia—occasioned in part by commonalities of interest in the energy sphere and in part by common antipathy toward U.S. policies in Iraq—contrasts sharply with the staunchly pro-American foreign policies of Romania and Georgia. And with so many competing forms of regionalism on the table—BSEC, GUAM (a cooperative

forum of Georgia, Ukraine, Azerbaijan, and Moldova), the EU's Black Sea Synergy program, NATO—where exactly the wider Black Sea region lies is still an open question.

The incentives for regional cooperation are clear. The sea itself is a naturally fragile ecosystem that has been ravaged by decades of overfishing and urban and rural pollution. Cleaning up the sea can only be accomplished in concert. Trade is also crucial, especially for countries whose products are unlikely to find buyers on European markets. The development of regional infrastructure projects—from improving port facilities in Odessa, Batumi, and Varna, to building road and rail links—is a clear interest that all countries share. Even bringing tourists to the zone and marketing its natural beauty, from Turkey's alpine coastline to the beach resorts of Bulgaria, Romania, and Crimea, can become a target of cooperation.

Yet in the early twenty-first century, the obstacles to regionalism are likely to remain stronger than the incentives. Still, two key developments in the region could produce either an impetus to regional cooperation or doom regional efforts for the foreseeable future.

First is the resurgence of armed conflict. The threat of interstate violence will likely remain low. However, the persistence of unresolved border disputes has the potential to unleash larger-scale conflict. The declaration of independence by Kosovo in February 2008 only highlighted the power of simmering disputes in one part of the region to have an impact across the wider Black Sea zone. The "Kosovo precedent" has been a theme in regional politics ever since it became clear that the Serbian province was moving clearly in the direction of a unilateral declaration. The four other unrecognized states in the region have called on Russia to offer the same recognition that the U.S. and various EU member states accorded Kosovo. Russia has expressed little direct interest in such an outcome; indeed, the status quo seems more in Moscow's interest than pushing for the creation of still more weak and unpredictable countries in Russia's direct zone of interest. Still, small sparks could start large fires. An attempt by Georgia or Azerbaijan to take back Abkhazia or Nagorno-Karabakh by force would inevitably produce a Russian intervention. Even non-military developments will have an impact on the unrecognized states. Sochi—the site of the 2014 Winter Olympics—is only an hour's drive from Sukhumi, the capital of Abkhazia. Individual Abk-

haz will no doubt find employment opportunities on the large construction works that will ring Sochi. Olympic organizers will find Abkhaz hotels an easy overflow space for tourists and visitors. These developments will inevitably raise serious questions about the international community's relationship to Abkhazia and, by extension, to the other unrecognized countries in the Black Sea zone.

Second is the pace and nature of the future enlargement of Euro-Atlantic institutions.[18] Trade patterns, the movement of labor, and security structures will all change as a result of the next rounds of EU and NATO expansion. The Black Sea zone is the next frontier for both organizations, yet countries that are farther along the path toward membership, or that come into either organization in the next wave, will be unlikely to see much profit in cooperating with their neighbors who have fallen behind. In turn, those countries that are left out of the process of enlargement may well come to see some form of Black Sea regionalism as a powerful alternative to other Euro-Atlantic institutions. Cooperation between Turkey and Russia is already strong and may come to represent a "soft" and informal strategic alternative to the E.U. and the U.S. Much will depend, of course, on the future direction of U.S. foreign policy in the greater Middle East, but Black Sea regionalism will continue to be wrapped up in larger questions of strategic orientation and the available options for countries that are unlikely to be bound to the full range of Euro-Atlantic structures in the near future. The Black Sea could well become a region of a few small countries committed to Europe and Euro-Atlanticism in the midst of larger states that are at best ambivalent about their place in the West.

None of these potential developments means that the Black Sea will cease to be a region. As in the past, it will continue to be a distinct geographical zone marked by intensive ties of commerce, migration, and cultural commonalities. But whether the existence of this region will translate into a solid form of regionalism, beyond the endless summit meetings and declarations that have so far accompanied region-building efforts, will be determined by factors external to the region itself.

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[18] For a strong statement about the need for further eastern enlargement into the Black Sea zone, see Ronald D. Asmus, "Europe's Eastern Promise," *Foreign Affairs* (January/February 2008). On the impact of earlier rounds on democratization, see Milada Vachudova, *Europe Undivided: Democracy, Leverage, and Integration after Communism* (Oxford: Oxford University Press, 2005).

Perspectives from the Region

Georgia and the Wider Black Sea

Jonathan Kulick and Temuri Yakobashvili

A more-fully realized "Wider Black Sea" region—one that is broadly recognized as a coherent, organic region, with functional institutions and infrastructure—holds tremendous promise for Georgia. Indeed, it is central to Georgia's agenda for ensuring its stability and prosperity. In turn, this regional identity will allow Georgia to provide greater benefits to its neighbors and to other parties with interests in the region—and beyond.

As with all states at crossroads of civilizations and trade, Georgia has borne many regional identities. When subordinated to one empire or another, an identity was imposed to suit the purposes of the controlling power. In the aftermath of the Soviet dissolution, Georgia's regional identity was left adrift. "Former Soviet Union" and "Newly Independent States" bore too heavily the burdens of history, and did not suggest a promising future. The "South Caucasus" better reflects elements of shared geography, culture, and politics, but, as the sole or principal regional identity, is terribly constraining—the interstice among three regional powers and two seas, with deep internal fissures and an implicit yoking to the beleaguered North Caucasus (moreover, it too reflects a hegemon's perspective, as a less parochial revision of the "trans-Caucasus").

This confusion was not limited to Georgia. Even as new embassies are opening in Tbilisi, non-resident ambassadors to Georgia are located in Moscow, Kyiv, Baku, Yerevan, and Ankara. If nothing else, this dispersal suggests that Georgia is regarded as part of a Wider Black Sea region. For Georgia, at least, this is not a contrivance, as it was known to the ancient Greeks and others on the western shores of the Black Sea as Colchis, the land of the Golden Fleece. Restoring these associations is part and parcel of Georgia consolidating its statehood and identity, after centuries of subordination.

While the practical consequences of Wider Black Sea integration are paramount in Georgia's strategy, the symbolic value should not be discounted. Recognition of a "Wider Black Sea region" will put another dent in popular (and elite) skepticism in much of the West as to whether Georgia is rightly "Western." We harbor no illusions that solidifying Georgia's Black Sea identity will cement its integration into European and Euro-Atlantic structures; it is one essential component of a broad-based strategy. Regional cooperation for its own sake is a worthy goal, but nearly all of the Georgian political elite see Europe and "the West" as the brass rings. In Georgia's fractious (and, most recently, circus-like) political culture, support for NATO accession is a shibboleth. Somewhat less urgently, but no less ardently, Georgia seeks the greatest participation available in European institutional frameworks, especially instruments of the EU's European Neighborhood Policy (ENP), and the EU's evolving "ENP-Plus" and "Black Sea Synergy" strategies.

As we noted, Georgia has had multiple identities. As a natural crossroads it will continue to have multiple identities in the future. As Georgia strengthens its identification with the Wider Black Sea, it is not turning its back on its neighbors to the east and south, with which it shares a great heritage. Rather, it can better serve as a hub for relations between east and west—and north and south—if it is secure in its identity within concentric and overlapping structures.

What does Georgia bring to its partners in the Wider Black Sea region, and by extension to more distant parties? By good or ill fortune, Georgia is implicated in developments in energy, trade, and transit; security and conflicts; and governance, throughout the Wider Black Sea region and beyond. In the last several years Georgia has instituted a thorough reform agenda that has yielded tremendous positive attention and investment from the international community but has been less broadly popular domestically, has fed a growing opposition and fueled unrest. We will consider Georgia's role in the region, the status and implications of domestic reforms, and the development and consequences of the political crisis of 2007.

Energy, Trade, and Transit

The Black Sea littoral states, and the Sea itself, lie between some of the world's most promising new hydrocarbon resources, and one of the largest markets. As Europe's demand for oil and natural gas continues to grow for the foreseeable future, it can ensure its energy security only by diversifying its suppliers and supply routes. The vagaries of geography, economics, and politics dictate that much of the Caspian Basin hydrocarbons destined for European markets will transit Georgia. Georgia also figures importantly in the integration of domestic electricity grids, around the Black Sea and with other regional networks. As integration proceeds, Georgia's own energy security also becomes a concern for Europe. A secure Georgia will be an asset to European energy security. A glance at a map suggests that the most direct routes for transporting oil and gas from the Caspian Basin to Europe pass through or around the Black Sea. With general concerns about diversification of supply routes, and more specific concerns about Russia exercising monopoly power or wielding an energy-supply weapon, energy companies and end users have sought more southerly routes. For the time being, Armenia is unable to participate in such projects, and Western companies are either proscribed from or uneasy about engaging Iran. So Azerbaijani, Turkmenistani, and Kazakhstani oil and natural gas will increasingly transit Georgia.

Azerbaijani oil has long transited Georgia, by rail and pipeline, to the Black Sea terminals of Poti, Batumi, and Supsa, for transfer to tankers bound for western Black Sea ports or, through the Bosphorus, to more distant destinations. These terminals are receiving substantial new investment, and will continue to play an important role, especially as western-Black Sea distribution capacity expands (bypassing the over-trafficked Bosphorus), with projects such as the recently announced Odessa-Brody-Gdansk extension, and the proposed Constanta-Trieste and Burgas-Alexandroupolis oil pipelines. These new routes would primarily serve Kazakhstani oil, which has stimulated talks between Kazakhstan and Georgia about an entirely new Baku-Black Sea pipeline. A submarine natural-gas pipeline, the Georgia-Ukraine-EU (GUEU), has also been considered. Two recently opened pipelines bypass the Black Sea entirely: Baku-Tbilisi-Ceyhan (BTC) conveys oil to a Turkish Mediterranean terminal; and Baku-Tbilisi-Erzurum (BTE) conveys natural gas to a hub in eastern Turkey.

As Europe relies more on this oil and natural-gas infrastructure in Georgia, it becomes more deeply implicated in Georgia's security as well—in both larger concerns of political stability, and more immediate concerns of thwarting attacks on infrastructure. Although the United States is not a significant customer for these resources, it has no interest in any disruption of supplies to Europe, and is supporting Georgia in developing its own capacity for infrastructure protection.

Russia must be considered in these discussions, as it regards any routes through Georgia as a threat to its preeminence as an energy supplier, and seeks to dissuade potential investors from considering Georgia options. Georgia is weaning itself from reliance on Russian natural gas, through arrangements with Turkey and Azerbaijan (and, as a backup option, Iran). But Russia still supplies Armenia through a pipeline across Georgia, and seeks to acquire Georgia's main gas pipeline so that it can increase its own cooperation with Iran. Long-range scenarios of regional conflict resolution and integration entail bringing Armenia into the region's energy development. For now, the region's tangle of interests, partners, and competitors is as intricate as the web of pipelines, and Georgia is ensnared in many of them.

While the region's electricity issues receive less attention in Western capitals, Georgia plays an important role here as well. Georgia recently signed an agreement with Turkey and Azerbaijan to fully synchronize their grids, and Russia may join (through Azerbaijan). Georgia is also connected to Armenia, which operates an aging nuclear power plant, supplied with Russian uranium that is flown over Georgia. Georgia has tremendous hydropower potential (and even cooperates with Abkhazia in running a hydropower station on their border), and has ambitious plans for new coal-fired and nuclear power plants. While primarily for domestic consumption, this added capacity would reinforce the circum-Black Sea electric ring that is now emerging, which is connected in various ways to the electric grids of western and northeastern Europe.

Energy resources are certainly the largest component of trade between Central Asia and Europe, but other goods are subject to similar considerations. Georgian rail and roads are part of the "new silk route" corridor, and are receiving substantial investments from the Millennium Challenge Corporation, through TRACECA, and from private and state investors, especially from Kazakhstan and Turkey.

The new Kars-Akhalkalaki-Tbilisi-Baku railway will be an important addition to the rail network, and has engendered some opposition in the U.S. Congress, due to complaints from Armenia. As part of its comprehensive economic reform policies, Georgia has slashed tariffs and transit fees and routed out corruption in customs, which had previously imposed huge costs in transshipping goods from the Azerbaijan border to the Black Sea. With Turkish partners, Georgia has built new airports in Tbilisi and Batumi, allowing for an expanded network of air connections. Russia, however, only recently lifted a travel embargo on Georgia. The land-border crossings remain closed, which hits Armenia hard as Georgia provides Armenia's only land access to Russia. The rail connection between Georgia and Russia runs through Abkhazia, and has been closed since the conflict began. Reopening that right-of-way has been proposed as a first, important step toward resolution of the Georgia-Abkhazia conflict. Georgia's Black Sea ports also serve as landlocked Armenia's principal access to the sea, and Armenian tourists are a major component of the booming tourism industry on Ajara's Black Sea coast.

Conflicts and Security

A full treatment of Georgia's security environment in the context of the Wider Black Sea is beyond the scope of this chapter. The foremost concerns are the conflicts in South Ossetia and Abkhazia, the Russian role in those conflicts, and Russia's behavior towards Georgia more generally. These are not solely Georgia's problems, to be swept under the rug by the other states in the region, and in capitals further beyond, for two reasons.

First, Georgia's security matters to the extent that Georgia is important to the strategic interests and investments of other nations. Second, Georgia's predicaments are not unique. The conflicts in Nagorno-Karabakh and Transdniestria, and their prospects for resolution, are linked to those in Georgia. Russia's deployment of energy cutoffs as a political tool has echoes in Europe, and has awakened many there to their own potential vulnerabilities.

As the Wider Black Sea identity is a stepping stone to European and Euro-Atlantic integration, Georgia's security concerns figure in its relations with regional structures. NATO accession is Georgia's foremost

foreign-policy priority—indeed, it is the least divisive issue in domestic politics—and Georgia is focused on gaining MAP (Membership Action Plan)[1] status. Georgia and its supporters had maintained hope that MAP would be granted at the April 2008 NATO Summit in Bucharest. Yet the domestic political crisis of late 2007 was a setback, as it raised concerns about Georgia's democratic bona fides among uncommitted NATO members, and gave those NATO members who oppose expansion out of deference to Russia's interests an ostensibly principled excuse to deny Georgia's bid.[2] In the end, Georgia did not receive MAP at the NATO Bucharest summit, but the summit communiqué contained the unprecedented statement that "NATO welcomes Ukraine's and Georgia's Euro-Atlantic aspirations for membership in NATO. We agreed today that these countries will become members of NATO."[3] This carefully chosen language conveys a stronger commitment even than MAP, while at the same time not binding NATO to any MAP timetable. On balance, it is a victory for Georgia and its stalwart supporters.

Many observers regard Georgia's bid as a catch-22: NATO won't accept Georgia until it resolves the conflicts in Abkhazia and South Ossetia,[4] but Russia—which adamantly opposes Georgia's accession—won't allow their resolution. We contend that accession and the conflicts should be delinked, and that doing so will actually contribute to conflict resolution. In the first instance, nothing in NATO's guiding principles precludes admitting a new member with unresolved territorial disputes or ongoing conflicts—the acceding state must be *working towards* resolution, which Georgia is doing, and there are plenty of historical precedents. If Georgia's membership serves the interests of

[1] MAP is a program to prepare candidates for NATO membership as they conduct ongoing reforms; it is not a guarantee of invitation to join the alliance, although all MAP recipients to date (except for Macedonia) have eventually received an invitation.

[2] Just ahead of the Bucharest Summit, French Prime Minister Francois Fillon said, "We are opposed to the entry of Georgia and Ukraine because we think it is not the right response to the balance of power in Europe and between Europe and Russia, and we want to have a dialogue on this subject with Russia." [Francois Murphy and James Mackenzie, "France won't back Ukraine, Georgia NATO bids," Reuters, April 1, 2008, tinyurl.com/3lmqow.]

[3] NATO, "Bucharest Summit Declaration," April 3, 2008, nato.int/docu/pr/2008/p08-049e.html.

[4] After meeting with Russian President-elect Dmitri Medvedev in advance of the Bucharest Summit, German Chancellor Angela Merkel said that "countries enmeshed in regional conflicts shouldn't try to become members." [Brian Parkin, "Merkel sees no room in NATO for states caught in local conflict," Bloomberg, March 10, 2008, tinyurl.com/4rzocb.]

NATO—which we believe it does—then the conflicts pose no barrier to accession.

In the second instance, NATO membership is a crucial element of Georgia's strategy for conflict resolution, which is predicated on demonstrating to the populations (if not the leaderships) of the separatist regions that life in Georgia *in* NATO offers greater security and prosperity than the alternatives. NATO membership is both a seal of approval from the West, and a guarantor of Georgian moderation in dealing with the conflicts. The current campaign in South Ossetia—with the establishment of an alternative government led by Dmitri Sanakoyev, a former official in the de facto Tskhinvali government—and aggressive investment in infrastructure and commerce in the Georgian- and proxy-controlled parts of the region is beginning to pay dividends. This government now controls forty percent of the territory of South Ossetia; it has averted armed clashes with the separatist forces while defending villages under its administration, and has captured the interest of international organizations looking for credible interlocutors in the conflict.

The Abkhazia case is a tougher nut to crack, for a host of reasons, but is not in principle irresoluble. The Wider Black Sea identity figures in this conflict in several ways. Abkhazia is a Black Sea littoral territory, with maritime links to Russia and Turkey. It maintains a navy and coast guard, and operations in its coastal waters are a potential flashpoint with Georgia. Georgia participates in several multilateral institutions (BSEC, BLACKSEAFOR, GUAM) with interests in securing the Black Sea itself; these organizations have the potential to play a larger role than they have in Georgia-Abkhazia relations, which they might do in the context of a Wider Black Sea identity. Turkey has a large Abkhazian diaspora (considerably larger than the ethnic-Abkhaz population of Abkhazia itself), and ethnic Armenians constitute about one-third of the population of Abkhazia, so both those states have direct interests in the conflict as well.

2008 has seen a flurry of developments around Abkhazia. Broad international recognition of Kosovo's independence emboldened Abkhazia's (and South Ossetia's) leadership in its insistence that Kosovo is a precedent—that is, if Kosovo's claim to legitimacy is deemed valid then so, by the same principles, must be their claim. Georgia, as well as most international actors, rejects this comparison,

while Russia maintains strategic ambiguity.[5] Shortly after Kosovo's declaration of independence, and immediately before the Bucharest Summit, the Georgian government issued a new, comprehensive proposal for reconciliation with Abkhazia.[6] The Abkhaz de facto authorities have publicly rejected the terms of the proposal.[7]

At the time of this writing, in the wake of Bucharest, Russia is almost daily upping the ante in its acknowledgment of Abkhazia—everything short of a formal recognition of independence.[8] Scattered opponents of Georgian President Saakashvili's administration have criticized the government for its handling of the brewing crisis, or over particular terms of Saakashvili's proposal. But even in this corrosive domestic political environment, no important actors question Georgia's stance on the issues.

Absent a contretemps with Russia and the separatist authorities, the conflicts still loom large in domestic affairs. Public-opinion surveys consistently find that they rank second in the population's concerns, behind economic problems.[9] More than nationalist fervor or geopolitical calculation, the plight of the more than 300,000 people displaced from their homes in Abkhazia and South Ossetia weighs heavily on the Georgian public. A decade and a half after active conflict, most IDPs (internally displaced persons) still live in wretched conditions, with substandard housing, poor education, high unemployment, and attendant social dysfunctions, and thus are a drag on economic development. While IDPs are not monolithic in their political orientations, their chronic disaffection leaves them vulnerable to populist demagoguery, which is not in short supply.

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[5] See, e.g., Igor Torbakov, "Russia plays up Kosovo precedent for potential application in the Caucasus," *Eurasia Net*, April 12, 2006, tinyurl.com/4hzmgj; and Jaba Devdariani, "Russian diplomacy uses 'Kosovo precedent' for tactical advantage on Abkhazia," *CACI Analyst*, February 8, 2008, tinyurl.com/3nrycu.

[6] For details, see Civil.ge, "Saakashvili outlines Tbilisi's Abkhaz initiatives," March 28, 2008, tinyurl.com/5tg9ra.

[7] The proposal has generally been well received in the international community. For a skeptical assessment, see Liz Fuller, "Latest peace proposal for Abkhazia a nonstarter," *RFE/RL*, April 3, 2008, tinyurl.com/6rw2sy.

[8] See, e.g., the Russian Foreign Ministry's statement on President Putin's "instruction to boost ties with Abkhazia and South Ossetia," Moscow, April 16, 2008, unofficial translation via Civil.ge, tinyurl.com/3racpj; and President Saakashvili's response, via Civil.ge, tinyurl.com/6b2ypj.

[9] See, e.g., International Republican Institute, "Georgian National Voter Study," Tbilisi, 2007, tinyurl.com/6ypu2x.

The confluence of strategic and social interests lands the conflicts among the top concerns of any credible candidate or political party, and the range of the debate is fairly narrow. All involved agree (at least publicly) that the territorial integrity of the Georgian state is non-negotiable and that IDPs must be allowed to return to their homes. Disputes are rather about preferred means, rhetorical stances, and competence. Parties in the international community, with their own interests in conflict resolution, have been supporting governance reform and democratic development in Georgia on the principle that a better governed, more democratic state is better able to address conflicts and their consequences. While domestic reforms are discussed at greater length below, we note that the post-Rose Revolution government now holds a more effective monopoly on violence within Georgia, and is now fiscally better equipped to respond to the social needs of IDPs.

Georgia is also involved in security beyond its borders, on the outskirts of the Wider Black Sea region. Georgian troops have participated in NATO peacekeeping operations in Kosovo and Afghanistan,[10] and are a major presence in coalition operations in Iraq. Georgia maintains friendly relations and growing commercial ties with Iran, while serving as a bulwark for Western efforts to contain Iran. Georgia's neighbors to the east are pulled between the orbits of Europe and various axes of cooperation among Russia, China, India, and Iran. As these develop, Georgia becomes the front line of Europe's engagement with the east.

Governance

Georgia's recent and ongoing transformations in governance figure prominently in the Wider Black Sea region. Its successes and failures variously give hope to, worry, or vex other parties in the regions. The Rose Revolution is given much of the credit for inspiring the Orange Revolution in Ukraine, whose outcome matters greatly to Europe. Reform-minded forces in Azerbaijan and Armenia have taken inspiration from the revolution, although their governments insist that such

[10] In April 2008 Georgia announced that it would send 400 troops to serve in ISAF, in the volatile southeastern part of Afghanistan. Irakli Aladashvili, "Germany denied Georgia MAP, but in Afghanistan Georgians will fight where the Bundeswehr dares not tread," *Kviris Palitra* (English edition), April 7, 2008.

changes aren't needed and won't be tolerated. The Georgian government strikes a careful balance between promoting democracy and democratization in the region, and maintaining good relations with the neighboring regimes. The old adage applies to states as well as individuals: hypocrisy is the tribute that vice pays to virtue.

Georgia's governance reform is also a Wider Black Sea project. Newly acceded NATO and EU members provide Georgia with institutional support and advice, in its efforts to approximate EU standards and to meet NATO expectations. Georgia and Ukraine support each other's reform efforts, which have different priorities but face some similar challenges. The two countries' leaders spearheaded the Community of Democratic Choice (CDC), a largely symbolic but important affirmation of their commitment to good governance and of the necessity of cooperation in their reform efforts. The CDC is nothing if not a statement of hope for the Wider Black Sea region. Similarly, GUAM has recast itself (not entirely comfortably) as the Organization for Democracy and Economic Cooperation—GUAM, and could become an effective instrument for promoting good governance in the region.

Whatever else the West seeks in the Black Sea region, it wants to rebuff the notion that the Black Sea is Russia's bathtub. If a "new Black Sea democracy" breaks free of the Russian orbit and thrives, Russia's suzerainty will be cracked.

The Saakashvili government came into office facing a litany of domestic challenges: rampant corruption; unproductive state assets, decrepit infrastructure, ineffective revenue collection, and poorly provided basic services; a bloated and ineffective civil service; dependence on foreign aid; and widespread unemployment and poverty. The previous government of Eduard Shevardnadze had undertaken a succession of economic-reform plans, with advice from international financial institutions and foreign development agencies, none of which met with much success, due to a weak central government and the interference of powerful vested interests. Similarly, it had instituted a number of anti-corruption commissions and agencies, to little avail.

The new regime set out an ambitious agenda to reform governance and drive economic growth. Their efforts have met with great success in some measures, garnering the acclaim of international financial

organizations and foreign investors. While motivation for reform is wide, deep, and organic, it is also driven by the drive toward European and Euro-Atlantic integration. NATO is concerned not only with defense- and security-sector reform, but with judicial reform and rule-of-law issues.[11] The European Neighborhood Policy (ENP) commits Georgia to pursue reforms in essentially every area of domestic policy.[12]

Other efforts have come up short, some areas of pressing need have largely been ignored, and even the lauded reforms have given little relief to large segments of the population. The resultant widespread discontent fueled the popular opposition that led to the 2007 crisis and 2008 early elections.

Here we consider reform efforts in selected areas of domestic policy, in the first term of President Saakashvili; developments since the recent presidential election will briefly be noted later. Broader evaluations of reforms are conducted by international donor agencies, foreign governments, and watchdog groups; we refer the interested reader to these various reports.[13]

Governance

Georgia had a reputation for corruption that extended back at least to the nineteenth century,[14] through the Soviet period,[15] and into

[11] See Parliament of Georgia, "Georgia's commitments under the individual partnership action plan (IPAP) with NATO—2004-2006," Tbilisi, 2004, tinyurl.com/3a9l66; and NATO Parliamentary Assembly, "Visit to Georgia [sub-committees on east-west economic co-operation and convergence (ESCEW) and future security and defence capabilities (DSCFC)]," Brussels, 2007, tinyurl.com/2bhfgq.

[12] See European Neighbourhood Policy, "European Union-Georgia Action Plan," 2006; Open Society Georgia Foundation, "Georgia and the European Neighborhood Policy: Perspectives and challenges," Tbilisi, 2007; and Commission of the European Communities, "Implementation of the European Neighbourhood Policy in 2007: Progress Report Georgia," SEC(2008) 393, Brussels, 2008.

[13] The most current and concise evaluation, released just before the November 2007 crisis and attuned to its precursors, is Bertelsmann Stiftung, "BTI 2008—Georgia Country Report," Gütersloh, 2007. For the official view (which we regard as a mostly fair but not-authoritative assessment), see Government of Georgia, "Georgia's Democratic Transformation," Tbilisi, 2007, tinyurl.com/33wvnr.

[14] See Gerald Mars and Yochanan Altman, "The cultural bases of Soviet Georgia's second economy," *Soviet Studies*, **35**(4),(1983), pp. 546-60.

[15] See Ferdinand J.M. Feldbrugge, "The Soviet second economy in a political and legal perspective," in Edgar L. Feige, ed., *The Underground Economies: Tax Evasion and Information Distortion* (Cambridge, England: Cambridge University Press, 1989) pp. 297-338.

modern independence. The thoroughgoing corruption of the Shevardnadze administration was one of the proximate causes of the Rose Revolution, and President Saakashvili had first made his mark in Georgian politics as a crusading anti-corruption Minister of Justice.

The campaign against petty corruption has been largely successful, most prominently in the wholesale elimination of the justly despised traffic police.[16] More broadly, comprehensive deregulation and reductions of tariffs and taxes have greatly reduced opportunities for petty corruption.[17] Civil service reform has contributed to a reduction in mid-level corruption, as the ranks have been thinned and salaries increased.[18] At the upper levels, highly publicized arrests of public officials (from both the prior and current administrations) have discouraged routine corruption. Nonetheless, grand-scale corruption among the new leadership is widely alleged by the political opposition,[19] and public opinion surveys suggest a widespread belief that top officials are on the take, as a matter of course.[20] International observers give the government generally good marks, with steady year-on-year improvements in the Transparency International Corruption Perception Index and in the Freedom House Nations in Transition corruption sub-score.

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[16] See C. J. Chivers, "Mtskheta journal; the traffic officer with his hand out has it whacked," *The New York Times*, August 24, 2004.

[17] For a broad review of anti-corruption efforts and progress, see Tamuna Karosanidze, "Alternative progress report on the implementation of the OECD ACN recommendations by the Georgian government" (Tbilisi: Transparency International Georgia, 2007).

[18] See Angela Hawken and Jonathan Kulick, "Public-employee perceptions of corruption in post-transition Georgia," *Middle East and Central Asia Politics, Economics, and Society*, Salt Lake City, September 7-9, 2006.

[19] Most recently and tendentiously, former Minister of Defence Irakli Okruashvili accused President Saakashvili of having appropriated two-billion dollars in assets; see "Okruashvili says Saakashvili owns $2 bln, accepts bribes in watches worth min. $50,0000," Interfax via Lexis-Nexis, March 7, 2008.

[20] In particular, summary seizures and "reprivatization" of previously privatized real property are widely believed to benefit government officials and their associates. This may be the case, or the murky procedures may lend an unwarranted air of suspicion to aboveboard, if controversial, proceedings. On this matter see Lili Di Puppo, "International and national approaches to the fight against corruption in Georgia: Different methods, different objectives?" *Crises and Conflicts in Eastern European States and Societies: Stumbling Blocks or Stepping Stones for Democratisation?* Warsaw, September 2-8, 2007; and Group of States Against Corruption, *Evaluation Report on Georgia: Second Round*, Strasbourg: Council of Europe, December 2006.

Civil service reform has served purposes other than anti-corruption. The post-revolution government set out an ambitious plan to professionalize the civil service and to improve public administration, with substantial support from the international donor community.[21] The record is mixed. Many agencies that have routine interaction with the general public are regarded as much improved, in processes and personnel. And civil servants' attitudes (at least, those who have retained their jobs) about their work has improved.[22]

But the overall reform effort is hampered by the attempt to pursue two different, largely incompatible approaches simultaneously. One sees the civil service as a unitary corporation with centralized personnel management, while the other sees it as a labor market, with agencies competing for skilled workers. In addition, it has not been clear who is responsible for setting these policies and coordinating reform, with the Civil Service Council and Office of the State Minister for Reforms Coordination both claiming jurisdiction.[23]

Economic Development

In June 2004, Kakha Bendukidze, a native Georgian who was President and CEO of United Heavy Machinery, Russia's largest industrial-equipment company, was named Georgia's Minister of Economy. Bendukidze was known as a staunch advocate of free markets and limited government, and as a forceful (or domineering) personality. He had advocated for economic reform in Russia and was regarded as an ally of other liberal (in the European sense) oligarchs. President Saakashvili gave him a brief for "ultra-liberalization" of the Georgian economy.

Bendukidze quickly set about to impose shock therapy on the Georgian economy. The principal and most-widely reported instrument was to be radical privatization of state-owned assets, to include utilities and other critical infrastructure, and natural resources. Bendukidze

[21] See, e.g., World Bank, "Public sector reform support," August 5, 2005, tinyurl.com/34kq8q.

[22] See Angela Hawken and Jonathan Kulick, "Civil-service views on official corruption and leadership in Georgia," *Central Eurasian Studies Society*, Ann Arbor, September 28-October 1, 2006.

[23] See Koba Turmanidze, "Reforming the Georgian civil service: Grand corporation or a competitive market?" Tbilisi: Transparency International Georgia, 2006.

had ample experience with privatization, having built his industrial empire from derelict former-Soviet heavy-equipment manufacturers. The Ministry also submitted a new comprehensive tax code to Parliament, with simpler procedures and reduced rates, a shift of the tax burden from businesses to the population, and a new system for resolving tax disputes.

These reforms were broadly popular, but met with vocal opposition from nationalist groups that accused Bendukidze of selling off Georgia and of disregarding the social needs of the poor. He lambasted the IMF for opposing sharp and rapid tax cuts, and quarreled with then Finance Minister Zurab Noghaideli over the same issues. There was no evidence that Bendukidze was troubled by any of these criticisms, and he welcomed the accolades of free-market advocates worldwide.

The initiative has accomplished a wholesale change in Georgia's business environment, with concomitant changes in outcomes, and is associated with substantial improvements in the state's finances. The major foci were licensing reforms, taxes and customs, labor market, privatization, and anticorruption. International observers regard the government as having succeeded on all counts, as witnessed by Georgia's unprecedented jump of 75 places in the World Bank's "Doing Business" country rating between 2005 and 2006,[24] and its further rise to 18th place in 2007. (Critics maintain that the government carefully tuned its economic policies to the World Bank's and other raters' assessment criteria.[25]) FDI has followed suit, growing from less than $500 million in 2003 to $2.7 billion in 2007.[26]

The benefits of this boom have not been uniformly distributed, however, and some reforms have worsened the lot of the unemployed and poor. Labor-market liberalization has eliminated almost all employment protections, while privatization of state-owned assets has shuttered thousands of small shops and vendor stands. The flood of foreign investment has fueled inflation (officially eleven percent in 2007, but widely regarded by economists as higher), with wages and pensions not keeping pace.

[24] See World Bank, "Doing Business 2007: Georgia makes an unprecedented jump up the global rankings," September 6, 2006.

[25] See, e.g., Maia Edilashvili, "Georgia 18th freest economy in Europe: Index of Economic Freedom: Experts' feedback varies," *Georgian Business Week*, January 21, 2008.

[26] See Government of Georgia, "Mikheil Saakashvili Speech at the 44th Munich Conference on Security Policy," February 9, 2008.

Brute-force privatization has also angered many in the business community and potential foreign investors, as the Ministry of Economic Development has seized hundred of properties that allegedly were improperly privatized under the previous government, and reprivatized them in not-always transparent deals. Privatization has extended to critical infrastructure, including gas-pipeline networks, the national railway, electricity-generation and distribution assets, and the Tbilisi water company. In many of these deals, the buyers are Russian or Kazakh state-owned companies, or little-known private-equity firms, stirring suspicions that the new owners are in league with government officials or seek to exercise political control over Georgia through their holdings.

Education

Higher education had steadily declined since independence and was perhaps the most corrupt sector of public services;[27] many of the private universities that had emerged in response were of dubious integrity.[28] The new government instituted reforms to eliminate corruption in admissions, evaluation, and granting of degrees, and to improve the quality of instruction.[29] Professors' salaries were increased from their former pittances; a uniform, nationwide university-entrance examination was instituted; and accreditation requirements were stiffened. These reforms are perhaps politically the most-widely acknowledged successes of the post-revolution government,[30] as they were not engineered to yield excessive power to the executive (even though the reforms themselves were heavy handed), and few oppositionists allege that they benefit private interests.[31]

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[27] See Natia Janashia, "Fighting corruption in Georgia's universities," *Academe Online*, 2004, tinyurl.com/34zfuh.

[28] See Molly Corso, "Education reform rocks Georgia," *Eurasia Net*, May 13, 2005, tinyurl.com/3b4hyj.

[29] See Ministry of Education and Science, "Law on higher education of Georgia," Tbilisi, December 21, 2004, tinyurl.com/2mfcaq; and Ministry of Education and Science, "Consolidated education strategy and action plan (2007-2011)," Tbilisi, 2007, tinyurl.com/2vsxn3.

[30] A survey of university applicants, their parents, and test administrators found that more than 90 percent approved of the new system; Karosanidze, op. cit.

[31] See, e.g., Transparency International Georgia, "Where do we stand? Georgia's achievements and challenges through different lenses," Tbilisi, 2007. The report notes that a prominent opposition figure contends that the reforms entailed replacing disfavored faculty with those with approved political views; we find little evidence of such machinations.

Reform of primary and secondary education has been a greater challenge, as the schools are more broadly dispersed than the universities, which are heavily concentrated in Tbilisi. Consistent with a government-wide move towards local control,[32] the reforms have introduced local school boards, which supplant most of the budgeting and administrative functions previously belonging to the Ministry. Financing, in contrast, is now centrally provided.[33] Most observers regard these efforts as having succeeded well beyond expectations.

Healthcare

Under the ENP Action Plan, Georgia is obligated to pursue a range of health-sector reforms, in administration, financing, and quality and delivery of services. The government has committed itself to these efforts,[34] but the main thrust of healthcare reform to date has been hospital privatization,[35] driven largely by the dictates of the Ministry of Economic Development and the State Ministry on Reforms Coordination rather than the Ministry of Health, [36] which has been ill-equipped to manage reform.

As with every other sector of public services and infrastructure, the new government inherited a decrepit, poorly managed, and corrupt hospital system. The privatization scheme entails the closure and sale of hundreds of healthcare facilities, and the construction of larger, centralized, privately operated facilities, as a prelude to wider privatization of healthcare services. Hospital owners will be required to

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[32] On decentralization in Georgia, see Tengiz Shergelashvili, "Conceptual model of territorial-administrative setting of Georgia and separation of administrative, financial and property rights among different levels of authority," Tbilisi: NGO Coalition for Local Democracy and Self-Governance, 2005; Tamara Sulukhia, "Administrative remedies for abuses in local government: Georgia," in Edwin Rekosh, ed., *The Vicious Circle: Weak State Institutions, Unremedied Abuse and Distrust*, Budapest: Open Society Institute, 2005; and Jameson Boex, Jorge Martinez-Vazquez, and Michael Schaeffer, "An assessment of fiscal decentralization in Georgia," *Problems of Economic Transition*, **49**(1):51-94, 2006.

[33] See Anthony Schierman, "From theory to practice: Georgia's school principal elections," *Georgia Today*, August 10, 2007.

[34] See Ministry of Labor, Health Care and Social Welfare, "Main directions of state health care policy," Tbilisi, 2007, tinyurl.com/2s7aua.

[35] See n.a., "Tbilisi to get mega-hospitals," *Georgia Finance*, Spring, p. 38, 2007.

[36] Formerly, the Ministry of Labour, Health, and Social Affairs, and now the Ministry of Healthcare and Social Issues.

operate the facilities as hospitals for seven years, after which time they may be converted to any other function. As all of the tender winners to date are real-estate developers, it is not apparent that they have a long-term commitment to healthcare.[37]

Energy

The principal focus has been rehabilitation of the country's electricity infrastructure, which had fallen into disrepair and mismanagement in the previous decade.[38] Since the Rose Revolution, the electricity supply to nearly the entire country is stable, and reliable sources of fuel have been secured.[39] As with healthcare, the mantra for energy-sector reform is privatization (of electricity generation, transmission, and distribution assets, and of gas-distribution networks) and deregulation (of the electric-power market), and the Ministry of Energy's decision-making has largely been subordinated to the Ministry of Economic Development and State Ministry on Reforms Coordination.[40] The performance to date is mostly good, although critics are concerned with the probity and transparency of some of the privatization deals, and with the wisdom of selling critical infrastructure to foreign state-owned companies.

For instance, the Russian energy giant RAO-UES acquired the Tbilisi electricity-distribution company (and some generation assets) in a very complex deal that was concluded in June 2007. Transparency International Georgia calls the deal "not at all transparent," and notes that it was made known to the public only in November 2007.[41] To take another example, the sale of six hydropower plants and two distribution companies to the Czech-registered firm Energo-Pro remains shrouded in mystery as regards the terms of the sale and the ownership

[37] See Transparency International Georgia, "'One hundred new hospitals' for Georgia: How long will they last?" Tbilisi, 2007.

[38] See Stacy Renee Closson, *State Weakness in Perspective: Trans-territorial Energy Networks in Georgia, 1993-2003*, Ph.D. thesis, London School of Economics, 2007.

[39] The energy-technology roadmap calls for development of hydropower resources and a reduction in thermal generation, but in the meantime it was essential to secure natural gas from Azerbaijan, to eliminate Russia's chokehold on electricity generation.

[40] The State Ministry was disbanded in the reorganization of January 2008.

[41] See Liana Jervalidze, "Georgia's state policy in the electricity sector: Brief history and ongoing processes," Tbilisi: Transparency International Georgia, 2008.

structure of the purchaser.[42] Furthermore, contrary to the free-market goals of the energy policy, the deal provides for protection of Energo-Pro's monopoly in its distribution area, and for guaranteed rates on electricity purchases and transmission.[43] Georgia seeks investment in new hydropower generation, and offers investors full ownership of the facilities, unlike the more common BOT (Build, Operate, Transfer) scheme in most developing countries.

Despite the issuance of several energy-policy documents,[44] with substantial support from the international donor community, the government still operates without a coherent energy strategy. For example, the most recent energy legislation, adopted in June 2007, calls for aggressive development of hydropower resources, essentially dismisses coal due to environmental concerns, and makes no mention of nuclear power.[45] Scarcely a month later, President Saakashvili announced that Georgia would be building a civilian nuclear-power plant with help from France. A Georgian commission has been formed to study the issue,[46] but the French nuclear company has insisted that there are no concrete plans to proceed.[47] Later in the year, the Ministry of Energy issued a tender to build a 300-MW coal-fired plant for electricity export to Turkey,[48] reviving a discarded plan from the 1990s to exploit Georgia's low-quality coal fields.[49]

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[42] See Nino Patsuria, "Good deal or fiasco? Czech Energo-Pro takes control of a huge slice of the Georgian energy sector," *Georgia Today*, February 9, 2007. The Czech government and EBRD back Energo-Pro, which has done little to allay suspicions. Even if the deal turns out to be entirely aboveboard, it remains evidence of a lack of sophistication in the government's communications strategy, or of a lack of concern with the public's right to know.

[43] Jervalidze, 2008, op. cit.

[44] For an overview of these documents see Liana Jervalidze, "Georgia's energy policy: Overview of main directions," Tbilisi: Transparency International Georgia, 2007.

[45] Parliament of Georgia, "Resolution on main directions of Georgia's state energy policy," Tbilisi, June 7, 2007, tinyurl.com/39e7mw.

[46] Tamara Pataraia, "Feasibility of construction of a nuclear power plant in Georgia," Tbilisi: Caucasus Institute for Peace, Democracy, and Development, 2007.

[47] Alexei Breus and Ann MacLachlan, "Georgia mulling constructing nuclear plant with Areva's help," *Nucleonics Week* via Lexis-Nexis, June 21, 2007.

[48] n.a., "Georgia to build 300 MW coal power plant," *Central Asia & Caucasus Business Weekly* via Lexis-Nexis, August 28, 2007.

[49] See CEE Bankwatch Network, "The Tkibuli coal power station, Georgia," Prague, 2002.

Judiciary

The judiciary and the rule of law have been the most troubling areas of post-revolution reforms, and the only ones in which, arguably, Georgia has slid back since the Shevardnadze era.[50] Judicial reform had begun in earnest in 1997, with substantial support from international donors, and with some measure of success.[51] In large part, these recent failures are a corollary of the rest of the reform agenda: President Saakashvili has sought to consolidate executive authority and to secure a compliant parliament in order quickly to institute reforms without undue interference. Contending with a political opposition and others who may stand in the way of reforms have been regarded as niceties of the democratic process that can be put off until later— in the meantime, omelet-making might require breaking a few eggs.[52] As we discuss in the next section, the government misguaged the public's tolerance for this sort of overweening reform.

At the highest level of judicial reform, the new government immediately went after allegedly corrupt Shevardnadze-era judges, passing constitutional amendments that increased the president's authority over judicial appointments and tenure, with little attention, however, to transparency and due process. Many judges resigned under pressure in 2005, and those remaining and newly appointed judges are disinclined to act counter to the administration's interests. The public continues to view the judiciary as the most corrupt part of the government, while legal professionals contend that it is supine but no longer corrupt.[53] Having removed judicial obstacles, the government was then able to go after allegedly corrupt officials, who were arrested and

[50] See Pamela Jawad, "Diversity, conflict, and state failure: Chances and challenges for democratic consolidation in Georgia after the 'Rose Revolution,'" Occasional Paper #30-3, Ithaca: Cornell University Peace Studies Program.

[51] See World Bank, "Communicating judicial reform in Georgia," Washington, 2001.

[52] Many international and domestic watchdog groups have issued reports on judicial reform, rule of law, and human rights in Georgia. In addition to annual reports from Freedom House, Human Rights Watch, Amnesty International, the International Helsinki Federation for Human Rights, Reporters Without Borders, and the U.S. Department of State, see American Bar Association, *Judicial Reform Index for Georgia*, Washington, 2005; Simon Papuashvili, et al., *Georgia: A Flickering Beacon of Democracy*, Tbilisi: Human Rights Centre, 2008; and Parliamentary Assembly of the Council of Europe, "Honouring of obligations and commitments by Georgia," Strasbourg, January 24, 2008.

[53] See, especially, Julie Triedman, "Law and disorder," *The American Lawyer*, March 1, 2008, tinyurl.com/5ozhdj.

then released without trial after making restitution (to extra-budgetary accounts).[54]

Criminal-police and penal reform has been slow in coming. Torture in official custody has been acknowledged and officially prohibited, but allegations persist.[55] A zero-tolerance approach to drug possession and other petty crimes has swelled the prison population by more than fifty percent,[56] and incarceration conditions remain grim. Police and other security forces are not entirely accountable for their actions.[57] Several high-profile cases of official misconduct and denial of due process have galvanized the political opposition, and have reinforced the impression that the government acts with impunity.[58]

Despite these serious shortcomings, Georgia has made progress in some areas, and the outlook for further improvement is positive. A Court of Appeals has been established, bringing Georgia closer in line with European Standards;[59] a new free-legal-aid service has been created within the Ministry of Justice;[60] the Civil and Criminal Procedure Codes have been overhauled;[61] and jury trials have been introduced.[62]

Political Crisis

While reforms in governance proceeded apace, Georgia's political system remained largely unchanged. The creation of an effective military,

[54] See Theodor Tudoroiu, "Rose, Orange, and Tulip: The failed post-Soviet revolutions," *Communist and Post-Communist Studies*, 40(3): 315-342, 2007.

[55] Amnesty International, "Anti-torture body criticizes Georgia: Rights groups urge Tbilisi to end torture," October 25, 2007, tinyurl.com/6n2oer.

[56] Parliamentary Assembly of the Council of Europe, 2008, op. cit.

[57] See U.S. Department of State, "Country report on human rights practices," Washington, March 11, 2008.

[58] See, e.g., (on the Maia Topuria case) Julie Triedman, "Justice Georgia style," *American Lawyer*, March 1, 2008, tinyurl.com/4bdvpc; (on the Sandro Girgvliani case) Paul Rimple, "Murder case verdict stirs controversy," *Eurasia Net*, July 7, 2007, tinyurl.com/49kmub.

[59] Government of Georgia, 2007, op. cit.

[60] Sophia Sosebashvili, "Pilot public defender program aids the accused," Tbilisi: Caucasus Investigative Reporting Center, May 2006, tinyurl.com/67pwpy.

[61] American Bar Association, 2005, op. cit.

[62] Tamuna Maisuradze, "People power: Jury trials to come to Georgia," Tbilisi: Caucasus Investigative Reporting Center, May 2006, tinyurl.com/4jx6jg; and n.a., "Trial by jury: More democracy or a face-lift for the Georgian Judiciary?" *Georgia Today*, December 21, 2007.

tax-collection agencies, and police was not matched by developments in the political culture.

From Georgia's independence in 1991 (and, indeed, during Georgia's brief former independence in 1918-1921), it had been led by charismatic figures who were very broadly popular until they fell into disfavor and were replaced with a new regime. (President Saakashvili took office in January 2004 having won 96 percent of the vote—a figure more typically claimed by pseudo-democratic despots.) Political parties were largely built around personalities rather than constituencies, with incoherent or insubstantial platforms. Members of the political elite would create parties or coalesce as opportunities arose, and all but those in the ruling party were weak.[63]

The Saakashvili government further blurred the lines between the state, the government, and the party, practically and symbolically.[64] (The new flag of Georgia, for instance, was the flag of Saakashvili's National Movement party.) With a supermajority in parliament and a lingering post-revolutionary fervor, the government pushed through constitutional and other legislative reforms that increased the power of the executive, with a semi-presidential system explicitly modeled on the French arrangement.[65] These changes enabled the aggressive implementation of the government's reform initiatives; the chorus of praise from the international community only reinforced the government's confidence in its objectives and methods. But it did not—and seemed not to feel the need to—effectively communicate its strategy to the public, nor did it counsel patience.

Inevitably, fissures began to grow in the near-monolithic support for the government. Most ordinary people had expected that their economic circumstances would improve markedly and rapidly; for many, their disappointment turned to anger. Smaller numbers were put off by the government's heavy handedness, its harsh application of

[63] For a detailed history of the development of Georgia's political parties, see Ghia Nodia and Álvaro Pinto Scholtbach, eds., *The Political Landscape of Georgia: Political Parties: Achievements, Challenges and Prospects*, Delft: Eburon, 2006.

[64] The National Movement is only slightly more coherent as a party than many of the opposition vanity parties. It is a plural marriage of convenience among several disparate factions, kept together principally by President Saakashvili's force of personality.

[65] See Robert Elgie, "Semi-presidentialism: Concepts, consequences and contesting explanations," *Political Studies Review*, 2(1): 314-330, 2004.

the criminal justice system, and its apparent tone deafness to the concerns of the masses. Within the political elites, the government was creating its own enemies. After sweeping out nearly all of Shevardnadze's upper ranks, Saakashvili frequently shuffled cabinet members and other top officials, not always with apparent reason—a process the Georgian press often likened to a game of musical chairs. When the music stoppe, however, someone no longer had a seat, and many out-of-favor former officials quickly became strident opponents of the administration with political ambitions of their own (most notably, the former Minister of Foreign Affairs, Salome Zourabichvili; and former Minister of the Interior, Defense, and—for one week—Economic Development, Irakli Okruashvili).

As popular discontent grew, so did the rhetorical volume of the opposition political parties, although none developed a popular base of support. In mid-2007, disputes over the timing and conduct of the next rounds of parliamentary and presidential elections galvanized the opposition parties. They began to call for systemic reforms, and somewhat coordinated their efforts, despite their diversity of ideologies (such as existed) and interests. After the spectacular launch of Irakli Okruashvili's political party on September 25,[66] ten opposition parties[67] formed a unified movement,[68] and called for a public uprising against the government. The unified opposition called for the elimination of the presidency and the formation of a parliamentary republic, possibly a constitutional monarchy.[69] And it issued a twelve-point

[66] In Okruashvili's speech announcing the formation of his party, he accused President Saakashvili of murdering Zurab Zhvania, a co-leader of the Rose Revolution and then Prime Minister, who died of apparent carbon monoxide poisoning; of ordering Okruashvili to kill Badri Patarkatsishvili, Georgia's richest man and owner of the most-popular and opposition-identified media company; and of grand-scale corruption. (See Okruashvili's speech at the presentation of his party at tinyurl.com/4vup24.) Okruashvili, a national-security hardliner who had been one of Saakashvili's closest confidantes, was then arrested and charged with corruption. In the next several days he was released on six-million dollars bail, recanted his allegations and forswore further political ambitions, and left for Europe "for medical treatment." He remains in Europe; he is seeking asylum in France, has reinstated his allegations, and is running for parliament in the May 2008 elections.

[67] See Civil.ge, "National Council of Unified Public Movement," October 17, 2007, tinyurl.com/4cy88v.

[68] The Labour Party left the united opposition shortly after its formation, and the Republican Party left in March 2008. The longstanding and self-supporting New Rights and Industrialist parties did not join the united movement but largely supported their efforts.

[69] It was never clear who would be named monarch, as even the pretender to the throne showed little interest.

manifesto,[70] with four major demands: (1) hold parliamentary elections in spring 2008; (2) reform the Central Election Administration to include opposition-party members; (3) change the first-past-the-post parliamentary-election system; and (4) release "political prisoners."

As tensions escalated, the united opposition called for a demonstration in front of Parliament on November 2. Badri Patarkatsishvili, meanwhile, had announced his intention to enter politics, and to bankroll the opposition rallies.[71] While some elements of the opposition leadership were genuinely interested in the rather technical issues of their manifesto, others saw them as a pretext for a general mobilization of chronically disaffected masses with no particular stand on majoritarian vs. party-list electoral systems. In any event, tens of thousands of demonstrators turned out on November 2. Speaker of the Parliament Nino Burjanadze met with opposition leaders, to little avail. The demonstration continued for the next several days, with the calls for President Saakashvili's resignation growing bolder.

The standoff between the government and opposition hardened, emboldening the opposition leadership and supporters. On the fifth day of protests, the opposition announced that they were going to establish a permanent tent city until their demands were met. The next morning, November 7, police sought to clear protesters from in front of parliament; the opposition leadership called for the protests to continue, and a violent clash broke out between protesters and state security forces. Accounts of these events vary, and we do not seek to resolve them or to apportion responsibility here.[72]

From whatever perspective, the unrest undeniably caught the world's attention, with graphic televised coverage of masked, armor-

[70] See the manifesto of the National Council of the General Public Movement at tinyurl.com/52u2xp.

[71] The government accused Patarkatsishvili of being in league with Russian-government forces looking to destabilize Georgia. Patarkatsishvili had made a fortune of some ten-billion dollars in Russia, where he was a close associate of oligarch Boris Berezovsky, both of whom were fugitives from Russia. Patarkatsishvili subsequently ran for president; was caught on videotape appearing to offer a Georgian Interior Ministry official $100 million to overthrow the government; fled from Georgia to his estate in England; and died, of an apparent heart attack, at his estate in England in February 2008.

[72] See, e.g., Svante E. Cornell, Johanna Popjanevski, and Niklas Nilsson, "Learning from Georgia's crisis: implications and recommendations," Washington: Central Asia-Caucasus & Silk Road Studies Program, December 2007; and the many breaking-news reports at Civil.ge.

clad security forces pursuing protestors.[73] As confusion mounted, rumors and speculation spread, abetted by the reports of the leading television station, Imedi. President Saakashvili spoke to the nation, accusing opposition figures of cooperating with Russian counter-intelligence officers in inciting riots.[74] On the evening of November 7, security forces seized the Imedi studios and took the station off the air, shortly before the Prime Minister declared a state of emergency. On November 8, Saakashvili announced snap presidential elections for January 5 and a plebiscite on holding early parliamentary elections.[75]

The government, political parties, and public had little time to absorb the trauma of November 7 before the presidential election campaign got underway. The united opposition ran together behind a single candidate; Saakashvili[76] and five others made the ballot. The campaign was as rancorous as might be expected, and was plagued with allegations of media bias, misuse of official resources, and the involvement of Russian security forces. Both it and the election itself were carried out under the close scrutiny of a phalanx of international observers and domestic watchdog groups; in the main, they judged both to be mostly free and mostly fair, with some significant reservations.[77]

Foreign governments friendly to Georgia were critical but cautious in their response to the political crisis. In particular, U.S. State Department officials played a prominent role in counseling the government to restraint, and in reconciling the government and opposition. For Georgia's international standing, the shutdown of Imedi TV[78] was more damaging than the crackdown on the protests; western

[73] For many Georgians, this brought back memories of April 9, 1989, when the Soviet army broke up a demonstration in the same location, killing twenty and wounding hundreds. Whatever the emotional resonance, the comparison is inapposite, in both the nature of the state's reaction and in the political aftermath.

[74] See Civil.ge, "Saakashvili says Russia, 'some radical opposition' involved in unrests," November 7, 2007, tinyurl.com/3gxrpp.

[75] See his address on snap presidential elections at tinyurl.com/46tlhj.

[76] Under the Georgian Constitution, Saakashvili had to step down from office 45 days before the election in order to run for re-election; Speaker of the Parliament Nino Burjanadze was the acting president in his absence.

[77] International observers' reports may be found at tinyurl.com/4jno9h, and domestic watchdog groups' at tinyurl.com/4bhrlg.

[78] At the time it was believed that News Corp. held 49% of Imedi, and that Patarkatsishvili had handed over power of attorney to News Corp. when he entered into politics. This turned out not to be the case, but the story remains murky even after Patarkatsishvili's death. After the state of emergency was lifted, Imedi briefly reopened, until the release of the videotape showing Patarkatsishvili's attempt to engineer a coup; most of the editorial staff resigned, and the station's future remains unclear.

states have ample experience with civil unrest and the need to maintain public order, but smashing up a television studio and barring the station from broadcasting is beyond the pale.

Saakashvili won by a narrow majority, averting a second-round runoff.[79] The opposition rejected the results and called for a recount and runoff, all to little avail, as the international community accepted the observers' findings and recognized Saakashvili's reelection.

As of this writing the campaign for the May 2008 parliamentary elections is now underway; it is being closely watched by the international community, which regards it as a crucial test of Georgia's commitment to, and grasp of, democratic norms. Thus far, it has centered on struggles over procedural matters, with little campaigning on differences in policy or competence.[80] A seventeen-day hunger strike on the steps of Parliament and in the Speaker's office ended after a plea from the Patriarch, and yielded the opposition no major concessions from the government.[81] With the electoral-system dispute settled in its favor, the ruling party is likely to retain a comfortable majority in parliament.[82] At the same time, fissures within the united opposition have begun to widen,[83] and a new, well-funded and potentially popular opposition party (Christian Democrat) has emerged.[84]

While they failed to oust President Saakashvili, the opposition movement and the events of November 2007 have had a manifest impact on Georgian politics. Beginning during his election campaign, Saakashvili has refocused his policy efforts on the needs of the poor, calling for a "Georgia without poverty" to bookend the first term's "Georgia without corruption" (and in defiance of the opposition rallying cry "Georgia without Saakashvili").[85] The new Prime Minister,

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[79] See official results at tinyurl.com/3lwq77.

[80] The principal issue was the apportionment of seats between majoritarian districts and party lists, and whether the former would be single-or multi-mandate; see Civil.ge, "Three options for new parliament structure," March 20, 2008, tinyurl.com/6mszrr.

[81] For details of the conduct of the parliamentary elections, see Government of Georgia, "Election update: Inter-Agency Task-Force for Free and Fair Elections," Tbilisi, March 31, 2008, tinyurl.com/3tpxsb.

[82] See, e.g., Liz Fuller, "Constitutional amendments create new rift between authorities, opposition," RFE/RL, tinyurl.com/65bfqy.

[83] See, e.g., Molly Corso, "Government, opposition remain at loggerheads," *Eurasia Net*, March 18, 2008, tinyurl.com/6p7wj7.

[84] See n.a., "Interview: Giorgi Targamadze," *The Messenger* [Tbilisi], February 22, 2008.

[85] See, e.g., Molly Corso, "Georgia declares war on poverty," *Eurasia Net*, February 6, 2008, tinyurl.com/53sh47.

Lado Gurgenidze, has spearheaded these efforts, and has been given wide latitude—announcing, for example, that military spending will be slashed in order to pay for social-welfare programs. Saakashvili has reached out to the opposition, offering positions in the cabinet, which they rejected—and his tone has been less confrontational.[86]

The new cabinet[87] reflects the greater attention to domestic issues, with a high-profile appointment to the previously neglected Ministry of Healthcare and Social Issues. The liberalization lightning rod, Kakha Bendukidze, has been moved to a less public (but no-less-influential) position. And a new, more constructive approach to relations with Russia and the conflict regions is reflected in the reassignment of the State Minister for Conflict Resolution to Minister of Foreign Affairs, and the naming of a civil society leader to head the newly renamed State Ministry for Reintegration Issues.

The November 2007 crisis was not inevitable, but neither was it entirely surprising. A strong-willed president and a post-revolutionary government, buttressed by international accolades for his reforms, confronted a weary populace and a slate of opportunistic politicians, in an immature political system that does not readily provide for compromise or settling disputes within the political process. The opposition then deployed the asymmetric threats of mass demonstrations and popular media under their control. Despite the best efforts of an accommodation-minded Speaker of the Parliament, the conflict played itself out in the streets rather than in government chambers.

As unfortunate as this episode has been, however, it has proved—and demonstrated—the basic integrity of Georgia's democracy. No one was forced from office by extra-legal means. The security forces overreacted, to be sure, but no more so than in many other, more established, democracies, in recent years.[88] The Imedi affair is, as noted, a black mark against the government, but one whose lessons seem to have been learned. Most of all, the snap election and plebiscites, for all their shortcomings, gave to the people the choice of how to proceed. The election was the first in Georgia without a foregone conclusion, and was not centrally orchestrated. It was, accord-

[86] See, for example, his second inaugural speech, at tinyurl.com/3fqz2x.

[87] See the list of ministers at tinyurl.com/4omsg2.

[88] And much less so than in neighboring Armenia, after its February 2008 presidential election.

ingly, not a precision instrument; much of the voting public did not know what to make of being offered a choice, and local initiative at the precinct level yielded some cases of greater-than-100-percent turnout.

The government and opposition remain at loggerheads on many counts, but now they are negotiating over issues such as the composition of the Board of Trustees of the Public Broadcaster, and reorganization of Interior Ministry agencies.[89] Georgian politics has a long way to go before it is as routine as in much of Europe, but it has taken its first steps.

Conclusions

Despite the recent—and likely ongoing—tumult, Georgia has made remarkable progress in attracting foreign investment, reforming governance, and advancing its goals of Euro-Atlantic integration. After some false starts, the leadership has taken bold initiatives towards national reintegration and social-welfare reform. Relations with Russia remain tense and unpredictable. While this casts a shadow over much of the country's political and economic life, Georgia has been resilient, finding, for example, new markets for its embargoed wine and mineral waters.[90] The most exigent challenges remain in building democratic institutions and a political culture that sustains them. Few parties actively oppose these goals, but opportunism, parochial interests, and deeply-rooted mindsets militate against their easy or rapid realization.

Nonetheless, by the standards of its neighborhood Georgia is, in the much maligned words of George W. Bush, indeed "a beacon of liberty for this region and the world."[91] In the interests of developing a Wider Black Sea identity—and one that is congruent with Europe's interests in stability *and* democracy—Georgia leads by example. It is in no position to dictate reforms to its neighbors, and must maintain

[89] See a comparison of the opposition's demands and ruling party's responses at tinyurl.com/3gj2j5.

[90] For a comprehensive assessment of the effects of the Russian trade embargo, see Eric Livny, Mack Ott, and Karine Torosyan, "Impact of Russian Sanctions on the Georgian Economy," Tbilisi: International School of Economics at Tbilisi State University, 2007.

[91] Said during a public address in Tbilisi in 2005; see tinyurl.com/64ulob. In recent months this remark has often been misrepresented as "beacon of democracy."

some degree of hypocrisy in countenancing their policies that it rejects for itself, but reform and freedom can be slow-spreading contagions.

Georgia acts as a locomotive for regional economic development. Through no effort of its own it is a natural hub for transit from, within, and through the region, but this potential is being fully realized only since broad-based reforms have built investors' confidence in the state. As Georgia has developed into a hub for trade and transit, it now seeks to expand that role as a financial and commercial center for the region, having adopted a package of laws on finance and investment,[92] and recently opened a free industrial zone in the Black Sea port of Poti.[93]

As we noted earlier, a Black Sea identity suits Georgia's interests and self-conception, and a Wider Black Sea identity draws in Georgia's South Caucasus neighbors, as well — but only to the extent that they wish to adopt that identity, and even then we should expect only piecemeal progress, as Georgia is not yoked to Armenia or Azerbaijan. Georgia may well pull away from its neighbors with regard to economic liberalization, but each state has a different basis for its economy, and there are no universal prescriptions for economic reform (although some prominent officials in Tbilisi might hold otherwise).

Nor should we expect a confluence of orientations toward international security. Georgia is rushing headlong to NATO, Azerbaijan is leaning in this direction, albeit with strong reservations, and Armenia is compelled to maintain its strong connections with Russia and the Collective Security Treaty Organization (CSTO) that grew out of the CIS. Progress on the Nagorno-Karabakh conflict and in Armenian-Turkish relations could enable greater cooperation with NATO (in the PfP framework and otherwise), but there is little that Georgia can do to advance that cause other than to serve generally as a pacifying and stabilizing force in the region.

Ultimately, while Georgia neither should nor seeks to turn its back on Armenia and Azerbaijan, the South Caucasus identity is limiting

[92] Government of Georgia, "Government of Georgia submits to Parliament the Global Competitiveness of the Financial Services Sector Act," press release, Tbilisi, January 14, 2008, tinyurl.com/6pzau7.

[93] Maka Dzneladze, "In the zone: The plan to turn Poti port into an economic tiger," *Georgia Today*, February 29, 2008.

and not entirely apt. Casual comparisons and quasi-official institutions alike draw parallels between the Baltic states and the South Caucasus states. These are fine, so far as they go: Both are groups of three small states; with different confessions, languages, and external cultural ties; and with shared histories under Russian or Soviet rule. But the Baltic states emerged from the dissolution of the Soviet Union with essentially common economic, political, and security agendas, and with no major disputes among the three. The South Caucasus is fundamentally a more heterogeneous region—the cleavages are not merely contingent, and would persist even in the event of political reconciliation. Georgia has, in many respects more in common with the Baltic states than it does with its immediate neighbors. In both concrete and rhetorical terms, it is more strongly tied to Ukraine than to its neighbors. The Wider Black Sea is organic to Georgia, and it matters.

Prospects for Armenia and Azerbaijan between Eurasia and the Middle East

Rainer Freitag-Wirminghaus

The history of Armenia and Azerbaijan is strongly influenced by their geographical situation between Russia, Europe and the Near East. Future perspectives for each country in the wider region relate to their respective foreign policies orientations as well as their domestic political structures. A further crucial factor is their own deep enmity toward each other. The Nagorno-Karabakh conflict will continue to play a central role for both states. This chapter will address this conflict as well as possibilities of cooperation in the South Caucasus. The role of Azerbaijan as an important exporter of oil and gas is a further important element worth consideration, but is addressed in more detail in the chapter by Gerhard Mangott and Kirsten Westphal.

Armenia and Azerbaijan play a significant role in the geostrategic interests of the West in Eurasia. The 2004 NATO summit in Istanbul characterized the South Caucasus as an important region for the alliance. After a long period of reluctance, the European Union (EU) has also developed a stronger profile in the region. The countries of the South Caucasus became members of the EU's European Neighborhood Program (ENP), and in 2007 the EU included the countries in its "Black Sea Synergy" initiative. Admittedly this did not result from the merit of Armenia and Azerbaijan themselves but rather was related to developments in Georgia, particularly its "Rose Revolution." Through their membership in the European Council and in the NATO program of Partnership for Peace (PfP), however, both Armenia and Azerbaijan are to some extent already integrated into wider European and Euro-Atlantic structures. The South Caucasus is no longer just a peripheral region of Europe but is more or less recognized as a significant strategic component of Western security structures. It is part of the space between the Euro-Atlantic community and the Near East. The inclusion of Armenia, Azerbaijan and Georgia into the ENP and the Black Sea Synergy prompted the EU to raise its interest in the resolution of frozen conflicts in the Caucasus. Further integration of

Armenia and Azerbaijan into the Euro-Atlantic security system, however, faces a major obstacle: quick and successful democratization cannot be expected soon.

Foreign and Security Policies

The South Caucasus forms a security complex in which not only security questions, but a number of political decisions, strategies and alliances are interrelated. The unsolved conflicts have an enormous impact on both domestic politics and foreign policy strategies. Every political leadership, including those of the separatist regimes, regards the security dilemma as the most important factor in its political decisions. On the other hand, the conduct of the conflict parties is also related to interference by external powers.

Essentially, the foreign policy of the South Caucasian states has been a balancing act between their own security requirements and the interests of different external actors. Political and security relations are polarized and the atmosphere of the Cold War has survived as nowhere else. On the one side there is Armenia, with a deep political, economic and military dependency on Russia and close relations to Iran. On the other side there are Georgia and Azerbaijan, with deepening links to NATO and close relations with Turkey. In simple terms the Euro-Atlantic security option stands for modernization and democratization, the Russian one for manipulation of conflicts. But as we will see one cannot speak of clearly distinguished axes, as there are too many overlaps and contradictions. Nevertheless, strong U.S.-Russian rivalry cannot be ignored. In the Caucasus the U.S. and NATO are considered the representatives of Western strategic and military interests, generally not very much distinguished from one another, while the EU is seen as engaged in development politics, but without strategic intentions.

Moscow's paradigm, in contrast, is that of controlled instability, including a claim on conflict management. In reality this usually means delay and prevention of conflict solutions for its own benefit. This is exacerbated by Russia's attempts to gain control of energy resources in the region.

Washington's aims include the expansion of its strategic partnership with Georgia and Azerbaijan while trying to diminish Armenia's

dependence on Russia. Fostering political stability is related to ensuring energy exports through the Baku-Tbilissi-Ceyhan pipeline, fighting international terrorism and making use of the geostrategic situation of the region in view of Iran and Central Asia. NATO has also been more and more engaged in recent years, although it is wary of being embroiled in intra-regional conflicts. Integration into NATO structures stands not only for deepening military relations to the U.S. but also as a way of approaching Europe.

Due to their different relations with these external actors, each of the three Caucasian states has developed a strategy of its own. Georgia has turned to the West and its relations with Moscow are tense. Russian pressure and the rudimentary existence of Georgian civil society foster this distinct orientation.

Caught between the Euro-Atlantic security system and that of Russia and the Collective Security Treaty Organization (CSTO) of the CIS, the South Caucasian countries try to assert themselves with different strategies. Armenia's foreign policy of complementarity differs from Georgia's clear Western orientation and Azerbaijan's policy of balancing. Georgia and Azerbaijan pay less attention to their CIS membership, and from time to time consider leaving the organization, while Armenia belongs to the CSTO. Baku and especially Tbilisi attach more importance to their membership of GUAM (Georgia, Ukraine, Azerbaijan and Moldova), although this organization has not fulfilled early expectations that it could be a strong political alternative.

Armenian Foreign Policy

Armenia finds itself in the delicate situation of clarifying its position between a deepening dependence on Russia in the economic sector and a process of rapprochement with the U.S. and NATO. The country is engaged in a remarkable reorientation of its foreign and security policy by opening to the West. This opening has its limits, however, since the still existing trauma of being threatened by Turkey reinforces Russia's traditional role as a protecting power of Armenia. Armenia has attempted to live with this contradiction by introducing the concept of "complementarity" into its foreign policy. Generally speaking, "complementarity" implies friendly relationships with many different partners, such as Russia, the U.S., NATO and Iran. Armenia is the

only CSTO member with strong relations to NATO. But this does not mean symmetry in these relationships; Russia will remain Armenia's most important ally. In fact, Armenia's membership in the CSTO is an extension of its bilateral military relations with Russia. Within the CIS Russia has the closest military relation with Armenia. The main obstacle to reducing Armenia's dependence on Russia is the closed border with Turkey, while the Karabakh conflict impedes deeper integration into NATO.

The Armenian leadership still regards Armenian-Russian relations as the cornerstone of Armenia's security. A vast range of strategic cooperation exists between the two countries, especially in the military and military-technical sphere. A united air defense system and Russian military bases are aimed at neutralizing the assumed military threat from Turkey. 3,000 Russian military personnel guard Armenia's border with Turkey.

Russia is also Armenia's leading economic partner. However, this strategic alliance is not without contradictions and tensions. Armenia has been increasingly disappointed with Russia, especially since Gazprom's decision in 2006 to double the gas price. The two countries did reach an agreement on the value of the Armenian energy assets handed over to Russia.[1] But this did not stop concerns within Armenia about the reliability of Russia as an ally. Armenian attitudes to Russia have traditionally been quite emotional. Many Armenians have been frustrated to see Russia apply a "market approach" to bilateral relations even though Armenia does not charge Russia for its military base in the country. Gazprom's gas price hikes have caused some public outcry and led various opposition politicians formerly supportive of Moscow to recommend a pro-western attitude that would include relying on NATO rather than on the weak CSTO for security. Additional Russian actions, such as a temporary cutoff of gas supplies in 2006, following attacks on the pipeline through Georgia, or Moscow's readiness to sell weapons to Azerbaijan, have strengthened Armenian suspicions that

[1] Gazprom has raised its stake in ArmRosGazprom (ARG), a Russian-Armenian joint venture running Armenia's gas infrastructure, from 45 percent to 58 percent. This was part of an agreement in April 2006 that allowed Armenia to avoid a doubling of the price of Russian gas to $110 million until January 2009. In return Yerevan handed over more energy assets to Gazprom, giving Russia near total control over the Armenian energy sector. See Emil Danielyan, "Russia Steps up Economic Presence in Armenia," Eurasia Insight, November 16, 2006. http://www.eurasianet.org/

their interests are no longer a priority for Moscow. There is no mass anti-Russian mood in Armenia, but the image of the "strategic partner" has been damaged.

Despite these political trends, Armenia's deep economic dependence on Russia has grown. Russia has ramped up its economic presence in recent years, and now boasts near total control over Armenia's energy and transportation sectors, including the major power plant. Business deals with Russia are rarely transparent, and have been an exclusive domain of former President Robert Kocharian and his successor Serzh Sarkisian. A vital pipeline project to diversify energy dependency away from Russia by carrying gas from Iran has also come under Gazprom's control in 2006. Another element of Armenia's weak position regarding Russia is its dependence on the two million Armenians living in Russia. Their remittances sent home amount to $1 million a year.

In relations between Armenia and the U.S., the strong Armenian diaspora in the U.S. plays an important role. According to the new Armenian military doctrine published in 2007, cooperation with the U.S. is of paramount importance to Armenia in terms of establishing a democratic country and ensuring national security. In recent years Armenian-U.S. relations have rapidly developed. The U.S. is the leading financial donor to Armenia, which is one of the biggest beneficiaries of American financial help in relation to its population. In contrast to Azerbaijan, Armenia is involved in programs of the U.S. Millennium Challenge Corporation. Due to the great influence of the Armenian lobby in Washington it is the only country that receives generous support from the U.S. even as it upgrades its relations with Russia and Iran.

Intensified international antiterrorism cooperation after September 11 provided Armenia with the opportunity to outline its concept of complementarity. The military relationship with Washington was upgraded to what the government termed "allied relations." In a 2004 agreement about acquisitions and provision of mutual services, Washington and Yerevan agreed upon logistical support.

These developments were related in part to strong American cooperation with Azerbaijan, which had provided stop over facilities to U.S. airplanes on their way to Afghanistan. To prevent preferential U.S. treatment of Azerbaijan, Yerevan also reacted by sending a small peacekeeping contingent to Kosovo in the framework of a multina-

tional brigade. These dynamic peaked with the deployment of a group of Armenian medical doctors, drivers and engineers for Iraq. Sending a symbolic peacekeeping contingent after heavy debates in the parliament was a remarkable decision, because it was opposed by large segments of the public, who feared for the safety of the Armenian community in Iraq. Before the U.S. invasion Armenia had supported the Russian position of opposing the war. But the peacekeeping action enhanced goodwill with Washington, and can be understood in the context of Georgia's and Azerbaijan's pro-American attitude. Armenia had to modify its foreign policy due to the reality of the Baku-Tbilissi-Ceyhan pipeline and strong U.S. engagement in the South Caucasus.

Armenian-NATO relations have also reached a new level over the last few years. This is not due to greater interest on the part of Armenia, but also to new NATO efforts to involve the South Caucasus in its strategic outreach and to develop individual relations with the three countries. For years Armenia has cooperated with NATO through the Partnership for Peace. Though Armenia does not strive for NATO membership, according to Armenia's military concept Armenian-NATO relations play an important role in ensuring the national security of Armenia. Relations with the North Atlantic alliance are deepening, and Moscow is no longer Yerevan's only strategic ally.

Fear of isolation drives Armenia to strengthen its military relations to NATO and the U.S. With the ratification of the multilateral *PfP* Status of Forces Agreement (PfP SOFA) in April 2004, Armenia could counter Baku's argument that cooperation with NATO would not be acceptable because of Armenia's dependence on Russia. The Armenian leadership argued that new lines of separation would be created in the South Caucasus should Georgia and Azerbaijan become NATO members, leaving Armenia to stand on its own. Yerevan argued that as long as Armenia did not become a member of the alliance, rapprochement with NATO would not contradict Armenian membership in the CSTO.[2]

Membership in PfP and development of Individual Partnership Action Plans (IPAP) give NATO partners the chance to modernize

[2] According to Defense Minister Sarkisian, "Armenia-NATO relations will develop until there arise contradictions between the international commitments assumed by Armenia within the framework of Collective Security Treaty Organization (CSTO) and NATO." Mediamax, South Caucasus—Defense & Security Weekly Review, 11-18 December 2004.

their outdated defense sectors. IPAP reforms include periodical consultations with NATO, development of military doctrine, improvement of training, reform of defense ministries, and greater transparency. The armed forces of both Armenia and Azerbaijan would become more predictable for the alliance using similar standards. An important point is the reduction of the number of armed forces. Given that the Nagorno-Karabakh conflict remains unsettled, however, reduction in forces is not easy for either Armenia or Azerbaijan to accept. The Armenian leadership is not going to start a radical reformation of its armed forces, including democratic control of the defense system, until the settlement of the Karabakh conflict, unless Azerbaijan commits itself to carry out similar reforms. For Armenia it is still a priority to have a large army in order to have a guarantee to provide security and the need to keep the armed forces in constant operational readiness. This is not in line with the priorities of European integration, democratization and reforms. Although IPAP reforms last only two years, officially the army is slated to meet international standards through military reforms by 2015.

The Nagorno-Karabakh conflict remains to be the greatest obstacle to extended cooperation with NATO. It is linked to the other two curtailing factors, the alliance with Russia and poor relations with Turkey, the key member of NATO in the region. There is widespread opinion that NATO cannot guarantee the security of Armenia as long as Turkey is a member of the Alliance. Many people in Armenia continue to perceive NATO through the prism of the Cold War. There are also substantial differences in the ways NATO and Russia organize their military forces and defense structures. The weaponry of the Armenian army consists mainly of Russian weapons and the number of Armenian officers studying in Russian military institutions exceeds the number of those studying according to NATO standards.

On the other hand Yerevan is not falling behind its neighbors when it comes to the speed of deepening relations with NATO. On the contrary, Armenia's relations with NATO appear to be developing faster than NATO's relations either with Azerbaijan, which had begun this process much earlier, or even Georgia. Armenia's elaboration of its IPAP document did not only take less time, it was also more transparent. According to officials in NATO headquarters its presentation document was among the best submitted to the Alliance.

Yet the contradiction remains: while cooperation with NATO promises to help Armenia implement important defense reforms, the CSTO guarantees an effective security system. Over time, it is doubtful that Armenia can successfully support parallel army structures oriented to NATO and to Russia/CSTO.

Despite the prevailing stereotypes about NATO's character, it is remarkable that in recent years public opinion in Armenia has shifted in favor of the Alliance. Especially in 2006 the issues of Armenia-NATO relations and the hypothetical membership of Armenia in the Alliance were discussed more actively than before. The main reason for this was Russia's gas price hike. The sudden increase in sympathy towards NATO has less to do with the goals and tasks of the Alliance and the values of freedom and human rights, and more to do with discontent with Russian actions. There is the danger that this could lead to disappointment. Unlike Georgia, which strives for NATO membership as a means to secure itself against a hypothetical military aggression from Russia, there is no such motive in Armenia. Armenia's problems, the Nagorno-Karabakh conflict and the absence of relations with Turkey cannot be solved over the short term by joining NATO.

It is possible that Georgia will become a NATO member within the next few years. This will of course change the situation in the region. However, this does not mean that Armenia would go the same way. But it is important that Armenia meets the values and the standards that represent the basis of NATO, and it is likely to continue to explore elements along these lines.

Armenians regard themselves as Europeans. As former President Robert Kocharian once said, "Being at the junction of civilizations, Armenia is the guardian of European values."[3] Armenia thus regards integration into European structures as a high priority foreign policy goal.[4] In 2006 a National Council for Armenia's cooperation with the

[3] "Armenia, Iraq and the Greater Middle East," Mediamax, Weekly Analytical Report, January 24, 2005.

[4] In 1999 President Kocharian described Armenia's foreign policy as follows: "Armenia is geographically situated on the crossroad of Europe and Asia, in a region with ongoing active processes caused by global geopolitical changes of the last decade. These circumstances determine the peculiarities of our foreign policy based on the principle of complementarity. In the context of the forum I would like to outline two theses of Armenia's foreign policy. First of all, the perception of inevitability of Euro-integration processes, the identification of Armenia as part of Europe and the search for its role and place in the European architecture." Cited in "Armenia and the Black Sea: Geography or Politics?" Mediamax, Weekly Analytical Report, June 10, 2006.

EU, as well as a commission for coordination of such cooperation, were established to demonstrate the seriousness of Yerevan's intentions. Armenia was the first ENP country to draft a National Program for implementing its Partnership and Cooperation Agreement, which deals with reforms of the country's political institutions in accord with the requirements of the Council of Europe. The idea of the program is to bring Armenia as close as possible to European standards.

Ultimately, Armenia aspires to become a full member of the European Union. It views intensification of the relationship to NATO as one instrument along this path. As President Serzh Sarkisian once put it, Armenia has chosen the path of European integration and NATO is the central institution of European security. Most Armenian politicians think that there is no alternative to Armenia's European integration. Therefore relations with NATO will be developed in parallel with European integration processes.

True integration into Euro-Atlantic structures, however, would require normalization of relations with Turkey. Settling the Armenian-Turkish problem remains a challenge in the region, but there has been no breakthrough despite several initiatives in recent years. In addition to historical reasons and the Karabakh conflict, tensions between both countries are being generated by regional programs implemented by Turkey without Armenia's involvement, such as the Baku-Ceyhan oil pipeline and the Baku-Erzurum gas pipeline.

To neutralize economic and communication blockades imposed by Turkey and Azerbaijan, Armenia is trying to ensure a balanced relationship with Iran. For Armenia relations with Iran are important in terms of maintaining the military-political balance and stability in the region. Iranian-Armenian cooperation is limited primarily to economic and cultural exchange. Some energy programs have been devised with the aim of creating alternative energy resources. Strategic relations with Iran are a significant part of Armenian foreign policy, which seeks to mitigate the effects of the Turkish-Azerbaijani alliance.

Due to its vulnerable position Armenia is sentenced to remain Moscow's junior partner in ways that seem to exclude more profitable cooperation between Baku, Tbilisi and Ankara under the aegis of Washington. As long as the Karabakh conflict is not solved, the strong attachment to Russia will not stop. At the same time Armenia has to

follow Azerbaijan and Georgia in their Western orientation in order to escape isolation. In the competitive game of the external powers, it has fewer alternatives than the other two South Caucasian states. Russia has neither an interest in the normalization of Armenian-Turkish relations nor in a solution of the Karabakh conflict. In that case there would be no more need for a Russian military presence in Armenia. For Armenia the question is whether it should remain a passive observer of the changing geopolitical situation or whether it should become a more active participant in the process.

It seems clear that Yerevan has realized the necessity of assuming a certain role. In recent years, against the background of Russian economic and energy politics, there has been a slow but clearly perceptible process of alienation from Moscow, while Washington's financial help has increased. An obvious public change of mood in favor of the West has taken place, although it may be cyclical in nature.

Numerous polls in recent years show that the majority of the population want well-balanced relations in Armenia's foreign policy. Most Armenians still support the close relationship with Russia, though at the same time they want closer relations to NATO.[5] It is notable that the number of people who vehemently oppose Armenia joining the North Atlantic Alliance has decreased considerably. The number of those who would like a Western or a pro-Russian orientation is nearly equal. The EU is seen as the most trustworthy organization. The EU clearly enjoys more public support than NATO, due to Armenia's self-perception as a European nation. Over 80 percent of those polled would also prefer an affiliation with the EU than with the CIS.[6] Integration into European structures and alliance with Russia are not regarded as a contradiction. People still accept Russian military bases. It seems that the obvious changes in public opinion correspond to increasing cooperation with the EU, NATO and the United States.

[5] Emil Danielyan, "New Poll Shows Armenians Equally Supportive of Russia, West," *Eurasia Daily Monitor*, Washington, DC, June 26 2006.

[6] "Foreign Policy Preferences of the Armenian Citizens," Mediamax, Weekly Analytical Report, 30 October 2006. http://www.iri.org/otherregions/news/pdfs/2006-10-12 Armenia %20poll%20presentation.ppt.

Azerbaijan's Foreign Policy

Azerbaijan has no real alternative to its Western orientation as far as security matters go. For financial reasons and for the protection of its oil exports through the Baku-Ceyhan pipeline it needs the U.S. as its strategic partner. Not being a member of the CSTO, Azerbaijan has cooperated for a long time with the U.S. and NATO while maintaining a strong strategic partnership with Turkey. However, in order not to damage its relationships with Russia and Iran it pursues a course of limited military cooperation with Washington.

Only the Karabakh conflict disturbs Azerbaijan's balancing policy. Without Russia, Nagorno-Karabakh cannot be solved. And as long as Washington remains neutral in the conflict, Azerbaijanis do not believe the U.S. can be their optimal partner in security affairs. The result of this constellation is a mixed attitude of frustration and aspiration. Azerbaijan seeks to change the status quo, and believes that its growing oil revenues could enable it to resolve the issue, if necessary, by force.

The majority of the population does not question cooperation with Washington, but the discontent with American conflict management within the Minsk group of the OSCE has grown. Western pressure on Azerbaijan and Turkey to compromise with Armenia is regarded with mistrust. People regard U.S. policy as rather pragmatic, focused on trying to secure the oil pipeline, push back Russian influence and use Azerbaijan against Iran. In their eyes American geostrategic interests have taken priority over the promoted values of good governance. Approval of U.S. policies has decreased due to the war in Iraq, although disapproval may be less than in other countries. Today most of the population and the elites think that American military bases in the country would not be in Azerbaijan's interests, particularly because they would not contribute to free the occupied regions around Karabakh. Up until 2003 the U.S. enjoyed a more positive image. But after the parliamentary election in autumn 2005, when Washington did not support the opposition, support for U.S. policies declined dramatically among pro-Western but disillusioned oppositional elites.[7]

[7] Rauf Mirqadirov, "Political Elite's Attitude to USA Deteriorates, American Attempts to be on both Sides at the Same Time Did not Succeed," Ayna, Zerkalo, Baku, January 28, 2004.

Azerbaijan's proximity to Iran renders Baku's strategic value to Washington even greater than that of Tbilisi. U.S. military interests in Azerbaijan are driven by the demands of the fight against terrorism fight. The U.S. seeks to foster regional stability, forge assistance in countering terrorism, and maintain access to the Caucasus air corridor, which is essential for U.S. engagement in Afghanistan. To accomplish these goals, the U.S. military's European Command (EUCOM) has launched several initiatives that focus on the region as a whole as well as on Azerbaijan specifically.

After September 11, 2001 Washington moved away from relying on formal military bases to smaller operating locations. So in Azerbaijan it favors the deployment of small and not very conspicuous security locations achieving great mobility near the border to Iran. The strategy of "rapid reaction" corresponds with an initiative which was established by the name of *Caspian Guard*. In 2004 a program for training and equipment was started to guard the Caspian shore, providing Azerbaijan and also Kazakhstan with a control system in the Caspian Sea. *Caspian Guard*, with a command center in Baku, was designed not only for guarding the infrastructure of the Caspian but also the Baku-Ceyhan pipeline.[8]

Caspian Guard was later renamed *Caspian Security Guard*. This was a cautious downgrade of the original goals, because the old program had been more ambitious. The new *Caspian Security Guard* simply aims to protect the economic interests of the participating states.[9] Washington has stationed two mobile radar stations in the north and south of the country to monitor the Caspian Sea. Their capacity can reach to the Russian Federation.

The program does not facilitate deployment of military forces. Baku rejected U.S. mobile military bases, at least officially. In case of a potential American military attack on Iran it feared that Iran might retaliate by bombing Azerbaijan. Though former U.S. Defense Secretary Rumsfeld visited Baku several times in a short period, he could not convince Baku of the advantages of military bases. On the contrary,

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[8] Alman Talyshli, "Rumsfeld's Baku Trip Stirs Controversy," *Eurasia Insight,* 13 April 2005. Cəsur Sümərinli, Ramsfeldin Məxfi Təlimatı, Ayna, Bakı, Aprel 13, 2005.

[9] Cəsur Sümərinli, Pentaqon xəzərdən əl çəkir? Adı dəyişdirilmiş "Caspian Guard" proqramından ABŞ-ın regionla bağlı bir sıra siyasi və hərbi məqsədlərinin çıxarıldığı bildirilir, Ayna, Ç.a., Noy. 28, 2006.

Azerbaijan remained neutral in the Iranian-American conflict and assured Tehran that it would abstain from providing any technical and logistical assistance to the American side should a military conflict erupt. To confirm this the parliament adopted a law in 2004 prohibiting the deployment of foreign troops in the country. Though a potential deployment was always denied, rumors have never stopped. Eyewitnesses have reported that there are U.S. troops in the country, namely at former Soviet bases. Azerbaijani media also reported that the Pentagon was using Azerbaijani territory for virtual games and computer-based war simulations for a war against Iran. The U.S. embassy in Baku tends to downplay these rumors. On the other hand, according to Defense Minister Safar Abiyev, the mutual partnership with Washington includes training of Azerbaijani military experts by U.S. military officials in the field of war games and computer-based simulations, thus increasing the capability of the Azerbaijani military in terms of planning.[10]

Although Azerbaijan is moving closer towards NATO, it is still an open question whether membership is actually the long-term goal of Azerbaijan's so-called well-balanced policy. Generally Baku is striving for integration into Euro-Atlantic structures, but concrete steps are not clear. Azerbaijani government representatives take a rather careful approach to this issue, claiming that Azerbaijan is making real steps towards it but within the framework of the its balanced foreign policy. Baku is ambivalent about NATO. And NATO does not really know its real ambitions. Deputy Foreign Minister Araz Azimov put it this way: "… joining NATO is not an end in itself, but simply one possible element of a country's security."[11]

Russia is not really able to discipline Baku directly, but it could strengthen cooperation with Armenia. After Heydar Aliyev transferred power to his son Ilham, Azerbaijan postponed the ambition of NATO membership that it had expressed some years before. However, even Heydar Aliyev had never officially asked for membership, out of respect for Russia. He preferred to ask for the status of a candidate through his foreign minister. Azerbaijan has been a member of the

[10] Azer Kerimov, "Azerbaijan again Torn between America and Iran," CACI Analyst, July 25, 2007. http://www.cacianalyst.org/.

[11] Liz Fuller, "Azerbaijan: Baku Seems Ambivalent About NATO Membership," RFE/RL, March 22, 2007.

Alliance's Partnership for Peace (PfP) program since 1994, and an Individual Partnership Action Plan (IPAP) is being implemented.

Neither NATO nor Baku has ruled out membership for Azerbaijan, but in contrast to Georgia, Azerbaijan does not eagerly strive for membership. The desire for normalization of Azeribaijan's relations with Russia, together with President Ilham Aliyev's fear of a velvet revolution supported by Washington, resulted in a tactical "wait and see" approach to the membership issue. This reflects the basic problems of the South Caucasian states, which are not independent in their political decisions. Their actions are being determined to a large extent by the imperative of their current security requirements. Circles inside the army promote a stronger pro-American policy, but while there is a partial integration into NATO structures, the government cooperates with Moscow in the field of military techniques.

NATO members like the U.S. and Turkey would like Azerbaijan to join the Alliance, not only for strategic reasons but also to provide a strong energy transportation link to the Caspian Sea that would make Europe less dependent on Russia. But few other members want to become embroiled either in Azerbaijan's struggle with Armenia or its internal problems.

As a result, Baku hesitates to reveal its ultimate goals while it delays elaboration of both IPAP and its own national security doctrine, which had been announced for a long time. Baku uses the Karabakh conflict to justify retention of some kind of Soviet-style standards concerning training, management and control mechanisms. The impact of increased Turkish and U.S. training and military education for Azerbaijani officers is said to be low. Experience in overseas peacekeeping deployments in Kosovo, Afghanistan, and Iraq has not yet resulted in enhanced combat strength. There is dubious utility in dividing the army along NATO-oriented or Soviet-style lines.

Institutional corruption poses another obstacle for military reform. The Defense Ministry is regarded as the most corrupt ministry in the country. Baku is not interested in transparency in military affairs. As a result, efforts to achieve greater professionalism in the military have lagged. Despite a massive increase in defense and strong bellicose statements from the Azerbaijani leadership, experts doubt whether the army is capable of waging a new war.

Azerbaijan is unlikely to be able to fulfill its commitments to NATO over the next few years. Officially, Baku declares that the military reforms required by IPAP will bring the armed forces up to NATO standards by 2015. Through this cautious approach Baku seeks to avoid facing the high degree of hostility that Russia has directed at Georgia. As a result, Azerbaijan's integration into Euro-Atlantic structures is proceeding much more slowly than in Georgia's case. And NATO is not a subject of passionate debate in Azerbaijan, unlike in Georgia.

The chief spokesman of the Foreign Ministry described the Azerbaijani policy of gradual cooperation in this way: "We don't claim that we'll become a NATO member state tomorrow, or in a year. But we believe that the current framework of our partnership gives enough scope for us to make moves in this direction. Azerbaijan is now well aware that integration with Europe and Euro-Atlantic structures will bring stability to the region."[12]

Since Azerbaijan's authoritarian structures were heavily criticized by the West, Baku is looking for Moscow's support. Both share an interest in preventing so-called "color revolutions." Since the political conception of the leadership is closer to that of Moscow than to the Western understanding of democracy, the regime tries to keep a balance between them and to play the powers against each other. Improved relations with Moscow are more tactical than strategic. Baku's energy resources enable it to contain Russian influence. Moscow's efforts to attain control over infrastructure in the energy sectors of the CIS countries has been least successful in Azerbaijan. Moscow would like to convince Baku that cooperation with the CSTO would be useful. To counter the *Caspian Security Guard* program, it has launched an international naval task force or operations group, the so-called *CasFor* proposal, for the fight against trafficking in drugs, terrorists and weapons of mass destruction in the Caspian Sea basin. It appears largely to mirror the American initiative.

Although the Kremlin's proposals hold little attraction, an offer from Russia to change its position in the Karabakh conflict in favor of Azerbaijan could change Baku's position. On the other hand, such an

[12] Jasur Mamedov, "Azerbaijan Tiptoes towards NATO. Baku's cautious policy seemingly designed to avoid spoiling relations with Iran and Russia," November 25, 2006. http://www.armtown.com/news/en/a1p/20061125/43319/.

offer would be met with some suspicion in Baku, because Armenia is the basic pillar of the CSTO in the South Caucasus and in general Moscow has demonstrated that its interests lie in perpetuating the unstable situation in the region.

Azerbaijan's deliberately cautious policy is designed to avoid spoiling relations with its big neighbors Iran and Russia, with which it would prefer to coexist peacefully. It is also part of a broader strategy, as Azerbaijan has also deepened its ties with Pakistan and the central Asian states. Baku increasingly assumes it can engage regional partners through a new position of strength resting on its energy resources. Turkey is still an indispensable ally concerning the Karabakh conflict, but Baku does not rely excessively on this connection. Outreach to these many different partners indicates that Azerbaijan does not possess a clear security related strategy but seems rather to be maneuvering tactically between various political options.

Despite the historic tension between Iran and Azerbaijan and the fact that Tehran supported Armenia in the Karabakh conflict, Iran is not regarded as a real threat. To some extent the currently tense situation in the region is profitable for Azerbaijan, as its location bordering Iran facilitates U.S. military engagement and enhances its geostrategic importance. It allows Baku to ignore Washington's concerns over its dismal electoral record and at the same time to develop its ties with Tehran. Even though relations with Iran are not based on friendship, but in fact are characterized by mutual mistrust, Baku will not risk its partnership with Tehran. Not only does Iran supply energy to the Azerbaijani exclave Nakhchivan, which remains in a difficult economic situation, but Baku also perceives the need to undercut efforts at Armenian-Iranian partnership.

There is a myth in the South Caucasus that Georgian membership in NATO will automatically open the door for Azerbaijan and Armenia, and that some day they could also become members of the EU. This illusion fails to take into account the fact that the EU's level of cooperation with Azerbaijan is limited by the policies of Azerbaijan itself. Without greater commitment to reform, Azerbaijan will not be able to move closer to Europe. The existence of energy resources is not enough. The agreement with the EU about the export of Azerbaijani gas from the Shah Deniz field to European markets may make Azerbaijani politicians think that Europe needs Azerbaijan more than

the other way around. But in the long run it is European integration that could lead to political stability at home and provide the chance for a peaceful resolution of the Karabakh conflict.

The signing of the ENP agreement between the EU and the three South Caucasian countries has started a new chapter and is aimed at further deepening relations. But ENP as well as IPAP are in danger of remaining symbolic activities that do little to deepen the integration of Azerbaijan into European institutions. The reluctance of the government to seriously conduct the kind of real political and economic reforms that are a requirement for any move toward the prospect of membership in Euro-Atlantic institutions is too obvious. The desire of the authorities to perpetuate the domestic status quo, combined with the policy of playing off the external powers against each other, is one of the greatest obstacles to integration with Europe.

The Nagorno-Karabakh Conflict

The most significant element determining the future of both countries is the conflict of Nagorno-Karabakh. Though it is has been on ice since the 1994 cease fire, it is undoubtedly the key conflict in the Caucasus. In the meantime, a de facto independent second Armenian state has been created in Karabakh, which officially belongs to Azerbaijan. The history of the conflict resolution process underscores that this unsolved "frozen" conflict exerts considerable influence on both the domestic development and the foreign policies strategies and orientations of both countries. It is the greatest obstacle for regional cooperation and delays the integration of these countries into European structures. And given that political elites in both countries justify the lack of political transparency by the requirements of national security, the conflict has had a negative impact on democratization.

Peace negotiations imposed under international pressure do little to halt the cycle of mistrust and militarization if publics are not prepared to accept inevitable compromises. Outside pressure, whether through European conventions or human rights declarations, is unlikely to change the mentality of confrontation, since the parties to the conflict appear incapable of examining critically their historically grown perceptions. Today the peace process is at a dead end. There is

no common basis of understanding. In neither country is there any serious political movement striving for compromise.

The deadlock in negotiations is fueling greater militancy, especially in Azerbaijan. People fear that any compromise might end in the loss of Karabakh. Since Ilham Aliyev's takeover he has often announced the possibility of a military option, though this may be primarily be a device to strengthen his internal position. Azerbaijan has increased its defense expenses drastically, which has forced Armenia to do the same. The military budgets of both countries are growing much faster than their high GDP growth rates. Azerbaijan's military budget has grown from $146 million in 2004 to almost $1 billion in 2007. While Azerbaijan's defense spending has risen eight-fold, Armenia's defense spending has increased by 350 percent compared to 2000 ($264 million in 2007).[13] It is questionable, however, whether this has really had a positive effect on the combat strength of the Azerbaijani army, whose level of professionalism and moral condition is usually described as very low. As Georgia, too, increases its military spending, the Caucasus has become one of the world's most militarized regions, which contradicts each country's avowed priority of European integration.

Peaceful resolution of the conflict is likely to mean that Azerbaijan would have to carry the major burden of concessions. This is a proposition that few in Baku are willing to consider. Failure to reach such a painful compromise, unfortunately, could mean renewed conflict. The majority of the population in Azerbaijan would support a military operation to win back Karabakh, or at least the occupied regions around Karabakh, which Armenia controls as a buffer zone.[14] The government is adept at manipulating popular opposition to the international treatment of the conflict to consolidate its power base. It has been careful to centralize decision-making regarding Nagorno-Karabakh, and given Azerbaijan's rudimentary structures of democracy the peace process remains quite opaque to the public. Even the political opposition, however, while suppressed, is strongly against any compromise solution.

[13] Oleg Gorupai, "The Geopolitical Whirlpool of the Caucasus," translated by Elena Leonova, in *Krasnaya Zvezda*, October 8, 2007.

[14] "Over Half of Azeris Back Military Conflict Resolution," Survey, Assa-Irada, Azerbaijan, November 3, 2005. According to this survey, 58 percent would support a military option and 25 percent a peaceful solution.

Baku's militant rhetoric doesn't necessarily translate into an acute threat of war, because Azerbaijan cannot afford to become an international pariah. Nevertheless, the danger of renewed outbreak of violence must be taken seriously. Violations of the ceasefire are growing, as are related fatalities. There is also the theoretical danger that Russia could take measures to support Armenia were it to be attacked militarily by Azerbaijan. The CSTO states that collective security groups of one region within the CSTO could be involved in repulsing aggression in another collective security region of the CSTO at the request of one or more parties to the agreement.

Ruling elites in Armenia, on the other hand, are completely content with the present status quo and not prepared for serious concessions. They regard the prospect of a "forever frozen" conflict with equanimity, trusting in the capability of their army and harboring the hope that the independence of Kosovo could set a precedent for other conflicts, despite clear differences between Kosovo and Karabakh.

Greater outside pressure to move toward resolution risks strengthening internal resistance in both Armenia and Azerbaijan. Armenian hardliners reject everything that does not result in an immediate secession from Azerbaijan. Many are against a withdrawal from the occupied territories, which they call liberated regions.

Thus far, negotiations have failed to produce any significant progress. The Minsk Process initiated by the OSCE provides a platform for dialogue, but so far has not been able to develop feasible proposals to resolve the conflict.[15] There has been little willingness on either side to making concessions, and mediators have failed to secure agreement on rules governing the status of Karabakh. The 1994 ceasefire has led to a situation that is generally described as "no peace, no war."

Individual Russian and U.S. initiatives have had greater impact than the Minsk Group. Each assumed a different line of negotiation. Russian diplomacy led to the interim settlement. Later, the United States took the strategic initiative. In 1997 the U.S., France and Russia assumed co-chairmanship of the Minsk Group and since then have monopolized

[15] The so-called Minsk Group is responsible within the OSCE for solving the Karabakh conflict. It comprises representatives of the conflicting parties and the following countries: U.S., Russia, France, German, Czech Republic, Sweden, Italy, Belarus and Turkey. The U.S., Russia and France currently hold the co-chairmanship of the Group.

the issues, isolating other Minsk group countries and rejecting intervention by the Council of Europe.

The OSCE co-chairmen proposed two peace plans in 1997 (known as the "package" and "staged" plans) that envisaged greater autonomy for Nagorno Karabakh and diminishing Azerbaijani sovereignty over the region. Both of them were accepted by Azerbaijan. Armenian President Levon Ter-Petrossian accepted the second plan, but was forced to resign because of his concessions.

A third plan was proposed in 1998 providing for the concept of a common state between Azerbaijan and Nagorno- Karabakh. It was rejected by Azerbaijan. In 1999 Western pressure forced meetings between Armenian President Robert Kocharian and Azerbaijani President Heydar Aliyev, while the efforts of the Minsk Group and the talks on a regional stability pact for the South Caucasus signalled positive changes. However, the adversaries remained unwilling to reach painful compromises. At the 1999 OSCE summit held in Istanbul, both Armenia and Azerbaijan proposed a stability pact as a forum for multilateral cooperation in the Caucasus. However, none of the proposals was set out in any detail.

The weak point of all proposals concerning a common state solution is that they would lead to complete secession. The biggest difficulty with such proposals lies in translating the details into the reality of the South Caucasus. A confederate solution that balances the principles of territorial integrity and the right to self-determination is seen by Azerbaijan as abandoning territorial integrity, whereas for Armenia it represents the logical consequence of the military reality. Therefore, Azerbaijan's displeasure with the OSCE's mediation attempts seems understandable. The negotiations conducted in Key West in April 2001, under the auspices of U.S. Secretary of State Colin Powell, also failed, despite great expectations. Although both presidents softened their stance during the talks, as soon as they returned home they each struck a far more hawkish position. They were not able to "sell" compromises to their people.

After September 2001, Washington pressed both sides for continuation of negotiations but without concrete results. The so-called Prague Process offered a new start. The Azerbaijani and the Armenian foreign ministers met in Prague in April 2004, signaling hope for

change. Before the start of the dialogue, each side reiterated its position. Azerbaijan underscored that it agreed neither to the independent status of Nagorno-Karabakh nor to its being part of Armenia. Nevertheless, it declared that it was ready to grant the highest possible status of autonomy to Karabakh. Armenia insisted that the problem could only be resolved through self-determination by the Armenians of Karabakh. This would lead to unification with Armenia or to their recognition as an independent state. The Armenians declared that autonomy inside Azerbaijan was "a stage which is over".[16]

For the Azerbaijani public the insistence of the co-chairs on compromise has been perceived as losing sovereignty over Karabakh in return for the withdrawal of Armenian troops from the occupied areas outside Karabakh. Generally, there is distrust within Azerbaijani society towards the mediating team, due to the prevalent belief that the co-chair countries lean directly and indirectly towards Armenia. This is linked with tendencies towards a new anti-Western stance and the feeling of being the victim "once again." Such emotions are accompanied by calls on the Azerbaijani people to rely on their own strength. Such efforts can only result in a readiness for war that misjudges the existing balance of power and disregards the devastating effects of a further armed conflict.[17]

Although the essence of the ongoing negotiations had been kept secret until 2006, it was clear that Baku continued to insist on a settlement stage-by-stage, while Yerevan adhered to a package solution whereby the status of Karabakh would be determined first within a comprehensive peace settlement. Azerbaijan has been working on securing international recognition of Armenia as an aggressor state, and in this way pressuring Armenia to leave the occupied areas. There have been signals that the Armenian government may be principally ready to accept withdrawal as a first step, which would be enormous progress.

The optimism of the OSCE mediators proved illusory, however. Hoping for an open debate in both countries, in 2006 the co-chairs made the basic principles of the negotiations public for the first time. The negotiations envisaged a mixture of the "package" and "staged"

[16] "Armenian Minister Rejects Azerbaijani Autonomy Idea for Karabakh," Mediamax. Armenian News Agency, Yerevan, May 16, 2005.

[17] Elkhan Mehtiyev, "Armenia-Azerbaijan. Prague Process: Road Map to Peace or Stalemate for Uncertainty," Conflict Studies Research Centre, Caucasus Series 05/23, May 2005, p. 6.

plans. Some of its elements would be agreed at once, others would be gradually implemented. The final status of Karabakh would be decided by a future referendum by the population of Karabakh. The plan included withdrawal from the occupied regions and the reopening of communication links between the two countries. An international peacekeeping contingent would monitor the agreement. More problematic was an arrangement regarding the Azerbaijani districts connecting Armenia and Karabakh, which neither side wants to lose. It is also not very likely that Baku would agree to a referendum, because this would inevitably lead to the loss of Karabakh.

The political culture in Armenia and Azerbaijan is not conducive to such a solution. The Karabakh conflict is the most important national problem for majorities in each country. In Azerbaijan the defeat in the war and the loss of the region is a never-healing wound. Demonization of the Armenians through the media and in schools has deepened anti-Armenian sentiments to such an extent that there is little room for compromises. For most of Azerbaijanis, the prospect of living together with Armenians is not conceivable.

Emotions are running higher in Azerbaijan than in Armenia because Azerbaijan lost the war. But in neither country is there any great willingness to acknowledge that economic cooperation could be in one's own interest. As both presidents control most of the media, they have the power—and responsibility—to change the terms of the debate in their countries and promote discussion of solutions. They did not do so in the past, however, and are hardly likely to change their position in the future.

Each country believes that time is on its side. Yerevan hopes that the de facto reality of Karabakh as an independent state will lead to recognition by the international community, especially after Kosovo has gained its independence. Baku is wary of negotiations and pins its hopes on its arms buildup. Many people in Azerbaijan believe that the army is strong enough to initiate a new war, possibly a blitzkrieg. This could turn out to be an illusion. Meanwhile the prospect of a new war is something for which people are psychologically prepared. Mistrust is high, dialogue opportunities are low and on both sides a maximalistic attitude is widespread. Civil society is weak, yet a strong civil society appears to be a prerequisite for accepting compromises to peacefully resolve the conflict.

Regional Cooperation

Both Armenia and Azerbaijan need to engage in substantial reforms even to be considered for integration into European structures. Membership in ENP, not to speak of actual EU membership (a very distant prospect), requires measures to enhance democratization and promote a variety of economic and social standards. Integration in NATO structures would require each to align their political and military reforms with basic principles of European security.

Future prosperity is also dependent upon the degree to which either state is prepared to engage in regional cooperation. Yet each is seeking to advance its integration separately, and refuses any type of regional cooperation. This reluctance has actually diminished their security, notwithstanding the security reforms each has engaged in at home. As long as the Karabakh conflict remains unresolved, cooperation between Azerbaijan and Armenia is unrealistic.

There is extensive cooperation between Azerbaijan and Georgia, on the other hand, especially in the energy sector but also in the military field. Both are interconnected in GUAM, and their membership in the CIS plays only a subordinate role for them. Neither is a member of the CSTO. In addition to the U.S., their most important strategic partner is Turkey. Political, economic and military cooperation between Azerbaijan, Georgia and Turkey has deepened in recent years. The Baku-Tbilisi-Ceyhan pipeline project, which was inaugurated in July 2006, is the basis for this cooperation, and has been expanded by the Baku-Tbilisi-Erzurum gas pipeline. The three countries are also involved in the Nabucco pipeline project, which is slated to supply southeastern and central Europe with gas from the Caspian region to ease the EU's dependency on Russia. Another project is the Kars-Akhalkalaki-Tbilisi-Baku railroad, which is expected to be completed by 2009, linking Azerbaijan to Turkey and from there to western Europe. In 2007 the three countries signed an agreement titled the "Common Vision for Regional Cooperation." It envisages the expansion of cooperation in the fields of transportation, electricity, and the free movement of people. Links between the three countries have the potential not only to increase regional cooperation but also to open new links between central Asia, China and Europe. Azerbaijan will have a transport route to Europe and to the Turkish Mediterranean Sea. This will strengthen its position in the region politically and eco-

nomically. The railway project would theoretically enable Turkish troops to reach Caspian shores in ten hours.

Pipeline politics has led to stronger Turkish engagement in security problems in order to enhance energy security. However, this is connected to absolute support of Azerbaijan in its conflict with Armenia. Next to the Karabakh conflict the complicated relationship between Turkey and Armenia is the main obstacle to regional cooperation. Today the conditions for normalization of this relationship could be better than ever. While the Armenian population has not overcome its fear of possible Turkish aggression, most Armenians are in favor of an opening of the Turkish-Armenian border. Turkey is reluctant to commit to this, however, because of its support for Azerbaijan regarding the Karabakh conflict. The opening of the border thus seems to be possible only after the Karabakh issue is resolved. Yet opening of the border has the potential to break the vicious circle of conflict and lack of cooperation.

Some people in Armenia believe that Turkish EU membership would sooner or later lead to a normalization of their relations with Turkey. Others, including the leadership, want the EU to make normalization and recognition of the Armenian genocide by the Turkish government a prerequisite of Turkish entry into the EU. If Armenian-Turkish relations would improve, Armenia would gain a certain independence from Russia, and the Russian military presence in Armenia might be rendered unnecessary. If Russia were to close its military bases in Armenia, however, this would mean the definitive withdrawal of Russia from the Caucasus, even though it controls almost 90 percent of the Armenian energy sector. Armenia's economic dependence on Russia is reinforced by its security dependence on Russia. If Armenia's security dependence diminished due to rapprochement with Turkey, its might also be in a position to lessen its economic dependence on Russia. So Russia cannot really welcome any progress in an Armenian-Turkish dialogue.

Abstract notions of greater possibilities for cooperation continue to take a back seat to concrete efforts to promote confrontation. The Kars-Akhalkalaki railway project, for instance, increases Armenia's isolation and enhances its dependence on Russia. Yerevan understandably argues that the disconnected but already existing route from Kars to Baku across Armenia is much shorter, but its arguments have fallen on

deaf ears. As regional cooperation strengthens the strategic alliance between Turkey, Georgia and Azerbaijan while excluding Armenia, it will be increasingly difficult for Armenia to participate as an equal partner, although the EU and the U.S. have been reluctant to support the railway project due to the lack of Turkish-Armenian cooperation.

Uneven regional cooperation in the South Caucasus is likely to be reflected in the entire transportation networks of the region. While this is surely the intention of Azerbaijan, it will increase Armenia's dependence on Georgia as the only geographical access to Russia. In contrast to Baku, Tbilisi does not want to exclude Armenia. It views Armenia rather pragmatically as a partner for cooperation. In the Georgian national security concept only the U.S., Turkey and Ukraine are deemed to be strategic partners.[18] Georgia could play the role of a mediator between Armenia, Turkey and Azerbaijan, but Georgia's cooperation with Azerbaijan is much more important than its cooperation with Armenia. Armenia needs Georgia as its transit country more than Georgia needs Armenia. Destabilization of the political situation in Georgia or tense Russian-Georgian relations endanger Armenia's economic and communication links with the outside world. Any closure of the gas pipeline from Russia to Georgia would affect Armenia as well.

Due to these problems and reports of ethnic discrimination of the Armenian minority in the Georgian region of Samtskhe-Javakheti, Armenia's relations to Georgia, which is the only Christian country among its neighbors, are clouded by distrust. Russia and Iran enjoy much more popularity among Armenians. In a summer 2006 poll relations between Armenia with Georgia were described as "good" by 46 percent and "bad" by 45 percent.[19]

Though Armenia wants to integrate itself into European structures, it does not demonstrate much readiness to take an active part in the building of the wider Black Sea region. In this respect it follows Russia, which, together with Turkey, is not fond of this regional initiative. The Armenian leadership is cautious and skeptical regarding any new idea of regional identity. This is understandable for a country that has

[18] "Georgia and Armenia: From Strategic Partnership to Pragmatic Cooperation," *The Messenger*, May 24, 2005, #093 (0867), Tbilisi.

[19] The poll was performed by Baltic Surveys/The Gallup Organization on behalf of the U.S. International Republican Institute (IRI). See "Foreign Policy Preferences of the Armenian Citizens," Mediamax, Weekly Analytical Report, October 30, 2006.

complicated relations with some of its neighbors. In short, the countries of the region share few common approaches to their region. Instead, they are separated by unsettled conflicts and strong enmities.

Internal Structures and Perspectives

Each of the political systems of Azerbaijan and Armenia may be generally characterized as a mixture of democracy and authoritarian governance. The legitimacy of both governments is highly questionable, given regular charges of electoral manipulation and suppression of opposition forces. Moreover, civil society in both countries is weak and marked by deep public distrust of government institutions.

Despite their weak record, in 2000 Azerbaijan and Armenia were admitted into the Council of Europe (CoE). The decision was bound with a request for reforms and an appeal to solve the Karabakh conflict. Even though neither state could really meet the terms of admission, CoE members calculated that membership would give the CoE a means to exert pressure on the two countries. This calculation has largely failed, although the CoE and the EU are keen to demonstrate that they have some means to influence change in the South Caucasus. In 2003, at the suggestion of the German government, a special EU envoy for the South Caucasus was appointed to participate in the OSCE negotiations and to consult on reforms and democratization.

The Council of Europe is the only European institution in which the South Caucasus states are represented. The governments are confronted with reform demands from Brussels without any commensurate commitment to closer relations, yet argue that such a commitment is important to secure domestic support for reforms. The Council of Europe regularly sends members as observers to the South Caucasus. The states are subject to strong CoE oversight, which they often view as interference. The Council's reports regularly criticize electoral manipulation in Armenia and Azerbaijan and both countries' lack of will to resolve the Karabakh conflict.

The Domestic Situation in Azerbaijan

Since coming to power in 2003 Azerbaijan President Ilham Aliyev has consolidated his position by purging his father's old guard, in part

through means of questionable legality, but with unexpected success. Despite the dubious results of his election the majority of the population seems to stand behind him. Part of the old guard retains some influence and is quite critical of the President, but Ilham Aliyev's younger supporters make no secret of their intent to oust the old guard from power. The question remains, however, whether this will lead to new thinking.

The regime owes its strength to the institutional weakness and fractiousness of the opposition. There is no serious political dialogue between the government and the opposition. Political discourse is practiced as a zero sum game, especially on the part of the government. The opposition has no chance to actively participate in the political decision-making process. The weakness of the opposition is not only the result of repression by the government, but also of the lack of charismatic leaders or a clear alternative political concept. Generally, political parties are not mass organizations but hierarchical cadre organizations bound to personalities and their regional loyalties. They are distinguished less by political differences than by personal animosities.

Widespread political apathy has replaced the surge of political mobilization that marked the early years of independence. Significant parts of the impoverished and unemployed population are unable to voice their opinion. The political climate has deteriorated, and is marked by repression of the opposition and the media. In principle democracy is supported by a majority of the population. Everyday reality, however, more closely reflects an authoritarian political culture.

The relatively good economic climate has helped Ilham Aliyev make the case that he is a reliable guarantor of continuity even as he introduces needed reforms. He has demonstrated a willingness to remove individual opponents, but has done little to tackle endemic corruption or break up the encrusted patronage structures that dominate the country.

Azerbaijan consistently ranks as one of the most corrupt countries on earth. The state oil company SOCAR, which is under the control of the presidential office and the Aliyev family, has a particularly bad reputation. The private sector is still inadequately protected from abuse by government authorities. On the other hand corruption is

often seen as holding the anemic state structures together or helping to solve problems when the state fails to fulfil its functions.

In spite of rising oil profits and high growth rates (32.5 percent in 2006), little progress is being made in reducing poverty. The establishment of a state oil fund and a long term strategy to use oil profits to upgrade infrastructure and reduce poverty indicate that the dangers of "Dutch disease" have been acknowledged. But transparency and concrete measures to use the oil fund for poverty reduction are still lacking. In the light of the widening gap between rich and poor this could lead to social unrest and fuel the rising influence of Islamistic circles.

Essentially, the regime is looking for ways to establish a market economy without also having to accept democracy. In some fields such as the media, repression has actually increased since Ilham Aliyev assumed power. Police actions against opposition demonstrators have generally been tougher than under his father.

Neo-paternalism and bureaucracy work hand in hand. The president holds the system together through a personal network of connections. This interdependence of public and private interests and private utilization of public agencies is the most important source of Aliyev's power. Parliamentary and judicial oversight of the executive branch is weak, and the generation and allocation of government resources is relatively opaque.

Azerbaijan has been the subject of considerable international criticism regarding human rights and freedom of the media. The government usually reacts to such criticisms with minimal reforms that it subsequently seeks to undermine. Even as the leadership engages in repression at home, it showcases selective reforms to satisfy external demands for democratic change, but without challenging the structure of power. Therefore reforms in the local administration did not result into decentralization and electoral reforms did not produce free elections. The constitutional state still exists on a low level while civil society remains rudimentary.

The Domestic Scene in Armenia

After being heavily engaged politically in the first years of independence, most Armenians now tend to be disenchanted with politics.

The political landscape is divided between the coalition of pro-government parties and a poorly coordinated opposition. Neither the government nor the divided opposition has a large or committed popular following. As in Azerbaijan, parties are personality-based and associated with families or clans. The different entrepreneur groups are more important than parties and occupy a large number of seats in the parliament. Most parliamentary debates, therefore, are not between parties but between lobbyists. The latter perpetually form shifting alliances that are difficult for outside observers to track and understand.

The security forces play a key role in Armenian politics. The army is one of the pillars of the government and of the Karabakh clan, which claims former President Kocharian, a Karabakh war hero, and his long-time ally and successor Serzh Sarkisian, also a former military commander. They control the security structures and maintain a balance between different departments.

The general absence of transparency in both political and economic decision-making processes encourages the spread of the shadow economy. Corruption pervades all sectors of society. As in Azerbaijan it takes the form of bribes, extortion and nepotism in the public sector and in the upper ranks of leadership.

Despite a lack of natural resources and closed borders with Turkey and Azerbaijan, Armenia is booming economically with a growth rate of nearly 14 percent in 2007, driven mainly by the construction industry. Nevertheless, a large part of the population still lives below the poverty line.[20] There is high inflation and high unemployment and the gap between rich and poor continues to grow, leaving large segments of the population dependant on remittances from abroad. The economic recovery is concentrated in Yerevan and among circles close to the government. To secure political loyalty, business privileges are usually given to members of clans. Large parts of the economy are in the hand of veterans from the Karabakh war.

[20] According to official statistics that have been deemed reliable by the World Bank and the IMF, the proportion of Armenians living below the poverty line fell from 55 percent in 2001 to under 30 percent in 2006. See Emil Danielyan, "Yerevan Vows 'Second-Generation' Reforms to Sustain Robust Growth," *Eurasia Daily Monitor*, Volume 4, Issue 133. July 10, 2007. This would mean that Armenia has reached one of its Millennium Development Goals—a reduction of its poverty rate by 8 percent by 2012. Some experts doubt these figures, however.

The presidential election of February 19, 2008 was seen by some observers as an "historic chance" to restore the image of Armenia as "an isle of democracy in the South Caucasus." The leadership expected a smooth transfer of power from Kocharian to Sarkisian. However, events following the election indicate that the foundation of the ruling regime is less stable than expected. Though Sarkisian narrowly won the absolute majority, the opposition alleged that mass fraud had taken place and drew their supporters onto the streets.[21] As in Azerbaijan and Georgia, many people critical of the government have lost their faith in changing government peacefully through the ballot box. Too many elections have been spoiled by manipulation, whether through ballot-stuffing, multiple voting, intimidation of opposition activists, biased election commissions or one-sided media coverage during the campaign.

The mass rallies, led by the defeated former president Ter-Petrossian, resulted in the declaration of a state of emergency in Yerevan, the detainment of a number of opposition politicians, the death of eight people and a general polarization and destabilization. The leadership, after ten years in power, seems to have underestimated the extent of public dissatisfaction with the regime. Its credibility has been severely undermined.

Perspectives

Immediately after the Yerevan crisis in March 2008, heavy clashes erupted between Armenian and Azerbaijani soldiers in the frontline zone. This new spat of fighting may have been an attempt by the Azerbaijani leadership to capitalize on the instability in Armenia, or an effort by the Armenian leadership to distract attention from domestic troubles. Regardless of the motivation, it is obvious that any internal destabilization has the potential to unsettle the fragile peace between the two countries, thus affecting the entire South Caucasus. Third-party efforts to challenge the status quo are equally at risk of sparking renewed violence.

[21] According to official results, Serzh Sarkisian won the election in the first round, securing 52.8 percent of the ballots, while Ter-Petrossian received 21.5 percent. The OSCE found many local irregularities, especially in the vote counting, but regarded the election "mostly in line with OSCE and Council of Europe commitments and standards."

In the end, both countries desperately need to be better integrated economically and politically with each other (especially Armenia, which faces the danger of isolation) if they are to secure continued growth and draw closer to European structures. Despite the confrontational rhetoric, people in both countries acknowledge that they share many experiences and interests, and know that their future prospects can improve only if old relations are renewed. A prerequisite is addressing the Karabakh issue realistically.

Unfortunately, neither of the two societies nor their leaders are prepared to do so. For a number of years Baku's refusal to allow its population contacts with Armenians has prevented any rapprochement. This policy was officially changed in 2005 when it became clear that it contradicted the government's claim that the people of Karabakh are Azerbaijani citizens. But there are still only a few internationally sponsored projects that connect Azerbaijan, Armenia and Karabakh. Neither leadership wants to lose their monopoly over conflict resolution. NGOs can only reach a small part of the people, but together with some meetings between journalists from each side they currently offer the only vehicle for encounters that can break the vicious circle of mutual demonization.

Such efforts remain exceptional, however, and there is some evidence that broader societal perceptions have hardened even further. In 2003 a joint study of the Armenian and Azerbaijani Sociological Societies concluded that people in both countries supported normalization. But the opposite trend has been visible since. Aggressive rhetoric from Baku hardened opinion in Armenia against any compromises. Only a few politicians on either side are willing to declare publicly that patriotic rhetoric is not enough to solve the conflict.[22] For both regimes domestic stability is more important than negotiations and chauvinist rhetoric is used to gain public support.

As long as there is no resolution of the Karabakh conflict, the democratic and economic development of both countries will be severely impeded. One might argue that stagnation in both countries sustains the status quo in this "frozen" conflict that is marked by rela-

[22] In 2001 Azerbaijani independent politicians formulated a so-called "Karabakh Charta" that proposed a step by step solution that prompted considerable public debate. Though the aim was to prevent concessions in secret negotiations by the leadership, it signalled that there was room for more open debate.

tive stability and the absence of large-scale war. Yet without greater democratization the chances of rapprochement and normalization of the relationship remain slim. Civil society is still weak in both Armenia and Azerbaijan when it comes to popular participation in political and social life, and NGOs being dependent on Western subsidies. There is not much faith in democratization inside either society. In light of the violent suppression of opposition movements and the experience of questionable election results, most people believe that the authoritarian regimes will not change. A comparative study from 2005 has shown that only a small percentage of the people regard democracy building as important for their countries and that they neither realize nor accept the correlation between democratization and the improvement of the social situation.[23] This missing democratic vision corresponds to the disinclination of the leaderships to engage in democratic reforms, the resilience of patronage and corruption, and the lack of long-term strategies for development.

There are some positive signs. Both countries have formally fulfilled most of the Council of Europe guidelines, although reforms often remain cosmetic corrections. The main deficits exist in the fields of fighting corruption, independence of the judiciary and freedom of media.

If one were to rank the three South Caucasus countries with regard to democratic development, Georgia would rank first and Azerbaijan last. Azerbaijan is also the most passive when it comes to the process of European integration. The government in Baku arguably has the strongest position among the three countries, which gives it more options in terms of domestic and foreign policies. The strategic position of Azerbaijan and the competition between the West and Russia over access to energy resources and control over transit routes give Baku some leverage over its partners when bargaining over political relations and the supply of oil and gas.

Armenia has been perceived as being relatively more successful in developing democracy. In contrast to Azerbaijan, for instance, it was accepted to take part in the U.S. Millennium Challenge program. It has also demonstrated relatively greater interest in EU matters. But

[23] Haroutiun Khachatrian, "Study: Democracy still not Perceived as Priority in Caucasus," *Eurasia Insight*, November 23, 2005. The result of the poll conducted by the Caucasus Research Resource Center in Baku, Yerevan and Tbilisi was that 14.6 percent in Yerevan regarded democracy building as important, vs. 9.7 percent in Baku und Tbilisi.

the country has made too little progress in the political and judicial spheres to envisage much closer relations. This creates uncertainties for potential Western investors. Obviously the government's priority is the relationship with Russia—both politically and economically. Despite lip service regarding integration into European structures, Armenia might in fact become less interested in strengthening ties with the EU. The events of March 2008 have cast a shadow over the durability of Armenian democracy.

The three South Caucasus countries have different visions of their foreign policy and may differ in their sincerity when it comes to implementing democracy, but their structural problems are the same. Georgia has made considerably more process than its two neighbors in the fight against corruption at all levels and in the transparency of the electoral process. But here, too, there has been growing disappointment and suppression of the opposition after the presidential elections of early 2008.[24] In spite of all positive developments, Georgia is not so far ahead in its domestic reality. It is not breaking away from the neighbors in terms of democracy and liberalization. The main obstacle to regional cooperation is not the differing pace of each country's democratization, but primarily the regional conflicts. Armenia's dependence on Russia is a second important factor, since it enhances Armenia's isolation. The result could be an Azerbaijan that continues to grow in importance due to its oil, an isolated Armenia, and a conflict that stretches on unresolved for decades.

Nevertheless, Georgia's Western course could have considerable impact on Armenia and Azerbaijan. Georgia is eager to join the EU and transatlantic structures. If Georgia is accepted to NATO some day, this will have a big impact on its two neighbors, and could lead to some new developments. Another possible development that could break the vicious circle of conflict, internal stagnation and external dependency would be a normalization of the Armenian-Turkish relationship. It would offer new perspectives not only for Armenia but for the whole South Caucasus, and could spark a more positive cycle of interaction.

[24] The same scenario happened in Armenia. After allegations of fraudulent elections, excessive force was used against mass demonstrations organized by the opposition. Azerbaijan had the same experience a few years ago, when Ilham Aliyev was elected.

The worst case scenario is an ongoing militarization of the South Caucasus until Azerbaijan tips the current balance of power to its favor and then feels strong and confident enough to start a new war. The parties could head off this danger by initiating elements of regional cooperation before a definite solution to the conflict is reached, accompanied by a reform process that could open pathways of integration into European structures. At the moment, the haphazard reforms that have been implemented have failed to advance any broad democratization of society. In each country the current leadership will probably strengthen its position of power. This means that in the short run serious changes should not be expected. Armenia will remain in Russia's orbit and Azerbaijan will be courted because of its energy resources, while being kept away from further integration into Western structures.

Turkey and the Wider Black Sea Region

Zeyno Baran

The Black Sea is the world's most isolated sea, connected to the rest of the world's oceans only by the two Turkish Straits. The Black Sea region has been witness to significant political and religious tumult over the millennia, featuring prominently in the histories of the Greek, Roman, Byzantine, and Ottoman Empires.

In recent decades, however, the Black Sea has been much calmer, with no conflict occurring in its waters since World War II. During the Cold War years, the littoral states consisted of the Soviet Union, Turkey, Romania and Bulgaria—one NATO member and three Warsaw Pact members. Though NATO member Turkey faced a superpower on the other side of the sea, even in the most troubled times this body of water remained peaceful thanks to restraint shown by its surrounding states.

Today, four of the Black Sea littoral states (Turkey, Romania, Bulgaria, and Greece) are NATO members, and the other two (Russia and Ukraine) enjoy bilateral relations with NATO: the NATO-Russia Council and the NATO-Ukraine Commission, respectively. Exactly what should constitute the "broader Black Sea region" is debated; from the Turkish perspective, it includes the six littoral states, along with Albania, Armenia, Azerbaijan, Moldova, and Serbia. For Turkey, the wider Black Sea region is the area that connects three seas: the Caspian Sea, the Aegean Sea, and the Mediterranean Sea. For the U.S., however, the region is the vast area stretching from the Caspian Sea to the Black Sea to the Baltic Sea.

Turkish Initiatives: BSEC and BLACKSEAFOR

Endowed with the longest shoreline of all the littoral states, Turkey has long sought to assume leadership in the Black Sea region—

although the country's policies towards that end have generally not been consistent or coherent. Nonetheless, with the end of Cold War, Turkey took the lead in strengthening economic, political, and cultural cooperation in the region. Specifically, it proposed and co-founded the Black Sea Economic Cooperation (BSEC) in June 1992. BSEC founding members consisted of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine. The addition of Serbia in April 2004 brought BSEC's total membership to twelve. The organization was modeled after the European Economic Community and, as such, had stronger economic relations as its primary focus. Over time, BSEC's mandate has evolved to include "soft" security endeavors such as the prevention of crime and the coordination of relief efforts during natural or man-made disasters. As with the organization's founding, Turkey played a prominent role in BSEC's evolution from an economic forum to a project-oriented institution.

BSEC has proven itself to be a resilient and influential vehicle for increasing peace and security in the wider Black Sea region. Not only is it one of the few organizations in which Turkey and Armenia both participate, it also serves to bring long-time rivals Turkey and Greece closer together—with each country playing a key leadership role. BSEC's secretariat is based in Istanbul and its trade and development bank, the financial pillar of the organization, is located in Thessalonika. Even contentious neighbors Russia and Georgia are able to work together under the BSEC framework.

Indeed, maintaining peace within the Black Sea is one of Turkey's key policy goals for the region—one at which it has been quite successful. Throughout the long, tension-filled decades of the Cold War and the turmoil that followed it, the Black Sea has remained tranquil. This restraint springs in large part from recognition that conflict in the waters of the Black Sea would serve no one's interest. Moreover, there are no quarrels over demarcation among the littoral states—every square meter of the sea falls under the sovereignty of one state or another.

Building upon BSEC's success, Turkey took the lead in crafting a formal regional security framework. Entitled the Black Sea Naval Cooperation Task Force (BLACKSEAFOR), this organization's membership is limited to the six littoral states of the Black Sea. Negotia-

tions on BLACKSEAFOR began in 1998 and its founding documents were signed in April 2001 in Istanbul. Like BSEC, BLACKSEAFOR's original mission was rather limited; its primary activities were humanitarian aid, search and rescue operations, and environmental protection. Of course, BLACKSEAFOR was also an excellent tool for enhancing neighborly relations among the six littoral states—many of whom were once adversaries. Following the September 11, 2001 terrorist attacks, BLACKSEAFOR embarked upon an ambitious transformation, dramatically expanding the scope of its mission. This mission now includes the prevention of terrorism, organized crime, and the trafficking of WMD or related material. In the context of this transformation, member states have adopted a number of documents, including a unique regional risk assessment paper. In the post-9/11 international arena, risk assessments have become a major tool for finding the right solutions to security challenges.

Turkey has sought to supplement BLACKSEAFOR with a joint naval operation modeled after the NATO-led Operation Active Endeavor in the Mediterranean. In March 2004, the Turkish government officially invited the other five littoral states to participate in Operation Black Sea Harmony, which is an effort to increase the ability and interoperability of the member states to respond to changing security threats. So far, Russia and Ukraine have joined, and Bulgaria, Romania, and Georgia have all expressed interest in becoming members. Once all the littoral states have joined, each will have a complete maritime picture of the Black Sea. Littoral states will know exactly who is navigating the sea, what cargo the ships are carrying, where they come from, and where they are going. Each state will conduct periodic surveillance missions and share information with the other member-states through the Operation's Permanent Coordination Center located in Eregli, Turkey.

The year before Operation Black Sea Harmony was proposed, the coast guards of the six littoral states established the Black Sea Border Coordination and Information Center (BBCIC) in Burgas, Bulgaria. This organization enhances information sharing about illegal maritime activities in the Black Sea region.

It is significant that membership in BLACKSEAFOR, Operation Black Sea Harmony, and the BBCIC is limited to the six littoral states. This arises from Turkey's belief that while more general regional secu-

rity and political issues can involve countries not actually bordering the sea, issues of maritime security should remain the sole purview of Black Sea littoral states. This conviction has led to some tension between Turkey and NATO, which seeks to expand its scope of activities in the Black Sea. Although BLACKSEAFOR and Operation Black Sea Harmony cooperate with NATO's Operation Active Endeavor, Turkey is strongly opposed to any permanent NATO exercise or outpost in the Black Sea. Not all Black Sea littorals share Turkey's opposition to a NATO presence. Both Romania and Bulgaria have demonstrated their willingness to potentially provide a permanent base for NATO or U.S. forces in the Black Sea.

Concern over the Straits

One primary reason for Turkey's opposition to a NATO presence is a concern that allowing a greater role for NATO would be a prelude to Ankara losing control of the Turkish Straits, which it has controlled since the signing of the 1936 Montreux Convention. Accordingly, Turkey is responsible for ensuring free and safe passage of merchant ships in and out of the Black Sea, as well as regulating the transit of warships, including the duration of their stay. In order for NATO to legally conduct certain types of military exercises in the Black Sea, some clauses of the Convention would have to be amended or repealed, eroding Turkish sovereignty in the Straits.

Maintaining control over the Turkish Straits is a key aspect of Turkey's Black Sea policy. Ankara considers any modification to Montreux to be akin to opening Pandora's box: it could revive historic enmity between the Turks and the Russians, who have always dreamed of controlling the Straits in order to secure access to a year-round warm water port. In is instructive that while Turkey refers to this waterway as "the Turkish Straits," the West in general refers to them as "the Bosphorus" and "the Dardanelles," which are both Greek names. Thus, there is also residual concern that any change to Montreux could lead to tension with Greece.

Turkey is also rightly concerned about limiting the number of vessels that navigate this narrow waterway, as the Turkish Straits have become one of the world's busiest shipping lanes. Upwards of 54,000 vessels—including 5,500 oil tankers—pass through this passage every year.

This means that an average of 150 ships traverse the Straits every day. The Bosphorus Strait measures a mere 700 meters across at its narrowest point. An accident caused by terrorism, extreme weather, or simple human error would be disastrous, not only to the international oil trade but also to the millions of Turks who live along the shores of the waterway. Because of this danger, in 2002 Turkey limited the size of tankers transiting the Straits to under 200 meters at night and at other times when visibility is limited.

In an effort to limit tanker traffic in the increasingly crowded Straits, Turkey has sought the construction of oil pipeline routes that bypass the waterway. The first such bypass route was completed in 2006 and carries Azerbaijani oil from Baku, through Tbilisi, and into the Turkish Mediterranean port of Ceyhan. This pipeline is known as the Baku-Tbilisi-Ceyhan (BTC) pipeline and has an annual capacity of 50 million tons (although it currently operates at less than full capacity). There is also a pipeline in Ukraine connecting the Black Sea port of Odessa to Brody. This pipeline was originally intended to transport oil from the Black Sea via Ukraine to European markets, but instead has transported Russian oil to the Black Sea—thereby adding to tanker traffic in the Straits.

Several additional bypass projects are planned to accommodate the steadily growing volume of oil flowing westward from the Caspian Sea region: a pipeline from Turkey's Black Sea port of Samsun to Ceyhan; a pipeline from the Bulgarian port of Burgas to the Greek Mediterranean city of Alexandroupolis; a pipeline from Burgas through Macedonia to the Albanian port of Vlora; and a line from Constanta in Romania to Trieste in Italy.

However, there is not enough oil to fill all these pipelines. As such, Ankara strongly favors the Samsun-Ceyhan project as it would cross Turkish territory, yielding substantial economic benefits. Turkey also wants to continue the development of Ceyhan as a major oil terminal, with oil coming from both the Caspian and Iraq. Italian energy company Eni has agreed to construct Samsun-Ceyhan but it is uncertain whether there will be oil to supply it because Russia, Bulgaria, and Greece are also moving forward on the construction of the Burgas-Alexandropoulos pipeline. The Caspian Pipeline Consortium (CPC), which brings Kazakh oil to the Russian Black Sea port of Novorossiysk, intends to increase its pipeline's annual capacity from 31 million tons

to over 60 million tons. But because Russia has de facto control of this pipeline (and most other routes to the Black Sea), Moscow wants any additional oil shipped through Burgas-Alexandroupolis—which is to have a final capacity of 35 million tons, more than enough to accommodate the increased CPC throughput.

Of course, oil that is currently transported through the Turkish Straits could be diverted through Samsun-Ceyhan, but shippers are not likely to do this unless they need to due to over-crowding in that waterway. Otherwise, the free rider problem will continue. For one thing, utilizing Samsun-Ceyhan would add several additional steps to the exportation process. Tankers would carry oil from Novorossiysk or elsewhere to Samsun, load it into the pipeline, only to have different tankers pick it up in Ceyhan. Moreover, the use of Samsun-Ceyhan would not be free, further increasing the desirability for shippers to simply continue utilizing the Turkish Straits as they currently do. This competition over pipelines could eventually prove problematic to one of Turkey's primary Black Sea objectives: maintaining good relations with the other five littoral states.

NATO, GUAM, and the EU

As mentioned earlier, Turkey seeks to maintain leadership over Black Sea regional initiatives. This is one reason why it is opposed to a larger role for NATO in the Black Sea—even though Turkey has been a member of the organization for almost 50 years. This desire has also led to uncertainty regarding what Turkey's position towards GUAM (Georgia-Ukraine-Azerbaijan-Moldova Organization for Democracy and Economic Development) will be. Although GUAM is not explicitly set up as a Black Sea organization, its four member states are all part of the wider Black Sea region—with Ukraine and Georgia actually bordering the sea. Turkey is currently an observer in GUAM, but is ambivalent about whether it should seek a more active role in the organization. Though GUAM is not an anti-Russian organization, it is perceived as such, which makes it unlikely for Turkey to join it in its current form.

Regardless of whether Turkey expands its role in GUAM, there are still other questions that complicate the country's Black Sea policy. For example, how will Turkey balance its desire to engage the wider

Black Sea region with the fact that it currently has no diplomatic relations with Armenia? Turkey and Armenia clash on a variety of issues—including the status of the disputed Nagorno-Karabakh region. It will be increasingly difficult for Turkey to continue consolidating relations in the region while excluding Armenia.

Another issue that complicates Turkey's Black Sea policy is the question of its accession to the European Union. Turkey has often considered EU membership and Black Sea regional leadership as two competing, rather than complementary, paths. Symbolically, joining the European Union represents Turkey firmly and permanently orienting itself westward. Yet the EU already expresses doubts about Turkey's "European-ness." Ankara does not want to fuel these doubts by emphasizing Turkey's dedication to the wider Black Sea region—which includes the decidedly non-European Russia and the Caucasus.

Following the 1999 Helsinki Summit and the EU's refusal to begin accession talks with Turkey, policy makers in Ankara had turned to Eurasia, in particular the Black Sea region. They came up with a number of strategies that called for a closer partnership with energy-rich Central Asian countries, Black Sea littorals, and of course, with Russia. Then, after the EU granted Turkey candidate country status at its December 2004 summit, Turkey's Black Sea priorities were put on the backburner. But when the Turkey-EU accession process began a downward spiral in 2006, Turkey once again began paying attention to the Black Sea region—but this time in closer partnership with Russia, and less within a potential EU framework.

Turkey's interest in "Eurasianism" has been warmly received by Russia, which seeks to cast itself as the ideological and strategic "alternative" to the United States and the West. In his now famous February 2007 speech in Munich, Russian President Vladimir Putin strongly criticized the United States for "overstepping its borders" and "trying to establish a uni-polar world." Putin has sought to present Russia as an alternative—or even an adversary—to the West. In this, Moscow has a potential ally in Iran, which is eager to see an anti-Western bloc develop. While Turkey is by no means opposed to membership in the Western alliance, it is at least receptive to the rise of a second option in Eurasia. Indeed, Turkish foreign policy in recent years has sought to maintain close ties with both the West and the non-Western world, a concept labeled as "strategic depth." Embracing

the strategic depth concept has meant a relative depreciation of Turkey's relations with the West as Ankara looks to improve ties with countries like Russia, Iran, or Syria. However, there are still many issues standing in the way of any potential anti-Western option. Russia, Iran, and Turkey have a long history of mutual antagonism, and there are several intractable disputes among these three nations.

Bilateral Relations

Despite the proliferation of Black Sea regional organizations over the past fifteen years, Turkey still prefers dealing with countries bilaterally rather than multilaterally. In this respect, Turkey is very much like Russia.

Russia and Ukraine

Though complex, there is no denying that Russo-Turkish relations have increased greatly over the past few years. When Turkey's Justice and Development Party (AKP) was elected in 2002, it put the resuscitation of the underachieving Turkish economy at the top of its agenda. Moreover, it assessed that one of the best ways to accomplish this goal was to improve economic ties with Russia, whose economy was booming at the time. The AKP has certainly been successful in advancing this goal. Since the party's election, Turkey and Russia have increased the value of their bilateral trade by over 500 percent, from $5 billion in 2002 to $28.25 billion in 2007. In fact, over the past few years, Russia has emerged as Turkey's second-largest trading partner. Significantly, the growth of Turkish imports from Russia has substantially outpaced that of exports to Russia. In fact, imports from Russia represented $23.5 billion of the 2007 total. Thus, Turkey's trade deficit with Russia equaled $18.75 billion that year—by far the country's largest with any trading partner.[1]

Although Turkey's relationship with Russia has been very profitable from an economic perspective, the two countries still have a number of contentious issues between them. One glaring issue is the disagreement over the pipeline projects mentioned above. At times, Turkey has

[1] The majority of Turkey's imports from Russia are energy and fuels. Turkish Institute of Statistics, available at http://www.turkstat.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4.

backed energy projects that work against the strategic interests of Moscow. Of course, at other times, Ankara has supported Russian projects—such as the Blue Stream gas pipeline across the Black Sea. A second potential wedge between Turkey and Russia is the sympathy felt by many in the AKP for the Chechen cause. Moreover, many of Ankara's other policies in the wider Black Sea region oppose Russian interests. These policies include support for Kosovo's independence and Turkey's cooperation with Georgia and Azerbaijan on energy projects. These dynamics reveal why Turkey's relationship with Russia is characterized by a mixture of competition and cooperation.

Ankara recognizes that Russia is a great power and therefore seeks closer ties as a vehicle to ensure strategic depth. This is an interesting development because the great power that Turkey has historically sided with is the United States. But in the past few years, America's standing in Turkey has waned. Ankara is increasingly ambivalent about the utility of so strong a relationship with the U.S. This disaffection has resulted from Washington's unwillingness (until recently) to take what Turkey believed to be necessary steps against the PKK in Northern Iraq, but also from America's emphasis on democracy promotion in the Black Sea region and beyond. While building democracy is a noble objective—one that is supported by Turkey—America's democracy-promotion efforts in the region have contributed to instability and revolution. The 2003 Rose Revolution in Georgia was followed in 2004 by the Orange Revolution in Ukraine. Many Turks firmly believe that the American role in these revolutions was much stronger and more direct that it truly was—an opinion that is shared by many Russians. In fact, unease with American "interference" in the Black Sea region has been an important unifying issue for Turkey and Russia.

Turkey does not have a specific Ukraine policy; relations are mostly based on trade, with Ankara sensitive to Russia's interests in this pivotal country. Although in the past year or two Ukraine has been too focused on domestic turmoil to place much emphasis on foreign policy, the country has officially declared its intentions to pursue EU membership. Unlike Turkey, Ukraine is not actively engaged in accession negotiations with the EU and is not likely to begin them anytime soon. However, the EU has still made efforts to deepen relations—particularly on energy—with Ukraine in recent years.

Southeastern Europe

Turkey's relations with the countries of southeastern Europe have been influenced by the legacy of the Ottoman Empire, which conquered this region in the 14th and 15th centuries. The fact that these states would have some latent uneasiness or hostility towards their one-time overlords is not surprising. While the Turkish Republic has rarely shown contrition over any alleged misdeeds committed by the Ottomans, it has still sought to improve its relationship with these countries—particularly since the 1990s when Ankara began spearheading the regional integration efforts detailed above.

Of all the states of southeastern Europe, it is Greece that has consistently been the most serious rival to Turkey. It is telling that even though both Greece and Turkey are NATO allies, each of their independence days celebrates victory over the other. Greece and Turkey have not engaged in direct hostilities since the Greco-Turkish War (1919-1922), yet the two countries have come close on many occasions since then. They have quarreled over a number of issues, none more so than the status of Cyprus—which has been partially occupied by Turkish troops since 1974. Today, EU member Cyprus is de facto divided into two political entities: the internationally recognized Republic of Cyprus and the Turkish Republic of Northern Cyprus, which is recognized only by Turkey. In addition to the Cyprus issue, tensions between Turkey and Greece have occasionally flared up over delimitation of the Aegean Sea and its many islands. Turkish and Greek jets have frequently crossed into each other's air space in deliberate acts of provocation.

Nevertheless, recent years have seen a rapprochement between the two long-time rivals. In 1999, Greece began to publicly support Turkey's EU membership application. Three years later, the two countries signed an agreement on the construction of a gas pipeline linking their two countries—a project which was soon dubbed the "peace pipeline." This project was completed in November 2007 at a ceremony attended by the leaders of Turkey and Greece, as well as by Azerbaijani President Ilham Aliyev and U.S. Energy Secretary Samuel Bodman. This pipeline project exemplifies Turkey's strategy of strengthening economic ties while also strengthening political relations. Bilateral trade, investment, and tourism are advantageous from a purely financial perspective, but it is clear that Turkish leaders

perceive them as an important precursor for any broader rapprochement between countries.

Trade and investment between Greek and Turkey has skyrocketed over the past few years, with bilateral trade volume increasing more than 400 percent since 1999.[2] Not surprisingly, this bolstering of economic ties has been accompanied by an improvement in diplomatic relations. In May 2004, Prime Minister Erdogan paid an historic visit to his Greek counterpart, marking the first visit of a Turkish leader to Greece in 16 years. In 2008, Greek Premier Kostas Karamanlis returned the favor by meeting with Erdogan in Istanbul—the first visit of a Greek leader to Turkey in 49 years.

Over the past decade, Turkey has also deepened relations with Bulgaria, another former vassal of the Ottoman Empire. In the 1980s and early 1990s, Ankara frequently quarreled with Bulgaria over the treatment of that country's Turkic minority. In 1997, the two states—along with Romania—engaged in a landmark trilateral meeting at Varna. There, the leaders of these three Black Sea nations affirmed their commitment to stability in the region and their desire to improve trilateral relations. The next year, Turkey and Bulgaria signed a free trade agreement, which has had an extremely positive effect. At the time that the agreement was signed, the value of bilateral trade between Turkey and Bulgaria stood at $580 million. In 2007, that figure had risen to $4 billion—a nearly sevenfold increase.[3]

Turkey's historical relationship with Romania has been decidedly friendlier than with Bulgaria. The Ottoman Empire first established diplomatic relations with Romania in 1878, the same year it was formally consolidated as an independent state. Interaction between Turkey and Romania declined during the Cold War when the latter was a part of the Warsaw Pact, but relations were not openly hostile. Since Romania gained its independence in 1989, Turkey has consistently supported the country's integration into transatlantic and European alliances like NATO. Turkey and Romania signed a free trade agreement in 1997, leading to a substantial deepening of economic and political ties

[2] Turkish Institute of Statistics, available at http://www.turkstat.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4.

[3] Turkish Institute of Statistics, available at http://www.turkstat.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4.

between the two countries—particularly in the past few years. Bilateral trade stood at $800 million in 1998, $1.82 billion in 2003, and $6.7 billion in 2007.[4] This growth has continued apace even though Romania angered Ankara in 2005 by organizing a high-level conference called the Black Sea Forum in Bucharest. Turkey interpreted this Forum as a challenge to its desired role as leader of all Black Sea regional initiatives. Along the same lines, Romania has been a proponent of a stronger role for NATO in the Black Sea, something that Turkey firmly opposes.

Bulgaria, Romania, and Greece have been among the strongest supporters for Turkey's accession to the European Union. While this support is a welcome sign of the warming relations among these countries, it also serves to remind Turkey of its own inability to join the EU. After all, Turkey has sought to join the EU—and before that the European Economic Community—for over two decades. It has been a strong European and Western ally for over four decades. On the other hand, Bulgaria, Romania, and several other new EU members were once arrayed against the West as part of the Soviet Union's Warsaw Pact during the Cold War. The fact that these one-time rivals were so quickly admitted while Turkey—one of Europe's staunchest allies during the Cold War—has seen its accession process drag on has contributed to Turkish disillusionment with EU membership.

Drawing back from the littoral states to those of the wider Black Sea region, Turkey's policies are still dominated by a desire for stability and good relations. Turkey strongly supports the independence of Kosovo, which is overwhelmingly Muslim and home to a Turkish community of around 30,000. The Turkish position is to act in compliance with NATO and the EU—as Ankara still officially seeks membership in the bloc. While Kosovo's independence could provide a positive precedent for the eventual recognition of the Turkish Northern Republic of Cyprus, it could also provide a precedent for the Kurds of Eastern Turkey and Northern Iraq, a prospect that is anathema for Ankara. Turkish support for Kosovo's independence also brings Ankara into opposition with Moscow, which supports the territorial integrity of fellow Slavic nation Serbia. Moscow judges that a successful secession in the Balkans would only encourage the

[4] Turkish Institute of Statistics, available at http://www.turkstat.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4.

separatist movement it now faces in Chechnya—particularly since both Kosovo and Chechnya have long been prominent causes of international Islamic jihadi groups. "Success" in Kosovo could lead the jihadi movement to redouble its efforts in Chechnya.

At the same time, Turkey supports Serbia's membership in the European Union. In fact, Turkey is supportive of all efforts to further integrate Balkan states of the Wider Black Sea region into European and Euro-Atlantic structures.

Turks are the second largest minority in Macedonia. Greeks are strongly opposed to the use of Republic of Macedonia as the official name of this country, as they feel it constitutes a monopolization of the term "Macedonia." This term can refer to an area within Greece, a historic region, and an ethnicity with members in both countries. Among other things, Athens worries that the legitimization of Macedonia as the country's official name will encourage irredentist claims based on the number of ethic Macedonians living in Greece. This dispute has even led Greece to reject Macedonia's potential membership in NATO member. For its part, Turkey supports the use of the terminology Republic of Macedonia.

The Caucasus

The only country in the wider Black Sea region with which Turkey still has decidedly negative relations is Armenia. In fact, Turkey currently has no official relations with that country and the Turkish-Armenian border has been closed since 1993. The major points of contention between the two include the alleged Armenian genocide and the contested region of Nagorno-Karabakh, which is claimed by both Armenia and Azerbaijan. On Nagorno-Karabakh, as on nearly all issues, Turkey sides with Azerbaijan against Armenia. This instinctive solidarity between Turkey and Azerbaijan has hampered the normalization of relations with Armenia. Were Ankara not so firmly committed to supporting Azerbaijan on the Nagorno-Karabakh issue, it is likely that relations between Turkey and Armenia would have thawed. Indeed, Ankara has frequently stated it will not open Turkey's border with Armenia until that country withdraws from Nagorno-Karabakh.

The alleged genocide—while still a very raw subject for Turks—is not really an impediment to relations between the two countries

because the Armenian government is not particularly adamant that Turkey admit responsibility. However, the actions of the Armenian diaspora spread across the globe have at times angered Ankara, which expects Yerevan to exert a certain degree of control over this group. This diaspora has succeeded in winning recognition of the genocide in a variety of European parliaments, resulting in strained relations between Turkey and those states.

Turkey is not likely to decouple its relations with Armenia from Azerbaijan anytime soon. Turkey and Azerbaijan share deep historical, religious, cultural, and economic ties. Indeed, "one nation, two states" is a phrase commonly used by Turks and Azerbaijanis to describe the nature of their relationship. In 2004, Baku strenuously protested when Ankara indicated that it might be willing to open the border with Armenia. This prompted Ankara to back down from its position almost immediately, and the presidents of Turkey and Azerbaijan soon issued a joint statement to emphasize their continued solidarity on the Nagorno-Karabakh issue. Thus, some kind of trilateral forum will have to be established among these three countries if any progress is to take place on Armenia-related issues. Turkey has, at times, attempted to organize such a forum or act as a broker in discussions between Azerbaijan and Armenia, but little has come from such initiatives—primarily because Armenia has little faith that Turkey would be an unbiased mediator.

As demonstrated by the "one nation, two states" phrase, Turkey's bilateral relationship with Azerbaijan is extremely robust. Turkey is Azerbaijan's largest trading partner, although bilateral trade only totals $1.4 billion.[5] Ankara has sought to consolidate Azerbaijan's independence, security, and economic prosperity following that country's liberation from the Soviet Union. Together with Georgia, the leadership of Turkey and Azerbaijan led the way in pushing for the construction of the BTC oil pipeline, which was completed in 2006. At the same time, Turkey, Georgia, and Azerbaijan successfully supported a natural gas pipeline between their three countries. This project, called the South Caucasus Pipeline (SCP), was completed in 2007. Construction will soon begin on an ambitious railroad project stretching from Baku

[5] Turkish exports to Azerbaijan are more than three times greater than imports from Azerbaijan. Turkish Institute of Statistics, available at http://www.turkstat.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4.

through Tbilisi and terminating in Kars, a Turkish city near the Georgian border. These infrastructure linkages have greatly strengthened the political and economic integration of Georgia, Turkey, and Azerbaijan.

Armenia and Azerbaijan's neighbor in the Caucasus, Georgia, also enjoy a close relationship with Turkey. This partnership has blossomed thanks to the involvement of Georgia with Azerbaijan and Turkey on the energy and transportation projects just described. Georgia is the critical transit country from the Caspian region to the Black Sea, and the link between Turkey and Azerbaijan. Georgia is also where the Russian and Ottoman Empires came closest, and where Russian and Turkish policies sometime clash.

As noted earlier, the leadership in Ankara received the 2003 Rose Revolution with anxiety. Above all else, Turkey seeks stability in its Georgian neighbor, and it has been nervous about the Saakashvili government's confrontational position towards Moscow. Ankara does not believe a peaceful resolution of the frozen conflicts in Abkhazia and South Ossetia is possible without the involvement of Russia, or before amicable relations have been established between Russia and Georgia. On Abkhazia, Turkey has great potential to act as a mediator as there are more Abkhaz living in Turkey than in Abkhazia. At times, Turkey has tried to play just such a role, but has never given it the consistent focus this task requires. It has also been reluctant to take any action in Georgia (including Abkhazia) that could irritate Russia. Nonetheless, Ankara has sided with the Western alliance in expressing support for Georgia's further integration into the Euro-Atlantic framework—including that country's eventual membership in NATO. In fact, Turkey is home to NATO's Partnership for Peace training center and has been responsible for training thousands of personnel from Georgia (as well as Azerbaijan and Central Asia).

Russia's Perspective on the Wider Black Sea Region

Dmitri Trenin

A series of developments in the mid-to-late 2000s have highlighted the issues Moscow faces to the southwest of its borders. In February 2008 Kosovo declared its independence, over Serbia's vehement opposition and Russia's strongest objection, and the entity was immediately recognized by the United States and most of its European allies. This declaration and its recognition reverberated in the areas of "frozen conflicts" in Georgia and Moldova, and also in Armenia and Azerbaijan, which remain locked in the dispute over Nagorno-Karabakh. In April 2008 NATO's Bucharest summit, while not awarding Membership Action Plans to Ukraine and Georgia, nevertheless promised membership to both, further straining Moscow's relations with Kyiv and Tbilisi. Vladimir Putin's subsequent farewell summit with George Bush at Putin's Black Sea residence at Sochi failed to resolve differences over NATO enlargement, which looms as a major issue for already frayed Russian-American relations.

Another major issue in the relationship is ballistic missile defense (BMD), with Iran as the notional suspect. Concerned over U.S. plans to deploy BMD elements in Central Europe, Russia in 2007 offered as an alternative its own radars in Azerbaijan and the North Caucasus, Gabala and Armavir, and Russian experts have been suggesting a theater missile defense system built around U.S. Aegis and Russia's S-400 systems. Unhappy with NATO's foot-dragging on the ratification of the adapted Conventional Forces in Europe (CFE) treaty, Moscow in 2007 suspended its participation in the compact, whose flank provisions it regards as discriminatory. Moscow also indicated its doubts about the viability of the Intermediate Nuclear Forces (INF) agreement banning medium-range missiles, which the Russian General Staff has come to regard as an attractive instrument of dealing with military developments south of the border.

Meanwhile, Chechnya's pacification and consolidation as a de facto fief of the Kadyrov clan has proceeded apace, and despite continuing security problems in Ingushetia, Dagestan and across the North Caucasus, Sochi in 2007 was awarded the 2014 Winter Olympics, which will attract massive investment in the adjacent region. Having consolidated its positions in Central Asia, Gazprom, in cooperation with Italy's ENI, launched a major pipeline project dubbed the South Stream, to supply Europe with Russian natural gas. This project has repercussions both for the countries it seeks to avoid, such as Ukraine, and those whose territory it traverses, such as Bulgaria, Serbia and Hungary. Ever after the Ukrainian gas crisis of January 2006, energy security has been viewed in Europe as both security through Russia and against it.

Though obviously gaining in importance, the southwestern direction of Moscow's foreign policy lacks a strategy, which, however, does not make it unique. In the past, this has not always been so. Peter I, at the start of the 18th century, seriously weighed the Black Sea against the Baltic as the prime gateway to Europe, and even considered making Taganrog on the Sea of Azov Russia's outward-looking capital. Later he ventured both against the Turks (foolishly, as he was soon to learn) and against the Persians (pointlessly, for his successors could not hold the acquisitions), even as he dispatched his officers to reconnoiter pathways to Central Asia and India, laying the groundwork for the future Great Game. Catherine II tried and failed to implement her "Greek project" of a satellite Orthodox empire centered in Constantinople. A century later Russian tsars embraced the doctrine of pan-Slavism, which served as both a guide for and justification of Russia's imperialist drive to the Balkans. This culminated in the early 20th century obsession with the Turkish Straits, which pushed Russia into the First World War and spelled the end of the empire.

Now, following a decade of managing the empire's second, and final collapse, the Kremlin leadership has adopted a highly pragmatic course that relies on the country's few but real comparative advantages and seeks to maximize economic gains, while minimizing perceived geopolitical losses resulting from the expansion of Western institutions. As the 21st century unfolds, Russia re-emerges, again, as a great power, simultaneously a competitor and a partner of the European Union and the United States, and a mighty neighbor to the new "lands in between."

Russia's foreign policy toward the wider Black Sea region is both modern and post-modern, and offers rich material for a case study of geopolitics under conditions of globalization.

This chapter analyzes Moscow's specific interests, objectives, and patterns of actions in the Wider Black Sea region. Under this angle, it will address the issues of the frozen conflicts in the post-Soviet space, all of them located around the Black Sea rim; the prospects for NATO's further expansion; the outlook for EU enlargement; the future of the CIS and other multilateral fora in the region; and, finally, energy politics.

Kosovo and the Conflicts

Contrary to the initial hopes of many in the United States and in Europe, Moscow did not back down on Kosovo. Its refusal to support the 2007 Ahtisaari plan was not a bargaining chip to be traded in for some Western concessions elsewhere. For Russia, severing a province from a member state of the United Nations, against that state's wishes, created a highly unwelcome precedent. The Kremlin has long suspected Western countries, in particular the U.S. and the UK, as well as Turkey, of harboring plans to tear away Chechnya and the North Caucasus from the Russian Federation. Drawing parallels between the Serbs and themselves in 1999, the year of the conflicts in Kosovo and Chechnya, some Russians concluded that the only thing that protected them from a NATO humanitarian intervention was nuclear weapons. Having restored, at a high cost, Russia's territorial integrity, Moscow was in no mood for supporting a violation of sovereignty's basic tenet. It did not help that, by 2007-2008, the Kremlin had not felt the slightest inclination to be forthcoming to the West's interests. On the contrary, it adopted a stance that allowed Russia to pose simultaneously as a defender of international law; a true friend of the Serbian people; and a country not to be taken for granted by anyone.

When American and European diplomats realized their miscalculation, some swung from hopes to despair, fearing a repeat of the 1999 crisis in Russian-Western relations provoked by NATO's war on Yugoslavia over Kosovo. The 2008 clash over Kosovo, however, was markedly different from the one nine years before. Moscow stated its rejection of Kosovo's unilateral declaration of independence, which it

branded illegal; it denounced Kosovo's recognition by the U.S. and a number of European countries as being contrary to international law; it refused to endorse the EU corps for Kosovo; and vowed to block Kosovo's accession to the UN and other international organizations. While in sharp disagreement with the U.S. and the major EU countries, Russia was anything but isolated in the wider world. Not only China and India, staunch advocates of territorial sovereignty, but such EU members as Spain, Slovakia and Romania did not follow the Western leaders' suit.

Having taken the moral high ground as the defender of international law, Moscow went on to cement its newly-rekindled relationship with Serbia, and use the opportunity for a bargain. It hosted at the Kremlin all the principal Serbian leaders during the country's presidential election, and sent its own delegation to Belgrade, led by Dmitri Medvedev (also during the latter's notional presidential campaign) to secure the purchase of Serbia's NIS energy monopoly by Gazprom.

Kosovo's independence, imposed by the West against Serbia's wishes, created a new situation for Russia with respect to the breakaway territories of Abkhazia, South Ossetia and Transdniestria. There was no mechanical "Kosovo precedent," i.e. an automatic Russian recognition of the enclaves. Moscow handled each situation on its own merits and in accordance with Russia's specific interests. Thus, on Karabakh, Moscow aligned itself with the other key members of the Minsk group, the United States and France, and formed a common position on conflict resolution, which did not please Baku.

On Transdniestria, Russia used the specter of the region's permanent separation from Moldova as a compelling argument in favor of a confederal solution to the conflict. Moscow gave Transdniestria's recalcitrant rulers more recognition, even as it pushed them toward resuming top-level negotiations with Chisinau. It also sought, quietly, to replace the old and odious guard on the Dniester with a more respectable and pliant group. Simultaneously, Russia eased economic restrictions on Moldova imposed in 2005 and gave a sympathetic hearing to President Voronin's pledge of Moldova's permanently neutral (i.e. non-NATO) status. Moscow was also gratified to see Chisinau reject any suggestions from Bucharest regarding the "reunification of the Romanian nation" in a single Romanian state.

The implications of Kosovo's independence were most crucial for Abkhazia and South Ossetia. Moscow exercised an option of their de facto integration with Russia, without a diplomatic recognition or a formal annexation. It announced the lifting of an economic blockade, imposed on Abkhazia by CIS countries in 1996, but later essentially disregarded. In April 2008 the Kremlin instructed the Russian ministries and regions to open relations with Abkhazia and South Ossetia, which placed both entities not into the category of sovereign states but rather into that of Russia's own regions—and all this without prejudice to Moscow's official stance respecting the sovereignty of Georgia within its internationally recognized borders. Having thus skipped formal diplomatic recognition, Moscow went way beyond that. It promised to involve Abkhazia in Sochi's Olympic projects. It vowed to protect Russian citizens, who form overwhelming majorities in both Abkhazia and South Ossetia.

In parallel, Russia demonstrated its willingness to ease restrictions it imposed on Georgia following the 2006 spy scandal, allow the resumption of air travel and postal connections, including remittances from Georgian migrant workers in Russia, and hinted at dropping its embargo on wine from Georgia. Moscow's objective has been winning Tbilisi's consent to Russia's membership in the World Trade Organization. Yet, these "positives" are heavily outweighed by more incidents in the conflict zones, and more fundamentally by the issue of Georgia's NATO bid, reaffirmed by a crushing majority in a January 2008 referendum. Whatever the differences among Georgia's political factions, virtually all of them support Western integration, and regard Russia's policies as essentially hostile. Moscow's early hopes of a regime change in Tbilisi have long been since dispelled. Russia can only warn, darkly, that Georgia's NATO accession will mean a permanent separation of the two still formally unrecognized republics.

NATO Enlargement

In contrast to the vehement protests over the first wave of NATO's post-Cold War opening in 1999 to the three countries of Central Europe, Moscow's reaction to the second wave five years later, which included, among others, the Baltic States, Romania and Bulgaria, was muted. There were several reasons for that. One was the learning curve: once the dam had been broken, more water was to flow

through the opening. Renewed protestations beyond registering one's opposition would have only exposed one's impotence to do anything about it. Another was the hope that, after 9/11 and the establishment in 2002 of the Russia-NATO Council, an era of genuine partnership with the West might be dawning, making enlargement less of a problem. Thirdly, both Romania and Bulgaria lay far away from the main East-West strategic highway in Europe (i.e. the Paris-Berlin-Warsaw-Minsk-Moscow axis), and their importance, from that point of view, was literally marginal. Finally, there was Russia's traditional disdain for Romania as either a military ally or a battlefield enemy, and the lack of concern about Bulgaria, which after all had sided with Germany in both World Wars, but never actually fought against the country that had liberated it from the Ottoman yoke.

In 2008, there was barely a mention of Croatia and Albania, which were invited to join, but a lot of worry about Georgia and especially Ukraine, which were refused, for the time being, a Membership Action Plan (MAP).

Ukraine

Moscow's opposition to Victor Yushchenko's 2004 presidential bid and its single-minded support for his rival Victor Yanukovych was largely based on the notion that Yushchenko meant NATO in Ukraine, complete with bases and all, and Ukraine in NATO, i.e. the final severing of the thousand-year-long bond between the elements of the former Kyivan Rus. The Kremlin has always regarded the Orange Revolution as a U.S.-conceived special operation designed to tear Ukraine away from Russia and turn it into another Poland, i.e. Western-leaning and anti-Russian. In a famous phrase attributed to Gleb Pavlovsky, the Kremlin's one-time political technologist-in-chief, "we had prepared for an election, and we won it (for Yanukovych), but we were never ready for a revolution."

After the Orange Revolution, Russia pinned its hopes on the strength of the opposition, the gas price factor and, even more importantly, on the divisions between the two principal elements of the Orange camp. Moscow was relieved when the split between Yushchenko and Prime Minister Yulia Tymoshenko allowed Yanukovych to form a government after the 2006 parliamentary elections. Among other things, this

let the NATO issue be put on a back burner. Moscow's concern was revived, however, when Yushchenko dissolved the Rada in 2007—unconstitutionally, in the Kremlin's view—and called a new vote. As a result, the Orange coalition glued back together, the Party of the Regions grew weaker and disoriented. With left-wing populists and socialists outside of the Rada, and Tymoshenko back as premier, President Yushchenko was able to revive the NATO issue and to formally ask for MAP in January 2008.

Apparently caught by surprise, Moscow decided to do its utmost to shoot down Kyiv's bid. Foreign Minister Sergei Lavrov's warning to do everything to stop Ukraine and Georgia from joining NATO and Vladimir Putin's reported comment on the fragility, even artificiality of the Ukrainian state point to Moscow's determination to actively oppose NATO's enlargement process this time, rather than just complain about it. For the time being, Russia has resorted to persuasion and cajoling of potential allies, such as Germany and France, in private, and to very public appeals for respecting the anti-NATO majority's view, coupled with dark warnings of the dire consequences of Ukraine's accession to NATO. Retargeting Russian missiles to cover hypothetical NATO bases in Ukraine may sound far-fetched; Abkhazia, however, demonstrates a chilly perspective for Crimea.

At Bucharest, Moscow may have won a battle, but the campaign continues. Russia's objective remains to keep Ukraine as some kind of a buffer between Russia and NATO, while opening it even wider for Russian business and making sure it remains within a common cultural, humanitarian and religious space with Russia. There is no plan, however, to integrate Ukraine with Russia economically, not to speak of political alignments or military alliances. The Russian leadership may have finally learned the lesson that there is no such thing as a pro-Russian Ukrainian politician. Moscow will need to pursue a careful carrot-and-stick policy. Economic incentives and appeals to a common cultural and historical heritage will need to balance the threats to wipe out foreign missile sites, should they appear in Ukraine.

Georgia

As to Georgia's NATO membership, it is less central strategically, but just as painful psychologically. For two hundred years, until 2005,

Tbilisi had been the regional headquarters of the Russian army. Sochi, the Russian president's favorite residence, and, due to the inevitable presence of the "court," a de facto third capital of Russia, is only 20 km from the Georgian (Abkhazian) border. Under the 2005 treaty, Russian forces—except for the peacekeepers in Abkhazia and South Ossetia—left Georgia ahead of schedule, but watching the Western military take over former Soviet bases may be too much. Allergic even to a small-scale temporary presence, like the U.S. training mission in 2004-6, Moscow has insisted on Georgia codifying in its constitution its status of a country free from foreign troop deployments.

Georgia is also directly adjacent to Russia's turbulent North Caucasus. In the late 1990s and the early 2000s, Moscow accused Tbilisi of tolerating and even assisting Chechen rebels in its territory. It called the Chechen-populated Pankisi Gorge a terrorists' nest. To keep the terrorists out, Moscow introduced visas for all Georgian citizens. In 2002, Putin gave Tbilisi a warning, borrowing language from Bush's remarks about the Afghan Taliban aiding and abetting international terrorism. Even though today Chechnya seems pacified, tensions in the region abound. Historical experience pushes Russian leaders to take a dim view of Western and Turkish involvement in the Caucasus mountains. Putin's 2004 Beslan remarks, in which he lashed out at unnamed forces seeking to dismember Russia, offer a rare insight into the true sentiments of Russia's former president and current prime minister.

Following the 2003 Rose Revolution, and certainly since the absorption of Ajaria and the failed attempt to take over South Ossetia, Moscow has been concerned that Georgia would seek to provoke Russia into military action in the zones of conflict, which would be sure to galvanize a strong Western response, paint Russia as an aggressor unfit to be a peacekeeper, and cast Georgia as a victim of aggression, a front-line state deserving Western support in restoring its unity. From Moscow's perspective, Georgia in NATO would also be a bad example to neighboring Azerbaijan. Should Azerbaijan follow Georgia's lead and accede to the Alliance, NATO would not only control the pipelines from the Caspian, but gain direct access to the energy-rich region on Russia's southern border.

To deal with the unwelcome prospect of NATO in the South Caucasus, Moscow has been pursuing a two-pronged strategy. Within Georgia

proper, it initially hoped for and probably worked toward a regime change. It seemed to have believed that Igor Giorgadze, Edward Shevardnadze's former intelligence chief, accused of plotting to kill his boss and exiled in Russia, was capable of leading a popular revolt against Mikhail Saakashvili. When it became absolutely clear that Giorgadze's chances of success were zero, Moscow began to pin hopes on the disgruntled members of the Georgian elite, such as former defense minister Irakly Okruashvili and billionaire businessman Badri Patarkatsishvili. The problem for Moscow was that nearly all opposition figures were at least as anti-Russian as Saakashvili himself.

That left the conflicts. Arguably, Moscow could still keep Tbilisi out of NATO if it were willing and able to deliver Abkhazia and South Ossetia to Georgia. But it cannot, and wouldn't. What remains then for Russia is to argue that by accepting Georgia into its ranks, NATO would not only be importing ethnic conflicts into the alliance, but would be raising the prospect of an armed clash between the West and Russia. The Georgians, of course, have long regarded Russia as an aggressor and an occupier of a significant part of their territory. From Tbilisi's perspective, there is no Georgian-Abkhazian conflict, nor a Georgian-Ossetian one, but a conflict between a democratic Georgia and neo-imperial Russia. In contrast to Ukraine, the view of Moscow as hostile to Georgia is shared not only by the entire political elite, but also by the bulk of the population.

To deal with the Georgian population, Russia has employed both the stick and the carrot. It alternatively blew hot and cold on the Georgians, hoping to turn them against the Saakashvili government and appreciate the opportunities offered by the Russian market. The effect, however, has been rather mediocre. Saakashvili was blamed for his inability to deal with Moscow, but Russia did not make itself more popular with the Georgians. The sanctions were painful, but not sufficient to topple the government; the incentives, too, fell short of creating a pro-Russian groundswell movement.

EU Enlargement, the Future of the CIS, and Attitudes toward other International Organizations

As in other cases of EU enlargement, Romania's and Bulgaria's accession to the European Union created a host of technical problems,

but no major political ones. Even a hypothetical Ukrainian or a Moldovan membership does not look politically problematic to the Kremlin. There continues to be a gulf of difference between Moscow's attitudes toward NATO and EU enlargements. Unlike NATO, the EU is seen as non-threatening. Russian businesses are poised to integrate into the EU market at company levels, and the Russian government presses its EU partners to ease and eventually abolish visa restrictions on its citizens. Of course, both Ukrainian and Moldovan accession are considered very long-term propositions. Georgia, despite the EU flags adorning its ministry buildings, is believed to be the longest shot. Yet, it is clear that Russia, which claims an equal status to the EU as a whole, will compete with the Union in the former Soviet territory.

Upon joining the EU, Cyprus has ceased to be among Russia's principal offshore locations, but its integration happened exactly at the time that Russian money started flowing back into Russia. Alongside with Greece and Turkey, the island remains a favorite recreational area for weather-weary Russian holiday-makers. Russia has been watching Turkey's EU travails with obvious interest. Russia is best served, of course, by a secular, modernizing Turkey. However, Ankara's membership has an underside, from Moscow's perspective. Turkey enjoys a generally good relationship with Russia, and it does not have to look over its shoulder to coordinate its policies with others. Once in the EU, it may have to display solidarity with other members who may have less happy relations with Russia. Moscow definitely prefers an independent-minded Turkey that is an EU associate rather than a member and a NATO ally that can say no to the United States.

Since the mid-2000s, Moscow has regarded the post-Soviet Commonwealth of Independent States (CIS) as basically institutionalized summitry plus a common humanitarian space. As such, the CIS serves Russian interests. CIS jamborees provide the Kremlin with useful top-level meeting opportunities, including with such difficult counterparts as the Georgian and, for a period of time, Moldovan leaderships. Moscow's plans to organize a single economic space with Ukraine have now been completely abandoned. Overall, Russia acts more as a great power seeking to wield influence in its neighborhood than either as a would-be empire or a genuine center of regional integration. The two functioning integrationist organizations, the EurAsian Economic

Community (EurAsEC) and the Collective Security Treaty Organization (CSTO) are virtually absent from the region. Armenia belongs to the CSTO, and has it has turned over part of its economy to Russia, but all this amounts to is a bilateral relationship between Moscow and Yerevan.

The GUAM (Georgia-Ukraine-Azerbaijan-Moldova) organization, occasionally touted as a competitor to the CIS, is likewise mostly a meeting place and not much of an organization. However, Moscow views it as part of U.S.-supported efforts to foster "geopolitical pluralism" in the former Soviet Union, and thus deny Russia the primacy to which it aspires. Moscow was glad to see Uzbekistan quit GUAM and join the EurAsEC/CSTO, and has pursued very different policies toward the remaining members, from a very harsh stance toward Tbilisi and cool but correct relations *vis-à-vis* Kyiv to cooperative approaches to Chisineu and mildly friendly ties with Baku. As to the Community for Democratic Choice (CDC), founded after the color revolutions in Ukraine and Georgia, and supported by Poland and the Baltic States, Moscow sees it as a direct challenge to its core interests in the region. However, the CDC has remained largely inactive since its foundation in 2005. Russia views the Black Sea Cooperation Council (BSEC) as a useful regional forum alongside its sister organizations centered on the Baltic and the Barents seas, and the Caspian. From the Russian perspective, the big advantage of such bodies is that they exclude the big players, in particular the United States, and allow for useful discussions and practical cooperation with Russia's smaller neighbors. Economic interests lie at the heart of such cooperation.

Energy Politics

Moscow grounds its claim to great-powerdom on the few comparative advantages Russia possesses. Energy abundance is one of those. Energy exports have become a key element of Russia's overall foreign policy strategy, and the Wider Black Sea region offers both major transit routes and a cluster of customers.

In the 1990s, Russia had to contend with the arrival of the Western oil majors to the Caspian, especially in Kazakhstan and Azerbaijan. In the 2000s, Moscow witnessed the construction of the Baku-Tbilisi-Ceyhan oil pipeline, which did away with the Russian monopoly on

oil transit from the Caspian to the world markets. Russia, however, was anything but "eased out" of the oil business in the Caspian-Black Sea region. Chechnya has been reintegrated with the rest of the Federation. Novorossiysk remains Russia's principal oil terminal, both for Russian and Kazakhstani petroleum. To avoid the congested Turkish Straits, Russia has managed to agree with Bulgaria and Greece to construct a pipeline from Burgas to Alexandropoulis. This has further cemented Russia's political relations with the two fellow Orthodox countries. Further north, the Anglo-Russian TNK-BP has managed to use the Odessa-Brody pipeline in a reverse mode, pumping Russian oil from the Druzhba pipeline to the Black Sea region. Other Russian companies, such as Lukoil and Tatneft, have been able to acquire assets in the region. Russia's UES has bought into the electricity grids.

Even more important is the fact that Russia has substantially consolidated and expanded its position in the natural gas market. The fundamental change occurred in 2005, when Gazprom dropped price subsidies for CIS customers and started charging prices that were more market-oriented. Almost as importantly, Gazprom insisted on the replacement of in-kind payments for gas transit by cash. The company's profits have soared, so has its capitalization.

Was this price hike a politically-driven move? Yes, in the sense that the color revolutions of 2003-2005 finally brought home to the Gazprom management and the Kremlin leadership something that should have been clear to them for years, namely, that the former Soviet Union was no more. Belatedly, they had to recognize that the system of imperial preferences had no economic and no political basis, and had to be abolished. Ironically, by cutting the umbilical cord of energy subsidies Russia was also, finally, setting its former provinces free from itself.

This move entailed more than targeted punishment of the "Orangist" Ukrainians, although psychologically this may have played the role of a trigger. Not a single CIS country, including Moscow's allies Armenia and Belarus, was spared the price raise. Everyone was treated as a foreign country. The CIS became just part of Russia's abroad.

Did Russia's move amount to the use of energy as a weapon? One could argue that the real energy weapon was a subsidized gas price:

the differential is usually paid in kind. True, Russia had never succeeded in getting much payment, of any kind, from the Ukrainians. The non-transparent barter-based scheme, however, enriched the well-placed insiders on both sides. In this respect, the changes introduced from 2006 on, though by no means sufficient, have been going in the right direction. This does not suggest, of course, that Russia cannot or does not use gas price changes as an instrument to manipulate Ukrainian politics and policies. As the only supplier to the Ukrainian market, and given the absence of a "world price" for natural gas, Gazprom and the Kremlin have wide latitude. Gazprom's actions in 2005-2006 are an example of wildly wrong policies for basically right reasons. What stands out is that Gazprom's shut-offs have been almost exclusively with former Soviet clients, with whom export and transit arrangements as well as property issues have been murky. Any attempt to blackmail Europe by threatening to cut it off would be suicidal for both Gazprom and Russia, which depend on their European customers more heavily than Europe does on its Russian supplier.

This does not necessarily mean a harmonious relationship. Between Europe and Russia there has been a scramble for Central Asian gas. Using the Kremlin's clout, Gazprom was able to secure long-term gas shipments from Turkmenistan, Uzbekistan and Kazakhstan. In a 2007 coup, President Putin managed to convince his three Central Asian counterparts to build a pipeline along the Caspian coast to Russia, rather than across the Caspian toward the Caucasus and Turkey. This dealt a major blow to the already struggling Nabucco project, promoted by the EU and supported by the United States as a means of reducing Europe's dependence on Russian gas. However, the competition continues.

Transit countries such as Ukraine are largely a nuisance, from Gazprom's perspective. The company has resolved to avoid overland transit wherever possible. Even in the 1990s, in cooperation with Italy's ENI, it constructed a gas pipeline, dubbed the Blue Stream, across the Black Sea to Turkey. In the mid-2000s, the idea of a Blue Stream-2 was floated. Eventually, however, Gazprom dropped Turkey as a transit country, too.

On the model of the North Stream—a pipeline designed to carry Russian gas from the St.Petersburg area across the Baltic Sea to northern Germany, thus avoiding not only the Baltic States and

Poland but also Belarus—Gazprom has proposed a South Stream, to run from southern Russia across the Black Sea to Bulgaria, and then on to Serbia, Hungary and Austria/ Slovenia and Italy. The two pipelines are scheduled to become operational by 2011 and 2013, respectively. Both projects highlight Gazprom's decades-old strategic partnerships with German and Italian energy companies such as E.ON, BASF, and ENI. More broadly, they stand as symbols of Russia's close relations with Germany and Italy, which are built on mutual self-interest and transcend party-political differences.

At a different level, pipeline projects help build new relationships between Russia, on the one hand, and the countries of southeast Europe. As Bulgaria, Hungary and Serbia have been receiving Russian investments, old and often frayed links are being put on a new solid foundation. Given Russia's strong bonds with Italy, Greece and Cyprus, and Russian interest in Slovenian, Croatian and Montenegrin coastal beaches and property, this sets the stage for Russia's comeback in the Balkans, albeit in a wholly different way than either in the 19th or the 20th centuries. Having withdrawn as peacekeepers from Bosnia and Kosovo in 2003, the Russians are re-entering the region as company managers and entrepreneurs.

Beyond even the widest definition of the wider Black Sea area, Russia's energy interests in the south and southwest stretch as far as Algeria (gas), Libya (gas and oil), Egypt (nuclear), Israel (a potential customer of Russian gas), Iraq (oil), Iran (nuclear, gas), Saudi Arabia (gas). Moscow, of course, has no resources and probably no interest at this stage to compete for dominance against the EU in the Balkans or against the U.S in the Middle East, but it is clearly intent on making its presence felt, and its interests reckoned with, in both places.

Conclusion

A review of Moscow's policy toward the wider Black Sea region suggests that Russia has entered a post-imperial phase in its historical evolution. Russian leaders have stopped mourning the loss of the former Soviet borderlands, and are learning to play on the new chessboard, with new pieces, and under new rules. The business-oriented and highly pragmatic approach sits awkwardly with much more traditional zero-sum gaming around the perennial "Eastern Question." In the

past, Russia used to rely on its army and the navy as its only true friends abroad; now the duo includes oil and gas. An exercise in 19th geopolitics under the conditions of 21st century globalization makes an interesting spectacle, but it often disappoints.

Many compared the Soviet Union's demise in 1991 to the Russian empire's 1856 defeat in the Crimean war. Both ushered in periods of intense soul-searching and genuine attempts at domestic reforms. Yet, some basic ideas about foreign policy survive through the crises. As he stepped in as foreign minister in 1996, Evgeni Primakov adopted as his role model Prince Alexander Gorchakov, Russia's foreign minister for a quarter-century starting in 1856. Then, as now, Russia accepted its defeat, hoping for a future change in the balance of power and a change in circumstances to revise the consequences of its defeat. Gorchakov waited for 14 years and the Franco-Russian war to withdraw from the restrictions imposed on St. Petersburg. Vladimir Putin waited for about the same time before staging Russia's comeback in the mid-2000s. Russia as a middling great power has become a reality.

One of Moscow's big ambitions, of course, is to recreate Russia's primacy and pre-eminence in its neighborhood, and to subject others—Ukraine first of all—to its gravitational pull. To be able to achieve this goal, however, Russia will need to definitely exit from 19th century thinking and seriously upgrade its soft power. The Wider Black Sea region is not a Russian concept. However, something like a southwestern axis may be forming within contemporary Russian foreign policy. In the next few years, some of the most serious challenges and tests for Moscow's foreign policy will come from this direction. How Russia deals with Ukraine's and Georgia's NATO bids; the "frozen conflicts" in the Caucasus and Moldova; and the issue of Europe's energy security will help define the kind of player Russia will become in the international arena.

Transregional Issues

Economic Developments in the Wider Black Sea Region

Vasily Astrov and Peter Havlik

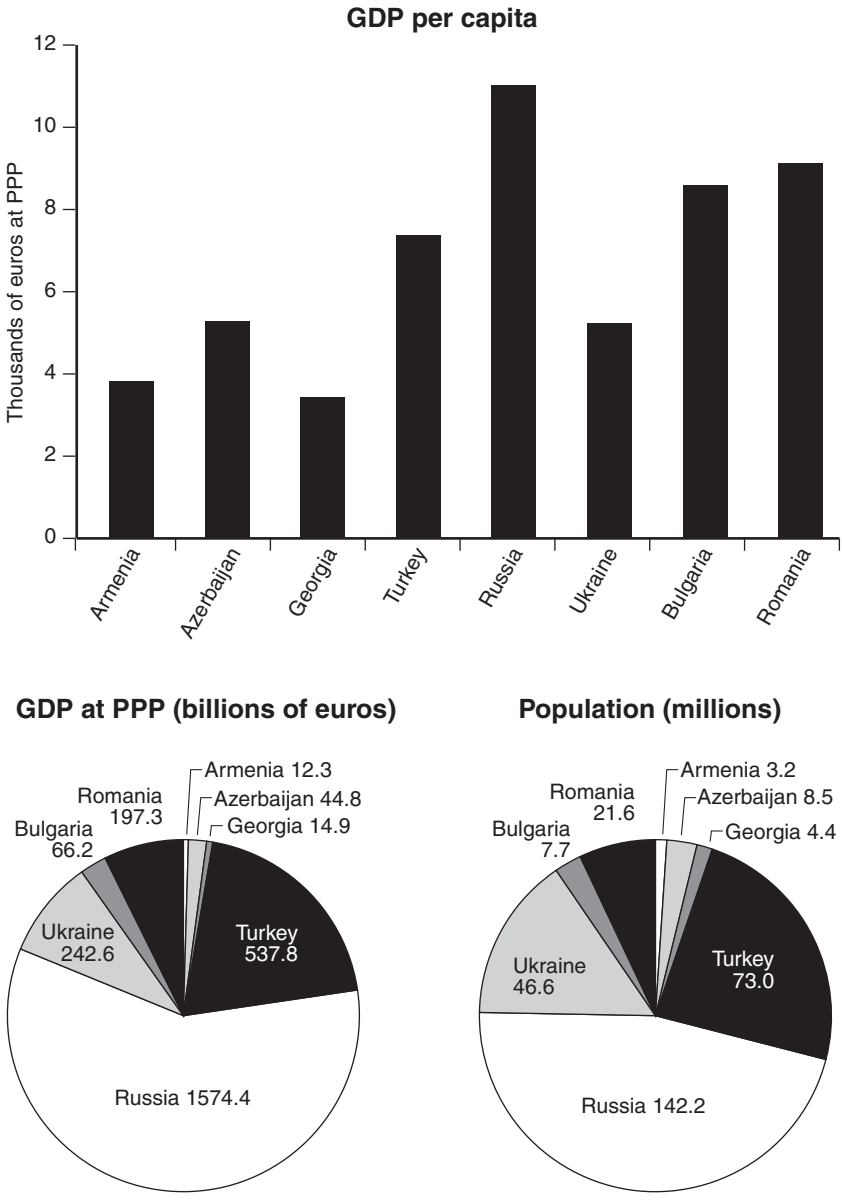
Introduction

The Black Sea region comprises a number of widely different countries: Bulgaria, Romania, Ukraine, Russia, Georgia, Armenia, Azerbaijan, and Turkey. Their economies differ in size (ranging from Georgia and Armenia, on the one hand, to Turkey and Russia, on the other) as well as in their institutional characteristics and integration perspectives. Bulgaria and Romania joined the EU in 2007; Turkey is a (distant) candidate for EU membership; Georgia and Ukraine aspire to EU membership but are highly unlikely to accede anytime soon; finally, Armenia, Azerbaijan and particularly Russia lack any ambitions to join the EU and have their own vision regarding development and integration prospects. The region is thus affected by the competing interests of the EU (Neighborhood Policy) and Russia, which has her own integration blueprints, basically aiming at the re-integration of the post-Soviet space. An additional dimension of the potentially conflicting interests in the region is its importance as a transit corridor for the energy resources from the Caspian Basin to Europe. Recent EU efforts to diversify energy supplies—in particular to reduce the EU's dependence on Russia, which is now not only a major supplier of natural gas to Europe, but also controls a bulk of transit from the Caspian energy-rich countries (notably Kazakhstan and Turkmenistan),—explain the rising interest in the Black Sea region and the resulting rivalry between the EU and Russia.[1]

Apart from a similar level of economic (under-) development, a common economic characteristic of these countries is the fact that all have undergone severe economic turmoil over the past two decades,

[1] Energy issues are dealt with in a separate chapter by Gerhard Mangott and Kirsten Westphal, and we do not go into detail in this paper.

Figure 1 The Black Sea Region: Key Economic Characteristics, 2006



Source: authors' estimates based on Eurostat and CISSTAT (see Table 1).

Table 1 The Black Sea Region: An Overview of Economic Fundamentals, 2006

	Armenia	Azerbaijan	Georgia	Turkey	Russia	Ukraine	Bulgaria	Romania	NMS-10	EU-15	EU-27
GDP at exchange rates, € billion	5.1	15.8	6.2	318.6	785.8	84.9	25.1	97.2	723.9	10796.3	11539.7
GDP at PPP, € billion	12.3	44.8	15.0	537.8	1574.4	242.6	66.2	197.3	1320.3	10548.1	11907.0
GDP at PPP, EU-27=100	0.10	0.38	0.13	4.5	13.2	2.0	0.6	1.7	11.5	90.6	100.0
GDP per capita at PPP, in €	3830	5280	3450	7370	11070	5200	8600	9140	12700	26370	23520
GDP per capita at PPP, EU-25=100	16	22	15	31	47	22	37	39	52	112	100.0
GDP at constant prices, 1990 (1991)=100	155	150	74	186	101	73	111	120	143	138	139
GDP at constant prices, 2000=100	202	253	156	131	144	155	137	142	131	111	113
Industrial production, real, 1990 (1991)=100	84	78	40	204	77	105	85	82	145	—	127
Industrial production, real, 2000=100	152	223	155	133.2	135	174	161	134	144	—	110
Population—thousands, annual average	3220	8480	4350	72974	142221	46646	7699	21584	102171	390196	493499
Employed persons—LFS, thousands, annual average	1112	3973	1700	22330	68693	20730	3110	9313	42270	171010	213768
Employed persons, in percent of population	34.5	46.9	39.1	30.6	48.3	44.4	40.4	43.1	41.4	43.8	43.3
Unemployment rate—LFS, (%)	7.2	—	13.6	9.9	6.8	6.8	9.0	7.2	10.0	7.9	8.7
General government expenditures, GDP %	19	19	32.4	26.7	31.3	32.6	37.2	32.9	41.8	47.4	47.2
General government revenues, GDP %	18	21	30.7	27.1	39.7	32.0	40.8	31.2	38.4	45.1	44.8
Price level, EU-25=100 (PPP/exchange rate)	35	29	41	63	56	26	37	50	54	102	97
Average gross monthly wages, in €	123	126	110	651	315	164	181	326	765	3211	2755
Average gross monthly wages, EU-27=100	4.5	4.6	4.0	23.3	11.2	5.9	6.5	11.6	27.3	116.6	100.0
Exports of goods (GDP %)	15.7	32.2	12.6	22.7	31.0	36.5	47.7	26.6	46.9	29.6	30.6
Imports of goods (GDP %)	34.3	26.6	46.9	32.9	16.8	41.5	69.2	38.7	51.3	29.9	31.3
Exports of services (GDP %)	—	—	—	6.0	3.2	10.6	15.9	5.7	8.7	8.9	8.9
Imports of services (GDP %)	—	—	—	2.8	4.6	8.6	13.0	5.7	7.5	8.0	8.0
Current account (GDP %)	—	—	-14.9	-7.9	9.8	-1.5	-15.8	-10.3	-5.7	-0.2	-0.5
FDI stock per capita, in €	423	1250	620	822	1160	370	2047	1432	3019	—	—

Notes: **NMS-10:** Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.
PPP: Purchasing power parity—wiiw estimates. **LFS**—Labor Force Survey.

Source: wiiw, AMECO, UNCTAD, EBRD, Eurostat and CISSTAT; authors' estimates.

followed by impressive recovery. However, the dramatic economic decline observed in most countries of the region (except Turkey) over the 1990s, which accompanied their transition from a centrally-planned system to a market economy, left its legacy in the form of a sharp deterioration of living standards. Even more than in the former socialist countries of central Europe, the economic transition of the Black Sea region was marked by a pronounced dismantling of the role of the state, especially when it came to social networks. In addition, the difficult economic situation and the local conflicts resulted in substantial outward and internal migration. In turn, Turkey, which—unlike the rest of the region—did not undergo a systemic change, has been repeatedly prone to financial crises. Despite a largely positive short- and medium-term economic outlook for the region, the longer-term growth sustainability is—apart from purely economic factors—dependent on the resolution of a number of difficult social, political and institutional challenges.

This chapter provides the main economic characteristics of the countries concerned, outlines the sources and barriers to their growth, deals with structural issues, analyzes foreign trade patterns and integration prospects, and concludes with an outlook with respect to the countries' growth prospects and the challenges they are facing. Needless to say, only the key aspects of these problems can be addressed in this short chapter.

Economies of the Black Sea Region in Comparative Perspective

Key Macroeconomic Indicators at a Glance

Figure 1 and Table 1 provide an overview of key economic indicators for the Black Sea countries, comparing these also with the new EU member states from central and eastern Europe (NMS), as well as with the EU as a whole. As can be seen, most economies of the Black Sea region are rather small, and compared to the EU are even tiny:[2] the Armenian, Azerbaijani, Georgian and Bulgarian economies (measured as GDP at purchasing power parity—PPP) are less than 1 percent

[2] In fact, the combined GDP of the Black Sea countries (€ 2.7 trillion at PPP in 2006) accounts for around one fifth of that of the EU.

that of the EU. Even Russian GDP—by far the largest in the region—corresponds to just 13 percent of EU GDP. Turkey's GDP is 4.5 percent of EU GDP. The Russian economy clearly dominates within the region, as it accounts for more than half of the Black Sea region's GDP, followed by Turkey (20 percent) and Ukraine (9 percent).

The Black Sea countries together, however, number more than 300 million inhabitants—compared with more than 490 million in the enlarged EU. Hence, the average level of development (measured as per capita GDP at PPP) stands at just one-third that of the EU. Within the region, Georgia and Armenia are the poorest, Russia the richest (with 47 percent of the EU average), while the levels of Azerbaijan, Turkey and Ukraine are similarly close with about 20 percent to 30 percent of the EU average. Thus, all Black Sea countries are poorer than the central European NMS.

Patterns and Sources of Economic Growth

The transformation recession has left deep scars in the region, as an unprecedented economic decline occurred during the late 1980s—early 1990s in all countries except Turkey. The length of the crisis and the trough of the GDP decline varied, however. Armenia reached a turning point already in 1994 (after GDP had declined by almost a half), Georgia in 1995 (its GDP had contracted by nearly two-thirds), and Azerbaijan in 1996 (where the economy had fallen to just 42 percent of the 1991 level). The recession was less severe—though more protracted—in the remaining countries. In Bulgaria, the bottom was reached in 1997 (at 82 percent of the 1991 level), in Russia in 1998 (after a 40 percent GDP loss in the previous years), and in Romania and Ukraine in 1999 (after several ups and downs in Romania and the loss of more than half of GDP in the previous years in Ukraine). In contrast, Turkey enjoyed relatively smooth economic growth during the 1990s, albeit interrupted by brief recessions (in 1994, 1991 and 2001).

As can be seen, the economic development of the region has been highly unstable, and even the countries that were spared from internal conflicts did not fare much better than the rest (e.g. Ukraine). Generally, the five former Soviet republics suffered from a much deeper economic decline than the remaining Black Sea countries, since their transformation recession was accentuated by a disintegration of the

Soviet Union. This resulted in a disruption of traditional economic linkages, which hit the small Caucasus countries particularly hard. In addition, the Caucasus countries—given their geographic location—had more difficulties in re-orienting their economic ties towards Europe and, probably most importantly, were torn apart by severe inter-ethnic conflicts and the episodes of civil war. Thus, their military expenditures absorbed a lion's share of economic resources that could have been alternatively used for financing the badly needed economic restructuring. Besides, the conflicts brought about an extremely unstable environment, not only inhibiting large-scale investment but also creating an obstacle to cross-border trade flows.

The more positive news is that since the late 1990s, the whole region has enjoyed a fairly rapid economic recovery, growth being the fastest in countries that had previously suffered the most (Azerbaijan, Armenia, Georgia, and Ukraine). Since 2000, GDP has more than doubled in Azerbaijan and Armenia, and expanded by more than 50 percent in Georgia and Ukraine. In the remaining Black Sea countries, cumulative economic growth since 2000 has ranged between 30 percent (in Turkey) and 40 percent (in Romania and Russia). Thus, their growth performance is comparable to that of the NMS and, needless to say, has been much better than in western Europe (Tables 1 and 2). Nevertheless, Russia has just barely reached its pre-transition GDP level while Georgia and Ukraine still remain about 25 percent below their peak economic performance from the early 1990s.[3]

In individual countries, the sources of the recent economic recovery have been quite diverse. Thus, Romania's and Bulgaria's development has been hugely affected by their EU membership prospects, culminating in formal accession in January 2007. This event was the outcome of a long process of economic integration of these two countries into European structures. The anchor of future EU membership and the related reduction of political risks, the sustained reform efforts undertaken by the two countries' governments, particularly the adoption of the accession-related *acquis communautaire*, the long-standing free trade agreements with the EU, and—last but not least—massive

[3] These comparisons are highly tentative—not only because of numerous statistical problems. The main issue here is to what extent the predominantly market-oriented output of these countries today can be numerically compared with their output produced under the former system of central planning (obviously, Turkey is once again an exception).

inflows of FDI have facilitated a profound restructuring of the two economies, particularly in the last few years, and enabled them to gain firm niches in the European markets of selected goods such as textiles and, more recently, cars and electric appliances. Thus, Bulgaria and Romania have been broadly following the earlier development path of the more advanced NMS. Besides, they have benefited from substantial transfers from Brussels targeting infrastructure and—since their formal accession in January 2007—are eligible for direct payments to their agricultural producers within the framework of the EU Common Agricultural Policy.

In the three Caucasus countries (Georgia, Armenia and Azerbaijan), economic growth resumed in the mid-1990s, after a certain degree of stability returned to the region following the signing of major cease-fire agreements. Since 1996 at the latest, all three countries have witnessed continuous economic growth—often at two-digit rates and uninterrupted by the Russian financial crisis of 1998. As a result of the dynamic economic performance, Armenia and particularly Azerbaijan have by now surpassed their pre-transition GDP by a wide margin, although Georgia—where the GDP decline over the nineties was the biggest—still has a way to go to reach the 1989 level. However, in all three countries, poverty is still widespread, with so-called 'internally displaced persons', i.e. largely war refugees, being the most vulnerable group, often living in temporary housing for years.

Economic growth originated from different sources in each country. Growth in Azerbaijan has been driven primarily by the booming export-oriented oil and gas sector. Following the signing of major production-sharing agreements (PSAs) with foreign multinationals,[4] the start of operation of the vast Azeri-Chirag-Guneshli offshore oil deposit and the launch of a major Baku-Tbilisi-Ceyhan oil pipeline in 2006, oil exports from Azerbaijan have surged, leading to the near-doubling of exports in 2006 alone, as well as impressive GDP growth of 34 percent in 2006 and 25 percent in 2007. Due to the growth in oil revenues the country's current account registered a huge surplus in 2006 (16 percent of GDP). This was a stark contrast to previous years,

[4] Although Azerbaijan has a state-owned oil corporation of its own (SOCAR), 70 percent of the country's oil exports is accounted for by the Azerbaijan International Operating Company (AIOC), including—beside SOCAR—such leading foreign multinationals as British Petroleum, Chevron, Statoil, and ExxonMobil.

which had been characterized by high current account deficits, largely due to FDI-financed imports of equipment for the oil industry. The massive influx of oil-related export revenues has enabled a rapid accumulation of foreign exchange reserves and has boosted the country's fiscal revenues. As a result, wages in the public sector and pensions were raised by about 50 percent, and capital expenditures by a stellar 300 percent. However, the unpleasant side-effect of the increased spending has been a surge in inflation—despite the on-going appreciation of the manat in line with the 'crawling peg' regime (in place since 2006). Currently, oil and natural gas account for about 30 percent of Azerbaijan's exports to the CIS and for some 90 percent to the non-CIS.

In Georgia and Armenia, in contrast, recent economic growth has been due primarily to rising domestic demand, financed largely by loans and transfers from abroad. These transfers have come from the wealthy foreign diaspora (e.g. Armenian diaspora in the United States and France), were part of official assistance (particularly to Georgia by the EU and the United States), or represented remittances from Armenians and Georgians who left their countries in search for better job opportunities, particularly in Russia. Georgia's development has been also greatly affected by the radical liberal reforms implemented after the 'Rose Revolution' of 2004, including *inter alia* the introduction of a flat personal income tax; a large-scale privatization program; reduction of arrears; and abolition of customs duties. The resulting improvement in the business climate led to a surge in private capital inflows, supplemented by foreign investment targeting the construction of two major pipelines: Baku-Tbilisi-Ceyhan (oil) and Baku-Tbilisi-Erzurum (gas). In Armenia, the key engine of growth has been the services sector, particularly construction, which benefited from both FDI and remittances and posted growth rates of some 30 percent over the last few years. In both countries, the massive inflows of foreign exchange induced currency appreciation and thus helped contain inflationary pressures. In addition, the appreciation has contributed decisively to the rising confidence in domestic currencies and hence to the de-dollarization process which, in turn, has fuelled further appreciation.

The reverse side of this macroeconomic stability, however, has been greater external imbalances, as high economic growth has led to a strong demand for imports, such as the imported inputs for the boom-

ing construction sector. As a result, trade deficits have been on the rise, particularly in Georgia. Georgian exports contracted dramatically in 2006 due to trade sanctions imposed by Russia—hitherto Georgia's main trade partner. More broadly, rising trade deficits are a reflection of the structural weakness of these countries' industrial sectors and of their dependence on energy imports, particularly against the background of globally booming energy prices and the current policy of Russia's Gazprom to bring its export prices closer to west European levels.

In Russia and Ukraine, the recovery was initially triggered by the devaluation of their currencies in 1998-1999 following the Russian financial crisis. This opened a window of opportunity, initially for the domestic food-processing industry, but the recovery soon spilled over into other sectors as well. Also, the growth in both countries was helped by the booming world prices for their main export commodities: energy (in Russia) and metals (Ukraine), as well as by a surge in Russian import demand for Ukrainian products. Meanwhile, abundant export-generated revenues have translated into strong domestic demand for both consumer and investment goods, and—with the exception of a temporary setback after the 'Orange Revolution' in Ukraine in 2005—investor sentiments have vastly improved, including those for FDI. Still, even when compared to Bulgaria and Romania (let alone the more advanced new EU members), both countries are still lagging behind in terms of FDI penetration and, as a result, have had rather limited success in upgrading and diversifying their economic structure away from energy and metals.

Turkey's steady economic performance has largely resulted from a comprehensive reform package launched in 2002 aimed at improving the fiscal situation and mending the rampant inefficiencies in the country's state-dominated industrial sector. Although Turkey has never had a truly planned economy of the Soviet type, its private sector had been basically confined to retail trade and services, whereas large industrial assets had been state-owned and protected from international competition. The weak competitiveness of domestic industry had typically led to import booms, culminating in the balance-of-payments crises. However, over the last few years, the bulk of state-owned banks and industrial enterprises have been privatized, and the climate for FDI has drastically improved. The country's exports grew

strongly and trade deficits declined. Budget deficits declined as well, forcing banks to look for alternative investment options rather than the budget deficit financing. Since 2002, the economy has been growing on average roughly 7 percent per year, and the country's vulnerability to future crises has arguably decreased.

Industry Performance

Predictably, the devastating impact of the transformational recessions has been most visible in industry, where output fell victim to the abrupt opening to international markets. Apart from purely systemic transition factors such as price liberalization, abolition of subsidies, privatization and the scaling down of military spending, industry suffered over-proportionally also due to the dismantling of regional trading blocs such as COMECON (Bulgaria and Romania) and the USSR (Russia, Ukraine and particularly the Caucasus countries). As a result, Georgia lost 80 percent of its industrial output by 1995, Azerbaijan 70 percent by 1997, and Armenia 50 percent by 1993. By the time the recovery started in 1998-1999, Russia, Ukraine, Bulgaria and Romania had lost about half their industrial output. Turkey is again a special case, as the relatively smooth industrial growth in this country was only briefly interrupted in 1994 and 1999.

Despite the rapid industrial recovery since the mid- and the late 1990s—accompanied and partly fueled by restructuring, re-orientation to new markets and inflows of foreign investments—only Ukraine has so far managed to fully restore its previous level of industrial output; the remaining countries are still 15-20 percent below their 1990-1991 peak (Georgia is even 60 percent below—see Table 1).[5] Since 2000, the fastest industrial growth has been recorded in Azerbaijan (largely thanks to the development of oil fields), Ukraine (steel and chemicals), Bulgaria, Georgia and Armenia (foodstuffs, textiles and metal products). This pattern largely squares with the industrial structures currently observed in individual countries. Thus, Azerbaijan is now specializing in hydrocarbon extraction (70 percent of industrial output), Armenia and Georgia in food and beverages (32 percent and 38 percent, respectively), Ukraine in metals (25 percent), while Bulgaria and Romania are specializing in a combination of food, beverages and

[5] Turkey is an exception, as its industrial output more than doubled between 1990 and 2006.

basic metals. The respective industrial structures are largely reflected in the commodity composition of exports, as we discuss later.

Structural Changes and Labor Market Developments

The relative decline of industry and the extraordinary fast development of services, which had been neglected or virtually non-existent (e.g. banking, insurance and real estate activities) under the previous system, was one of the outstanding features of transition in the Black Sea countries, bringing their economic structure closer to that of Western Europe. By now, almost all countries of the Black Sea region are service-oriented—except for Azerbaijan where the extraction industry accounts for 51 percent of gross value added. In Russia, Ukraine and Georgia, about 60 percent of gross value added originates in the services sector; the respective shares are somewhat smaller in Bulgaria, Romania, Turkey and especially Armenia (36 percent). In Bulgaria and Turkey, but also in Armenia, Georgia and Azerbaijan, tourism is of growing importance—though still below its potential. At the same time, Romania, Turkey, and particularly Armenia and Georgia (20 percent of gross value added in both countries) are still highly dependent on agriculture, especially as far as employment is concerned—a clear sign of underdevelopment.

The labor market situation and, more generally, social conditions are still very difficult in the whole region, notwithstanding recent rapid economic growth. This is reflected in the above-mentioned low GDP per capita levels and even more so in average wages, which range between 4 percent (Georgia) and 23 percent (Turkey) of the EU level (measured at exchange rates—see Table 1). The fact that the highest wages can be earned in Turkey (about €650 per month) is illustrative of the relatively low well-being in the countries concerned and explains why many workers from Azerbaijan, Georgia and Ukraine seek temporary employment in Turkey . Yet there is also significant outward labor migration from these countries and Armenia to Russia, variously estimated at several hundred thousands of persons in the case of Ukraine. In turn, a large number of Turks, and recently also Bulgarians and Romanians, have moved to seek employment opportunities in western Europe. The Black Sea region has thus been a huge source of (frequently illegal) labor migration, especially of young people. Moreover, there is also a large number of internally dis-

placed persons, particularly in Azerbaijan (from Nagorno-Karabakh), Georgia (from Abkhazia) and Russia (from Chechnya).

Outward migration may be one explanation why unemployment in the Black Sea countries is not excessively high: with the exception of Georgia, official unemployment rates are mostly in single digits, yet the share of employed persons in the population (in the absence of comparable employment rates) is in most countries rather low (Table 1). At the same time, several countries—Russia, Ukraine, Bulgaria and Romania—are currently reporting labor shortages, especially of skilled labor.

Foreign Trade Patterns and Integration

Overall Foreign Trade Developments

External economic relations are playing an increasingly important role in the Black Sea countries, as demonstrated by the recent high dynamics of their foreign trade (see Table 3). Fast export growth has been reported not only in energy-rich Azerbaijan and Russia, but also in Armenia, Georgia, Bulgaria and Romania—albeit in the former two countries from very low levels. However, in all countries except Armenia and Turkey, imports have been surging even faster, reflecting these countries' strong economic performance and the strengthening of domestic demand, but also the massive inflows of FDI and the related imports of investment goods. As a result of these developments, the majority of the countries suffer from fairly high, and rising, trade deficits. In Armenia and Georgia, exports cover less than half of imports, indicating a potentially unsustainable development and a high dependence on transfers through both private remittances and official assistance. In other cases (Bulgaria, Turkey and Ukraine), the trade deficits are at least partly compensated by exports of services such as transport and tourism. In contrast, Azerbaijan and Russia enjoy large trade surpluses thanks to their high energy exports.

Regional and Commodity Composition of Trade

The European Union, Russia and Turkey are the main trading partners of the Black Sea countries. Predictably, for Bulgaria and

Table 2 Overview of Developments in 2005-2007 and Outlook for 2008

	GDP real change in percent (%) against previous year				Consumer prices change in percent (%) against previous year				Unemployment, based on LFS[a] rate in percent (%), annual average				Current account percent (%) of GDP			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
Armenia	13.9	13.3	13.7	9.0	6.0	2.9	4.4	4.0	7.6	7.2	6.6	—	-4.2	-4.5	-3.0	—
Azerbaijan	26.4	34.5	25.0	25.0	9.7	8.3	16.7	16.0	1.4	1.3	1.2	—	1.3	15.6	19.8	—
Georgia	9.6	9.4	12.7[b]	9.0	8.3	9.1	9.2	8.0	13.8	13.6	14.0	—	-10.8	-14.9	-15.9	—
Turkey	7.4	6.1	4.2	4.0	8.2	9.6	8.8	9.0	10.3	9.9	9.9	11.0	-6.3	-8.2	-7.9	-6.9
Russia	6.4	7.4	8.1	6.4	12.5	9.7	9.1	12.0	7.2	6.8	6.2	5.8	11.0	9.8	5.9	2.4
Ukraine	2.6	7.1	7.3	6.5	13.5	9.1	12.8	19.0	7.2	6.8	6.4	6.4	3.1	-1.5	-4.2	-6.0
Bulgaria	6.2	6.1	6.0	5.5	5.0	7.3	8.4	10.0	10.1	9.0	6.9	6	-12.0	-15.7	-21.6	-18.8
Romania	4.1	7.8	6.0	5.5	9.0	6.6	4.8	8.0	7.1	7.3	6.5	6.5	-8.7	-10.4	-14.3	-14.9
NMS-10[c]	4.8	6.5	6.1	5.4	3.6	3.2	4.2	4.8	9.7	10.0	8.2	7.4	-4.6	-6.1	-7.1	-7.2
EU-15[c]	1.6	2.8	2.7	1.8	2.1	2.2	2.0	2.6	7.9	7.7	7.0	7.0	0.0	-0.2	-0.4	—
EU-25[c]	1.9	3.1	3.0	2.1	2.1	2.2	2.2	2.8	8.8	8.2	7.3	7.1	-0.2	-0.5	-0.6	—
EU-27[c]	1.9	3.2	3.1	2.2	2.3	2.3	2.2	2.9	8.7	8.2	7.2	7.1	-0.3	-0.6	-0.8	—

Notes: **NMS-10:** The New EU member states (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia).
[a]LFS—Labor Force Survey (except for Azerbaijan); [b]January-September; [c]wiiw estimate.
Source: wiiw, Eurostat, CISSTAT, EBRD, Georgian Economic Trends, authors' forecasts.

Table 3 Foreign Trade of Black Sea Countries, 2000-2006

	2006 Exports in euro terms (index, 2000=100)	2006 Imports in euro terms (index, 2000=100)	2006 Exports (€ million)	2006 Imports (€ million)	2006 Trade balance (€ million)
Armenia	240	182	785	1,747	-962
Azerbaijan	268	329	5,037	4,195	842
Georgia	226	380	791	2,933	-2,142
Turkey	219	184	73,066	105,882	-32,816
Russia	214	298	240,154	105,547	134,607
Ukraine	193	237	30,556	35,870	-5,314
Bulgaria	229	261	12,012	18,479	-6,467
Romania	229	286	25,881	40,746	-14,865

Source: wiiw and CISSTAT databases.

Romania, which are EU members themselves, the EU accounts for 50 to 60 percent of their exports and imports. However, the (enlarged) EU has become also the leading trading partner for Russia, accounting for 57 percent of Russian exports and more than 40 percent of its imports in 2006, and, interestingly, also for Armenia, Azerbaijan and Georgia—despite the lack of a common border, and largely due to a marked decline in the trade of these countries with Russia. The latter partly reflects the general trend of trade re-orientation away from Russia, which has been the case for many post-Soviet republics, mainly reflecting changing patterns of comparative advantage, but—particularly in Georgia's case—also trade restrictions, such as Russia's embargo on imports of Georgian mineral water and wine.[6] For Ukraine, the importance of the EU is somewhat lower: the EU accounted for 34 percent of Ukrainian imports and less than 30 percent of exports in 2006. Accordingly, the importance of Russia for Ukraine's foreign trade is rather high, particularly on the import side, reflecting massive energy imports. However, the country's exports to Russia (particularly transport vehicles and other machinery) have been

[6] Officially, the embargo was justified by the allegedly poor quality of Georgian products, but there are good reasons to believe that the decision was largely politically motivated, given the strained relations between the two countries over the issues of Abkhazia, South Ossetia, and especially Georgia's NATO membership aspirations.

booming recently as well, so that Russia's share as an export destination has risen markedly.[7]

Table 4 provides an overview of the top trading partners for the Black Sea countries. It also highlights several interesting features of regional trade specialization, with important implications for regional integration. First, foreign trade of the Black Sea countries is relatively well diversified: the top five trading partners combined account for 38 percent (Turkey) to 66 percent (Azerbaijan) of exports, and between 40 percent (Russia) and 58 percent (Ukraine) of imports. In general, Russia's and Turkey's geographical trade concentration is the lowest among the Black Sea countries, which is not surprising given their size.

Second, trade *within* the Black Sea region is most important for Georgia and least important for Russia and Turkey. This can be seen in Table 4, where each country's top trading partners that are also Black Sea countries are marked in bold. Russia, Turkey and Ukraine as larger markets typically dominate regional trade, whereas Bulgaria and Romania are invariably missing on the list, since they trade mostly with the EU. Generally, the geographic trade patterns of the countries involved do not give an impression of the Black Sea region being a distinct trading block per se, and in those cases where important regional trade links do exist (Russia, Ukraine, and Turkey), this seems to be explained first of all by these countries' size rather than by the fact that they are part of the Black Sea region.

Outside the Black Sea region, important trading partners are Germany, Italy and the Netherlands. The United States plays the biggest role for Turkey (6 percent of exports and 4.5 percent of imports), but also to some extent for Armenia (4.8 percent of imports), Russia (4.6 percent of imports), Azerbaijan and Georgia (3.5 percent of imports), and also serves as an export market for Ukraine and Russia (about 3 percent of exports).

The geographic patterns of trade flows are related to their commodity composition. We will just highlight key features, without going into detail. The exports of Azerbaijan and Russia are dominated

[7] It is important to mention in this context that from the EU viewpoint, the Black Sea region is not too important either as an export market or as a source of imports. The single exception is Russia, which is the main supplier of energy to the EU; yet in 2006, it accounted for just 3.7 percent of overall EU imports, and Turkey accounted for another 1 percent.

Table 4 Top Five Trading Partners of Black Sea Countries in 2006

	Exports	Imports
Armenia	Germany, Netherlands, **Russia**, Belgium, Switzerland (59 percent of total exports)	**Russia, Ukraine**, Kazakhstan, Germany, Belgium (41 percent of total imports)
Azerbaijan	Italy, **Turkey**, France, **Russia**, Iran (66 percent of total exports)	**Russia**, United Kingdom, Germany, **Turkey**, Turkmenistan (53 percent of total imports)
Georgia	**Turkey, Azerbaijan, Russia, Armenia**, Turkmenistan (44 percent of total exports)	**Russia, Turkey**, Germany, **Ukraine**, USA (51 percent of total imports)
Turkey	Germany, United Kingdom, Italy, USA, France (38 percent of total exports)	**Russia,** Germany, China, Italy, France (42 percent of total imports)
Russia	Netherlands, Italy, Germany, China, **Ukraine** (39 percent of total exports)	Germany, China, **Ukraine**, Japan, Belarus (40 percent of total imports)
Ukraine	**Russia**, Italy, **Turkey**, Poland, Germany (42 percent of total exports)	**Russia**, Germany, Turkmenistan, China, Poland (58 percent of total imports)
Bulgaria	Italy, **Turkey**, Germany, Greece, Belgium (47 percent of total exports)	**Russia**, Germany, Italy, **Turkey**, Greece (50 percent of total imports)
Romania	Italy, Germany, **Turkey**, France, Hungary (54 percent of total exports)	Germany, Italy, **Russia**, France, **Turkey** (49 percent of total imports)

Source: wiiw, CISSTAT, Turkish statistical office.

by mineral products (supplemented in the latter country by metals), and those of Ukraine, Armenia and Georgia by metals and other low-processed goods. In contrast, Bulgaria and (even more so) Romania export mostly manufactured products, including machinery and transport equipment. Also, all former Soviet republics still exhibit a distinct commodity structure when it comes to exports to the CIS (mostly to Russia) where some of the traditional processed manufacturing trade still remains: food and beverages from Armenia and Georgia, chemicals from Azerbaijan, transport equipment from Georgia, and transport vehicles and military equipment from Ukraine. The majority of these exports are not competitive in other markets and represent

legacy structures from the Soviet past. Therefore, as these countries advance economic reforms and make further progress in their transition to market economies, their foreign trade patterns and particularly the commodity composition of their trade with Russia and other CIS will most probably undergo serious change.

Regional Integration

The presently rather low level of regional integration of Black Sea countries can be attributed to their economic heterogeneity as well as to political issues. Formally, economic cooperation between the countries of the region is carried out within the framework of the Black Sea Economic Cooperation (BSEC). The BSEC was established in 1992, has its headquarters in Istanbul, and since 1999 enjoys the legal status of an international organization. It encompasses twelve member states: the eight countries covered in this chapter as well as Moldova, Greece, Albania and Serbia. However, in spite of the existence of BSEC, in reality multilateral cooperation in the Black Sea region is overshadowed by the relations between these countries and the European Union. In other words, regional cooperation generally proceeds only to the extent to which it is compatible with the format of these countries' relations with the EU. As already mentioned in the introduction, this format differs widely between individual countries of the region. EU relations with these countries can be grouped into three broad types:

1. EU membership (Bulgaria and Romania) and EU accession (Turkey being an official candidate);
2. European Neighborhood Policy (all other Black Sea countries, except Russia); and
3. 'Four Common Spaces' and Strategic Partnership (Russia).

In addition, relations with the EU within the first two types take place almost exclusively on a bilateral basis—despite regular 'synergy meetings' between BSEC and the EU.[8] This is in stark contrast to EU initiatives in other geographic regions, which were conceived from the

[8] This is part of the EU's so-called 'Black Sea Synergy' strategy, which has been pursued since the EU was granted an observer status at BSEC in June 2007. The first such meeting (at foreign minister level) took place in February 2008 in Kyiv.

Table 5 Commodity Composition of EU Imports from Black Sea Region Countries, 2006 (in percent)

	Total	Rus	Ukr	Tur	Arm	Aze	Geo	Bul	Rom
Agriculture, hunting and related service activities	2.16	0.23	4.07	3.47	0.00	0.55	9.11	3.90	1.89
Forestry, logging and related service activities	0.13	0.64	0.61	0.02	0.38	0.00	0.02	0.09	0.08
Fishing, fish farming and related service activities	0.19	0.00	0.00	0.19	0.83	0.00	0.00	0.00	0.00
Mining of coal and lignite; extraction of peat	0.44	2.27	0.74	0.00	0.00	0.00	0.00	0.00	0.00
Extraction of crude petroleum and natural gas	8.33	55.21	1.01	0.06	0.00	86.24	33.43	0.09	0.00
Mining of metal ores	0.61	0.68	6.83	0.30	1.66	0.00	7.90	1.09	0.04
Other mining and quarrying	0.57	1.03	2.28	0.77	1.05	0.00	0.09	0.30	0.07
Manufacture of food products and beverages	5.29	0.63	7.15	4.42	0.61	0.07	8.90	4.66	1.11
Manufacture of tobacco products	0.22	0.01	0.01	0.02	0.02	0.00	0.01	0.01	0.01
Manufacture of textiles	1.79	0.08	0.83	11.46	0.17	0.02	0.01	6.00	5.04
Manufacture of wearing apparel	2.40	0.06	4.70	17.90	3.73	0.00	0.51	16.22	17.85
Tanning and dressing of leather	1.14	0.14	2.10	0.39	0.02	0.00	0.01	3.86	8.88
Manufacture of wood and wood products	0.89	1.15	3.22	0.10	0.04	0.02	0.90	1.38	3.18
Manufacture of pulp, paper and paper products	1.77	0.44	0.33	0.33	0.04	0.00	0.00	0.60	0.31
Publishing, printing	0.48	0.03	0.02	0.08	0.79	0.00	0.02	0.14	0.11
Manufacture of coke, refined petroleum	3.46	16.85	6.03	2.18	0.00	6.82	28.07	3.47	2.01
Manufacture of chemicals and chemical products	11.98	2.71	8.76	2.55	2.72	0.28	3.62	4.49	2.99
Manufacture of rubber and plastic products	2.57	0.11	0.89	3.25	0.02	0.01	0.03	1.48	3.22
Manufacture of other non-metallic mineral products	1.13	0.11	0.57	2.49	0.07	0.00	0.03	2.24	0.99
Manufacture of basic metals	6.88	11.08	34.18	6.92	62.29	0.10	5.77	26.16	8.86
Manufacture of machinery and equipment	7.01	0.26	1.92	6.64	0.08	0.42	0.81	7.12	8.45
Manufacture of office machinery and computers	4.59	0.02	0.38	0.10	0.02	0.00	0.05	0.33	1.41
Manufacture of electrical machinery	3.27	0.15	2.51	2.56	0.03	0.03	0.11	3.96	12.63

Table 5 Commodity Composition of EU Imports from Black Sea Region Countries, 2006 in percent (%) (continued)

	Total	Rus	Ukr	Tur	Arm	Aze	Geo	Bul	Rom
Manufacture of radio, TV and communication equipment	5.84	0.09	1.46	6.08	0.50	0.01	0.13	1.47	1.88
Manufacture of medical, precision and optical instruments	2.73	0.06	0.16	0.29	0.07	0.37	0.23	1.66	0.71
Manufacture of motor vehicles, trailers	10.19	0.10	0.40	20.64	0.03	0.00	0.10	0.40	6.22
Manufacture of other transport equipment	2.49	0.18	1.22	1.13	0.04	0.02	0.05	0.98	1.83
Manufacture of furniture	2.35	0.48	1.29	1.94	24.70	4.95	0.02	2.83	5.98
Electricity, gas, steam and hot water supply	0.44	0.36	1.69	0.00	0.00	0.00	0.00	1.93	0.34
n/a	6.10	4.65	2.82	0.71	0.00	0.00	0.00	1.00	0.88
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
of which: manufacturing	80.74	34.89	79.78	94.45	96.00	13.20	49.43	91.56	96.67

Abbreviations: Russia (Rus), Ukraine (Ukr), Turkey (Tur), Armenia (Arm), Azerbaijan (Aze), Georgia (Geo), Bulgaria (Bul), Romania (Rom).
Source: authors' calculations based on Eurostat COMEXT Database.

very beginning in regional—rather than bilateral—format and have been partly institutionalized.[9] The bilateral approach preferred by the EU with respect to the Black Sea countries results not least from the fact that BSEC is often perceived in the EU as an organization confining itself to mere declarations. This is due in part to bilateral tensions between some of the Black Sea countries, most notably between Armenia and Azerbaijan, Armenia and Turkey, and Turkey and Greece. In fact, the multilateral cooperation of the Black Sea countries with the EU is largely confined to *sectoral* initiatives such as the Interstate Oil and Gas Transport to Europe (INOGATE), the Transport Corridor Europe-Caucasus-Asia (TRACECA), the Black Sea Pan-European Transport Area (PETrA), and the Danube-Black Sea Environmental Task Force (DANBLAS). As a result, the EU fails to act as a 'center of gravity' promoting deeper regional integration for the Black Sea region as a whole.

[9] The examples are the Northern Dimension (Baltic Sea region), the Stability and Association Process (Western Balkans), and the Euro-Mediterranean Partnership.

At the same time, multilateral integration in the Black Sea region under the auspices of Russia, which, given its economic size, could potentially serve as an alternative 'gravity center', appears to be equally problematic.[10] This holds true even for Ukraine, Georgia, Armenia and Azerbaijan, all of which belong to the CIS. Although there is a formal CIS-wide free trade agreement, a number of important commodities are exempted, and there are frequent frictions and even occasional bans on imports into Russia of selected (primarily food) products from these countries, such as wines from Georgia (or neighboring Moldova, for that matter) or dairy and meat products from Ukraine. Another example is quotas and anti-dumping measures against the imports of Ukrainian steel products into Russia. Furthermore, Georgia and Armenia have been WTO members for several years (since 2000 and 2003, respectively), Ukraine is currently at the final stage of WTO accession (and is negotiating a 'deep' free trade agreement with the EU),[11] while Russia and Azerbaijan—both aspiring to WTO membership—are still negotiating. The unequal speed of WTO accession complicates regional trade integration and investment issues even further, as it provides countries which joined earlier with a possibility to put forward extra demands to the applicant countries, which enables them to negotiate better market access terms for themselves or block the applicant country's accession altogether (Georgia's veto on Russia's WTO accession is a relevant example).

The prospects of closer economic integration between the CIS and the non-CIS Black Sea countries potentially involve problems of an even greater dimension. Bulgaria and Romania are EU members. Therefore, any integration steps with these countries would necessarily require deeper integration with the EU as a whole. Besides, Turkey is also a long-standing member of a customs union with the EU, which means that the Turkish trade regime for imports from the third countries is unified with that of the European Union. An additional problem concerns bilateral trade relations between Turkey and Armenia (both countries remain deeply split over the 'genocide issue'),

[10] The important exception is energy trade, as Russia is the leading supplier of oil and gas for the Black Sea countries (except Azerbaijan and, with some reservations, Georgia). However, co-operation in the area of energy does not require formal integration, as energy is traded on a customs-free basis.

[11] The agreement on Ukraine's WTO accession was signed in February 2008, but still has to be ratified by the country's parliament to ensure formal accession. Negotiations of a free trade agreement with the EU started in February 2008 as well.

Armenia and Azerbaijan (frozen conflict in Nagorno Karabakh), Georgia and Russia (the latter supporting separatists in Abkhazia and South Ossetia), which are hampered by the strained political relations. Therefore, as long as the integration prospects between the EU and Russia—energy apart—remain bleak, and bilateral relations between several Black Sea countries are low-profile, any far-reaching economic integration encompassing the Black Sea region as a whole will be highly unlikely. At the same time, with growing economic strength, Russian capital increasingly dominates important sectors in the region (such as energy, metals and telecommunications), thus possibly fostering regional integration from 'below'.[12]

Regional Economic Challenges and Outlook

As demonstrated by the above brief analysis, the Black Sea region comprises a widely heterogeneous group of countries which face vastly different economic problems and find themselves at different levels of development—even if all of them have enjoyed recently high economic growth, accompanied by an impressive surge in bilateral trade flows. Yet many challenges remain, which differ among individual countries.

In Bulgaria and Romania, the economic outlook is stable thanks to their firm anchor in the European Union and the sizeable transfers they are receiving from Brussels. At the same time, the risks of overheating cannot be ignored. Booming domestic demand, largely financed by loans from foreign-owned banks, is increasingly facing supply constraints, which, on the one hand, contribute to inflationary pressures and, on the other hand, spill over into soaring imports. Due to sizeable inflation, both countries suffer from real currency appreciation which threatens their trade competitiveness. Widening external imbalances make these countries increasingly vulnerable to sentiments in world financial markets, raising the risk of a 'hard landing' (credit crunch) in the case of a sudden outflow of short-term speculative capital. Over the last two years, speculative capital has been particularly targeting Romania—in contrast to Bulgaria, where the very high external deficits have been so far largely financed by the inflows of

[12] See A. Libman, and B. Kheyfets, "Expansion of Russian Capital in the CIS Countries," *Ekonomika* (Moscow, 2006).

FDI.. However, in the longer run, should FDI inflows subside and a financial crisis break out, Bulgaria may find it more difficult to cope with external shocks. Unlike Romania, it is operating a fixed exchange rate regime to the euro within the framework of a 'currency board'. Therefore, any currency devaluation—which might be required to improve the country's competitiveness and thus reduce external deficits—would be very difficult to implement. This would imply leaving the 'currency board', with the resulting credibility loss of the country's monetary authorities.

The issue of overheating also applies to some extent to Georgia and Armenia, although the financial vulnerability of these very small economies does not seem to be excessively exposed at the moment. In fact, Georgia and Armenia are primarily facing structural—rather than macroeconomic—problems. In both countries, poverty is still a big issue. According to the World Bank definition, it affects around 30 percent of the population on average, but is typically worse in the countryside. The reasons for this are multiple, but an important explaining factor has been the virtual dismantling of the social safety network in the wake of economic transition. The latter is manifested *inter alia* in the small size of government, particularly in Armenia, where general government expenditures hover around 20 percent of GDP.[13] This is not only much below what is common in EU countries (generally above 40 percent), but even e.g. in Russia and Ukraine (30-35 percent). The limited ability of the Armenian government to spend is partly due to low tax morale and the widespread activities of the shadow economy, and also to the fact that some of the most dynamic economic sectors (such as construction) used to be exempted from taxation. Another problem for Armenia is the relative closeness of its economy: primarily because of the problematic relations with its neighbors Turkey and Azerbaijan. As a result, its foreign trade turnover stands below 50 percent of GDP (and exports at just 16 percent of GDP)—much lower than what the country's small size would suggest. The costs of this are manifold: not only do missing export opportunities imply losses for the economic agents involved; the re-direction of cargo shipments via sub-optimal transport routes means eroding profit margins of exporters and higher domestic prices of imported goods. Similar problems can be observed in Georgia,

[13] The latter is also true for Azerbaijan—see Table 1.

whose transport links to Russia are largely blocked due to the unresolved status of Abkhazia and South Ossetia.

Another issue of concern for Armenia (and, as a matter of fact, for Ukraine, whereas Georgia's export structure is, paradoxically, more diversified) is the narrow specialization in commodities whose world prices are subject to sharp and unpredictable fluctuations—which partly translates into the volatility of these countries' growth paths. In Ukraine, some 40 percent of exports is represented by metals, particularly steel; in Armenia about 60 percent of exports is represented by diamonds and non-ferrous metals such as copper and molybdenum. As exemplified by the recent successful experience of numerous east European countries (including Romania and Bulgaria), attracting FDI into industrial branches producing (and exporting) more sophisticated products (as well as potentially in tourism) helps improve the economic structure and thus represents a remedy to this problem. However, a prerequisite for that would be improvement in the investment climate, which would require *inter alia* the settlement of existing 'frozen' conflicts (in Southern Caucasus) and greater political stability in general (in Ukraine). The latter two factors explain why foreign investors have largely avoided these countries so far (see the low levels of cumulative FDI stock per capita in Table 1).

In Russia and Azerbaijan, narrow specialization in energy resources is potentially dangerous—even though in the short and the medium run oil prices are expected to stay stubbornly high, so that the risk of a crisis currently appears to be low. The necessity of diversifying the economy away from energy is generally understood by the countries' authorities.[14] Therefore, the biggest policy challenge for these countries is how to take advantage of the current oil 'bonanza' in the most efficient way in order to pursue the goal of diversification. Following the experience of many other energy-exporting countries, both countries set up 'oil funds': Azerbaijan in 1999 and Russia in 2004. However, channelling energy revenues exclusively into oil funds for the benefit of future generations (as has been largely happening so far in Russia, and in line with the policy pursued e.g. by Norway)—rather than spending them on a current basis—runs the risk of depriving the

[14] In Azerbaijan, this issue appears to be of particular relevance, since, according to available estimates, the country's oil production is likely to peak out already in 2009-2010—unless new oil deposits are discovered.

economy of badly needed investments, including in infrastructure and the social sphere (in so-called human capital). Indeed, it is fairly obvious that the development needs of both Azerbaijan and Russia are quite different from those of Norway. On the other hand, boosting government expenditures on a current basis (the strategy currently pursued by Azerbaijan), if driven to the extreme, may fuel inflation, leading to higher production costs and thus undermining the competitiveness of the non-energy tradable sector (the so-called 'Dutch disease')—thus making the goal of economic diversification even more difficult. Therefore, the policy challenge for the authorities under the current circumstances is to find a reasonable compromise by tempering the pace of fiscal expansion in order to avoid excessive 'overheating'. Another challenge is to keep corruption in check.

Turkey faces two main economic challenges. First, despite the remarkable reform progress reached over the last few years and the much sounder banking system nowadays, the country's persistently high current account deficits (around 8 percent of GDP in 2006-2007) and underlying trade deficits are still a concern. The domestic price level, which stands at around two-thirds of the EU average, seems to be much higher than justified by the country's level of development, and creates problems for the country's goods-exporting sector, particularly such less productive segments such as textiles. Second, the reform efforts of the government—however impressive thus far—largely owe their success to the country's EU membership aspirations and may subside markedly in response to the increasingly skeptical attitude towards Turkey's EU accession on the part of European policymakers and the broader public.[15]

Despite these problems, the outlook for the Black Sea countries is largely positive, with annual GDP growth in excess of 5 percent in the medium and long run being feasible—not least owing to the considerable catch-up potential of all countries concerned (for a short-term forecast, see Table 2). Apart from sound economic policies—which should go beyond the standard stabilization, liberalization and privatization tasks (all of them largely completed by now),[16] —it is especially

[15] In fact, the public support of integration policies within Turkey has already diminished—more on that, see Pöschl, J., "Turkey's Economy Dipping its Toe in Troubled Waters," in Havlik, P., M. Holzner et al., *Weathering the global storm, yet rising costs and labour shortages may dampen domestic growth*, wiiw Current Analyses and Forecasts, Nr., February 1, 2008.

[16] For more details, see EBRD Transition Report (2007).

the fostering of institutional reforms and related improvements of investment climate that will be indispensable for a lasting and sustainable economic development in the Black Sea region. More decisive steps towards regional and EU economic integration would undoubtedly further contribute to the favorable economic prospects of the countries involved. However, as demonstrated by our analysis, such integration would require significant changes in the stance of regional (and EU) policymakers, a higher level of mutual trust, a solution of 'frozen conflicts', and ultimately hinges on prospects for cooperation between Russia and the EU.

The Relevance of the Wider Black Sea Region to EU and Russian Energy Issues

Gerhard Mangott and Kirsten Westphal

Total Primary Energy Supply of the EU and Growing Gas Import Dependence

The debate on energy security has intensified in the last few years. World oil prices in particular have soared, due largely to the combined effect of underinvestment in production capacities over the last decades, turmoil in the Middle East, and soaring energy demand in emerging economies, particularly China and India. Energy price levels are expected to stay high in coming years.

This chapter focuses on the relevance of Russia, the Black Sea and Caspian regions for the oil and gas supply of the European Union, both as supplier and transit countries.

First, it is important to discuss the overall context of European energy supplies. EU-27 Total Primary Energy Supply (TPES) in 2006 was based primarily on oil, which accounted for 39.4 percent of total consumption. Gas accounted for 26.6 percent; coal for 17.5 percent; nuclear energy for 12.3 percent; and hydroelectric energy for just for 4.2 percent of TPES. The percentage rate of renewables was negligible.[1]

In 2006, the EU-27 accounted for 16.4 percent of world Total Primary Energy Supply. The U.S. held the largest share of TPES with 21.4 percent. China is quickly catching up with the EU, accounting for a 15.6 percent share of TPES in 2006. Russia's share of Global TPES in 2006 was only 6.5 percent.[2]

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[1] British Petroleum (BP), *Statistical Review of World Energy 2007*. Data provided online at www.bp.com/statisticalreview, accessed August 5, 2007.

[2] BP, Ibid., p. 40, accessed March 2008.

Table 1 Total Primary Enrgy Supply (TPES) in 2006 percent (%)

	Oil	Natural Gas	Coal	Nuclear	Hydro	Total
U.S.	39.5	26.0	23.8	7.9	2.8	100
Russia	17.2	57.8	15.0	4.7	5.3	100
China	20.5	3.3	6.9	0.7	5.6	100
India	28.2	9.3	55.7	0.9	5.9	100
Japan	44.4	16.0	22.5	13.0	4.1	100
EU-27	39.4	26.6	17.5	12.3	4.2	100
EU-25	39.9	26.4	17.2	12.4	4.1	100
OECD	39.7	25.0	20.6	9.4	5.3	100
Belarus	28.9	70.7	0.4	0	0	100
Ukraine	10.4	46.0	27.5	14.1	2.0	100

Source: BP Statistical Review of World Energy 2007

The EU-27 consumed 18.7 percent of world oil production, 17 percent of the world's gas production and 10.3 percent of global coal production in 2006.[3] Given the fact that the EU-27 possesses just 0.6 percent of the world's proven oil reserves and 1.4 percent of proven natural gas reserves, the EU is highly dependent on fossil fuel imports.

EU-27 gas production in 2006 amounted to 202.7 bcm, whereas consumption levels were at 487.4 bcm.[4] Domestic production thus covers less than half of the EU's natural gas needs and a mere one-fifth of its oil needs. The Netherlands and the United Kingdom hold the largest gas reserves of all EU members. UK gas production, however, started to decline rapidly in 2001 and output had declined by about 20 percent by the end of 2006. In 2006 Norway was the largest gas producer in Europe (87.6 bcm), with UK a close second (80 bcm). Gas production in the Netherlands was 61.9 bcm in 2006.[5]

62.7 percent of gas consumption in the EU-27 is currently (2006) imported.[6] Moreover, the EU's dependence on imported energy is set to grow further—notwithstanding current efforts to raise energy effi-

[3] BP. Ibid. op. cit.

[4] Proprietary calculations on data by BP, op. cit.

[5] Ibid.

[6] Ibid.

ciency and encourage the use of renewables—given that the EU's domestic deposits (mainly those in the North Sea) are largely depleted and therefore that its own hydrocarbon production will inevitably decline; its approach to nuclear energy is rather ambivalent; and its energy needs continue to increase, albeit at a modest pace. The European Union will thus be an ever larger net energy importer in coming decades. According to the European Commission, the share of imports in overall EU gas consumption will rise to 84 percent in 2030. If oil is included the Commission's estimates rise to 93 percent.[7]

It is difficult, however, to make such long-term prognoses. The price of gas is an important variable, for instance. Alternative energies such as coal and renewables will become more cost-attractive the more gas prices rise. One also has to calculate the impact of climate change policies, which might hamper the use of CO_2-emitting fossil fuels.

EU Gas and Oil Suppliers

The supply of oil to the EU originates from a number of countries. At present, Russia is the major foreign supplier of oil, accounting for 26 percent of EU consumption, followed by Norway with 13 percent, Saudi Arabia with 9 percent, Libya with 8 percent and Iran with five percent. The share of other exporters to the EU is well below one percent. The EU's indigenous production makes up 18 percent of overall consumption.[8]

The liberalized global oil market provides a quite flexible infrastructure when it comes to supply reliability. Supplies are relatively diversified by countries of origin and transport. Nonetheless, the EU will become increasingly dependent on a limited number of energy abundant countries of the "strategic ellipsis:" Known global hydrocarbon reserves are increasingly concentrated in the region encompassing Siberia, the Caspian Sea Basin including central Asia, and the OPEC producers of the Middle East. Taking into account that Russia is already the major EU supplier and that the Middle East hosts a

[7] Communication from the Commission to the European Council and the European Parliament, "An Energy Policy for Europe," SEC (2007) 12, January 10, 2007 (accessed online via: http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0001en01.pdf, here p. 3.

[8] Commission of the European Communities: Commission Staff Working Document, "EU Energy Policy Data," SEC (2007) 12, Brussels, 10.01.2007, p. 12.

number of political risks, the Caspian Sea Basin has attracted specific interest as an alternative oil producing region. This region is land-locked, however, and therefore the issue of transit through the Black Sea region to Europe is of strategic importance.

Natural gas supplies to the EU is much more sensitive in regard to supply security than are oil supplies. Although the EU produces 37 percent of its gas consumption, 29 percent of the EU's gas consumption originates in Russia. Norway provides 17 percent and Algeria 13 percent of EU oil consumption.[9] In other words, 87 percent of the upstream gas sector in the EU is dominated by only four companies.[10]

Norway has proved to be a reliable supplier in the past, and legal harmonization between the EU market and Norway within the European Economic Area is a further factor facilitating bilateral energy trade.

Algeria has supplied gas to southern Europe via pipelines since the 1970s and supplied liquefied natural gas even before that time. Despite a gas dispute in the 1980s, Algeria has proved to be a reliable supplier, but a large part of its gas pricing is pegged to crude oil (instead of fuel oils).[11]

Russia's state-dominated company Gazprom plays a preeminent role as EU's primary supplier of gas, making it the crucial partner for most gas companies in the EU market.[12] This aspect is central for the assessment of Russia's market power. Russia's reliability as a supplier was questioned in the aftermath of the Russian-Ukrainian gas dispute in 2006 that also hit EU states with delivery shortages. Not only physical aspects of deliveries from Russia have been debated since then, but the energy partnership with Russia has come under scrutiny per se. This astonished the Russian side, as the reliability of Ukraine as a gas transit country was never being debated by the EU.

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[9] Ibid, p.11.

[10] Rudolf G. Egging and Steven A. Gabriel, "Examining Power in the European natural gas market," in *Energy Policy* 34, 2006, pp. 2,662-2,778, on this point p. 2,763.

[11] Energy Charter Secretariat, *Putting a Price on Energy. International Pricing Mechasims for Oil and Gas*, Brussels, 2007, p. 163.

[12] Commission/SG/HR, "An External Policy to Serve Europe's Energy Interests," Paper from Commission/SG/HR for the European Council, S160/06, 2006, p. 5.

The Energy Partnership with Russia under Scrutiny in the EU

Russia's major relevance as an oil and gas supplier to the EU affects directly and indirectly the foreign energy policies of the EU and its member states. Therefore, it is critical to focus on the EU-Russian energy partnership, since it helps to explain the strategic importance of the Black Sea and the Caspian Basin region for the EU. As regards the physical aspects of gas deliveries and in disregard of the latest media hype, it has to be acknowledged that delivery contracts between the former USSR and western European countries have lasted for more than thirty years. In Germany and Austria, Russia has traditionally enjoyed a very good reputation for high dependability and delivery reliability since the 'gas for pipe' deals of the early 1970s. These deals were signed during the détente of the East-West conflict and served as economic ties during "hotter" periods of the Cold War. Italy and France signed similar contracts. In the new eastern member states of the EU that belonged to the COMECON during the Cold War, up to 100 percent of gas supplies had originated in the former Soviet Union. The EU has recognized this by initiating and promoting a close energy partnership with Russia within the EU-Russia energy dialogue since 2000.

The energy partnership between the EU and Russia has become more tense since the Ukrainian-Russian gas dispute in 2006, which was followed by similar 'battles' over prices and transit fees between Russia and post-Soviet states. Russia's course on gas deliveries was predominantly interpreted by the European press as a means to exert pressure on the pro-western Ukrainian government that had taken power after the Orange revolution in 2003/2004. Indeed, Moscow's timing and rudeness in demanding new export and transit arrangements can be questioned. Nevertheless, Gazprom had good reasons to demand higher gas prices and a payback of Ukrainian debts.

The gap between the EU and Russia has widened with regard to organizing principles in terms of energy cooperation and the management of interdependencies. In 2007, the EU and Russia failed to negotiate a new partnership agreement, mainly due to Poland's veto, but also because of different positions regarding the energy partnership. Whereas the EU aims to engage Russia in a web of institutional ties under market principles and international law, Russia wants to

limit the EU-Russia energy partnership to technical questions and day-to-day issues. With rising energy prices and growing world demand, Russia has taken on a more assertive role in international relations. Russia has framed itself as an indispensable power in world energy relations. It is abstaining from multilateral treaties such as the Energy Charter Treaty (ECT) and is rejecting the principle of reciprocity in equal and free access to markets and infrastructure.

Russia's assertive posture as an energy strongman also has an internal dimension. Since 2002, the state's grip on energy companies has been tightened. Unlike the gas sector, the oil sector was largely privatized in the 1990s. The onslaught unleashed by the Putin administration on the private oil company Yukos, together with the arrest of Yukos owner Mikail Khodorkovski in 2003, initiated a massive renationalization campaign. State-owned Rosneft acquired the most valuable parts of the Yukos company, such as Yukos' core producing subsidiary Yuganskneftegas, at rigged auctions. In the gas sector the state acquired a controlling stake of almost 51 percent due to a reshuffling of stakes. Gazprom has also expanded into the oil, nuclear and electricity sector. Moreover, the strategic production sharing agreements of Kovykta and Sachalin-2 have been revised in ways that disadvantage Western companies and the joint venture of TNK-BP. This encroachment on private investors' rights has raised deep concern in the EU.

There is even a more important concern, however. As Gazprom has spent so much on acquiring stakes in strategic gas field (the acquisition in December 2006 of a 50 percent plus one stake in the Sakhalin-2 project of Royal Dutch/Shell, Mitsui, and Mitsubishi, and a 72 percent stake in Sibneft) and many non-core assets, some analysts fear that it might lack sufficient financial resources to explore new gas fields, repair Russia's aging gas infrastructure, or invest in new energy-saving technologies. The International Energy Agency and Russian experts have already drawn attention to the danger of a gas deficit in Russia.[13]

[13] International Energy Agency, *Optimising Russian Natural Gas: Reform and Climate Policy*, Paris 2006. See also the remarks of the former Deputy Energy Minister Vladimir Milov, quoted in Alan Riley, *The Coming of the Russian Gas Deficit: Consequences and Solutions* (London: Centre for European Policy Studies, Policy Brief 116, 2006). Estimates warning of a gas supply crunch are not shared by all gas experts in the EU. For a dissenting opinion see: Roland Götz, *Russlands Erdgas und Europas Energiesicherheit* (Berlin: Stiftung Wissenschaft und Politik, August 2007), p. 21. The main argument of the gas-supply-crunch skeptics is that those calculations do not take into account the growing production volumes of Russia's private gas companies Novatek and Itera.

The Kremlin's major support for Gazprom in recent years has taken the form of investment in new export pipelines and the consolidation of the company's market position at home and abroad. By employing this strategy, Russia has succeeded in expanding its already dominant role as EU gas supplier. Moreover, Gazprom is close to becoming a gatekeeper for central Asian gas exports. The central Asian countries so far have almost no alternatives to exporting their gas via export routes over Russian territory. Russia has signed long-term import contracts with the central Asian states. Russia buys their gas at low(er) prices, which it uses for the post-Soviet markets, but sells its own surplus gas to the EU for a much higher price. This obviously has implications for EU efforts to bring the Caspian and Black Sea energy markets closer to the EU.

EU Interests in the Black Sea and Caspian Basin Regions

Access to Caspian and central Asian hydrocarbons is at the heart of the EU's Central Asia strategy, launched in 2007**.** Caspian and central Asian hydrocarbon reserves are regarded as a means to diversify EU's supply basis. But it is not just the EU which eyes the region's resources; they are of strategic significance for global energy markets as well. First, growing global energy demand, driven particularly by China and India, is running headlong into stagnating production. Second, these countries, as part of the strategic ellipsis, are the only countries outside OPEC and besides Russia that offer potential access to unexplored super giant and giant oil and gas fields. In addition, these countries have a relatively good production/reserves ratio. It is therefore among the very few region likely to increase its share in global energy production outside the Persian Gulf.

The energy abundant states in the Caspian Basin and central Asia belong to the strategic ellipsis that hosts the vast majority of global hydrocarbon deposits and encompasses Siberia and the Middle East. 61.5 percent of global oil reserves are located in the Middle East, with Iran itself accounting for 11.4 percent. Russia has a share of 6.6 percent, and four percent is located in the central Asian and Caspian region.[14] The wider region of the strategic ellipsis also hosts 70 percent of

[14] BP, op. cit., p.6.

world gas reserves: Russia owns 26.6 percent of all world gas reserves; the share of the Middle East makes up 40.5 percent with Iran alone accounting for 15.5 percent; and the central Asian/Caspian region is home to more than five percent.[15]

Azerbaijan holds oil reserves of 7 billion barrels and gas reserves of 1.35 trillion cubic meters, mainly located in offshore fields. Kazakhstan has oil reserves of 39.8 billion barrels in four large fields onshore and offshore in the Caspian Sea: Tengiz, Karachaganak, Kashagan and Kurmangazy. The country has also significant gas reserves of three trillion cubic meters, comparable with Norwegian reserves.[16] Turkmenistan's gas reserves are almost of the Kazakh scale with 2.86 trillion cubic meters. Their geographical location is close to the Iranian border. Uzbekistan's gas reserves are 1.87 trillion cubic meters and are significantly higher than Dutch reserves. They are located in the south and southeast of the country. The production/reserve ratio, however, is the lowest in the region. Turkmen oil reserves total 0.5 billion barrels, comparable with Uzbek reserves of 0.6 billion barrels.[17] In 2006, central Asian gas production accounted for 23 percent of Russian production.[18]

There can be no doubt that action on supply diversification is needed in the EU. Because of its geographic location as a bridge to the energy abundant countries of the Caspian Basin and central Asia the Black Sea region will be of major importance for the EU as a transit corridor. Moreover, countries such as Georgia and Ukraine share the EU's interest in diversifying energy supplies and reducing their dependency on Russia. For those countries, the EU is the strategic partner to modernize and reorganize their energy systems.

The EU's interests in the region are both geoeconomic and geostrategic. The EU has an interest not only in linking the wider region's energy export infrastructure to the EU, but also linking the region politically and economically to the EU through shared governance structures. International energy trade is related to issues of geography, distance and proximity, pipeline routes and other infrastructure. Since

[15] Ibid, p.22.

[16] Ibid, pp. 6, 22.

[17] Ibid.

[18] Authors' calculations based on Ibid, p. 24.

energy infrastructure constitutes a long lasting link between regions and countries, it does have a strong geopolitical dimension. Seen from this perspective, cooperation and even integration into EU political and regulative frameworks is at stake. The EU has started initiatives to promote the convergence of energy markets under market principles and law.

With regard to the Caspian region, these issues have been widely analyzed as a new "Great Game"—a struggle over spheres of influences between Russia, China and the West. Apart from the fact that the energy policy agenda is being analyzed in the categories of security policy and the supply situation is being interpreted as one of growing competition between states, the general crisis of multilateral cooperation, which is increasingly being replaced by a multipolar (dis)order, also plays a role. The renaissance of neorealist balance of power approaches is reflected in the economic sphere by switching from multilateral agreements towards bilateral ones. This trend is staked against the EU's strategy to project its model of energy governance beyond its borders. This policy has been renewed and pursued more energetically since March 2006, when the EU hastily reacted to the Russian-Ukrainian gas dispute with a new Green Paper on energy policy[19] and then in January 2007 produced a whole package of far-reaching proposals that had been worked out on the basis of the discussion about the Green Paper.[20] The Commission has proposed a common external energy policy, the main goal of which should be the creation of a pan-European energy community in the neighboring regions.[21] In this way the regional dimension, which includes the neighboring region of the Black Sea, becomes a central focus.[22]

This is a move of major geostrategic significance. Russia, as the largest supplier of fossil fuels to the EU, structures the common neighborhood by means of bilateral and exclusive (state) treaties

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[19] Commission of the European Communities, Green Paper on "A European Strategy for Sustainable, Competitive and Secure Energy," COM (2006) 105 final, Brussels, 8.3.2006.

[20] http://ec.europa.eu/energy/energy_policy/index_en.htm.

[21] Commission of the European Communities, Communication from the Commission to the European Council and the European Parliament, "An energy policy for Europe," COM (2007) 0001 final, Brussels, 10.01 2007. and EC, Green Paper, 2006, p. 16 and pp. 18-19.

[22] See in more detail Kirsten Westphal, "Liberalised, Monopolised, Fixated. Antinomies of the European Energy Market," in *Osteuropa*, The Europe beyond Europe. Outer Borders, Inner Limits, 2007, p.155-182.

which, because of power asymmetries, are overwhelmingly shaped to serve Russian interests. Russia is the crucial counterpart to the EU's approach to the region. The fact that Russia has significant power to dominate and shape Eurasian gas markets has consequences for the EU and its governance approach. Moreover, in many countries of this region Russia has a good starting position as the single (most important) supplier of energy. Moreover, as a legacy from the Soviet Union the energy companies and their respective managements have long-standing ties with Russia(n) companies. For instance, in Armenia Russian companies have taken over the majority of the energy sector. For Turkey, Russia is an important partner in becoming an energy corridor and an intermediary of energy to the European Union and the south European energy markets. Under these terms, the EU is now, with the envisaged creation of a pan-European energy community, pursuing a policy that can be described as geo-energy-economic and geopolitical,[23] challenging Russia in the common neighborhood.

EU Governance Initiatives Toward the Region

The EU's approach is to create, step-by-step, a pan-European energy community consisting of concentric circles. In this way, the EU is pursuing a policy of exporting its own models of order and structure. The inner circles encompass countries which are in the process of joining and those hoping to join, together with EFTA and, in particular, the European Economic Area that came into force in 2004 (and of which Norway, an important energy supplier, is also a member). In these circles the *acquis communautaire* is accepted either in its entirety or to a great extent (up to around 80 percent). The next circle is the energy community, which came into existence on July 1, 2006 and includes both EU member states and southeast European states. The essential elements here are the extension of legal norms and of free trade in electricity and gas, together with a harmonized regulation of demand according to the principles of energy efficiency and environmental and climate acceptability. It is explicitly foreseen that the energy community is to be extended to Turkey, Norway, Moldova, and Ukraine. The outermost circle consists of the states of

[23] Aurélia Mané-Estrada, "European Energy Security: Towards the creation of the geo-energy space," in *Energy Policy* 34, 2006, pp. 3,773-3,786.

the neighborhood and Russia. Here, legal harmonization and convergence are matters that need to be negotiated.

The overall idea is that the common market should be enlarged, a legal basis in the sense of commercial and ecological norms created, and incentives put in place that will tie the states of the Caspian Sea Basin, the Middle East, and North Africa to the European market by means of new infrastructure projects.[24] The EU's Neighborhood Policy and its Action Plans build on existing bilateral and regional initiatives.[25] They represent only one element in a mosaic of dialogues and far-reaching bilateral and multilateral cooperation mechanisms. In the realm of energy the plan is to extend the energy network to the region and to achieve convergence by gradually applying the Energy Community Treaty. By doing this, the EU is offering the region an alternative framework of order and integration to Russian predominance.

Under the new approach the neighboring region has an important role to play in the step-by-step creation of a pan-European energy community. Energy, therefore, is a key area within the EU's Neighborhood Policy. To the EU's east, the neighborhood mechanism's relevance from the perspective of energy policy is greatest for Ukraine and Moldova, Georgia, Armenia, and Azerbaijan.[26] For these countries, questions of the diversification of sources of supply, transport routes, and energy sources are major concerns. The Action Plans envisage broad cooperation in the areas of energy dialogue, convergence of energy policy, harmonization of legal frameworks, participation in EU energy programs, renewable energies, and regional cooperation, as well as nuclear security in the cases of Ukraine and Armenia.[27] The

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[24] Council Decision on the Conclusion of 29 May 2006 by the European Community of the Energy Community Treaty (2006/500/EC), in Official Journal of the European Union, 20.07.2006, L198/15-17 and Treaty Establishing the Energy Community.

[25] Commission of the European Communities, Communication from the Commission, European Neighbourhood Policy, Strategy Paper, COM (2004) 373 final, Brussels, 12.5.2004, p. 18.

[26] Commission of the European Communities, Communication from the Commission, European Neigbourhood Policy, Recommendations for Armenia, Azerbaijan, Georgia and for Egypt and Lebanon, COM (2005), 72 final, Brussels, 2.3.2005.

[27] Commission of the European Communities, Commission Staff Working Document, Annex to the Green Paper A European Strategy for Sustainable, Competitive and Secure Energy, What is at stake—Background document, {COM(2006) 105 final} SEC(2006) 317/2, Brussels, p. 37; and Commission of the European Communities, Communication from the Commission, European Neighbourhood Policy, Strategy Paper, COM (2004) 373 final, Brussels, 12.5.2004, p. 17.

transport networks and their maintenance, repair, and extension are a further field of cooperation which also includes important questions related to transport regulations.[28]

Of particular importance for the EU's approach to the region is the Baku Initiative (launched in November 2004).[29] This multilateral mechanism covers the Caspian Sea region, the Black Sea region, and the neighboring countries. Russia holds an observer status. This initiative builds upon a timetable for the convergence of energy markets, greater energy security, a sustainable energy policy, and investment issues.[30]

Both the Baku Initiative and the EU Neighborhood Policy are closely tied to the TACIS programme INOGATE (Interstate Oil and Gas Transport to Europe), which was developed in 1996-7 and has been in force since February 2001 as an international framework agreement.[31] The purpose of INOGATE is to tie the resources of the Caspian Sea and central Asian spaces to European markets. 21 states have signed the treaty, including the southeast European states, the countries of the Black Sea and Caspian Sea regions, as well as Lithuania —but not Russia. Within the framework of INOGATE, important transport routes to European markets have been identified established, feasibility studies conducted, and repairs to existing networks, storage capacities, and measuring stations financed. INOGATE thus serves to extend the Transeuropean Networks (TEN). However, until now its actual impact has been very limited.

The above mentioned EU policies mention Russia as an important partner when it comes to regional cooperation, the extension of energy networks, and market convergence. So far, however, Russia has shown no willingness to agree to multilaterally binding treaties and agreements but rather pursues a strongly self-interest based energy policy oriented to penetrate, dominate and structure the wider European, Black Sea and Caspian Basin energy markets. The EU's effort to

[28] EU/Ukraine Action Plan, pp. 33-35, Europäische Nachbarschaftspolitik EU-Georgien, p. 9, pp. 28-30, and ENP-Aktionsplan EU-Georgien, p. 6, pp. 28-29. The Action Plans can be downloaded from the EU website: http://ec.europa.eu/world/enp/documents_en.htm#3.

[29] http://ec.europa.eu/comm/external_relations/energy/baku_initiative/index.htm.

[30] http://ec.europa.eu/dgs/energy_transport/international/regional/caspian/doc/2006_11_30_astana_conclusions.pdf.

[31] For more detailed information, see www.inogate.org.

diversify transport routes and supply clashes with Russia's interest in cementing its market position in Europe.

Russian Pipeline Projects and EU Interests

Russia is interested in diversifying its gas export markets.[32] Until 1999 all Russian gas export pipelines to the EU ran through Ukrainian territory. The Ukrainian monopoly was broken only in 1999 when Russia commissioned the Yamal Pipeline to Germany—crossing Belarus and Poland. In 2003 the Blue Stream Pipeline went online, connecting Russia and Turkey with a Black Sea underwater pipeline.

Russia considers both Belarus and Ukraine to be critically unreliable transit countries and is particularly interested in decreasing Ukraine's strong position regarding Russian gas exports—in 2008 still about 78 percent of Russian gas transport to the EU runs through Ukraine. For these reasons, Gazprom is working on two flank routes.

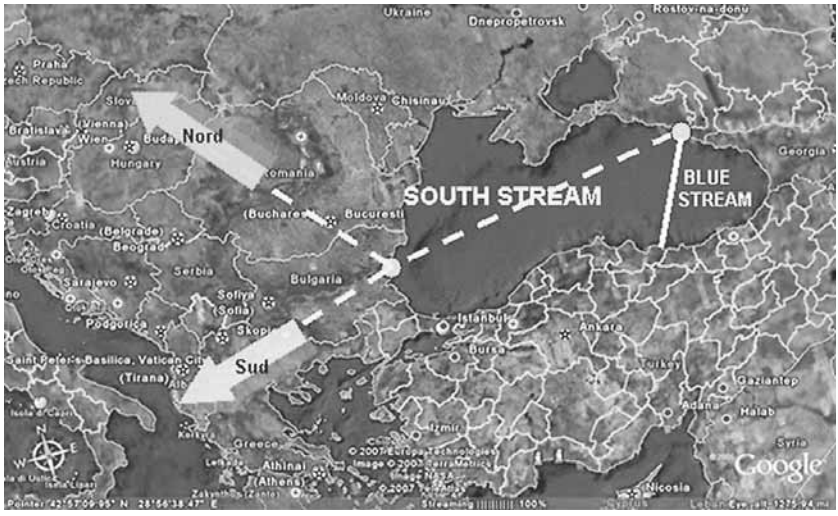
The northern pipeline—Nord Stream—links Vyborg (Russia) with Greifswald (Germany). The purpose of the Nord Stream pipeline project is to offer Russia an alternative option for its gas exports to EU customers. This pipeline will be sea-based, aiming to bypass Latvia, Lithuania, Estonia and Poland. The project, which is led by a consortium of Gazprom, E.On and BASF (Germany) and Gasunie (Netherlands), faces numerous political and ecological difficulties and will be commissioned no earlier than 2011.

Given this book's focus on the wider Black Sea, however, this chapter discusses in more detail Russia's initiatives for a southern flank route. Russia has two strategic objectives in the Black Sea Region: to prevent EU access to central Asian gas, particularly Turkmen and Kazakh gas; and to build new pipelines which bypass Ukraine, undermine the economic and financial viability of EU pipeline plans such as Nabucco (see below) and monopolize gas supplies for southeastern Europe.

As regards a southern Russian gas outlet, Russia first proposed the "Blue Stream II" pipeline (also known as South European Gas Pipeline,

[32] We will adress only export route diversification plans of Russia with special emphasis on the Black Sea and Caucasian region. As regards diversification of gas export markets Russia is currently investing in exploring new gas fields in eastern Siberia and the Far East and is also considering the Chinese, Japanese and Korean markets.

Figure 1 Blue Stream pipeline routes



Source: http://www.eni.it/eni/images_static/immagini/23_06_07/south_stream_map.jpg

SEGP). This is meant to extend the "Blue Stream" pipeline, which is already in use and brings Russian gas to Turkey, to transport Russian gas via Bulgaria and Romania to Hungary. The projected capacity would be about 30 bcm/year. An alternative option for Blue Stream II is to transport gas from Turkey via Greece and several other countries to Italy.

In June 2007, however, Gazprom and the Italian company ENI (Ente Nazionale Idrocarburi) raised an alternative route project—South Stream (Yushnyj Potok). Gazprom and ENI signed a strategic partnership agreement in 2006. Gazprom was given the right to make direct sales to Italian customers. In exchange, ENI and Enel hold stakes in previous Yukos assets on the Yamal peninsula. ENI received stakes in Gazpromneft. ENI and Gazprom agreed to joint ownership of South Stream in July 2007.

South Stream's projected capacity is around 30 bcm/year. This pipeline option would exclude Turkey and transport gas via Bulgaria (via its Varna port) as the central energy hub with a southern spur to Italy via Macedonia and Albania or via Greece to Italy and a second spur to Austria via Bulgaria, Serbia and Hungary. The pipeline is slated to be operational by 2013. So far, Greece, Bulgaria, Serbia and

Hungary have decided to sign up to South Stream. A major irritant for the EU is the fact that Bulgaria and Hungary with their respective gas companies are also part of the EU-backed Nabucco project, which is considered unviable if South Stream were to be build first.

After Hungary's decision to join South Stream the Nabucco project seems virtually dead. At the signing ceremony on February 28, 2008 Putin ridiculed the Nabucco project: "You can build a pipeline or even two, three, or five. The question is what fuel you put through it and where do you get that fuel. If someone wants to dig into the ground and bury metal there in the form of a pipeline, please do so, we don't object.… There can be no competition when one project has the gas and the other does not."[33]

The European Commission is following Russia's South Stream plans with trepidation. The EU is keen to diversify its gas suppliers—with the countries of the Caspian Sea Basin at the center of EU efforts. In order to access Caspian gas *and* to lessen the EU's dependence on Russia, which currently transports large volumes of Caspian gas to Europe via its own pipeline network, new transport corridors have to be built. At the very center of the EU's route diversification efforts is the Nabucco-Pipeline, set up by the Nabucco Gas Pipeline International consortium that consists of six companies (OMV, RWE, MOL, Transgaz, Bulgargaz und Botas), with Austria's OMV in the lead. Nabucco is supposed to stretch from Erzurum, Turkey—the terminal point of the Trans Caspian Gas Pipeline—to Baumgarten, Austria, which will become its terminal point and major distribution center.[34] None of the members of the consortium is a major gas producer but each is engaged in gas transit and distribution. Nabucco is expected to start with gas transport of about 10 bcm in 2013. In its final phase—expected to be completed in 2018—Nabucco is scheduled to transport about 30 bcm. Construction costs are expected to be more than €6 billion.

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[33] Quoted in Vladimir Socor, "South Stream Gas Project Defeating Nabuco by Default," *Eurasian Daily Monitor*, March 5, 2008 (http://www.jamestown.org/edm/article.php?article_id=2372856.

[34] The project was launched by OMV and Botas in 2002. OMV's Baumgarten compressor station currently transmits about one third of all Gazprom exports to western Europe. On January 25, 2007 Gazprom acquired 50 percent of the Central European Gas Hub, which is a subsidiary of OMV Gas International.

Nabucco is also meant to provide Caspian Sea countries—Turkmenistan, Azerbaijan and Kazakhstan—with alternative outlets for their gas, bypassing Russia and strengthening their economic and political position with Russia, including with regard to price settings. A first major pipeline route was commissioned in July 2007—the Baku-Tbilissi-Erzurum pipeline (BTE). Its current capacity is 20 bcm/year. Turkey has contracted 6.6 bcm of Azerbaijani gas production at the Shaz Deniz field in 2007. In November 2007 a connector pipeline linking Turkey and Greece started operations with a planned full capacity of 3 bcm/year. This pipeline could be extended to Italy by 2012.

So far, the Nabucco consortium has been unable to contract sufficient gas even for the start-up phase of the venture. The start-up phase is set to begin in early 2012, although it may be delayed to 2013. Azerbaijani gas production will be crucial for the viability of Nabucco. Its gas reserves are estimated at about 2.3 tcm. Gas from Azerbaijan for the Nabucco pipeline will, as of today, most likely not exceed 10 bcm annually. Nabucco, however, is expected to be economically profitable only with a target capacity of about 30 bcm. The first phase of Shaz Deniz[35], which was launched in late 2006, is about to produce up to 15 bcm/year. In early October 2007, plans for extricating gas in phase II of the Shaz Deniz project had to be delayed by one year to 2013. Two other facts further reduce the gas available for exports through Nabucco, though: With Azerbaijan's domestic consumption on the rise, export volumes might stagnate. What is more, Azerbaijan is committed to supply gas to Turkey and Georgia, which further reduced the gas volumes available for Nabucco.

Nabucco could also be rendered viable through the inclusion of Iranian gas. The U.S., however, is exerting pressure on the Nabucco consortium to exclude Iran from the project. After OMV signed a memorandum with Iran on investment in three blocs of Iran's giant gas field South Pars, the company was harassed by the U.S. on the basis of the Iran Sanctions Act of 1999. OMV seems to have succumbed to U.S. pressure, but the Turkish and Iranian governments are keen to go ahead with their cooperation on developing the large South Pars gas field and transport part of the produced gas to Turkey.

[35] ShazDeniz is exploited by a consortium of Socar, BP and Statoil, which also owns the TGP from Baku to Erzurum.

The gas reserves of that field are estimated as 53.8 bcm and 56 billion barrels of condensate.[36] Turkey is the only recipient of Iranian gas, with Iran being the second major supplier of gas to Turkey after Russia. In case Turkey and Iran will eventually sign an agreement on the joint development of South Pars, the produced gas will be exported to Turkey via existing pipelines and feed the Nabucco pipeline.

Given the unclear prospects of Iranian gas exports, Nabucco is being kept alive only by Turkmen gas exports. Currently Turkmen gas fields are connected only by pipelines running to Russia and Iran. The construction of a trans-Caspian gas pipeline to export gas to the EU via Azerbaijan is technically feasible—particularly if the Turkmen offshore gas-field Block I could be linked with Baku—but currently seems blocked by both Turkmen lack of interest and Iranian objections based on the disputed legal status of the Caspian Sea. The five littoral states of the Caspian Sea have not yet achieved consensus on the legal status of the Sea. Iran considers it a lake, the other littoral states as a sea. If it was to be defined as a lake this would provide Iran with a larger share of the seabed.

What is more important, however, is the issue of the size of Turkmen gas reserves. There are no independent evaluations of Turkmenistan's gas reserves. Reserves are considered to range from 2.1 to 7 trillion cm,[37] much lower than the 22 trillion cm about which former president Niyazov had boasted. In 2006 Turkmenistan produced 62.2 bcm.[38] It currently exports around 45-50 bcm annually. The bulk is earmarked for Russia; a much smaller portion is shipped to Iran.

Under the leadership of President Berdymuchamedov, successor to the late Niyazov, Turkmenistan is currently trying to keep all options open. There is an intense rivalry for Turkmen gas by Russia, China and European countries, but Russia and China are in the lead.

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[36] John C.K. Daly, "Turkey moves to position itself as a strategic transit corridor for Caspian hydrocarbons," Eurasia Daily Monitor, August 17, 2007 (http://www.jamestown.org/edm/article.php?article_id=2372384).

[37] Jonathan C. K. Daly, "Analysis: Turkmenistan sides with the Kremlin," UPI Energy Analysis, November 30, 2007 (http://www.upi.com/International_Security/Energy/Analysis/2007/11/30/analysis_turkmenistan_sides_with_kremlin/7234/, accessed December 1, 2007.

[38] John C.K. Daly, "Energy Analysis: China and Turkmen energy," UPI Energy Analysis, January 4, 2008 (http://www.upi.com/International_Security/Energy/Analysis/2008/01/04/analysis_china_and_turkmen_energy/4323/, accessed on January 5, 2008).

In April 2006 Turkmenistan and China signed a framework agreement on cooperation in the oil and gas sector with the prospect of long-term Turkmen gas exports of up to 30 bcm to China. This deal also includes the construction of a gas pipeline from Turkmenistan to China.[39] Initial building operations began in summer 2007. The full capacity of the pipeline to be financed and operated by CNPC (via CNPC subsidiaries) will be around 30 bcm/year, and it will export gas from the Bagtiyarlik—the licence for which is held by CNPC. The contract is to last for 30 years. Kazakh and Uzbek territories will have to be crossed by the pipeline. Uzbekistan fully supports the project, because it offers an alternative outlet for its own (modest) gas exports and promises considerable income from transit fees. In 2006 Uzbekistan produced 62.5 bcm of natural gas, with about 12.5 bcm used for export.[40] As of today, it is highly unlikely that Uzbekistan will be able to increase significantly its gas production, given the degree of field exhaustion.

The bulk of Turkmen gas is earmarked for Russia. This gas is essential for the Russian strategy of exporting Russian gas with high windfall profits to EU markets and to use Turkmen gas for Russian domestic consumption. Moreover, cheap Turkmen gas played an important role in settling the Russian-Ukrainian gas dispute.

In May 2007 the presidents of Russia, Kazakhstan and Turkmenistan agreed to build a new pipeline on the eastern coast of the Caspian Sea to transport Turkmen gas to the Russian pipeline network. The pipeline is slated to ship 10 bcm gas/year, beginning in 2009, and should later be expanded in order to transport up to 30 bcm/year. After tense negotiations a final agreement was signed on December 20, 2007 in Moscow.[41] Each party to the contract—which is to last until 2028—has agreed to build the pipeline section on its own territory, which obliges Kazakhstan to build the longest section and leaves Russia with only a short section to construct. However, the

[39] Initial talks between the two countries had already started back in 2006, when Niyazov was still alive.

[40] John C.K. Daly, "Analysis: Uzbek and Tajik energy," *UPI Energy Analysis*, January 4, 2008. (http://www.upi.com/International_Security/Energy/Analysis/2008/01/04/analysis_uzbek_and_tajik_energy/8258/, accessed January 5, 2007).

[41] According to Turkmen President Berdymuchamedov, who was quoted in *The Moscow Times*, September 27, 2007, Issue 3752, p. 1.

agreement does not include a clause calling for an *obligatory* supply of gas to be transported via the new pipeline.

In addition, central Asian gas and oil export pipelines to Russia (Central Asia-Center Pipeline) ought to be reconstructed and modernized by 2011. Current capacity of about 45-52 bcm is to be expanded to 75-90 bcm in 2010.[42]

In 2003, Gazprom signed a 25 year contract with late Turkmen leader Niyazov. In this agreement, Turkmenistan committed itself to gradually raise its gas exports from 50 bcm to 90 bcm in 2009. If 30 bcm in gas exports to the China are added, plus minor gas exports to Iran, the total export volume will be more than double the 2006 production volume. This means that Turkmenistan will have to triple is 2006 production level within the next 6 years to start shipping gas to the EU via the Nabucco pipeline. This seems to be a rather remote possibility.

In the oil sector, Russia still has a major, albeit no longer dominant role as far as oil exports from the Caspian are concerned. The major oil producing countries in the Caspian Basin are Kazakhstan and Azerbaijan.

Azerbaijani oil exports are delivered through two pipelines outside Russian Federation territory. The major pipeline is the Baku-Tbilisi-Ceyhan Pipeline (BTC), which opened in May 2006 and transports oil from the offshore Azeri-Chirag-Guneshli fields (operated by BP) to world markets. In 2007 between 750,000 and 1 million barrels of oil/day were pumped via this pipeline, which is still below its capacity. Full BTC capacity could only be achieved through the addition of Kazakh oil, which would have to be transported to Baku by oil tankers.

The second pipeline outlet for Azerbaijani oil is the Baku-Supsa (Georgia) pipeline, which was built in 1999. The capacity of this pipeline, however, is low; only about 100,000 barrels per day are exported.[43]

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[42] John C.K. Daly, "Analysis: U.S. irked by Tukmen gas policy," *UPI Energy Analysis*, November 23, 2007 (http://www.upi.com/International_Security/Energy/Analysis/2007/11/23/analysis_us_irked_by_turkmen_gas_policy/1334/, accessed November 24, 2007).

[43] John C.K. Daly, "Analysis: Turkey-Iraq spat may hit energy," *UPI Energy Analysis*, October 26, 2007 (http://www.upi.com/International_Security/Energy/Analysis/2007/10/26/analysis_turkeyiraq_spat_may_hit_energy/2917/).

Kazakh oil is primarily exported via the pipeline from the Kazakh Tengis oil field to Novorossyisk at the Russian Black Sea coast. This pipeline is owned by the Caspian Pipeline Consortium (CPC), the only oil pipeline on Russian territory which is not owned by the Russian state oil pipeline monopoly Transneft. The major state shareholders are Russia, Kazakhstan and Oman, which together account for 50 percent of the CPC's shares. The other half of the share package is owned by the oil companies Chevron, LukArco[44], Mobil, Rosneft and some other companies. From Novorossiysk the Caspian oil is transported by tanker to the world market through the Turkish Straits (Bosphorus and Dardanelles).

Russia has long blocked Kazakh demands to increase the volume of Kazakh oil exported via the CPC pipeline. In order to reduce any incentive for Kazakhstan to export some of its oil via Baku and the BTC, Russia accepted in early 2008 to increase Kazakh oil export volumes via the CPC pipeline to Novorossiysk. In exchange, Kazakhstan agreed to export the additional volume through a new pipeline project —the Burgas-Alexandroupolis pipeline. The new pipeline bypasses the Turkish Straits and will be built by Greece, Bulgaria and Russia on the basis of a joint construction and operating venture. Gazprom holds a majority stake. As with the South Stream pipeline, this new outlet weakens Turkey's role as a regional energy hub.

In October 2007 Georgia and Azerbaijan teamed up with Ukraine, Poland and Lithuania in the consortium *Samartia* to ship oil via the existing oil pipeline Odessa-Brody (Ukraine).[45] This pipeline will be extended to Plock, Poland, and linked to the already existing Plock-Gdansk pipeline. The crucial issue, however, is whose oil could be transported through this pipeline. Azerbaijani oil, limited in volume, is consumed both domestically and transported either to Supsa, Georgia or exported via BTC pipeline—which still has spare capacity.—to the Mediterranean. The pipeline therefore needs Kazakh oil, which ought to be shipped by tanker to Baku. It goes without saying that Russia will do whatever is necessary to obstruct this effort. In the interim, the Odessa-Brody pipeline is used by Russia to transport Russian oil to

[44] LukArco is a joint venture formed in February 1997.

[45] On this summit see John C.K Daly, "Analysis: Eastern E. Offers Transit Routes," http://www.upi.com/nternational_Security/Energy/Analysis/2007/10/12/analysis_e_europe_offers_transit_routes/7539/.

the Black Sea and further export it to global oil markets. In sum, it may be said that Russia has played its cards quite well and maintains its crucial role for Caspian Basin oil trade and exports.

Internal and External Obstacles to the EU's Approach Towards the Region

The EU's energy policy toward the region, which is directed to the creation of an energy community, faces a number of challenges at different levels: inside the Caspian Basin region; within the EU itself; and at the international level.

Internal obstacles in the region result from the fact that the control of hydrocarbons is a strategic issue for any producing country—an issue that is closely related to power, political authority and full sovereignty. For the energy-abundant states of the Caspian Basin, oil and gas resources have been a main asset and lever to build statehood and maintain and increase economic and political independence from Russia. Each of the states has followed different strategies, however, regarding energy exploitation. Azerbaijan and Kazakhstan opened their energy sectors to foreign investment or even privatized their energy sector, whereas Turkmenistan and Uzbekistan maintained a state-dominated energy industry.[46] As Uzbekistan and Turkmenistan could generate revenue from energy exports as well as from their cotton plants and textile industries, they were under less pressure to accept foreign investment in the oil and gas sector. This proved to be also a strategy to ensure political power and survival, since the agricultural sector forms the traditional support base. This is the common denominator: politics dominate economics, and the main goal is to stay in power. Therefore, leaders have pursued energy development strategies that have been "politically rational but not necessarily economically optimal."[47] Energy abundance has been used to keep patronage and clientelistic networks alive by distributing economic and political resources to maintain personal power. In Kazakhstan and Azerbaijan, this was done via the "foreign investment injection:" Kazakhstan chose a strategy of privatization in the oil and gas industry and attracted foreign investment,

[46] E. Weinthal and Luong P. Jones, "Prelude to the Resource Curse: Explaining Oil and Gas Development Strategies in the Soviet Successor States and Beyond," *Comparative Political Studies* 4, vol. 34, May 2001, pp. 375.

[47] Ibid.

not only to generate revenues but also because "the transfer of ownership provided them with the means to alter the status quo distribution of resources to either incorporate or counter rivals."[48] Azerbaijan founded a national state-company, primarily to secure the powerful political and economic position of an already dominating elite, but also to open the market for joint ventures with foreign enterprises because of the lack of alternative sources of revenue.

As seen from the example of many energy-producing states, "bad economics" (faulty economic strategies) often also make for "bad politics" (a deficit of democracy) and vice versa. Energy rents often flow to a narrow group of elites, which often sharpens social divisions or solidifies existing cleavages. Under such circumstances, even when energy reforms and investments are badly needed, they are delayed by ruling elites keen on maintaining power, which perpetuates authoritarian regimes. If foreign investment had been accepted, some authoritarian regimes such as Kazakhstan do not hesitate to encroach on the fundamental rights of foreign investors guaranteed under Production Sharing Agreements.[49] The Nazarbayev regime forced them to accept higher profit stakes for the Kazakh government. Moreover, it has become clear that these authoritarian elites tend to favor other, i.e. Russian and Chinese, companies over Western multinationals. The reluctance to accept major investment by major Western oil and gas companies, had a negative impact on the modernization of exploration methods and technologies. Reliance on their aging exploration capabilities kept productivity in the oil and gas sector low and caused major environmental damage. Furthermore, the Caspian Basin states have done little to improve regional cooperation on hydrocarbon exploitation.

Western companies have faced a vicious circle in the region. In the 1990s no clear decisions were made on major oil and gas pipeline routes to the West, which led to serious setbacks for European and Western multinational companies. As long as there is no way to export hydrocarbons to markets, production is stopped. This has given Russia, and nowadays also China, the chance to shape realities. Russia and China have turned a blind eye to internal developments in the producing countries while upholding the principle of non-interference in

[48] Ibid, p. 394.

[49] "Kashagan Partners Face Renegotiations," *FSU Oil& Gas Monitor* 1, August 2007, Week 30, p. 11.

domestic affairs, which made them easy partners for the regimes of the region. As a consequence, European companies have lost ground and it will be difficult for the EU to catch up with Russian and Chinese projects. This, in turn, hampers the construction of new transport corridors.

A Common External Energy Policy? The EU's Patchy Record

The approach toward securing energy supplies from the Caspian Basin through the Black Sea region builds upon and demands a common EU external energy policy. Yet, energy policy is a particularly controversial field within the EU. The European Commission has been asking for such a concerted effort since 2006. Although the Commission continues to recognize the right of every member state to maintain its own external relations in order to secure supplies and to determine its own energy mix, at the same time it has called on member states to improve the coordination and coherence of their foreign energy policies. A number of the larger member states perceive energy policy to be a national prerogative, however. They are extremely reluctant to cede any sovereignty to the EU in this sphere. Nonetheless, calls for a common energy policy are becoming louder in the EU, while national governments celebrate state sovereignty and national egoism in this field.

Energy policy in the EU is a remarkable example of a policy field that requires both deepening and widening of the agenda. The EU is faced with the task of establishing an internal market with effective competition while at the same time facing resistance by energy business and member states. Externally, the EU is faced with the challenge that energy trade must be carried out between markets that are structured in different ways—some liberalized, some highly regulated by the state. The energy trade in the EU's internal market is liberalized (to different degrees), whereas in Russia it is regulated to a high degree by the state and the Russian company Gazprom has an almost complete monopoly on the transport of gas. The common neighborhood is characterized by different stages of monopolization and liberalization. Moreover, EU-based firms and Russian companies compete over access and shares in the respective energy sectors of the neighborhood, leaving domestic companies behind in capital and technol-

ogy and exposing the governments to various degrees of political pressure and economic lobbying. Moving to the international level, Russia is the main actor with which the EU has to deal on questions of the rules of the game in the Black Sea and the Caspian Basin, since the region lies in the area of influence of both the EU and Russia. Russia is the EU's decisive counterpart on questions relating to political order, pipeline routes, and the goal of diversification, since the EU and Russia have different strategies on the central questions of order. The harmonization of the markets in relation to reciprocity of access to markets, infrastructure, and foreign investment are central issues that arise on a regular basis and in a variety of fora.

Russia as the EU's Main Counterpart

Russia uses its quasi-monopoly of gas exports from the east to Europe as a lever and has tried to preempt EU efforts to diversify its suppliers and pipelines. Russia has used its gas pipeline monopoly as a bottleneck for alternative gas producers in the Caspian Sea Basin and central Asia who want to export their gas to Europe. Gazprom's transport monopoly also affects Russia's relations with the central Asian countries, which up until now have had very few alternatives to export routes passing through Russian territory. Russia has signed long-term contracts with the central Asian states that enable Russia to sell any surplus gas of its own to the EU for a good price. Russia has also played on the fact that EU member states have pursued their own national policies. The Nord Stream pipeline, which bypasses the "traditional" transit countries Ukraine, Belarus, the Baltic States and Poland, is a good example of how Russia profits from the disaggregation of EU member state interests. Moreover, Russia relied on Gazprom's exclusive bilateral package deals with European energy companies in its recent pipeline deals such as Nord Stream[50] and South Stream. These 'quid-pro-quo' deals, which offer European companies access to Russian production sites, establish joint ventures in transport and give Gazprom an access to the respective end consumer markets, not only make multilateral cooperation within the EU more difficult, but also demonstrate how European energy companies

[50] For a detailed description of the deal see Kirsten Westphal, "Germany and the EU-Russia Energy Dialogue," in P. Aalto, (ed.), *The EU-Russian Energy Dialogue. Europe's Future Energy Supply* (Aldershot/Burlington: Ashgate, 2007), p. 93-118.

try to secure their market position in the EU with the help of exclusive deals with Gazprom as their main gas supplier.

Gazprom has enjoyed a favorable starting position on many occasions because of long-standing ties with national energy companies and their management. These connections helped Gazprom take over shares of transport companies in Hungary, Bulgaria, Serbia and Greece in order to realize South Stream.

In the important transit countries of the common neighborhood, Gazprom's main goal has been to establish control, either completely or in part, over the important transport routes, and also to move into the sale of gas. This obviously has implications for the neighboring space, just as Russian activities in this space affect the EU.

In political terms, the landscape of the regional political economy of oil and gas has changed in ways that favor Russia as an exporter and transit country and are likely to affect the rules and regulations of energy trade on the European continent. The issues of pricing and transit in the common neighborhood are important levers for Russia as it seeks to dominate Eurasian energy markets. A variety of actors are engaged in the markets, ranging from private multinational companies and state-controlled companies to the governments of the resource-rich states. The way prices are set also varies. In some cases the market sets the price, and in others the price is regulated and subsidized by the state. This means that at the international level the principle of reciprocity, i.e. reciprocally guaranteed and non-discriminatory access to markets and infrastructure, does not operate, which hampers the investment activities of Western companies.

Transit and Price Issues as Determining Factors in the Region

The Ukrainian case illustrates best how crucial transit and price issues are for the wider region and for EU energy policies. For Russia, these issues have served both as a lever to gain access to national energy sectors and to saturate these markets with Russian gas in order to preempt alternative supplies. Gazprom combines its legitimate business interest in charging higher prices for gas in the post-Soviet space with a strategy of paying low prices to former Soviet republics in exchange for access to their transport networks. It is important to

recall, however, that for a long time Russia had subsidized the post-Soviet region with cheap energy.

As regards transit, the picture has changed with the dissolution of the USSR and with EU enlargement. Most of the newly independent post-Soviet countries turned into transit countries for Russian gas to the West. After 1991 and the expiration of the original terms of engagement, Russia moved to market pricing with former bloc countries and split the arrangements into a long-term supply contract and a transportation agreement with Poland, Slovakia, and the Czech Republic.[51] This meant an early adjustment to market prices under the same model and level as for the western European countries. For the newly independent states (with the partial exception of the Baltic States), the picture was somewhat different because prices remained significantly lower. These price-transit arrangements, which favored close Moscow allies, became increasingly unattractive as gas prices began to rise beginning in 2003. Therefore, since 2004/2005 Moscow has pressured the other CIS states into new market-related pricing.[52] Russia sought to end the opaque barter deals that compensated transit and transportation with politically-derived, non-market gas pricing for Ukraine, Belarus and Moldova. Russia has now imposed a new pricing and transit regime that uses EU markets as a benchmark for its net income calculations, because the EU market is the largest customer for Russian gas with high potential for increased demand.[53]

Gazprom has long been trying to take over at least parts of the pipeline infrastructure and the storage facilities in the transit countries as a means to gain further economic, political and physical control over energy exports. In 2006 Gazprom reached such agreement with Belarus that not only included a new 5-year-contract delinking supply and transit but also gave Gazprom 50 percent control of Beltransgaz, the Belarussian gas transport company. This means that Gazprom has partial control of the important Yamal pipeline, through which approximately 22 percent of Russian gas exports to Europe flows. The

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[51] Energy Charter Secretariat, *Putting a Price on Energy. International Pricing Mechasims for Oil and Gas*, Brussels, 2007, p. 166-169.

[52] http://www.gazprom.ru/articles/article19812.shtml (Справочные материалы правка к брифингу «Переход на рыночные принципы сотрудничества с республиками бывшего СССР. Работа на рынках дальнего зарубежья. Диверсификация экспортных маршрутов и поставки СПГ. Использование схемы обмена активами» 20 июня 2006 года).

[53] Energy Charter Secretariat, op. cit., p. 167.

company had been pursuing this goal for years.[54] Under this agreement, prices will reach EU levels by 2011.[55] Moldova and Ukraine have so far rejected Russian attempts to buy parts of the energy infrastructure. Nonetheless, Gazprom's shift to the new pricing approach of Russian gas based on replacement value in the EU has led to a price spike in Moldova under the quarterly contracts the country has with Gazprom.

The most prominent case of price and transit disputes has been Ukraine. After the dispute of January 2006, Gazprom and Naftogaz signed a deal that also included an intermediary company RosUkrEnergo. Under this deal this company buys Central Asian gas at the respective external borders at a price of $65 per 1000 cubic meters. An additional amount of gas was available from Gazprom at a base price of $230 per 1000 cubic meters. Since then the bulk of imported gas obviously came from Central Asian sources. The price of gas in 2007 rose to $100.08 per 1000 cubic meters (up from $65 in 2006) from Turkmenistan and to $100.75 per 1000 cubic meters from Uzbekistan. In addition, Ukraine had to pay $24.60 per 1000 cubic meters for transportation to the Ukrainian border.[56] Some analysts believe that this deal became precarious when Central Asia did not supply sufficient gas to RosUkrEnergo and Ukraine hat to buy gas from Gazprom.[57] As a consequence, in February 2008 Gazprom once again threatened to cut off its gas supplies to Ukraine unless Kyiv repaid a debt of $1.5 billion. The new agreement cuts out middlemen and commits both parties to make the trade more transparent. Ukraine also agreed to pay $179 per 1000 cubic meters and to settle the debt soon.[58] Even though Russia is very dependent on these three transit countries, and in particular on Ukraine, it has managed to implement a pricing and transit regime to its own liking.

As stated above, Russia is not only a "taker" of transportation but also a provider of transportation—mainly of Caspian and central

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[54] Astrid Sahm and Kirsten Westphal, "Power and the Yamal Pipeline," in Margarita M. Balmaceda, James I. Clem and Lisbeth Tarlow (eds), *Independent Belarus: Domestic Determinants, Regional Dynamics, and Implications for the West* (Cambridge, MA: Harvard University Press, 2002), pp. 270-301.

[55] Energy Charter Secretariat, op. cit., p. 172.

[56] Ibid., p.171.

[57] Andrew E. Kramer, "Gazprom could shut gas flow to Ukraine," *International Herald Tribune*, February 8, 2008, p. 12.

[58] Energy Charter Secretariat, op. cit., p. 171.

Asian hydrocarbons to the West. Russia has instrumentalized its favorable geographical position and the existing pipeline network to impose its own pricing and transit regime on central Asian gas producers. During the first years of the bilateral treaties Russia paid very low prices for gas. Prices are individually negotiated and have risen since 2006. For Turkmen gas prices jumped in 2006 from $44 to $65 per 1000 cubic meters, and in 2007 to $100.08. This is almost the price at which Russia sells its gas to Belarus.[59] In 2008, facing the EU's central Asia strategy and the Turkmen policy to keep all options open for export, Russia moved to pay higher prices for central Asian gas.

With the Shah Deniz gas field in Azerbaijan in production, the situation in the Caucasus will change, as Azeri gas will be also available in Azerbaijan and Georgia via the South Caucasus Pipeline. Georgia is striving to become more independent from Russia gas as in early 2007 Russia asked for a price of $235 per 1000 cubic meters, which is comparable to EU levels. The fact that Russia has demanded such prices from Georgia and Azerbaija while continuing to supply gas to Armenia at a price of $110 per 1000 cubic meters under a contract that is valid until 2009,[60] has been widely viewed as a political pricing strategy by Moscow. Armenia has been a close ally to Russia and the majority of its energy system has been sold to Russia.

Bulgaria plays an important role in both the Russian South Stream and the EU's Nabucco project. It is 100 percent dependent on gas imports from Russia and is the only country with which Gazprom still has a barter agreement (expiring in 2010). Transit is paid for in kind with gas supply. The existing contract has proved to be very favorable for Bulgaria.[61] It can therefore be assumed that Bulgargaz has a strong interest in maintaining a good relationship with Gazprom, and this may have been a vehicle for Russian transport interests to realize South Stream.

Romania is also an important transit country for Russian gas. Romania has a significant gas production itself, but imports the rest of

[59] Gazprom: Spravka k brifingu „Perechod ha rynočnye principy sotrudničestva c respublikami byvšego SSSR. Rabota na rynkach dal'nego zarubežja. Diversifikacija eksportnych maršrutov i postavki CNG. Ispol'zovanie schemy obmena aktivami", 20.6.2006 www.gazprom.ru/articles/article19812.shtml.

[60] Energy Charter Secretariat, op. cit., p. 172-173.

[61] Energy Charter Secretariat, op. cit., p. 169.

its consumption (around 40 percent) from Russia. A contract running from 2010 to 2030 was signed in 2006 and is said to have fixed prices at about $280 per thousand cubic meters.[62]

Turkey is a very interesting case, as it is linked with Russia via the Blue Stream pipeline. Russia has managed to saturate the Turkish gas market. A 2002 energy deal and favorable prices guaranteed to Turkey has enabled Russia to undermine Iranian and Azeri efforts to access the Turkish market to any significant degree. With regard to Turkey's role as an energy corridor to the EU, it is of specific importance that Turkey seeks the role of an intermediary for Russian gas and not only of a mere transit country.

Conclusion

With the EU in dire need of higher volumes of external gas supplies, it has three basic objectives: add more gas to the import basket; diversify its gas (and oil) suppliers; and diversify its supply routes. Gas deliveries from the Caspian Basin meet all three objectives. Over the short and medium-term, the volume of gas imported from the Caspian is expected to be modest, because of both limited medium-term gas production volume (Azerbaijan) or multiple export commitments (Turkmenistan, Kazakhstan). More important is the fact that pipeline routes connecting the Caspian gas fields with EU consumers will also work as infrastructure to import gas from Egypt via the Arab Gas Pipeline and, at least in the medium term, from Iran (South Pars gas field) and Iraq (Akkas gas field). The major imperative for the EU is the construction of the Nabucco pipeline, which is designed to import non-Russian gas from multiple sources bypassing Russia. These eventual gas volumes are to meet southeastern European gas demands and should be distributed to other EU consumers via the gas trading platform in Baumgarten, Austria.[63] So far the EU's energy policies and its initiatives towards the region have not really been successful in tying the region to the EU's project of a pan-European energy community.

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[62] According to the Balkan and Black Sea Petroleum Association, but not officially confirmed by Gazprom. See Energy Charter Secretariat, op. cit., p. 170.

[63] A less probable gas route emanating from the Caspian is "White Stream," which is supposed to run from Georgia along the Black Sea seabed to Ukraine, Poland and the Baltic countries.

Russia understands its priority goal to be to obstruct any and all export routes bringing Caspian or Iranian gas to the EU while bypassing Russia. Russia has no interest in lowering EU dependence on Russian supplies, losing hegemonial control of Caspian gas exports or allowing Iran to emerge as a competitor on the EU gas market. Thus, "South Stream," Russia's southern-flank pipeline initiative, is meant to undermine the rationale of the Nabucco pipeline and to reduce Ukraine's role as a major transit country for Russian gas exports. Russian energy policies have been crafted to serve Russia's interest in dominating the Eurasian gas markets and exerting significant market power with regard to volumes, export routes and prices.

All these competing gas plans make the Black Sea region a central stage of geopolitical and geoeconomic struggles and clashes of interests. The struggle for the Caspian and the Black Sea is a reflection of mistrust, rivalry and alienation between the EU, the U.S. and Russia. The region is not just an area where diverse economic interests conflict; it is also a region of complex geopolitical faultlines and frontiers. Whether the actors involved will pursue zero-sum strategies, or whether non-confrontational competition will prevail, is hard to judge as of today. Whether this conundrum is an opportunity or a curse for the Black Sea region remains to be seen.

Conflicts in the Wider Black Sea Area

Anna Matveeva

The Black Sea region, broadly defined, contains four unresolved conflicts that broke out at the time of the Soviet collapse. This chapter examines the current state of two unresolved conflicts in Georgia (Abkhazia and South Ossetia), Nagorno-Karabakh (dispute between Armenia and Azerbaijan) and Moldova (Transdniestria).

The chapter will argue that while the conflicts have a common origin derived from the impact of the break up of the Soviet Union, their subsequent development has been largely shaped by the particular political trajectories of those states that contain the conflicts. The states of the region developed differently after independence. The way in which their polities formed matters most for the prospects of resolution, continuation of the stalemate or possibility of resumption of violence. Each of the conflicts occupies a different political and ideological place in each of the different countries. There is only a weak degree of interconnectedness between conflicts in different states, and each state tends to concentrate on its own problems.

Much has been already written about the causes of these conflicts and there are competing historical narratives of how violence came about.[1] This chapter will not revisit these histories; it will concentrate on their outcomes. It will outline where the conflicts are now, including developments in the separatist regions; their practical consequences; the record of external engagement; and factors which can alter the status quo, for better or worse. It will conclude with discussion of the "pattern of unresolved conflicts" in Eurasia and lessons to be drawn

[1] Thomas de Waal, *Black Garden: Armenia and Azerbaijan Through Peace and War* (New York University Press, 2003); Laurence Broers, ed., "The Limits of Leadership: Elites and Societies in the Nagorny Karabakh peace process," *Accord Series No. 17*, Conciliation Resources, London, 2005; Jonathan Cohen, ed., "A Question of Sovereignty. The Georgia-Abkhaz Peace Process," *Accord Series No. 7*, Conciliation Resources, London, 1999; International Crisis Group, "Conflict Resolution in the South Caucasus: The EU's Role," Europe Report no. 173, March 20, 2006. International Crisis Group, "Georgia: Avoiding War in South Ossetia," Europe Report no. 159, November 26, 2004.

from it. It argues that it is time to design new intellectual frameworks to address the realities and to seek progress on issues of practical significance rather than status of territories.

The State of the Conflicts

Wars in the South Caucasus have been very intense and extremely brutal, with all sides engaged in gross violations of human rights.[2] However, since the end of large-scale hostilities in 1994 a fragile peace has followed suit, despite periodic skirmishes in de facto border areas. There has been a certain accommodation to the status quo among elites and the population in general. There are constituencies in political and business circles, and among the population at large, that have a stake in non-resumption of hostilities, even if the current arrangements are neither stable nor fair. The passage of time has had an impact. Conflicts stagnate, but fragile peace has been kept and enabled life to go on. Azerbaijan, for example, has attracted considerable foreign investment into its energy sector, which has facilitated rapid growth. With the exception of Karabakh, a degree of economic and social interaction across separation lines is taking place.

Georgia has two unresolved conflicts—one in the former autonomous region of South Ossetia in the foothills of the Main Caucasus Range, and the second in the former autonomous republic of Abkhazia on the Black Sea coast. Both are located on Russia's borders, enabling interaction between the two. South Ossetia is tiny in terms of population,[3] but is located on the main road linking Georgia with Russia and is important for Black Sea trade, especially with Turkey. Smuggling along the South Ossetian Highway has played a significant role in ensuring the survival of the breakaway region.

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[2] Casualty figures are disputed and unreliable. With respect to Karabakh conflict, Thomas de Waal in reference to Arif Yunusov cites the figures of 17,000 dead (11,000 on Azeri side and 6,000 on Armenian) and 50,000 wounded as most reliable.—de Waal, the Black Garden, Appendix I. In the war in Abkhazia 8,000 died and 18,000 were wounded. ICG 'Abkhazia Today' Europe Report no. 176, 15 September 2006, p. 1. The Abkhaz side stated that it lost 4,000, which given that according to the 1989 Soviet census only 93,267 ethnic Abkhaz lived in the autonomous republic, makes it over 4 percent of the total nation, although some casualties were ethnic Armenians and Russians.

[3] Estimates range between 50 to 80,000 residents.

Abkhazia is much larger in territory and population,[4] and has vital resources of its own, most notably tourism developed during Soviet times. Roughly speaking, it is comprised of two parts: the agricultural eastern region, from where most ethnic Georgians were displaced during the war of 1992-93, and the tourist-oriented western region, where resorts are located and which used to contain a diverse ethnic mix during Soviet days. Ethnic Georgians constituted a plurality of residents of Abkhazia before their displacement. Currently the ethnic Abkhaz are in power, while the self-proclaimed republic preserves a multiethnic character with a substantial Armenian population and return of some displaced Georgians.

During the tenure of President Eduard Shevardnadze the prevailing assumption among the expert community was that renewal of fully-fledged hostilities was unlikely, although violence along the Georgian—Abkhaz division line occurred in 1998 and 2001. However, after the "Rose Revolution" of 2003 and the ascension of Mikhail Saakashvili to power in Georgia, these assumptions started to change. Inspired by a successful resolution in 2004 of a political stand-off with the leadership of the Ajara province, which refused to bow to the authority of the central state, the new Georgian leadership felt empowered to deal with the unresolved conflicts, using threat of force if need be. The assertive stance of the new government led to incidents of violence in South Ossetia and Abkhazia, militarization of Georgia proper and of its conflict zones.

Conflict over Nagorno-Karabakh is essentially a territorial dispute between the two neighboring states of Armenia and Azerbaijan over control over the area which geographically belongs to Azerbaijan, but had been largely populated by ethnic Armenians. Unlike in other cases, where conflicts unfolded after the states became formally independent and the boundaries of former Soviet republics were recognized as international borders, the Karabakh conflict began during Soviet times as an internal conflict within the Soviet state between

[4] Pre-war population of Abkhazia stood at 525,000. According to the last Soviet census of 1989, 235,000 were ethnic Georgians. The official Abkhaz census conducted in 2003 found a total population of 214,016. The post-war figures are contested and reliable estimates range between 200-220,000 residing in Abkhazia and a slightly lower number being IDPs on the Georgian side,—ICG Abkhazia Today. These figures do not include emigration to Russia from both sides, since most migrants continue to be registered in their 'official' places of residency,—author's field research in the context of UNDP assignments, Abkhazia and IDP settlements in Georgia proper, 2005.

two federal jurisdictions. The origins of conflict provide both sides with legal arguments that suit their positions: while Azerbaijan bases its claim upon the principle of territorial integrity, Armenia insists on the right to self-determination.

Initially, Armenia suffered a great deal for its annexation of Karabakh, as it found itself isolated in the hostile neighborhood of Azerbaijan and Turkey, had to integrate ethnic Armenian refugees from Azerbaijan who would not return, and suffered an energy blockade in the first years of independence. However, the role of the Armenian diaspora has been key in helping the new state to survive, while international lobbying has helped Armenia avoid becoming a pariah. Armenia has also been a major beneficiary of international assistance. Over the past decade, the U.S. provided over $1.4 billion of assistance, and Armenia is to receive $235 million from the Millenium Challenge Account.[5] Despite being twice as small as Azerbaijan in terms of population, Armenia received 50 percent more aid than Azerbaijan. This near absence of U.S. funding was due to the fact that from 1992 until October 2001 U.S. aid to Azerbaijan was constrained under section 907 of the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act, enacted in October 1992 as a result of the influence of American—Armenian lobby. Section 907 limits government-to-government aid to Azerbaijan because of its blockade of Armenia.[6]

In its second decade of independence, Azerbaijan has undergone a major economic and social transformation due to its energy wealth, which has propelled it into the richest state of the South Caucasus. Although wealth is distributed unevenly, it nevertheless provides a degree of welfare and creates a "feel good" factor, as the economy is growing and future prospects look hopeful. Together with labor migration to Russia, which takes the bulk of poor and disaffected workers out of the country, energy development is a factor for greater stability and reduces incentives to popular mobilization to fight a new war.

The Armenian army (in Armenian vocabulary, "self-defense forces of Nagorno-Karabakh") enjoys military superiority since it controls a significant area around the Karabakh enclave, from where ethnic

[5] www.state.gov/r/pe/ei/bgn/5275.htm.

[6] Broers, 2005, op. cit., p. 90.

Azeris have fled and which constitutes a buffer zone.[7] This means that when hostile episodes occur along the ceasefire line, they hardly have any direct relevance for the population of Karabakh.

The major deployments of peacekeepers are in Georgia's conflict zones: some 1700 CIS (de facto Russian) forces in Abkhazia and a tripartite force of Georgian, South Ossetian (450 each) and 500-strong Russian contingents in South Ossetia. Armenian and Azerbaijani armies face each other across the ceasefire line.

Conflict in the Moldovan region of Transdniestria, while also having separatism at its root, is quite distinct from the Caucasus conflicts.[8] Unlike in the Caucasus, the Moldovan conflict is not related to any ethnic ideology, nor is it rooted in a long history of interethnic tensions. Transdniestria is the region located on the Dniestr river, which divides it from the rest of the country. It contains major industrial capacities, which allows its industrialized economy to develop, and its multiethnic population is comprised roughly equally among Russian, Ukrainian and Romanian communities.

Separatists Matter

De jure, the unrecognized territories belonged to their Union Republics for a relatively short historical period—Abkhazia was part of the Georgian Union Republic for 62 years (1931-1993—technically, during the years of 1991-1993 it was already independent Georgia); Karabakh was part of Azerbaijan for 70 years (1921-1991); and Transdniestria was joined with the Moldovan Union Republic for 48 years from the end of the Second World War until the end of the Soviet Union (1944-1992). At present they are each into their second decade of separate existence. Internal developments in the separatist regions are often treated as "black boxes." They are pictured as solely dependent on the Kremlin's will, which underestimates the signifi-

[7] If Karabakh itself is included, then Armenians currently control 13.6 percent of the internationally recognised territory of Azerbaijan—in Thomas de Waal, "The Nagorny Karabakh Conflict: Origins, Dynamics and Misperceptions," p. 17, in Laurence Broers (ed.) *The Limits of Leadership: Elites and Societies in the Nagorny Karabakh Peace Process*, Accord no. 17, London: Conciliation Resources, 2005.

[8] On analysis of the first decade of the conflict see Tony Vaux with Jan Barrett, "Conflicting Interests: Moldova and the impact of Transdniestria," Strategic Conflict Assessment funded by DFID, Stonesfield: Humanitarian Initiatives, 2003.

cance of their "coming into being" as political and economic entities.[9] Indeed, a need to survive in a hostile environment, as well as struggles for power and control over resources, produced quite accomplished political leaderships. They are skilled in controlling their own populations and in manipulating power-brokers in Moscow, upon whose favors they are dependent. As Dov Lynch observes, "for all their weakness, de facto states have emerged in each of these areas."[10]

Democratic developments vary throughout the broader region, but the unrecognized areas do not fare worse than the regional standards. Abkhazia produced a democratically elected president in hotly contested elections of 2004-05, and has a coalition government, functioning opposition, developed civil society and, by Caucasian standards, reasonably free media. There are three ethnic Georgians deputies in its People's Assembly. In tiny South Ossetia the current President Eduard Kokoity won elections against the incumbent Ludwig Chibirov in November 2001. In November 2006, however, two parallel elections took place in South Ossetia, one electing Kokoity as president with 98 percent and the other electing Dmitrii Sanakoev (see below) with 96 percent—and each election by the same electorate, rendering the two claims to power rather dubious.[11] In Karabakh, June 2005 parliamentary elections were accompanied by lively political competition, despite being bitterly criticized by the losing parties.[12]

Transdniestria is still headed by Igor Smirnov, its first president. While he remains in power, competitive presidential elections are not feasible, but his exit is likely to pave way for a democratic process. However, parliamentary elections were genuinely competitive, there is

[9] However, there are a number of empirical studies that seek to 'unpack' what is happening on the ground—Oksana Antonenko, "Frozen Uncertainty: Russia and the Conflict over Abkhazia," pp. 205-270, in Bruno Coppieters and Robert Legvold (eds.), *Statehood and Security: Georgia after the Rose Revolution* (Cambridge, Massachusetts: MIT Press, 2005); Anna Matveeva, "Georgia: Survey of Conflict Prevention and Peacebuilding Activities,' pp. 416-444, in P. Tongeren, H Veen & J. Verhoeven (eds.), *Searching for Peace in Europe & Eurasia*, (Boulder: Lynne Rienner, 2002); Dov Lynch, *Engaging Eurasia's Separatist States: Unresolved Conflicts and De Facto States*, (Washington D.C.: U.S. Institute of Peace Press, 2004), Wennmann 2006, op. cit., ICG Reports, op. cit., 2004-07.

[10] Lynch, , op. cit., p. 39.

[11] Arguments about democracy should take the question of size into account: with 50,000 voters and little urbanization, the 'presidential' elections remind one more of municipal elections in rural areas.

[12] Gegham Baghdasarian, " A Karabakh Armenian Perspective," p. 24, in Accord, no. 17, 2005.

functioning opposition and media, and developed civil society. Speaker of Parliament Yuri Shevchuk has challenged Smirnov's position quite effectively, for example, on the disappearance of payments for Russian gas which were administered through the Gazprombank and controlled by Smirnov's son Oleg and his wife Marina. The scandal led to an investigation by Gazprom, whose officials confronted Igor Smirnov with embezzlement.

The governments in the unrecognized entities have demonstrated a capacity to provide security and modest welfare for their populations. While Karabakh and Transdniestria have not really suffered a breakdown of law and order, crime has been a problem in South Ossetia and Abkhazia. However, under the leadership of new, younger presidents, crime has been reduced. The governments also provide welfare, schools, hospitals and universities are functioning, and social benefits are being paid. Standards of living are not worse than across the border. For better or worse, the separatist governments are managing their internal affairs.

Abkhazia and Transdniestria are the most economically self-sustainable of the entities. Abkhazia's tourism, agriculture and location on Black Sea routes, and Transdniestria's developed industries, allow moderate growth. The Transdniestrian economy functions well, since in addition to agriculture it inherited vast industrial capacities from Soviet days, which it managed to preserve and even modernize. It claims to export its products to 78 countries.[13] South Ossetia and Karabakh are disadvantaged by their geographic location, but benefit from proximity to their ethnic kin—North Ossetia (Russia) and Armenia respectively—which permit them access to the outside world.

Links to Russia play an important role for Abkhazia and South Ossetia, which are being progressively incorporated into Russia's economic, social and cultural space. In a reversal of the active social and economic interaction of the Shevardnadze period, the introduction of tighter controls on smuggling through South Ossetia made the latter turn away from Georgia. Since 2004 the de facto authorities reoriented their links almost entirely to the north. The 2004 closure of the Ergneti market on the crossing from South Ossetia—a former tax haven that provided a lifeline for the population of the border areas—

[13] Interview of Igor Smirnov to Kommersant-Daily.

was a heavy blow to the South Ossetian economy, but hurt Georgia as well since it also ended the smuggling of Russian oil.

Abkhazia's links with Georgia proper were all but halted by the conflict. Investment comes mostly from wealthy businessmen of Abkhazian origin who settled in Russia and made their fortunes there. Revenue from Russian budget tourists is a major source of income. All trade has been redirected towards Russia, with ethnic Georgian agricultural producers from the eastern part of the entity delivering their goods to the border with Krasdonar krai. Many people from Abkhazia use Russia's educational and medical facilities, and Russian telecoms and internet providers from Krasnodar krai cover Abkhazia. This trend continues to gain momentum: in December 2007 Russian passport holders, whose number expanded considerably during the mid-2000s, voted in Russian parliamentary elections. Russia's minister for regional development Dmitri Kozak announced in 2008 that Abkhazia's resources would be used for preparations for the 2014 Olympic Games in Sochi.[14]

External security and uncertainty about the future are major concerns in the separatist areas. The breakaway regions look towards Russia for protection. However, attitudes in Abkhazia are mixed. On the one hand, Russia is the main security provider and the defender of last resort in case of a serious threat. The population of Abkhazia appreciates the economic and social opportunities provided by Moscow, such as Russian state pensions. On the other hand, the Abkhaz are wary of the Kremlin's interference in their internal politics, which they have successfully resisted,[15] and they have little desire to fall under the diktat of Moscow.[16] Were Russians to come into control of Abkhazia, issues that are uncomfortable for the Abkhaz would be looked at more closely, such as access of Armenians to political power, privatization and investment opportunities, and property rights for non-residents.[17]

[14] *ITAR TASS*, March 7, 2008.

[15] Oksana Antonenko, 2005.

[16] Liana Kvarchelia, "Sanctions and the path away from peace," in *Powers of Persuasion: Incentives, Sanctions and Conditionality in Peacemaking*, Accord, no. 19. Issue Editors: Aaron Griffiths with Catherine Barnes, London: Conciliation Resources, 2008.

[17] The Abkhaz legislation prohibits acquisition of property in Abkhazia by non-residents. This precludes Russian large-scale investment from legitimate sources. There are small businesses and individuals from Russia who own property covertly through middlemen from Abkhazia, but they are aware that their rights are insecure. Russian ownership of property is not widespread, but long-term lease is possible—author's interview with Tamaz Ketsba, a lawyer from Abkhazia, Sukhumi, August 2005.

Karabakh is de facto incorporated into Armenia. There are no reminders of Karabakh's recent past in Azerbaijan, apart from some remaining historical monuments. Even its top politicians come from the ranks of Karabakh "revolutionaries." The central government in Yerevan rules Karabakh as one of the provinces of the country, but with special security needs. This intricate relationship—the influence of the Armenian state over the Karabakh authorities and the decisive nature of the Karabakh factor in internal Armenian politics—dominates the impasse.[18] There is also an on-going settlement process of populating Lachin corridor, which connects Karabakh with Armenia, with ethnic Armenian settlers.[19]

Transdniestria is the only place that has not lost viable economic and social links with the state it broke away from. Despite periodic ups and downs in political relations, the authorities in Chisinau and in the breakaway territory do not obstruct mutual interaction. As a result, many businesses and NGOs from Transdniestria are also registered and have bank accounts in Moldova proper, students attend universities, cars with license plates "from the other side" freely cross back and forth. Despite the status dispute, relations between populations from both sides are peaceful, both Romanian and Russian languages are accepted as means of communication, produce from Transdniestria is sold in Moldovan shops etc. Fears that violence might resume are virtually non-existent.

Thus, each of the unrecognized entities has passed the test of establishing a functioning statehood on the territories its controls. Symbolic attributes of statehood have also been created.[20] This factual statehood influences the way the separatists view future resolution of the disputes. The view is quite uniform: the only solution is either independence or "association" with a kin/friendly state, to preclude integration into the state they broke away from originally. For example, while in the 1990s the Abkhaz side found it possible to discuss a common state with Georgia, in 1999 it adopted a constitution which

[18] Baghdasarian, op. cit., p. 23.

[19] The OSCE inspection mission of February 2005 concluded that there was no significant involvement of Armenia in settlement process, while they observed some direct involvement of the Nagorno Karabakh authorities, above all in Lachin and a limited area east of Mardakent.—in Accord, "Limits of Leadership," 2005, p. 99.

[20] For example, stamps. An Abkhaz stamp depicting Monica Lewinsky and Bill Clinton hit major Western newspapers at the height of the Lewinsky affair.

proclaimed itself an independent state.[21] Since then, the Abkhaz side has not been interested in anything but outright independence, and there are no political forces in the territory that would consider reunification with Georgia again. In Transdniestria, a referendum took place only in 2006, after border restrictions were introduced and the negotiations process broke down completely. 97 percent voted for independence.

Consequences of Conflicts

Although certain accommodations have taken place, the conflicts continue to generate various effects. The most acute consequences are for the breakaway territories themselves, since their unresolved status restricts export opportunities, restricts travel for their populations outside of the CIS,[22] gives them little control over their fiscal policy, as they have to use the currency of the other state, and makes them spend disproportionally on defense and keep large forces of reservists. Security is a major concern. While the situation in Moldova is calm, the Caucasus conflicts continue to produce casualties. In the Karabakh case Azerbaijan has lost 3,000 men since the ceasefire, while Armenia lost 873.[23] Since 2004 in Georgia there are weekly—and, in warmer months, daily,—incidents of killings and abductions in the vicinity of the conflict zones.[24]

The issue of refugees and internally displaced persons (IDPs) is a bleeding wound in the Caucasus.[25] The figures on displacement are

[21] The Constitution was passed with a huge majority, but only 58.5 percent of the pre-war electorate could vote.

[22] Contrary to a widespread belief, distribution of Russian passports (internal IDs) in Abkhazia does not allow full citizenship rights, including entitlement to obtain a foreign passport to travel outside the CIS.

[23] Figures researched by ICG, 'Nagorno Karabakh Report' (2007), p. 1.

[24] "Georgia's South Ossetia Conflict: Make Haste Slowly," International Crisis Group Europe Report no. 183, Tbilisi/ Brussels, June 7, 2007, pp. 13-17, also ICG "Abkhazia—Way Forward" Report, 2007.

[25] The conflict in Transdniestria scarcely produced displacement, while those who initially fled violence, largely returned to their places of residents. In South Ossetia around 12,000 out of 30,000 Georgians left the region between 1990 and 1992, while around 30,000 Ossetians left Georgia in the same time, mostly moving to North Ossetia (Russian Federation)—cited by Christoph Zurcher, "Georgia's Time of Troubles, 1989-1993," chapter 2, pp. 83-115, p. 107, in Coppieters and Legvold op. cit.

very politicized and hotly disputed. IDPs are ethnic Georgian who were residents of Abkhazia[26] and South Ossetia, and Azeris from Karabakh and surrounding districts; and refugees are Armenians from Azerbaijan, since they crossed an international border. For these people there has been little adaptation to the new circumstances. Most continue to live in temporary accommodation and in psychological limbo, hopeful that they will be able to return home very soon.

Azerbaijan has the most to gain from a settlement, even if it were to lose the Karabakh enclave, since it would regain territories presently occupied by Armenian troops and could move IDPs into them. However, the cost of keeping IDPs in limbo has not exceeded the cost of giving up the claim on Karabakh. President Ilham Aliyev stated that Azerbaijan would not give up its position. "We will solve the issue on the basis of territorial integrity," Aliyev has declared. "Diplomatic efforts alone are not enough and, if necessary, Azerbaijan could resort to use of force."[27]

In Abkhazia a fair share of the displaced from the easternmost Gali district—mostly farmers with no other skills than farming—returned,[28] but the prospects for a return *en masse* for IDPs displaced from other districts of Abkhazia are very limited. Meanwhile, the governments of Georgia and Azerbaijan pursue a non-integration policy. The official line since 1993-94 has been that IDPs would go back very soon. Thus, the IDPs maintain separate schools and civil registries and in general relate to the state as refugees rather than full citizens. This has been a convenient line for the government, which otherwise would have to create conditions for IDPs to be re-housed, enable them to gain access to land and property rights. The international community has cautiously challenged this policy, and in Georgia a new strategy was adopted by the Ministry of Accommodation and

[26] In 2005, the Georgian ministry of refugees and accommodation, with UNHCR support, conducted a verification exercise and registered 209,013 displaced from Abkhazia, including about 45,000 who returned to Gali, but opted not to give up the IDP status because of access to benefits. The Georgian authorities often use the figure of 300,000 in their public statements—"Abkhazia—Way Forward," International Crisis Group Europe Report no. 179, Tbilisi/ Brussels, January 2007.

[27] Xenia Solyanskaya, "Вздорный Карабах", March 4, 2008, http://www.gazeta.ru/politics/2008/03/04_a_2657501.shtml citing Aliyev's speech at an opening ceremony of the monument to his father reported by Reuters.

[28] Georgian figures stand at 55,000 returnees, while the Abkhaz claim that between 70 and 90,000 returned, in Markedonov, 2008.

Refugees in 2007. Still, a debate on alternatives to return and integration into the host society remains a public taboo.

For the region as a whole, the unresolved conflicts matter for large-scale infrastructure projects and transportation networks. The lines of division disrupt the old Soviet routes and create obstacles for building of new ones. The Baku–Tbilisi–Ceyhan oil and gas pipelines opened connections between Azerbaijan and Georgia to Turkey, but the general tendency is to close the borders and deal with the immediate neighbors as little as possible. Links between Armenia and Azerbaijan have been severed, leading to isolation of Armenia, since its border with Turkey is also closed. The conflict in Abkhazia prevents road and rail links from being opened between Armenia and Russia via Georgia, due to the reluctance of the Georgian government to allow opening of the road before there is progress on conflict settlement. Closure of the Russian/Georgian border due to differences over South Ossetia in 2006 interrupted the only land route Armenia had to Russia, the main market for its goods. The 2006 closure of the border between Ukraine and Moldova over Transdniestria also created new obstacles for trade, transit and social interaction.

It can be argued that the Georgian and Armenian economies coped remarkably well with conditions of an adverse regional environment and problematic market access. As the countries have to survive somehow, alternative arrangements have developed, albeit at considerable cost, such as pipelines bypassing Armenia, and previously marginal routes, e.g. from Armenia via Georgia's ports, have became important for Black Sea trade. Still, future major infrastructure projects would confront formidable political obstacles. Thomas de Waal observes that Georgia has failed to win strategic advantage from its central position in the South Caucasus and proximity to Turkey and Iran, and that its lack of interest in regional cooperation is a major factor in its own strategic vulnerability.[29]

The most important consequences of conflicts are the moral and psychological impact of the failure to reintegrate the territories, even if this impact is not tangible. The conflicts lie at the core of the modern identities of the new nations, be it military defeat and loss of territories or victory and resistance against all odds. In the same way as the suf-

[29] Thomas de Waal, "Georgia and its Distant Neighbors," in Coppieters and Levgold, op. cit., p. 336.

fering of Armenians in the hands of the Ottomans in 1915 ("memories of genocide") is an essential feature of Armenian national identity, "Soviet fallout" conflicts represent a deeply emotional issue for Georgians and Azeris in ways that go far beyond the actual significance of these territories. In this sense, conflicts and democratization are linked: letting go of the conflicts can open space and free up energy for internal political transformation towards democracy.

Summary

Since open warfare ended, these conflicts have produced little violence, and ceasefires have largely held with minimal involvement of peacekeepers. The breakaway regimes are consolidated and are in control of their territory and population, and they demonstrate capacities to provide security and welfare. Every passing year drives them away from the states they separated from. Practical accommodation to the new situation has taken place, but there are important moral and ideological consequences of the recent conflicts for the new nations. As noted by Lynch, the current status quo is deeply entrenched and these conflicts may not be settled for generations to come.[30]

Bruno Coppieters outlines five options regarding settlement of these conflicts:

1. Recognition of the sovereignty of the breakaway polities as fully independent or as associated states
2. Enforced abolition of their statehood
3. Forced inclusion in a federal framework
4. Peaceful inclusion in a federal framework
5. Status quo [of unrecognized de facto statehood].[31]

There is an argument that if the recognized states were to federalize and powers were sufficiently separated vertically and horizontally, the separatists would be attracted to offers of substantial autonomy.[32]

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[30] Lynch, p. 103.

[31] Bruno Coppieters, "The EU and Georgia: time perspectives in conflict resolution," Paris: EU Institute for Security Studies, Occasional Paper no. 70, December 2007.

[32] Bruno Coppieters, for instance, "Locating Georgian Security," pp. 339-388, in Coppieters and Legvold, op. cit.

Another view is that an economic boom in the recognized states would create a "pull" factor of prosperity. These arguments fail to take into account that the separatist regimes are not interested in anything but outright independence (or, for Karabakh, unification with Armenia), and that the conflicts started because of separate identities and fears of assimilation.[33]

From the separatists' perspective, there is little to be gained by unification, while the risk of falling under the control of the "host" states is considerable. Even in the most tranquil case of Transdniestria, political obstacles to reintegration into Moldova are huge. From the viewpoint of Tiraspol (capital of Transdniestria), reintegration's potential losses are greater than its benefits. One concern is that privatization would be reversed and that Transdniestrian enterprises would be renationalized by Chisinau.[34] The power-holders in Tiraspol have little desire to bow to the authority of Chisinau if they can be masters in their own land.

Record of External Engagement

Russia

Russia's role is crucial for all the conflicts, but is different in each case. So far, Russia has not elaborated a regional perspective for the Black Sea area and deals with the countries on an individual basis. Nor does it have a policy of dealing with unresolved conflicts tied to a vision of a desired outcome. This lack of clarity leads politicians in Georgia and Moldova, and commentators in the U.S., to speculate that Russia uses the unresolved conflicts as leverage over Georgia and Moldova or that Russia has an interest in expanding its territory by annexing Abkhazia and South Ossetia. Although these assumptions seem ludicrous from Russia's perspective, it has not adequately explained its policies and actions in accessible language and in acceptable terms of political debate.

[33] de Waal notes the genuine fear of "genocide," the extinction of their ethnic group, that drives many people in the Caucasian conflicts—Thomas de Waal, "Separation Anxiety," IWPR, February 20, 2008.

[34] In the words of President Igor Smirnov, " They [Moldova] are not interested in people of Transdniestria. They are interested in our property."—Smirnov's interview to Kommersant Daily, "Игорь Смирнов: мы из СССР не выходили," no. 40(3857), March 13, 2008.

Moscow's formal position has been to uphold territorial integrity based on the Soviet republican borders with a right to self-determination within the states. It also maintains that both parties have to agree on the final outcome and that process is likely to take time.[35] This stance may change in future depending on how the international context evolves. Different options float in Moscow, while the separatists have their own lobbies, which work to ensure that their interests are not neglected.

Contrary to media speculation, the conflicts are liabilities, not assets for Moscow, yet it has been so deeply engaged with the conflicts that disengagement is almost impossible. "Wag the dog" situations occur in which the separatists foster their agendas upon Moscow. In March 2008 Sukhumi, Tskhinvali and Tiraspol issued formal appeals to Russia for recognition, using Kosovo as an example, which unleashed a parliamentary debate and considerable publicity that Moscow could have lived without. In this sense President Vladimir Putin warned that Kosovo sets a "terrible precedent," as it forces Russia to confront awkward issues. But he also said that Moscow would not "ape" the West, indicating it would not move swiftly to recognize the breakaway regions.[36]

The Georgian perspective is that the conflicts in Abkhazia and South Ossetia are a function of Georgian—Russian relations and that Russia is a party to conflicts driven by ambitions to acquire territory and retain hegemony.[37] The Russian perspective is that the conflicts are between the Georgians, and Abkhaz and South Ossetians, and that it plays a role of a third party. Georgia has the most adverse relations with Russia out of all of the CIS states, over multiplicity of disputes. After Russian withdrawal from military bases in Georgia in 2007,[38]

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[35] According to President Putin, "Extremely difficult relations have formed between these peoples. What we need is patience. We need carefully to try to restore [their] confidence towards one another and build up a common state. This is what we are calling for, this is what we want". Quoted in Vladimir Socor, "Putin's Logic on Georgia and the Frozen Conflicts," Jamestown Foundation *Eurasia Daily Monitor*, vol. 3, no. 196, October 24, 2006.

[36] "Abkhazia Restrictions Lifted," *The Associated Press* March 7, 2008.

[37] Sergei Markedonov notes that both Georgian and Russian propagandists went to great lengths in counterproductive rhetoric to create such impression—Sergei Markedonov, "Абхазская головоломка", 12 March 2008 http://www.gazeta.ru/comments/2008/03/12_a_2665051.shtml.

[38] Юрий Гаврилов, "Ни портянки, ни гвоздя. Россия раньше срока вывела свои военные базы из Грузии", Rossiiskaya Gazeta, no. 4520, November 16, 2007.

one on-going issue is the presence of Russian peacekeepers, on whose withdrawal Georgia insists, since, in the Georgian view, this undermines the return of IDPs. In Moscow's view, the primary obstacle to return is Georgia's refusal to agree to the rules for their registration proposed by the UN High Commissioner for Refugees.[39] Other issues include the controversy whether or not the Russian withdrawal from military base in Gudauta in Abkhazia was complete; opening of the railway line via Abkhazia; payment of Russian social benefits to Abkhazia's residents; and abolition of 1996 sanctions over Abkahzia. The Georgian establishment realizes that Western interest and attention to its problems of lost territories can be only sustained if Russia is seen as an evil mastermind, meddling into its affairs. Thus, a never-ending series of clashes with Moscow have to be sustained, since they serve a PR purpose and heighten Georgia's chances to obtain Western financial and political support.[40] Currently the hopes of Western engagement are pinned on NATO membership.[41]

Still, Moscow used to favor Georgia much more than it does now. When Eduard Shevardnadze was President in Georgia and Boris Yeltsin was President in Russia, Moscow's policy tried to facilitate re-integration and, on Georgia's insistence, pursued policies to disadvantage Abkhazia. In 1994-95, during the first war in Chechnya, Abkhazia was regarded by Moscow as a supporter of Ichkeria and the best friend of Shamil Basayev.[42] The January 1996 CIS Summit adopted a memorandum that provided a legal basis for imposing CIS sanctions on Abkhazia. As a result, only 48 telephone lines remained and travel for men between 16 and 60 across the Russian border was not allowed. Commercial interaction was prohibited and few supplies reached Abkhazia beyond humanitarian aid. Entry into Abkhazia was allowed only for residents registered in Abkhazia and for CIS citizens with invitations from Abkhazia residents. The airport was closed to international flights and the railway functioned only within Abkhazia's

[39] Statement of the Russian Foreign Ministry to the CIS Executive Committee on March 6, 2008, reported by the RFE/RL Newsline on March 7, 2008. Georgia does not trust the Abkhaz to count the returnees to the Gali region and has obstructed attempts by UNHCR to do so, although Belgium provided funding for the exercise—ICG "Abkhazia—Way Forward" Report, p. 20.

[40] Skakov, p. 35, Coppieters, *The EU and Georgia* 2007.

[41] Coppieters, Ibid., p. 27.

[42] Basayev even married an Abkhaz woman from Gudauta during his involvement in the Georgian—Abkhaz war.

borders. The seaports were closed for passenger boats, and Abkhaz boats could not leave port to bring goods from Turkey. A new round of restrictions were introduced more recently: from March 2006 till October 2007 wines from Abkhazia were banned from the Russian market, and in 2007 a ban on imports of Abkhaz agricultural goods was introduced on "sanitary grounds."

This near-blockade only hardened the Abkhaz position and the 'besieged fortress' mentality. Cohen notes that "the decade-long existence of sanctions has left a psychological legacy of Abkhaz alienation and self-reliance that few in Georgia understand."[43] This is echoed by Liana Kvarchelia: "Georgia did not anticipate how the isolation policy and sanctions would increase Abkhazia's reliance on Russia. This not only restricted Abkhaz residents' freedom of movement, but also made Russia the only 'outside world' with which Abkhazia could communicate."[44] Although the Georgians see the failure of sanctions as exemplifying Russian perfidy and Abkhaz intransigence, the sanctions have perversely provided a security blanket against Georgian influence. Achim Wennmann also concludes that isolation of Abkhazia and South Ossetia was counterproductive.[45] This presents a sharp contrast with Moldova, where business and social interaction was promoted with the aid from the international community, and society preserved many features of living in a common state.

Some restrictions on trade and travel through the Russian border were gradually lifted during President Putin's time in office, while relations with Georgia took a turn for the worse, although this did not lead to a general lifting of sanctions, such as the re-opening of the airport or to changes in regulations concerning seaports. Nevertheless, Moscow took some steps towards peacemaking in the Georgian/Abkhaz conflict. In March 2003 Presidents Putin and Shevardnadze signed an agreement in Sochi establishing three Working Groups—on return of IDPs (initially to the Gali district); on restoration of the railway line through Abkhazia; and on renovation of the Inguri power

[43] Jonathan Cohen, "Introduction to the Georgia-Abkhazia case study," in *Powers of Persuasion: Incentives, Sanctions and Conditionality in Peacemaking*. Accord, no. 19. Issue Editors: Aaron Griffiths with Catherine Barnes, London: Conciliation Resources, 2008.

[44] Liana Kvarchelia, "Sanctions and the path away from peace," in *Powers of Persuasion*, Ibid.

[45] Achim Wennmann, "Renewed Armed Conflict in Georgia? Options for Peace Policy in a New Phase of Conflict Resolution," PSIO, The Graduate Institute of International Studies, Geneva, Occasional Paper no. 3, 2006.

station. The Rose Revolution in Georgia brought the Working Groups process to a halt, as relations between Georgia and Russia deteriorated over a wide range of issues.

From Moscow's perspective, Russia has no influence over Georgia's politics and there is nothing left to lose. Relations in most spheres came to a halt. There are hardly any Russians left in Georgia, and the policy is to welcome their emigration back to the homeland.[46] Personal factors also contributed. While relations with Eduard Shevardnadze, former Soviet foreign minister and member of the Politburo, never came to a complete breakdown, Saakashvili's presidency brought the interaction to a new low. The Kremlin came to regard the Georgian president as a kind of maverick leader of Hugo Chavez type, and his capacity to provoke Moscow is best compared to the effect Cuba has upon Washington.[47]

Emotions aside, Russia has three main goals it wants to achieve in Georgia:

1. an explicit commitment to non-resumption of hostilities in Abkhazia and South Ossetia, guaranteed by Russia and UN or OSCE;

2. neutral status, especially no entry into NATO, since Moscow fears that membership of an anti-Russian country in the Alliance would influence the latter's policy and that the Russia—NATO relationship would become a hostage to provocative actions of the Georgian authorities;

3. opening of the North—South transit corridor, which would allow land trade with Armenia and Turkey.[48]

Since Tbilisi has been unwilling to move on any of these points, relations have deteriorated. However, Vladimir Putin still hoped to

[46] As Russia's population has been declining, the government started to encourage those with ties to Russia to return. A Presidential Working Group was established to develop a programme for state support for return of compatriots, for which $240 million have been pledged by the government—*The Moscow Times*, October 25, 2006.

[47] Vyacheslav Nikonov, President of Polity Foundation, in remarks at Wilton Park Russia conference, February 2007. At the October 2007 CIS summit in Dushanbe Vladimir Putin refused to conduct a bilateral meeting with Saakashvili, although the latter apparently flew to Tajikistan just for this purpose.

[48] Skakov, p. 36-37.

finish his presidency on a positive note and took a number of conciliatory steps, such as resumption of direct air traffic with Georgia in March 2008, lifting the ban on Georgian wines and resumption of postal services. These steps still do not change the political fundamentals, however.

The significance of the Caucasus and Georgia for Russian policymakers tends to be exaggerated in the West. With regards to the Caucasus, two issues prevail: security concerns in the North Caucasus and Caspian Sea energy resources. Both make Azerbaijan a priority, since it is energy-rich and contains North Caucasian ethnic minorities who live alongside the Russian border. Azerbaijan is the only country attractive for major investment. Otherwise, the region's energy market is tiny, and construction of the Blue Stream pipeline to Turkey allows Gazprom to avoid transiting gas through Georgia. The scale of Caucasian labor migration into Russia is small in comparison with Central Asia, which has an excessive supply of labor force to replace the Caucasians if migration, as in the case of Georgia, ends.

Moldova's relations with Russia are more complex and multidimensional. On the one hand, Chisinau and Moscow are at odds over Transdniestria, and personal relations between Presidents Putin and Voronin have been tense. At the same time, economic and social ties between the two countries are intense: Russia is a large market for Moldovan goods, a recipient of labor migrants, and has a visa-free regime, while Moldova benefits from Russian investment. Unlike in Georgia's case, the unresolved conflict did not result in an overall breakdown of the relationship.

In 2003 the parties to conflict came very close to ending the dispute and signing a power sharing agreement under Russian mediation. At President Voronin's request, Putin appointed Dmitrii Kozak, his deputy head of administration, to negotiate between the sides and prepare the draft. The so-called "Kozak Memorandum" proposed an asymmetrical federation of the Republic of Moldova, with a federal subject of Transdniestria, including major concessions to the latter. The agreement envisaged a transition period of 12 years (until 2015) when Transdniestria could block important federal laws and international agreements. The Moldovan government supported the memorandum, and it was due to be signed in November 2003 in President Putin's presence, but at the last minute Voronin called Putin and cancelled the

ceremony. This was the result of his extensive talks over ten days with the OSCE Mission in Moldova, the Dutch OSCE Chairmanship, the U.S. and the EU, who advised him not to sign the Memorandum due to concerns that Russia would maintain a sizable military presence until 2020.[49] After the failure of the Kozak memorandum, political negotiations gradually ceased.

In Moldova, the OSCE has been a lead international organization in the conflict resolution process, which adopted a 5+2 format (the five mediators of Russia, Ukraine, OSCE, U.S., and the EU, together with the two parties Moldova and Transdniestria). After the failure of Russian diplomacy in 2003, Voronin turned to the U.S. and the EU for help to negotiate better terms for Chisinau and to strengthen his hand, but negotiations came to a complete halt in 2006 and the format has since been dormant.

Towards the end of his presidency Vladimir Putin tried to mediate again between Chisinau and Tiraspol. Russian-Moldovan relations improved, and diplomacy went into action, including shuttle diplomacy by the Russian negotiator, deputy secretary of the Security Council Yuri Zubakov. President Voronin was prepared to accommodate Moscow's fears that Moldova would join NATO and Russian peacekeepers would be replaced by NATO militaries. Moscow hinted at its consent to withdraw its military presence in exchange for Moldova's neutrality and non-alignment, although without precluding its eventual entry into the EU. A Neutrality Declaration would be adopted by Moldova, and would be open for signature for all 5+2 participants[50] (excluding Tiraspol) as international guarantors. Voronin also hinted that his country could leave GUAM.[51] The EU expressed its willingness to work with Russia on renewal of the peace process, but abstained from stating that it would sign the neutrality declaration.[52]

Meanwhile, Tiraspol's relations with Moscow deteriorated, as Kremlin felt that its goodwill was exploited, and was frustrated with corruption

[49] "Moldova: Regional Tensions over Transdniestria," International Crisis Group Europe Report no. 157, June 17, 2004, Chisinau/ Brussels.

[50] These are Russia, Ukraine, OSCE, U.S., the EU and Moldova.

[51] Voronin's interview to Kommersant-Daily. "Мы с Владимиром Путиным давно потеряли вкус к собственным хотелкам" Президент Молдавии рассказал "Ъ" о том, каким образом он хочет вернуть Приднестровье, *Kommersant* no. 38(3855) от March 11, 2008.

[52] Interview of the EU SG Kalman Mizsei to *Kommersant*-Daily, "Мы уважаем нейтралитет Молдовы" // Спецпредставитель ЕС о решении проблемы Приднестровья, Kommersant, no. 41(3858), March 14, 2008.

and misuse of its humanitarian and financial aid. Moscow impressed upon Tiraspol its displeasure with backroom deals involving Russian gas, allegedly sold on the side at commercial prices, while Tiraspol amassed $1.5 billion in unpaid bills to Gazprom. Transdniestria's de facto Foreign Minister Valerii Litskay was summoned to Moscow to explain that Tiraspol needed to renew direct talks with Chisinau.[53]

Voronin hopes to resolve the status dispute by 2009, the time of parliamentary elections in Moldova. This may be the last chance for Voronin to get a deal out of Moscow: should he stage another last-minute withdrawal, as he did with "Kozak memorandum," that would spell the end of the Kremlin's good will. Indeed, there are hopeful signs of renewed direct bilateral meetings, fora involving international sponsorship of the peace process, and OSCE and the EU diplomacy geared into action in addition to Russian mediation.

Multilateral and Informal Conflict Resolution Efforts

After fifteen years of intense diplomatic efforts, it appears that by and large international mediators have reached the end of the road in terms of proposing viable terms for settlement of these conflicts. In the case of Karabakh, the mediators have admitted that they have little left to propose. There are no disagreements among the OSCE Minsk Group co-chairs (U.S., France and Russia)—Karabakh is one of the few issues where French President Chirac, U.S. Secretary of State Rice and Russian President Putin all pushed in the same direction—with zero success. The co-chairs stated that:

> We have reached the limits of our creativity in the identification, formulation and finalization of these principles. We do not believe additional alternatives advanced by the mediators through additional meetings with the sides will produce a different result. If the two sides are unable to agree on those principles we have put forward, we believe it is now contingent upon them to work together to reach an alternative agreement that both find acceptable.[54]

[53] Vladimir Soloviev, "Приднестровье смирилось с Молдавией: Россия вынудила Игоря Смирнова к переговорам с Кишиневом," Kommersant, no. 33(3850), February 29, 2008.

[54] 'Statement by the Minsk Group Co-Chairs to the OSCE Permanent Council', June 22, 2006.

Recently Azerbaijan warned that it would review relations with France, Russia and the U.S. after they voted against a UN resolution calling on Armenia to pull out of Azerbaijani territory. The three countries argued that they have to remain neutral in their capacity as mediators, and therefore could not vote for the resolution.[55] In theory, Azerbaijan can turn for support to Muslim states, but this option is risky given the fears of Islamist influence at home and the fact that Muslim countries have so many "hot" conflicts on their plate that it is questionable whether they would be able to dedicate diplomatic resources to Karabakh.

While peacemaking in Karabakh was mostly an issue taken up by the OSCE, the conflict in Abkhazia received top-level attention at the UN. The UN provided 133 military observers (UN Observer Mission in Georgia, or UNOMiG), whose main function has been to monitor the Russian peacekeepers.[56] The position of a UN Secretary General Special Representative (SRSG) was created in 1993 to conduct political negotiations. Formal negotiations occur within the Geneva Peace Process chaired by the UN and facilitated by Russia, and include observers from the OSCE and "The Group of Friends of the UN Secretary General" (U.S., UK, Germany, France and Russia), but extensive rounds of negotiations failed to produce any substantial agreements.

Individual UN SRSGs changed over time, and so did their approach—either trying to tackle the problem head-on by designing political frameworks and elaborating a legal basis for reunification,[57] or working on practical aspects of bilateral interaction. In 1997 a Coordinating Council under UN auspices and three working groups were established—on non-resumption of violence, return of IDPs and on economic issues—but in 2001 fighting in Kodori halted the Council's work, and attempts to renew it during the Saakashvili presidency were again disrupted by violence in Kodori. Following deployment of

[55] *Interfax* News Agency, March 10, 2008.

[56] As of January 1, UNOMIG had 133 military observers from 32 countries in place to verify the ceasefire agreement between the Georgian Government and the Abkhaz authorities, and 19 police officers.—UNOMiG website, http://www.un.org/apps/news/story.asp?NewsID=25413&Cr=georgia&Cr1=&Kw1=UNOMIG&Kw2=&Kw3=.

[57] The most important document is the 'Paper on Basic Principles for the Distribution of Competencies between Tbilisi and Sukhumi' (the 'Boden Document) proposed by the then UN SGSR Dietrich Boden.

Georgian troops in Upper Kodori in July 2006, the Abkhaz maintain that they are prepared to discuss the Georgian military presence in Kodori only, and would not resume official negotiations before Georgian troops pull out. The Georgian side maintains that the issue of Upper Kodori is not negotiable.[58] As tensions on the ground mounted, the UN increasingly had to operate in crisis prevention mode rather than design new frameworks for settlement.

The OSCE has concentrated on the South Ossetian conflict and has had little clout in Abkhazia due to its overt commitment to the territorial integrity principle and its backing of Georgia's definition of displacement of ethnic Georgians from Abkhazia as "ethnic cleansing."[59] However, activities of the OSCE Mission on the ground have become gradually more accepted by the Abkhaz, and positive relations have been built, which have facilitated such practical engagement as the joint UN/ OSCE Human Rights Center in Abkhazia.

Still, none of these measures—negotiations, aid, military observation and high level diplomatic attention—has resulted in the outcome desired by the Georgian side, i.e. bringing the breakaway territories under Georgia's jurisdiction. Thus, disillusionment has settled in, and Georgians have become increasingly critical of the UN and OSCE, claiming that since they include Russia, this paralyzes their effectiveness in conflict resolution.[60] According to this logic, Georgia needs to join other international fora where Russia is not present and bring the weight of these other bodies to strengthen Georgia's hand.

Track Two Activities

Since 1995 international NGOs such as International Alert and Conciliation Resources, foundations (Heinrich Boell Stiftung), universities (Free University of Brussels with a program of work on elaboration of legal and constitutional arrangements, using federalism in Belgium as

[58] Report of the Secretary General to the UN Security Council on the situation in Abkhazia, Georgia, January 23, 2008, S/ 2008/ 38, http://daccessdds.un.org/doc/UNDOC/GEN/N08/212/01/PDF/N0821201.pdf?OpenElement.

[59] OSCE Budapest (1 December 1993), Lisbon (1 December 1996) and Istanbul (November 19, 1999) summit declarations.

[60] Various examples are cited, for instance, Russia's criticism of the OSCE border monitoring mission over North Caucasian border which eventually led to the mission closure—Alex Rondeli in remarks at the Tbilisi roundtable, October 2007.

a starting point) and international projects (mediation by the University of Kent team, Peacebuilding Framework project in Moldova) have opened and facilitated channels for political dialogue between parties to conflict. They have also worked on attitudes, elaboration of possible legal arrangements and social responses to the situation of division with the overall aim of creating enabling environment to reach sustainable peace. They also worked on democratization and building of social capital in the breakaway republics—activities eventually subjected to criticism by the governments of Georgia and Azerbaijan.

Georgian authorities have become increasingly disappointed with third party activities, which are felt to be entrenching the *status quo* instead of changing it. Pressure is growing on the conflict-resolution organizations and their funders to stick to the Georgian position and its version of settlement terms. In Azerbaijan there are also visible signs of frustration with confidence-building and peacemaking activities of the international NGOs.[61] Only in Moldova do they appear to have had a more welcoming reception.[62]

International NGOs have become more vocal in their advocacy for the non-recognized. Conciliation Resources, for instance, makes the point in relation to the Karabakh conflict that greater engagement with Karabakh as a de facto entity is essential, since de facto states represent an institutionalized form of non-state actor, which offers numerous opportunities for engagement. They have institutional structures and leaderships, and display degrees of pluralism and competition within their internal political orders. Thus, they argue, international interventions have to respond to the dynamics which have emerged since the conflicts rather than respond only to the original causes.[63] This point of view is echoed by the International Crisis Group (ICG), which argues the need "to promote democratization, civil society development and the rule of law, not as recognition of status but as a means to break their isolation, build confidence and avoid exclusion."[64] This stance is increasingly at odds with the recognized

[61] ICG Nagorno Karabakh Europe Report no. 187 (2007), pp. 15-16.

[62] For example, peacebuilding programme by PATRIR, a Romania-based organization, being sponsored by the Global Conflict Prevention Pool (the UK government).

[63] Conciliation Resources, Policy Briefing dedicated to the launch of The Limits of Leadership Accord no. 17, January 2006.

[64] ICG Europe Report, no. 173 (2006), p.4.

states. Cohen concludes that "In 2006-07 Georgian frustrations with the process and concerns about external engagement in Abkhazia reduced the space for international development and civil society initiatives."[65]

The United States

Although, as I argue elsewhere,[66] the Europeans and Americans have pursued similar policies towards aid and development in the Caucasus and Central Asia, their approaches towards unresolved conflicts, especially in Georgia, have been different.

Georgia is the priority country in the region for the United States. In one Russian expert's view, the U.S. has a number of advantages: realistic approaches stemming not from phobias and stereotypes, but from concrete analysis of the changing situation; its proclivity to work not only with the state, but with elites and with society at large; and its ability to draw on good regional experts. This makes the U.S. a proactive player and gives it an advantage over Russia.[67] The U.S. policy line has been of non-engagement with the breakaway territories and robust support for Georgia's territorial integrity. Consequently, USAID and other governmental funding has not been directed to Abkhazia and South Ossetia.[68]

The U.S. policy toward conflict management has been crucial, in large part due its enormous influence over the Georgian government.[69] Washington has counseled restraint with the Georgian leadership and preventing it from making provocative steps. After the Rose Revolution,

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[65] Jonathan Cohen, Accord, no. 19, op. cit.

[66] 'Donor Approaches to Aid in the Caucasus and Central Asia,' in A. Korhonen and D. Lehrer, (eds.) *Western Aid in Postcommunism: Effects and Side-Effects* (Basingstoke, Palgrave, 2008, forthcoming).

[67] Alexander Skakov, "Russian-Georgian Relations and the Role of External Factors in the Caucasus," pp. 28-41, pp. 28-29, in Peter Linke & Vitalii Naumkin (eds.), Особенности политической ситуации на Кавказе и подходы внешних сил, Rosa Luxemburg Foundation in cooperation with the Center for Strategic and Political Studies, Moscow, 2007.

[68] This does not apply to the U.S. private foundations that sponsored projects and enabled U.S. academics to travel there. World Vision has a substantial program in Abkhazia.

[69] On the extent and significance of the U.S. unprecedented support to Georgia see Achim Wennmann, op. cit., p. 53, also Edward Bell with Diana Klein, "Peacebuilding in the South Caucasus: What can the EU contribute?," London: International Alert, September 2006, pp. 11-12.

for example, Washington saw that a collision course with Moscow was counterproductive and that a complete breakdown in relations with Russia would not be in Georgia's strategic interests. Initially, Tbilisi was encouraged to take steps to foster a cooperative relationship.

In terms of analysis of the conflict, U.S. policy-making circles tend to adhere uncritically to the Georgian government's position regarding the conflicts, and show little willingness to engage with the perspectives of the other side, blaming non-resolution solely on Moscow.[70] This is hardly surprising, since Georgia has symbolic significance in the context of U.S.-Russia relations. The parties to conflict have sought to leverage rivalry between Washington and Moscow to their advantage.

Such a game may rest upon shaky foundations. As one senior Abkhaz politician put it, "the real danger for us is the coming to power of an overly pro-Russian leader in Georgia." Moreover, U.S.-Russian relations may improve, given the change in power in both capitals in 2008-2009. Dmitri Medvedev's election as Russia's President signals that Moscow is likely to take a generally pro-Western line. However, any Russian leader will avoid a repeat of the situation of the early Yeltsin period, when Russia was meant to feel content with a role of a junior partner in a U.S.-led world order.[71] Any U.S.-backed plan for resolution of Black Sea conflicts that did not involve Russia's endorsement or involve it as an equal partner would be met with counter measures.

The EU and its Member States

Individual European states, such as the UK (through the Global Conflict Prevention Pool), Germany (German political foundations) and Scandinavian countries (such as the FRESTA secretariat of the Danish Ministry of Foreign Affairs), and the European Commission have actively supported conflict resolution work, including in the unrecognized territories. EU aid to Abkhazia has amounted to €25 million since 1997 and around €7.5 million to South Ossetia.[72] In the mid-2000s the EU sought to play a proactive political role by creating

[70] Zeyno Baran, "Kosovo precedent no solution for Caucasus region," *Financial Times*, Letters To The Editor, May 17, 2006 placed on the Georgia MFA website, http://www.mfa.gov.ge/index.php?info_id=1413&lang_id=ENG&sec_id=85.

[71] Igor Zevelev, Mikhail Troitskiy, "Russia and China in the Mirror of U.S. Policies" October 17, 2007, © "Russia in Global Affairs". No. 4, October-December 2007, http://eng.globalaffairs.ru/.

[72] ICG South Caucasus report.

EU Special Representatives for the South Caucasus (2003) and for Moldova (2005).

The EU has not challenged the status quo in the Caucasus directly. Rather, its role has been a preventative one. It has concentrated on conflict transformation and on building capacities for peace.[73] The European Commission designed and financed programs in post-conflict recovery in South Ossetia (since 1994) and in Abkhazia (since 2005) and sought to bring parties closer together through an informal confidence-building process. As a result of its proactive role, it was granted observer status at the Joint Control Commission meetings in South Ossetia and there is a possibility that the EU will be included into the Group of Friends. The Commission's approach has been to encourage the parties to start building confidence and better understanding of each other's needs and realities by engaging in practical projects with each other and agreeing to joint decision-making on economic and social rehabilitation. Such activities, it is thought, could help to prepare the ground for a settlement. This is a long-term approach, aimed at building social capital on all sides. The EU has not taken as proactive a stance in the Karabakh conflict as it did with regard to Georgia, as it has hesitated to take sides in an inter-state conflict between Armenia and Azerbaijan.[74]

In the Transdniestria case EU action have been more robust. In 2007 the EU deployed a Border Monitoring Mission in support for the establishment of border restrictions between Transdniestria and Ukraine, over which the authorities in Chisinau had little control. Ukraine is a major player in this equation, since it borders on the breakaway region. Still, Kyiev has been careful to avoid putting too much pressure upon Transdniestria, where many of its ethnic kin live, and has been reluctant to enforce policies that could be unpopular at home.

The EU measures were aimed at weakening the Transdniestrian economy by restricting cross-border trade with Ukraine (the destination for most of the breakaway territory's exports), pushing it towards participating in the Moldovan economy and paying taxes to the Chisinau authorities. As a result, 90 percent of Transdniestrian export-

[73] Including strengthening capacities of the Office of the State Minister of Conflict Resolution Affairs (renamed "Ministry of Re-integration" in 2008).

[74] Marietta Konig, "Unexpected Home Waters: EU-Enlargement in the Wider Black Sea Region," pp. 74-94, p. 78 in Linke & Naumkin, op. cit.

oriented enterprises registered their businesses in Moldova. Exports grew 19 percent. However, it adversely affected the confidence-building process and led to internal consolidation of the Tiraspol regime, which before the border closure had started to lose popularity. Overall, the measures reinforced a sense in Transdniestria that "the West is against us and Moscow is our only friend."

Summary

The international community on the whole has done well, given that the outcome—non-resumption of hostilities—has been more positive than in unresolved conflicts elsewhere (e.g. Sri Lanka). The UN, OSCE and global civil society actors have made significant efforts to facilitate peace processes. Channels of communication have been opened and multiple options for settlement explored. Thousands of IDPs owe their survival to international aid. However, international actors have not been able to bring about formal resolution of the conflicts. This record is not unusual—international organizations have been unable to do so in many other areas. Still, this is not to say that their contribution has been in vain. The role of the international actors has been preventative by ensuring that the conflicts would not re-ignite, and that is probably the best they could have done. The record is better than in Kosovo and Bosnia, where non-resumption of hostilities required a robust international military presence for more than a decade.

In sum, one has to have realistic expectations on what external players can deliver if they have mostly positive incentives at their disposal. Neither the recognized states nor the breakaways are collapsing or failed polities. A solution cannot be easily imposed upon them. After the military campaign in Kosovo, it would be almost impossible to have another UN-sanctioned "humanitarian intervention," and there are more acute hotspots than the Black Sea area, with its relatively benign problem of unresolved conflicts. All parties have powerful allies on the international arena. It is unrealistic—and counterproductive—to expect that external mediators, rather than the parties themselves, can make the decision to compromise. Their role is to establish modalities for negotiations and introduce positive incentives for change, but with a sober realization that this may not work. For example, the "pull" of early entry into the EU has not nudged Serbia to drop its

claim upon Kosovo, and there is no reason to believe that Georgia would trade independence for Abkhazia for NATO or EU membership.

It is unlikely that external powers could coerce separatists into peace settlements they do not want. Rather, they can discourage parties to go to war once again, and encourage them to continue with the negotiation process. This is urgently needed in Georgia.

Factors for Change of the Status Quo

By 2003 an "unstable stability" had settled in the Black Sea area, a balancing act based upon parity between the main regional actors. The neighboring powers of Russia, Turkey and Iran have been on the whole satisfied with the status quo, while extra-regional powers—the U.S. and the EU—have not.[75] Since 2003 the region has again seen more turbulence. This section identifies internal and international factors capable of fostering change—for better or worse.

Internal Dynamics

First and foremost, internal political developments in the recognized states are key. Accession to power of new presidents—first in Armenia, and then in Azerbaijan and Georgia—rendered their countries' policies towards conflicts more hard-line and occasionally militant. Armenia's first president, Levon Ter-Petrossian, was forced out of office because of his softening stance on Karabakh. He was succeeded by a more nationalistic figure from Karabakh, Robert Kocharian. Young president Ilham Aliyev of Azerbaijan makes far more assertive statements on Karabakh than did his father. Yet despite the Azerbaijani leadership's rhetoric that "Karabakh will be ours one day soon," the appetite for a military solution is not apparent, while new-found prosperity has diverted popular attention to individual material interests rather than mobilizing towards collective ends. One reason for an upsurge in belligerent rhetoric may be that the society is preparing to go to war. An alternative explanation maybe that the leadership is aware that the loss of the territory matters for national self-esteem, but is unable to do much about it. Therefore it uses sloganeering as a substitute for action rather than a prelude to it. However, the situation

[75] Alexander Skakov, in Linke & Naumkin, op. cit. p. 28.

is tense enough that it could out of hand by default than by design, even if there is little substance behind the war rhetoric.

In Georgia the "Saakashvili factor" has been of paramount importance. Shevardnadze's approach—underpinned by his greater personal familiarity with Abkhazia—was to play a "good cop—bad cop" game: on the one hand, to engage with the opponents both directly and through mediation channels; and on the other hand to encourage highly vocal radicalism of the Abkhazia's "government-in exile." The latter was behind the low-key guerrilla warfare in eastern Abkhazia adjacent to Georgia proper, which the official leadership pretended not to be aware of. At the same time, non-governmental contacts have been encouraged and a belief in "people's diplomacy" has been popular.

The Rose Revolution was a decisive factor changing the dynamics of the conflict. Wennmann has observed that "there was a tacit understanding in Georgian government circles to deal first with Ajara, then with South Ossetia, then with the economy and ultimately with Abkhazia. Ajara turned out to be a success, South Ossetia a disaster; the economy and Abkhazia are still outstanding."[76]

Upon coming to power in January 2004 Mikhail Saakashvili declared that "Georgia's territorial integrity is the goal of my life" and promised to reintegrate Abkhazia by 2009.[77] In 2004–5 he restored the monopoly on violence by the state, brought proliferation of armed groups to a halt, purged the "government-in-exile" and moved it away from Tbilisi, and appointed new people to deal with the resolution of conflicts. Irakli Alasania, presidential representative for Georgian-Abkhaz relations and Giorgi Khaindrava, state minister for conflict resolution affairs, energetically engaged in the dialogue with the Abkhaz and South Ossetians. The separatists, in their turn, appreciated that Tbilisi finally started to take their security concerns and aspirations seriously. When Sergei Bagapsh was elected de facto president of Abkhazia in 2005, he took steps to put its house in order and reigned in Abkhaz paramilitaries that used to harass Georgian returnees. Hopes ran high that a lot of old baggage was cleared and real progress was possible. However, despite improved confidence, a speedy resolution on status has not been achieved.

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[76] Wennmann, op. cit., p. 53.

[77] 'New leader vows to hold next inauguration in Abkhazia', Civil Georgia, January 24, 2004, cited by ICG Abkhazia report.

From the new leadership's perspective, Shevardnadze's policy of "appeasement of separatists" did not bring the desired results. Tbilisi's approach changed during the years 2005 and 2006. Alasania and Khaindrava were both sacked from their jobs in July 2006. Defense Minister Iraklii Okruashvili, a notorious hawk, embarrassed the government in the eyes of the international community with statements such as his desire to "meet the new year of 2007 in Tskhinvali," which had a popular resonance among Georgian youth. The South Ossetian conflict, which was the closest to resolution during the Shevardnadze period, suffered major setbacks as a result of Tbilisi's actions and moved further away from resolution. International pressure apparently facilitated Okruashvili's downfall[78] and sent a clear message that despite all the support for Georgia, the military option would not be tolerated.

"Track two" contacts became increasingly discouraged by the officialdom. In 2007 a prominent civil society peace activist, Paata Zakareishvili, who has a long record of dialogue with the Abkhaz and Ossetians, was declared a "traitor" by Saakashvili personally. A media campaign of harassment ensued.

Frustrated with the inability to solve the problem quickly, and aware that a military intervention could be too risky in the light of a predictable western reaction, the Georgian leadership has come up with a new approach to dealing with the conflicts. Although not articulated in policy documents, its pillars can be sketched as follows: re-negotiation of ceasefire agreements, in which Russia plays a central role; establishment of alternative political structures in parallel to those of the *de facto* authorities, with a subsequent request to the international community to engage with these structures; bringing in new international actors who have not been involved previously, e.g. new EU member states or U.S. NGOs and more oversight of aid going to the breakaway territories.[79]

Along these lines, a parallel structure to the *de facto* authorities of South Ossetia has been created. The "Temporary Administration for Tskhinvali Region" was established by a law approved by the parliament on April 5, 2007. On May 12, 2007 Dmitri Sanakoev, a South

[78] It was widely believed by the local and international observers that the U.S. was behind the removal of Okruashvili from heading the Ministry of Defense, although U.S. officials never confirmed this—author's interviews in London (2006) and Tbilisi (2007).

[79] Author's interview with Tony Vaux, November 2007, London (by telephone).

Ossetian defector,[80] was appointed as its head. Efforts are being made to link up ethnic Georgian villages in South Ossetia with the rest of Georgia and provide developmental aid to the Temporary Administration, with assistance from the international community. Dmitri Sanakoev was given an opportunity to address the 9th session of the EU-Georgia Parliamentary Cooperation Committee in June 2007 in Brussels, an invitation which interpreted by the international media and by Georgia as a clear signal of endorsement of its new policy and a message to the de facto authorities that the EU is on their side.

Georgian authorities are considering doing the same in Abkhazia, but so far attempts to draft an ethnic Abkhaz politician of some standing to act as a figurehead for a parallel structure have not met with success.[81] Instead, the "government-in-exile" (representing ethnic Georgian former residents of Abkhazia) is no longer in exile, as it was moved into the Upper Kodori, following Georgian troops.

Economic Dynamics

While the Georgian and Moldovan economies are not very prone to massive upheavals, the situation may be different for Azerbaijan, which is hugely dependent on oil revenues. Its reserves are expected to decline by 2012. Revenues would decline correspondingly, even without a massive drop in oil prices. Some observers, such as the International Crisis Group, predict a boom-and-bust scenario, in which a sharp economic decline leads to popular dissatisfaction, which the government seeks to divert by starting a new war over Karabakh.[82]

However, even if the prediction of oil reserve decline is correct, there are other mitigating factors to prevent the economy from a sharp downturn: a) the government is aware of the danger and has implemented measures to establish national financial reserves and diversify the economy; b) the country is well-integrated with other high-performing economies to the north (Russia) and east (Kazakhstan); c) service industries are being developed that capitalize on emergence of a growing middle class. By 2012 Azerbaijan's economy

[80] Dmitri Sanakoev used to be a 'minister of defense' of the self-proclaimed republic at one point and can claim credentials in speaking for the Ossetians who are not happy with the Kokoity leadership—author's interview with Paata Zakareishvili, Tbilisi, November 2007.

[81] Author's interview with Paata Zakareishvili, November 2007.

[82] ICG Nagorno Karabakh Risking War, Crisis Group Europe Report, no. 187, November 14, 2007.

may be able to withstand the challenge of declining oil revenue. Moreover, because oil wealth is distributed unevenly and the majority of the population has to rely on other sources of income, a drop in energy revenue may not be a dramatic experience for society at large.

Azerbaijan has a great deal to lose economically should it provoke a new war. Energy pipelines are likely to be disrupted, oil majors such as BP are likely to curtail their operations, and the international reputation of the country would suffer. Newly-found prosperity could easily turn into dust. Hard-earned diplomatic achievements would be severely undermined on the international arena. These considerations are likely to put severe restraints upon the leadership.

Military Buildup

After young leaders came to power in Azerbaijan and Georgia, both countries vastly increased their defense expenditure. Baku's military expenses increased in 2004-2005 by 51 percent and rose a further 82 percent in 2006.[83] In 2007 the military budget rose to $1.1 billion. However, it is unclear whether greater investments in hardware led to vast improvements in military professionalism.[84] Violence returned to Karabakh—on March 4, 2008 the worse fighting in many years broke out, resulting in a full day of hostilities. Observers blame the fighting on post-electoral turmoil in Armenia and recognition of Kosovo status.[85] The Azeri army also may have been testing Armenian capabilities.

Georgia spent $220 million on defense in 2006 and intended to spend around $600 million in 2007.[86] Georgia's military build-up looks more combat-ready: thanks to U.S. military aid, Georgia's armed forces have undergone robust training. After 9/11, the country was the greatest beneficiary of U.S. security assistance in the CIS, receiving $31.9 million in financial year 2002, $41.4 million in 2003 and $38.5 million in 2004.[87] The U.S. provided the country with bilateral security assistance, including training through the International Military Education and Training (IMET) program. The Georgia

[83] Stockholm International Peace Research Institute database.

[84] 'Nagorno Karabakh: Risking War," ICG Europe Report no. 187, November 14, 2007.

[85] Xenia Solyanskaya, "Вздорный Карабах," March 4, 2008, http://www.gazeta.ru/politics/2008/03/04_a_2657501.shtml Previously most casualties were due to sniper fire.

[86] "2007 Defense spending to Reach almost GEL 1 bln," *Civil Georgia*, May 1, 2007.

[87] U.S. Department of State, "Congressional budget justification for foreign operations," April 15, 2002, http://www.fas.org.

Train and Equip Program (GTEP) ended in 2004, giving way to the Georgia Sustainment and Stability Operations Program launched in January 2005. Partnership with the U.S. state of Georgia's National Guard, visits by the Sixth Fleet and the Coast Guard to Georgia, and a Bilateral Working Group on Defense and Military Cooperation were also offered.[88] Georgian troops acquired combat experience in the war in Iraq, to which Georgia has contributed 2,000 troops. Other troops have been sent to Afghanistan.[89]

Steps were taken to show the separatists that use of force as a last resort is possible. Deployment of Georgian troops into South Ossetia led to violent clashes in August 2004, and were repeated the next summer. A 100,000 strong-reserve force with the aim of protecting territorial integrity was announced. In April 2006 a military base was opened at the former Soviet airfield at Senaki in the vicinity of the Abkhaz border. Crime-fighting operations in Kodori against local Svan strongmen in the summer of 2006 resulted in a Georgian government operation to take control of the Kodori Gorge—administratively part of Abkhazia but not under its rule. This gave the Georgian side two sites (in the lowlands and in the highlands) from which intervention into Abkhazia could be launched.

Security incidents around breakaway territories—some of them leading to serious violence—increased in 2006-2007. Participation of U.S. trained troops in operations in South Ossetia in 2004 made the separatists think that U.S. assistance is meant to create a rapid reaction force to be used against them. Construction of a Georgian military base less than twenty miles from Tskhinvali is regarded as serving an offensive purpose. The Georgian government began to organize sports camps for patriotic youth, one of them in the village of Ganmukhuri, located next to the border with Abkhazia. This initiative was strongly criticized by the UN Secretary-General and the Group of Friends.[90] Shortly after recognition of Kosovo, Georgian military

[88] http://www.state.gov/r/pa/ei/bgn/5253.htm.

[89] *Agence France Presse*, January 8, 2008.

[90] "In the view of UNOMIG, the build-up of forces and emotions during the incident [near the camp between Georgian Ministry of Interior personnel and the CIS forces] could easily have led to fatalities."—UNSG Report, January 23, 2008. President Saakashvili called the previous criticism warning about the dangers of locating the camp next to the security zone, 'amoral and miserable advice' in his speech to the participants, in Malkhaz Alkhazashvili, "Saakashvili unwisely prefaces international address by dressing down the UN," *The Messenger*, September 11, 2007, *Georgia News Digest* September 12, 2007, quoted by Coppieters.

forces were relocated in March 2008 toward the Abkhazian-Georgian line of contact, and the Abkhaz announced a mobilization of 2,500 reservists.[91] In April 2008 a Georgian unmanned military surveillance plane was shot down over Abkhazia in the zone adjacent to the line of contact. The Abkhaz insisted on their right to shoot down aircraft in demilitarized zone, while the Georgians claim that the plane was downed by the Russian forces. This is already a second incident of such nature, escalating tensions in the de facto border area.

As noted by de Waal, "the leaders of Azerbaijan and Georgia fear that they are losing the breakaway territories and drop ever heavier hints that they could use military action to reconquer them. Thanks to new Caspian Sea oil revenues, Azerbaijan has the fastest-growing defense budget in the world."[92] Still, despite the saber ratting in Tbilisi, it cannot be assumed that the Georgian government has been bracing itself for an attack. There is a significant peace constituency among Georgian elites and among the IDP community, contrary to belief of many.[93] More probably the reasoning was that—by the same token as in Ajara—the separatist regimes are fragile and about to collapse, and a little pressure from Tbilisi would tip the balance.

This proved to be based on a false premise, and the Georgian military escapades only provoked the separatists into rearming, boosting their fighting capabilities and turning to Moscow for help. The military buildup around Gori, confronting South Ossetia, and deployment in the Upper Kodori in Abkhazia gave the separatists reasons to believe that Georgia had been developing a more serious army in order to prepare military intervention against them. They responded by purchasing Russian weapons and inviting Russian military instructors to

[91] There are 4500 regular troops in Abkhaz army and 10,000 reservists who can be mobilized —Kavkaz Center, http://www.kavkazcenter.com/eng/content/2008/03/01/9375.shtml.

[92] Thomas de Waal, "Separation Anxiety," IWPR Comment, www.iwpr.net, Feb. 20, 2008.

[93] E.g. Achim Wennmann, pp. 54-55. However, war-mongering and bellicose attitudes among the IDP communities are not confirmed by the author's own field findings in the context of evaluation of the UNDP 'New Approach to IDP Assistance' programe, Georgia, 2005. Interviews with IDPs in temporary accommodation centers revealed their desire to return to Abkhazia in a peaceful way and resume what in their view were friendly and cordial relations with the Abkhaz. The picture they imagined might have been too rosy against the grim reality of war and separation. Those who fought the war on the Georgian side openly state that return for them is impossible, and they are the most determined to integrate into the new conditions. The same is confirmed by the International Center's on Conflict and Negotiations' work with IDPs—author's interview with Prof. Georgi Khutsishvili, Tbilisi.

train their self-defense forces. Both sides ratcheted up the tension in their stand-off, but the arms race did not fundamentally change the military parity between them.

A more real danger posed the military build-up is the potential for the situation getting out of hand spontaneously, with one side provoking the other into hostilities, generating a military response, in a manner not dissimilar to how these conflicts originally started.

International Factors

Recently, extra-regional developments brought new impetus for resolution of conflicts—and new fears by some that resolution might not be on their terms. These developments include recognition of Kosovo's independence by the U.S. and a number of EU countries; possible NATO membership for Georgia; and Russia's desire to build better relations with the West, signified by Dmitrii Medvedev's election as president in Russia.

Kosovo Fallout

The U.S. argument that Kosovo does not create a precedent for conflicts in the Caucasus is essentially a political one and can only be carried out by political means. The European expert community is far less convinced that "Kosovo is a special case" and that it does not create a precedent. Thomas de Waal notes that "whatever Western governments choose to say, this will strengthen the confidence of the Caucasian separatist territories that time is on their side and that the facts on the ground will eventually be recognized in perpetuity."[94] In the light of Kosovo independence, it is not enough to say to the Abkhaz, South Ossetians and Transdniestrians that Kosovo is a unique case. They are unlikely to be satisfied with a federal option that the Kosovars rejected. The Kosovo case has created a situation in which open debate regarding the right to secession is no longer a taboo subject. De Waal argues that the Abkhaz claim to sovereignty should be examined on its merit and displaced Georgians should be able to state their rights. This would present a basis to address issues that are now impossible to discuss.

[94] Thomas de Waal, "Nowhere Land," *Wall Street Journal* November 20, 2007.

The recognition of Kosovo brought the "no values, interests only" discourse to the fore, since the crucial factor behind recognition was the extent of Western government support for it. Therefore, a substantial debate on the merits of the case for recognition of other separatist conflicts is unavoidable if the international community wants to dispel the sense that Kosovo gained recognition only on the grounds that the West was pro-Albanian and anti-Serb. In March 2008 the parliaments of Abkhazia and South Ossetia sent a formal request for recognition to such international bodies as the UN, OSCE and the EU.[95] In the light of Kosovo independence, their requests cannot simply be dismissed.

Now that Kosovo independence has been recognized by the Western powers, it has become more difficult both for Russia and the West to insist on territorial integrity as enshrined by OSCE principles. The message Kosovo independence has sent is that this principle—and possibly other principles—can be bent for political reasons and according to the relationship that separatists in any particular case have with the West. Appeals to respect of international law sound less convincing in the post-Kosovo world—the "might makes right" principle has gained momentum.

The decision on Kosovo status also underscored Russia's diminishing say in international affairs. Despite Russia's permanent seat at the UN Security Council, it can be bypassed in international decision-making by the U.S. and the EU when they act together. Russia cannot prevent this from happening globally, nor does it have global interests of a kind the Soviet Union had, but this realization does not happen without consequences. In Russia's own neighborhood Moscow will seek to ensure that the U.S. and the EU cannot simply do as they please, and is likely to resist unilateral Western action more effectively than in Kosovo case.

Kosovo independence is unlikely to prompt Moscow to revise its approach to the conflicts of the wider Black Sea region. "The Russian leadership has never said that after Kosovo we will immediately recognize Abkhazia and South Ossetia,"[96] insisted Russian Foreign Minister Sergei Lavrov. However, Kosovo has provided an argument that can

[95] RFE/RL Newsline, March 7, 2008.

[96] RFE/RL Newsline, March 7, 2008.

be used if the stakes are raised. So far, nothing dramatic has happened. Still, the Kremlin took steps interpreted by Tbilisi as further annexation of its breakaway territories by opening representation offices there which are to promote business, trade and social ties on an official basis. This does not change the situation on the ground, because these processes have been underway anyhow, but presently they acquired a formal government's backing and are meant as a statement. However, the Transdniestrian case is different for Moscow—the Russian Duma MPs insisted that they view Moldova and Transdniestria as one state, with a special legal status for the region, to guarantee a wide range of rights.[97]

Russia's position is essential, but not sufficient, to take the matter further. The separatists would have to create enough support by the CIS states and possibly Turkey—given the Abkhaz diaspora there and the Cyprus problem—to seriously prepare the ground for recognition. They have already set up a "Community for Democracy and Peoples' Rights," which unites Abkhazia, South Ossetia and Transdniestria and which may attract other members outside of the CIS. Moscow would not risk a collision course with the West, unless there are changes in the international system more significant than developments in the unrecognized territories of the Black Sea. Nonetheless, the separatists are now armed with a powerful argument, and will continue to lobby Moscow accordingly.

International recognition of the breakaways, based on the Kosovo precedent, would not solve their problems once and for all, since Georgia and Moldova would not accept such a development and would be able to rally Western support behind their positions. However, recognition by a number of governments would give the breakaways better protection against any attempt to subjugate them by force.

Georgia's Bid for Membership in NATO

A major sticking point between Russia and the West is NATO entry for the CIS countries. Moldova does not seek such membership, and

[97] Vladimir Soloviev, "Слушания выслушали вполуха: Абхазии, Южной Осетии и Приднестровью дали поиграть в Косово," *Kommersant*, no. 41(3858), March 14, 2008.

so is in a different position than Georgia, which actively seeks entry into the Alliance. 72.2 percent of the Georgian public expressed their support for their country's entry into NATO in a plebiscite conducted simultaneously with the January 2008 presidential elections.[98] The process leading to Georgia's entry into NATO is likely to have a profound impact upon prospects for resolution of the separatist conflicts. If membership turns from a political slogan into a tangible prospect, i.e. that its current Intensified Dialogue status changes to a Membership Action Plan with a clear timetable, which could lead to its eventual accession to the Alliance, this may prompt Russia to start planning for eventual recognition of independence of Abkhazia and South Ossetia, and to deploy Russian military contingents in these territories.

At the NATO Bucharest Summit in April 2008, the Alliance stopped short of offering Georgia a Membership Action Plan, but did indicate that it saw Georgia's future in the Alliance at some unspecified point in time.

The U.S., along with a number of new NATO members (the Baltic states, Poland, the Czech Republic) support Georgia's NATO bid. U.S. Deputy Assistant Secretary of State for European and Eurasian Affairs Mathew Bryza stated that "pleasing Russia, or avoiding Russia's displeasure when it comes to NATO enlargement, is not something that drives our policy. We believe that every European country that aspires to NATO membership and fulfils the criteria should have the door open to NATO membership. We are hoping that Georgia will fulfill those criteria."[99] "Old Europe," such as Germany, France, Greece, Italy, Norway and Spain, wary of antagonizing the Kremlin, have been more reluctant, and led the opposition at the Bucharest Summit to offering Georgia a Membership Action Plan. In this context de Waal argues that "to put Georgia on a fast-track into NATO is… irresponsible. The Alliance should not be expected to absorb a country that has two unresolved conflict zones with Russian peacekeepers in them. The danger is that if Georgia joins NATO before the conflicts are resolved, those peacekeepers will simply change their helmets."[100]

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[98] www.gazeta.ru January 12, 2008, http://www.gazeta.ru/politics/2008/01/12_a_2543912.shtml.

[99] Quoted by Brian Whitmore, 'Georgia: With New Political Landscape, Can Stability Prevail?', *Radio Free Europe/ Radio Liberty*, January 11, 2008.

[100] Thomas de Waal, "Nowhere Land," *Wall Street Journal*, November 20, 2007.

From Moscow's perspective, the question of recognition of Abkhazia, South Ossetia and Transdniestria depends not on recognition of Kosovo, but on the overall state of Russian-Georgian and Russian-Moldovan relations, in which NATO membership is a crucial element.[101] It would also be related to the prevailing mood in transatlantic relations.

Medvedev's election has signaled that Russia is interested in mending relations with the West. Russia's unilateral assertiveness is unlikely, given that it would have to pay a heavy price for recognition of the breakaways. This could change, however, depending how events shape up. Georgia's entry into NATO could be a big step towards loss of its breakaway territories.

Withdrawal of Russian Troops and Prospects for Alternative Peacekeeping

Russian peacekeeping is a problem for Georgia. Since 1994, Russian peacekeepers have lost 112 dead[102] in the Abkhazia conflict zone. The May 1994 Moscow Agreement, signed under UN auspices and under Russian facilitation, stipulated the ceasefire and provided for a peacekeeping force (under the CIS, but in reality Russian). It is a target for revision, however. The deployment of peacekeepers is based on consent of both of the conflict parties, which gives them leverage to ask the force to leave. On July 17, 2006 the Georgian parliament passed a resolution requesting the government to ask the peacekeepers to withdraw. While resolutions similar in tone were passed under Shevardnadze with no further consequences other than serving as a vent for political frustration, under the new government they have became more serious. In October 2007 Mikheil Saakashvili told the Georgian public that he addressed a request to the CIS to terminate the peacekeeping mission, but nothing happened,[103] and in March 2008 Temuri Yakobashvili, the new State Minister for Reintegration, reiterated that the mandate of Russian peacekeepers had to be altered since they could no longer be present in the zone of conflict.[104]

[101] Author's interview with Irina Zvyagelskaya, Institute of Oriental Studies, Russian Academy of Sciences, Moscow, February 2008.

[102] http://www.newsru.com/world/18jul2006/gruz.html, July 2006.

[103] Author's interview with Paata Zakareishvili.

[104] Ilya Azar, Alexander Artemyev, "Nedokosovo," March 7, 2008, http://www.gazeta.ru/politics/2008/03/07_a_2661318.shtml.

The presence of Russian peacekeepers in Georgia does not rule out for Georgia the option of using force as a last resort. However, it makes unlikely any scenario in which Georgian troops would attack and achieve a decisive victory quickly before the world realizes what is happening. The separatists are likely to put up strong resistance and intend to fight to the end. Support by the North Caucasian kinship groups is likely. A bloody and drawn-out war would be a massive blow to Georgia's international reputation. Such a war would generate a major outcry in European capitals, upon whose good will Tbilisi relies. Moreover, Western media is not as hostile to the Caucasian separatists as they have been towards Serbs, and are likely to present the matter in a more objective fashion.

Tbilisi embarked on an aggressive verbal campaign against the CIS peacekeepers, alleging various incidents of violence. The UN Secretary General Ban Ki-Moon voiced concern about Georgia's representation of peacekeeper' misconduct, and indicated that he sensed a "disconnect" between realities on the ground and media or official statements regarding "a string of allegations concerning either the deployment of forces on both sides of the ceasefire line or incidents involving the Abkhaz forces or the CIS peacekeeping force." In his January 2008 report on the situation in Abkhazia he warned that "fanning fear and hostility through misrepresentation will only entrench [the image of the enemy] further." "From a conflict-prevention viewpoint," he continued, "one side's false allegations can only raise the other side's suspicion that preparations for the use of force are afoot, and lead it to take countermeasures, thus triggering a potentially dangerous escalation."[105]

Georgia's aspiration is either to have no peacekeepers, as in Karabakh, or to replace Russian force with peacekeepers from the new

[105] "Misrepresentations fanning fears in Georgian-Abkhaz dispute, says Ban Ki-moon," January 25, 2008, http://www.un.org/apps/news/story.asp?NewsID=25413&Cr=georgia&Cr1=&Kw1=UNOMIG&Kw2=&Kw3= Regarding the allegations, the Report further states that "The Mission investigated them ex officio or at the request of the sides and found most of them baseless or exaggerated." "A widespread sense of uncertainty and alarm was fuelled throughout the period by an almost daily flow of inaccurate reports originating in the Georgian media and, occasionally, by the Georgian authorities themselves. Each individual allegation may have had little impact, but cumulatively they have contributed to growing distrust and insecurity, ultimately increasing the chances of confrontation." "There were also a growing number of allegations levelled specifically at the CIS peacekeeping force in the Gali sector. After verification by UNOMIG patrols, those allegations, too, proved mostly groundless." Report of the UN Secretary General to the UN Security Council, January 23, 2008.

EU member states and Ukraine. In 2007 there was an attempt to create peacekeeping forces under GUAM,[106] but Moldova vetoed the decision. The EU has declared that it in principle would be prepared to send peacekeepers to Georgia (although so far the EU ESDP missions have not included "peacekeeping" *per se*), but has been reluctant to consider an operation that would not be acceptable to the separatists and to Russia. In practice, it could not even agree on a Border Support Team in 2005 to replace the OSCE border monitoring mission on the Russian–Georgian border. It may be less problematic to assemble a "coalition of the willing" operation, but it would be difficult to legitimize it internationally and make it acceptable for the Abkhaz and South Ossetian sides. While withdrawal of the CIS peacekeeping force is possible—and will automatically trigger a withdrawal of the UNOMiG observers, whose mandate is tied up with the peacekeeping force—its replacement with workable alternatives is unlikely.

Disagreements about the role of the Russian military exist in South Ossetia and Moldova as well. At the same time, there is a sense, especially in Moldova, that "peacekeeping," in the traditional sense of military forces armed with conventional weapons, is over and there is a need for a mobile team of civilian experts in crisis management (police/rule of law type), in which the EU has experience, for instance through its ESDP missions in the Western Balkans. A joint operation of this kind between Russia and the EU is quite feasible, and would be acceptable for both parties.

In sum, external actors find that the status quo is tolerable and far preferable to a sharp increase in regional tensions, which would drag Russia in and force the West to face uncomfortable choices. The use of force is one solution for dealing with de facto states, but it is unlikely to be supported by the international community.

Conclusion

Ethno-territorial disputes have been an inevitable consequence of the collapse of empires, be they British, French, Ottoman or Haps-

[106] GUAM stands for Georgia, Ukraine, Azerbaijan and Moldova, and used to include Uzbekistan, which opted out in 2005. GUAM is widely regarded as an alternative structure to Russia-led regional projects.

burg. The end of the USSR was no different in this respect. The crisis and ultimate collapse of the empire created a window of opportunity for a number of identity groups to assert their dissatisfaction with the status of territories as a result of the empire's division. These groups anticipated that the break down of the USSR would be bad news for them, and voted to preserve the Union.[107] The years 1989-1993 represented a unique period, when it was possible for particular groups to resist inclusion into larger political entities. This can be explained by the state of crisis the emergent states had been in. A later attempt in Chechnya failed.

The Caucasus countries and Moldova were not the only states affected by ethno-political grievances at the time. However, full-blown armed conflicts erupted only there. This implies that there is some significance to the notions of a regional neighborhood and a domino effect of conflicts, even if in symbolic terms.

In all four cases the breakaway territories survived and developed with very little amount of aid, with the exception of Karabakh. They all have democratic forms of government, although in some places democracy is more real (Abkhazia) than in others (Karabakh). The governments perform their social mandate and, by regional standards, deliver material (services) and non-material (security) public goods. The Transdniestrian economy has been performing well above the Moldovan one for a long time. This means a) the breakaway territories have evolved into viable *self-governing entities with* essential *features of statehood* [in Westphalian sense] and b) the *role of external aid* has been *marginal*.

The consequence of consolidation of statehood in the breakaway territories is that the ruling elites are either not challenged internally, or, when they are (Abkhazia), are able to resolve or resist these challenges, since they have successfully survived crises in the past. Consensus exists in societies that they have paid the price for separation and has now become a reality. Thus, the idea that the separatist leaders are preventing their people from resolution is based on a false premise. There is no internal pressure to change the status quo.

[107] Smirnov's interview is characteristically titled: 'We have never left the Soviet Union', Kommersant-Daily.

Unless the unrecognized territories fall into turmoil following military conquest, the mentality of resistance is more likely to result in internal consolidation. Attempts to threaten the separatists with force only tends to unite their societies behind them and to suppress internal grievances in the face of external threat (Abkhazia). Relaxed attitudes towards cross border interaction and benign rhetoric, on the contrary, work towards rapprochement and foster the emergence of diverse political forces (Transdniestria).

The external environment matters for unresolved conflicts, since the parties to conflict play a role of proxies to Cold War rivalries. Old rivalries are replayed in Georgia and Moldova more than in any other part of the world. On the one hand, external influences and support ensure that neither party gains a substantial military advantage over the other, and patrons constrain their proxies from acting irresponsibly. On the other hand, reliance on "big allies" precludes parties to conflict to take direct negotiations with each other seriously enough.

Karabakh offers a contrasting example, since rivalries between Russia and America play no role and the notion of a Cold War revival does not apply. Yet resolution is equally distant, indicating that the significance of external actors should not be exaggerated.

Although the external parties contributed to rearmament of their proxies (in Georgia), direct military intervention (as by NATO in Kosovo) is extremely unlikely. It would be impossible to achieve consensus on the use of force in the West without a clear and direct threat to the security of western countries. Otherwise, unless the West is prepared to change the status quo by force, economic and social factors pull the separatists toward Russia.

There is an argument that the conflicts are de facto resolved, but that their resolution is not recognized by anybody but the separatists themselves. Perhaps in a situation of such intense ethnic grievances and recent history of bloodshed the breakaway territories can peacefully coexist and interact with their host states only on a basis of inclusion into a larger regional entity with an overarching political framework and regulatory mechanisms, as the Soviet Union has been before and what the EU represents for its members. Ideas of applying the EU model to the South Caucasus have been developed, such as the "EU Stability

Pact" for the Caucasus.[108] The rationality of this logic is beyond doubt, but it faces compelling political obstacles, such as the consolidation of independent statehood. In this context, the notion of giving up a degree of sovereignty would be seen as a threat, and likely to contribute to closed economic systems and authoritarian tendencies in politics.[109] Regional integration in the Black Sea area is nowhere in sight.

If there is an ethno-territorial conflict in the making, prevention has much better chance of success than re-integration after a war which separatists have won (Macedonia versus Northern Cyprus). Otherwise, peaceful re-integration of separatist territories may had been possible in the short period when the military action just ended, but before the breakaway entities consolidated internally politically and economically, and before great power rivalries became entrenched. The effects of separation are crucial: there is hope when people's contacts are strong, and little hope when societies grow apart.

A stalemate may be broken down incrementally over the longer-term if the parameters of the game are changed from arguments over the status of territories to actions that foster greater economic and social interaction in spite of political differences. This would require opening of trade and transit routes that are currently closed, launching regional programs equally open to all—including Russia—and adapting mindsets to new realities. There is no guarantee that this approach would work. Still, any coercive options are less likely to bear resolution, but could backfire very badly.[110]

The factor of fear is important for separatists. However, it does not work to facilitate a desire to re-join the host states. The effect it produces is to reinforce defenses and build up military capabilities

[108] First outlined in Sergiu Celac, Michael Emerson, "A Stability Pact for the Caucasus, a new deal for the whole region, incorporating: a South Caucasus Community, Russian/EU/U.S. Southern Dimension cooperation, enhanced Black Sea-Caucasus-Caspian cooperation" A consulting document for the CEPS Task Force for the Caucasus, Working Document no. 145, May 2000. See also *Europeanization and Conflict Resolution: Case Studies from the European Periphery*, by Bruno Coppieters, Michael Emerson, Michale Huysseune, Tamara Kovziridze, Gergana Noutcheva, Nathalie Tocci, Marius Vahl, Gent, Academic Press, 2004.

[109] Mehman Aliev, "European model as a basis for emergence of united Caucasian space," pp. 55-62, in Linke & Naumkin, op. cit.

[110] On the worst, middle and best case scenarios see de Waal and Matveeva, 'Central Asia and the Caucasus: a Vulnerable Crescent,' Coping with Crisis Working Paper Series, New York: International Peace Academy, February 2007.

(Karabakh) or to turn to an ally (Abkhazia and Ossetia to Russia) to seek protection. For example, Georgia's NATO bid reinforced the fear in Abkhazia and South Ossetia that Georgian membership in an Alliance with a recent history of military intervention in internal matters of other states (Bosnia, Kosovo, Afghanistan) would magnify a threat against them. In Moldova, in contrast, there is little fear that reunification would result in a direct physical security threat. This makes the dispute more prone to resolution.

The factor of time is also significant. While there was a period when major shifts have been possible (1989-1994), the region has stabilized and reshaped itself since then. State consolidation, to a different degree, has been a progressive trend. Alternative poles of attraction (Russia and Ukraine) have emerged and play a role of "pull" factors for the separatists, against which the host states have to compete with their more limited potential. Coppieters points out to the significance of the "time factor," arguing that Georgia and the EU agree on the principle of territorial integrity based on the USSR republican borders, but while Tbilisi is striving for a quick settlement, the EU fears that Georgian impatience may lead to escalation of conflicts to violent and unmanageable levels.

Lastly, the value discourse also plays a role. From the separatists' point of view, the West is playing a game of double standards. When small and at that time defenseless entities were attacked by "democratizing" troops from host states, the West remained silent. It was also slow and reluctant to admit the provocative actions by the Georgian side towards Abkhazia (subversive activities of Georgian guerrillas in the 1990s) and, with the exception of Karabakh, demonstrated a reluctance to acknowledge the validity of their perspective and the fact that they have suffered in the conflicts as well. This created a perception that value arguments are relative, and that they depend on who is making the argument.

While the dispute in Moldova is on the way to resolution, there are no compelling reasons why the status quo would not last for years and decades in the Caucasus. Cyprus and Taiwan offer precedents for such a possibility. The idea of delayed status, with the possibility of eventually opening a serious debate on recognition within an agreed time frame, may be an option.[111]

[111] The idea is being discussed at the Russian Parliament, only in very general terms. Elina Bilevskaya, Ilya Azar, "Полунезависимые," www.gazeta.ru, March 13, 2008.

If one rules out the possibility of renewed wars, various alternatives to the status quo may be conceivable.

Although South Ossetia insists on the same status as Abkhazia, it is likely to be content with re-integration into North Ossetia in Russia, and is too small to function independently. A general improvement in Russian—Georgian relations with active trade and transit along the route would make the practical consequences minimal.

It is unrealistic to expect that Abkhazia would agree to autonomy status within Georgia as proposed by President Saakashvili in March 2008, or that it would trade sovereignty for promises of western economic aid. Policymakers need to take into account that the alternative to recognition of sovereignty of Abkhazia—with or without a treaty linking it to Georgia—is not its re-integration with Georgia, but its integration into Russia. Recognition of Abkhazia's sovereignty, conditioned on recognition on rights of displaced Georgians to return or to receive compensation for their property, may be the preferred option. Compared to the present situation, it would be a huge improvement for the displaced. It would be easier for the international community, in the same way as in Kosovo, to insist that certain conditions are met before sovereignty is confirmed, such as rights of the displaced. However, if Abkhazia is incorporated de facto into Krasnodar krai, both Georgia and the international community would lose any leverage—and perhaps lose direct access as well.

Since this is unlikely to happen, continuation of the status quo is the most feasible option, because the constraints upon the parties are greater than the factors pushing them to war. In the absence of resolution, however, the breakaway territories would be further incorporated into the neighboring/kin states, and drift away from the ones they broke from in their practical economic, social and cultural interactions, losing Georgian or Azeri language skills and the experience of interethnic mix. Unless human interaction is restored soon, there will be little to connect the peoples together, and the question of sovereignty could wither away.

Expanding the European Area of Stability and Democracy to the Wider Black Sea Region

Svante Cornell and Anna Jonsson

NATO's April 2008 Bucharest Summit took the historic decision of stating unequivocally that Georgia and Ukraine will eventually be members of the Alliance. This historic decision was a key step in the expansion of the European area of stability and democracy to include the wider Black Sea region. Indeed, since the aftermath of World War II, European integration and cooperation has been the leading force making the continent whole, stable and democratic. The European Union (EU), along with NATO and the Council of Europe, is the chief representative of this historic process. European integration has brought what has come to be called democratic security to an ever-growing part of the world, now gradually expanding to include the wider Black Sea area. However, the pace and modalities of democratic development have gradually changed as the European area of democracy and peace expands eastwards.

The transition to democracy in central and eastern Europe took place relatively rapidly and painlessly, and was fueled by the prospect of membership in the EU and NATO. In the states of the former Soviet Union outside the Baltic states, however, democratic breakthroughs did not occur in the first decade of independence, and these states until recently did not have prospects of membership in the EU or NATO. Instead, various forms of semi-authoritarian rule developed across the post-Soviet states, and no democratic breakthrough took place for the first decade of their independence—quite to the contrary, a backlash was visible in several states, most notably Russia. But this sense of gloom changed in 2003, when what soon came to be known as the "Rose Revolution" in Georgia ushered into power a Western-educated elite that pledged allegiance to democratic princi-

ples and the building of a functioning state based on the rule of law. A year later, the process was duplicated in Ukraine's Orange Revolution.

These twin processes constituted the greatest advances so far in the development of sustainable democracy in the post-Soviet space. Together with the EU's expansion into southeastern Europe, they contributed to the emergence of a wider Black Sea region that is increasingly accepted as constituting Europe's southeastern corner; and brought back hopes for the political development of the remainder of the post-Soviet states. Yet as has been experienced in both states, revolution by itself did not bring democracy, and the new leaderships faced immense domestic and external challenges to their stated goal. Domestically, reforming the Soviet-style bureaucracy, fighting corruption, dealing with virulent and sometimes irresponsible opposition, and managing authoritarian tendencies within the ruling elite have constituted difficult tests. Externally, both states have had to contend with a resurgent and aggressively hostile Russia, whose leadership felt directly threatened by democratic revolutions on its periphery. Indeed, Russia's President Putin made it his mission to contain and if possible roll back the democratic achievements in Georgia and Ukraine, fearing that they would otherwise eventually spread to Russia itself and threaten the form of government there.

This chapter discusses the development of deeper democratic institutions in the entire region, and their permissive conditions as well as obstacles. The paper argues that democratic development in the wider Black Sea region, at the basic level, is a function of the regional states' capacity to provide human security to their citizens. This is the case as the democratic rights and liberties of individuals are unlikely to be exercised in the absence of basic security, which in turn requires that the state be in control both of its governing institutions and its territory. In other words, the paper concurs with Francis Fukuyama that consolidated democracy is a function of consolidated "stateness," and that the weakness of stateness and the rule of law, including the continued unresolved status of territorial conflicts across the region, is one of the main explanations of the region's democratic deficit. As the paper will show, Western policies toward the region have not been sufficiently structured in a way as to strengthen the stateness in the regional countries. The chapter begins with a brief overview of the situation in the wider Black Sea region, before moving to a discussion of

Western policies in support of democratization. The chapter then seeks to conceptualize the region's evolution in terms of democratic security.

Weak States and Developing Democracies in the Wider Black Sea Region

The countries of the wider Black Sea region are unique among "emerging democracies" in their relationship to Euro-Atlantic institutions. Even resource-rich countries such as Azerbaijan and Kazakhstan, which could be thought to eschew reforms due to their wealth, realize that their economic lifeline and their continued independence is linked to the westward transportation of energy to European markets. The region's close proximity to Europe and the states' increasing interconnectedness with European economies and polities make the prospect of the gradual building of democratic institutions more plausible than for most states. Yet in spite of this, and of substantial Western resources invested in democratization efforts in the region, the process has been remarkably slower than in central Europe in the 1990s. This has objective reasons: the region lacks a tradition of democratic political culture, and a weakness of statehood, and its economic conditions were worse than those of central Europe or the Baltic states. Indeed, all states in the wider Black Sea Region suffer from inefficient and weak state institutions. Bulgaria and Romania stand out due to the strong support and the carrot provided by the transition to EU membership, while the secessionist areas of Azerbaijan, Georgia, and Moldova stand out on the other extreme due to the very fact that they lack functioning rule of law institutions.

Romania and Bulgaria

Romania and Bulgaria have become full members of the EU and NATO, but continue to experience problems with their justice systems and with corruption. Aside from the judicial system per se, corruption, the fight against organized crime, money laundering, and police cooperation have been highlighted by the EU, which has demanded continued progress in these areas.[1] Yet it must be recognized that in spite

[1] Monitoring report on the state of the preparedness for EU membership of Bulgaria and Romania, Brussels June 29, 2006, COM(2006) 549 final. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2006/sept/report_bg_ro_2006_en.pdf.

of remaining institutional weaknesses, Romania and Bulgaria are the most successful Black Sea states in terms of state building and democratic reform. Indeed, their condition in the mid-1990s was not very different from the characteristics of the most advanced states of the former Soviet Union today, such as Ukraine and Georgia. This makes the EU's approach to them all the more a success story: decisive engagement through economic support coupled with strict conditionality and a membership perspective is considered by Romanian academics as a key to the country's remarkable transformation. The concept could potentially be applied to other Black Sea States, which face similar problems as Romania and Bulgaria did during the 1990s.[2] However, the question is whether the absence of a membership carrot makes such a prospect toothless.

Turkey

While being a strategic NATO member since 1952, Turkey's road to the EU has been long and fraught with difficulties. Turkey has been a pluralistic democracy since 1950, but the process of building sustainable democracy has been interrupted at several occasions by political instability and military interventions. This is the case today as well, with a deep and destabilizing rift between the elected, moderate Islamist government and the entrenched secularist state structures. Aside from the ongoing conflict over Turkey's form of government and the role of religion in politics, its main problem with regard to European integration has been its human rights deficit and the treatment of minorities, mainly pertaining to the conflict surrounding the Kurdish population of southeastern Turkey. These problems have been closely connected to the Turkish establishment's perception of vulnerability of the state to internal and external threats. But while domestic troubles, mainly the military's intervention into politics, have hurt Turkey's EU aspirations, it should be noted that this never prevented democratic development from resuming once order had been re-established. Unlike their Latin American or southeast Asian contemporaries, the Turkish military never aspired to retain power, only to prevent what they perceived to be aberrations of the democratic political process. This enabled a gradual progress in democracy and human rights to take place, though this progress was often slow.

[2] Interviews, Bucharest, July 2006.

In the past several years, important changes in the Turkish political, societal and economical systems have been implemented. In fields such as human rights and rule of law, reforms have now put Turkey on track for full membership in the EU, although the timeframe is still uncertain. These positive reforms are the direct effect of the Turkish government's commitment since 2002 to EU membership and a newly found understanding that the membership process requires confronting and dealing with many difficult domestic issues. That said, since 2005 the Turkish EU accession process has slowed down, in great part due to the internal affairs both of the EU and Turkey. In Europe, enlargement fatigue and the growing opposition in key states such as Germany and France to Turkish membership has led to mixed signals coming from Europe, adding to Turkish concerns of European double standards. In particular, the EU's failure to follow through on its promises to address the Cyprus issue and the isolation of Northern Cyprus has been seen in Turkey as a betrayal.

In Turkey itself, the controversy over the ruling Justice and Development Party's (AKP) record in government began to consume most of the country's energies beginning in 2007. Long distrusted by the secular elite and population in Turkey, the AKP's decision to eschew compromise in the election of the country's next president in early 2007 triggered a political crisis that had yet to abate by mid-2008. The AKP's insistence on electing a "religious president" was as an alarm bell in secular circles, leading to unrest in the military leadership as well as huge demonstrations gathering literally millions of people, primarily women, to protest against the perceived encroachment on the secular republic. The AKP gambled on its successful economic record and the disarray in the political opposition and called early elections, which it won in a landslide. But having promised to seek consensus in his victory speech, Prime Minister Recep Tayyip Erdogan instead increasingly moved toward confrontation with the secular establishment. Indeed, the AKP seemed to interpret its re-election as a green light for majority rule, feeling little need to either compromise or to hold a dialogue with the opposition. That posed the prospect of deepened confrontation and polarization in Turkey, a society split into conservative-religious and secular halves. The AKP's bureaucratic appointment policies, its hurried amendment of the constitution to allow for religious headscarves in universities, and a series of other moves contributed to heightening political tensions, triggering a law-

suit for the ruling party's closure by the chief state prosecutor in early 2008.

Europe and America have an important role to play in helping Turkey steer through this controversy. But as in the former Soviet Union, Western powers have tended to have an electoral-focused understanding of democracy, hence supporting the democratically elected party's policies while paying little attention to the country's context and the long-term implications of the AKP's Islamicization policies. Indeed, Europe found itself in the uncommon position of supporting an Islamist party against the secular, culturally more European parts of the population. This in turn led to growing disenchantment with the EU among Turkey's population. The Islamist-leaning portions of the population were never the carriers of Europeanization in Turkey, and the secular forces increasingly see the EU as a destabilizing element in the country. As a result, the three main political forces in Turkey have questionable democratic credentials and are to some extent anti-European On the one hand, the left-wing and right-wing nationalists have turned increasingly anti-EU and exhibit strong authoritarian tendencies. On the other hand, the moderate Islamists of the AKP remain in many ways intent on Islamicizing the country, something they have been able to do through democratic processes in the past several years. Whether their commitment to democracy would survive should they prove unable to continue this process remains an open question.

Europe's challenge in Turkey will be to strike a balance between the short-term goals of Turkey abiding by electoral democratic principles, and the long-term goal of supporting the continued Europeanization of the country, a future that is difficult to imagine in a Turkey that is less secular and more Islamic in its politics.

Ukraine

The so-called Orange Revolution during the fall and winter of 2004-2005 gave rise to hopes for a rapid process of democratization in Ukraine. The government of President Viktor Yushchenko initially set up an ambitious agenda aimed at reforming and strengthening state institutions and combating corruption. Progress on these issues proved hard to achieve in practice, however, and most problems inher-

ited from the Kuchma regime remain. According to the Sigma Governance Assessment Report of March 2006, the Ukrainian legal system was largely flawed, hampering judicial predictability. The civil service lacks professionalism and is largely politicized, while state institutions are unaccountable and the policy system highly centralized. These features together provide for a lack of coherence in governmental action and provide a fertile ground for corruption and mismanagement.[3]

Post-revolutionary Ukrainian politics have been marked by increasing divisions within the Ukrainian leadership. The resignation of Yulia Timoshenko as prime minister in 2005 and the weak results in the 2006 parliamentary elections marked a crisis for Yushchenko's leadership, as he was forced to appoint his former rival for the Presidency, Viktor Yanukovich, as prime minister. The return to power of Timoshenko in Fall 2007, dubbed the second Orange coalition, nevertheless brought back a pro-Western and reform-minded government to power. The series of elections and changes of government in Ukraine imply that the country has proved itself capable of one of the cornerstones of a democratic system: changes of power as a result of democratic elections. That said, Ukraine has important shortcoming in terms of the establishment of the rule of law and state-building, and its polarized political climate and uneasy relationship with Russia continue to pose major challenges to its progress.

Although Ukraine has had a change of power as a result of competitive elections and hence could be termed an electoral democracy, the Ukrainian state clearly performs badly in terms of rule of law and one could also argue that the state's sovereignty has never really been consolidated since internal power struggles and the misuse of official power and office still puts serious restraints on the capabilities of the state to deliver in terms of human and democratic security. As is the case in Russia, elections have turned into a tool for economic and political elites to cling to power and wealth. And as is the case in most of the countries in the Wider Black Sea region, the Ukrainian state has not been able to create strong enough loyalty on behalf of its citizens towards the state apparatus, which mostly is a result of the lacking rule of law and the near-epidemic degree of corruption in the

[3] Support for Improvement in Governance and Management (SIGMA), *Ukraine Governance Assessment*, OECD/EU, March 2006, Available at http://www.oecd.org/dataoecd/46/63/37127312.pdf.

country. This conclusion is all the more serious taking into consideration Russian involvement in Ukrainian domestic politics and the ever-lingering question of dividing the country into one Ukrainian and one Russian part, which was most recently raised by President Putin as a threat at NATO's Bucharest summit.

Moldova

By far the poorest country in Europe, Moldova struggles with state-building, democratization and economic reform. Moldova bears most signs of weak statehood in terms of limited institutional capacity, rampant corruption, a weak judicial system and government control over mass media. Nevertheless, Moldova stands out by having had several elections leading to a change in power, and by a lesser conflation of economic and political power than most post-Soviet countries. Moldova has taken an increasingly Western turn in its foreign policy and considers integration with Europe a main priority. The main instrument for the implementation of the ENP in cooperation between EU and Moldova in these fields is the EU-Moldova Action Plan, where strengthening of administrative and judicial capacity, ensuring respect for freedom of expression and freedom of the media and enhancing long term sustainability of economic policy are mentioned as specific priorities.[4] However, progress in the implementation of the Action Plan has been slow and reform in the areas listed above remains quite limited.[5] A serious impediment to strengthening the Moldovan state is the unresolved conflict in Transdniestria, circumscribing Moldovan sovereignty and granting Russia leverage against Moldova's orientation towards the EU. Residents of Transdniestria enjoy little of the democratic progress seen in Moldova. The territory's *de facto* government allows no free elections and no political opposition to speak of, and ethnic Moldovans are in practice relegated to second-class citizens, and prohibited from studying Moldovan in the Latin alphabet.[6]

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[4] *EU/Moldova Action Plan*, February 2005.

[5] Expert Group and Adept, "European Union-Republic of Moldova Action Plan: Assessment of Progress in 2nd Quarter of 2006," *Euromonitor*, April 2006.

[6] See eg. Freedom House, "Transnistria (Moldova)," *Freedom in the World 2006 (*New York: Freedom House, 2006).

The Moldovan state building process has been and continues to be problematic from many aspects—mainly its unresolved conflict and its continued status as the poorest country in Europe. However, if comparing the two, poverty clearly is the most serious problem facing the Moldovan government in both the short and long term. Nevertheless, in order to come to terms with both the secessionist ambitions of Transdniestria and poverty, Moldova needs to enhance the capacity of its state apparatus to deliver human and democratic security to its citizens. The lacking rule of law creates a less efficient state administration, which in its turn further decreases the population's trust in the government. Corruption is still a quite considerable hindrance to security and development in the country. Should the Moldovan government be able to deliver democratic and human security to its people, Moscow's influence would probably diminish and the population of Transdniestria might feel an increasing loyalty to Chisinau. Nevertheless, for this scenario to be realized, sincere rule of law reform is needed. The EU does have a very important leverage on Moldova, taking into consideration the country's size and geographic location.

Georgia

Georgia's 2003 Rose Revolution prompted the most significant and far-reaching set of reforms carried out in any post-Soviet state outside the Baltic states. The new government, led by President Mikheil Saakashvili, embarked on a full-ranging reform of the state apparatus, coupled with an impressive anti-corruption program. This also entailed a substantial purge of personnel in state institutions, and the arrival to power of a new generation of leaders, many of which were western-educated. Indeed, within less than two years, Georgia turned from a failing state into an increasingly functioning democracy. Whereas some authoritarian tendencies and corruption have lingered in the country, the changes in Georgia have been remarkable. The government rapidly managed to triple the state budget and to conduct a far-reaching cleanup of the police and interior ministry. Moreover, the central government restored control over the wayward Ajaria region formerly controlled by a local strongman. Successes in the fight against rampant organized crime are being followed by continued reforms of state institutions, not least in the judicial sector. Nevertheless, the Saakashvili administration's democratic aura was somewhat

tarnished by the confrontation of November 2007, when massive opposition demonstrations rocked the capital city. The government's reformist zeal had led to rapid GDP growth but also to substantial socio-economic consequences, which the government had failed to pay attention to. As a result, disenchantment with government policies grew. When a weak and divided opposition found financial support from Georgia's richest man, business tycoon Badri Patarkatsishvili, it proved able to channel the popular disenchantment into political action. In particular, Patarkatsishvili's ownership of the country's most popular TV channel, Imedi TV, enabled the opposition a vehicle of influence unknown to most post-Soviet opposition forces. Fearing a loss of control over the situation and aware that Patarkatsishvili's attempts to undermine the government included deeply undemocratic means, the government cracked down on protestors on November 7, with what has generally been accepted to be excessive force. Nevertheless, President Saakashvili restored most of his democratic credentials by calling early presidential elections for January 5, 2008. These elections, judged by international observers to conform to most OSCE standards, vindicated the Georgian government's credentials. Nevertheless, they did point to the difficulty of striking balances between state-building reforms, on the one hand, and democratic inclusiveness on the other.

Georgia's crisis also indicated the deeply polarized nature of its political climate, and the lack of democratic maturity and responsibility among political actors. The opposition's tendency of taking to the streets instead of communicating its demands within the country's institutional framework was a factor undermining the democratic process. Also, unrest and a weakened state apparatus opened up to the exploitation of Georgia's national interests by foreign and transnational actors. Primary among these was and remains the role of Russia, which can be counted upon to exploit any weakening of the Georgian state. The lack of clarity of Russia's role in the unrest and in its ties to the opposition's main financier was a factor adding to the government's insecurity and siege mentality. Importantly, the 2008 election campaign highlighted the danger that asymmetric threats can pose to a nascent democracy. The main asymmetric threat was the role played by Patarkatsishvili, who had exploited the openness of Georgia's political system for his political aims. He founded a TV station that served as a mouthpiece for increasingly fierce anti-government rhetoric; used

his fortune to finance opposition political parties and forces, and organizing protestors. The dangers posed were clearly indicated by audio and video evidence presented by a government sting operation, which showed that Patarkatsishvili plotted to utilize the elections to foment a coup against the authorities. This was done by seeking to bribe a high-level police figure to "reveal" made-up evidence of electoral fraud on election day, which in turn would be used to bring out popular anger and topple the government—something leading Georgian political scientist Ghia Nodia termed the "falsification of falsifications." Had Georgian authorities not been able to expose this plot, it could have made serious damage to the election process. Indeed, the episode highlights the difficulty faced by democratic states in countering non-democratic opponents seeking to exploit and abuse the democratic system and the popular mood.

The external (Russian) factor, as well as asymmetric threats, are serious impediments to Georgia's prospects of consolidating democracy. Indeed, should these threats continue while the Georgian political system remains weak, authoritarian sentiments could easily be rekindled among Georgia's political forces, some of which may conclude that Georgia cannot, under current circumstances, afford the "luxury" of democracy. This prospect makes it all the more necessary for Georgia's Western partners to invest in engagement and dialogue with all legitimate political forces in Georgia to strengthen democratic institutions.

Georgia's prospects of establishing a sustainable democracy are hindered by the unresolved conflicts over South Ossetia and Abkhazia. These regions have been unaffected by the Rose Revolution and the ensuing progress in governance. In particular, the ethnic Georgian population originally inhabiting these areas either remains as displaced persons living elsewhere in Georgia, or live either as second-class citizens in the two secessionist entities or in a legal limbo in areas that are for most practical purposes uncontrolled. The situation is most pressing for the ethnic Georgian of the Gali district of Abkhazia. As such, they are not enjoying the improving governance that has benefited the rest of Georgia's citizens. As for the citizens of the unrecognized republics, their ability to participate in politics and to have their rights enforced varies. Abkhazia has come further in terms of a participatory political system, with a sense of interaction between

Abkhaz *de facto* authorities and their society being apparent. Nevertheless, this system remains fundamentally flawed as long as it does not permit the voice of the ethnic Georgian community from being a part of the political process.[7] As for South Ossetia, the elite appears much more closely aligned with Moscow, and much less of an independent actor in touch with the population it claims to represent.

Armenia

Armenia has continued to exhibit a semi-authoritarian form of government. A relatively free media and political pluralism coexist with the persistence of flawed elections, none of which has been recognized by the international community. Armenia was in the forefront of reform in the early 1990s, yet this gave way to a development similar to that of its neighbors. Armenia's media situation has deteriorated somewhat in recent years, while the parliament has come to be increasingly dominated by business interests. In the past several years, the government of Robert Kocharyan has increasingly lost in domestic popularity, in spite of continuous economic growth. However, Armenia has been the country in the South Caucasus most intent on developing its action plan within the European Neighborhood Policy, and is seen as a leader in reforming the economic sector. Political reform has nevertheless lagged behind, with the government refraining from relinquishing control over the political spectrum. Yet the opposition remains divided as well, as shown most clearly by its abortive attempt to copycat the Georgian Rose Revolution in 2004, which garnered only limited public support.

By contrast, the 2007 presidential elections saw a succession of power within the ruling elite from Kocharyan to his long-term associate, former Prime Minister and earlier Defense Minister Serge Sarkissian. The presidential elections were hotly disputed, with opposition forces alleging systematic fraud. Opposition protests were ruthlessly suppressed by government intervention, resulting in the death of at least eight protestors in post-election violence, and the jailing of over 100 political prisoners, many of which were kept under arrest for months without being charged with a crime.

[7] See eg. Freedom House, "Abkhazia (Georgia)," *Freedom in the World 2006* (New York: Freedom House, 2006).

The succession implied the continued dominance of a Karabakh elite over Armenian politics—Sarkissian served as mountainous Karabakh's defense minister in the early 1990s, when Kocharyan was the President of the secessionist enclave. The Kocharyan presidency worked to build state institutions and was important for providing a sound economic basis to the country. Nevertheless, much reform will be required in the political sector to overcome the present democratic deficit, further tarnished by the post-election violence.

Azerbaijan

Azerbaijan could also be classified as a country torn between democratization and authoritarianism. The government, exercising control over broadcast media, is nevertheless faced by a vociferous yet divided opposition, and relatively free print media. As in Armenia, no Azerbaijani election has been characterized as free and fair, and the government maintains a secure control over the parliament. Nevertheless, successive elections have seen a move toward a parliament consisting less of ruling party loyalists, and increasingly consists of a more mixed array of forces, with increasing prominence of business people. This is partly due to the majoritarian electoral system, which makes financial power an important asset in winning elections, especially outside the capital. Azerbaijan saw the succession to long-time strongman Heydar Aliyev in 2003, which led to his son, Ilham Aliyev, taking up the presidency after a troubled election in 2003, whose result was violently contested by the opposition. There is nevertheless little doubt that Ilham Aliyev commands substantial popularity, derived in great part from the government's economic windfall resulting from oil exports, as well as his success in establishing an aura of merging continuity, implying stability, with change, implying economic reform. The main impediment to Aliyev's reforms—and to the development of strong state institutions and a democratic political culture—is the continued power of entrenched regional and economic elites within the government. These forces, inherited from the chaotic 1990s, withstand moves for reform, and limit the President's ability to conduct autonomous policies. Seeing these elements as formidable forces than cannot easily be unseated, the President has adopted a strategy of measured and gradual reform in the political field while embracing more rapid reforms in the economy. The

reforms that have been conducted have generally been positively appraised, nevertheless the pace of political reform remains excruciatingly slow. Much remains to be done in the electoral system, in the freedom of the press, in the building of strong state institutions, and not least in the judicial and interior ministry sectors and the struggle against corruption. In particular, the presidential elections to be held in October 2008 are likely to indicate Azerbaijan's path. Whereas reforms appeared to slow ahead of the election, the question is whereas President Aliyev in his second and last term will follow through on some of the political reforms that he has promised but has yet to deliver on. Clearly, the conduct of the election will be a major indication of the road ahead.

In terms of democratic security, the main impediment in Azerbaijan lies in the fate of the over 800,000 displaced persons from the Nagorno-Karabakh conflict. Given that their territories remain under occupation, they are unable to return to their homes, retaining hence a status as displaced people. Azerbaijani authorities are increasingly accepting their integration into mainstream Azerbaijani society, in spite of earlier reluctance to do so as it implies *de facto* recognition of the results of ethnic cleansing. The future of this large population group is very unclear, while the territory of Nagorno-Karabakh itself is closely integrated with Armenian politics, as evidenced by the transfer of Karabakh politicians to leading positions in Armenia proper.

North Caucasus

Clearly, the most serious failure to uphold human security in the wider Black Sea region can be found in the uncontrolled territories such as the secessionist republics and the Russian North Caucasus. These areas are plagued by ethnic cleansing, lack of protection of life and property, discrimination, and poor education and medical care. The North Caucasus, in particular, has been plagued by the erosion of state institutions. The war in Chechnya has been the region's major conflagration, which led to the breakdown of basic societal stability in the war-torn republic. Russian troops, and of late the ethnic Chechen militia groups loyal to Moscow, engage in systematic abuses against the civilian population that have obliterated any prospects of human security. Russia's inability to stabilize the region led to a policy of centralization of power across the North Caucasus, which has in turn

exacerbated the situation, leading to an erosion of stability in republics neighboring Chechnya. This is coupled with an enormous shadow economy and entrenched informal as well as criminal structures. Among other, almost all ethnic Russians have either left the North Caucasus or are planning to do so.[8] A memorandum written by President Putin's special representative to the North Caucasus, Dmitri Kozak, indicated an acute awareness of the crisis in the region. The report noted that "Further ignoring the problems and attempts to drive them deep down by force could lead to an uncontrolled chain of events whose logical result will be open social, interethnic, and religious conflicts in Dagestan".[9] The North Caucasus is rapidly developing into a failed state within the Russian Federation.

Western Policies

The main focus of Western strategies to support democratization in the wider Black Sea region has been on achieving free and fair elections, while a secondary focus has been on the building of civil society. These are important objectives by any measure. However, the focus on elections and civil society has often been excessive, and overshadowed the deeper and equally important question of building functioning state institutions.

Indeed, an electoral focus allows the focusing of efforts on a single event, thereby being both media-friendly and permitting government officials to focus on developments in a given country at a given time. Yet the more arduous task of building the institutions that lie as the basis for a functioning democratic society have not been given the attention they deserve. As a result, the focus on elections has failed to bring about the desired results. Across Eurasia, governments have learned how to handle elections, ensuring their incumbency without having to intervene on election day as was formerly the case. Instead, government can use the advantages of incumbency in terms of the use of media, money and exploiting divisions among the opposition to stay in power. More importantly, even in states that have seen elections leading to changes of power, this has not necessarily led to the

[8] John B. Dunlop, "Dmitry Kozak's Plan for the North Caucasus," address to the Central Asia-Caucasus Institute Forum, Washington, December 6, 2006.

[9] As published in *Moskovsky Komsomolets*, July 8, 2005. See Andrei Smirnov, "Leaked Memo Shows Kremlin Fears Collapse of Dagestan," *Eurasia Daily Monitor*, July 14, 2005.

improvement of the judicial framework or the rule of law, let alone a reduction of corruption.

On a broader level, Western assistance to the former Soviet states has largely failed to achieve its objectives. Western donors fundamentally misunderstood the region's politics and their implications. In devising aid strategies, the West did three things: first, it confused means and aims; second, it deliberately avoided the unresolved conflicts, the main problem of the region; and third, it eschewed dealing with state-building, instead preferring to build "civil society."

Confusing Aims and Means

The Western approach has been plagued by a confusion of aims and means. Western democratization assistance has appeared to see democracy not only as a goal to achieve, but also as the method by which this goal achieves itself. Democracy is hence both treated as the goal and the way to achieve that goal. But this does not always correspond to the reality of the building of sustainable democracy. Countries that have embarked on free elections without functioning state institutions have often rapidly degenerated into economic downturn, widespread corruption and unrest, and in the process compromising the very concept of democracy. This scenario, of course, is not far from what happened in the Soviet successor states in the early 1990s —leading at best to the building of what Fareed Zakaria terms "illiberal democracies." But stable democracies in the long term evolve not out of snap elections but out of the long-term building of statehood and the emergence of economic prosperity and a middle class, which gradually works to limit the state's encroachment on its rights. Hence the rule of law can gradually be built while the state is liberalizing, with the ruling elite gradually and irrevocably losing its control of society, leading to political democratization. This model of democratization has arguably yielded much more promising and stable results than electoral democracies that have seen the liberalization of the electoral system without the gradual building of the rule of law.

Eschewing State-Building for Elections and Civil Society

Donors appear to have concluded that the governing structures in the states of Eurasia were corrupt and unreformed—a correct charac-

terization. The substantial funds spent for democratization assistance have not been spent primarily on building and reforming state institutions. Instead, they have tended to be targeted toward building parallel structures in civil society. This aimed at laying the foundation for voluntary associations that could survive autonomously after having been created. Yet in practice, these efforts instead often led to the emergence of groups dependent on Western funds and unable to survive independently of Western donors. A good portion of these groups positioned themselves in opposition, agitating against governments rather than working with them for true reform. Governments, meanwhile, came to see support for civil society as support for oppositional forces.

Aside from this focus on civil society, Western donors focused their attention on elections rather than state-building. Whereas support for electoral systems and international electoral observation missions consumed many resources, the equally important but tedious work of continual institution-building was given comparatively scant attention. In particular, the security sector—specifically the police, interior ministry, customs, and judiciary—continue to be the least reformed, least efficient and most corrupt institutions in the states of the region. The weakness of the security sector impedes the building of democratic and accountable states across the region, because these institutions, with which citizens interact more often than any other sector save perhaps education, are key to public confidence in the state and the government. Indeed, their practices have alienated many loyal citizens, exacerbating existing socio-economic frustration.

Western aid programs and foundations in response have tended to focus their assistance on entities such as political parties and NGOs, and treating local officialdom and the police as unredeemable pariahs. Across the former Soviet Union, the police and the ministries of internal affairs that control them remain the most unreformed part of the governments, representing a powerful and anti-reform faction, locked in struggle with reformist elements concentrated in other parts of the governments. The strength of these forces imply that the presidents cannot ignore or override them. Ministers in the security sector typically run widely corrupt and dysfunctional institutions that enjoy little or no support among the population, while greasing the wheels of their fiefdoms by skimming budgets and extorting money from civilians through their lower ranks. Georgia's reform of the police is the exception rather than the rule.

Western disengagement from these sectors helped perpetuate the very practices that development cooperation has been intent on counteracting and rooting out. Against this background, it is clear that stable societies cannot be built in disregard for the security sector and legal system, that is to say, in dissonance with state institutions. When seventy percent of the police force is corrupt, strengthening civil society will be futile. True development will take place only if support for civil society is balanced with efforts to build the state institutions that are prerequisites for a functioning and influential civil society. Building the rule of law is crucial, since society built on justice and equity must be the basis of any democratic development.

It is therefore imperative for Western policies to answer to the challenge and focus increasingly on working with, rather than against, government agencies in the process of reforming the security sector. This would be a most substantial contribution to reducing the perhaps largest impediment to democratic development, good governance, and the respect of human rights.

Keys to the Region: Unresolved Conflicts

Western efforts to support the development of the states of the wider Black Sea region have largely avoided the unresolved territorial conflicts that form the regional states' main problem. Development cooperation has seemed to operate under the assumption that the conflicts cannot be solved with the resources available. This in turn led Western institutions to pay lip service to negotiation "processes" that have generally been moribund, instead of making conflict resolution a central part of their agenda. The implication has been to circumvent the conflicts. Development cooperation has hence tended to work on everything but the conflicts, seeking to develop civil society, governance, transparency, agriculture, gender equality, and education, to name only a few areas. However, in spite of their considerable merit, these efforts have failed to change the fundamental fact that the unresolved conflicts remain at the heart of the failure of reform and achieve visible progress in all of these sectors. Ten years of experience has shown that the failure to work on the conflicts has been a recipe for the failure to build strong, democratic societies in the region. Instead, Western institutions and powers have permitted Russia to maintain a dominant role in the conflict resolution processes and peacekeeping in the conflicts,

in spite of Moscow's increasingly clear intervention in the conflict zones, which has made it a party to the conflicts rather than an impartial arbiter. Indeed, the fallacy of this policy was on clear display by early 2008, when Moscow accelerated its process of seeking control over Georgia's conflict zones in the middle of an election campaign ahead of the country's parliamentary elections.

Western Policy Tools

There are important differences that need to be taken into account when assessing the prospects for attaining the long-term goal of democratic security in the Black Sea Region. First, in central and eastern Europe the process of international socialization, i.e. the diffusion of democratic and rule of law institutions and values, was successful for two main reasons. First, the prospect of membership in NATO and the EU created a positive incentive to reform that also gave the West various tools of leverage. Second, most of the states in central and eastern Europe had a tradition of democratic politics and a strong European identity on which they could draw. Neither of these factors apply to the states of the Black Sea region.

The Council of Europe, in which all regional states are members, provided the forum for learning and disseminating the values of democracy and the rule of law. Yet as noted previously, the carrot of membership in the EU and NATO is present across the region. Romania and Bulgaria have gained membership in the EU, Turkey is a candidate country with accession negotiations under way, and all three are members of NATO. Yet the EU deals with Moldova, Ukraine and the states of the South Caucasus through the European Neighborhood Policy (ENP). ENP offers a privileged relationship, built upon a mutual commitment to democracy and human rights, the rule of law, good governance, market economy principles and sustainable development. The ENP in this sense goes beyond existing relationships to offer a deeper political relationship and economic integration. Yet ENP is not about enlargement, and explicitly fails to offer an accession perspective, which weakens its potential as a carrot for reforms.

Countries in the wider Black Sea region that are not already closely affiliated with the EU at present are unlikely to see their prospects improve in the near future, given the enlargement fatigue prevailing

in Europe. Since all the states are already members of the Council of Europe, the only remaining institutional carrot is NATO. Clearly, this undermines the impact on domestic reforms of the EU and the Council of Europe. Yet it does require European institutions to develop a long-term policy that is both pragmatic and value-based in order to be effective.

Democratic Security: Conceptual Discussion

Democracy and the rule of law, two pillars upon which democratic security rests, are two concepts with both theoretical and political connotations. Used and misused in the transitions following the dissolution of the Soviet Union, they have come to mean everything and nothing. They have even come to carry potentially negative connotations among parts of the population and policymakers in the region. It is therefore of outmost importance to be clear on what the main purpose of democratic security is. The concept's main purpose is to create a situation in which the state *per se* is strong enough to uphold necessary democracy and rule of law institutions such as regular open and free elections and an independent judiciary, at the same time as it acts as the guarantor for both state and human security. State security means that the state is able to establish and protect its sovereignty against both external and internal threats. Human security, on the other hand, refers to a situation where individuals living within a state are secure in terms of freedom, social and economic welfare and the protection of life and property.

Human security as both a policy goal and as an academic idea has contributed to the integration of the development and security communities.[10] States such as Canada, Norway and Japan have made human security part of their foreign policy agenda. The common core for the human security discourse is its starting point in the needs of individuals—it focuses on "the needs of socially embedded individuals" as two scholars so elegantly put it.[11] The main goal is to establish a secure enough environment for individuals to realize their economic,

[10] Gary King and Christopher J.L. Murray, "Rethinking Human Security," *Political Science Quarterly*, vol. 116, no. 4, 2001-02, p. 589.

[11] Des Gasper and Than-Dam Truong, "Deepening Development Ethics: From Economism to Human Development to Human Security," *The European Journal of Development Research*, Volume 17 no. 3, p. 377.

political and social capabilities. Generally, the increasing focus on human security indicates a shift from state interests both in terms of security and economic development towards an increasing focus on individuals, hence a people-centered approach to development and security. This approach recognizes that the state-centered approach to security is inadequate when threats to both state and human security are increasingly transnational in character.

Human security has four essential characteristics: It is universal, its components are independent, it focuses on prevention since its method is prevention, and it is people-centered.[12] According to the 1994 UNDP *Human Development Report* there are seven categories of threats to human security. These are: economic, food, health, environment, personal, community and political.[13]

The Interrelationship of Democracy, Rule of Law and Human Security

Clearly, it is difficult, if not impossible to maintain a clear dividing line between the three components of democratic security as defined above. All three components are more or less a function of each other. Rule of law is a vital precondition for human security, while democracy as such provides legitimacy to the state and hence stability in the long run. The very minimum requirements of human security such as protection of life, access to food and medical care clearly need to be attended at an initial point. Following this basis, establishing functioning law enforcement agencies and other public service agencies is necessary to provide human security. Already at this point issues related to democracy and rule of law such as representation, popular influence and control over state affairs and state finances need to be attended. How to go about it, and what priorities to make, must be decided on a case-by-case basis, taking into account the regional and national context. One complicating factor in the Black Sea region is the high degree to which non-state actors are involved. For example, in the secessionist republics of Abkhazia, Karabakh, South Ossetia and Transdniestria, unrecognized political leaders are de facto responsible for upholding human security for their inhabitants.

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[12] Gary King and Christopher J.L. Murray, "Rethinking Human Security," *Political Science Quarterly*, vol. 116 no. 4, 2001-02, pp. 585-589.

[13] UNDP, *Human Development Report 1994* (New York: Oxford University Press, 1994).

The policy argument in favor of the human security approach is that poverty reduction, in combination with establishing societal peace and stability, makes individuals less likely to mobilize against each other. Others have gone so far as to claim that the concept of weakened and failed states is only useful in the context of human security. This is based on the argument that the question *for whom* the state is failing is more relevant than simply *whether* the state is failing.[14] Indeed, the difficulty often lies in analyzing why and how a state is failing, and to identify what power relations are at stake and how they contribute to the *status quo* called state failure. Only thereafter is it feasible to assess what measures are needed to achieve human security. The main question is hence to what extent a state is willing or able to function in such a matter that it can provide welfare to the majority of its inhabitants.[15]

Sovereignty, Governance, and Democracy

It is important to recall that the scholarly literature on democratization has come to revise substantially the previously dominant "transition paradigm," which strongly influenced Western policies toward countries "in transition" in the 1990s. The basic assumption was that "any country moving away from dictatorial rule can be considered a country in transition toward democracy."[16] This proved to be correct in central and eastern Europe. These were the areas most closely linked to western Europe, where European support was strongest, and where the carrot of NATO and EU membership was consistently present. But it has not proven correct elsewhere, as other forms of semi-authoritarianism in many localities came to replace the socialist state systems. Aside from its determinism, as Thomas Carothers notes, the transition paradigm also erred in over-emphasizing elections as the motor of democracy promotion, and in failing to "give significant attention to the challenge of a society trying to democratize while it is grappling with the reality of building a state from scratch or coping with an existent but largely nonfunctional state."[17]

[14] Morten Boås and Kathleen M. Jennings, "Insecurity and Development: The Rhetoric of the Failed State," *The European Journal of Development Research*, vol. 17 no. 3, September 2005 (385-395).

[15] Ibid., p. 390.

[16] Thomas Carothers, "The End of the Transition Paradigm," *Journal of Democracy*, vol. 13 no. 1, 2002, p. 8.

[17] Ibid., pp. 8-9.

Western approaches in the 1990s that neglected state-building and favored the building of electoral democracy and civil society have demonstrably failed to produce the desired results, in areas of the wider Black Sea region as elsewhere. This in turn has lead to an increasing consensus, or a "new conventional wisdom," that the building of functioning, sovereign states—what Fukuyama calls "stateness"—is a prerequisite for the development of representative and participatory institutions.[18] Fareed Zakaria takes the argument one step further, arguing that the premature imposition of electoral democracy on a country can do more harm than good, especially when it ignores the development of what he terms "constitutional liberty," implying the rule of law and basic state institutions. In such conditions, electoral democracy can lead to the development of *illiberal* rather than liberal democracy—to popular authoritarianism or even fascistoid regimes emerging. Hence elected rulers, if not subjected to strong constitutional limitations on their power, are vulnerable to populist pressures, and often end up ignoring legal limits and even depriving their citizens of rights, ruling by decree and doing little to develop civil liberties.[19] Russia and Venezuela, and their development since Zakaria's book was written, are excellent examples. Zakaria instead argues that the best examples of emerging liberal democracies are those where a strong constitutional liberal infrastructure developed, sometimes under liberal authoritarian regimes.[20] Chile, Singapore, and South Korea are

[18] "The development-policy community thus finds itself in an ironic position. The post-Cold War era began under the intellectual dominance of economists, who pushed strongly for liberalization and a minimal state. Ten years later, many economists have concluded that some of the most important variables affecting development are not economic but institutional and political in nature. There was an entire missing dimension of stateness—that of state-building—and hence of development studies that had been ignored amid all the talk about state scope. Many economists found themselves blowing the dust off half-century-old books on public administration, or else reinventing the wheel with regard to anticorruption strategies." Francis Fukuyama, "The Imperative of State-Building," *Journal of Democracy*, vol. 15 no. 2, 2004, 17-31. See also a fully developed argument in Francis Fukuyama, *State-Building: Governance and World Order in the Twenty-First Century* (Ithaca: Cornell University Press, 2004).

[19] In his original article "The Rise of Illiberal Democracy," published in *Foreign Affairs*, November 1997, Zakaria argued the case as follows: "Democratically elected regimes, often ones that have been re-elected or reaffirmed through referenda, are routinely ignoring constitutional limits on their power and depriving their citizens of basic rights and freedoms. From Peru to the Palestinian Authority, from Sierra Leone to Slovakia, from Pakistan to the Philippines, we see the rise of a disturbing phenomenon in international life—illiberal democracy."

[20] Zakaria, op. cit.

examples, and Turkey could be added as an earlier case, following Atatürk's reforms in the 1920s.

The interrelationship between the three concepts of sovereignty, governance and democracy is nowhere more relevant than in the South Caucasus and Moldova, where one of the most striking characteristics of states has been the failure to build sovereignty, starting at its very basis: state control over territory, which has proven elusive given the continued unresolved status of territorial conflicts. This is true both for Moldova, with Transdniestria; the South Caucasus, with the breakaway regions of Karabakh, South Ossetia and Abkhazia; and for the Russian North Caucasus, most prominently but not exclusively Chechnya.

Sovereignty, defined as the control by the state of its recognized territory and its ability to exercise authority over it, is the precondition for a functioning political system that can provide law and order as well as a regulatory framework, and enable the political participation of its citizens and guarantee their rights. Governance is the second element of this equation. Although Western observers frequently view the states of the region as authoritarian or semi-authoritarian, they are in fact arguably under-governed. The powers of presidents may be large on paper, but in fact the ability of the leadership of any state to govern their country effectively is severely limited by a lack of resources and trained officials, as well as the persistence of strong regional- and kinship-based networks that wield real power outside the capitals, thwarting central governmental authority from expanding. Endemic corruption should be added to this. Bad governance or the actual lack of governance precludes the building of ties of loyalty between state and society, increase the risk of social conflict and prevent the resolution of existing conflicts, and makes true democracy impossible. Finally, the building of democracy—free elections, but equally importantly the rule of law, participatory government, and the respect for human rights—is a course that Europe seeks to promote and that the local states have all committed to follow in various international agreements, most obviously through their membership in the Council of Europe. Yet the same reasons that prevent the building of sovereignty and good governance—unresolved armed conflict and the strength of entrenched and non-transparent informal networks—also thwart the aspirations of the people of the region to live in safety,

protected by law, and able to participate in political processes and select their own leaders.

The failure to build strong sovereignty in the states of the wider Black Sea region is directly related with the failure of governments to provide good governance and with the weakness of their democratic credentials. It is hence in Europe's long-term interest to work in tandem for the building of sovereignty, governance and democratic government in the region. Failing to achieve this will ensure the continuation of instability, conflict, and poverty. It will also in turn contribute to the proliferation of radical ideologies, whether based on nationalism or religion or a combination of both, as well as organized crime in the region. As the EU follows NATO in expanding eastward to the Black Sea, this would directly impact Europe, as it to some extent already does. This makes the strengthening or restoration of sovereignty; the promotion of a constitutional liberal infrastructure through state-building and the rule of law; and the consolidation and development of democratic institutions a central long-term European interest.

Conclusions

The wider Black Sea is a complex region, where the prospects for political development exhibit great variations. Some areas are firmly entrenched in Europe and consolidating democracies, whereas other areas face much larger challenges on that road. Meanwhile, Western policies have failed to adapt to the changing realities of the region. It is therefore imperative for these policies to be re-assessed. Moreover, it is crucial that Western interests in the democratic development of this crucial neighborhood be pursued and advanced in conjunction with, and not in opposition to, Europe's other interests. Failing to do so is likely to bear counter-productive consequences for the future political development of the region. Indeed, a policy toward the states of the region that is solely based on a democratization discourse without taking into account the interests of the states in economic and security matters is unlikely to yield success. Without recognizing the security challenges and economic concerns of these states—and especially the linkage between economics and security in the field of energy—the potential of Western policies to contribute to democratic consolidation in the region is likely to remain underutilized.

Our cursory overview of the situation in the states of the region tends to confirm recent findings by Carothers, Fukuyama and Zakaria, who have underscored the importance of building state institutions for the progression of viable democracies, and who have noted the excessive Western inclination to focus on electoral processes and civil society rather than the state. Clearly, one does not exclude the other: the improvement of the electoral system and the building of civil society are key elements in any process of democratization. In this region, it is nevertheless clear that the state-building element has been underprioritized in Western policies.

Moreover, the situation in the wider Black Sea region adds another element to this discussion: the complex but important issue of unresolved conflicts—often manipulated by external powers—and their negative effects on the prospects for democratic development in the affected states. The evolution of the wider Black Sea region hence suggests an intimate link between security and political development, which has not been sufficiently analyzed, yet has important policy implications and is an important area of focus for the academic debate.

European, Russian and Transatlantic Approaches

The EU's New Black Sea Policy

Michael Emerson[1]

Introduction

On January 1, 2007, with the accession of Bulgaria and Romania, the European Union officially entered the Black Sea. Until then EU institutions had been very reticent over expressing any interest in the Black Sea as a region of policy relevance. For example, earlier offers by the Black Sea Economic Cooperation organization (BSEC) for the EU to become an observer there had not met any positive response.

However the European Commission had been thinking about it, although hesitation among various member states had discouraged any open initiative. When the accession of Bulgaria and Romania happened the issue could no longer be a question mark, given the obvious new legitimacy for the EU to take an active interest now in the region, and equally obvious demands by the two new member states for it to do so. As a result it took only a few months for the Commission to produce in April 2007 a policy document entitled "*Black Sea Synergy—a New Regional Initiative.*"[2]

The title of this document and its content bore a striking resemblance to a CEPS Policy Brief of June 2006 by Fabrizio Tassinari entitled "*A Synergy for Black Sea Regional Cooperation—Guidelines for an EU Initiative.*"[3]

The Commission's Black Sea Synergy paper announced therefore the opening of a new Black Sea policy for the EU. It follows in the path of a familiar logic of action in response to the EU's territorial enlargement, namely to construct a certain regionalism around the

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[1] I am grateful to Fabrizio Tassinari for many discussions on this topic, and for his permission to use materials from his one of his writings.

[2] Document COM(2007)160 final, 11.04.2007.

[3] Fabrizio Tassinari, *A Synergy for Black Sea Regional Cooperation—Guidelines for an EU Initiative*, CEPS Policy Brief No 105, June 2006.

EU's newly extended periphery. This has been seen already in three cases: to the south in the Mediterranean with the Barcelona process, to the southeast with the Stability Pact for the Balkans, and to the north around the Baltic and Barents Seas under the name of the 'Northern Dimension'.

The Black Sea initiative will also add a multilateral regional dimension to the Eastern branch of the European Neighborhood Policy (ENP), which since 2004 had so far been entirely built around bilateral activity with Moldova, Ukraine and the three South Caucasus countries.

But what is this policy going to look like in practice? Some first answers began to emerge with the first major political event for the EU's new Black Sea policy at a ministerial meeting held in Kyiv on February 14, 2008, to which the EU invited all Black Sea states, and which was hosted by Ukraine at the level of President Yushchenko.

Typology of regionalisms

At first sight there are quite a number of types of regionalism open for consideration in the case of the Black Sea. Box 1 lists no less that nine possible, which is suggesting already that there may be ambiguities, if not confusions and competing visions at stake.

The standard theory of federalism, or more broadly of multi-tier governance, assigns various public policy functions to the geographic level that optimally encompasses the costs and benefits of the policy in question. More precisely this is a search for solutions when there are major spillovers of costs and benefits beyond the territory of the given jurisdiction. Typically there will be under-provision of the policy where the costs or benefits fall significantly beyond the borders of the national territory. Regional cooperation above the level of the state can be a way of correcting for poor fits between the territory of government and the impact of the policy or problem. Seas enclosed by a number of different states provide some classic examples, notably in the cases of environmental pollution and fisheries. Without mechanisms to ensure cooperation to achieve common objectives, such as preservation of water quality and fishing stocks, the individual state will not have a proper incentive to optimize policy; or; the individual state cannot alone manage the problem without accepting a totally unreasonable burden of the costs, or even at any cost. These can be

Different possible species of Black Sea regionalism

Technical regionalism: objective criteria assign specific public policy functions to the territorial level that encompasses best their costs and benefits

Good neighborliness regionalism: where neighbouring political jurisdictions organize together congenial activities with a view to building good relations and friendship

Security regionalism: facing common threats such as illegal migration, the trafficking of drugs and people, terrorism, and strategic security generally

Eclectic regionalism: experimenting with many conceivable types of regional cooperation, without a clear strategic view, or evident criteria for selection

Dysfunctional regionalism: vain attempts to construct regional cooperation, frustrated by serious political divergences or inefficiencies between the participants

Institutional regionalism: focus on the administrative and organizational structures devised to promote regional cooperation

Transformative regionalism: regional cooperation as a means of working towards the 'Europeanization' of the region

Compensatory regionalism: a major bloc, in practice the EU, seeks to compensate outsiders immediately beyond its frontiers for disadvantages of exclusion

Geopolitical regionalism: relating to the objectives of leading powers to secure a sphere of influence

regarded as issues of *technical regionalism*, which ban be entirely matters of efficiency of public policies at the regional level, where all parties can in principle have the same or similar objectives, and which may be effectively de-politicized.

The region's jurisdictions may also organize other de-politicized activities together for which they may be little or no technical need, but which can contribute to a spirit of mutual confidence and create bonds of friendship, maybe in spite of serious political differences and in order to limit or begin to overcome such differences. Examples include joint youth and sporting activities, twinning or groupings of local or regional officials for semi-social gatherings, or regional 'Rotary clubs' of professional people. We can call this *good neighborliness regionalism*.

Common security threats of cross-border nature, such as illegal migration and trafficking of drugs and people, and movements of terrorists, may also be viewed up to a point as needing regional cooperation technically. But these elements of security policy easily run into highly political matters of strategic security and geopolitics, and the forming of security communities or alliances, and so merit a separate term as *security regionalism*. At the present time there are two overriding security fears shared by all or most EU and Black Sea states: international radical Islamic terrorism and security of energy supplies. While the Black Sea region is not at the heart of the international terrorism scourge, Russia has had a strong interest in joining in the 'global war against terror' logic of President Bush, since this glosses over other ethno-separatist and human rights issues posed in the North Caucasus. The EU has its major concerns over terrorism too, but the Mediterranean is more relevant here than the Black Sea. The wider Black Sea-Caspian-Central Asian region is a major conduit for drug supplies, which is a shared concern for both Russia and the EU. However there are reports of serious collusion between corrupt government circles at high levels and drug mafia agents in the Caucasus, especially in Azerbaijan, which limits the scope for cooperation. Energy supply security is the strongest candidate as a core driver on the EU side, largely in association with the U.S., in order to counter the monopolistic practices and ambitions of the Russian energy and especially gas sector. This topic is dealt with in depth in the chapter by Gerhard Mangott and Kirsten Westphal. But here the EU's interest to secure

diversification of supply routes is in direction contradiction to Gazprom's interest to secure its monopolistic position over gas supply networks. In short the Black Sea now sees a complex overlay of projects that are cooperative for some participants while being competitive (or threatening increased Gazprom monopolization) for others.

Already we are collecting a variety of quite different regionalisms. The presence of several kinds of motivation may create a diffuse sense that some kind of regionalism needs to be organized, without it being clear at the outset quite what the priorities should be, especially where the region encompasses jurisdictions that have been politically divided for some time. The jurisdictions may come together and make a political declaration favouring their regional cooperation, and draw up lists of conceivable cooperative activities. This leads to a process of trial and error, or something of a bureaucratic Darwinian process, in order to sort out which activities prove viable. At the initial stage this may be called *eclectic regionalism*.

The Black Sea Economic Cooperation organization (BSEC) has created a comprehensive institutional structure—ministerial councils, a permanent secretariat, working groups of senior officials and experts on sectoral topics, a development bank, a parliamentary assembly, a policy research institute. These structures were set up ahead of establishing real functions. This *institutional regionalism* may be viewed as a variant of the eclectic approach: i.e. set up a comprehensive institutional structure and wait for the Darwinian processes again to sort out the functions that prove themselves in practice from those that fail to take off. In fact BSEC has seen so far only a weak overall performance, due to several factors, including the competition between the two leading regional powers, Russia and Turkey, through to the weak administrative capacities of many of the member states to organize significant cooperation, and the very limited financial resources made available.

However these eclectic and institutional approaches may be viewed as masking more fundamental problems of incompatibility of objective among the region's actors. The grounds for skepticism are quite substantial. The Black Sea region is extremely heterogeneous politically, economically and culturally and in shapes and sizes of its countries. It is sometimes said that the Black Sea is a region with little in common except the sea that divides it. Is the Black Sea to provide an

example *dysfunctional regionalism*? To be sure there is political poison in the region stemming from the frozen conflicts, which involve in one way or another every country of the region. Relations between Russia, Ukraine and Moldova are troubled by the Transdnistria conflict, between Russia and Georgia by the Abkhazia and South Ossetia conflict, and between Azerbaijan, Armenia and Turkey by the Nagorno-Karabkah conflict. The EU for its part comes to the region with its own segmentation between four categories of states: the full member states (Bulgaria and Romania), the accession candidate state (Turkey), the ENP partner states (Ukraine, Moldova, Armenia, Azerbaijan and Georgia), and finally Russia as a would-be strategic partner. The EU's primary policies towards each category are bilateral, and are driven by different Commission departments. To say the least, the pursuit of an effective Black Sea regionalism is going to be an uphill struggle.

In a more positive interpretation of the EU's interests in the region the Black Sea initiative is a natural move to strengthen the ENP, which aims at bringing the whole region to converge on the EU's political values and economic structures, norms and standards—in short *transformative Europeanization*. This paradigm may be viewed as involving not only specific policy reforms along the lines of EU laws, but also the transformation of the nature of national borders, diluting their significance and with them national identities in movements towards the post-modern state. The EU's conception of regionalism at its periphery seems to represent the hope that the Europeanization process may spill over its frontiers into the wider neighborhood—at least to some degree even where the prospect of accession is not on the horizon.

However the Black Sea region contains several countries—Georgia, Moldova and Ukraine especially—that are deeply disappointed at not being granted by the EU a 'membership perspective'. A standard argument is that this lack of Europe's mega-incentive for a transformative Europeanization is a serious weakness for the European Neighborhood Policy. A Black Sea initiative could be seen as seeking to bolster the ENP and to compensate is some degree for the disappointment of the Black Sea states aspiring to membership—*compensatory regionalism* for the excluded lying beyond the frontier.

Finally there is the overarching question how the Black Sea Synergy is intended to, or may actually affect the geo-political tendencies and

tensions in the region—*geopolitical regionalism*. Russia is felt by Ukraine, Moldova and Georgia to be playing overt or implicit strategies of political and economic pressurization, and the Kremlin openly states its foreign policy priority to re-consolidate the CIS area. The U.S., for its part, is certainly perceived by Russia as adopting the contrary geopolitical position, especially with respect to Georgia, which together with Ukraine seeks NATO accession, or at least in the foreseeable future a membership action plan (MAP). In this situation the EU is playing certainly a softer game, but one that is not without subtlety and options. It can certainly present itself as a more neutral player.

An Unofficial Black Sea Synergy Proposal, June 2006

The CEPS paper took position both on the matters of organizational and institutional structure, and the choice of priority sectors of policy considered most plausible for Black Sea cooperation. It drew on the EU's prior experiences (the Northern Dimension initiated in 1999, the Barcelona Process in 1995, and the Balkan Stability Pact in 1999), which provided important references. All three were regional-multilateral responses to the EU's own enlargement and/or the collapse of communism, be it Soviet or Yugoslav. All three initiatives have been attempts to ease if not erase Europe's post-world war divisions, or to soften its borders with its neighbors and so diminish the disadvantages of exclusion. The Barcelona Process was indirectly motivated by these same concerns, since the Southern EU member states were concerned that there should not be a swing in bias in the EU's policies to the advantage of the north, given the opening of the EU for its enlargement to central and eastern Europe. In terms of our typology of regionalisms, the broad objectives were somewhere in the range between the transformational and the compensatory. The Black Sea fits into this logic, and was only delayed as a result of the time lags in the enlargement to the Black Sea coast with the accession of Bulgaria and Romania.

There is an important difference in these three cases over whether the EU is coming into a pre-existing structure as in the Northern Dimension, given the Baltic and Barents Sea councils that date back to 1992 and 1993 respectively, or setting up a new structure *de novo*, as was the case with the Barcelona Process and the Stability Pact. In this respect the Black Sea is in the first category, given that the BSEC

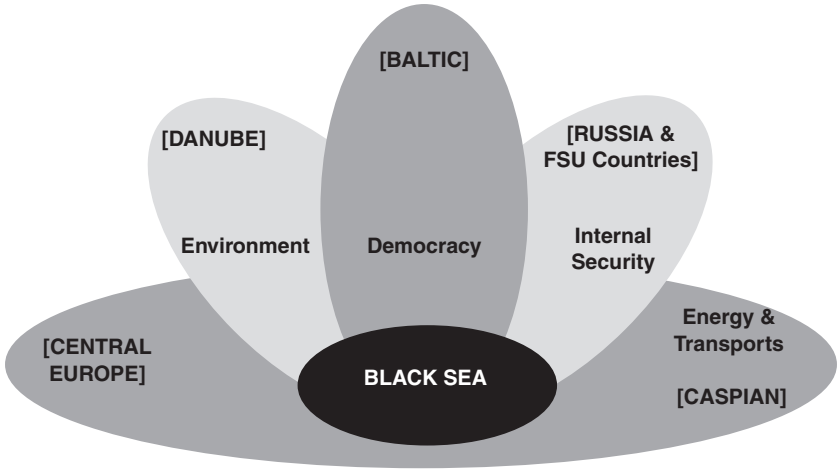
organization that was founded in 1992. To the south the Barcelona Process started *de novo* without any pre-existing regional organization, and has remained without its own institutional structure. However this has created lingering resentment with the southern Mediterranean partner states over the lack of formal equality of the partnership. This will be corrected to some extent with the initiative of President Sarkozy, as a result of which the Barcelona Process will be re-baptized as 'Union for the Mediterranean', with two co-chairs from the southern EU and southern Mediterranean states, and a small common secretariat. To the southeast the Stability Pact also started *de novo* out of the need to fill a security vacuum after the Bosnian war.

There is the further issue whether the EU is the only major actor, or at least the clear prime mover. The Balkan Stability Pact was proposed by the then German EU presidency, but quickly became a project of the EU-U.S. alliance, and co-opted into its structure all relevant international organizations (OSCE, UN agencies, NATO, World Bank etc). For the Barcelona Process the EU has acted on its own. In the Northern Dimension the objective was initially to secure cooperative relations with Russia alongside the prospect of the EU's Baltic enlargement. Following the 1997 enlargement the Northern Dimension has been reshaped, with only four full members: the EU, Iceland, Norway and Russia. The Black Sea, analogous to the northern Dimension, has its pre-existing BSEC structures, in which both Russia and Turkey have so far been the lead actors.

The Black Sea could thus broadly fit into the pattern of the EU's regionalism established in the three other cases, but it still had to be determined whether to play the whole EU initiative through the pre-existing BSEC organization, and how agreement might be reached with Russia and Turkey as the major players. The CEPS paper took position in favor of 'variable geometry', i.e. allowing for different participation and organizational forms according to the sectoral policy domain, not to the exclusion of BSEC, but without granting it a general competence for the entire initiative. This is illustrated in Figures 1 and 2. Specific 'partnerships' were proposed for five sectoral priorities: environment, energy, transport, internal security and democracy.

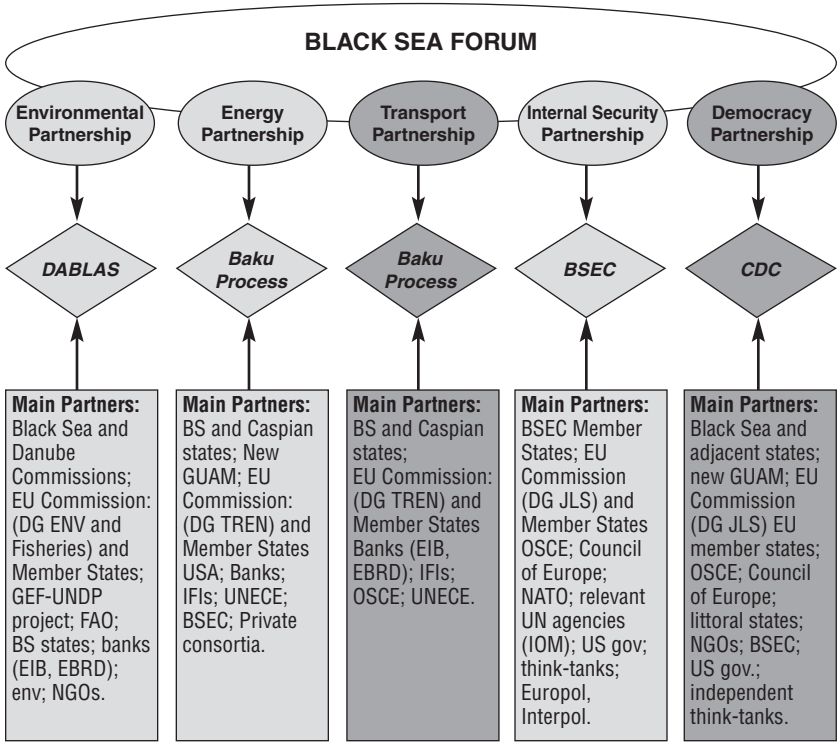
The choice of these five sectors marked the case for a limited number of priorities, with a strong emphasis on technical regionalism (environment, energy, transport), as opposed to the extremely dis-

Figure 1 The Variable Geometries of the Wider Black Sea Region



Source: Tassinari, op.cit.

Figure 2 Framework of a Black Sea synergy



Source: Tassinari op. cit.

persed efforts of BSEC. Each of these three domains sees significant prior EU activity in the Black Sea region, each with different functional maps, for example with the environmental activity addressing the water quality of the Danube basin that stretches up into Austria and central Europe, and the transport activity based on the EU's priority corridors, which go West-East across the Black Sea region, but not around it.

In two cases political considerations militated against using BSEC as the institutional base, energy and democracy. The issues here relate to Russia's strong positions: in the first case to maximize the monopolistic position and freedom of action of Gazprom, and in the second case to minimize democracy promotion activity of the 'color revolution' variety. Since BSEC takes decisions by consensus it would be a dumb move to play the EU's very different interests in these questions through BSEC.

Therefore different formats for participation, organization and funding could be devised for each of five sectoral 'partnerships'.

The CEPS study also advocated an overarching coordinating mechanism, justifying the synergy attribute. This was to be called the Black Sea Forum, and followed the experience of the Black Sea regional ministerial meeting convened by Romania in June 2006. This would not be an institution, but nonetheless a regular political event at which evolving priorities could be deliberated on by all BSEC member states and the EU, without it being however an event controlled by BSEC.

The EU's official Black Sea Synergy proposal, April 2007

The European Commission's Black Sea Synergy paper of April 2007 retained the 'Synergy' keyword in its title. However it also set out a long list of 13 topics that could be the subject of regional initiatives, contrary to the CEPS recommendation of a more limited and prioritized agenda. The Commission's list is here summarized in the order its Synergy document, with a few indications of the intended content under each heading:

1. Democracy, human rights and good governance, with support for regional initiatives underway, implying but without naming however the Community of Democratic Choice, which has been a color revolution ginger group
2. Security in relation to the movement of persons, notably illegal migration and trans-national crime
3. A more active role through increased political involvement in the four frozen conflicts (Transdniestria, Abkhazia, Southern Ossetia and Nagorno-Karabakh)
4. Energy supply diversification through investment in a new trans-Caspian trans-Black Sea corridor, implicitly to undermine Russia's monopolistic position, and a possible common energy policy legal framework for the ENP countries
5. Transport corridors with support for a number of priority transport infrastructure axes already identified, and regulatory harmonization in this sector
6. Environmental protection, with special reference to the Black Sea itself and the Danube basin flowing into it
7. Maritime policy, favoring a holistic approach aiming at safety of shipping, environmental protection and job creation in sea-related sectors and coastal regions
8. Fisheries, with new ways to be sought for sustainable use of fisheries resources
9. Trade policy, advocating that WTO membership be completed for those countries not yet there (Russia, Ukraine, Azerbaijan), and approximation of trade related policies on EU standards, but with caution against regional free trade initiatives that might contradict the EU customs union
10. Research and education networks, promoting enhanced 'connectivity' between systems and regulatory harmonization
11. Employment and social affairs, with vague advocacy of exchange of information on best practices, social dialogue and training

12. Regional policy itself in the sense of extending Bulgaria and Romania's new experiences in participating in EU's own programs to enhance the competitiveness of coastal regions

13. Financial support can be made available under national, regional and cross-border programs of the ENP's budgetary grant instrument (ENPI), as well as through investment funding from the European Investment Bank and EBRD.

The Commission's proposals were thus highly *eclectic*, and amount to addressing all conceivable topics, with the exception of hard security and military affairs. It suggests that the EU embarks upon an experimental period to see which sectors or approaches might develop significantly, indeed the bureaucratic Darwinian process of natural selection already mentioned. Actually it sees almost every sectoral department of the Commission throwing in each their own propositions over what they might do in the Black Sea. The Commission seems here to be flying on automatic pilot, and the controls have been locked onto the practice established over the last decade in negotiations over both enlargement, with neighborhood policy as its weak derivative. This consists of taking up the chapters of the enlargement process for alignment of policies on the EU norms and standards. With the Commission working as a collegial body, new general policy initiatives will typically see an inter-service working group formed and the project coordinator, in this case the Directorate General for External Relations, has to preside over the production of the resulting policy document that meets with internal diplomatic consensus.

Nonetheless there is a good fit in the order of implicit priorities, with five of the first six sectors coinciding with the CEPS recommendation. The addition proposed by the Commission is concern for conflict resolution in the region, which is surely a desirable objective. The EU's involvement in attempted mediation efforts in the four 'frozen conflicts' (Transdniestria, Abkhazia, South Ossetia and Nagorno-Karabakh) has been so far very low profile. The main exception is in the case of Transdniestria, where the EU has put in place border monitoring mission and has joined the official negotiating table in its so-called 5+2 format. On the other hand the list contains items of only weak plausibility for the EU's involvement Black Sea regionalism—for example employment and social affairs, and research and development.

The proposal for trade policy relates of course to a strong EU competence. The EU has now embarked on a policy of negotiating 'deep free trade' agreements with all the Eastern neighborhood states. These are the same Black Sea states, except for Russia which is also a laggard in trade policy not even having acceded yet to the WTO. This naturally leads to the idea that at some stage there could be a multilateralization of this set of free trade agreements, with common pan-European rules of origin for 'diagonal cumulation' already developed for the Euro-Mediterranean region, forming a Black Sea free trade area, with or without Russia.

The proposal for an overarching maritime policy is extremely fuzzy at this stage. The concept is being promoted as a new EU policy domain for all of the seas that adjoin the EU, but it is far from firmly established operationally at the EU level, and so its regional applications also seem remote at the present time.

On the wider political questions the Black Sea Synergy paper raised the possibility of either or both ministerial meetings with all BSEC member states (i.e. with Russia) or with just the ENP states (i.e. without Russia).

The BSEC option—i.e. to develop Black Sea cooperation with all BSEC states including Russia—can be justified as the way to bring Russian foreign policy in the European theatre into a more cooperative mode. While Russia is formally outside the ENP, it has a bilateral programme with the EU for deepening four 'common spaces' in ways that bear some resemblance to the ENP action plans. The Black Sea Synergy would thus be bringing the EU closer together with both the ENP states and Russia. Moreover the EU has a relatively positive experience of cooperation with Russia now in the Baltic Sea region with the Northern Dimension cooperation, and would like the same to develop in the Black Sea.

The ENP option—i.e. to develop Black Sea cooperation just with the ENP states without Russia—would be justified by the contrary political logic of developing the substance and credibility of this cooperation in part to induce Russia to re-evaluate its near abroad policy. Russia would see itself losing influence, and therefore in need of a pragmatic change of policy.

The Commission proposed not to create new regional institutions, but expressed a willingness to take up an observer status in the Black Sea Economic Cooperation (BSEC) organization, while remaining open to the use of other regional bodies. It seems to be thinking in terms much along the lines of the CEPS paper, namely to establish a number of specific partnerships for each priority sector.

The First EU-Black Sea Ministerial Meeting, February 2008

The ministerial event of February 14, 2008 was in fact quite revealing on a number of these issues. A first seeming curiosity was the publication of two versions of the conclusions. The first one in Annex A are the conclusions published by the BSEC member states alone, and the second one in Annex B are the jointly negotiated conclusions of the BSEC member states and the EU. While at first sight these two documents have a substantial degree of overlap there are interesting for both their commonalities and differences, and so both are worth documenting alongside each other.

The institutional question was highlighted by the fact that there were actually two ministerial meetings on February 14, not one. At the first and shorter meeting the EU troika (Presidency and Commission) joined in a meeting of the BSEC ministers, the latter gathered together in their BSEC capacity. The BSEC ministers adopted a declaration "on a BSEC-EU enhanced relationship." The second and longer meeting resulted in a joint statement under the authority of "the ministers of foreign affairs of the countries of the European Union and of the wider Black Sea area."

At play here was the question of the degree to which the EU's Black Sea Synergy would be articulated through the BSEC organization, or whether BSEC would be just one of the possible institutional arrangements to be used. On the BSEC side Russia and Turkey were seeking to maximize the use of the BSEC organization. It may be speculated that the motivations here are somewhat different. For Russia the consensus decision-making rule of BSEC was attractive as an instrument for retaining control over the EU's insertion into the Black Sea process. Turkey was perhaps more motivated by its pride of ownership of BSEC, having been its political initiator, and with Istanbul the loca-

tion of its headquarters. On the EU side many member states are wary of granting too big a role, and certainly not a monopoly position, to BSEC for reasons opposite to Russia's motivation.

So a compromise was reached, with the first shorter meeting taking place within a BSEC framework, and the second one referring in its title just to the 'wider Black Sea area'. The Russian position has actually moved a lot since the time when it was basically against the EU's insertion into BSEC in any way—such was the position adopted by Russia at some earlier BSEC meetings. When faced with the impossibility to stop the EU's entry into the Black Sea its second position was then to try to constrain it to BSEC decision-making to the maximum degree. The outcome on February 14 with the two meetings seems to have been a rather weak rearguard action by Russia in this regard.

These meetings of February 14 thus did provide some answers to two of the questions we asked earlier. The EU has entered into a Black Sea process with Russia, rather than just with the ENP states; and the process includes BSEC, but without a monopoly position.

For future such events there could be changes in format on the EU side. This first Black Sea event brought together all 27 member states,[4] which is a very heavy format for an important but not top-priority topic. Elsewhere the EU develops lighter formats, notably in the case of the Northern Dimension, which has invented to so-called 'open troika' method, where the EU is represented by the Presidency and Commission, plus on an optional basis those member states that feel seriously interested. This format will be further simplified when the Treaty of Lisbon enters into force, with merger of the Presidency and Commission (through double-hatting of the High Representative and Vice-President of the Commission).

The texts of the two concluding documents further underline the different institutional preferences. The unilateral BSEC declaration is first of all strong on the achievements of BSEC and goes on to stress that the EU-BSEC relationship should be comprehensive and inclusive, avoid duplication, and be further institutionalized with an 'enhanced

[4] The EU member states were represented with 5 foreign ministers, 14 at deputy foreign minister level, and 8 at ambassadorial level, whereas the 8 non-EU Black Sea states were represented with 6 foreign ministers and 2 deputy foreign ministers, including Russia at first deputy foreign minister level.

BSEC-EU relationship' to include ministerial meetings in different formats (i.e. ministers of various sectoral policy domains). The EU-BSEC relationship does in fact broaden out, with the European Commission now taking up the role of observer in several BSEC working groups (transport, environment, research).

However, while the joint statement of the ministers of the EU and wider Black Sea area recognizes the important role to be played by BSEC, but also notes that "the Black Sea Synergy will at the same time remain open to all appropriate cooperation possibilities provided by other regional bodies and initiatives" (i.e. the 'Black Sea Synergy' here standing for the EU policy). There is reference also to the Black Sea Synergy benefitting from the formation of "Black Sea partnerships involving various stakeholders from the EU and wider Black Sea area", which more concretely can mean the creation of operational trust funds such as already in operation in the Northern Dimension.

The priority sectors mentioned in the two documents contain both substantial common ground and some significant differences. The list of identified sectors is shorter in the BSEC document, partly because BSEC is basically an economic organization, to the exclusion of purely political issues; whereas for the EU the Black Sea Synergy is definitely also intended to be political. The BSEC document thus identifies transport, energy security, environment, crime, terrorism, disaster relief, information technologies, and the movement of people and the creation of clusters. The joint statement covers also all these domains (except passing over the 'clusters'), but also addresses questions of democracy, human rights, civil society, conflict resolution and parliamentary activities. These latter political activities will of course fit more easily with the GUAM and Community of Democratic Choice initiatives, of which Georgia and Ukraine are the keenest advocates, whereas Russia regards these as dangerous instruments for the spread of 'colour revolutions'.

The last substantive paragraph of the joint statement is most positive: "Participants considered that this Black Sea Synergy meeting is the beginning of a long-term regional cooperation endeavour offering new opportunities and increased stability to citizens of the Black Sea area and the whole of Europe". The next stage in the process will be in June 2008 when the Commission presents to the Council a report

on progress to date, with indications of how the various lines of concrete activity will be followed up.

Conclusions

Overall one can register that the EU has taken significant steps towards constructing a new Black Sea dimension to its neighborhood policies in the wake of the EU's enlargement to the Black Sea region with the accession of Bulgaria and Romania on January 1, 2007. The act of enlargement was promptly followed in April 2007 by the Commission's 'Black Sea Synergy' proposal, which was readily endorsed by EU foreign ministers and then at the top level by the European Council. This has now begun to be been operationalized at the wider Black Sea level with the first ministerial meeting in Kyiv in February 2008, which set fairly clear guidelines for next steps.

In the course of this meeting several key questions surrounding the possible political character of the initiative began to be answered. A certain dialectic process between the EU and Russia was played out. First Russia was invited to the ministerial meeting and accepted to participate, thus averting the alternative scenario under which the EU's initiative might have proceeded only with ENP countries. But secondly Russia's wish to tie the EU's presence in the region predominantly into the BSEC organization for reasons of political control was declined by the EU, which is now an observer of BSEC without granting this body any monopoly. Russia has had to go along with this, and the joint statement of the Kiev meeting envisages activity on purely political issues outside BSEC, and with the EU retaining freedom to use any appropriate regional body or arrangement.

More broadly this beginning of a Black Sea dimension to the EU's neighborhood policies fills out an obvious gap in the EU's vision of the map of the wider Europe. The EU is moving towards a certain degree of commonality in its approaches to each of the three enclosed seas of its periphery—the Baltic, the Mediterranean and now the Black Sea. While the political profiles of these maritime regions are of course very different they naturally give rise to many common policy challenges, including those issues that are based on non-political matters of regional maritime geography. However the EU seems to be principally motivated in seeing all regions in its neighborhood so far

as possible integrating with its economy and converging on its political norms. It is still an unanswered question how far this can succeed through neighborhood policies that do not comprise a further widening of the enlargement process.

Can we answer our own question about where the EU's Black Sea Synergy is going to find its main place in the typology of regionalisms set out at the beginning? While the Commission's initial proposals were highly 'eclectic', the Kyiv ministerial did some useful prioritization. There is certainly going to quite an amount of 'technical regionalism' combined with 'security regionalism'. There is already in evidence a gentle diplomatic ballet between the EU and Russia, with the EU resisting Russia's pursuit of its own 'geopolitical regionalism'. The EU would like in theory to see its efforts lead to a 'transformative regionalism', but the lack of agreement so far over further extending membership perspectives to countries of the region risks the outcome being more in the category of 'compensatory regionalism'.

Declaration

of the Ministers of Foreign Affairs of the member states of the Organization of the Black Sea Economic Cooperation on a BSEC-EU enhanced relationship

Special Meeting of the BSEC Council of Ministers of Foreign Affairs,

Kyiv, February 14, 2008

We, the Ministers of Foreign Affairs of the Member States of the Organization of the Black Sea Economic Cooperation (BSEC)—the Republic of Albania, the Republic of Armenia, the Republic of Azerbaijan, the Republic of Bulgaria, Georgia, the Hellenic Republic, the Republic of Moldova, Romania, the Russian Federation, the Republic of Serbia, the Republic of Turkey and Ukraine—met in Kyiv, on February 14, 2008. We discussed the perspectives for the development of a mutually beneficial cooperation between BSEC and the EU, respecting the interests of both sides.

Taking guidance from the political assessments and executive dispositions of the Declaration adopted by the Heads of State and Government of the BSEC Member States on the occasion of the BSEC Fifteenth Anniversary Summit held in Istanbul, on June 25, 2007, we reaffirm our commitment to the Organization and its Charter as an indispensable foundation for peace, stability, security and prosperity in the wider Black Sea area.

We consider BSEC-EU interaction as an integral part of overall European economic, scientific and environmental cooperation. Our aim is to achieve proper synergies by coordinating the efforts with various integration and cooperation formats, international organizations and institutions, in particular financial ones, acting in the BSEC area.

BSEC is an inclusive, treaty-based, full-fledged, project oriented regional economic organization, possessing mature institutional structures, well established operational rules and procedures. We all share the conviction that our multilateral economic cooperation contributes to enhancing peace, stability, security and prosperity to the benefit of our region. The Organization has also contributed to developing a sense of regional ownership and identity among our peoples. We are committed to further consolidate its role as an active and reliable partner in international and regional affairs.

We believe that the earliest peaceful settlement of the existing protracted conflicts in the BSEC region, on the basis of the norms and principles of international law will contribute to the enhancement of regional cooperation.

The BSEC-EU interaction is a forward-looking and promising framework, which can contribute to shaping the foundations of an enhanced regional relationship.

BSEC continues to be committed to develop new legal instruments and mechanisms for multilateral economic cooperation in a regional format, which can effectively benefit the citizens of the area.

We believe that interaction between BSEC and the EU should further be institutionalized and result-oriented, through the identification of common tools and the development of synergies. It is necessary to undertake joint efforts to support development and cooperation in the wider Black Sea area, through various cooperation programmes and partnerships.

We also believe that the joint BSEC-EU action in the wider Black Sea area should be comprehensive and inclusive, so that its benefits encompass all BSEC Member States.

BSEC is looking for closer cooperation and coordination with the EU in the areas of mutual interest, ensuring complementarity, synergies and avoiding duplication of work.

We also express the wish to establish a BSEC-EU enhanced relationship, within which Ministerial Meetings in different formats could be held.

We invite the EU to join the efforts of BSEC in particular in the priority areas of the development and interconnection of transport infrastructure in the region (Black Sea Ring Highway and development of the Motorways of the Sea of the BSEC region), in enhancing energy security and environmental sustainability in the region, in combating all forms of organized crime, terrorism, in preventing and managing natural and man-made disasters, in upgrading communication and information technologies in the region and in facilitating the movement of peoples, including representatives of the business communities and lorry drivers, between the EU and BSEC countries. BSEC is interested in using the EU experience in promoting regional cooperation inter alia through the creation of clusters with the view to unite efforts of industry, universities and research centers. With this aim, BSEC suggests to develop together with the EU a respective "road map" for cooperation and establish special ad hoc joint working groups for practical implementation. BSEC is also interested in starting talks at an expert level, to identify means and ways of cooperation in the areas of common interest.

We express our gratitude to the Government, the Ministry of Foreign Affairs and the people of Ukraine for the warm hospitality and the excellent organization of this important Meeting, held back-to-back with the Ministerial Meeting for launching the Black Sea Synergy process.

Joint Statement

of the Ministers of Foreign Affairs of the countries of the European Union and of the wider Black Sea area

1. Foreign Ministers of the countries of the European Union and of the wider Black Sea area met in Kyiv to initiate the Black Sea Synergy cooperation. The Meeting was opened by H.E. Viktor Yushchenko, President of Ukraine.

2. Ministers identified significant challenges and opportunities in the wider Black Sea area, which may require coordinated action at the regional level. They agreed that greater involvement by the European Union can increase the potential of Black Sea regional cooperation. Ministers welcomed the Black Sea Synergy Initiative of the European Union as an important tool to achieve this goal.

3. Participants agreed that the primary task of the Black Sea Synergy is the development of cooperation within the Black Sea region and also between the region as a whole and the European Union. The different aspects of the Synergy will be discussed, agreed upon and implemented by the interested countries in a fully transparent and flexible manner, based on mutual interests.

4. The Black Sea Synergy will benefit from the European Neighbourhood Policy and other EU policies applied in the relationship with countries of the region. EU support to Black Sea regional cooperation is aimed at producing tangible results in a number of priority areas. This includes the development and interconnection

of transport, energy and communication infrastructure, responding to increasing trade, investment, traffic and information flows as well as rapidly evolving transit needs. Ministers declared their intention to promote the dialogue between energy producers, consumers and transit countries aimed at ensuring fair access to energy resources and markets, enhancing energy security and environmental sustainability. They will support regional transport cooperation with a view to improving efficiency, safety and security. Ministers agreed that the Black Sea Synergy offers a framework to improve coordination between relevant EU and regional policies as well as wide-ranging programmes such as the development of major trans-national transport axes, the Motorways of the Sea or the Black Sea Ring Highway.

5. The Synergy should contribute to better coordinating specific environmental programmes, notably those focusing on tasks relating to water quality. It should also invigorate the dialogue on Black Sea maritime policies and facilitate efforts to establish regional fisheries management cooperation in order to ensure sustainable use of Black Sea fishery resources. Black Sea regional cooperation should also provide a framework for building capabilities to cooperate in combating climate change and in preventing and managing natural and man-made disasters in the region. Black Sea countries and the European Union will develop region-wide activities to strengthen cooperation in the fields of migration, law enforcement and the fight against organised crime building on the activities of cooperation arrangements already in place, by ensuring added value and avoiding duplication. Increased EU engagement in Black Sea regional cooperation has the potential to bring benefits also in the fields of trade, science and technology, research, culture and education as well as employment and social affairs.

6. Ministers took note of the wish for a possible visa facilitation perspective and the role of enhanced mobility in promoting the development of trade and economic relations.

7. The Black Sea Synergy could benefit from Black Sea partnerships, involving various stakeholders from the EU and the wider Black Sea area.

8. Participants agreed that the Black Sea Synergy would be a useful means to strengthen the democracy and respect for human rights and to foster civil society.

9. Protracted conflicts impede cooperation activities. Therefore participants emphasized the need for their earliest peaceful settlement on the basis of the norms and principles of international law.

10. The Meeting took due regard of the importance of parliamentary activities in promoting regional cooperation.

11. Ministers welcomed the first steps of the Black Sea Cross-Border Cooperation Programme which supports civil society and local level cooperation in Black Sea coastal areas.

12. Participants stressed the need for proper funding of priority regional cooperation programmes. Co-financing should apply as a general rule. In this context, the regional activities of the International Financial Institutions, most notably the EBRD, the EIB and the BSTDB, could offer new possibilities along with financing coming from the EU and from countries of the Black Sea area.

13. The Ministers recognised the important role played by regional organizations and initiatives, particularly by the Organization of the Black Sea Economic Cooperation (BSEC). Ministers noted with satisfaction that the European Commission has obtained observer status in BSEC and has engaged in practical interaction with it in several fields. Black Sea Synergy will take due account of the work in BSEC and will at the same time remain open to all appropriate cooperation possibilities provided by other regional bodies and initiatives, including those in the Danube region, a key area to strengthen connections between the EU and the Black Sea countries.

14. Participants considered that this Black Sea Synergy Meeting is the beginning of a long-term regional cooperation endeavour

offering new opportunities and increased stability and prosperity to citizens in the wider Black Sea area and the whole of Europe.

Ministers expressed their gratitude to Ukraine for the excellent preparation and organization of the Meeting.

Kyiv, February 14, 2008

NATO and Black Sea Security

F. Stephen Larrabee

The democratic revolutions in Georgia and Ukraine have given rise to a new debate over how best to consolidate the democratic transitions in these countries and promote security in the Black Sea region.[1] One of the key issues in this debate is what role NATO should play in this process. Where does it fit into the broader Western effort to promote security in the Black Sea region? What is the appropriate division of labor between NATO and the European Union (EU) in promoting security in the region?

This debate is not entirely new. The West faced many of the same questions and dilemmas in the early l990s in regard to central Europe. Then, as now, concerns were expressed about the qualifications of the aspirants and the impact that their membership would have on the coherence and efficiency of NATO and the EU. Then, as now, the Russian factor loomed large in the debate. Many Western officials and analysts worried that NATO enlargement would antagonize Russia and lead to a confrontation with Moscow.

A lively debate also ensued about which institution—NATO or the EU—should take the lead in stabilizing the region. Two schools of thought emerged. One school argued that what the central European countries needed most was economic prosperity and social stability, not military security. The EU, they contended, was best placed to provide the required economic and social stability. Therefore, this school argued, the EU should take the lead, not NATO.

A second school maintained that NATO should go first. While not denying that central Europe needed economic and social stability, this school argued that economic and social stability could only be achieved if these countries felt secure. Only then would they have the determination and self-confidence to carry out the reforms necessary

[1] See Ronald D. Asmus, "Europe's Eastern Promise," *Foreign Affairs*, Vol. 87, No. 1, January/February 2008, pp. 95-106.

to achieve economic and social stability. Moreover, the requirements for EU membership, this school contended, would take a decade or longer to meet. The West, supporters argued, could not afford to wait that long to embed the central European countries in a Euro-Atlantic framework. Otherwise the window of opportunity to anchor these budding democracies to the West might begin to close.

The Changing Context of NATO Enlargement

Today the Euro-Atlantic community faces a similar, though in many ways more difficult, challenge in the Black Sea region. However, the strategic context in which the enlargement debate over Black Sea security is taking place is quite different from the strategic context that existed at the time of the enlargement to central Europe.

First, Russia is stronger now. At the time of the first enlargement debate Russia was weak. Today, Russia, buoyed by rising energy prices, is in a more assertive and self-confident mood. In addition, Russia has greater leverage, particularly in the economic realm, in the Black Sea region than it had in central Europe.

Second, the qualifications of the aspirants for NATO membership in the Black Sea region are much weaker than the qualifications of the aspirants from central Europe. While Ukraine and Georgia have made significant progress in recent years in improving their qualifications for membership, they are not as far along as Poland, Hungary, and the Czech Republic were at the time they were admitted to NATO. Public support for NATO membership in Ukraine, for instance, is considerably lower than it was in any of the three central European members when they entered NATO.

Third, "identity" issues play a much more important role in the enlargement debate today than they did a decade ago. While many NATO members initially had reservations about admitting the countries of central and eastern Europe into the Alliance, few doubted that the countries of central and eastern Europe were "European" countries. The situation is quite different today. Many members of NATO are not entirely convinced that Georgia and Ukraine are really part of Europe.

Fourth, NATO's role is less certain today than it was a decade ago. Then, NATO was regarded as the preeminent Western security

organization. Today, European attention is increasingly focused on the EU. At the same time, NATO's problems in stabilizing Afghanistan have raised serious questions about the Alliance's vitality and ability to meet the emerging security challenges of the 21st century.

Finally, the strategic focus of the United States has changed. In the l990s, the attention of the United States was still heavily focused on Europe. Today, U.S. strategic attention is concentrated on areas beyond Europe's borders—Iraq, Iran, China, North Korea, etc. Thus enlargement, while important, is less central to Washington's foreign policy agenda than it was a decade ago.

This does not mean that NATO has no role to play in promoting security in the Black Sea region or that the Alliance should not enlarge to include countries in the Black Sea region. But it does mean that Western leaders need to devise a strategy that takes into consideration the changed international context for enlargement today as well as the specific regional dynamics in the Black Sea region.

Regional Aspirants

The enlargement debate in the Black Sea region centers principally around two countries: Ukraine and Georgia. However, the two countries present very different challenges for NATO.

Georgia

In Georgia, unlike Ukraine, NATO membership enjoys strong popular support. Close to 77 percent of the population supports Georgia's membership in the Alliance—a level higher than in any of the east European aspirants admitted to NATO in 2004 and considerably higher than in Croatia and Albania, which were invited to join the Alliance at the Bucharest summit in April 2008. This pro-NATO sentiment is shared across the political spectrum in Georgia. In March 2007, the Georgian parliament passed a declaration underscoring Georgia's commitment to NATO. The text was signed by all political parties represented in the parliament and passed 160-0.

Moreover, in the last several years Georgia has made important strides in modernizing its military forces and making them more NATO-capable. Recent reforms have resulted in the formation of two

NATO-capable battalions: the transformation of the General Staff into a Joint Staff, and the evolution of a conscript-based force into a contract-based Army. Civilian control of the military has also been strengthened.

These reforms have been designed to create a smaller and more mobile force and have generally been given higher marks by officials from NATO and the European Command (EUCOM). However, the Georgian government's plans to create a fifth brigade have raised concerns in NATO. A fifth brigade would represent an increase of 25-30 percent in the strength of the Georgian forces over the original planning figures submitted in Georgia's Individual Partnership Action Plan presented to NATO in 2004.

The Georgian government has justified the increase on the grounds that the armed forces of Georgia's neighbors, Azerbaijan and Armenia, are several times larger than those of Georgia. However, Georgia faces no threat from Azerbaijan or Armenia. Some NATO officials suspect that the real reason for the increases may be related to plans to launch a military campaign to reincorporate the breakaway regions of Abkhazia and South Ossetia, which declared their independence from Georgia in the early l990s and are supported by Russia. There is also concern whether Georgia can afford such a large increase in its military forces.

In addition, some NATO members question whether Georgia has made sufficient progress in establishing a viable and transparent democracy to be admitted into NATO. Georgia's democratic reform record is far from perfect. But it is as good—and in some cases arguably better—than that of some recently admitted aspirants from eastern Europe such as Romania and Bulgaria, not to mention Albania, which, as noted, was invited to join the Alliance at the Bucharest summit in April 2008. Since President Mikheil Saakashvili's assumption of power in November 2003, the economy has improved visibly; the degree of political freedom has been expanded; and corruption has been significantly reduced.[2]

[2] See the Bertelsmann Foundation's Transformation Index (BTI), *BTI 2008 Georgia Country Report* for a comprehensive assessment. Bertelsmann gives Georgia an overall rating of 6.6 out of 10.

The Georgian government's use of force to disperse demonstrations in November 2007 badly damaged Saakashvili's image, both at home and abroad, and raised questions in the mind of some NATO members about Georgia's democratic credentials. However, the government's crackdown, while ill-considered, should not obscure the overall political and economic progress that has been made since November 2003. The opposition, while noisy, is weak and has been unable to articulate a coherent or convincing alternative political program.

Moreover, Saakashvili still enjoys significant political support. He easily won the presidential elections in January 2008, gaining 53.5 percent of the vote against 25.7 percent for his opponent, Levan Gachechiladze, the leader of the opposition.[3] While the result was a far cry from the 96.9 percent he received in the elections in 2004, it demonstrated that Saakashvili still commands considerable support. The elections were generally considered by the OSCE to have been carried out in a fair and honest manner. Their implementation contrasts sharply, moreover, with recent elections in other parts of the former Soviet Union, particularly Russia, Armenia and Azerbaijan—not to mention Kazakhstan, Kyrgyzstan and Turkmenistan—which were characterized by numerous and serious irregularities.[4]

The main obstacle to Georgia's membership prospects, however, is not its democratic credentials, which, as noted, are certainly as good as those of NATO members such as Bulgaria and Romania. Rather it is the existence of "frozen conflicts" with the breakaway regions of Abkhazia and South Ossetia, which declared their independence from Georgia in the early 1990s.[5] Many European members of NATO fear that these disputes could drag NATO into a conflict with Russia if Georgia becomes a member of the Alliance.[6]

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[3] Full election results available from the IFES Election Guide at: http://www.electionguide.org/results.php?ID=1179, accessed March 10, 2008.

[4] Ukraine is a notable exception to this pattern. The parliamentary elections in March 2006 and September 2007 were both judged by the OSCE to have been conducted in a fair and open manner with relatively few irregularities.

[5] A detailed analysis of the conflicts and their origins cannot be undertaken here. For a good discussion, see Dov Lynch, *Why Georgia Matters*, Chaillot Paper No. 86 (Paris: European Union Institute for Security Studies, February 2006, pp. 35-44. Also Bruno Coppieters, *The EU and Georgia: Time Perspectives in Conflict Resolution*, Occasional Paper No. 70 (Paris: European Union Institute for Security Studies, December 2007).

However, making the resolution of the conflicts in Abkhazia and South Ossetia a precondition for Georgian membership in NATO, as some members such as Germany argue should be done, would essentially give Russia a veto over Georgia's NATO membership aspirations and virtually ensure that the conflicts will remain unresolved. Russia has little incentive to see the conflicts settled since their resolution would remove one of Moscow's main instruments for exerting pressure on Georgia and would reduce its influence in the Caucasus more broadly.

Abkhazia and South Ossetia are highly dependent, politically and economically, on Russia, which has granted Russian citizenship and Russian passports to the majority of the residents in the two separatist enclaves. Moreover, in April 2008, President Putin issued a decree further strengthening economic, cultural, social, and diplomatic ties with the breakaway regions. The decree included provisions for Russia to establish semi-official consular offices as well as expand trade links with both entities.[7]

Some NATO members are hesitant to offer Georgia a Membership Action Plan because they fear that in retaliation Moscow might formally recognize Abkhazia and South Ossetia as independent states. Such a move, however, is unlikely. It would stimulate stronger pressure for independence in Chechnya and elsewhere in Russia, especially the northern Caucasus—a development Moscow is eager to avoid. Rather Moscow's policy seems aimed at strengthening economic and political ties with the two entities but stopping short of formal diplomatic recognition—something akin to U.S. relations with Taiwan.

Still, fears that NATO could be dragged into a conflict with Russia over Abkhazia and South Ossetia if Georgia were offered NATO membership cannot be totally dismissed out of hand. However, the dangers could be significantly mitigated by a unilateral statement by Georgia before or at the time of MAP accession pledging to solve its outstanding territorial disputes solely by peaceful means. Such a statement would reduce the prospect of NATO being dragged into an armed conflict over Abkhazia or South Ossetia while holding open the legal possibility of peaceful reunification of Abkhazia and South Ossetia

[6] In a speech in Berlin on March 10, 2008, for instance, Chancellor Angela Merkel of Germany bluntly warned that "countries that have unresolved conflicts cannot become NATO members."

some time in the future if political circumstances change, as provided for under the l975 Helsinki accords.

While the two conflicts are often linked together, there are important differences. The prospects for a peaceful settlement of differences in South Ossetia are much better than in Abkhazia. The ethnic composition of South Ossetia is quite diverse, whereas in Abkhazia there are practically no Georgians left, except for the Gali district. Nearly 200,000 ethnic Georgians fled or were forced to leave during the civil strife in the early l990s and few have returned. Moreover, South Ossetia is surrounded by Georgian villages and within easy reach of Tbilisi. Abkhazia, by contrast, is more insular and anti-Georgian feeling is much stronger.

The Georgian government has launched a number of initiatives designed to resolve the dispute with the government in Tskhinvali, the capital of South Ossetia, including proposing a broad-based plan that would give South Ossetia significant autonomy as well as other important cultural and economic benefits. To date there has been little progress in resolving the dispute, largely because any re-association with Georgia would significantly weaken the political power and damage the economic interests of the corrupt autocratic leadership in South Ossetia, which derives much of its power and wealth from smuggling and other illegal activities.

However, South Ossetia faces growing economic problems, which is driving more people to emigrate to North Ossetia and elsewhere in search of jobs and better economic conditions. If the economic situation in South Ossetia continues to deteriorate, and if Georgia maintains its current reform course and continues to strengthen its ties to the West, many South Ossetians may eventually conclude that they are better off enjoying significant political and cultural autonomy in an increasingly prosperous, Western-oriented Georgia closely tied to NATO and the EU than remaining part of a politically isolated, economically depressed pseudo-state run by a corrupt, criminalized elite that is dependent on Russia for its survival. This could open new prospects for resolving the current differences between Tbilisi and Tskhinvali. At the same time, the prospect of eventual membership in NATO serves as an important incentive for Georgia to resolve its dispute with South Ossetia (and Abkhazia) by peaceful means.

Ukraine

Ukraine's aspirations for NATO membership present a very different set of dilemmas. The first is strategic. Georgian membership in NATO is one thing; Ukrainian membership quite another. Georgia is a small country and its armed forces in no way pose a threat to Russia. Ukrainian membership, by contrast, would have enormous strategic consequences. It would deal a fatal blow to any residual Russian hopes of creating a "Slavic Union" between Russia, Ukraine and Belarus and severely diminish Russia's ability to expand its influence in the western CIS. It would also have important consequences for military cooperation between Russia and Ukraine, particularly in air defense and ballistic missile production.

Second, Ukrainian membership in NATO would raise the issue of the Russian Black Sea Fleet. Under the agreement signed in July 1997, Ukraine granted Russia port facilities in Sevastopol for the Black Sea Fleet until 2017. President Putin has suggested that the agreement should be extended.[8] An extension of the accord, however, could complicate—and probably kill—Ukraine's prospects for NATO membership. Many NATO members would be reluctant to support Ukrainian membership if the Russian Fleet is stationed on a semi-permanent basis in Ukraine.

The third—and most important—problem is the low level of public support for NATO membership in Ukraine. According to surveys by the Razymkov Center in Kyiv, support for Ukrainian membership in NATO declined from 32 percent in 2002 to 17.2 percent in October 2006.[9] This downturn was observable across all age groups. A poll conducted in October 2006 revealed that if a referendum on NATO accession had been taken at that time, 54 percent of the population would have voted against accession.[10]

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[7] See C.J. Chivers, "Russia Expands Support For Breakaway Regions in Georgia," *New York Times*, April 17, 2008.

[8] "Russia ready for talks to extend Black Sea Fleet's stay in Crimea," *RIA Novosti*, October 25, 2006. See also Vladimir Socor, "Putin Offers Ukraine 'Protection' for Extending Russian Black Sea Fleet's Presence," *Eurasian Daily Monitor*, *Volume X*, *Issue 200*, October 30, 2006.

[9] See Anatoliy Bychenko, "Public Opinion on NATO and Ukraine's Accession to it," *National Security and Defense*, No. 9 (81), 2006, p. 20.

[10] *Ibid*, p.21.

The low level of public support is due to the long years of anti-NATO propaganda during the Soviet period as well as the strong anti-NATO propaganda conducted by former Prime Minister Viktor Yanukovych during the 2004 presidential campaign. NATO's air campaign against Serbia in the spring of 1999 and the U.S.-led military intervention in Iraq have also contributed to a decline in public support.

Support varies significantly, however, from region to region. Pro-NATO sentiment is strongest in western and central Ukraine and weakest in the Russified southern and eastern regions. In general, however, public awareness of NATO in Ukraine is very low. Polls show that nearly half of the population (47 percent) has little knowledge or understanding of NATO.[11] Many of these respondents could be mobilized to support NATO membership if the Ukrainian government conducted an effective campaign to inform the population about the benefits of NATO membership, as was done by a number of east European aspirants prior to their admission to NATO. But this would take time—probably 4-5 years—and so far no Ukrainian government has shown a willingness to devote the required energy and resources to conduct such a public education campaign.

Moreover, unlike Georgia and eastern Europe, where elite support for NATO was strong, in Ukraine the elite and main political parties are sharply divided over the issue of Ukrainian membership in NATO. The ruling coalition composed of Our Ukraine/People's Self Defense (NUNS) and Prime Minister Yulia Tymoshenko's bloc (BYuT) favor Ukrainian membership in NATO, while the Party of Regions, the Communists and Volodymyr Lytvn's bloc, which comprise the current opposition in the Rada, are opposed to NATO membership or are unwilling to support it at this time.

However, even within the ruling coalition there are visible differences. While President Yushchenko is an ardent supporter of Ukrainian membership in the Alliance, Prime Minister Tymoshenko, who comes from eastern Ukraine where support for NATO is low, is much less enthusiastic about NATO membership.[12] Moreover, the coalition is

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[11] *Ibid*, p.25.

[12] Tymoshenko did not even mention NATO, for instance, in her controversial article in *Foreign Affairs*. See Yulia Tymoshenko, "Containing Russia," *Foreign Affairs*, Vol. 86. Nr, 3, May/June 2007, pp. 69-82.

plagued by intense internal bickering and personal rivalries and has only a slender two seat majority in the Rada, raising serious questions about its longevity.[13] A collapse of the coalition could bring the anti-NATO forces to power, seriously damaging Ukraine's chances of receiving MAP in the near future and undercutting Kyiv's prospects for NATO membership over the medium to long term.

Fourth, there is no clear consensus within NATO regarding Ukrainian membership. The United States, Poland, and most East European countries favor Ukrainian membership if Ukraine demonstrates a serious commitment to implementing political, economic, and military reforms. However, many west European members of NATO, especially France and Germany, have reservations about admitting Ukraine. Some members do not feel that Ukraine is really a "European" country while others fear that Ukrainian membership in NATO would increase the pressure for the EU to admit Ukraine. Many also worry that Ukrainian membership would antagonize Russia and lead to a deterioration of relations with Moscow.

Given the lack of strong public support for NATO in Ukraine at the moment, the absence of an internal consensus in NATO regarding Ukrainian membership within the Ukrainian elite, and the concerns within NATO about the impact of admiring Ukraine on relations with Russia, Ukrainian membership in the Alliance does not appear to be very likely in the near future. If it carries out a serious reform program over the next year or so, Ukraine will probably be granted MAP, but public support for NATO will need to increase visibly before Ukraine can be considered seriously for NATO membership.

The Bucharest Summit: A Strategic Turning Point?

The Bucharest summit (April 2008) represents an important milestone—perhaps even a critical turning point—in NATO's approach to the Black Sea region. At the summit, Alliance leaders postponed granting Georgia and Ukraine MAP, preventing an open confrontation with Moscow that could have derailed the summit. At

[13] For details, see Taras Kuzio. "Yushchenko Looks to Grand Coalition To Replace Tymoshenko," *Eurasian Daily Monitor*, Vol. 5, Nr. 44, March 7, 2008.

the same time, in the final communiqué they agreed to admit Georgia and Ukraine into the Alliance at an unspecified time in the future.[14]

Thus, while MAP was postponed, Georgia and Ukraine ended up getting more than if they had received MAP: they got a written commitment from the Alliance that they will eventually become members. This significantly changes the dynamics of the enlargement debate. The question now is no longer *whether* Georgia and Ukraine will become NATO members but *when*.

In effect, NATO kicked the can down the road. The Alliance agreed that some day Georgia and Ukraine will become members but left open the timing of when admission will occur. This approach has several advantages but also some weaknesses. First, it buys time for Georgia and Ukraine to improve their qualifications for membership—which is precisely what MAP is designed to help them do. At the same time, it provides an important political assurance that if they improve their performance, they will eventually be admitted into the Alliance. It thus strengthens the pro-NATO forces in Georgia and Ukraine and provides a strong incentive for both countries to make the sacrifices needed to keep the reform process on track.

Second, it gives NATO time to develop an internal consensus regarding Georgian and Ukrainian membership. At the moment this consensus is lacking. Some Alliance members, particularly France and Germany, have reservations about Georgian and Ukrainian membership. For some, this is primarily related to the timing of admission. It is not a case of whether but when. However, for others such as France, the concerns run deeper and relate to the European balance of forces. Thus building a consensus in favor of Georgian and Ukrainian membership will take time and will heavily depend on Georgia and Ukraine's performance.

Third, it gives the Alliance time to try to build a more cooperative relationship with Russia and defuse—or at least try to manage—Russian opposition. However, this will not be easy. Russia is likely to

[14] "We agreed today that these countries will become members of NATO." See paragraph 23, *Bucharest Summit Declaration* issued by the Heads of State and Governments participating in the meeting of the North Atlantic Council in Bucharest on 3 April 2008, NATO Press Release (2008)049, issued April 3, 2008, available at: www.nato/int.docu/pr/2008/p09-049e.html (accessed April 18, 2008).

oppose the admission of Georgia and Ukraine (especially the latter) as a matter of principle. Moscow regards the Black Sea region as part of its "sphere of influence." This perception has deep roots in Russian history and in the Russian psyche, and it is not likely to change in the near future.

Some NATO members see the leadership change from president Putin to Dmitri Medvedev as providing an opportunity to put Alliance's relations with Moscow on a firmer footing. And certainly the Alliance should try. However, a major change in Russian policy—especially regarding NATO enlargement—is unlikely in the near future. As Putin bluntly warned German Chancellor Angela Merkel during her visit to Moscow in March 2008, Medvedev "is no less a nationalist, in the positive sense, than I am. And I don't think our partners will have an easier time with him."[15]

Medvedev has no political or institutional power base; he owes his job to Putin. It will take him time to build his own power base and put his imprint on foreign policy. And as prime minister, Putin will still be in a position to influence Russian politics and policies behind the scenes even if formal authority for foreign policy resides with the president. Thus, at least initially, Russian foreign policy is likely to be marked by considerable continuity. Consequently, it would be unrealistic to expect major shifts in Russian policy regarding Georgian and Ukrainian membership in NATO.

At the same time, the summit in Bucharest left many of the most knotty issues related to future enlargement—particularly the question of how the Alliance will defend Georgia and Ukraine once they become members—unanswered. In the past, NATO leaders have been extremely wary of making "hollow commitments." But they seem to have made their membership pledge to Georgia and Ukraine with surprisingly little thought as to how the Alliance would carry out an Article V commitment to these countries if they become NATO members—a fact that could pose important dilemmas in the future.

[15] Bertrand Benoit and Neil Buckley, "Merkel cautious after meeting Medvedev," *Financial Times*, March 3, 2008.

EU or NATO First?

In the emerging debate about how best to provide security in the Black Sea region, the question of which organization, NATO or the EU, should take the lead has resurfaced with new intensity.[16] Supporters of an "EU First" strategy point out that Russia is strongly opposed to NATO enlargement to the Black Sea region. Thus they argue it would be better for the EU to take the lead. This would avoid a confrontation with Russia. Moreover, they contend, the EU is much better positioned to address the economic and social problems these countries face.

However, the EU First approach has a number of weaknesses. The most important is that the United States is not involved in the enlargement process. Given Russia's strong economic and political interests in the region and its ability to wield economic, political, and military power there, the lack of U.S. involvement is a serious liability. While Russia is less opposed to EU engagement in the region than NATO's involvement there, Moscow does not like the EU's involvement either. Thus having the United States engaged in the process as a strategic counterweight to Russia is an important asset.

The second disadvantage of the EU First strategy is the long time frame and difficulty of many aspirants, particularly Georgia and Ukraine, to meet the criteria for EU membership in the foreseeable future. This is all the more important because the aspirants in the Black Sea region are less qualified than the countries of central Europe were at the time of their application for EU membership. Thus the accession process is likely to take much longer—at least another decade, probably much longer. Indeed, it is not clear that the EU door will be ever opened at all to Ukraine and/or Georgia. However, without a clear prospect of membership, pro-Western leaders in countries like Georgia and Ukraine may not be able to sustain popular support for the sacrifices needed to carry out the reforms required for EU membership.

By contrast, the criteria for entry into NATO are much less rigorous and easier to meet. Thus if members of the Alliance believe it is in

[16] See F, Stephen Larrabee, "NATO First? Why NATO has to Lead a New Wider Black Sea Strategy," *Black Sea Paper Series Nr. 2* (Washington D.C.: German Marshall Fund of the United States, April 2008), pp.1-6 and Joerg Himmelreich, "ESDP—A Driver for Increased European Responsibility for Black Sea Security," *Ibid*.

NATO's strategic interest to integrate Ukraine and Georgia into the Alliance, and if the two Black Sea aspirants obtain MAP and improve their qualifications for membership, the two could become members of the Alliance much sooner than they could become members of the EU (if they get in at all). Thus NATO membership could provide an important anchor to the West for these countries while they seek to meet the much more difficult and onerous criteria for membership in the EU.

In short, in some cases it may be in the West's strategic interest to tie certain countries closely to the West. (This may be the case in particular for Ukraine.) The United States cannot afford to allow its strategic interests to be determined solely by the EU, whose criteria for membership require aspirants to meet some 80,000 regulations. These criteria may take decades to meet. The accession process cannot—and should not—be artificially accelerated for strategic reasons; it has its own rationale and logic which should remain intact. But this should not prevent the West from using other means such as NATO to anchor these countries more closely to Euro-Atlantic structures if these countries meet the qualifications for membership.

The Russian Factor

The main objection to a NATO First strategy in the Black Sea region is the potential impact on Russia. Many European officials fear that integration of Georgia and Ukraine into NATO could provoke a confrontation with Russia. Again this risk is not new. The West faced a similar dilemma during the debate over the adhesion of the countries of central Europe to NATO in the 1990s. The difference is that Russia today is much stronger than it was in the 1990s and has even stronger historical and strategic interests in the Black Sea region than it did in central and eastern Europe.

This is an argument for prudence and careful diplomacy, not for strategic capitulation. Western statesmen need to consider Russia's strategic interests in the Black Sea region, but Russia should not be given a veto over Western policy or a *droit de regard* over the right of independent and sovereign nations to choose membership in structures which they believe enhance their security. This has been a key principle of Western policy and should remain so. Nor should the

countries of the Black Sea region be excluded from membership simply because at a certain historical moment they were part of the Soviet Union.

This is all the more important because Russia is in a more self-confident and assertive mood today in comparison to a decade ago, and is seeking to reshape its relations with the West in line with what it considers to be its new strategic interests. As a result, Russian policy, especially toward the former Soviet space, is likely to have a sharper edge in the coming decade. We are already seeing evidence of this in Georgia, Ukraine and Moldova. A failure to uphold key principles of Western policy is only likely to encourage Moscow to toughen its stance in the Black Sea region, not adopt more cooperative behavior.

In short, Western leaders need to combine firmness with flexibility. But they should not delude themselves into believing that they can avoid geo-strategic problems by substituting soft power for hard power or using the EU as the tip of the Western effort to expand stability and security eastward. Moreover, one should not assume that the EU and Russia will be natural or easy partners in the wider Black Sea area. Indeed, the clash between a post-modern EU, with its emphasis on democratic reform, human rights and rule of law, and a more nationalistic, assertive Russia, determined to preserve—and even expand—its influence in the Black Sea region, could make EU engagement in the Black Sea area much more difficult than many advocates of an EU First strategy assume.

Reconsidering the NATO/EU Enlargement Linkage

In the past, there has been a close linkage between NATO and EU enlargement. Both have been seen as part of the same process of expanding security and stability eastward. As a result, the NATO and EU enlargement processes have been closely coordinated. However, the further east NATO and the EU expand, the more difficult it is likely to be to maintain the linkage that has existed to date between EU and NATO enlargement.

Maintaining this linkage was not a major problem in the past because there was a general consensus in both organizations that the aspirants from central and eastern Europe were part of Europe. However, as noted earlier, today the question of "European identity" has

become more important. Many NATO and EU members question whether Ukraine, Georgia and Turkey are part of Europe, whether on geographic, cultural or religious grounds.

Thus, in the future, the close linkage between the two processes of enlargement that has existed to date is likely to erode. Some aspirants may become members of NATO but not members of the EU—or at least not have a perspective of EU membership for a long time. Moreover, the erosion of the linkage between the two enlargement processes is likely to be accelerated if NATO becomes a more "global" alliance. In such a case, the geographic focus and criteria for membership in each organization may diverge even more starkly than they do today.

At the same time, the Alliance may also need to rethink its approach to MAP. When MAP was originally conceived in 1999, it was viewed as a means of helping candidates improve their qualifications for entry and setting them on a clear path to membership. The road to membership was envisaged as being relatively short—and that, in fact, was the case in the first two rounds of enlargement.

However, this approach was conceived at a time when candidates were better qualified than the aspirants from the western Balkans and Black Sea region. The situation is quite different today. Candidates in the western Balkans and Black Sea region have a harder and longer row to hoe. They need more time to prepare for membership.

One solution to this dilemma worth considering would be to *weaken the linkage between MAP and membership*. MAP would still be conceived as a vehicle to help aspirants improve their qualifications for membership but it would *not be a guarantee of membership*. Some aspirants who acquire MAP status might become full members of NATO but others might not. Weakening the linkage between MAP and membership would give candidates like Georgia and Ukraine a longer period to prepare for membership. At the same time, it would provide an important interim form of association between Intensified Dialogue and membership that would tie the candidates more closely to NATO. This would make it easier to manage many of the current anxieties about Georgian and Ukrainian aspirations for NATO membership while keeping open the door to membership over the longer term.

Troubled Strategic Partnership: The Black Sea Dimension of Russia's Relations with the West

Nadia Alexandrova-Arbatova

Writing about the Black Sea region is a difficult task, in particular because the future of the region is heavily influenced if not determined by trends developing outside this area. It is an even more difficult task if one regards this space through the prism of interdependence with the adjoining regions of the Balkans, the North Caucasus and the Caspian, which in turn bridge the Black Sea with central Asia and the Middle East. The heterogeneity of the Black Sea region in terms of security arrangements and membership in different international organizations (OSCE, EU, NATO, CIS and GUAM), the presence of regional and external players with conflicting interests and troubled relations, the existence of so-called frozen conflicts, and the growing importance of the Black Sea-Caspian region as an energy transport route mean that instability in this area can have significant ramifications not only for domestic and regional security, but for European and international security as well.

The Black Sea Economic Coordination, or BSEC, is the only regional organization embracing all the countries of the Black Sea region, but it has limited capabilities to mitigate tensions between its members, for one simple reason. Most of the problems which exist today in the Black Sea region are not so much regional problems but rather regional projection of more fundamental differences that exist in Russia's relations with its major Western partners—EU, NATO and the United States. These differences have a strong impact on the regional situation, including Russia's troubled relations with the GUAM countries (Ukraine, Georgia, Moldova and Azerbaijan) and growing rivalry over energy pipelines. Therefore, trends in the Black Sea region cannot be separated from trends in Russia's relationship

with the West at large, which during the last decade has become anaemic and in some instances even antagonistic.

Convolutions in the Russia's Relations with the West

Unlike the 1990s, Russia today is widely perceived by its Western partners as an authoritarian country that is drifting away from liberal values, prone to neo-imperialism and a more self-assertive course in its foreign policy. Paradoxically, Putin's Russia passed through the same foreign policy stages as Yeltsin's Russia. At the end of their presidential terms both Boris Yeltsin and Vladimir Putin were confronted with a flare-up in tensions around the Kosovo problem. However, these similarities are relative and can have significantly different consequences given changing domestic and international contexts.

After the collapse of the USSR, Russia's relations with Europe and the United States quickly passed through several stages: a romantic (or euphoric) period in the early 1990s, characterized by a conspicuously pro-American foreign policy on Russia's part; a stage of mutual disappointment in the mid-1990s; and then a stage of mutual mistrust in the late 1990s, which resulted in "Russian Gaullism": a more self-assertive, anti-American and pro-European foreign policy. The Kosovo crisis in spring 1999 was a clear watershed in Russian-Western cooperation.

President Putin inherited from the Yeltsin period three major problems that remain unresolved and will challenge Putin's successor. First, there is a growing gap between respective security perceptions in Russia and in the West (first and foremost with regard to NATO enlargement). Second, there is a complex interaction between trends in Russia's domestic evolution and tendencies within the international economic order that could have a negative impact on relations between Russia, Europe and America. Third, there is a very complex interplay of Russian and Western interests in the space of the Former Soviet Union (FSU) which, if not reduced to a common denominator, threatens to damage Russian relations with Europe and the United States.[1]

[1] Alexei G. Arbatov, Karl Kaiser and Robert Legvold, eds., *Russia and the West: The 21st Century Security Environment* (New York: M. E. Sharpe/East–West Institute, 1999), p. 239.

Under the Putin presidency in 2000, relations confidently entered a pragmatic-minimalist phase, with Russian leaders and those of leading Western countries continuing to negotiate with each other, voicing good will and proposing important initiatives without any strategic goals. Although President Putin proclaimed himself a devoted partisan of Russian-Western cooperation, having supported ratification of the START II Treaty, the post-Kosovo dialogue between Russia and NATO, and strategic partnership with the EU, his foreign policy was one of *a tous azimuths*. He left the doors to the West open; but he also opened many doors in the south and in the east, thus willingly or unwillingly sending the West a message that Russia had an alternative.

In short, Putin's diplomacy in the period prior to September 11 was an intensive one, and was pursued vigorously in all areas; but the foreign policy priorities of the Russian Federation were not clear, either in terms of regions or problems. The answer to these questions given by the Russian leadership in the immediate aftermath of September 11 was clear and unequivocal: Russia stands together with the civilized world against terrorism. Putin said that Russia was rooted in European values; that under certain conditions Russia could go further in anti-terrorist cooperation; and finally, that Russia would not be against NATO's expansion to the east if Russia were part of this process. "Of course, we would reconsider our position with regard to such expansion if we were not involved in such process," he said in Brussels.[2]

The post 9/11 cooperation with the U.S. and its European allies opened a new romantic period in Russia-Western relations, raising expectations by Russia that it would be accepted as a fully fledged partner. These expectations had a very positive impact on Russia's domestic situation by helping to reinforce the positions of liberals and reformers in Putin's entourage. Unfortunately, neither Washington nor Brussels turned out to be ready for a radical change in their relations with Russia. They were fearful that this new alliance partnership would confront them with additional problems and require rethinking of previous positions on NATO's enlargement, the question of the Anti-Ballistic Missile (ABM) Treaty and other strategic agreements. "No reaction followed other than the standard reply issued by senior NATO officials that the organization does not invite anyone and that a country wishing to join needs to make an application (and get in the

[2] Gareth Jones, "Putin Softens on NATO," *Moscow Times*, October 4, 2001, p. 1.

queue behind Latvia, Romania, Slovakia and other candidates.) Such was NATO's "farsighted" position regarding a great power that had completely freed the West from military threat from the east, at great cost to itself, and given Europe a level of security the continent had not known since the dark ages."[3]

In spite of Russia's willingness to participate as a real partner and the high domestic risk taken by President Putin in embarking on this partnership (since there was opposition to this course), the United States and its allies did not make a serious effort to involve Russia on a full-time basis. The partnership was limited to very selective cooperation. Russia's support was taken for granted, and there was no reciprocation in any of the three areas of concern that existed before September 11: the growing security gap between Russia and NATO/the United States; economic challenges; and rivalry in the space of the former Soviet Union. No concessions were made on NATO's enlargement to the Baltic states or on the issue of the ABM Treaty. Instead, NATO offered to engage with Russia in a new body for cooperation, albeit with no guarantees that the new grouping would not be just a new version of the Permanent Joint Council (PJC) formed in the 1990s. As for the ABM problem, the Bush administration half-heartedly agreed to negotiate further reductions of strategic forces, but Washington did not appear to be interested in radical cuts of nuclear arms.

As the core of the foreign policy consensus in Russia emerged by the end of 2002 and developed in 2003-2007, it came to rest primarily not on general agreement about Russian behavior in the world, but about the world itself. In contrast to Moscow's expectations during the euphoric period, the concern emerged that changes in the system of international relations did not create a benign international environment for Russia's evolution. The Russia-U.S. and Russia-NATO summits in this period were mainly of symbolic importance, and geared to reestablishing the situation that had existed in Russian-Western relations before the Madrid decisions and the Kosovo crisis. The NATO Prague summit, as it was viewed in Russia, gave a green light to further eastward enlargement to the CIS space without giving a strategic perspective to Russia. It dented the image of EU enlargement, which initially had been regarded by Moscow as a natural trend

[3] Alexei Arbatov, "Moscow-Munich: A New Framework for Russian Domestic and Foreign Policies," Moscow Carnegie Center Working Papers, no. 3 (2007), p.16.

in Europe's post-bipolar evolution, since Brussels always singled out EU and NATO enlargement policies as complementary processes. In the eyes of the Russian political elite, the post-communist European countries should first become part of the Western security system and only afterward count on EU membership. EU and NATO have never accepted this argument, although no one can cite an example with regard to post-communist Europe when EU membership of central and eastern European countries was not anticipated by their membership in NATO. Even if this dynamic is just a "coincidence," foreign policy perceptions matter and they cannot be dispelled without any explanation.

The Russia-EU Saint Petersburg initiative of May 2003, which broached the potentially breakthrough idea of "four common spaces" between the two partners, was accompanied by doubts regarding both the feasibility of creating such common spaces and the seriousness of the intentions announced by the parties. The biggest doubts concerned the idea of creating common spaces of cooperation in the framework of the Russia-EU Partnership and Cooperation Agreement (PCA), which was outdated by 2003 and expired in 2007. It seems that the Saint Petersburg Initiative was based mainly on the desire of the EU to add, at least formally, a new dimension to its relations with Russia on the eve of the forthcoming—and biggest—enlargement of the EU to CEE countries. The very logic of this enlargement prompted the EU to seek new forms of cooperation with Russia, which was going to be left outside the scope of this strategy.

EU enlargement to the central European countries brought about practical problems such as that of Kaliningrad transit, and raised Russian fears that EU policy *vis-à-vis* Russia would be shaped by the new EU members, who were still suffering from the post-Soviet syndrome. The Moscow Summit in May 2005 adopted a single package of road maps to act as the short and medium-term instruments for the creation and implementation of the four common spaces. The London Summit in October 2005 focused on the practical implementation of the road maps. Despite the good intentions, however, these road maps could not provide the necessary legal foundation for the implementation of the St. Petersburg initiative, since they were less working plans than lists of intentions. Russia was excluded from the final draft of the European Neighborhood Policy (ENP) under the pretext that it was

"too little" for the Kremlin, which was seeking strategic partnership with EU based on the post- PCA treaty. But EU-Russia negotiations on the post-PCA were blocked by Poland. Put simply, caught up in its internal problems, the EU has failed to present a clear and substantial strategy for Russia.

The year 2007 was a turning point for Russia. The absence of strategic goals in Russia's relations with NATO/U.S. and the EU, as well as mutual dissatisfaction and mistrust, resulted in a flare-up in tensions between the partners. The February 2007 Munich speech of president Putin opened a new foreign policy stage of "Russian Gaullism." Russian foreign policy had come full circle. The message sent by Putin in Munich was directed at reconsidering the model of Russian-Western relations established in the 1990s and based on unilateral concessions to Western partners. Russia wants to be recognized by the West as an equal partner, one which has a right to express its own foreign policy interests, be it regarding the Kosovo problem or the prospects of NATO's enlargement to the CIS space.

Unlike Russian Gaullism during the Yeltsin period, Putin's Gaullism is based on the improved economic situation, political stability and broad public support. Unlike the well-considered *a tous azimuths* policy of French Gaullism, Russia's *multiple vectors* foreign policy does not mean it is versatile and balanced. The European choice of Russia has not become final, irreversible or common to its new political elite or to the public. Apart from the administrative mess evident in Russian foreign policy, Russia's lack of clarity in foreign policy priorities is indicative an of a bitter ideological struggle underway between various political forces over the choice over the appropriate model of domestic development of the Russian Federation, which also affects the country's foreign policy priorities and choice of partners and adversaries, who have been changing at a dizzying pace.[4] This situation became even more convoluted with Russia's "petro-state" economic model, which by definition is a model of an authoritarian political system, and thus creates serious problems for real partnership with the West. From this point of view, while increasingly harsh critique by Brussels may often be well justified, it by no means always

[4] A Common Space of External Security between Russia and the EU: Obstacles and Imperatives, Concept Of the Committee "Russia in a United Europe," presented at the Annual Meeting in Stockholm, October 5-7, 2007.

takes into account either the alternatives that are realistically possible in Russia or the impact of the EU's own (and often wrong) actions on political infighting in Russia.

Democracy, being a product of consistent domestic evolution, cannot be imposed by force from the outside on an unprepared society. One fact not adequately understood in the West is that the present political system in Russia does not contradict the predominant sentiments in Russian society, which today are marked by a mix of the post-Versailles syndrome (the humiliation of the 1990s) and the post-Weimar syndrome (the fear of falling back into misery at the stage of coming out of the crisis). This situation should not be assessed as irreversible. Rather it should be regarded as transitional: with domestic economic and political stability and a benign international environment, democracy develop and mature in a natural and consistent way. This can be vividly proved by the two "euphoria periods" in Russian-Western relations after the collapse of the USSR.

Notwithstanding growing differences between Russia and the West around U.S. plans to build missile defense facilities in central and eastern Europe, Russia's moratorium on the CFE Treaty, Kosovo's status and other issues, the fundamentals for Russian-Western partnership are still of strategic importance. With all due respect to the importance of economic cooperation, the major imperatives for strategic partnership are related to security in a broad meaning of this word, energy and economic security included. First, without this partnership there won't be any stability in Europe and its regions. Second, this partnership is crucial for the emerging North-South bipolarity, which is not just a geographic notion but a global competition between possible new superpowers, coalitions of states and transnational actors of the 21st century. The Black Sea region can be seen as the embodiment of challenges and opportunities to Russian-Western strategic partnership.

The Black Sea as a Case Study

Traditional and Non-traditional Security Challenges

It is widely recognized that Europe's security, its regions included, is not challenged by traditional Cold War threats but rather by so-called "new threats"—proliferation of WMD, international terrorism,

ethno-religious conflicts, failed states, trans-border crime. But given the fact that in the past, the Black Sea region was the political borderland between NATO and the Warsaw Pact, traditional security perceptions still cast a long shadow over the region in the absence of a clear-cut NATO/U.S. strategy *vis-à-vis* Russia. NATO, notwithstanding its transformation, is still a military alliance. As Ian Lesser has rightly pointed out, "there can be little question that much of the strategic significance accorded to the region in the post-Soviet era derives from a very traditional stake in power projection. For Russia the stakes are clearly different."[5] A more competitive relationship with Russia could also mean a different kind of American and NATO engagement across the region. Bulgaria, Romania and Turkey could face new pressures regarding security cooperation, base access and over-flight rights.[6]

From the Russian perspective, NATO's enlargement strategy, which includes an increasingly active policy of promoting the control of air and sea space around the Black Sea region, is at odds with Russia's security interests—(1) to prevent new dividing lines in the region and the expansion of military coalitions which excludes Russia as a full member; and (2) to ensure uninterrupted and secure energy, trade, civil and military communications within and throughout the Black Sea and the Straits. Being just a symbolic partner of European and Euro-Atlantic institutions but a member of none, Russia will be suspicious about NATO's intentions; it will be interested in the regional status quo; and it will be looking for its own strategic and ad hoc allies.

The question of NATO's enlargement to the GUAM countries is seen by Moscow as a radical change in this status quo, which is fraught with new security challenges to its interests. On the one hand, GUAM, a "political, economic and strategic alliance founded in 1996 to strengthen the independence and sovereignty" of its members, has been a net product of Russia's troubled relations with Georgia, Ukraine, Azerbaijan and Moldova, who lost their last hope to resolve their territorial problems with the help of Moscow. On the other hand, this crack in the CIS has been used by the U.S. and NATO, which started supporting GUAM countries to help them move farther away from Russia. "In this sense the countries in question are objective (and, maybe, unconscious) conduits of the West's interests aimed

[5] Ian O.Lesser, "Global Trends, Regional Consequences: Wider Strategic Influences on the Black Sea." Xenophon paper No. 4, ICBSS, November 2007, p. 6.

[6] Ibid. p. 13.

openly and officially at preventing Russian prevalence in the former Soviet Union."[7] GUAM member states have established structured relations with NATO through relevant partnership and cooperative programs such as Intensified Dialogue (Georgia, Ukraine) and IPAP (Azerbaijan, Moldova). The latest waves of enlargement led to strengthening of links between NATO and GUAM countries as well as with the whole region of GUAM. Georgia and Azerbaijan are regarded by Russia as "the leaders in militarization of the region, with militarization going on concurrently with the beefing up of the U.S. and NATO military infrastructure in the two countries (mobile task forces, stopover air bases etc.)."[8] This situation reminds one of a vicious circle in which the situation evolves in line with a self-fulfilling prophecy scenario. One cannot but agree with Ian Lesser, who has written that in "an even more negative case, friction with Russia could spur a remilitarization of the Black Sea region, in the sense of higher defence spending, a greater emphasis on capabilities beyond territorial defense, and a revival of Russian naval activity in the Black Sea and the eastern Mediterranean."[9]

The question of Russia's plans to restore its permanent naval presence in the Mediterranean Sea has already become topical. In 2007 the Commander of the Russian Navy Fleet, Admiral Vladimir Masorin, announced Russia's plans to return to the Mediterranean. He did not say whether new bases would be established in the region. It is commonly known, however, that such bases could only be opened in Syria, where ports were used for the same purposes by the USSR. Russian experts say that Moscow's plans are unlikely to come to fruition any time soon. There is neither the money nor the technical capacity for it. Nonetheless, Masorin's announcement, in which those plans were recalled, has caused serious alarm in Israel. The Israelis think that the Syrian ports the Russians are most likely to use will turn into major centers of electronic surveillance and air defense centers and, as such, threats to Israel's national security. [10] Though it is hardly likely that Russia will be able to reinstate the Soviet Eskadra-like presence, given the wave of self-assertive sentiments and growing

[7] Alexei Arbatov, Round Table at Military-Political Problems Research Foundation, "Military Diplomat," International magazine, N4, 2007, p. 42.

[8] Andrei Areshev, Round Table at Military-Political Problems Research Foundation, "Military Diplomat," International magazine, N4, 2007, p. 52.

[9] Lesser, op. cit., p 14.

[10] http://www.kommersant.com/p793357/r_527/overseas_military_bases_navy/.

differences with NATO/U.S., Moscow could think about a limited permanent presence in the Mediterranean, which would be a source of new tensions in the wider Black Sea region.

There can be no doubt that NATO's strategy in the Black Sea region is guided not only by the rivalry with Russia but also by terrorism, proliferation and energy concerns as well as by a complex relationship with the regional countries in general and Turkey first and foremost. The growing gap in security perceptions between NATO, Russia and Turkey is having a strong impact on all participants involved, and dividing and undermining international cooperation on non-traditional security threats. "Issues of security cooperation have already been a source of strained relations between Ankara and Washington, and Turks are now inclined to a more benign view of Russian policy encouraged by a burgeoning economic relationship between Russia and Turkey."[11]

As part of NATO's efforts to combat terrorism in the wake of September 11, 2001, the organization launched Operation Active Endeavor, aimed at detecting and deterring terrorist activity in the Mediterranean. Russia and Turkey are both members, but in 2006 both objected to expanding it into the Black Sea, since both oppose outside military presence there. Russia is fearful that more active U.S. involvement in the region may be destabilizing. Turkey has claimed that NATO activity in the Black Sea may threaten the 1936 Montreux Convention, which stipulates that Turkey alone controls the Turkish Straits connecting the Mediterranean and the Black Sea, and that Operation Active Endeavor would be redundant to BLACKSEAFOR launched by Turkey in April 2001, and Black Sea Harmony, a Turkish initiative of 2004 for the littoral states, which was inspired by Operation Active Endeavor.[12]

Generally speaking, conflicting regional interests and differing security concerns of the Black Sea littoral states and external players strongly affect the need to counter and suppress extremism, separatism and terrorism. There is a general agreement between Russia and the EU/NATO on the list of non-traditional external threats.

[11] Lesser, op. cit., p. 13.

[12] "The Wider Black Sea Region: An Emerging Hub in European Security" (Svante E. Cornell, ed.), *Silk Road Paper*, the Central Asia-Caucasus Institute & Silk Road Studies Program, 2006. pp. 71-72.

However, there is no unity when partners try to agree on who may be classified as international terrorists, as failed states or as rogue states supporting international terrorism. With regard to the wider Black Sea region, Russia understands terrorism to mean above all Wahhabi terrorism, which exists in the North Caucasus and in central Asia (in particular Chechen Islamic militant groups or the Islamic Movement of Uzbekistan). Countries tacitly and unofficially supporting terrorism are, in the first place, Saudi Arabia, Pakistan, and Jordan—American partners and allies. The United States has never placed these countries on its list of states supporting terrorism. It has been very skeptical about the Russian definition of terrorist groups, in particular those in Uzbekistan, Kyrgyzstan, Tajikistan and in the North Caucasus. The United States sees Iran as a key state supporting terrorism and lists Hezbollah and Hamas among terrorist organizations. Russia, however, has never accepted this view. The European Union is mostly fixated on the Palestinian problem, which, in its opinion, is the main source of terror, including in Europe—a view not shared by Russia.

For the time being the threat of nuclear proliferation is not a major topic in the Black Sea region. There are only two countries in the region—Ukraine and Turkey—that theoretically have capabilities to become nuclear powers if they decide to withdraw from the Non-Proliferation Treaty (NPT). It is difficult to imagine a scenario that makes Ukraine choose the nuclear option, but the case of Turkey is less certain. Turkey is unlikely to become a nuclear power as long as it is a NATO member. From this point of view a Turkish break with NATO/U.S. is not in the interests of Russia, notwithstanding Russian-Turkish tactical interactions in the region. Such a development would not necessarily bring Turkey closer to Russia, because a break with NATO would mean a radical regime change in favor of the most extremist Islamist forces. If it did result in a closer Turkish-Russian relationship, it would mean that Russia had aligned itself with anti-Western Islamist forces, which at the end of the day would be detrimental to its existence as a federal state.

The emergence of nuclear powers in the Black Sea neighborhood of the broader Middle East would have a number of potentially important strategic consequences for the region. As Lesser notes, "for the Black Sea region where some nuclear arsenals have been reduced or dismantled since the end of the Cold War, a nuclear Iran and new

proliferation dynamics to the south and east could mean a disturbing re-nuclearization of security and strategy."[13] This means that the non-proliferation of WMD ranks high in the international security agenda. However, all countries, including the great powers, have many foreign policy, economic and military interests in addition to non-proliferation. Therefore the genuine priority of non-proliferation in terms of practical policy-making of the great powers is strongly dependent on their ability to overcome individual geopolitical and commercial interests for the sake of global and regional stability.

Frozen Conflicts

The existing frozen conflicts in the Black Sea area—Nagorno-Karabakh, Transdniestria, Abkhazia and South Ossetia—are commonly perceived in the West as part of Russia's CIS policy, directed at retaining its control over this space. The real picture is more complex. The frozen conflicts have at least three dimensions—internal, Russia/CIS and international.

The internal dimension of the frozen conflicts is closely related to their origins. It would be impossible for external players to drive a wedge between the parties involved in the conflicts if there were no grounds for the split between them. With the disintegration of the former Soviet Union, ethnic violence has escalated in those former Soviet republics where ethnic-religious and territorial problems existed even before the Soviet era.

Nagorno-Karabakh is a de facto independent republic that is officially part of the Republic of Azerbaijan, about 270 kilometers (170 miles) west of the Azerbaijani capital of Baku and close to the border with Armenia. The feud between Azeri Moslems and Armenian Christians has been going on for centuries. The modern incarnation of the conflict in the region began after the Armenian movement to free Karabakh from Azeris was made public in 1988. The declaration of secession from Azerbaijan in February 1988 declares secession to be the final result of a "long-standing resentment in the Armenian community of Nagorno-Karabakh against serious limitations of its cultural and religious freedom by central Soviet and Azerbaijani authorities," but more importantly it represents a conflict over territory. Full-scale

[13] Lesser, op. cit., p. 15.

fighting erupted in the late winter of 1992 and resulted in much bloodshed and destruction. By the end of the war in 1994, the Armenians were not only in full control of the enclave but also held and currently control approximately 9 percent of Azerbaijan's territory outside the enclave. A Russian-brokered cease fire was signed in May of 1994, and peace talks, mediated by the OSCE Minsk Group, have been held ever since by Armenia and Azerbaijan.[14]

In Georgia, the disintegration processes in the USSR, which released nationalist sentiments and past grievances of all parties involved in these conflicts, also enhanced the conflicts in South Ossetia and Abkhazia. The political leadership of the autonomous region of South Ossetia strove to upgrade the status of the region through reunification with the North Ossetian Autonomous Republic (which lay within the Russian Federation). In a counter move Tbilisi (like Milosevic with regard to Kosovo) abolished South Ossetia's autonomous status in 1990, since Georgian nationalists did not regard the Ossetians as indigenous.

The case of Abkhazia was different. The Abkhaz had the right to preserve their political status as an indigenous people, provided that the rights of the Georgians (who made up some forty-five per cent of the population in Abkhazia) were significantly extended. Georgians were challenging the political privileges of the Abkhaz titular nation, which comprised only eighteen per cent of the population in Abkhazia. The leaders of the Abkhaz national movement refused to acknowledge the authority of the Georgian political leadership in Tbilisi, and before the dissolution of the USSR had already sought to upgrade Abkhazia's status from autonomous republic to union republic. After the dissolution of the USSR they demanded equal status with Georgia in a loose federative framework. The escalation of tensions over political status reached its climax with the war of 1992-93 when Georgian troops, consisting mainly of paramilitaries, intervened in the political conflict between the two main nationalities of Abkhazia. The open conflict ended with the victory of the Abkhaz troops supported by nationalist movements from the North Caucasus and by the Russian military. Under the CIS mandate, peacekeeping forces were deployed on the ceasefire line between the parties in 1994. The United Nations has sent military observers to the conflict zone and is

[14] en.wikipedia.org/wiki/Nagorno-Karabakh_War—241k.

mediating between the two sides, with Russia acting as facilitator, but negotiations on political status have not led to significant results. The question of unreturned Georgian refugees remains unresolved. Spontaneous clashes between Georgian guerrilla and Abkhaz militia led to a resumption of hostilities, resulting in a new wave of internally displaced persons fleeing the region.[15] Unlike South Ossetia, Abkhazia is not seeking membership in the Russian Federation.

Transdniestria also presents a particular case. Moldova's growing national aspirations within the disintegration process in the USSR, the end of the Communist rule in neighboring Romania in December 1989, and rapid rapprochement between Romania and Moldova, including the partial opening of the border between them on May 6, 1990, led many in Transdniestria and Moldova to believe that a union between Moldova and Romania was soon possible, ending with them inside Romania. The Russian-speaking population was fearful that it could no longer demand the return to Russian as the official language. At the time of the war, it was widely believed on both sides that Moldova would, in the near future, most likely reunite with Romania, leaving the Russian population alienated. These fears resulted in the creation of the Pridnestrovian Moldavian Soviet Socialist Republic (PMSSR) in 1990 by pro-Soviet separatists, who hoped to remain within the Soviet Union when it became clear that Moldova would achieve independence from the USSR. The PMSSR was never recognized as a Soviet republic by authorities in either Moscow or Chisinau. In 1991, the Pridnestrovian Moldavian Republic succeeded the Pridnestrovian Moldavian Soviet Socialist Republic. The war of Transdniestria involved armed clashes on a limited scale that broke out between PMR Republican Guard, militia and Cossack units, supported by the Russian 14th army, and Moldovan policemen/troops as early as November 1990 at Dubossary. Fighting intensified on March 1, 1992, with the accession of newly independent Moldova into the UN, and alternating with ad hoc cease-fires, lasted throughout spring and early summer 1992 until a ceasefire that same year (July 21), which has held ever since.[16] Though the ethnic factor played a certain role in the beginning of the conflict, of all frozen conflicts the problem of Transdniestria is the most political.

[15] www.c-r.org/our-work/accord/georgia-abkhazia/conflict-roots.php—35k.

[16] ru.wikipedia.org/wiki/Приднестровский_конфликт—138k.

Notwithstanding the economic, political, cultural and ethnic peculiarities of the frozen conflicts as well as their varying geopolitical locations and environments, they share some fundamental features: the bitterness of the dominant titular ethnic group about losing to the separatists as a result of the intervention of an external force; the factor of refugees (except Transdniestria); the loss of territorial integrity as well as the fact that communism in the post-communist NIS has been replaced by nationalism. The latter has become the main driving force in the formation of statehood in these countries.

The Russia/CIS aspect of the frozen conflicts is a complex and contradictory interaction of Russia's domestic situation, its policies toward neighboring states (which only recently constituted a highly integrated totalitarian empire) and its relations with the West during the period of transition. The latter defines the international dimension of the frozen conflicts which goes far beyond the very process of conflict resolution.

In the immediate aftermath of the collapse of the USSR, Russia was confronted with the necessity of presenting a well-thought strategy *vis-à-vis* a zone of its vital interests. Though it is now universally perceived in the West that the policy of Yeltsin's Russia was much more democratic and liberal than that of Putin's Russia, most of the problems related to Moscow's troubled relations with the GUAM countries are rooted in the 1990s. The very fact that GUAM (initially GUUAM[17]) was created in 1996 is the best evidence to this fact. The CIS policy of the Yeltsin leadership was driven by neo-imperialist idealism, paradoxically in line with the perceptions of the Russian communists who believed in the genuine desire of former Soviet nations to reunite (against the will of their elite) and revive the former imperial grandeur. The "reassembling" of the CIS under the aegis of Russia and the challenge of concrete problems prompted its leadership to establish "special relationships" with the CIS states, which at the end of the day boiled down to Russia playing the role of a donor of post-Soviet newly independent states in exchange for their political loyalty. This policy made Russia take a tougher stance on relations with Ukraine and other republics, pressuring them on territorial,

[17] GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) Group was formally founded as a political, economic and strategic alliance designed to strengthen the independence and sovereignty of these former Soviet Union republics.

ethnic, economic and military issues of discord. GUUAM was thus a result of this ill-conceived and heavy-handed policy. In addition, the war in Chechnya turned out to be the biggest disservice to Russia's national interests, including its relations with the CIS states as well as its internal evolution. "The 'dirty' war in Chechnya is equally the result of the failure of Russia's policy in the Transcaucasus and its inability to devise a viable federal system within the Russian Federation."[18] Having failed to transform the CIS from an institution for more or less civilized divorce into an in integrationist organization with a flexible geometry, Russia was trying to leverage the vulnerabilities of CIS states hosting the conflicts to retain its position in Russia's so-called near abroad.

Under Putin, Moscow's policy towards the CIS has shifted to a more pragmatic stance. As Alexei Arbatov notes, since

> Russia gained in economic and financial potential and independence, it began taking a very pragmatic approach towards each individual country or sub-region. It abandoned ephemeral imperial projects in relations with its neighbors and turned its attention instead to the transit of energy exports, the acquisition of promising business assets and infrastructure, investment in natural resources exploration and production, maintaining genuinely important military bases and facilities, working together on combating new transborder threats, and taking a strong stance on humanitarian matters.[19]

Not every aspect of Russia's CIS policy can be justified and supported. Concern with the anti-Russian flavor of "the orange revolutions" led the Kremlin to make some serious mistakes (such as Putin's congratulations to Yanukovych on his victory in Ukraine's presidential election in 2004 before the election results were made official, or the excesses of the indiscriminate anti-Georgian campaign of autumn 2006). But in its substance Russia's CIS policy is now much

[18] Alexei Arbatov, "Russian Security Interests and Dilemmas: An Agenda for the Future," in Alexei Arbatov, Abram Chayes, Antonia Handler Chayes and Lara Olson, eds., *Managing Conflicts in the Former Soviet Union* (Cambridge, 1997), p. 418.

[19] Alexei Arbatov, "Moscow-Munich: A New Framework for Russian Domestic and Foreign Policies," Moscow Carnegie Center Working Papers, no. 3, (2007), p. 17.

clearer and more predictable than the eccentric and often very aggressive policy of the 1990s.

The conflicts with Ukraine, Georgia and Belarus over energy prices and transit costs unleashed a new wave of accusations that Russia was practicing a policy of energy imperialism and blackmail. There can be no doubt that the form in which Moscow introduced new energy prices was rude and unacceptable, and the form in which foreign policy is implemented can be as important as its content. But the fact remains that the transition to world prices for energy supplies does represent the renunciation of the former imperialist policy of economic favors in return for political or military-strategic loyalty. This has been confirmed by Moscow's similarly pragmatic approach to neighbors as diverse as Ukraine, Georgia, Armenia and Belarus.[20]

Attention to the 'frozen' conflicts is focused primarily on preventing the conflicts in neighboring countries from being resolved through the use of force. It would be better, of course, if Russia were working more actively to bring about a peaceful settlement of these 'frozen' conflicts. In the absence of mutually beneficial solutions acceptable for all parties involved in the conflicts, however, this policy is surely not worthy of blame. Furthermore, Moscow's policy is not as unfair and irresponsible as the current Western policy of separating Kosovo from Serbia with all the consequences that will follow, including repercussions for Balkan stability and the similar 'frozen' conflicts in the CIS.[21]

Russia's troops are deployed as peacekeeping contingents under the CIS mandate in Abkhazia, South Ossetia and Transdniestria—against the will of the Georgian and Moldovan leadership—and this is a constant source of tension with the neighboring countries and the West. However, it would be worthwhile to remind that these peacekeeping forces were deployed to prevent resumption of violence when nobody in the West wanted to sort out the mess in the post-Soviet space. Now GUAM debates standing up a peacekeeping battalion 530 men strong designed to shoulder missions in hotbed of tensions as a UN-mandated peacekeeping force. It means an attempt at ousting the Russian peacekeepers in Abkhazia, South Ossetia and Transdniestria which, undoubtedly, will be unacceptable for "the rebellious autonomies."

[20] Ibid., p.18.

[21] Ibid, p.18.

Under the best scenario in Russian-Western relations (which is getting less and less likely), international (CIS-NATO-EU) peacekeeping forces could be created. But that would require engagement of Russia in peacekeeping operations and interaction with the NATO Response Force and, in this context, with EU battlegroups in implementing resolutions of the UN Security Council.

Interestingly enough, of all the frozen conflicts in the CIS space the most confusing one to Russia is Nagorno-Karabakh, because it affects Russia's relations with Armenia and Azerbaijan, two states that are equally important for Russian interests in the region. Armenia is Russia's strategic ally and a CSTO member, while Azerbaijan is far more important to Russia economically, particularly in terms of the Caspian oil fields and oil and gas transit from Azerbaijan and via it from central Asia. Moscow tries to keep a balance between the two, playing a role of referee unwilling to destroy relations with either country. It has no peacekeeping force there and seeks to prevent new violence between the two and Turkey's involvement in this conflict.

The international aspect of the frozen conflicts goes far beyond international involvement in the conflict resolution process. Russia's relations with the CIS countries hosting the frozen conflicts are an integral part of a much broader security landscape. Both the "great power" sentiments of the Russian political elite and its fears of a Western strategy geared to "squeezing" Moscow out of the CIS, a zone of vital Russian interests, have been strengthened in recent years by Western intentions to base a new security system primarily on NATO and EU and to exclude Russia; Russia's experiences with the West in the Balkans; and the prospects of NATO's enlargement to CIS space.

Once the problem with the Soviet nuclear legacy was solved, the West perceived the disintegration trends on the territory of the CIS as a key condition of democratization of these countries and a guarantee that the USSR would never be brought back to life, in whatever form, in the post-Soviet space. That approach was as erroneous as the "reassembling" of the CIS by Russia in the 1990s, without clearly formulated interests and goals in each concrete case. Moreover, Western support of "the orange revolutions" for the sake of democracy acquired a clear anti-Russian bias. The "orange revolutions" were portrayed in Western media in black and white colors, as a good-versus-evil struggle between western-oriented democrats and wicked

pro-Moscow communists, while in reality it was an extremely complex struggle for power and control of economic resources between various rival factions.[22]

The self-inflicted dilemma between "the West or Russia" with regard to the CIS space is a false choice that hampers international cooperation on the frozen conflicts. On the one hand, Russia's participation is essential for the process of conflict resolution, although it is often seen not so much as part of the solution but rather as part of the problem. On the other hand, the West is fearful that Russia's contribution to the resolution of the frozen problems would reinforce its positions in the CIS. That was one of the reasons (as it is seen in Russia) behind the negative attitude towards the Kozak plan regarding the Transdniestria conflict. Drawn up in 2003 by the then-first deputy chief of Russia's Presidential Administration, Dmitri Kozak, the plan was rejected by Moldova with encouragement from the United States, the European Union, and other international actors. Moldova rejected the "Kozak plan" within hours of its planned signing as the result of pressure by hardliners in the West. The Moldovan President was informed by then OSCE Dutch chairman Jaap de Hoop Scheffer, U.S. Ambassador to Moldova Heather Hodges and the EU's High Representative for Foreign and Security Policy Javier Solana about opposition by Washington and Brussels to the mutually agreed-upon settlement plan between the two sides.[23] Later it was recognized by the OSCE's Chairman-in-Office, Dimitrij Rupel of Slovenia, that elements of the Yushchenko plan and the Kozak plan could be combined into a single project. This example is very telling. The process of conflict settlement in all four cases is driven not by the goals of conflict resolution but by rivalry, suspicion and the foot-in the door policies of the external actors. Except for the case of Nagorno-Karabakh, where the West and Russia are taking an equidistant stance, in the other conflicts the West strongly supports Georgia and Moldova and opposes Russia. In order to find a balance, Russia and the West need first of all to elaborate wise and far-sighted formulas for calculating their national interests. This can be referred not only to the CIS space but to all areas of cooperation in the wider Black Sea region.

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[22] Eric Margolis, "Ukraine: the Orange Revolution Devours its Young," http://www.ericmargolis.com/archives/2005/10/ukraine_the_ora.php.

[23] http://www.tiraspoltimes.com/node/1301.

The international context with regard to the frozen conflicts in the Black Sea region has worsened with the re-emergence of the Kosovo status problem. Russia has been trying desperately to prevent any hasty decision on Kosovo status, arguing that the Kosovo precedent will give a green light to secessionist movements and trigger a chain reaction in the region, in the post-Soviet space and in Europe from Spain to the UK. The unilaterally proclaimed independence of Kosovo on February 17, 2008, backed by the U.S. and the leading European countries against the will of Serbia and the norms of the international law, creates a risk of escalation of the frozen conflicts and new tensions between Russia and the West. First, it confronts the Russian leadership with a serious challenge. To recognize the "rebellious autonomies" in the CIS along the Kosovo model would mean to reconsider the main principle of Russian foreign policy regarding inviolability of post-Soviet borders. To leave the decision without any diplomatic response would mean to discredit Russia's foreign policy commitments. Second, there will be strong pressure on the Kremlin, by both Russian nationalists and the leaders of the self-proclaimed autonomies, to recognize the independence of Abkhazia, South Ossetia, Transdniestria and Nagorno-Karabakh. There will also be pressures from the Russian Eurasia movement to expand this approach to "sleeping conflicts" in other areas of the post-Soviet space, primarily Crimea. Third, the split in the international community (fortunately, not only along the traditional East-West confrontation line), has a negative impact on the prospects for conflict resolution elsewhere, since it puts geopolitical rivalry ahead of the goals of peaceful settlement.

The Kosovo problem has shown that in the absence of a mutually acceptable solution of a conflict, a freezing of the status quo is not the worst option. This can be particularly relevant to the frozen conflicts in Georgia. An improvement in Russian-Georgian relations as well as an improvement of the domestic situation in Georgia enabling it to present itself as an attractive economic and political option for Abkhazia and South Ossetia, the problem of the rebellious autonomies could be resolved in a natural way.

The situation with Transdniestria is different. The fact that Moldova's European choice is to be within the framework of neutrality, and Moldova has signed its individual plan of cooperation with NATO as a state committed to preserving neutrality, creates a much more

favorable environment between Moscow and Chisinau. Meanwhile, Chisinau has a vital stake in a breakthrough in relations between Russia and the EU and the creation of a new multilateral format, involving Russia and the EU, to resolve the problem of Transdniestria.

The Nagorno-Karabakh situation also depends to a great extent on external actors—Russia, the United States and Turkey. Given the importance of the region in terms of energy supplies, maintaining the status quo plays into the hands of all parties to the conflict and the external players. Nobody needs a war in the region. Should hostilities break out, the Baku-Tbilisi-Ceyhan oil and Baku-Tbilisi-Erzerum gas pipelines would turn into burial fires. Nevertheless, the danger of renewed violence must be taken seriously. From this point of view Nagorno-Karabakh is the least frozen conflict, which implies more active efforts for peaceful settlement. Russia could play a decisive role, since it is acceptable as a peace broker both to Armenia and Azerbaijan. The latter will never come to terms unless they are prodded, offered a settlement and made to accept it. As to the districts seized by Nagorno-Karabakh forces outside its territory as a buffer zone, Nagorno-Karabakh should pull out its troops, and the CIS should deploy peacekeeping forces. Russia's participation in the peacekeeping mission in this case will be welcomed by the parties to the conflict. This would suit Azerbaijan because it would get its land back and have the refugees return here. This would suit Armenia as well because it would know that Russia will no allow hostile inroads and the use of force against Nagorno-Karabakh from that territory. Diplomats will have to come up with a status acceptable for Nagorno-Karabakh and face-saving to Azerbaijan. This will require a Turkish-Armenian rapprochement, the absence of which is one of the obstacles for peaceful settlement. As the issues are seen in Moscow, Russia is part of the solution to all frozen conflicts but a great deal will depend on the West's acceptance of its role in peaceful settlement.

Energy Security and the Black Sea Region

An additional strategic challenge that specifically affects the Black Sea region involves the security of energy supplies. The Black Sea region plays a crucial role in this context linking the region even more closely to energy trade around Eurasia, the Middle East and the Mediterranean. Proliferation of gas and oil routes is linked to con-

cerns about energy diversification, environmental security, and above all, the future of relations with Russia and to a lesser extent Iran.[24]

Russia is an important external energy supplier to the EU, currently accounting for over 25 percent of its oil and gas deliveries. The EU will remain Russia's most important energy export market and European companies are Russia's most important foreign investors.[25] Moreover, all scenarios show that the EU's energy imports will continue to grow significantly. According to some estimates, EU dependence on external energy supplies by 2030 will amount to 81 percent of its oil consumption and 93 percent of its gas consumption.[26] The energy interdependence between the EU and Russia can be regarded as a window of opportunity for their cooperation, as well as a security challenge, depending on the nature of their relations. However, the growing gap in Russian-Western security perceptions, including the multifaceted Russia-Western rivalry in the CIS space, as well as Russia's evolving energy concepts ("the energy superpower concept" and "a gas OPEC with Algeria and Iran"), its "three in one" position as a producer, consumer and a transit country, and its recent scandals with Ukraine, Georgia and Belarus over energy prices and transit costs, are all viewed by the West as threats, leaving little hope for greater cooperation.

Energy interdependence has already taken the form of a "pipeline arms race," which has forced other regional states with stakes in this game to take sides in the competition. This process started with the building of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which destroyed Moscow's monopoly on west Caspian oil. The signing in Athens of a long-delayed Balkan oil pipeline agreement in March 2007 was Russia's response to ensure the flow of cheaper Russian crude to the Mediterranean. The pipeline between the Bulgarian Black Sea port of Burgas and the Greek Aegean Sea port of Alexandroupolis, estimated to cost about $1 billion, will speed up oil transportation by bypassing the congested Turkish Bosphorus, where tanker delays are costing oil companies nearly $1 billion a year. Russia's monopoly over gas exports (as far as Azerbaijan is concerned) is threatened by the building of the Baku-Erzurum gas pipeline, which flows in parallel to the BTC

[24] Lesser, op. cit., p. 19.

[25] European Commission, http://ec.europa.eu/energy/russia/index_en.htm.

[26] Vladimir Chizhov, "Moscow Needs a Strong European Union," Nezavisimaya gazeta, Dipcourrier, 22 October 2007, p. 13.

pipeline, and which will deliver gas from the Shah-Deniz field to Turkish markets. However, Moscow has tried to offset the loss of control over Azerbaijan's oil supplies by seeking to commit the Turkish market to growing volumes of Russian gas supplies. This prospect was greatly aided by the building of the Blue Stream pipeline, crossing the Black Sea, delivering an eventual 10 bcm or more to Turkey by 2010.[27]

Nowadays, energy diversification is driven not by considerations of economic expediency but by geopolitical rivalry, which has taken the form of a highly competitive game. The capacity of the Baku-Tbilisi-Ceyhan pipeline is roughly half that of the existing pipelines from Iraq to Iskenderun. Nonetheless, this pipeline has been a strategic development from the point of view of the transit states.[28] Russia's plans regarding construction of two stretches of the regional 'Southern Stream' regional pipeline is of strategic importance for Russian interests. One stretch is running from Bulgaria towards Greece and the other towards Serbia. By realization of the project in Serbia, Gazprom could render meaningless the EU's intention to construct the international Nabucco pipeline for transport of gas from central Asia in order to decrease its dependence on Russian sources. "The pipeline war" has become a critical issue in a complex interplay between Russia, the West and the regional countries. It will also involve new actors outside the Black Sea rim—Iran and Iraq—thus extending the energy competition and allowing these new actors to use Russian-Western conflicts to their advantage.

The question of energy security has acquired a certain military dimension, as expressed perhaps most prominently by Sen. Richard Lugar in his speech at the Riga NATO summit. The Russian-Ukrainian gas scandal provided him with a new argument for NATO's revival as the main Western security institution. Russia was presented as the main energy threat and Sen. Lugar singled out energy as an Article 5 commitment—i.e. Article 5 of the North Atlantic Charter identifies an attack on one member as an attack on all. He said there is little difference between a NATO member facing an energy cutoff and a member facing a military blockade or other military demonstration on

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[27] "The Wider Black Sea Region: An Emerging Hub in European Security" (Svante E. Cornell ed.), *Silk Road Paper*, the Central Asia-Caucasus Institute & Silk Road Studies Program, 2006. pp. 80-81.

[28] Ian O.Lesser, op. cit., p.21.

its borders.[29] This concept has been criticized not only in Russia but in EU countries as well. As Christophe Paillard from the French Ministry of Defense has written, coming to the aid of any member whose energy sources are threatened by using NATO's Article 5 mutual defense clause could lead to a radical re-examination of NATO's defense doctrine. The threat of invoking Article 5 was intended to ensure mutual defense, but it also implies the threat of war when it is used. European energy security cannot be held hostage to the risk of open conflict that an association with NATO would bring. Ultimately, the European Union is the better organization for the job.[30] Nonetheless, it is likely that NATO's missions will be extended to security of oil supply and maritime routes for energy. There might, however, be strong popular opposition to any NATO effort to secure energy infrastructure in the countries of the wider Black Sea region, including central Asia and the Middle East, should energy disruptions occur there.

The energy security differences between producers and consumers, above all between Russia and the West, will never be 'solved' purely through legal and commercial means, but rather by a larger political partnership. In other words, whether or not one should be worried by Europe's current and future energy dependence on Russia, it is undoubtedly true that the current atmosphere of mistrust does not arise solely from energy anxieties but reflects a more fundamental discrepancy between the political leanings and outlooks of the EU and Russia. Whether that mistrust will be lifted depends on whether Russia and the EU eventually manage to clearly define the shared objectives which their partnership might help them achieve.[31]

Conclusion

The challenges emanating from the wider Black Sea region should be addressed in a broader context of a multipolar world. Unlike the bipolar world, a multipolar system of international relations enable other powers—China, India, Iran, Pakistan and others—to increase their influence elsewhere using the differences and rivalry between

[29] www.swamppolitics.com/news/politics/blog/2006/11/—977k.

[30] http://www.nato.int/docu/review/2007/issue1/english/debate.html.

[31] http://www.diploweb.com/english/russia/gazprom07115.htm.

Russia and the West to their own advantage. A more confrontational relationship between Russia and the West would be at odds with the long-term interests of either party, which means that the essential imperatives for the Russia-Western partnership should be emphasized at the global and regional level. Undoubtedly, this would require from both sides radical re-thinking of their present relationship, which is marked by a cold peace that is too fragile a basis for real partnership.

A new legal format is central for EU-Russia relations. A post-PCA should be upgraded and adjusted to the St. Petersburg initiative on four common spaces of cooperation. It would allow promoting regional cooperation in the north and south of wider Europe and building confidence in the Black Sea region. At the same time a new qualitative breakthrough would be needed in the Russia-NATO relationship before and if the next wave of enlargement to the CIS space takes place. If Russia is really integrated into NATO, if it is part of "the team," the very question of NATO's expansion to the countries of GUAM would become irrelevant. Unless and until the Russia-NATO problems are resolved, neutrality of the GUAM countries remains the main factor of stability in the post-Soviet space, Black Sea region and Europe at large. Another important condition for promoting global and regional cooperation and preventing conflicts between Russia and the West would be the launching of a new initiative: a Stability Pact (or Cooperation Pact) for the CIS. This initiative could be launched by EU, Russia and other CIS states as a functional approach to cooperation between them. A functional approach consists precisely in making the agenda of cooperation as concrete as possible, concentrating resources on the main issues and conducting intensive negotiations with clearly set goals and deadlines. In this connection it would seem important to reformat the Russia-EU agenda on the four common spaces to include five priority areas: energy; internal security; external security; military-political and military-technical cooperation; and science. The range of participants in these projects should be determined by the principle of "flexible geometry," that is, it should not assume automatic participation of all the states in these projects. The role of BSEC as a regional sub-contractor and coordinator can be strengthened and extended to new joint projects.

It should be recognized that constructive relations between Russia, EU and NATO/U.S. in the long term constitute the main factor for

Russia's democratic evolution, much more significant that the current mutual dissatisfaction and disappointment. In the same strategic perspective Russia's democratic development is the most fundamental factor for Western security, much more important than the current security differences, however dramatic they may seem today.

A Transatlantic Strategy for the Wider Black Sea?

Daniel Hamilton

The wider Black Sea, a region on the periphery of Western awareness only a decade ago, has become the next frontier in transatlantic strategic thinking. Following the "Big Bang" of major EU and NATO enlargement and "color" revolutions in Ukraine and Georgia, and facing soaring energy prices, a more assertive Russia, and concerns about stability in the broader Middle East, Western strategists have been arguing the need for greater attention to the countries of the wider Black Sea and a more strategic approach to the region as a whole. This chapter discusses the rationale for such an approach; outlines differences and similarities in U.S. and EU perspectives; considers Russian and Turkish views; and suggests various elements that could comprise a broader transatlantic strategy to the wider Black Sea.

As Charles King notes, for most of the last two centuries, the strategic environment of the Black Sea region has been shaped by the interaction of three factors: shifting balances of power among European and Eurasian states and empires; the ambitions of smaller states and peoples directly affected by the actions of these powers; and the region's position along key along key corridors linking Europe, Eurasia and the Middle East.

Today, each of these three factors is in flux. While our authors approach the region from many different perspectives, all agree that the Black Sea has become a more central strategic area for major external powers; that issues affecting the region as a whole are figuring more prominently in the calculations of each individual state in the region; and that the region's role as a crossroads is growing in importance.

Successes in this region—more effective democratic governance grounded in the rule of law, progress against corruption and trafficking, peaceful resolution of conflicts, secure energy production and transit,

more confident and prosperous market economies—could resonate significantly across the post-Soviet space and into the broader Middle East, and enhance the region's potential as a strategic bridge. Failure to deal with the region's problems risks destabilizing competition and confrontation among both regional and external actors, festering separatist conflicts, greater transnational challenges and dysfunctional energy markets, the negative consequences of which could spill over into Europe, Eurasia and the Middle East. The ability of countries in the region to deal with these issues, and the willingness and ability of Europe and the United States to work together with those countries to address these issues, could determine not only where Europe ends, but what it represents.

Of course, the countries of the wider Black Sea region already have various ties to European and Euro-Atlantic structures. All are members of the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE). Two littoral states are members of the European Union (EU), three are members of the North Atlantic Treaty Organization (NATO), and a number of countries in the region aspire to membership in both organizations. All non-EU countries in the region participate in the EU's European Neighborhood Policy (ENP) except Russia, which has its own bilateral relationship with the EU. All non-NATO countries in the region are members of the Alliance's Partnership for Peace (PfP), and Ukraine and Russia each have additional bilateral links to NATO. Moreover, Europe and the U.S. have acquired growing stakes in the region and have taken strong positions in support of political, economic and security transformation, as illustrated by U.S.-EU support for democratic changes in Ukraine and Georgia, and enlargement of both NATO and the EU to Bulgaria and Romania.

Yet while U.S. and EU perspectives can be complementary in many ways, there are important differences in perspective. The challenge for any transatlantic strategy is the degree to which Americans and Europeans are willing and able to align those perspectives to forge a more coherent overall approach. The EU has framed its current approach as one of building "synergies" with the region. But can the U.S. and the EU create their own synergies when approaching to the wider Black Sea?

U.S. Interests in the Wider Black Sea Region

U.S. interest in the wider Black Sea is derivative of four enduring U.S. interests toward Europe itself. First, the United States has an enduring interest in a Europe that is hospitable to democratic and economic freedom. Over many decades it has acted on that interest, including through support of democratic allies across the continent, support for European reconciliation and integration, and support for European efforts to create an open, pan-continental Single Market. In this regard, the U.S. has an interest in consolidating the democratic transformation of Europe—working with its European partners to extend as far as possible across the European continent the space of democratic and economic freedom where war simply does not happen. To the extent that the wider Black Sea can be included in such a space, the U.S. has an interest in working to advance those goals.

Second, the United States has an interest in a European continent that is at peace with itself. The American people would be the first to cheer if Europeans proved capable of resolving European conflicts on their own. Unfortunately, this has not proven to be the case, as shown most recently during the Balkan wars of the past decade, and the continuing U.S. role in the peacekeeping efforts that continue there today. The U.S. has worked closely with European allies to consolidate peace on the continent, first after World War II in western Europe, then after the Cold War in central and eastern Europe, and most recently after the Balkan wars in southeastern Europe. While many issues remain in the Balkans, by and large the countries of that region are on track and vast sections of Europe are now part of a secure framework of peace. The Black Sea region, however, is still beset with historical animosities and multiple crises on or near its shores, including a number of festering conflicts that in some way affect all the countries of the region. New conflicts on the European continent, whether in the Black Sea region or elsewhere, are not in U.S. interest, and experience has shown that the U.S. engagement remains essential to prevent and resolve such conflicts.

Third, the United States has an interest in ensuring that Europe or significant parts of it are not dominated by any power or constellation of powers hostile to the United States. The U.S. waged two world wars and one cold war to safeguard this interest. Today's EU does not present such a challenge, despite elements in Europe that would prefer

to establish the EU as America's counterweight, rather than its counterpart. On the contrary, the EU provides the guiding framework for the consolidation of democratic governance, market economies and the rule of law across most of the continent, and the U.S. has both supported such efforts and supplemented them with initiatives of its own. The only other theoretical challenger is Russia, but the Russia of Putin and Medvedev is not the Soviet Union. Moscow does not seek to dominate Europe, and the U.S. and Russia share many common interests. But there are elements in Russia inclined to treat the wider Black Sea as Russia's own special preserve. The U.S. will remain attentive to any effort to establish exclusivist "spheres of influence," including in the wider Black Sea region. In this regard, the nature of relations between Russia and the West has direct implications for U.S. interest in stability and cooperation in the Black Sea region.

Fourth, the United States also has a keen interest in Europe as a partner with which it can work to deal with transnational challenges that no nation can tackle effectively alone. Europe not only has the potential to play that role, it already does in areas such as peacekeeping and development assistance, and is even more engaged in other areas such as confronting climate change. The U.S. thus has an interest in a confident, capable, outward-looking Europe, not one so best by turmoil or so focused on instability along its periphery that it cannot play this broader role. This reinforces the U.S. stake in working with its democratic partners to stabilize and transform Europe's periphery. Moreover, the Black Sea region has itself become a focal point for many of these transnational issues, ranging from organized crime, human trafficking and secure energy flows to environmental degradation, terrorism and nuclear smuggling. The growing salience of these issues has raised the strategic profile of the wider Black Sea region for the United States, and enhanced the need for more effective U.S.-European cooperation.

These enduring interests help to explain why the U.S. should accord the wider Black Sea region greater attention. Three other developments, however, give the matter even more urgency and focus.

Energy security has become a particularly critical factor in strategic deliberations about the wider Black Sea region. As Gerhard Mangott and Kirsten Westphal explain in greater detail in their chapter, the contribution of Caspian and Russian oil and gas to global (and partic-

ularly European) energy supply has made the question of energy shipments through and around the Black Sea a matter of high strategic interest.[1] The U.S. has a significant interest in expanding oil and gas pipelines networks to bolster competition, diversify suppliers, and facilitate the production of energy to deal with surging global demand. It is concerned about Russian assertiveness in gas markets, including its use of gas as a political instrument, and is keenly aware of Turkey's own strategic role and growing stake in Mediterranean-Black Sea-Caspian energy networks.

In addition, the strategic importance of the Black Sea to the U.S. has grown in relation to challenges in the broader Middle East. This is true in at least three aspects The U.S. is interested the ability of states in the region to facilitate the projection of military power to the Caspian, Central Asia and the Middle East and perhaps the deployment of radars and interceptors as part of a nascent missile defense system to counter Iranian or other missiles deployed in the Middle East. It is keen on enlisting regional cooperation in a global campaign against terrorists and the networks that support them. It has an interest in the countries of the region acting as a stable southern flank of the transatlantic community, resistant to encroachments by Iran or instability emanating from other parts of the broader Middle East. However, Washington has been focused primarily on the major challenges of the region itself—Iraq, Afghanistan, Iran, the Arab-Israeli conflict and other tensions—and has yet to develop a full-fledged strategic approach to the wider Black Sea in this broader context.

Finally, NATO ally Turkey has become both a more important and more difficult strategic partner for the United States. Since Turkey is perhaps the most significant partner of the West in the Muslim world, and since Turkey is a pivotal actor in the Black Sea region, future relations with Turkey are intimately connected to the future of the region. Ankara's views on broader regional cooperation will have an important impact on U.S. perspectives. Turks are now less confident about the predictability and utility of NATO's security guarantee in relation to new risks, especially those emanating from the Middle East, and are

[1] Ian Lesser underscores the point. "The Black Sea," he notes, "is a leading theatre in which the new dynamics of energy security are being played out, a theatre in which transit countries as much as producing countries are leading stakeholders." See Ian Lesser, "Global Trends, Regional Consequences: Wider Strategic Influences on the Black Sea," Xenophon Paper No. 4 (Athens: International Centre for Black Sea Studies (ICBSS), November 2007).

wary of engagement by external actors in the Black Sea. Domestic political tumult in Turkey, or ambiguity in Ankara's relations with the EU, could further cloud prospects for the region as a whole.

EU Perspectives

As a number of our authors have discussed in greater detail, the member states of the European Union, most of them also NATO allies, share the U.S. interest in consolidating democratic governance and open market economies across as much of the European continent as possible; resolving conflicts that could threaten lives, become an inordinate drain on European resources, or spill over into core Europe itself; stopping dangerous or illegal flows of people, goods or material from reaching the EU; and facilitating additional secure energy supplies. Yet European countries approach the region from different vantage points, and developments in the region can affect Europeans in different ways than Americans.

First, the EU is likely to provide the guiding framework for democratic transformation and integration throughout the region and will be required to make the largest single financial commitment to the region. This has been illustrated by the EU's Black Sea Synergy (BSS) initiative,[2] adopted in 2007, which is explained in greater detail by Michael Emerson in his chapter. The EU is the only major external actor providing material support to regional integration initiatives in the wider Black Sea region. All told, the EU has pledged about €25 billion to the region from 2007-2010.[3]

Second, the EU has a much greater direct stake in secure energy transit than the United States. As Europe's demand for oil and natural gas grows, and as the rise of fast-growing developing nations sparks greater global competition for scarce resources, the EU can ensure its energy security only by diversifying its suppliers and supply routes through the Black Sea region, particularly Georgia and Turkey. Yet EU member states have no common energy policy. Member states

[2] See Commission of the European Communities, *Black Sea Synergy—A New Regional Cooperation Initiative*, [COM(2007) 160 final], Brussels, April 4, 2007.

[3] Black Sea Synergy is providing €3.7 billion in assistance to the non-EU countries in the region; the EU Cross-Border Cooperation Program for the Black Sea (2007-2013) is contributing an additional €17 million; and the region's countries will benefit from other EU funds amounting to some €4 billion for the same period.

advance their own policies and engage Moscow bilaterally. The EU-supported project of Nabucco, for instance, is being undermined by the combined effort of Russia's Gazprom and individual EU member states to support the alternative South Stream project. The Nabucco consortium may prove unviable as a result, unless it turns to Iran for additional gas supplies, but that option, in turn, meets with stiff U.S. opposition.

Third, Turkey's relatively dense relationship with the EU is of a different order of magnitude than its relationship with the United States. Although accession negotiations have begun, Turkey's EU candidacy has been deeply troubled, in large part to due widespread ambivalence among European publics and many political leaders about the sustainability of Ankara's domestic reform program, reluctance to extend EU borders to Syria, Iran and Iraq, and doubts about admitting to the EU such a large country with a predominantly Muslim population. The large Turkish diaspora in a number of EU countries magnifies the importance of these issues in European domestic politics.

Fourth, despite the EU's Neighborhood Policy (ENP) and its new Black Sea Synergy initiative, member states are still suffering from "enlargement fatigue" and preoccupied with EU internal reforms. Many also wonder whether these countries are indeed "European," and are uncertain as to why the EU should engage as an active partner for change in the region.

Fifth, the U.S. has taken a rather low-profile approach to the region's unresolved conflicts, and has often been content to let the EU take the lead. Yet if the EU decides to engage more actively in the region, it will need to address these conflicts more forthrightly. This will not only test European diplomatic capabilities but EU mechanisms such as ESDP and CFSP.[4] While the EU has launched a border monitoring mission in Transdniestria, more active engagement will pose a larger test, and it is questionable whether EU mechanisms are prepared for such demands.

Finally, the Russian factor plays differently for the EU than the U.S., particularly when considering the wider Black Sea region. American

[4] See Judy Batt, et al., *Partners and Neighbors: A CFSP for a Wider Europe*, Chaillot Paper No. 64 (Paris: EU Institute for Security Studies, 2003); Mustafa Aydin, "Europe's Next Shore: The Black Sea Region after EU Enlargement," Occasional Paper no. 53, (Paris: EU Institute for Security Studies, June 2004).

and European views of Russia reflect basic asymmetries of interests and outlook. The U.S. views Russia in the context of its global interests and perspectives. The bilateral relationship is strategic and highly symbolic, but relatively thin when it comes to economic relations, energy ties, or links between American and Russian societies. EU countries focus on Russia's actions through a regional perspective. EU-Russian ties are much more extensive than U.S.-Russian links, and Europeans are more concerned than the U.S. about worsening relations with Russia Europeans are primarily interested in tying Russia into a predictable neighborhood; preventing infectious diseases, organized crime, trafficking in drugs and people from spilling over from Europe's east into the EU, and ensuring secure energy supplies without becoming unduly dependent on Moscow. Yet despite this general orientation, EU members are divided themselves when it comes to dealing with Russia.[5] Similarly, Russian policies toward the United States and toward the EU are based on different calculations: Russia seeks recognition from the United States as an equal global partner, whereas its goals toward the EU are more regionally focused. Furthermore, the Kremlin's penchant for exploiting differences between the United States and the EU, and between EU members themselves, remains robust.

These differences become significant in the context of the wider Black Sea. Russia is still coming to terms with the loss of its empire and is developing a new framework for dealing with its former republics. The Kremlin views much of the Black Sea region through both a domestic and foreign policy lens. Inasmuch as it has not accepted most of the post-communist states as fully sovereign countries, it views them partly through the prism of its own domestic politics. What happens in Ukraine or Georgia, for example, has direct implications for Russia's own society. Moreover, Moscow largely views U.S. and EU presence in the region as a zero-sum game that challenges its security. It remains unconvinced that it would do better with stable, prosperous states on its borders, even if they do not share its domestic "managed" democracy system and join NATO or the EU,

[5] 30 percent of the EU's oil imports and 44 percent of its natural gas imports come from Russia, and for some new members the figures are close to 100 percent. For commentary on Russian views on eastern Europe, see Angela Stent, "The Lands In-Between: The New Eastern Europe in the Twenty-First Century," in Daniel Hamilton and Gerhard Mangott, eds., *The New Eastern Europe: Ukraine, Belarus and Moldova* (Washington, D.C.: Center for Transatlantic Relations, 2007)

than with less stable, poorer neighbors unanchored to Euro-Atlantic integration. It is determined to prevent former Soviet states from joining NATO. Moreover, Russia maintains a military presence in a number of these countries; its Black Sea Fleet, for instance, will remain in Ukraine until 2017. It employs a variety of means to pursue its goals of maintaining "managed" democracies in its neighborhood, while containing Western influence and maximizing its own leverage.

In sum, Americans and Europeans have each become aware of the region's growing importance. But they approach the region with somewhat different interests, priorities, and capabilities, and also view Russia's role from different vantage points. Given these differences, how can the transatlantic partners create positive synergies as they engage in the wider Black Sea?

Any broad strategy must take account of a number of limiting factors related to the dynamics of the wider Black Sea itself. As a number of our authors have noted, the post-communist countries of the region are weaker than earlier aspirants to membership in Western institutions. They are less well known to Western parliamentarians and to broader publics. Many are beset with historical animosities. A number have yet to experience significant democratic reforms. Opinion leaders in Washington and in European capitals will look closely at the nature and pace of domestic reforms, and for evidence of a willingness and desire to resolve historic conflicts, when they consider these countries as potential partners and allies.

In addition, there is, as yet, little in the way of a Black Sea identity in strategic terms. As Michael Emerson has noted, the Black Sea appears to be a region with little in common except the sea that divides it. Regional institutions such as the Black Sea Economic Cooperation (BSEC) are working to change this, with some success. Basically, however, the countries themselves have yet to decide whether they form a region in terms of common goals or even interaction with each other. This dissonance reinforces bureaucratic inertia in the West and hesitations about approaching the region as a whole.

Moreover, a wider Black Sea strategy faces considerable competition for resources and policy attention in both the U.S. and the EU. I have noted a number of EU hesitations and preoccupations. Washington, in turn, has its hands full in Iraq and Afghanistan. It is concerned with

catastrophic terrorism as well as the rise of major new powers such as China and India. It is undergoing a presidential transition amid bipartisan calls for a reorientation of U.S. foreign policy. Even among traditional supporters of NATO enlargement there are now calls for NATO to simply "leapfrog" questionable partners in Eurasia and to "go global" through tighter partnerships with countries such as the Republic of Korea, Australia, Japan and New Zealand. The Black Sea thus competes for funding and attention in Washington as well as in European capitals. Without a vigorous effort to accord the region higher priority, the transformation and integration of key states around the Black Sea could be a stillborn venture.

Elements of Transatlantic Strategy toward the Wider Black Sea

In sum, a strategy of democratic transformation, conflict resolution and integration of the wider Black Sea into broader Western structures faces some daunting challenges. On the other hand, when Western officials set out to transform first the nations of central and eastern Europe, then the Baltic states, and then the Balkans, into Euro-Atlantic circles, each time their efforts were criticized as excessively ambitious, potentially destabilizing, or simply unrealistic. Yet each time they were successful. Those experiences tell us that anchoring the countries of the wider Black Sea to the West will be neither quick nor easy. They caution us about trying to predict the exact course or nature of the process. But they also offer lessons and orientation.

First, Western advocates of a wider Black Sea strategy need to offer a compelling narrative and rationale. Why should the West advance a transformative agenda with the countries of this region? The answer begins by appreciating the transformative power of the transatlantic partnership itself. For half a century the European-American partnership protected the western half of the continent from threats from its eastern half, while transforming relations among Western nations themselves and working to overcome the overall divisions of the continent. The West then joined in solidarity with those on the eastern side of the Iron Curtain who shattered walls with their stubborn insistence that they would "return to Europe." Following the Cold War the transatlantic partnership seized the dynamic offered by a continent without walls and began to work towards a Europe whole, free and at

peace with itself. It recognized the challenging opportunity of exporting stability so as not to risk importing instability. It acted first by anchoring the Visegrad countries into the Euro-Atlantic community. After hesitation, missteps and great human tragedy in the Balkans, it extended that vision to those in southeastern Europe prepared to build democracy, market economies and peaceful relations with their neighbors. It then broadened that vision to include other new democracies from the Baltic to the Black Sea. The result has been the successive advance of democracy, security, human rights and free markets throughout most of the Euro-Atlantic region. Today the challenge is to extend that vision to include other countries of wider Europe, bringing us one step closer to a Europe that is truly whole, free, and at peace with itself; can deal more confidently with challenges emanating from the broader Middle East; and is better positioned to address broader global challenges.[6]

Given the various challenges outlined earlier, a strategy for democratic transformation and collective security in the region is likely to be more effective if its goals are tied to conditions rather than institutions. Western actors should work with the states in the region, and others, to create conditions by which ever closer relations can be possible. Such an approach has the advantage of focusing effort on practical progress, rather than pushing an ambivalent EU so hard it stops being a positive force for active change, or posing the issue in ways certain to elicit Russian—and even Turkish—opposition. Progress depends on achievements on the ground anyway, and the West has an interest in promoting democratic governance, the rule of law, open market economies, conflict resolution and collective security, and secure cross-border transportation and energy links, regardless the institutional affiliation of countries in the region. In short, the West should be careful not to close the door to the countries of the region, but it should focus on creating conditions by which the question of integration, while controversial today, can be posed more positively in the future.

The related message to the countries of the region is that closer association with the West begins at home. Western countries should

[6] For views on this approach see Daniel S. Hamilton, "Transforming Wider Europe: Ten Lessons from Transatlantic Cooperation," in Per Carlsen and Hans Mouritzen, (eds.), *Danish Foreign Policy Yearbook 2005* (Copenhagen: Danish Institute of International Studies, 2005); Ronald D. Asmus, ed., *Next Steps in Forging a Euroatlantic Strategy for the Wider Black Sea* (Washington, D.C.: German Marshall Fund of the United States, 2006).

signal that are be prepared to deepen their links to the extent they see that leaders and the people of the region are making tough choices for democratic, free market reforms—not as a favor to others, but as a benefit to themselves. As Cornell and Jonsson argue in their chapter, democratic development in the wider Black Sea region is a function of the regional states' own capacity to provide human security to their citizens, in large part by improving their "stateness" through functioning institutions grounded in the rule of law. Charles King underscores that the chief threat to peace and stability in the region stems from the internal weakness of the states of the region, rather than from their strategic ambitions.

At the same time, Western support and outreach can go beyond financial assistance alone. Without the prospect of admission to Euro-Atlantic institutions, Western leverage is likely to be relatively low. Thus, the West should provide intermediate mechanisms and transitional vehicles to help guide and support reformist nations along what could be a long and winding road. Such mechanisms were used with both Baltic and Balkan states to good effect. For instance, when working with the Baltic states the U.S. launched the Northern European Initiative and negotiated the U.S.-Baltic Charter and accompanying action plans, which not only provided important bilateral assurances to the Baltic states at a particularly sensitive time of transition but also harnessed the experience of Nordic partners to widen the agenda of cooperation to such areas as health, environment, human rights, economic development and empowerment of women. A "wider agenda with Wider Europe" could build on these experiences by developing intensified cooperation on a variety of issues beyond traditional foreign policy topics. In the Balkans, the West launched a few, highly visible "Quick Start" infrastructure projects linking regional countries to the West and to each other. Such initiatives can have two important "demonstration effects:" first, they can show public opinion in transition countries that closer partnership can do real things for real people; and second they can assure transitional governments that tangible benefits can come from intensified cooperation.

The EU has already taken the lead along these lines through its Black Sea Synergy. As Emerson notes, the Black Sea initiative adds a multilateral regional dimension to the ENP, which had been entirely built around bilateral ties between Brussels and individual countries. He proposes additional initiatives that are worth considering, particu-

larly the notion of multilateralizing the "deep free trade" agreements the EU is advancing with the eastern neighborhood states. In addition, given that the option of EU membership is not currently on the table, the EU might consider new forms of association, including selective extension of the "variable geometry" principle allowing for different participation and organizational forms in various sectoral policy domains. For instance, the EU might consider allowing participation by individual Black Sea countries in designated EU mechanisms such as trade, competition or customs policies, or the civil components of European Security and Defense Policy, before a state would actually become an EU member. When approaching Turkey's controversial application, the EU might consider a form of limited membership as a first step, i.e. accepting Turkey as a full member but limiting its participation in specific areas such as agriculture or labor. Such efforts would simply recognize differing levels of European integration that are already European reality.

The United States might consider a complementary effort by developing a Black Sea equivalent of the U.S.-Baltic Charter or its Adriatic Charter with Albania, Croatia and Macedonia. Such statements can provide important reassurance to states in difficult transitions and affirm some basic principles that can guide efforts toward democratic transformation and regional cooperation. Within or alongside these initiatives there is great scope for smaller groups of Western countries to 'mentor' regional partners. In fact, leadership by individual member nations or coalitions can be essential, since big institutions like the EU or NATO themselves move slowly and operate by consensus. The 3+3 initiative between the Baltic countries and the three South Caucasus states is a good example. These two groups of comparably sized former Soviet republics with much in common but great differences in experience have developed mechanisms to explore collaboration and build on lessons learned, using "lead nation" concepts within an informal common framework. The 8+1 format of the Enhanced Partnership in Northern Europe (EPINE) offers a flexible and ready-made format for such cooperative initiatives *vis-à-vis* wider Europe.[7]

[7] The EPINE project involves Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden in cooperation with the United States. The three broad areas of focus for cooperation include cooperative security, healthy societies, and vibrant economies. In recent years EPINE has associated itself with a transatlantic think tank network and has focused attention on assisting democratic transformation in Ukraine, Belarus and Moldova.

Energy is central to any coordinated Western strategy in the region. The EU's need to secure energy supplies from the Caspian Basin through the Black Sea region and reduce its dependence on Russia demands a common EU external energy policy. As Gerhard Mangott and Kirsten Westphal explain, the EU seeks to create, step-by-step, a pan-European energy community, rooted in its own models of order and structure, that offers the region an alternative framework of integration to Russian predominance. Yet this is a slow and incremental process, and without a common EU energy policy individual states are left to their own devices.

An invigorated Western strategy toward the wider Black Sea must also include active efforts to resolve the wider Black Sea's four so-called "frozen conflicts"—in Moldova (Transdniestria), Georgia (Abkhazia and South Ossetia), and Armenia and Azerbaijan (Nagorno-Karabakh). These conflicts are not "frozen," they are festering wounds that absorb energy and drain resources from countries that are already weak and poor. They inhibit the process of state building as well as the development of democratic societies. They generate corruption and organized crime. They foster the proliferation of arms and a climate of intimidation. They are a major source of instability within these countries and the broader region. These conflicts severely undermine future prospects for these countries, while giving Moscow a major incentive to keep these conflicts "frozen."

In other parts of Europe, historical animosities and territorial conflicts have either been resolved or are now attenuated in large part because of the powerful leverage exerted by the West. The countries involved were brought to realize that their chances for integration into the Western mainstream were limited unless they dealt with such tensions in advance. Until now the West has preferred to shelve these conflicts rather than risk falling out with Moscow. But working to overcome these conflicts is a precondition for putting these countries on a firm course of reform and anchoring them to the West, and a test of Western commitment to a Europe whole, free and at peace with itself. It is time to make their resolution a top priority, both on the ground and in relations with Moscow.

Any effective strategy will have to launch a special track with Turkey, an important Black Sea state and NATO ally, which is part of the West but not of the EU, and which has its own particular perspec-

tives on the desirability and feasibility of transatlantic approaches to the wider Black Sea region. As Zeyno Baran and Steve Larrabee have noted, Turkey is skeptical of initiatives to extend Western presence in the wider Black Sea area. It prefers to protect maritime security in the region through Black Sea Harmony, its own multilateral initiative, than through NATO. It is particularly concerned that such activities could undermine Ankara's claims of (limited) Turkish jurisdiction over the Turkish Straits as outlined by the Montreux Convention. Turkish-Armenian animosity is a further roadblock to enhanced regional cooperation. The two countries do not have diplomatic relations and their land border is closed. Turkey has repeatedly supported Azerbaijani efforts to exclude Armenia from regional initiatives. Turks are inclined to a more benign view of Russian policy in the region, and Ankara's ties to Washington have been strained over Iraq. Moreover, there are many neuralgic aspects to Turkey's accession negotiations with the EU that could easily affect Ankara's willingess to be a constructive force for change in the broader region. Turkey could easily be a spoiler unless and until it is convinced that it has more to gain than lose from more vigorous Western engagement in the region. Any Western package involving Turkey should include additional reassurances about the sanctity of the Montreux convention and mutually acceptable arrangements and mechanisms to guide maritime security, and pressure on Armenia to recognize the borders of modern Turkey.

A Western strategy toward the wider Black Sea must also include a separate track to deal with Russia, itself a Black Sea country with its own legitimate interests in the region. Dmitri Trenin notes that in the next few years some of the most serious challenges and tests for Moscow's foreign policy will come from this region, and the manner in which the Kremlin deals with Ukraine's and Georgia's NATO bids, the "frozen conflicts" in the Caucasus and Moldova, and Europe's energy security will help define the kind of player Medvedev's Russia will become.

Moreover, lack of Western consensus on how to deal with Russia is perhaps the biggest hurdle to developing a coherent and coordinated approach to the wider Black Sea. As the West engages more deeply with reformist nations in the wider Black Sea region, it is important to pursue a complementary track with Moscow so that the motivations and possibilities of such engagement can be understood, legitimate

interests discussed, and new areas of constructive cooperation explored. As Steve Larrabee has noted, resolution of the "frozen" conflicts is not possible without some sort of Russian acquiescence at a minimum. It is important that Western interlocutors not engage in the zero-sum thinking that characterizes Russian policy, and to convey the consistent message that Western efforts to enhance stability in this region through collective security and democratic integration are neither anti-Russian nor intended to expel Moscow from the region, and in fact have the potential to build, with Russian participation, a more secure and prosperous region that is a better partner for Moscow. Moscow decision-makers do not believe this, but as Dmitri Trenin notes, Moscow itself lacks a clear strategy toward the wider Black Sea even as the region grows in importance. There may be some opportunity to influence Russian thinking, but the message must be clear and consistent, and matched by actions on the ground.

Such an approach has a better chance of garnering European support than one of unremitting confrontation. Despite different vantage points, the EU and the U.S. share an interest in inducing Russia to move away from the current Putin system of "managed" democracy in which the state continues to leverage its natural resource wealth to the disadvantage of other areas of society, toward a state based on the rule of law, genuine political competition and free media, that uses its energy wealth to advance domestic modernization and to address serious domestic social challenges. Such a Russia might be willing to accept the sovereignty and independence of the post-Soviet states and not impede their drive to Euro-Atlantic integration. And the U.S. and EU have demonstrated that they can work together effectively, as they did during Ukraine's Orange Revolution. But they must make coordination on Russia policy a priority.

The need for special tracks with Turkey and Russia is further evidence that a variety of regional cooperative activities could be useful. For instance, Nadia Arbatova cites many reasons why Russia is opposed to deeper Western engagement in the region, but she does suggest that Russia could be open to regional cooperative mechanisms modeled in some way on the Stability Pact for southeastern Europe. This initiative expressly included Russia, as well as many other external actors and institutions, together with a variety of regional organizations. It did not tie itself to any particular organization (each of which

had weaknesses as well as strengths) but allowed initiatives to develop both from the countries of the region themselves, as well as from external actors. Participants in sub-regional projects were determined by self-selection and the principle of variable geometry. The European Commission was right to draw on this insight and to propose an "experimental period" for its Black Sea Synergy to see which sectors or approaches might develop significantly. Applying a non-exclusive approach to wider Black Sea cooperation would build on the strengths of particular regional arrangements without locking participants into formalistic mechanisms that would allow any individual participant to block progress. BSEC's role as a regional coordinator could be strengthened and extended to new projects, for example. It includes Russia and so represents an important vehicle of regional ownership for positive cooperation. But it is ill-equipped to deal with tougher security challenges or to offer incentives for change as can the EU, and so should not be an exclusive forum for regional cooperation. Our authors have discussed a variety of other regional initiatives that could also make a positive difference.

NATO will also be an important instrument for Western strategy. As Steve Larrabee explains, the Alliance debate over Black Sea security is taking place in a new strategic context. Russia is stronger and has greater leverage to oppose enlargement; NATO aspirants in the Black Sea region are generally weaker and less qualified than central Europe candidates; many NATO members wonder whether some Black Sea countries are really "European;" NATO's own role is less certain today than it was a decade ago; and U.S. strategic attention is focused elsewhere. NATO's April 2008 Bucharest Summit showcased this intra-Alliance muddle. Even though Alliance leaders could not agree to develop a Membership Action Plan (MAP) with either Georgia or Ukraine, they announced that the two countries would in fact be members some day.[8] This decision offers important political assurance to Georgia and Ukraine, but it threatens to undermine the integrity of the MAP process; relieve applicants from undertaking the tough reforms necessary to add capability and value to the Alliance when

[8] "We agreed today that these countries will become members of NATO." See paragraph 23, *Bucharest Summit Declaration* issued by the Heads of State and Governments participating in the meeting of the North Atlantic Council in Bucharest on April 3, 2008, NATO Press Release (2008)049, issued April 3, 2008, available at: www.nato/int.docu/pr/2008/p09-049e.html (accessed April 18, 2008).

they join; and send the wrong signal to Moscow about its ability to influence internal NATO decisions. Managing these very different expectations will be difficult. Yet there is no need to believe that EU and NATO enlargement must proceed in lockstep or not at all. Given all the complexities of EU enlargement, NATO could take the lead with key countries—but must be careful not to undermine its own credibility in the process. Larrabee suggests weakening the link between MAP and actual membership. That implies giving Georgia and Ukraine the MAP soon, but taking it seriously and using the time needed for implementation to manage the other pieces of the puzzle outlined above.

Conclusion

Taken together, these elements may offer orientation for a Western agenda for positive change for the people of the wider Black Sea. Ultimately, both the EU and the U.S. should gear their efforts to what Michael Emerson defines in his chapter as "transformative regionalism," while resisting both internal Western hesitations that could lead to a less stable "compensatory regionalism" and Russian pursuit of "geopolitical regionalism." In the end, only the EU can offer a conclusive framework anchoring these countries to the West. But the U.S., NATO, and other organizations can play complementary and supporting roles, capitalizing on areas of value added. The alternative is to leave the wider Black Sea suspended between a prosperous, democratic EU, a largely authoritarian Eurasia, and a turbulent Middle East. Such "in-between lands" are often the cockpits for violence, conflict and geopolitical competition. If the West fails to engage vigorously now, it could end up paying a much higher price later.

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