



# Retracing the Caucasian Circle

## Considerations and Constraints for U.S., EU, and Turkish Engagement in the South Caucasus

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This report provides an overview of the geopolitical and security issues facing Armenia, Azerbaijan, and Georgia and their consequences for relations with the United States, the European Union, and Turkey. It is not, and does not purport to be, an in-depth research synthesis or a detailed policy analysis. Rather, the paper aims to provide preliminary considerations in a format intended to generate discussion and critical comments, to sketch out key areas that the authors believe should receive further research examination (by ourselves and others), and to offer some recommendations for framing future policy.

The report should be considered as a work in progress and is subject to revision. Views and opinions expressed are those of the authors and do not represent any official position of the Brookings Institution.

Although the assessments are those of the authors alone, the paper has benefitted from the input of numerous individuals and organizations in interviews in Ankara, Baku, Berlin, Istanbul, London, Tbilisi, Washington, and Yerevan. Specific points and observations made in the report are informed by these interviews. The authors are indebted to all those who gave their time, publications, and expertise to provide data and perspectives in support of this paper. The authors would like to offer special thanks to Brookings Senior Fellow Suzanne Maloney for her contributions to the Iran-related dimensions of this report.

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### INTRODUCTION

**H**arsh geopolitical realities and historic legacies have pushed the South Caucasus states of Armenia, Azerbaijan, and Georgia back onto the foreign policy agendas of the United States (U.S.), the European Union (EU), and Turkey, at a time when all three have pulled back from more activist roles in regional affairs. Western disengagement has exacerbated some of the more negative regional trends by signaling disinterest and a lack of commitment toward resolving ongoing conflicts and challenges just as the broader geopolitical dynamic has shifted dramatically. The South Caucasus states have now become, at best, second-tier issues for the West, but they remain closely connected to first-tier problems. To head off the prospect that festering crises in the Caucasus will lead to or feed into broader conflagrations, the United States, EU, and Turkey have to muster sufficient political will to re-engage to some degree in high-level regional diplomacy.

As they consider reengagement, none of the three Western players can employ the same strategies that worked for them in earlier decades. The concept of a South Caucasus unambiguously oriented

toward Euro-Atlantic integration has eroded since the 1990s, and regional elites have become genuinely cynical about Western intentions and capabilities after the failure of past policy initiatives. In the wake of the global economic and Eurozone crises, the United States, EU, and Turkey have fewer resources and less overall capacity for crafting new policies.

In the 1990s and early 2000s, after the collapse of the Soviet Union, the region drew Western attention as a strategically important crossroads for hydrocarbons. The United States, EU, and Turkey supported the aspirations of the three newly-independent nations of the South Caucasus to associate with Euro-Atlantic institutions and limit both Russian and Iranian influence. Energy development was a top priority. Then, between 2008 and 2013, other urgent foreign policy crises overwhelmed the agenda, and changes in global and regional energy markets—combined with a drop in oil and gas prices after an unprecedented spike between 2000 and 2008—raised questions about the future role of Caspian Sea resources in Western energy security equations. The United States, EU and Turkey all saw separate, signature projects in Armenia, Azerbaijan, and Georgia run into

trouble in the same period. They were forced to sacrifice the important to address the urgent.

The purpose of this report is thus to explore the rationale and assess the options for Western reengagement with Armenia, Azerbaijan, and Georgia given the current challenges and limitations on all sides. Based on a series of study trips to the South Caucasus and Turkey in 2014 and 2015, and numerous other interviews, the report reviews some of the current factors that should be considered by Western policymakers and analysts. It also examines the prospects for forging coherent Western approaches through a degree of coordination among the United States, EU, and Turkey to build upon their common interests; it concludes with some general recommendations for framing policy.

For Washington, Brussels, and Ankara, the first-tier issues in the broader region around the South Caucasus include: dealing with Russia's recent actions in Ukraine, including Moscow's March 2014 annexation of Crimea; the ongoing U.S.-led negotiations with Iran over the future of its nuclear program; and the challenges created by the upheavals in the Middle East, most specifically the urgency of tackling the security threat posed by the Islamic State in Iraq and Syria (ISIS or "Daesh") and other terrorist groups seeking to entrench themselves in Syria and Iraq. These foreign policy priorities have absorbed Western strategic attention. Nonetheless all of them are linked to the South Caucasus in different ways.

In the wake of the war in Ukraine, Russia has underscored its clear opposition to the South Caucasus countries' pursuit of integration with Western institutions, including the North Atlantic Treaty Organization (NATO) and the EU. Russia's military intervention in Georgia in August 2008 was largely motivated by Georgia's aspirations to join NATO.

The annexation of Crimea and military intervention in the Donbas region were Russia's responses to Ukraine's pursuit of closer relations with the European Union. Moscow has now stepped up its regional game and is pressing the South Caucasus states to commit to joining Russian-led security and economic organizations.

Iran looms large as a significant uncertainty for the economic and security interests of the South Caucasus. Tehran has periodically tried to exploit the region's conflicts and domestic governance challenges to circumvent international sanctions and check the influence of regional competitors, especially Turkey and Israel. If Iran reaches a durable nuclear entente with the West and nuclear-related sanctions are lifted or suspended, Iran's aspirations to market its gas reserves to Europe will certainly re-emerge as a factor in regional energy calculations and projects. Tehran's prospective reintegration into the international community and its return to the South Caucasus is unlikely to be a linear or consistent process—for Armenia, Azerbaijan, and Georgia, Iran poses new threats as well as new opportunities.

In addition, in recent months, the South Caucasus states have become embroiled in the chaos and violence ascendant in the Middle East. Ethnic Armenian and Yazidi refugees from Syria have sought asylum in Armenia. Foreign fighters from Azerbaijan and Georgia have joined the ranks of terrorist groups. This spillover has aggravated the region's own longstanding problem of displacement since the early 1990s, including the one million-plus refugees from the war fought between Armenia and Azerbaijan over Nagorno-Karabakh, and those from Georgia's conflicts with its secessionist regions of Abkhazia and South Ossetia.

In sum, the regional context for the South Caucasus is becoming more, rather than less, complex and dangerous, and Western governments should not walk away after more than two decades of close association. In particular, the demotion of the region in U.S. calculations has been, and will continue to be, perceived as a sign of American foreign policy weakness by the South Caucasus states. Local officials and elites view the United States as ceding the scene to Russia and essentially as giving a “green-light” for further Russian erosions and violations of regional state sovereignty. This significantly raises the stakes for Western engagement—and for revising the way that the West re-engages. Given the failure to sustain their signature “big-bang”

initiatives of the 1990s and 2000s, the United States, the European Union, and Turkey must now be very careful about overpromising support as they look for new opportunities.

Given their more limited capacities, Western policymakers will have to work together to seek formulations and approaches to bilateral and multilateral engagement that can make the most of their collective, not just individual, resources for intervention and action. Smaller, pragmatic efforts should be the focus and can unlock the region’s potential by increasing regional integration, reducing instability, and the threat of renewed conflict.

## THE END OF A REGION: DIVERGENT TRENDS IN THE SOUTH CAUCASUS

Since the collapse of the USSR (Union of Soviet Socialist Republics), the strategic location of the South Caucasus, along with the commercial development of the energy resources of the Caspian Sea basin, has provided the rationale for Western attention. Squeezed among Turkey, Russia, and Iran, and between the Caspian and Black Seas, Armenia, Azerbaijan, and Georgia sit astride the ancient trading routes from Asia to Europe and on the periphery of the Middle East. However, although the strategic geography remains important, it is no longer sufficient basis for defining policy. The idea of a shared South Caucasus political, economic, and security space that shaped United States, EU, and also Turkish policies in the 1990s is at an end. The West will need to adopt a more variable approach to the South Caucasus and formulate tailored, individual initiatives in the decade ahead.

The differences between Armenia, Azerbaijan, and Georgia have become more definitive than the commonalities in their challenges, outlooks, and interests. The three South Caucasus states even tend to describe themselves in contrast to the others, e.g. Georgia as pro-Western, anti-Russian, and reform-oriented; Armenia as pro-Russian, anti-Azerbaijan, and isolated; and Azerbaijan as culturally Muslim, anti-Armenian, oriented toward Europe for hydrocarbon exports but otherwise non-aligned. Although there have been various proposals for creating pan-regional institutions over the past 20 years, such as Turkey's idea for a Caucasus Stability and Cooperation Platform after the 2008 Georgian-Russian war, no such institutions have been established. Save for pipelines, and some trade and movement of people, intra-regional interactions have been limited by persistent conflicts, cultural

and linguistic differences, and competing narratives of the pre-Soviet and Soviet pasts. Since the 1990s, divergent visions of the future have diminished the common post-Soviet space and Soviet-era ties, while shifting political, economic, and security borders (both real and projected), and continued migrations have pulled the states apart.

In response to evolving geopolitics and the West's disjointed engagement, the South Caucasus states have charted separate paths. Armenia, having signed the Eurasian Economic Union agreement with Russia in 2014, and formally joined the Eurasian Union in 2015, seems set to remain tightly within Russia's orbit.<sup>1</sup> Armenia's security is guaranteed by a bilateral treaty with Moscow, which includes provisions for a Russian military base and Russian border troops. Azerbaijan, in contrast, is attempting to keep its options open and to resist being pulled too far into the centers of gravity of either the East or West. With its U.S. and European relationships currently strained after a domestic political crackdown on civil society, Baku has kept its distance from both the Eurasian Union and the European Union. Thanks to demand for its natural gas in Europe, as an alternative to Russian gas, it has become an independent energy exporter to, and economic player in, Turkey, and hopes to expand its exports to EU member states like Greece and Bulgaria. Azerbaijan has also become a political and economic partner for Israel, based both on energy exports and its status as a non-aligned, officially secular but Muslim-majority state on the border of Iran. Georgia, in spite of several changes in its government, is sticking to its commitment since the 1990s to join, eventually, NATO and the EU. Georgia concluded both an Association Agreement and Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU in 2014. It has yet to secure a Membership Action Plan (MAP) for NATO.



## RUSSIA'S SHADOW DARKENS?

**R**ussia casts a long shadow over the South Caucasus notwithstanding 25 years of independence, the complexity of regional relations, and important new ties with many other states. All three countries remain closely connected to the Russian economy through critical infrastructure, trade, investment, and remittances from permanent diaspora populations and migrant workers. Russia, and the individual states' relationships with Russia, will have to be a primary starting point for Western calculations about what is possible in creating a new set of regional initiatives.

Russia is a leading economic partner for all three South Caucasus countries. In 2014, Armenia, Azerbaijan, and Georgia collectively imported approximately \$3 billion U.S. dollars (USD) worth of Russian goods, while exporting less than half that amount to Russia.<sup>2</sup> All three have significant trade deficits with Russia as a result, and around 60 percent of all remittances from Armenian, Azeri, and Georgian workers abroad came from Russia in 2014.<sup>3</sup> These payments constituted nearly 20 percent of Armenia's Gross Domestic Product (GDP) and almost 13 percent of Georgia's GDP in the same period.<sup>4</sup> Thanks to its oil, and more recently, its natural gas exports, Azerbaijan enjoys a greater degree of economic independence from Russia; additionally, Azeri labor migrant remittances are no longer a significant factor in Azerbaijan's GDP given the size of the energy sector.<sup>5</sup> Georgia has also diversified its trade and economic relations since 2008, when Russia imposed sanctions on its exports. In 2014, Turkey, not Russia, was Georgia's leading foreign trade partner.<sup>6</sup> Nonetheless, Armenia remains highly dependent on Russia, and Russia retains significant investments in both Armenia and Georgia.

While economic ties frame the states' overall relationships with Russia, individual security concerns define bilateral interactions. The Russian annexation of Crimea in 2014 and the subsequent destabilization of Ukraine's eastern Donbas region have reverberated across the region. The scale of the conflict in Ukraine is larger than the earlier wars in the South Caucasus over Nagorno-Karabakh, Abkhazia, and South Ossetia. In geopolitical terms, the conflict is more consequential for the region than even the August 2008 war between Georgia and Russia. In the South Caucasus, the Ukraine conflict is viewed as an open proxy war between Russia and the United States. It has exposed a serious geopolitical rift between Russia and the West that has steadily widened over the course of Vladimir Putin's presidencies. The Ukraine crisis has also sucked much of the air out of international efforts to deal with the South Caucasus conflicts as high-level attention has been consumed by the war in Donbas. Although Georgia and Azerbaijan find themselves in the same camp as Ukraine—engaged in a conflict with a neighbor, who has seized and occupied territory—their predicaments have been relegated to the background.

On the basis of events in Ukraine, and the fissure in Russia's relations with the United States and the EU, all three governments (including in Armenia) fear Russia will seek new ways to exploit the South Caucasus conflicts, as it often did in the 1990s and 2000s. Regional elites tend to see Russia as a malign *deus ex machina*, poised at all times to intervene in their domestic politics, economies, and foreign policies. Russia's military intervention in Georgia in 2008—partly precipitated by Tbilisi's decision to retaliate militarily against separatist forces in South Ossetia—was seen as the culmination of two decades of intense political machinations around all the South Caucasus conflicts,

and of Russia's antipathy to U.S. and EU regional policies.

The 2008 war, and Russia's recognition of Abkhazia and South Ossetia as independent states, changed the regional configuration of contested boundaries and political players. Former French President Nicolas Sarkozy's diplomatic mediation to broker a ceasefire and the creation of an EU Monitoring Mission in Georgia showed a new level of engagement by the European Union. Previously, this type of international conflict resolution effort had been led by the UN and the Organization for Security and Cooperation in Europe (OSCE) along with the United States. The involvement did not, however, lead to any diminution of Russia's position in the South Caucasus. On the contrary, since the August 2008 war, Russia has made its goals and intentions in the region very clear, and Moscow's influence has seemed ascendant.

As Russian President Vladimir Putin expounded in an August 2014 speech in Crimea, Russia seeks the West's recognition of its sphere of influence within the former boundaries of the Russian Empire and the USSR. Across these vast contours, which obviously include the South Caucasus, Russia argues that its interests override all others. In Moscow's view, as the formerly dominant imperial power and current global superpower, Russia is the only truly sovereign state in this neighborhood. All the other states have contingent sovereignty. Russian security and economic interests always take precedence, which means no further NATO or EU expansion. Georgia's bid for a NATO Membership Action Plan (MAP) at the April 2008 NATO Summit in Bucharest was one of the prime motivating factors for Moscow's belligerent stance toward Tbilisi prior to the August war. Kyiv's pursuit of political association and free trade agreements with the EU were the proximate trigger for the current crisis in Ukraine.

In terms of its economic interests, Russia's priorities extend far beyond the former Soviet space to countries with industries that either link to the production chains of key Russian economic sectors, or operate in Russia's critical energy and manufacturing sectors. In this regard, China and other members of the BRICS (Brazil, Russia, India, China, and South Africa) are crucially important, but so is Turkey. Russia views Turkey as an independent regional player, despite its links to transatlantic institutions, with long-standing separate economic relations with Russia and the region. These connections to Russia may complicate future prospects for energy and economic development in the South Caucasus and pose an obstacle for more coordination in Western policymaking.

Since the late 1990s, the Turkish government has focused on cementing Turkey's position as a major energy trading hub between Europe and the Middle East. Russia has been a key partner given its outsize role in regional energy production. In the 2000s, Turkey and Russia, along with the Italian energy company ENI, constructed a major export pipeline, "Blue Stream," across the Black Sea to bring gas to the Turkish domestic market. Ankara hoped that Moscow would choose to expand this pipeline for further exports to Europe. Instead, Russian energy giant Gazprom pursued an alternative Black Sea pipeline, "South Stream," which bypassed Turkey and was routed to Italy through Bulgaria, Serbia, Hungary, and Slovenia. ENI was also the primary commercial partner for this venture. In 2014, South Stream ran into trouble as the EU moved to block the pipeline construction in Bulgaria, and put pressure on the other states to reconsider their participation. Western sanctions, imposed on Russia in response to the 2014 annexation of Crimea, along with falling energy prices reduced Gazprom's disposable cash and barred it

from future loans; ENI balked at the idea of footing more of the bill. In December 2014, on a quick visit to Turkey, Russian President Putin jettisoned South Stream and returned to the initial idea of using and expanding the Blue Stream pipeline route for exports to Europe—now dubbing this project “Turkish Stream.”<sup>7</sup>

This development upended regional energy calculations. While Russia was focused on South Stream, Azerbaijan had hoped to export its Caspian gas to Europe via Turkey and also to become the conduit for national gas exports from Turkmenistan and Central Asia. After the success of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in the 2000s, Azerbaijan focused on constructing its own Trans-Anatolian Natural Gas pipeline (TANAP) to Turkey and was formulating expansion plans for exports to Greece and Bulgaria. Suddenly, in December 2014, Azerbaijan found itself in competition with Russia in the Turkish energy sector at a time of plummeting oil and gas prices that hit the Azeri government and its state oil company’s (SOCAR) revenues.

In spite of sanctions and reduced revenues, Russia remains the big energy and financial player in the region, with many potential ways to block Baku’s ambitions. Turkey and Russia have significant trade interests that far exceed Azerbaijan’s trade volume with either country. Turkey’s foreign trade with Russia in 2014 was about \$31 billion USD, constituting 8 percent of overall Turkish trade and compared to \$1.8 billion USD with Azerbaijan.<sup>8</sup> Russian trade with Azerbaijan, which was less than \$2 billion USD in 2014, is a fraction of Russia’s total global trade of \$844 billion USD.<sup>9</sup> Russia is also an important source of tourism income for Turkey. In 2014, roughly 3.5 million Russian nationals visited Turkey. Slightly over half a million Azerbaijanis visited Turkey in

the same period—a large per capita number for Azerbaijan (with a population of 9.4 million), but far less significant in terms of numbers and revenue for Turkey.<sup>10</sup> Azerbaijan is now branching out in the Turkish economy with investments in the petro-chemical industry and the media sector, in addition to pipeline construction. Russia has embarked on the construction of Turkey’s first three nuclear power plants under a “build-own-operate” model, and many Turkish companies, especially in the construction industry, now have large-scale investments in Russia.<sup>11</sup> At a conference in Washington, DC in April 2015, an economic advisor to Turkish President Recep Tayyip Erdoğan underscored the importance of all these developments, declaring that a “Russian-Turkish economic axis in the region was emerging.”<sup>12</sup>

Against this backdrop, Russia’s shadow seems to have darkened in the South Caucasus, while those of the EU and United States have faded. Even the recent Western economic sanctions against Russia and the depreciation of the Russian ruble have played a role. They have taken a toll on the South Caucasus economies, underscoring their continued dependency on Russian capital, transportation routes, trade, and remittances. If Russia’s economic growth falls, so does growth in the South Caucasus. With Russia pressing its economic and security interests, the regional states feel increasingly squeezed. Persistent problems in Armenia, Azerbaijan, and Georgia’s own relations with the United States and the EU have raised questions about how much they can turn to Washington and Brussels for assistance in preserving some room for maneuver with Moscow. The future trajectory of Turkey’s bilateral relationship with Russia, and how this will interact with and have an impact on each country’s own relations with Ankara and Moscow, stands as a separate question mark in regional calculations.

## REGIONAL CONFLICTS SHAPE AND UNDERMINE WESTERN POLICY

**A**long with Russia, Nagorno-Karabakh and the other unresolved conflicts darken prospects for stability in the region and for future Western policy-making. Even during periods without armed confrontation, these protracted conflicts have not been “frozen.” Individually and collectively, the conflicts have shaped as well as undermined United States, European, and Turkish initiatives in the South Caucasus since the 1990s. They will continue to do so.

The roots of the conflicts are long. In some cases, they precede the creation of the Soviet Union itself, but the configuration of the conflicts is based in Soviet federal and nationality policies and the administrative structure of the USSR. The modern independent states of Armenia, Azerbaijan, and Georgia were not designed to be independent states at all. They were set up to be interdependent with one another as well as dependent on Moscow.<sup>13</sup> The constitution of the USSR also, in theory, provided for the contested territories to appeal for a change in their status as autonomous regions—a process that was underway in Nagorno-Karabakh and Abkhazia before the break-up of the Soviet Union. None of the contested territories have any separate experience of existing within Azerbaijan or Georgia outside of the framework of the Soviet Union—with the exception of a very brief period after the collapse of the Russian Empire in the wake of World War I.

The conflicts do not exist in a vacuum. They have distinct parallels with conflicts like Kosovo, Cyprus, and also the Middle East conflict between Israel and the Palestinian territories, as well as with the other post-Soviet conflict between Moldova and its breakaway region of Transdniestria. The lack of a

settlement in each of these cases provides a continued negative example for the South Caucasus conflicts. International recognition of Kosovo in 2008 and the fact that the United States and other actors explicitly denied the existence of the parallels, or the possibility of setting a precedent for the South Caucasus conflicts, greatly complicated the situation between Georgia and Abkhazia and South Ossetia. Russia cited Kosovo’s independence as a justification for its intervention in the Georgian conflicts and for its recognition of Abkhazia and South Ossetia’s independence after the August 2008 war.<sup>14</sup> Abkhazia and South Ossetia now assert, on the basis of the Kosovo precedent and Russia’s recognition, that they should no longer be expected to negotiate reintegration with Georgia. Tbilisi, naturally, refuses to engage with the territories in any way that might suggest an implicit acknowledgement of any change whatsoever in their status.

International negotiating mechanisms, like the OSCE Minsk Group, set up in response to the armed conflicts of the 1990s, have become part of the domestic politics of the territories and the South Caucasus states. The mechanisms and the diplomats associated with them are not seen as neutral by regional governments. They are presented by the different actors in the South Caucasus as part of the problem. They have become politicized, and are also used by regional leaders as a convenient excuse for avoiding compromise—for example, in ascribing the failure to achieve a breakthrough in negotiations because the Minsk Group is not “doing its job,” rather than assuming responsibility for the lack of progress because of their domestic political concerns.

As a result of their complexity and the different stances of the United States, EU member states, and Turkey, the conflicts have encouraged, and



sometimes compelled, the Western players to pursue independent paths in the region, in spite of shared interests and the commonality of the transatlantic alliance. The evolving dynamic of the conflicts has also led to individual countries becoming the prime focus of Western attention at different junctures. The ever-present threat of renewed fighting has provided a permanent portal for Moscow to move in and out of regional affairs—variously stoking anxieties, making diplomatic overtures, offering security guarantees, basing troops (in Armenia), and providing or selling weapons.

These realities stand in stark contrast to the immediate aftermath of the collapse of the Soviet Union, when the leaderships of Armenia, Azerbaijan, and Georgia seemed keen to transform their states into modern democratic societies, integrate their countries into the global economy, and forge new political and security relations with the West. The United States, EU member states, and Turkey were quick to recognize the independence of the three South Caucasus republics. The new states became members of the Council of Europe. Azerbaijan and Georgia established links with NATO and actively sought out other forms of bilateral military cooperation with the United States, individual European states, and Turkey. Azerbaijan and Georgia both forged closer political and economic ties with the United States and Europe through an intense decade of negotiations to transport Azeri oil from the Caspian Sea to European markets via Georgia and Turkey.

Armenia's relations with the West and its participation in regional energy and infrastructure developments were complicated from the outset by its ongoing dispute with Turkey over the recognition of the 1915 Armenian genocide. The dispute

was an early obstacle to the full establishment of diplomatic relations between Ankara and Yerevan, and the formal opening of their international border. Under the leadership of President Levon Ter-Petrosyan, Armenia resolved to set aside the genocide recognition issue as it pursued normalizing relations with Turkey, but its seizure and occupation of the disputed Nagorno-Karabakh enclave in Azerbaijan limited Turkey's ability to continue the dialogue. In 1993, Turkey broke off negotiations and effectively closed the border with Armenia in solidarity with Azerbaijan, after Armenian-backed forces took a swath of Azeri territory around the enclave to create a buffer zone.

Armenia's war with Azerbaijan—and the political clout of the sizeable Armenian-American diaspora—also inhibited early U.S. engagement with Azerbaijan. In the initial phases of the conflict over Nagorno-Karabakh, Azerbaijan closed its borders with Armenia and imposed an economic blockade. In response, political representatives of the Armenian diaspora successfully lobbied the U.S. Congress to exclude the Azerbaijani government from receiving direct American government aid. This exclusion was enshrined in Section 907 of the Freedom Support Act of 1992, which was the legislative framework for U.S. assistance programs in the new states of the former Soviet Union.<sup>15</sup> The restrictions imposed by Section 907 were consistently waived on an annual basis after 2001 in recognition of Azerbaijan's contributions to the U.S.-led war against terrorism, but the provision still has not been lifted by Congress. Although Section 907 did not preclude U.S. involvement in conflict resolution and energy diplomacy, it severely constrained official economic development and civil society programs, and resulted in a decade of lopsided U.S. regional engagement.

## THE UNITED STATES FADES TO GREY?

**A**fter the conclusion of the 1994 cease-fire in Nagorno-Karabakh, the United States put considerable diplomatic weight behind the OSCE Minsk Group efforts to conclude a peace agreement between Azerbaijan and Armenia. A series of high-level American special envoys were appointed to work alongside counterparts from France and Russia and the OSCE Chairperson-in-Office. The high point in this diplomacy came in 2001, when the Minsk Group co-chairs brought the Azeri and Armenian presidents together in Key West, Florida for what was hoped would be a breakthrough series of talks leading to an agreement on the principles of reconciliation and resolution. However, the Key West meeting failed to meet its objectives. Since then, the Minsk Group has focused for more than a decade on conflict management and mitigation against the backdrop of political stalemate between Baku and Yerevan and repeated cycles of violence on the ground.<sup>16</sup>

In addition to its support of the Minsk Group, the United States was the most proactive Western player in encouraging the development of Caspian Basin energy resources in the 1990s. After the 1994 signing of the so-called “contract of the century” between the government of Azerbaijan and a consortium of international oil companies, the U.S. government spearheaded the negotiation of a series of inter-governmental agreements among and between Azerbaijan, Georgia, and Turkey that paved the way for the construction of BTC oil pipeline.<sup>17</sup> As in the case of the Minsk Group, the United States appointed high-level, dedicated Caspian energy envoys to shuttle from capital to capital and broker the diplomatic framework. This framework facilitated the implementation of the commercial

project to build the pipeline, under the leadership of the Anglo-American energy company, BP. BTC came into full operation in 2006.

As BTC approached completion and the tempo of U.S. energy diplomacy decreased, other regional developments drew U.S. policy attention. For most of the 1990s, Georgia was largely viewed as a “failed state” and ruined economy, fractured by civil war and the secession of Abkhazia and South Ossetia, and in a seeming perpetual state of political confrontation with Russia over the direction of its foreign and security policies. In 2003, mass public protests in the wake of a flawed parliamentary election resulted in the so-called Rose Revolution, which brought a generation of young Georgian political reformers to the fore. Mikheil Saakashvili, who became Georgia’s president in 2004, launched economic and political reforms, and presented Georgia as the pro-Western anchor for regional democracy. Saakashvili and Georgia quickly jettisoned any semblance of balancing relations with Russia. Tbilisi became a flag-bearer for the George W. Bush administration’s “Freedom Agenda” and its efforts to support free elections and the development of civil society in Afghanistan and Iraq in this same period. Saakashvili also moved to send Georgian troops to participate in United States and NATO military operations in both Afghanistan and Iraq.<sup>18</sup> In May 2005, President George W. Bush visited Tbilisi—the first ever trip by a sitting American president to the South Caucasus. Georgia thus became disproportionately elevated in U.S. regional relations in the three years leading up to the August 2008 war with Russia.

In January 2008, the Georgian and Ukrainian presidents both appealed to Washington to champion their bid for a MAP at the NATO summit in Bucharest in April 2008. Given its active military

participation in NATO operations, and increased security ties with the United States, Tbilisi felt it had a particularly strong case. The United States led a diplomatic campaign in March 2008 to push for MAPs for both Georgia and Ukraine, but met considerable resistance from a number of European heavyweights in the Alliance, including Germany, on the grounds that this would be seen as a provocation in Moscow. At Bucharest, NATO members brokered a compromise that fell short of offering a formal plan and timeline for membership, but gave both Georgia and Ukraine a declarative commitment of eventual membership. NATO's Bucharest declaration was not viewed as a compromise in Russia, which stepped up its confrontation with Georgia. Just a few months later, the Russo-Georgian war brought an abrupt end to the U.S. advocacy for NATO expansion and prompted a reassessment of U.S. relations with Georgia.

The August 2008 war came at a particularly difficult time for the United States and the West—just as the United States and Europe drifted into a major financial crisis, and at a juncture when Turkey's ties to its transatlantic partners were weakened. In spite of its status as a NATO member, Turkey had charted its foreign policy independently of the United States, especially after a major diplomatic blow-up over the 2003 American invasion of Iraq. Turkey's membership negotiations with the European Union had also essentially ground to a halt when Turkey refused to extend its customs union with the EU to Cyprus in 2004. This then led to an EU decision in 2006 to suspend Turkey's accession negotiations on eight chapters of the *acquis communautaire*, the common set of rights and obligations that must be implemented by EU candidate states for membership. Additional chapters were later blocked by Cyprus as well as France, widening the EU's

rift with Turkey. All of these factors encouraged Ankara to pursue closer political—not just economic—relations with Russia as well as with neighboring countries in the Middle East. When the war broke out in Georgia, the United States, EU, and Turkey were hard-pressed to coordinate their responses to Russia's violation of Georgia's territorial integrity. Indeed, Turkey pushed back against cooperation with the United States and NATO in the Black Sea on crisis management. Moscow's military intervention and the disjointed Western reactions were viewed in the region as a signal of waning Western interest, and an indication of the West's overall ineffectiveness.

The 2008 war between Russia and Georgia did, however, open up a new opportunity for U.S.-Turkish cooperation. The conflict cut Armenia off from its sole land route across Georgia to both Russia and Europe, and prompted Yerevan to recalculate its relations with Turkey. For Armenia, opening the international border with Turkey would break Russia's stranglehold over transport and communication routes. Turkey was also keen to return to the South Caucasus as a major regional player without the distortion of its frozen relations with Armenia. Even before the war, both Yerevan and Ankara had signaled interest into getting back to the negotiating table to find a pathway toward the normalization of their bilateral relations. The two sides had tentatively explored confidence building measures, including the creation of a Turkish Armenian Reconciliation Commission in 2001. Although the commission fell short of achieving a major breakthrough, it did facilitate the freer movement of people between the two countries, including encouraging the opening of charter flights between Istanbul and Yerevan, and some modest trade linkages via Georgia.<sup>19</sup>

The commission's efforts were accompanied by an increasingly open debate in Turkey about the fate of Ottoman Armenians during the First World War, which ultimately paved the way, in September 2008, for then Turkish President Abdullah Gül to visit Yerevan for a World Cup qualifier soccer match between the two national teams.<sup>20</sup> "Football diplomacy" opened the door for more formal diplomacy.<sup>21</sup>

In 2009, the Obama Administration marked its first year in office by working with the Swiss government on an intense behind-the-scenes effort to broker talks between Turkey and Armenia. The U.S. and Swiss collaboration led to the signing of a brief set of protocols in Zurich in October 2009, which were intended to provide the basis for further rounds of negotiations. A series of miscalculations on all sides precluded the formal ratification of the protocols in 2010, adding new acrimony to the ongoing disputes between Armenia and Turkey.

In the wake of this failure to restore diplomatic relations between Armenia and Turkey, U.S. policy in the South Caucasus essentially ran out of steam. 2010 marked the end of the long phase of focused U.S. attention, including in Caspian energy development. As political and commercial attention shifted from the export of Azeri oil to the export of gas to Turkish and European markets, the United States ceded the stage in regional energy diplomacy. The European Union, individual European governments, and European gas companies, along with the Turkish government and companies, became the primary players. European market demand and EU regulations were chief determinants of energy developments. The United States found itself essentially outside the efforts to build new gas export routes along the so-called "Southern Corridor" from the Caspian to Europe.



## THE EUROPEAN UNION REACHES OUT, THEN DRAWS BACK

This new natural gas-focused phase in regional energy diplomacy elevated the European Union's role in South Caucasus politics. In the 1990s, the European Union had concluded partnership and cooperation agreements with all three countries, and then in the early 2000s, the EU formalized relations with the South Caucasus states and other non-member countries in its immediate neighborhood through the creation of the European Neighborhood Policy (ENP).<sup>22</sup> For several years, there was little concrete movement on instituting the ENP while the European Union concentrated on two waves of enlargement to Central and Eastern Europe in 2004 and 2007. This changed in May 2009, when Poland and Sweden championed the Eastern Partnership Program (EaP) to complement the EU's outreach mechanism for the southern tier of its neighboring countries, the Union for the Mediterranean. The EaP was targeted at Armenia, Azerbaijan, and Georgia, along with Belarus, Moldova, and Ukraine. European energy security was a significant motivating factor for the establishment of the program.<sup>23</sup> In January 2006, and again in 2009, political disputes between Russia and Ukraine over gas pricing caused flow cut-offs to EU member states as well, as Ukraine was and is the major transit route for Russian gas exports to Europe. European member states with high gas consumption were keen both to secure alternate export routes for Russian gas that would mitigate against the disruptions in Ukraine, and to diversify supply away from Russia. This led to a number of pipeline projects to bring gas from Azerbaijan across Turkey to Europe.<sup>24</sup>

In 2010, just as the U.S. and Swiss efforts to bring Turkey and Armenia together hit their impasse,

the EU launched negotiations with Armenia, Georgia, Moldova, and Ukraine to replace the previous agreements with something more robust. At the core of the negotiations was the conclusion of a DCFTA, which would permit the countries to align their economic standards with those of the EU, secure privileged individual tariffs, and get access to the European single market. There was also a multilateral component to the agreement, with a series of initiatives to enhance cooperation among the EaP states arranged around four thematic platforms: democracy, good governance and stability; economic integration and convergence; energy security; and people-to-people contacts.<sup>25</sup> Third parties—like the United States, Turkey and Russia—could participate on a case-by-case basis through an informal “Group of Friends of the Eastern Partnership.”

Unfortunately the timing could not have been worse for the European Union to step up its game. The negotiations for the DCFTAs took place just as the Eurozone crisis eroded European finances and diminished the EU's outreach capacity to its neighborhood. European governments' austerity policies, designed to tackle the crisis, resulted in widespread recession and growing unemployment across member states. This dampened the EU's economic attraction for the South Caucasus and other states. European energy demand also plateaued with the economic downturn, impeding progress on new regional pipeline projects. Simultaneously, the EU and Russia were pursuing the renewal of their bilateral Partnership and Cooperation Agreement (PCA) covering trade, energy and security issues (which expired in 2007); and the dramatic and unexpected “Arab Spring” uprisings that spread from Tunisia across the Middle East after December 2010, increasingly drew Europe's peripheral vision to its southern neighborhood.

Against this already cluttered backdrop, domestic politics and elections in France and Germany distracted key European leaders from following both the DCFTA negotiations, and the EU's separate set of interactions with Russia. Everything collided in Ukraine in late 2013, at a juncture when the EU was focused on gearing up for May 2014 parliamentary elections and the subsequent appointment of a new Commission, when there would be a major reshuffle of all the positions in charge of external relations.

For Russia, the European Union's planned association agreements with Armenia, Georgia, Moldova, and Ukraine became deeply threatening. Moscow was promoting the creation and consolidation of Russia's own alternative trading bloc in the form of the Eurasian Economic Union; and Putin had proposed that Russia would lead members of the Eurasian Union in their negotiations with the European Union instead of having them pursue separate agreements. The DCFTAs went far beyond the scope of what Russia was negotiating with the EU through its own PCA; while Ukraine was critical to the Russian conception and construction of the Eurasian Union, given its population of more than 45 million, its industrial base, and its close economic, historic, and cultural ties to Russia. As Brussels prepared for the November 2013 Eastern Partnership summit in Vilnius, where it hoped to complete the DCFTAs, EU officials in charge of the negotiations highlighted individual points of incompatibility between the DCFTAs and the Eurasian Union. Thereby, they created the semblance of a mutually-exclusive choice for the states. The European Union and Russia seemed to pull their shared neighborhood in different directions.

In the months leading up to the summit, the EU found itself in an unintended geopolitical

confrontation with Russia. Moscow exerted considerable pressure on the EaP countries to forego the agreements, including by imposing embargoes on key goods from the four states and from the summit host country, Lithuania. Just weeks before Vilnius Summit, Armenia announced that it would no longer sign its negotiated agreement with the EU and would commit to joining the Eurasian Union. Then, Ukraine's leadership requested postponing its final signature. This request, on the eve of the summit, triggered protests and political upheaval in Kyiv that led, in sequence, to the overthrow of the Ukrainian government, Russia's decision to annex Crimea, and Moscow's subsequent support for pro-Russian separatists in Ukraine's eastern Donbas region. Although Georgia and Moldova initialed their DCFTAs at Vilnius and later signed them—and Ukraine did the same once a new government was elected—this was hardly the success that the EU had hoped for.

The crisis in Ukraine and the imposition of U.S. and EU sanctions on Russia in 2014 ruptured two decades of painstakingly developed political and trade relations between Brussels and Moscow. When the bilateral PCA was signed in 1997, EU trade with Russia stood at \$52.5 billion USD. By 2013, this figure had increased to \$325 billion USD, or nearly ten percent of total EU trade.<sup>26</sup> Now, from Moscow's perspective, the EU was as unwelcome in its neighborhood as NATO. The confrontation with Russia over the competing EU and Eurasian association agreements forced Brussels into a wholesale review of its neighborhood policy. Since 2014, the EU's agenda has been overwhelmed by the urgency of dealing with the fallout in Ukraine and the violence and unrest in Europe's southern neighborhood that has triggered a massive displacement of people, including a flood of migrants to Europe across the Mediterranean Sea.

In May 2015, the EU convened a follow-up Eastern Partnership Program Summit in Riga, to try to chart a new path forward after the debacle at Vilnius. The conference's Latvian hosts labeled this a "survival summit."<sup>27</sup> The deliberations at Riga resulted in pledges to adopt more "customized" or "tailored" policies toward the EaP partner countries, recognizing that political realities, levels of ambition for EU integration, and the pace of domestic reforms differed sharply across the states. Although this was a departure from the EU's usual

technocratic "one size fits all" approach, the Riga Summit underscored the lack of an EU consensus on how best to demonstrate continued commitment to engaging its neighbors given the antagonism with Russia. In the South Caucasus, the summit was viewed as a complete failure in terms of coming up with new modes of partnership—especially as the EU failed to approve a much-anticipated visa liberalization for Georgia (along with Ukraine), which would have given a significant boost to Georgia's trade prospects.<sup>28</sup>

## ENTER, AND EXIT, TURKEY

**L**ike the United States and the European Union, Turkey's regional initiatives reached an impasse in the very same period after twenty years of efforts to forge new relations in the South Caucasus. With the collapse of the Soviet Union, Turkey had found itself in a new security situation in the region. It no longer shared a border with its historic adversary Russia. Throughout their imperial histories, the Ottoman and Russian empires fought a series of wars. Soviet territorial demands contributed to Turkey's decision to join NATO, to maintain the second largest land army in the Alliance, and to station U.S. missiles on its territory during the Cold War. For Turkey, the independence of Armenia, Azerbaijan, and Georgia seemed to offer fresh strategic opportunities.

Turkey's relations with Armenia foundered, however, over the war in Nagorno-Karabakh, and domestic dilemmas within Turkey also impeded its outreach to the South Caucasus in the early 1990s. Weak Turkish coalition governments and a fragile economy, along with the conflict with its Kurdish population, curbed Ankara's ambitions. However, Turkey saw new opportunities in the mid-1990s when Heydar Aliyev replaced Abulfaz Elchibey as president in Azerbaijan. Aliyev managed both to achieve some degree of domestic stability and to sign the 1994 cease-fire with Armenia. In Georgia, the presidency of Eduard Shevardnadze after 1995 also seemed to presage an opening. Turkey's then president, Süleyman Demirel, developed close personal relations with the Azeri and Georgian leaders. Ankara used these relationships to help carve out a niche for Turkey in the American-led diplomacy that paved the way for the construction of the Baku-Tbilisi-Ceyhan oil pipeline. BTC was viewed as a strategic element in establishing Turkey as a

regional energy trading and transportation hub, as well as a critical interlocutor for Azerbaijan and Georgia.

The lack of official relations with Armenia, nonetheless, remained a major impediment to Turkey's regional goals. Ankara had no role in the OSCE Minsk Process for Nagorno-Karabakh, and in spite of the presence of significant Georgian, Abkhaz, and other Caucasus diaspora communities in Turkey, the Turkish government played only a limited role in other conflicts. Turkey seemed consigned to a back seat in the South Caucasus. In the 2000s under Prime Minister Recep Tayyip Erdoğan, Turkey sought to change this dynamic. Ankara launched its "zero problems with neighbors" policy—a bold foreign policy initiative led by Foreign Minister Ahmet Davutoğlu to settle a number of lingering territorial and other disputes with Turkey's immediate neighbors, including Greece, Cyprus, and Armenia. The negotiations with Armenia, brokered by the United States and Switzerland, were rooted in this policy.

The promotion of the "zero problems" policy coincided with a debate in Turkey over "the decline of the West and the rise of the Rest," as the Eurozone crisis and recession bit into European and U.S. economies. In contrast, Turkey's economy seemed largely shielded from contagion and new trade and political opportunities presented themselves in the Middle East.<sup>29</sup> The apparent absence of the West in steering developments in the Middle East was initially seen as an opportunity for Turkey to fill a vacuum. Ankara began to formulate and promote the idea of a new regional trading bloc somewhat styled on the EU, but with Turkey at the helm. Similarly, Turkey anticipated that after the Georgian-Russian war growing concerns about Russia's assertiveness might encourage the states



of the South Caucasus to turn toward Turkey for assistance in balancing Moscow. This was another impetus for Turkey to prioritize negotiations with Armenia in 2008-2009.

Ankara did not, however, consult with Baku behind the scenes to gauge its reaction ahead of the start of talks with Yerevan. Turkey assumed, as did the United States and Switzerland, that Azerbaijan could be persuaded that Turkish-Armenian normalization would be of broader benefit, by breaking Russia's stranglehold and opening up new political and economic opportunities for all the South Caucasus countries. Nor did Ankara send out feelers to Moscow about how Russia might view the prospect of normalization, especially given its long-standing security ties with Armenia and the presence of a Russian military base in Armenia. Again, there was a general feeling in Ankara and Washington that as Russia was an active member of the Minsk Group and seemed broadly favorable toward the prospect of resolving Nagorno-Karabakh at some juncture it would not object to Turkish-Armenian reconciliation. Furthermore, because Russia and Turkey were major trading partners and involved in a number of joint economic and energy projects, it was assumed that Moscow might see economic opportunity in the normalization of Turkish-Armenian relations. These proved miscalculations.

Turkey signed the two sets of protocols with Armenia that delicately skirted around both the issue of recognition of the Armenian genocide and the conflict over Nagorno-Karabakh. Skirting the genocide issue provoked considerable furor among Armenian nationalists and the Armenian diaspora. Avoiding references to Nagorno-Karabakh precipitated an Azeri backlash against the protocols on the basis that Turkey had closed the

border with Armenia in response to the Armenian occupation of Azeri territory. In Baku's view, if Ankara dropped the connection between progress in the resolution of the Nagorno-Karabakh conflict and opening the Turkish-Armenian border, it would be tantamount to a betrayal of Azeri interests. Turkish negotiators also belatedly came to realize that Armenia and Azerbaijan had both engaged in separate sets of discussions with Russia about the protocols, and that Russian officials had not been encouraging about the prospects.<sup>30</sup> All of this underscored Turkey's limited ability to project itself in the South Caucasus, and Russia's greater ability to undermine Turkey's efforts if they were not deemed mutually advantageous.

Instead of generating new opportunities, the protocols created new rifts and were effectively suspended in 2010. This further setback for Turkey's South Caucasus policy coincided with a general deterioration in Turkey's relations with many of the countries in the Middle East that it had pursued throughout the 2000s. The Arab Spring upheavals provoked civil wars that Turkey was unable to mediate. Ankara's "zero problems with neighbors" policy began to deteriorate into a "zero neighbors without problems" dilemma.<sup>31</sup>

Turkey's relations with Armenia were further complicated in 2015 by the 100th anniversary of the 1915 Armenian genocide, and the international attention this drew. The massacre of the Ottoman Empire's Christian Armenian population during World War I was commemorated in Yerevan and around the world on April 24, 2015. The commemorations reinvigorated the Armenian diaspora's longstanding campaign to pressure the Turkish government to recognize the annihilation of the Ottoman Armenian population officially as a genocide. In a break from its traditional

approach, the Turkish government embarked on a number of efforts to acknowledge the magnitude of the Armenian issue. Nevertheless, Turkey's leaders sought to deflect attention away from Yerevan's commemorations by moving its own

remembrance of the World War I Battle of Gallipoli from its traditional date in March to April 24-25.<sup>32</sup> This prompted the Armenian government to formally withdraw from the 2009 protocols, five years after they had been suspended.

## THE CONSEQUENCES OF WESTERN POLICY RETRENCHMENT

All of these setbacks from 2008 to 2015 have resulted in a period of Western introspection and policy retrenchment. But, from the perspective of the South Caucasus states, the United States, the European Union, and Turkey have largely abandoned the region. Washington and Brussels are depicted in regional commentaries as weak, adrift, or neglectful—and even, in the case of Washington, as actively withdrawing from the South Caucasus. The European Union is seen as a particularly diminished player after the failure of the association agreements at the 2013 Vilnius Summit. Turkey, for its part, is viewed as pursuing a Turkish-Russian economic and energy axis over the heads and at the expense of its South Caucasus neighbors, especially its ethnic ally Azerbaijan. Expectations in Armenia, Azerbaijan, and Georgia that the West would step up with more intense political and security engagement, to meet the challenge of a resurgent Russia—in the wake of the Georgia war and again following the crisis in Ukraine—have been dashed.

Russia's annexation of Crimea in 2014 and its support for pro-Russian separatists in the Donbas have heightened the sense of insecurity and instability in the South Caucasus. Both acts have overturned the existing parameters for regional conflict resolution and have compounded the effect of Russia's recognition of Abkhazia and South Ossetia in 2008. Russia made no move to recognize Nagorno-Karabakh either in 2008 or in 2014, and has maintained its formal position in the OSCE's Minsk Group. Nonetheless, Moscow's position on Crimea, Abkhazia, and South Ossetia refutes the basic idea underpinning the Minsk Group negotiations that Karabakh Armenian demands for

self-determination can be reconciled with Azerbaijan's claim for territorial integrity. Indeed, the Crimean annexation seemed to re-ignite the Nagorno-Karabakh conflict in 2014 and 2015, with violence reaching its highest level since the war's "end" in 1994. Sniper attacks and military incursions increased along the line of contact, accompanied by bellicose rhetoric at the state level in Azerbaijan and Armenia.

The only relative good news was that the recent exchanges of fire and high level of casualties did not escalate into a fully-fledged war. The bad news was that the events revealed boiling frustration in Azerbaijan with the Minsk Group and with what Baku sees as the West's unwillingness to press Armenia to withdraw its forces from the occupied territories around Nagorno-Karabakh. In 2014 and 2015, much of that frustration was expressed as anger against the United States—linked to disagreements about the nature of Baku's seeming strategic partnership with Washington forged through the energy diplomacy of the 1990s. Relations between the United States and Azerbaijan are currently at their lowest point in 25 years and on the verge of diplomatic rupture.<sup>33</sup>

In the past several years, Azerbaijani officials have increasingly complained that Baku has received insufficient credit from Washington for charting an independent, non-aligned policy course and for playing such a prominent role, in spite of considerable pressure from Russia and Iran, in the development of Caspian energy resources and new East-West export routes. Azerbaijani officials have also bristled at U.S. democracy promotion efforts and perceived double standards. They claim that Washington has consistently overemphasized deficiencies in Baku's governance and human rights record since the 1990s, while giving Armenia in

particular—but also Georgia and other former Soviet states—a ‘free pass’ for equally poor performance.

Against the backdrop of increased violence in Nagorno-Karabakh, the Azeri government moved to freeze the assets of NGOs with American and Western funding, and closed down several prominent organizations focused on promoting democracy and cross-cultural exchanges. U.S. officials including President Barack Obama and Secretary of State John Kerry came under blistering attack in speeches by Azeri political figures and in the media. They were accused of seeking to orchestrate the overthrow of Azerbaijan’s government by backing a “fifth column” of dissident activists and NGOs—and in the case of Secretary Kerry, who was a co-sponsor of Section 907 in the 1990s, of operating to further the interests of the U.S. Armenian diaspora.<sup>34</sup> Azeri journalists and activists with close ties to U.S. entities were specifically targeted by the Azeri government, accused of corruption, or prosecuted for acts of sedition. Simultaneously, Azerbaijan decried the West’s forceful response and application of sanctions against Moscow after the annexation of Crimea. They contrasted it with the ongoing failure of the United States and the West to insist on the implementation of four U.N. Security Council resolutions calling for Armenian withdrawal from the occupied territories around Nagorno-Karabakh.

The May 2015 Riga summit deepened Baku’s anger. Azerbaijan’s occupied territories were not mentioned in the official communique that renewed EU sanctions on Russia over the annexation of Crimea and intervention in Ukraine.<sup>35</sup> From Azerbaijan’s perspective, the United States and EU’s seemingly single-minded focus on Crimea undercuts Baku’s leverage in its negotiations with Armenia. It

reinforces Yerevan’s inclination to hold on to the territories as a means of ensuring the security of the Nagorno-Karabakh enclave and permits Armenia to further entrench its position. It also increases Moscow’s ability to extract benefits from both sides in perpetuating the conflict in Nagorno-Karabakh.

For Baku, looking forward, the persistence of the conflict greatly complicates the implementation of initiatives to develop its non-oil economy. Azerbaijan is currently promoting a series of projects to turn Baku into a logistical hub on the new “Silk Road” for transporting goods to and from China and Europe.<sup>36</sup> The conflict over Nagorno-Karabakh, and the ever-present risk that border skirmishes will spiral out of control into an outright war, casts a pall over Azerbaijan’s ability to attract foreign investment for long-term commercial infrastructure projects. In short, the government in Azerbaijan has become increasingly suspicious of the West and its motivations, while simultaneously worrying about the potential for greater Russian interference. These views, the serious deterioration in U.S.-Azeri relations, and the domestic political clampdown, all feed on the broader atmosphere of insecurity in the South Caucasus. The political downturn in Azerbaijan is indicative of the new challenges the West faces in the region.

In Georgia, there is similar frustration with the United States and the West. Like Azerbaijan, Georgia perceives that the United States, EU, and Turkey are not willing to press its case on Abkhazia and South Ossetia against Russia while they are fixated on the crisis in Ukraine—or in the case of Turkey, on the improvement of its bilateral trade and energy relations with Russia. In 2014 and 2015, Moscow signed its own bilateral “association agreements” with the two entities that essentially blurred



the international borders between them and also included provisions for expanded military cooperation.<sup>37</sup> The reaction in Washington and Brussels was muted, beyond some diplomatic statements denouncing the agreements and stressing the importance of respecting Georgia's territorial integrity.<sup>38</sup> Officials and analysts in Tbilisi now complain about what they see as the West's "imitation policy" toward the region: Western countries and institutions profess support for South Caucasus independence and aspirations, including Georgia's pursuit of a NATO MAP, but they have neither the capacity nor the will to do anything meaningful and concrete. If they are to play a credible role in regional affairs in the future, the United States and the European Union will have to acknowledge the blatant inconsistencies in their approaches to dealing with Crimea, Nagorno-Karabakh, and Abkhazia and South Ossetia.

The recognition that they are now a secondary priority for the West has led Georgia, as well as Azerbaijan, to pursue foreign policy courses over the last two years that leave their options open. Georgia, under a new government, has attempted to defuse and improve its relations with Russia, while trying simultaneously to deepen its integration with the EU and NATO. Georgian public opinion polls also now show a growing preference for pursuing closer economic relations with Russia.<sup>39</sup> This "and-and" foreign policy—as it has been described in the region—is a marked departure from Georgia's previous "either-or" approach to international relations, but it has not improved Tbilisi's sense of security. Given Georgia's new DCFTA with the EU, Tbilisi will not be able to manage its trade with Russia, as well as with both Azerbaijan and Armenia, unless the EU (along with the United States and Turkey) is willing to assist in resolving some of the potential technical difficulties.<sup>40</sup> Georgian

officials continue to worry about the extent of the EU's and United States' future commitment to regional stability and economic development; and from their perspective Moscow does not seem to have significantly reduced its political pressure on Tbilisi.

Armenia is in a somewhat different situation to Azerbaijan and Georgia, but also increasingly disillusioned with its position. Recent developments have served to emphasize Armenia's deep economic dependency on Russia and its ongoing isolation from the rest of the region. Yerevan's decision to jettison its negotiations with the EU and join the Eurasian Union were driven by the necessity of confirming its security guarantees with Russia and thus heading off the prospect of a large-scale military confrontation with Azerbaijan.<sup>41</sup> The Armenian government recognizes that, in making this choice, Yerevan has damaged its political and economic relations with the West. Throughout the 2000s, Armenia attempted to follow a foreign policy of "complementarity"—balancing relations with Russia and the EU and NATO—including a range of unofficial trade and people-to-people contacts with Turkey. This was undermined once the Turkey-Armenia protocols failed. Armenians still maintain that on a societal level they are a Western-oriented state, although their economic, security, and political realities may dictate otherwise in the short to medium term.

Since the signing of the Eurasian Union accords with Russia, Armenian officials and analysts have made repeated appeals for the European Union and the United States to find ways of overcoming the incompatibilities between the Eurasian Union and the EU DCFTAs and other Western political arrangements. Indeed, Yerevan has presented itself to Brussels as a test case for deconflicting between

the two trade blocs. Armenian officials and analysts argue that Armenia could potentially serve as a bridge between the European Union and the Eurasian Union in ways that may ultimately offer a model for dealing with the conflict over Ukraine's

future economic and political trajectory.<sup>42</sup> They have also expressed a readiness to explore prospects for renegotiating an Association Agreement with only a political framework and excluding the economic dimension.

## CHARTING NEW WAYS FORWARD

**D**espite the challenges that have beset the West's relations with the South Caucasus and the growing disillusionment in Armenia, Azerbaijan, and Georgia, giving up on engagement is not an option. The South Caucasus is not a strategic backwater, and all the states still seek relations with the West—as demonstrated by the Armenian appeals to continue EU discussions even after joining the Eurasian Union.

Clearly the United States, the European Union, and Turkey have limited time and resources to commit to the region. Other international crises inevitably constrain the West's level of diplomatic wherewithal; and energy infrastructure projects can no longer be a key driver of policy given the changes in global energy markets.<sup>43</sup> The “big bang for the (limited) buck” diplomatic initiatives of late 2000s—including NATO MAPs, EU DCF-TAs, and the Turkish-Armenian protocols—have foundered. They were supposed to galvanize action and regional development, and instead have generated more conflict and challenges by raising expectations and then failing to deliver on many of the policy promises. In the future, Western policymakers will have to resist the impulse to dash in with an innovative idea and then dash out again if it fails. They should seek formulations and realistic approaches to bilateral and multilateral engagement that can make the most of their more limited capacity and resources and which can be sustained at lower levels over a longer period of time.

In looking for these opportunities, the United States, the European Union, and Turkey must work together instead of apart, as they have tended to do in the past. This could be one of the most crucial innovations for future policy. Turkey's role as a

NATO member, EU candidate country, and front-line state for contending with the wars in Syria and Iraq, as well as its status as an important player in relations with Russia and Iran, puts it in a unique position in the region. Furthermore, after almost a decade of U.S.-EU-Turkish tensions, developments over the course of the last year point toward a change in the course of Turkish foreign policy. Ankara may be reverting back toward closer relations with Washington and Brussels. Turkey's June 2015 parliamentary election, which saw the ruling Justice and Development (AK) Party lose its majority, may actually speed up this process. Turkish analysts see Turkey's recent foreign policy failures as one of the factors behind the electoral shifts. Turkish voters are seen as “punishing” the governing party for its misguided initiatives and setting in motion a period of “restoration.”<sup>44</sup> This could also potentially improve relations with the United States and the EU.

Turkey's relations with Russia also appear to be coming under scrutiny in foreign policy circles in Ankara. The seemingly close economic and political relationship with Russia in the past decade was often framed by shared frustration with the European Union. In both Ankara and Moscow, elites feel that Brussels treats Turkey and Russia as second-class states—and Turkey, as a result, has been left waiting indefinitely for EU membership. In November 2013, on a visit to Moscow, then Prime Minister of Turkey Recep Tayyip Erdoğan even went so far as to plead with his host, Vladimir Putin, to admit Turkey to the Shanghai Cooperation Organization in return for giving up its EU membership.<sup>45</sup> However, Ankara has recently toned down its anti-Brussels rhetoric, and there is growing recognition that Turkey needs to work more closely with the European Union. Economic and security considerations weigh heavily.

The chaos in Turkey's neighborhood has severely hurt its export markets.<sup>46</sup> In May 2015, the Turkish government announced that it would begin negotiations with Brussels to modernize the customs union with the EU, underscoring the shifts in Turkish thinking.<sup>47</sup>

Moreover, Russia's actions in Crimea and Moscow's intransigence on Syria have heightened Turkey's own security concerns. Russia has consistently blocked efforts to effect a transition away from Syrian President Bashar al-Assad in Damascus, which Turkey sees as the only way to dampen the raging civil war. The violence in Syria, and its spillover into Iraq, has engulfed Turkey—with massive refugee flows surpassing two million into Turkish territory. There are growing calls in Ankara for international assistance and for more burden-sharing especially from the European Union and the United States. Turkey also needs U.S. assistance to deal with the increasing threat from ISIS and other terrorist groups operating on its borders and setting up extremist proto-states across the border in Syria and Iraq. Russia has not presented itself as a credible partner for Turkey in dealing with these crises, while NATO, on the other hand, has deployed Patriot missiles along Turkey's border with Syria.

Turkey also highly values the existence of independent republics in the South Caucasus and its bilateral energy projects with Azerbaijan. While generally embracing the concept of a "Turkish Stream" initiative with Russia in December 2014, Ankara does not want to jettison TANAP. This is a priority for both the Azeri and Turkish governments, and Turkey is as concerned as any other regional power about developing too much dependency on Russian gas imports. Ankara is thus likely to support realistic EU and U.S. efforts directed towards

ensuring regional energy diversification, as well as to participate in formats and initiatives that enhance the security and independence of the South Caucasus states.

Beyond Turkey's nascent recalibration of its relationship with Russia, there are other signs that Turkey is seeking to reengage in the South Caucasus and may be willing to do this in conjunction with the United States and the European Union. Although the 2015 centennial of the Armenian genocide generated heated rhetorical exchanges between the Turkish and Armenian governments, Ankara continued to encourage indirect civil society and informal trade contacts between the two countries. The direct charter flights between Istanbul and Yerevan were not suspended, and proposals for opening new routes were put forward. The Turkish government also did nothing to quash or even to compromise the societal-level debate in Turkey about the fate of the Ottoman Armenian community during the final days of the empire. It also took some concrete steps in support of reconciliation with Armenia and the larger Armenian community.<sup>48</sup>

Georgia plays a critical role in supporting informal relations between Turkey and Armenia, especially with respect to encouraging transit trade. Armenian and Turkish nationals continue to be able to travel in both directions across Georgia, and have the possibility of obtaining visas at their respective borders with minimal formalities. And, in the absence of official diplomatic representation, the Armenian delegation to the Organization of the Black Sea Economic Cooperation (BSEC) based in Istanbul, and the Turkish Embassy in Tbilisi, have become recognized channels of informal and unofficial contacts between Ankara and Yerevan.

Georgian-Turkish relations are not without their problems, but the two countries have become more integrated over the last decade. Free movement of people across the border, in some cases with national ID cards rather than passports, has facilitated Turkish tourism into Georgia. It has also boosted Turkish foreign direct investment in a number of critical economic sectors, at a time when Georgia remains subject to Russian economic sanctions from the 2008 confrontations.<sup>49</sup> Turkey's status as Georgia's leading trade partner and Georgia's new association agreement and DCFTA with the European Union all provide avenues for cementing Georgian-Turkish-EU ties given Turkey's own decision to upgrade its customs union with the EU. Georgia's positive relations with Armenia could also allow it to play a role in the normalization efforts between Armenia and Turkey.

The behind-the-scenes, discrete contacts between Turkey and Armenia, the blossoming relations between Turkey and Georgia that assist these contacts, and the joint Turkish-Georgian intersections with the European Union point to new ways forward in formulating policy approaches, and also in addressing the regional conflicts. This does not mean, however, that setting up new mechanisms for conflict resolution will lead to a breakthrough. The United States, the European Union, and other international entities—including the UN and OSCE—have all already developed their own approaches to dealing with the conflicts in the South Caucasus. And the United States, EU, and Turkey all have domestic political issues that impede their individual efforts to act as the honest broker. Yet, given the individual state and institutional limitations and the frequent duplication of efforts among the various Western actors, there is considerable scope for more coordination, and even for an agreed-upon division of labor. There is also scope for rethinking the overall approach.

Historically, pushing for final resolution to the regional conflicts has always set up the West and other mediators for failure. The intense (and apparently sincere) personal involvement on the part of former Russian President Dmitry Medvedev in the Nagorno-Karabakh negotiations prior to 2011 underscores this point. A decade after the U.S. brokered talks in Key West, Moscow and Medvedev himself put a great deal of effort and resources into bringing Armenia and Azerbaijan together again and into transforming Russia from the aggressor in Georgia to the peacemaker in Nagorno-Karabakh. Medvedev was thwarted, however, as the United States had been previously, by the fact that the conflicting parties did not actually want to reach a resolution. There is still no indication that they do. The West, therefore, needs to set different, more modest and sustained goals with buy-in from the parties. These should focus on collective conflict management to prevent flare-ups, and bearing in mind that Russia's actions in 2008 and 2014 have undermined the basic principles for resolution in terms of ensuring both autonomy and territorial integrity.

Coordination on creative interim solutions and working with other mediators, “under the radar,” so none of the major players is exposed as the focal point of the negotiations, has already shown some promise. In spite of the miscalculations that undermined the protocols in 2009-2010, the Swiss role in facilitating the Armenian-Turkish talks was broadly viewed as positive. Similarly, Swiss mediation between the Georgians and the Russians after the 2008 war, on the issue of Georgia's objections to Russia's World Trade Organization (WTO) membership, resulted in the idea of “outsourcing” customs monitoring on the contested Abkhazian and South Ossetian borders with both Russia and Georgia by a private entity. Even though this has



yet to be implemented, the concept was praised by both sides. It demonstrated the possibilities for thinking outside the box. Both of these diplomatic efforts suggest that the Swiss could play other roles across the South Caucasus in conjunction with the United States, EU, and Turkey, as well as with the U.N. and OSCE.

More generally, for the countries to move forward in resolving conflicts and improving internal and external relations, focusing on the development of “soft regionalism” may be helpful. The absence of formal regional institutions remains an impediment to intra-regional economic and political development, and the ongoing conflicts preclude their creation. The concept of soft regionalism would pick up on some of the confidence building measures and initiatives already under way in the region. It involves the creation of a set of informal understandings to encourage trade, civil society contacts, and conflict management exercises. However, even projects promoting only soft regionalism will have to factor in the other players in the neighborhood, including Iran and China, who have their own trade and political relations with the countries of the South Caucasus. Shaped by Tehran’s and Beijing’s own foreign policy priorities and their bilateral relationships with Russia, as well as with the United States, the European Union, and Turkey, the goals of Iran and China will both coincide and conflict with Western objectives.

In the case of Iran, its relationships are currently determined by the standoff with the West over its nuclear program, which has forced it into an unwilling global and regional retreat. However, given its location and historic relationships with Armenia, Azerbaijan, and Georgia, Iran never completely disappeared from the South Caucasus. Taking advantage of its proximity, the relative

disinterest of the West, and the interest of regional elites to secure foreign investment, Iran continued to trade with all three countries. It also sought opportunities for illicit financial transactions to avoid international sanctions. Pursuing relations with Iran was at times seen by regional governments as offering an alternative to Russia—especially for Armenia given its closed borders with both Azerbaijan and Turkey. Iran’s attraction was bolstered by the fact that it long ago gave up any territorial pretensions in the region.<sup>50</sup> On the basis of its own sizeable Armenian and Azeri diaspora communities, Iran even offered itself as a potential peacemaker between Azerbaijan and Armenia at junctures when other international mediation efforts hit an impasse. The main area of Iranian contention with the South Caucasus states has been with Azerbaijan over competing claims to offshore Caspian oil and gas resources and the delimitation of the Caspian Sea.<sup>51</sup> Tehran has consistently signaled its interest in exporting gas to Europe through Turkey, which would also put it in market competition with Baku. At the same time, in 2013, Iran’s new president, Hassan Rouhani, reached out to Azerbaijan shortly after his election with pragmatic proposals for cooperation.<sup>52</sup>

Looking forward, Iran will seek to expand relations with the South Caucasus at the first opportunity, but it also has other priorities. Tehran is focused on its nuclear diplomacy with the West and the threat posed by ISIS in Syria and Iraq. It also prioritizes its broader relationship with Russia. Tehran has consistently proven willing to defer to Moscow’s primacy in the South Caucasus and has little institutional bandwidth for pursuing a more robust policy. Nonetheless, if Washington and Brussels remain disengaged in the South Caucasus, new frictions seem likely even after an agreement is reached with Tehran on the nuclear

program. The Iranian government could be tempted to flex its muscles in the South Caucasus as signal to Russia, other occasional regional adversaries, and its own hardliners, that Tehran retains all its capabilities and influence in the aftermath of a nuclear deal. Turkey's relationship with Iran will also require careful handling in the South Caucasus. Tehran and Ankara have different visions and ambitions for exerting influence in their shared neighborhood—made more acute by Turkish Prime Minister and now President Erdoğan's stress on Sunni Islam as an element of Turkey's foreign policy. If the religious aspect of Turkish policy is downgraded in the wake of the June 2015 Turkish parliamentary elections, this could open the way for more pragmatic cooperation between Iran and Turkey on the shared perspective of an existential threat from ISIS.

Finally, in the case of China, Beijing's role is still a work in progress, but China is already one of the top five external trading partners for both Georgia and Armenia. There are also signs that China could be as consequential in the development of new infrastructure projects in the South Caucasus as it is in Central Asia, where Chinese investments offset those of both Russia and the West. China's New Silk Road transportation projects underscore the scope of Beijing's ambitions. These include the planned construction of railroad links to Turkey via Central Asia, Azerbaijan, and Georgia, and then linking to Europe, with additional spurs through Russia and Iran. There are also proposals for a Trans-Caspian Gas Pipeline to ship natural gas from Azerbaijan to China through Central Asia, a reverse flow version of the long-standing projects to bring Turkmen gas to Europe via Azerbaijan. Azerbaijan's infrastructure projects are

specifically intended to link up with and take advantage of China's initiatives; and Kazakhstan has made its own investments in the South Caucasus with the goal of forging trade and transportation connections across the Caspian Sea that bypass Russia and cementing its position on the routes between China and Europe.<sup>53</sup> All of these ideas and investments could soon bring a new dynamic to the South Caucasus. The region's future will not be delimited and determined solely by relationships with the European Union, the Eurasian Union, and Turkey.

In the meantime, these possibilities underscore the near-term need for the West to play closer attention to the South Caucasus states in policy-making, and for the United States, the European Union, and Turkey to work together in reengaging. The points of friction in the regional relationships will have to be addressed—particularly the crisis in U.S.-Azerbaijan relations, which now requires high-level attention, and Azerbaijan and Georgia's frustrations over current international inattention to the violations of their territorial integrity. Georgia's role as the regional nexus and interface for relations with both Armenia and Azerbaijan, and for the United States, EU, and Turkey needs to be consolidated. Georgia should be viewed as the hub for furthering soft regionalism in the South Caucasus. The reality of Russian economic, political, and security dominance cannot be ignored, but Russia's position in the region will ultimately change as Iran and China move in. In short, to re-engage successfully, the West will have to adapt its policies continually to reflect evolving economic, political, and, ultimately, strategic realities in the South Caucasus.

## LIST OF ACRONYMS

AK Party	Justice and Development Party (Turkey)
BRICS	The grouping of Brazil, Russia, India, China and South Africa
BSEC	Organization of the Black Sea Economic Cooperation
BTC	Baku-Tbilisi-Ceyhan Pipeline
DCFTA	Deep and Comprehensive Free Trade Agreement
ENP	European Neighborhood Policy
EaP	Eastern Partnership Program
EU	European Union
GDP	Gross Domestic Product
ISIS	Islamic State of Iraq and Syria
LNG	liquefied natural gas
MAP	Membership Action Plan
NATO	North Atlantic Treaty Organization
OSCE	Organization for Security and Cooperation in Europe
PCA	Partnership and Cooperation Agreement
SOCAR	State Oil Company of Azerbaijan Republic
TANAP	Trans-Anatolian Gas Pipeline
UN	United Nations
U.S.	United States of America
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

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## ENDNOTES

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  52. Alex Vatanka, “Iran: Peacemaker in the Caucasus?” *The National Interest*, November 13, 2014, <http://nationalinterest.org/feature/iran-peace-maker-the-caucasus-11672>.
  53. See the June 2015 issue of *Business New Europe*, “China the Grandmaster of Great Game II,” BNE, [http://issuu.com/businessneweurope/docs/bne\\_magazine\\_june\\_2015?inf\\_contact\\_key=b56da9b6ab4aea3ce0f6f3d256394a77f8399d8d41c94952842364a8d561fb6c](http://issuu.com/businessneweurope/docs/bne_magazine_june_2015?inf_contact_key=b56da9b6ab4aea3ce0f6f3d256394a77f8399d8d41c94952842364a8d561fb6c); Michael Emerson, “Towards a Greater Eurasia: Who, Why, What, and How?” Eurasia Emerging Markets Forum, September 10-11, 2013; UK Government report on “China in the South Caucasus,” <https://www.gov.uk/government/publications/china-in-the-south-caucasus>; and Steve Levine, “China is Building the Most Extensive Global Commercial-Military Empire in History,” *Quartz*, June 9, 2015, <http://qz.com/415649/china-is-building-the-most-extensive-global-commercial-military-empire-in-history/>.



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