The South Caucasus

A Regional Overview and Conflict Assessment

August 2002

Cornell Caspian Consulting

Sida

SWEDISH INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY

Department for Central and Eastern Europe

The South Caucasus

A Regional Overview and Conflict Assessment

Prepared for the Swedish Agency for International Development Cooperation (SIDA)

Stockholm, August 30, 2002

The South Caucasus: A Regional and Conflict Assessment

Principal Author:	Svante E. Cornell
Contributing Authors (Alphabetical):	Fariz Ismailzade
	Tamara Makarenko
	Khatuna Salukvadze
	Georgi Tcheishvili

This report was prepared by Cornell Caspian Consulting under a contract for the Swedish International Development Cooperation Agency (SIDA). The views and opinions expressed in this report should in no way be taken to reflect the position of the Swedish government or those of the Swedish International Development Cooperation Agency (SIDA).

http://www.cornellcaspian.com

Cornell Caspian Consulting is a consulting company registered in Stockholm, Sweden, specialized on the politics and economy of the Caucasus, Central and Southwest Asia. It has offices in Stockholm and Washington, D.C., and representations in Ankara, Turkey; Baku, Azerbaijan; Boston, United States; Dushanbe, Tajikistan; Islamabad, Pakistan; London, United Kingdom; Tashkent, Uzbekistan; Tbilisi, Georgia; Tehran, Iran; and Ufa, Republic of Bashkortostan, Russian Federation.

Head Office:
Topeliusvägen 15
SE-16761 Bromma
Sweden
Tel. (Stockholm) +46-8-266873; +46-70-7440995
Tel. (Washington) +1-202-663-7712
Fax. (Stockholm) +46-8-266873
Fax. (Washington) +1-253-550-4390
E-mail: <info@cornellcaspian.com>

For further information please contact or refer to http://www.cornellcaspian.com

Table of Contents

Summary and Recommendations

Summary

The South Caucasus, comprising the three states of Armenia, Azerbaijan, and Georgia, is a region plagued by unresolved ethnopolitical conflicts, political instability, and protracted economic crisis. The region is beset by poverty, corruption, slow political and economic reforms, large refugee and IDP populations, grave environmental problems, and scant respect for human rights and the rule of law. Surrounded by the three regional powers Iran, Russia, and Turkey and located on the crossroads of Europe and Asia, the South Caucasus has also been at the center of post-cold war geopolitical rivalries. To a considerable extent, the significant oil and gas reserves in the Caspian sea, specifically in the Azerbaijani sector, have amplified regional rivalries for political and economic influence in the region.

The South Caucasian states acceded to independence in the early 1990s on a wave of anti-Soviet popular and nationalist movements that abortively attempted to establish democratic forms of government, while being bogged down into ethnic warfare with minority populations and/or neighbors. These wars worsened the economic recession in the region, and led to the revival of authoritarian tendencies in society. By the late 1990s, the region had achieved some stability, but at the cost of democratic setbacks and three unresolved ethnopolitical conflicts frozen along ceasefire lines. In spite of increased international attention and attempts to resolve these conflicts through negotiations, none of the three is close to a solution. To differing degrees, these three conflicts are all at risk of erupting again in a violent manner; moreover, ethnic tensions elsewhere in the region exist that are at a risk of escalation.

The South Caucasus is in deep political and economical crisis. Armed conflict and economic collapse following the Soviet breakup have confined over half of the population of the region to poverty. Health care and education systems have suffered greatly from the economic collapse, and living standards have fallen considerably. Corruption in all spheres of society has become rampant and may today pose the largest single threat to the functioning of the three states. Judicial reform has begun but is far from satisfactory, and none of the states has established a reliable system of government based on the rule of law. In the decade since independence, civil society has grown, but remains heavily dependent on foreign (i.e. western) support and funding. A relatively free print media has been able to develop, although it remains under heavy state pressure. Broadcast media is significantly more controlled.

Economic reforms have been undertaken but have so far failed to create a truly investment-friendly environment. Some foreign investment has reached the region, but mainly in the oil and gas sector, which generates little employment and gives little impetus to other sectors of the regional economy. Massive unemployment pervades the region, and the economic recession has especially hit women harshly. Large environmental problems, mainly dating back to the Soviet era, have not been addressed, threatening public health in the Caucasian states.

In the political realm, all three states have become members of the Council of Europe, though all three fail to meet the standards of democratic rule of this organization. While democratic progress has been made since independence, the Caucasian states are at best semi-democratic with strong

authoritarian traits. Political violence has been a constant threat in the three states since independence, as all have experienced coups d'etat, insurrections, or attempts to assassinate political leaders – threats that are still present today. The states of the Caucasus are weak, and institutions have not developed to an extent that has overcome the focus on personalities that continues to dominate politics. This increases the danger of the looming succession crises in Azerbaijan and Georgia, which threaten to plunge these states into unrest once the present Presidents are out of power.

Instability, the presence of uncontrolled territories, and corruption have led to the increased influence of transnational crime in the South Caucasus. Crime networks are well-connected with adjacent regions, including the North Caucasus, Central Asia, and the Middle East. The region has become a key transiting point for the illegal trade in arms, narcotics, and persons, which have acquired threatening proportions both to the security of the three states and to their citizens. These networks also have well-established links to government officials; the narcotics trade in particular has a strong corruptive effect on the region, and worsens health problems as drug addiction is rising. Moreover, poor socio-economic conditions and the proximity of the war in Chechnya have fueled the rise of extremist ideologies, including radical Islamic movements.

These domestic and transnational problems have been exacerbated by geopolitical rivalries among regional powers surrounding the region, which have taken advantage of the Caucasian conflicts to secure their own influence over the regional states and especially over energy resources and their transportation. Russia has played the most negative role, as it actively engaged in the secessionist conflicts of the region in order to weaken the independence of the South Caucasian states. Iran, Turkey and the United States have also sought to maximize their influence in the region.

The Caucasus was one of the regions most affected by the reshuffle in world politics after the terrorist attacks of September 11, 2001. The strategic position of the South Caucasus between Europe and Central Asia gained further attention during the war in Afghanistan, and American military and political involvement in the region has gradually increased. This has a potential to stabilize the region, but uncertainty regarding America's aims and objectives in the region in fact add uncertainty and unpredictability to regional politics.

The regional situation in the South Caucasus is conflict-prone and inherently unstable as a result of several interrelated factors. Weak state structures breed corruption, incapacitate law enforcement, prevent tax collection, and lessen governments' legitimacy and control. Socio-economic problems create poverty and frustration and dangers of social reactions against mismanaged governments; and a weak political culture prone to nationalism and the personalization of politics breeds fragmentation and the risk of aggressive populism. Meanwhile, state weakness is exacerbated by regional powers, and transnational criminal or subversive groups that take advantage of state weakness, corruption and public frustration to operate in the region, increase their control over state structures, and gain followers. This situation breeds numerous risks to the security of the region, the main ones being the following:

– The risk of renewed war between Armenia and Azerbaijan is gradually increasing as negotiations are deadlocked and popular and elite frustration over the occupation of Azerbaijani territories is rising in the country. If negotiations yield no results, a renewed war may occur especially during or after a transition of power in Baku. Given more sophisticated armament, a new war is likely to be of a much larger scale than the one a decade ago. The regional implications of a renewed military confrontation are also immense, as several great powers, including Russia and Turkey, are tied militarily to the two states.

- The risk of an armed conflict in Georgia's Armenian-populated Javakheti region is also a clear and present danger to Georgia's stability and regional security. Javakheti remains politically, economically and culturally isolated from Georgia, and several incidents have shown that strong mistrust for Tbilisi exists in the region. The central government does not exercise effective influence in Javakheti. Armenian Diaspora groups have also increasingly begun to raise the issue of Javakheti autonomy. A potential armed conflict between Georgian and ethnic Armenian groups in Javakheti could rapidly involve official or unofficial forces in Armenia, and potentially lead to a confrontation between Armenia and Georgia; moreover, such a confrontation would upset the balance between Armenia and Azerbaijan and may lead to a resumption of hostilities there. In sum, Javakheti could in a worst-case scenario be the starting point for a general South Caucasian war.

- The conflict in Abkhazia has been the most unstable of the frozen conflicts in the region, with continuing guerrilla-type low intensity conflict and major unrest both in 1998 and 2001. The U.S.-funded train and equip program in Georgia, while playing a fundamentally stabilizing role, may tilt the military balance in favor of Georgia and lead to a temptation in Tbilisi to use the newly trained troops to reassert control over Abkhazia.

- The issue of political succession has been looming in both Azerbaijan and Georgia for several years. When ageing Presidents Aliyev and Shevardnadze are no longer in power, a fundamental element in the stability of these countries will disappear. Struggles for power, with possible external interference, are likely to emerge especially if entrenched ruling elites refuse to step down. Whether these succession struggles will remain peaceful and according to democratic principles is doubtful, prompting fears of civil unrest tearing these countries apart.

- Russia's ambitions in the South Caucasus are unclear. While Moscow under President Vladimir Putin has improved relations with Azerbaijan, Russia has continued to exert hard pressure on Georgia, cutting gas supplies for political reasons, implementing a discriminatory visa regime that exempts secessionist regions, extending Russian citizenship to inhabitants of these regions, and demanding to intervene militarily in the Pankisi gorge. There is a possibility that circles in Russia may seek to intervene militarily to sustain Russian influence over the South Caucasus, most likely within an alleged terrorism framework.

- The rise of Islamic consciousness in Azerbaijan and Muslim-populated parts of Georgia has progressed ever since independence. While Islamic radicalism presently has little public base in the South Caucasus, it is continuously fed by a series of factors, including proximity to the war in Chechnya; dire socio-economic conditions and growing income disparities; and semi-authoritarian state structures. There is a risk that radical Islamic forces will gradually gain popularity in the region.

Recommendations

General Long-Term Recommendations

- *A Regional Approach.* Any effort at long-term development assistance and conflict prevention in the South Caucasus needs to be of a regional character. In spite of historical, linguistic and religious differences and partly contrasting foreign policy orientations, the three states of the South Caucasus share similar problems and face similar difficulties in overcoming them. The

South Caucasian states form a clearly delimited and self-conscious region, and all three countries are intimately aware of ongoing processes in their neighborhood. In the long run, the Caucasus can only develop and prosper through interaction among the three states, and interaction with the rest of the world, particularly Europe. The interconnection is most obvious in the field of security, as the South Caucasian states are interwoven in a single complex set of territorial conflicts, subjected to the influence of the same regional powers, and affected by the same trend of increasing transnational crime. Conflict management and conflict prevention in the South Caucasus is necessarily regional, as no conflict in the region can be understood in detachment from its regional environment. The failure of negotiations is in part due to the lack of a regional approach in conflict management efforts.

– *Economic Cooperation and Conflict Resolution.* In the long term, the improvement of regional trade is crucial to durable peace and prosperity in the region but is frustrated by the deadlock in ethnopolitical conflicts. The link between economic cooperation and conflict resolution is debated. For example, it is often argued that regional cooperation and economic interaction between Armenia and Azerbaijan would help improve mutual confidence and lead to peace. The attraction of economic benefits in conflict resolution is often grossly overestimated, as the continued conflict between China and Taiwan despite large-scale economic interaction has proven. Continued economic hardships have not changed determination in Armenia and Mountainous Karabakh to sustain the course of independence, and polls show Azerbaijanis care much more about symbolic issues regarding the conflict than economic benefits. The conflicts in the Caucasus are not about economics but center around territory and issues of symbolic and emotional value, and people on all sides place economic on the bottom of their lists of priorities. It is therefore unrealistic to assume that Azerbaijan would open trade links with Armenia as long as its territories are occupied, and efforts to promote this are doomed to failure; moreover, the South Ossetian example has shown that economic contacts in the legal vacuum that an uncontrolled territory represents merely risks leading to increasing smuggling. Economic reconstruction is a necessary part of conflict resolution but economic incentives has proven a poor way of producing a change of mood in the conflicting parties. The economic dimension needs to be further and more concretely incorporated into the process of conflict resolution and the work of negotiators, but efforts to solve these conflicts must focus on altering the images of the 'other' that parties to conflicts have, and promote solutions that address the actual issues in these conflicts: security, symbolic politics, and national pride.

– *Cooperation among Donors.* In spite of its small size, the South Caucasus is receiving relatively large amounts of development assistance. These amounts are in proportion to the needs of the region; indeed, USAID and the World Bank, for example, have projects with multi-million dollar budgets. However, coordination between international organizations or aid agencies is often insufficient, leading to confusion among recipients and skewed or incomplete results. The addition of new assistance to the Caucasus should hence seek to coordinate with existing programs and projects of international organizations or individual countries' aid agencies. A more detailed survey of ongoing programs and their results could provide a good picture of worthwhile projects.

– *Integrating the Local Context.* While designing and planning assistance, it is crucial to elaborate programs in view of the local context and with an understanding of local conditions, mentalities, and values. Programs that have succeeded in other countries or continents are frequently brought to the South Caucasus with very little contextual changes, therefore ignoring local conditions and therefore failing to reach their objectives. One way of addressing this danger is to involve experts and beneficiaries in the decision-making process.

– *Building Long-Term Partnerships.* In order to prove commitment to the region, long-term partnerships need to be developed with state and non-state institutions in the region. These partnerships are especially essential for encouraging the development and capacity-building of non-governmental organizations.

Recommendations for Development and Governance

– *Institution-Building and the Rule of Law.* A main threat to stability in the South Caucasus is the weakness of institutions and the dominance of personalities in politics. While this problem is likely to be a durable one, a major challenge is the building and strengthening of the rule of law in the South Caucasian states. Membership in the Council of Europe has brought a strong lobbying force that can be used as a background for strengthening the divisions of power, the independence of the judiciary, and the rights of citizens versus the state. Support for and development of the institution of ombudsman is one concrete way in which this can be promoted.

– *Corruption*. Due to poor socio-economic conditions, low salaries, widespread impunity and enduring Soviet patterns and mentalities, corruption is rampant in all walks of life in the South Caucasus. Corruption impedes investment and economic development, and increases frustration and thereby attraction to extreme ideologies among the population. Judicial reform needs to target corruption; the independence of the judiciary needs to be strengthened; and officials trained to reduce it. Ratification of the Council of Europe Criminal Law Convention on Corruption, and Civil Law Convention on Corruption, as well as bringing present legislation in accordance with the Conventions, is crucial. In addition to working to strengthen the judiciary, a simultaneous step needed to overcome rampant corruption is to introduce a trustworthy ombudsman program. Combining external advisors, government officials and representatives from the community, such a program would be the first step to reporting – at the onset – all forms of low-level corruption, thus seeking to slowly eliminate the widespread mentality that paying bribes (or giving gifts) is normal behavior. Local and international experts have recommended the establishment of a co-ordination mechanism involving all agencies and departments involved in the prevention, detection, and investigation of corruption. The experts also recommended that all Government Departments and Agencies introduce internal inspection units similar to that created in the Ministry of Tax Inspection. The inspection unit headed by an Inspector General appointed directly by the President has been able to develop various procedures designed to examine the causes of and to prevent corruption. The introduction in all departments and agencies of external monitoring councils is desired. The experts have proposed use of the *Information Agency on Property and Financial Declarations* as a source of information to be used in a pro-active way to detect and investigate possible corruption cases, and establish a mechanism for testing the accuracy of income declarations made by public officials.

– *Encouraging Trade.* In the South Caucasus as in Central Asia and Afghanistan, development assistance tends to neglect the one measure most likely to alleviate poverty: the development of the private sector and the reconstruction of ancient trade routes. The South Caucasus lies on ancient trade routes that have only been reestablished in the abstract; the EU's TRACECA project shows an understanding of this, but the project has lost momentum. The South Caucasus is at the navel of a vast network of potential trade and transportation routes between both north and south and east and west. The reconstruction of these routes, with measures to endorse private entrepreneurship, could unleash a large infusion of trade and investment which would create job opportunities, alleviate poverty, and distract people from nationalism or religious extremism. Support is hence needed for judicial reform to facilitate private business and promote free trade, and for initiatives to expand trade routes.

– *Improving Access to Healthcare.* In the overall very limited public spending on the health sector, the provision of even primary health care to the vast majority of the population remains a major problem. State budget reductions in the health sector resulted in low and highly unequal access to health care spending: ca. 30% of the population has almost no access and ca. 50% has only limited access, especially in rural areas. There is a need for resources to be spent for investments and supplies in the health sector, as well as for funding specific health programs in the areas that are most affected. Support for the establishment of medical insurance programs can have a major impact for the elimination of inequality in access to medical care.

– *Eliminating Poverty and Micro-Credit.* Since 1992-93, international organizations have covered huge numbers of beneficiaries thorough humanitarian aid, mainly to IDPs. The states of the South Caucasus are no longer receiving emergency humanitarian aid, yet more than half of the population lives under the poverty level. There is a need for micro-credit projects that will provide small grants to poor communities, especially in the rural areas, to build or rehabilitate small-scale business or agricultural infrastructure. This will help increase household incomes and reduce poverty and vulnerability. The Vulnerability Assessment and Mapping undertaken by the UNWFP in Georgia can be used for targeting the poorest.

– *Balancing Security Concerns and Personal Freedoms.* Although human rights abuses remain a problem in the South Caucasus, external actors need to understand the intricacies of balancing personal freedoms with security concerns. As such, it is essential to develop policies towards countries in the South Caucasus that do not ignore either factor, but seek to balance the two as effectively as possible. It is essential that policies aimed at the South Caucasus connect economic, political, security and social issues; while unifying aid, diplomatic and security initiatives. It is essential that programs aimed at promoting security (such as military aid) simultaneously provide for associated economic, social and political guarantees made by the governments. In sum, the donor needs to be seen as being interested in securing the territorial integrity and sovereignty of the state; but must also while doing so secure the future of the local population.

– *Strengthening the Independent Media.* The independent print media and the emerging independent broadcast media are one of the main achievements of efforts to build open societies in the South Caucasus. Support and capacity-building for the free media in the form of training seminars for journalists and perhaps the establishment of media institutes in the three capitals to improve journalistic standards would further consolidate the independent media.

– *Sustaining Education*. Like all former Soviet States, the South Caucasian societies have universal literacy and high levels of education. However the decade since independence has brought the worsening of educational standards, risking to decrease the intellectual potential and the skilled labor force that is one of the region's comparative assets. Assistance to the educational sector, especially secondary and higher education, in the region is hence crucial. Support for exchange programs of both students and faculty have proven to be a leading method of increasing capacity n the region, but also more broadly of cementing and developing the contacts between these societies and the west.

Recommendations for Conflict Prevention

– *Strengthening Civic Consciousness.* One major factor that escalated the conflicts in the South Caucasus in the late 1980s was the predominance of ethnic as opposed to civic concepts of the nation. Ethnic and exclusive concepts of nation inhibited coexistence and strengthened demands for political control over territory by minorities, and of dominance by majorities. Ethnic na-

tionalism can only be effectively counteracted if the national identities of the three states develop away from ethnic- and blood-based identities in the direction of civic- and citizenship-based criteria for membership in the national community. This aspect should be incorporated in the building of institutions and, wherever possible, the drafting of laws, a task in which development assistance can support its inclusion.

- *Containing Transnational Crime.* The growth of transnational crime is a neglected but potentially grave threat to the states and societies of the South Caucasus. The dividends available – especially in the narcotics trade but also the illicit trade in arms and persons – generate large-scale and high-level corruption, risking to capture parts of or entire state institutions or regions. Moreover, smuggling across uncontrolled territories impedes conflict resolution on all sides as officials benefit from illicit activities, and in society drug consumption is rising, leading to increasing criminality and public health problems including HIV. Transnational crime in the South Caucasus also directly affects western European countries. Yet the transnational crime scene in the South Caucasus is poorly understood. Assistance needs to be geared toward containing and combating transnational crime, and for that purpose its patterns need to be studied in more detail.

- *Promoting Integration and Opposing Ethnic Segregation*. Given the recent nature of statehood and democratic governance in the South Caucasus, some elements of western democracy such as the granting of autonomy to minority groups risk being extremely counterproductive. Until national statehood has been consolidated, strengthening of local self-rule, especially in ethnic minority areas, is likely to have a divisive and fragmenting effect on the region. It also strengthens the connection between ethnicity and territory that directly contributed to the emergence of ethnic warfare in the late 1980s and early 1990s. In its place, integration of minorities in the national polity and economy should be encouraged.

- *Conflict Prevention in Minority Areas.* Tensions in minority areas threaten peace and security in both Georgia and Azerbaijan, and risk to do so even more during periods of uncertainty such as times of political succession. Efforts to improve the socio-economic conditions in minority areas are crucial to attenuating perceptions of discrimination among minorities. Planning of development assistance must hence ensure that minority areas are not marginalized. In addition, promotion of dialogue and debate among NGOs in minority areas and the capitals could significantly improve mutual understanding among ethnic groups.

- *Public Diplomacy.* One way of bringing the populations and elites of the South Caucasus together is through encouraging various forms of dialogue. The ”Space Bridge” television program is an example of this, as are various forms of second-track diplomacy and student exchange programs that have been funded and carried out over the years. The difficulty in elaborating such programs are the selection of candidates to achieve a maximum effect in the target societies. For this purpose, working with graduate students, NGOs, and the media may be the best way of having an impact throughout society. Another opportunity is to organize the reunion or meeting of mixed families that were divided as a result of conflict, something that has not been done so far.

- *Regional Environment.* There a number of areas in the field of environment protection that are suitable for regional cooperation in the South Caucasus. They are transboundary water and air pollution. Despite the fact that there are a number of projects that address transboundary water issues, there are numerous gaps and issues that need to be timely addressed to avoid conflict situations between the countries. The capacity of institutions dealing with the issue is weak, legislation is underdeveloped,

– *Javakheti.* The Javakheti region is perhaps the most crucial single region in the South Caucasus today, given the relatively high tensions in the area, its isolation from the rest of Georgia, and not least the devastating implications that a conflict in Javakheti could have both for Georgia's statehood and for peace in the entire Caucasus and beyond. Ethnic tensions in Javakheti need to be reduced, and the most feasible way of achieving that is through the integration of Javakheti with the rest of Georgia economically. A concrete way of promoting this is through the restoration of the Tbilisi-Akhalkalaki road. Today, travel between Tbilisi and Javakheti takes place over Akhaltsikhe to the west instead of directly. The reconstruction and expansion of communications would immediately change the economic conditions of Javakheti, enabling its integration with the rest of Georgia, and thereby both the improvement of the economic situation in the region and the lessening of mutual suspicion and fear between Georgians and Armenians.

– *Pankisi.* The Pankisi gorge, with the presence of transnational crime networks, Islamic radicals, and Chechen fighters is an explosive region, and the primary possible justification for a Russian intervention. Any attempt to 'root out' terrorism and crime in Pankisi must be done extremely cautiously, and without alienating the groups of Kists, Georgians and Chechen refugees – all of which need to be enticed into establishing and preserving security in the gorge via diplomatic means, or an anti-crime initiative that simultaneously provides a long-term development program.

Regional Assessment

Recent Political and Economic Developments

In the early 1990s, the South Caucasian states of Armenia, Azerbaijan and Georgia were plagued by ethnic conflict, economic collapse and political instability. This environment devastated the region, and left tens of thousands of people dead, and produced a million and a half refugees or IDPs (internally displaced persons). The conflict between Armenia and Azerbaijan was the most serious in terms of human and material loss; this devastation was closely followed by the Georgian-Abkhaz conflict, while the Georgian-South Ossetian conflict was of a somewhat lower intensity. Internal struggles for power also degenerated into civil war-like situations in Georgia in late 1991 and Fall 1993, whereas a civil war was narrowly avoided in Azerbaijan in the Summer of 1993.

These developments frustrated early hopes for a democratic and prosperous future after the fall of Communism. Although some stability followed this debacle in the mid-1990s as international interest in investing in the region's energy resources increased. More broadly, the international community began to realize the geopolitical and geo-economic importance of the Caucasus in the world – a region that acts as a natural bridge between Europe and Asia, straddling the historic Silk Route, and surrounded by three regional powers: Russia, Iran and Turkey.

While three states formally exist in the region, the factual situation is that three geographic areas (Mountainous Karabakh and its surroundings, Abkhazia, and parts of South Ossetia) are ruled by secessionist ethnic movements outside government jurisdiction. These areas thus remain unrecognized entities, shielded from the influence of the international community. Allegations have been made that these territories are used for the smuggling of persons, narcotics, and arms, and form potential havens for terrorists. The lack of solutions to these protracted conflicts have increased frustration among the publics in the three states; Armenia is crippled economically and has experienced massive emigration; Georgia and Azerbaijan are faced with a growing reaction to their humiliating defeats in the wars of the early 1990s, especially among the refugee population.

Since 1994, the South Caucasus has with minor exceptions managed to avoid a relapse into armed ethnic or civil conflict. Furthermore, international investment and aid has undoubtedly increased tremendously, while the region's importance is now acknowledged by major states and international organizations. Yet the Caucasus is a region that remains in deep crisis. While there has been no major armed conflict since 1994, none of the secessionist conflicts have found or are close to finding a lasting solution. Refugees and IDPs continue to live in dismal conditions, while renewed armed conflict is a tangible and increasing risk in the areas of unsolved conflict, especially Mountainous Karabakh and Abkhazia – and would certainly have considerably larger human and regional political implications today than was the case in the early 1990s. Moreover, the risk of ethnic tensions escalating to armed conflict in other areas of the region has existed throughout the 1990s and remains a problem that could threaten regional peace and stability.

The economic downturn of the early 1990s has barely been reversed, and a majority of the region's population still lives below the poverty line. The political and economic reform process in all three countries has been slow and continually suffers important setbacks. Certain reforms have

been carried out in the legal systems of the three countries to facilitate foreign direct investment. Unfortunately widespread corruption, bureaucratic difficulties and political instability have maintained the South Caucasus' reputation as a relatively high-risk area for business. The rising incidence of crime and the risk of abductions (kidnappings) of foreign personnel, especially in Georgia, have further damaged the investment climate in the region.

All three South Caucasian countries retain traits of authoritarianism, and the political process retains undemocratic tendencies. A functioning opposition and a relatively free media are accomplishments that are notable compared to many other successor states of the Soviet Union, but elections in all three states have been and remain seriously flawed and election results have on several occasions failed to reflect the will of the people, decreasing the popular legitimacy of governments. The issue of political succession to the current Presidents is acute in both Azerbaijan and Georgia, where stability to a large degree rests in the persons of the ageing leaders. Coups d'etat and assassination attempts are a constant threat in all countries, but have especially marred Armenia and Georgia.

Georgia is perhaps the weakest state of the region, where the government is unable to exert influence and perform the functions of a state on large tracts of its territory. Beyond the de facto independence of Abkhazia and parts of South Ossetia, the government does not have effective control over Javakheti, Ajaria, the Pankisi gorge, and its authority is questionable in parts of Mingrelia and Svaneti. Armenia and Azerbaijan do not have this problem at present, though the potential for deteriorating internal conditions exists especially in Azerbaijan as a consequence of a future succession struggle.

Georgia is perhaps the weakest state in the region, and the government is unable to exert influence on large tracts of its territory.

International interest in the region has been a mixed blessing. While it has brought crucial foreign direct investment in Azerbaijan and huge sums of aid to both Armenia and Georgia, foreign interest also has less benign expressions as the South Caucasus has become an area of the intersection of great and regional powers' interests. Partly due to historical experience and partly to their relations between each other, the development of common regional policies has been eluded. Instead, each regional state has defined their own national interests and threat perceptions regardless of the impact it has on their neighbors. Russia is seen by both Azerbaijan and Georgia as the major threat to their independence and survival, whereas the United States and Turkey, the latter especially in Azerbaijan, are seen as guarantors of their security. Armenia, on the other hand, sees Turkey as the biggest threat to its security and survival, and Russia as the only feasible guarantor of its security.

This incompatibility of the foreign policy orientation of the three Caucasian states has enabled the gradual emergence of a system of military and strategic links and alliances that carry substantial dangers for the security of the Caucasus and beyond. To name only one example, a close Armenian-Russian military alliance exists together with an equally close Turkish-Azerbaijani alliance, raising the risk of great power confrontation should a new war break out between Armenia and Azerbaijan, with unforeseeable consequences. Over the last decade, the region has broadly been characterized by an increased American and Turkish political influence and a gradual and reluctant decrease of Russian influence. In the economic field, the region is also gradually breaking its links with the former Soviet Union and becoming increasingly tied to the Middle East and Europe, especially Turkey.

The Caucasus has also been seriously affected by the negative effects of globalization, in particular it is beset with an increase in the trafficking of narcotics, humans, and arms. The narcotics trade, in particular, is currently threatening the region's security through the corruptive effect it has in the societies, as well as through an alarming increase in HIV, which the Caucasus shares with the rest of the former Soviet Union.

Political Situation

General Political Evolution

The three South Caucasian states can be described neither as democracies nor as full-fledged authoritarian states. All three had early attempts at introducing democratic systems, and held relatively free elections in the 1990–92 period. Yet under the pressures of war, economic collapse, and because of their inexperience with participatory politics, the Caucasus backtracked in the mid-1990s to increased authoritarian rule. This process was welcomed by large tracts of the population, who after experiencing an initial euphoria following independence, came to identify democracy as a cause of the declining economic and political situation that came to characterize their countries. Order and stability became priority matters for the majority of the population, and authoritarian leaders showed to be more capable of providing that. Yet the seeds of democracy had been sown in the political systems of the Caucasus, ensuring (together with dependence on the West) that authoritarian-minded leaders were unable to establish total control over the political arena in the South Caucasus in the manner they have done in Central Asia. Hence with economic stabilization, the opening up of the region to the world, and rising popular frustration with the leadership in the mid- to late 1990s, democratic tendencies again gained strength and began to seriously challenge the ruling elites. Forces leading towards democratization were boosted by membership in the Council of Europe – an organization that to western European countries seems of little influence, but whose role in this region is highly significant.

The South Caucasian states are neither democracies nor full-fledged authoritarian states.

Upon Armenia's independence, the leader of the Armenian National Movement, Levon Ter-Petrossian, was elected President in November 1991, and led Armenia through the war with Azerbaijan, in which Armenia secured the de facto annexation of Mountainous Karabakh. Armenia's first constitution was adopted in 1995, establishing strong presidential powers that can nevertheless be limited by parliamentary majority, on the French model. In 1996, President Ter-Petrossian was re-elected in elections that were marked with widespread irregularities and fraud. In the Fall of 1997, Ter-Petrossian accepted the OSCE's Minsk group's proposal for a solution to the Mountainous Karabakh conflict. The proposal envisioned the withdrawal of Armenian military forces from the occupied territories, the restoration of economic and trade links between Armenia and Azerbaijan and Turkey, and the postponement of the decision on Mountainous Karabakh's status. Ter-Petrossian's decision to accept the proposal caused much anger and dissatisfaction among the nationalist wing of his government, headed by Prime Minister Robert Kocharian – the former President of the unrecognized Republic of Mountainous Karabakh.

United in triumvirate with Defense Minister Vazgen Sarkisian and Interior and National Security Minister Serzh Sarkisian, Kocharian staged a "velvet coup" forcing President Ter-Petrossian to resign in February 1998. Kocharian was subsequently elected President in the second round of presidential elections. Vazgen Sarkisian formed an election block called *Miasnutiun* (Unity) with former Communist leader Karen Demirchian's People's Party ahead of the Parliamentary elections of 1999, which grew immensely popular and won a comfortable majority of seats in the National Assembly. Demirchian was elected the speaker of Parliament and Sarkisian was appointed Prime Minister. Presidential power was now, for the first time, limited by parliamentary majority.

Political stability in Armenia, however, collapsed on October 27, 1999, when six gunmen burst into the Parliament in full session and shot dead Demirchian, Sarkisian and six other deputies. Their motives were unknown. The chain of command and political hierarchy was broken, and

Armenia fell into political chaos as accusations were even leveled against President Kocharian for masterminding the deed and for obstructing the work of the Prosecutor investigating the tragedy. Kocharian nevertheless managed to split the *Miasnutiun* bloc and build a pro-presidential majority in the Parliament, thereby strengthening his political power. Stepan Demirchian's People's Party, Aram Sarkisian's Republic Party and Artashes Geghamian's National Accord Party currently form the major opposition force in the Parliament. Armenia acceded to the Council of Europe in January 2001. In Fall 2001, the opposition sought to impeach the President, an initiative that nevertheless failed. In April 2002, authorities decided to close down the independent and popular TV channel "A1+". The public and opposition reacted by mass protests in the streets, demanding the resignation of the President.

When Azerbaijan declared its independence in August 1991, the leaders of the country sought to develop a secular democracy with a market economy. Azerbaijan's establishment in 1918-1920 as the first democratic republic in the Muslim World also played a role in forming a vision for the statehood and political identity of post-Soviet Azerbaijan. The pro-independence and anti-Communist Popular Front took over power in May 1992, forcing Azerbaijan's Communist leader Ayaz Mutalibov to resign. In elections in June, Popular Front leader Abulfaz Elchibey was elected President in the most democratic elections ever held in Azerbaijan. His administration took radical steps to democratize the country on the Turkish model. However, reforms failed due to mismanagement, heavy military losses in the war with Armenia, and economic collapse. A military commander's revolt in May 1993 subsequently led to chaos - 20% of the territory fell into Armenian hands, and separatist movements among the Lezgin minority in the north and the Talysh in the south threatened to fragment the country further. Elchibey surrendered power to Azerbaijan's former Communist leader and former Politburo member Heydar Aliyev, whose return marked the beginning of a new era.

Aliyev developed a pragmatic approach both in his foreign and domestic policy in an attempt to bring stability. As a result, he successfully managed to crush separatism in the Lezgin and Talysh areas, establish a cease-fire with Armenia in 1994, and he managed to attract foreign investments into the oil and gas sector. However, this came at the expense of democracy and freedom of speech, and the strengthening of Aliyevs' presidential power. Azerbaijan adopted its first constitution in 1995, which provided for the division of power among three branches of government and guaranteed the rights and freedoms of the citizens. Parliamentary elections were held in 1995 and 2000, Presidential elections in 1998 and the first municipal elections in 1999. Despite significant improvements in legislation, massive amounts of fraud favoring the governing New Azerbaijan Party and its candidates were present in all of these elections at all levels. The 2000 elections showed the strength of the opposition, in particular the *Musavat* Party, which according to observers garnered the largest number of votes. The official results nevertheless left the major opposition parties outside the parliament. In spite of this, Azerbaijan was accepted to the Council of Europe in 2001, together with Armenia. Today, Azerbaijan is still in a transition period from authoritarian regime to full democracy. There are over 40 political parties in the country, yet President Aliyev has established a tight hold on power and faces little challenge from the fragmented opposition. The development of democratic institutions and insurance of a smooth transition of power in the post-Aliyev period are the major challenges that the country faces.

Of the three republics, it is commonly accepted that Georgia has made the furthest progress in building a democratic polity. Few former Soviet countries, except the Baltic states, have likely made as much progress as Georgia has, in spite of the severe hardships it has experienced. Georgia declared independence before most other Soviet republics in April 1991, under the leadership of the democratically elected President Zviad Gamsakhurdia. Gamsakhurdia's popularity never-

theless eroded due to his eccentric style of leadership, which alienated most erstwhile allies. The conflict with South Ossetia that began in 1989 worsened matters, and a shady paramilitary junta forced Gamsakhurdia into exile in early January 1992 after a brief civil war in central Tbilisi. This coup delayed Georgia's entry into the United Nations, and the junta invited former Communist leader and Soviet Foreign Minister Eduard Shevardnadze to lead the 'State Council'. Shevardnadze gradually forced out the coup-makers from power, but only after having lost a war in Abkhazia. He also faced imminent state collapse during a large-scale army mutiny led by Gamsakhurdia in Fall 1993, necessitating him to give in to Russian pressure and allow the stationing of Russian military bases in Georgia and the stationing of Russian border guards on the Turkish border. Shevardnadze also conceded to membership in the CIS. However, Shevardnadze managed to gradually restore some stability and build Georgia's statehood and international standing.

Georgia has a strong executive presidency, based on the 1995 constitution. The President is directly elected to a maximum of two five-year terms, and appoints a council of ministers headed by a minister of state. In both the 1995 and 2000 Presidential elections, Shevardnadze was overwhelmingly elected as president. In the same manner, Shevardnadze's party, the Citizens' Union of Georgia (CUG), won the largest number of seats in the 1995 and 1999 legislative elections. International observers judged the 1999 elections to be a step towards compliance with OSCE commitments, but noted that the election process did not meet all commitments. The 2000 presidential elections, on the other hand, were marred by serious irregularities.

Over the last several years, hard social and economic conditions and large-scale corruption have made the President and his team extremely unpopular. Abortive assassination attempts in 1995 and 1998, as well as military revolts in 1998 and 2001 showed that the President could confront violent opposition. Shevardnadze has increasingly relied on the large Ministry of Internal Affairs and on the Ministry of State Security to secure his power. These forces, led until Fall 2001 by ministers widely believed to be engaged in large-scale corruption, tried to encroach on the political rights of government opponents. Their raid against the leading independent TV station Rustavi-2 in October 2001 resulted in a political crisis. After massive demonstrations, the President was forced to dismiss the entire government after reformist leader and Speaker of Parliament Zurab Zhvania resigned. The President soon came into confrontation with the reformers' wing of the CUG, and the party disintegrated. In local elections in June 2002, the**y** received only 2% of the votes in Tbilisi, whereas the opposition Labor Party (led by Shalva Natelashvili) and the National Movement (led by ex-minister of Justice Michael Saakashvili) got 25% and 24%, respectively. In Summer 2002, the President pardoned leaders of the paramilitary organization Mkhedrioni sentenced for an assassination attempt on the President and the murder of several political figures. It is feared that this may be a step to regenerate the Mkhedrioni in order to shore up support against the opposition, something which would put Georgia in crisis again. Shevardnadze's term ends in 2005, while much uncertainty surrounds the country's future developments.

Hard socio-economic conditions and corruption have made the Georgian leadership extremely unpopular.

Political and Economic Reform Processes in The Region

The process of political and economic reform in the South Caucasus is painstakingly slow and burdened by widespread corruption and the reluctance of Soviet-style bureaucracies to adopt any type of reform. Pressures for reforms from the west have been the major driving force behind what little reform has taken place. The states are all still recovering from the collapse of the Soviet Union, economic hardship, war, and various periods of political chaos. Corruption is widespread

in all spheres of life, caused mainly by low salaries, inadequate punishment, and shortcomings in the legislation. Council of Europe membership since 1999 in Georgia's case and since 2001 for Armenia and Azerbaijan nevertheless form recognition for the relative progress of these states, but even more represent a potentially powerful motor of reforms. All three are now parties to the European Convention on Human Rights, giving individuals the right to demand responsible action from their governments. International organizations and financial institutions are actively supporting the reform process in the region, funding and directing large aid programs.

Pressures from the West have been the driving force behind reforms.

In May 2001, the Armenian government received a US$345,000 grant from the World Bank to prepare a plan to combat bribery and nepotism in the country. In January 2001, the IMF agreed to provide Armenia with $90 million in loans for the implementation of a "Poverty Reduction and Growth Loan" program. Armenia, together with five other CIS countries, was selected by the IMF to participate in Poverty Reduction Strategy Programs, which are aimed at reducing the poverty level in the country. International financial institutions, specifically the World Bank, have long urged structural reform in Armenia's pension system and energy sector. The latter includes the privatization of four major electricity networks, a move that was very unpopular among many parliamentarians. Membership in the Council of Europe is also expected to bring political reforms to the country.

Azerbaijan has also stepped up the process of political and economic reforms. Political reforms focus on legislative improvements, structural reforms in the Cabinet of Ministers, and the conduct of free and fair elections. Economic reforms mainly aim at improving the tax, customs and banking sectors, at implementing a new stage of the privatization program, and at ensuring the transparency of the newly established State Oil Fund. Structural reforms have been identified as the main policy tool of the government to achieve more balanced economic growth by developing the non-oil sector, strengthening governance, enhancing financial discipline and fostering private sector development, and on that basis, fighting poverty. Important political reforms include a new electoral law that was passed in 2000 in order to prepare for Membership in the Council of Europe. The Parliament also ratified the European Convention on Human Rights. The government reformed the structure of the cabinet to ease development of the non-oil sector, by creating a unified Ministry for Economic Development. Another economic reform was the adoption of the long-awaited Tax Code in January 2001, which sought to promote the development of small and medium-sized businesses by decreasing most tax rates. Other reforms in the economy include the banking sector, where the central bank continues to impose tight control on the activity of small banks and attempts to consolidate them by raising capital requirements. Recently, the second stage of privatization was inaugurated, with which larger enterprises will be set for privatization. While Azerbaijan has made several major reforms in the political and economic sectors, these are still not sufficient to keep Azerbaijan abreast with global developments. In the military sphere, Azerbaijan has been gradually reforming its armed forces from scratch with large-scale assistance from the Turkish Armed Forces, which among other activities, run the military academy of Azerbaijan.

The Georgian Government seeks to demonstrate its commitment to European ideals. In order to co-operate efficiently with the CoE and to coordinate the process of fulfillment of its commitments, a special division of CoE and Human Rights was created at the International Law Department of the Ministry of Foreign Affairs of Georgia. Numerous state organs are engaged in day-to-day cooperation with CoE bodies. The cooperation programs and the activities of the Georgian representatives in the committees of the Council of Europe highly contributed to the accomplishment of undertaken commitments.

Georgia has tried to implement Judicial Reforms, and young reformers were brought to leading positions, such as former Justice Minister Michael Saakashvili. Yet these reforms remained abortive. Efforts to create a more independent judiciary were undercut by failure to pay judges in a timely manner. Political reforms did not touch the 'power institutions', and prosecutor and bar reform was stalled. Prosecutors continue to direct criminal investigations, supervise some judicial functions as well as represent the State in the trial. Parliament's attempts to reduce prosecutors' authority, increase the rights of defense attorneys, and enhance the independence of the judiciary have not succeeded. The Criminal Procedures Code, which was passed in 1997, was amended in 1999 and 2000 in response to complaints by security forces that legislated reforms hampered criminal investigations. A planned anti-corruption law has not been submitted to Parliament.

In the military sphere, Georgia has embarked on an ambitious national effort to restructure and modernize its army along NATO standards. The program envisages to form an increasingly civilianized staff at the Ministry of Defense; a transition to a smaller active-duty force built around a core of commissioned and non-commissioned officers and contract soldiers, supplemented by reservists; the education of the Armed Forces on the role of military forces in a democratic society, and ensuring that troops are well trained and provided for; and finally to enhance the defensive capabilities of the Georgian Armed Forces. In conducting this restructuring, Georgia has made good use of the opportunities provided by NATO through its Partnership for Peace (PfP) program, as well as bilateral assistance from Western countries, most prominently the U.S., Great Britain and Turkey.

Foreign Relations

The foreign relations of the three Caucasian states are conditioned by their location at an international crossroads wedged between three regional powers as well as by their relations with one another. This web of relations has dictated different threat perceptions and therefore differing orientations in the foreign relations of the three South Caucasian states. This has implied both threats and opportunities. The latter include international interest in the oil and gas industry of the region as well as plans to make the Caucasus a key transportation crossroads between Europe and Asia. Foreign policy commonalities among the three states include a general orientation toward integration with Europe and good relations with the United States. With regard to the major regional powers, however, Armenia has followed a different course than Azerbaijan and Georgia. The foreign policies of Armenia and Azerbaijan mainly flow from the war on Mountainous Karabakh, and in Azerbaijan's case from the urge to export its oil resources. Georgia's foreign policy is chiefly determined by its perceived Russian threat and its internal weakness. Due to the conflict-ridden regional environment, it is no exaggeration to state that the main foreign policy priority of all three states is to preserve their sovereignty and independence. This has entailed a preoccupation with domestic and regional conflicts that has prevented the building of a strong economic base, the basis of a high international status in the contemporary era.

Armenia has followed a different foreign policy course than Azerbaijan and Georgia.

In many ways foreign policy formulation in the South Caucasus has been characterized by a game of balancing allegiances. These states are caught between honoring Soviet relationships with Russia and a practical dependence on Russia as a trading partner, and a desire to decrease dependence on Moscow by securing Western support in the form of economic and security guarantees. In order for this to happen, the South Caucasus needs Western support not as a short-term policy game, but rather a long-term commitment. The west has yet to show a com-

mitment to realize its myriad of motivations in the South Caucasus, including reducing Russia's sphere of influence, securing access to Caspian resources, and securing the South Caucasus as the geographical gateway to Central Asia.

Most of Armenia's external relations are dominated by attempts to convince the international arena of the legitimacy of its claim to Nagorno-Karabakh. For Armenia, Turkey is the largest perceived threat to its security. Turkey's support for Azerbaijan in the conflict, condemning Armenian occupations of Azerbaijani territories and imposing a partial trade embargo on Armenia have added to Armenia's accusation of Turkish responsibility for massacres of Armenians in the First World War. Diplomatic efforts of the Armenian Diaspora and government are geared toward achieving international recognition of the alleged genocide and compensations. Turkey, however, denies the Armenian accusations and is irritated by unofficial Armenian territorial claims on the Kars and Erzurum areas of Turkey. Given its state of war with Azerbaijan and closed border with Turkey, Armenia has leaned on Russia as a guarantor of its security, and has been an active participant in the Collective Security Treaty of the CIS. For most of its independence, Armenia has followed a self-isolating, pro-Moscow foreign policy. Moscow has regarded Armenia as an important ally in the Caucasus, and most Armenians regard a close relationship with Moscow necessary. Russia currently maintains its 102nd military base, a division of S-300 missiles and a squadron of the Russian air force with MIG-29 fighters in Armenia.

Greece and Iran, both with hostile relations to Turkey, are other allies of Armenia. Greece provides military and economic assistance to Armenia and could potentially promote Armenian interests in the EU and NATO. Iran provides Armenia valuable trade opportunities and access to the outside world. In spite of being a Shi'a Muslim country, Iran has managed a benevolent neutrality to Armenia vis-à-vis Azerbaijan. However, in the aftermath of 9/11, Armenia's ties with Iran created problems as the U.S. imposed trade sanctions on several Armenian private enterprises for trading with and providing nuclear materials to Iranian companies. On the whole, however, Armenia's policy of 'complimentarity' has been relatively successful at maintaining close ties with these three powers. The large and wealthy Armenian lobby in the U.S. has managed to effectively lobby the U.S. congress to secure an earmarked $90 million annual assistance for the Armenian government. Armenia is member of NATO's Partnership for Peace program, but has remained more cautious with regard to NATO than Georgia and Azerbaijan. Armenia has a tense relationship with Georgia due to secessionist claims in Georgia's Armenian province of Javakheti and the participation of ethnic Armenian guerrilla forces in the Abkhaz-Georgia war on the side of the Abkhaz. Nevertheless, the two countries have managed to keep peaceful relations because Armenia heavily depends on Georgia for communication routes and trade.

Azerbaijan's dominant foreign policy concerns are the conflict with Armenia; territorial disputes with Turkmenistan and Iran over oil fields in the Caspian Sea and the legal status of the Sea; and the development of East-West transport and trade corridors. Relations with Russia have suffered because of perceived Russian support for Armenia in the conflict; weapons worth US$1 billion were transferred from Russia to Armenia between 1994-96. Bilateral relations have nevertheless improved since President Putin came to power. Moreover, Iran and Azerbaijan have struggled to find a common language. Like Russia, Iran feels threatened by Azerbaijan's cooperation with the U.S., especially in the military arena. Tehran is also weary of Azerbaijan's reliance on Turkey and its open calls for NATO troops to be based in the country. Iran also fears secessionist tendencies among its own over 20 million-strong Azeri minority. As a result it has attempted to slow down Azerbaijan's developments by trading with Armenia, hosting Azeri exiled rebels, and financing

covert Islamic groups in the country. Bilateral relations reached a low point in the Summer of 2001 when Iranian naval forces attacked an Azerbaijani exploratory ship in the Caspian sea and Iranian fighters regularly violated Azerbaijan's air space.

Turkey, on the other hand, has been Azerbaijan's strongest ally both in the politico-military and economic sectors. Turkey has close cultural and linguistic ties with this republic and has been Azerbaijan's staunchest supporter in its conflict with Armenia. Turkey was one of three countries (the other being Israel and Pakistan) that openly took Azerbaijan's side in the conflict. Iran's aggressive stance in 2001 made Turkey and Azerbaijan even closer. Azerbaijan has also placed great emphasis on cooperation with the US and NATO, becoming a PfP member in 1994. The U.S. and other Western countries play a major role in oil and gas investments in Azerbaijan. After September 11, Azerbaijan was one of the first countries to render assistance to the US, by providing valuable transportation routes and security information. The U.S. Congress then finally waived Section 907 of the Freedom Support act, a bill passed at the behest of the Armenian lobby in Congress in 1992 that restricted U.S. aid to Azerbaijan. This has undoubtedly opened up new opportunities for military and economic cooperation.

Moscow's blatant support for Abkhaz and South Ossetian secessionists marred Georgia's relations with Russia from independence..

Georgia's relations with Russia were marred from Georgia's independence by the blatant covert and occasionally overt Russian support for secessionism in South Ossetia and Abkhazia. Georgia regards Russia as an imperial power that seeks to undermine Georgia's statehood and independence. In response, Georgia has tried to market its role as a gateway from the Black Sea to the larger Caspian region. Tbilisi has therefore reached out to its other neighbors, and it has increasingly looked to the West in search of new, alternative, opportunities. Relations with Europe and especially the U.S. have been and continue to be excellent. Georgia's western orientation and efforts to avoid entanglement in the Chechen War are under severe Russian pressure, as Moscow has repeatedly cut off gas supplies, stalled negotiations on Abkhazia, delayed negotiations for the withdrawal of Russian military bases, complicated external debt rescheduling, and imposed a discriminatory visa regime that exempts secessionist areas of Georgia from the requirement of a visa. Currently, steps are being taken to provide Russian citizenship to citizens of the secessionist areas of Abkhazia and South Ossetia.

Georgia's relations with Turkey were marked by historical tensions, but these are being gradually overcome and in the late 1990s, Georgia has forged a strategic partnership with Turkey. Georgia and Azerbaijan have been at the forefront of creating a Caucasian 'bridge' between Turkey and the Black sea**,** to the Caspian **S**ea**,** and on to Central Asia in the energy, transportation, political and military sectors. Western interests have largely been determined by the exploitation of the Caspian resources, and corresponding projects such as the 'Silk Road' and the EU-financed TRACECA (Transport Corridor Europe-Caucasus-Asia). As the westward export of Caspian oil and gas gradually materializes through Azerbaijan and Georgia, geopolitical and geo-economic interests will simultaneously rise, and the region's importance to the west is subsequently predicted to grow. Azerbaijan and Georgia hope that this will ensure their security and stability, and promise conflict resolution and the restoration of their territorial integrity. Georgia and Azerbaijan thus share a similar outlook on the world and on relations with their neighbors.

The relationship between Baku and Tbilisi has strengthened significantly since independence, as both understand that their security is connected. Azerbaijan cannot export its oil without Georgia, which connects it to Turkey and the West**;** while Georgia partially relies on Azerbaijan's oil exports for its economic and political security. The two have been motors in the GUUAM (Georgia

Ukraine Uzbekistan Azerbaijan Moldova) alliance that developed since 1997 as a counterbalance to Russian hegemonic tendencies within the CIS. Armenia, on the other hand, has remained largely isolated from regional transportation schemes and cooperative efforts due to its conflict with Azerbaijan. Geographically, Azerbaijan and Georgia are better positioned as a transport and communications route as they form the corridor between the Black and Caspian seas, hence any transport conduit can easily bypass Armenia. International pressure has mounted on Azerbaijan and Turkey to open economic relations with Armenia, yet Azerbaijan refuses to do so as long as Armenia occupies almost 20% of its territory.

Political And Economic Relations with Sweden.

Sweden's bilateral relations with the Caucasus have been relatively low-key. The height of Swedish involvement in the region was in the mid-1990s when Sweden**,** as chairman of the Minsk Group**,** played the role of a mediator in the Armenian-Azerbaijani conflict. Swedish diplomats played a crucial role in the cease-fire of April 1994 that ended the large-scale hostilities between Armenia and Azerbaijan, and that has held ever since. Sweden continues to be a member of the Minsk Group, but its activity in the process is relatively low, as Russia, France and the U.S. have sidelined other members of the Minsk group and conduct most of the current negotiations in the form of a troika.

Apart for Sweden's involvement in the Minsk Group, its cooperation with the states of the South Caucasus is limited to some economic activity, the participation of Swedish delegations in international organizations' relations with the Caucasian countries, and the activity of honorary consulates. Students from Caucasian countries have been given the opportunity to study in Sweden, especially in recent years under scholarships from the Swedish Institute. There are several Swedish companies operating primarily in Baku and Tbilisi. These businesses are mainly local branches of major Swedish companies often operating from Istanbul, such as Volvo and Ericsson. Swedish NGOs also work in the Caucaus, such as 'Kvinna till Kvinna', active in gender issues.

Swedish diplomats from the Ministry of Foreign Affairs and employees of Swedish governmental organizations, including SIDA**,** regularly visit the region for various diplomatic purposes. The only high-level visit, however, was Ms. Anna Lindh - the Swedish Foreign Minister – who visited the region in 2001, during Sweden's presidency of the EU, as part of the EU's troika delegation.

Regional security: Changes after 9/11

The South Caucasus was one of the regions in the world that was most affected by the geopolitical upheaval that occurred immediately following the terrorist attacks in New York and Washington, DC on September 11, 2001. Over the past decade, the Clinton and Bush administrations had both considered the Caucasus an area of American interests. Since the mid-1990s the U.S. has focused its engagement in the Caucasus on supporting independence, and directing large amounts of development aid and investment into the region. Armenia and Georgia have been among the highest per capita recipients of U.S. aid in the world, while Azerbaijan received billions in direct investment by American and other western companies. In particular, the U.S. vigorously supported Georgia's independence**,** and strongly criticized Russian bullying of Georgia as late as winter 2000-2001. Despite this involvement, however, by 1999-2000 the United States concluded that it had no *vital* interests at stake in the Caucasus and Central Asia.

U.S. military deploy-ment in Central Asia led to increased awareness of the strategic location of the South Caucasus.

After September 11, however, Washington was forced to reassess its interests in the region because of the central role Central Asia came to occupy in world politics. As American military units were deployed to Central Asia in preparation for the war in Afghanistan, the Caucasus acquired unexpected importance. Georgia and Azerbaijan immediately offered the U.S. and its allies unrestricted use of their airspace and refueling facilities for aircraft headed from bases in the continental United States and Europe toward Central Asia and Afghanistan. Russia and Armenia also offered their airspace, with some limitations. As a result, all military aircraft flying from Europe to Afghanistan and back transited the airspace of Georgia and Azerbaijan. The deployment of U.S. military bases in Uzbekistan, Tajikistan and Kyrgyzstan also led to an increasing awareness of the strategic location of the South Caucasus. As these bases could be supplied only from Turkey through the Caucasus, from the Arabian Sea, or from bases in Oman via Pakistan and Afghanistan, the stability of the South Caucasus became a priority for the United States. The strategic importance of the South Caucasus for the U.S. in the post 9/11 environment was especially evident when in response to the suspected presence of Chechen rebels and criminal groups with links to international terrorism in Georgia's Pankisi Gorge, the Caucasus itself became a theater of American anti-terrorist operations. Thus U.S. thus quickly sent a limited contingent of troops to Georgia to train the Georgian army for anti-terrorism operations in the Pankisi Gorge.

These developments caused much antagonism in military and political circles in Moscow, who saw it as another step in limiting Russia's role in its "near abroad" and bringing Central Asia and the Caucasus under American dominance. President Putin nevertheless refrained from criticizing the American military deployment. Armenia granted the U.S. overflight rights, but also voiced concerns about the increasing role of the U.S. in the Caucasus. Yerevan fears a possible collapse of the balance of power in the region, and fears that an increased U.S. presence in the region could lead to increased Turkish military presence as well. Meanwhile, the U.S. punished several Armenian companies for their trade with Iran in the sphere of nuclear energy. The deployment of U.S. troops in Georgia will lead to the creation of a contingent of up to 3,000 well-trained and supplied Georgian elite forces – something that has worried the breakaway areas of Abkhazia and South Ossetia, who fear these troops may be used against them after completing anti-terrorist operations in Pankisi.

In addition to changing geopolitical developments in the South Caucasus, regional governments have also appeared to make use of the war on terrorism to advance their own domestic political agendas. Georgia and Azerbaijan have linked separatism with terrorism by arguing that uncontrolled secessionist areas are 'black holes' where international crime and terrorism are nurtured. By suggesting that they are fighting terrorism, and preventing the rise of militant Islam, the governments of the South Caucasus have essentially been given a blank slate of support by Western coalition nations. The rising suppression of political and non-state sanctioned Islam in these countries ironically threatens to produce the seeds required to feed the emergence and support of terrorist organizations. Both the United States and the South Caucasian governments have exaggerated the presence of militant Islamic activity in the region, including unfounded exaggerations of the presence of al-Qaeda terrorists in Georgia's Pankisi Gorge. These allegations have served an important role in Washington's justification for sending troops to Georgia; and for the Georgian government to seek military aid. While focusing on the role of Pankisi, the Western coalition is overlooking the role of Azerbaijan, a major transit route for arms, money and mujahideen fighters traveling between the North Caucasus and Afghanistan. Baku has sought to curb the international militant Islamist and criminal network running through its territory, but these efforts have also been used by the government to continue their suppression of political opposition.

The general confusion concerning the aims and motivations of the U.S. military presence in the region is another source of contention. Given little indication about a U.S. exit strategy in the South Caucasus and Central Asia, there is growing concern among some populations of these regions that Washington is seeking to secure a de facto empire throughout the world within the framework of a 'war on terrorism'. Although these attitudes are rather conspiratorial, it is important not to disregard these concerns. Fears of Washington manipulating its war on terrorism are real throughout both the Caucasus and Central Asia, and as such need to be understood as an alternative perception that plays a role in analyzing the prospects for regional stability.

Human Rights and Civil Society

The countries of the Caucasus have passed through a painful transition period, which reflects in their limited ability to advance democracy and human rights in the region. Judicial reform has been slow and has failed to bring each of the three legal systems in line with the international conventions they have signed and ratified. Soviet-era practices in the law enforcement agencies and judicial systems have remained in force, including police and detention torture, failure to provide fair trials, and the practice of extracting confessions under duress rather than obtaining evidence against suspects. These types of abuses at the lower scale of the institutional hierarchy are endemic and cannot be expected to disappear swiftly given the absence of democratic traditions and that many Soviet-era officials remain in office. However, the lack of will among the state structures of power and justice to commit to reform has created an impunity that allows these practices to continue. The situation in the military of the three states is also a cause of concern, as conscripts are routinely subject to abuse (hazing) by seniors – leading to extortion, injury, and occasionally death. Again, impunity is rampant and as a result, draft evasion is endemic and weakens the development of effective and efficient military forces in the region. Religious freedoms are also an issue. Although religious tolerance is traditionally present in the multi-cultural Caucasian societies, non-traditional religious sects such as the Jehovah's Witnesses are not socially accepted, seen as subversive, and often experience discrimination, especially as they are perceived to attract converts through economic assistance. The situation of women has also worsened since the end of Soviet rule. Although women experience greater equality than in neighboring regions to the South, domestic violence is rarely investigated, and trafficking of women has taken on alarming proportions in the last several years.

In spite of serious problems, South Caucasian states have proven to be permeable to change and reform.

In spite of the serious problems, the South Caucasian societies and states have proven to be permeable to change and reform, especially if compared with the Soviet past only a decade ago. Important progress has been achieved in the creation of semi-democratic legal systems and the beginnings of a rule of law, pledges to protect the individual rights of citizens, and the emergence of civil society. The role of the international community is extremely important in the gradual progress of the human rights situation in the South Caucasus. The CoE and the OSCE**,** as well as unilateral influence by chiefly western states**,** are gradually helping to create a culture of democracy and human rights in these states. Government at the very least are now forced to pay lip service to these ideals, and as they do so, these principles gradually trickle down to the reluctant bureaucracies and state organs. The South Caucasian states are now parties to such international legal instruments as the International Covenant on Civil and Political Rights**;** the International Covenant on Economic, Social and Cultural rights**;** the European Convention on Human Rights; the UN Convention on Torture**;** and the UN Convention on the elimination of all Discrimination against Women.

Human Rights

In the region as a whole, the section of the population whose human rights have been violated to the highest degree are the refugees and Internally Displaced Persons produced from conflicts. The war over Mountainous Karabakh has created close to one million refugees and displaced people in Azerbaijan. These include 650,000 internally displaced people from outside Mountainous Karabakh; 60,000 Azeris from Shusha and other towns in Mountainous Karabakh**;** 220,000 refugees from Armenia proper**;** and 50,000 Meskheti-Turks from Uzbekistan. In spite of United Nations Security Resolutions calling for the immediate withdrawal of military forces and liberation of the occupied lands, the situation of refugees has remained unchanged for the past 8-10 years, as the majority of them continue to live in tent camps and abandoned railway wagons. Armenia has ca. 300,000 refugees from Azerbaijan, who are relatively well integrated into society (like the Azerbaijani refugees from Armenia). It is also worth noting that many refugees have settled in villages abandoned by Azeris in Armenia. There were also between 60,000 and 72,000 people displaced from villages bordering on Azerbaijan as a result of the Mountainous Karabakh conflict. Most displaced persons have been integrated locally or returned home since the 1994 cease-fire.

In Georgia, up to 264,000 IDPs live in equally poor conditions, most in the Samegrelo province bordering on Abkhazia but also in other parts of Georgia, including the capital Tbilisi. Groups of IDPs have continuously tried to return to their homes in the Gali raion of Abkhazia, but are subjected to severe abuses by Abkhazian *de facto* authorities and ca. 30,000 were again expelled after a relapse of military confrontation in 1998. With regard to the IDPs caused by the South Ossetian conflict, more progress has been made in spite of the lack of a political solution. Numerous ethnic Ossetian refugees from Georgia proper have returned, as have ethnic Georgian refugees from South Ossetia that were forced to flee in 1990-92.

In Armenia, most human rights abuses are directed at political opposition. Political prisoners regularly report that they have experienced torture and ill-treatment, and indicate that they have not received impartial investigations. The government also continues to incarcerate conscientious objectors to military service. Furthermore, although a moratorium on the death sentence exists, death sentences continue to be passed out. Political violence and the intimidation of opposition and media have persisted alongside cases of deaths in prisons and in the military. Prison conditions are difficult and life threatening. Lengthy trials are usual and the mistreatment of detainees widespread. The judicial branch remains under heavy pressure from the executive. A recent high profile case in point concerns the beating to death in a Yerevan Jazz club restroom by President Kocharian's bodyguards of a man who uttered disparaging comments at the President. The bodyguards have yet to be charged. Moreover, controversy still surrounds the investigation into the October 27, 1999 parliamentary murders. The investigation has been deeply compromised by allegations of government interference and counter-allegations of the prosecution attempting to implicate presidential advisors for political reasons. Journalists investigating the affair have been subjected to arson and threatened. Although Armenia can boast the strongest army in the Caucasus because of what has been considered a strong national will, discipline, combat experience and good equipment, the quality of the armed forces appears to be under constant decline, and troops appear extremely pessimistic and demoralized.

The opposition and the independent media are frequently harassed by law enforcement in Armenia and Azerbaijan.

In Azerbaijan**,** although there is fairly well developed multi party system, political parties and their members are often subjected to harassment by police and the Ministry of National Security.

While some political opponents are imprisoned, others function under fear. Most recently, the secretary of the opposition Azerbaijan Democratic Party was arrested for several days in 2002. There are several human rights NGOs and think tanks in Azerbaijan, but they are constrained by limited funding and fear of persecution. The President in 2002 appointed NGO woman activist Dr. Elmira Suleymanova as Azerbaijan's first ombudsman on human rights. The issue of political prisoners became a disputed topic between the authorities, and the opposition and the Council of Europe. Azerbaijan committed to the CoE to review all cases of political prisoners in the country, including the cases of former Defense Minister Rahim Gaziyev, former Interior Minister Iskender Hamidov, and the leader of the Talysh separatist movement Alikram Hümbatov. In June 2002, the government began the re-trial of two former ministers under pressure from the CoE.

Georgia claims to view human rights and freedoms as a keystone for democratic development and as a prerequisite for national security. Georgia has created new legislation that is generally in line with the norms and principles of international law. In 1995, the constitutionally mandated Office of Public Human Rights Defender, or ombudsman, was created. While government representatives have been effective in individual cases, neither they nor the NGO's have been successful in prompting systemic reform. At the same time there are significant difficulties regarding various aspects of human rights protection in Georgia. Human rights are mainly violated by the security forces – whose brutality has increased since the 2000 Presidential elections. They continue to beat and otherwise abuse detainees, force confessions, and fabricate or plant evidence, while pervasive corruption is tolerated at higher echelons. Elected civilian authorities do not maintain adequate control over the law enforcement and security forces, and the central government is unwilling or unable to control them. Senior government officials, including the President, acknowledge serious human rights problems and seek international advice and assistance on needed reforms. In December 2001, the President declared Georgia a torture-free territory, but most government promises of reforms remain unfulfilled. Neither the President nor other senior officials have taken concrete steps to address these problems, and Parliament has failed to budget adequately for mandated reforms. In 1997, a joint human rights office was established by UNHCR and the OSCE in Sukhumi, Abkhazia, to investigate human rights abuses. The office, which has operated sporadically because of fluctuating security conditions, provides periodic findings, reports, and recommendations.

Ethnic and Religious Minorities

Prior to the beginning of the Karabakh war, Armenia had an ethnic Azeri minority of nearly 220,000. Their expulsion in 1987-89 left no major ethnic minority in the country. Currently, there are several thousand Yezidi Kurds in the country who reportedly suffer from police and their irresponsiveness to the crimes committed against their community. There is also widespread mistreatment of homosexuals, whom police physically and mentally abuse to receive bribes. The overwhelming majority of the population of Armenia (94%) is of the Armenian Apostolic faith. Tolerance toward other religious sects is low. The law restricts religious activity, including a prohibition on proselytizing, by religions other than the Armenian Apostolic Church. As a result, other denominations have reported discrimination by mid and lower-level state officials. Furthermore, it is important to note that all denominations other than the Armenian Apostolic Church are legally required to register with the State Council on Religious Affairs. To qualify for registration, groups must have over 200 members, must constitute a 'purely spiritual nature', and must subscribe to a doctrine based on 'historically recognized holy scripture'. In 2000, police did not intervene to prevent the harassment and abuse of members of Jehova's Witnesses by local gangsters. This religious group has also been denied registration by the Armenian government.

Azerbaijan is a multi-ethnic country. There are nearly 75 ethnic minorities in the republic, the size of which range from several hundred thousands, as in the case of Talysh in the south and Lezgins in the North (See CA), to several hundred, as in the village of Khinalig, in the Greater Caucasus Mountains. Ensuring the safety and guaranteeing the human rights of these ethnic groups is a challenge in the post-Soviet Azerbaijan, as separatist movements among Lezgins and Talysh as well as among Mountainous Karabakh Armenians have created fear of minorities among the political elite in the country. At the same time, there are around 20,000 ethnic Armenians still living in Baku, mainly in mixed marriage families. Although Azerbaijan has a long history of tolerance toward ethnic minorities and several centuries of peaceful coexistence with these groups, transforming these traditions into government policy remain a major challenge for Azerbaijani political circles. The government has an office of presidential counselor on minority policy to monitor the situation with ethnic minorities. This office provides limited resources for publication of books and magazines as well as the production of TV programs in minority languages. However, limited budgetary funding does not permit the expansion of these activities.

Azerbaijan is a predominantly Muslim country, with the majority (70%) of its citizens belonging to Shi'a branch of Islam. Nevertheless, Islam has traditionally coexisted peacefully with other major religions in the state. Despite the fact that Azerbaijan is a Muslim country, there is a settlement of Jews in the village of *Krasnoya Sloboda* of Guba region, whose history dates back 3000 years. There is also a large Jewish community and several synagogues in Baku. After the collapse of the Soviet Union, a religious revival has taken place. With the help of foreign charity organizations and religious institutions from Islamic countries, many mosques and religious schools, *medreses*, were built. Islamic charity organizations operate in refugee camps, where they also conduct propaganda work. The number of foreign missionaries has dramatically increased in the past few years, raising concerns among Azeri authorities. For most of the 1990s, religious groups worked at a grassroots level and posed little direct threat to the government. However, the activities of the Islamic Party of Azerbaijan, (funded by circles in Iran) and the religious group "*Jeyshullah*" (which assassinated famous historian and political figure Ziya Bunyatov), led to crackdowns when these two groups began to threaten the stability of the country. In 2001, activists of the most radical Sunni sect of Islam, Wahhabism, were also active in the country. President Aliyev created a state committee on religious affairs, charged with monitoring religious activities and organizations, the publication of religious literature and reporting subversive religious activity to the Interior Ministry. It also reserved the right to restrict proselytism by foreign nationals and recommend judicial bans on religious groups and activities deemed threatening to the central government.

Islam has traditionally coexisted peacefully with other major religions in Azerbaijan.

Georgia is the most multi-ethnic country in the South Caucasus, with ca. 30% of the population being non-Georgian. Main minorities are the Armenians, Azeris, Ossetians, Russians, Abkhaz and Greeks. The Georgian Constitution recognizes the equality of all citizens without regard to race, language, sex, religion, etc., and the Government generally respects these rights. The Constitution stipulates Georgian as the state language, though school instruction in non-Georgian languages is permitted. Minority communities communicate in their native languages or in Russian, and Russian is still used alongside Georgian for interethnic communication. Ethnic minorities generally suffer from similar social and economic difficulties as Georgians, but often perceive these problems as a result of discrimination. Minorities are seldomly involved in the social and economic life of the country, and very poorly represented in the central government and parliament, where they hold less than 6% of seats. These sorts of grievances help mobilize anti-Georgian sentiments among the minorities. Steps to ensure actual equality are necessary to develop

Georgia and to decrease tensions with minorities. As discussed in the conflict assessment, latent minority issues of great concern are the Armenian minority in Javakheti and the Kist and Chechen refugee population in the Pankisi gorge, while the Ajarian (Muslim Georgian) and Azerbaijani populations currently have less conflict potential.

Despite a general tolerance toward minority religious groups traditional to the country, including Catholics, Armenian Apostolic Christians, Jews, and Muslims, citizens remain very apprehensive about Protestants and other nontraditional religions, including Baptists, Seventh-Day Adventists, and especially Jehovah's Witnesses, which are seen as taking advantage of the population's economic hardships by gaining membership through the distribution of economic assistance to converts. Some members of the Georgian Orthodox Church and the public view non-Orthodox religious groups, especially nontraditional groups or so-called "sects", as a threat to the national Church and Georgian cultural values. A defrocked Georgian Orthodox Priest, Vasili Mkalavishvili, has led numerous violent attacks against nontraditional sects, but has nevertheless received a generally understanding attitude from media and law enforcement agencies.

Gender Issues

The three South Caucasian states are all traditional societies, in which the Soviet regime made significant progress in the emancipation of women. In particular, women have similar literacy (practically 100%) rates, and are active participants in the work force of their societies. In the Soviet period, women enjoyed a relatively high level of equality; this was due to conditions of full employment, an equally high level of education, and the functioning of a social protection system. However, the position of women in Caucasian society remained traditional, with women carrying professional engagements in addition to domestic workloads. Traditional gender roles are still strong, especially in rural areas. The discrimination against women in homes and work places is a major concern, and the trafficking of women for prostitution purposes has become a region-wide problem. Women are heavily underrepresented at the decision-making level, both in governmental and local self-government bodies. Only in Georgia does a woman hold a key political office – Nino Burjonadze is the Speaker of the Parliament. Even there, only ca. 5% of the parliament consists of women. In Azerbaijan gender issues are mainly determined by a combination of Muslim laws and traditions, and the Soviet legacy. Although women have free and full access to education, they are still heavily discriminated in the work force. In regions outside Baku, the practice of marrying women after high school age and not allowing women to work is not unusual. The Parliament has 13 women deputies, ca. 10% of the total.

Traditional gender roles are still strong in Caucasian societies, particularly in rural areas.

With the break-up of the old system, women were relatively unprepared, and were hit harder by the general economic deterioration and growing rate of unemployment. With men losing their traditional role as family supporters, women's traditional roles are undergoing change, and thus exacerbating the problems felt by women. As a result, this has led to the creation of women's movements in the region. The economic crisis has forced women to adapt to the changed circumstances, engaging in a wide range of small businesses or migrating. Paradoxically, the economic balance has, since independence, shifted in women's favor since many traditionally male jobs disappeared. Women have in many cases become the sole bread earners for their families. However the transition also clearly negatively impacted women at different levels. Many women have had to seek employment abroad. This fact along with hard economic conditions leads to trafficking in women for the purpose of forced prostitution that is still a huge problem. The sectors where women were traditionally well represented (food processing, chemical industry, state institutions) experienced heavy reductions in employment and salaries, and more generally, a lower social status.

Reduced medical protection has led to increased maternal mortality and a general rise in infectious diseases, and thus also child illnesses. There has also been a demographic impact: birth rates have declined as a consequence of changed reproductive patterns caused by the general socio-economic decline. Ethnic conflicts have reduced hundreds of thousands of Georgians to refugee status. Women have suffered particularly heavily either as refugees or as unemployed workers as a result of ethnic conflicts and a civil war. Violence in these wars was directed toward civilians. Of the 5 000 dead in Abkhazia, 2000 were women and children. Rape was used as an instrument of war by both sides in the Abkhazia conflict. Most rape survivors have not received treatment because of the social stigma attached to rape.

Civil Society and Media

One of the most significant developments in the South Caucasus since independence has been that while political progress has been slow, civil society has emerged and continues to strengthen. NGOs in the region are mostly politically oriented. The majority of charitable associations, human rights groups, and other NGOs depend heavily on foreign aid and grants, and are active in the fields of ecological protection, social charity, human rights, education and youth activities. Their activity, however, is severely hindered by a lack of funds: local philanthropy is not developed and almost no funding comes from state entities. The NGO sector faces further obstacles as a result of commonly experiencing harassment from authorities, in the registration process – especially in Armenia and Azerbaijan. Yet growing citizen awareness of civil rights and democratic values and the continued evolution of civil society provide a partial check on the excesses of law enforcement agencies. It is hoped that cooperation between various state agencies and NGOs will promote the implementation of guarantees in the field of human rights. This cooperation should contribute to the establishment of the public control mechanisms and advancement of the rule of law. For the most part, NGOs do not yet receive the government support required to be significantly effective – in fact, there is insufficient cooperation between NGOs and public officials. Furthermore, because NGOs are almost entirely dependent on foreign support, they tend to adapt their needs and objectives to the interests of donors in order to compete in obtaining the limited funding that is on offer.

Armenia and Georgia have seen the largest development of NGO networks, mainly due to higher funding levels. The Armenian Assembly of America has set up an NGO resource and training center in Yerevan, which serves the needs of the NGO community of ca. 1200 organizations. Azerbaijan recently passed a new law on NGOs, and NGO activists participated in its elaboration. However, NGOs receiving major parts of their funding from foreign entities are still prohibited from participating in political processes. Since most of the local NGOs depend heavily on foreign funding, they were not allowed to monitor the November 2000 parliamentary elections. The public perception of NGOs and their role in the development of civil society remains low. A survey conducted in Azerbaijan in 2000 showed that only 7% of the population had some awareness of what the NGO sector is. Media reports on NGO activities have nevertheless increased. Governments also feel threatened by NGOs, as many of them are associated with opposition parties – especially in Azerbaijan. For this reason, the authorities remain reluctant to include NGOs in the decision making process.

A number of independent think tanks have emerged in the region – however, only a few of them have gained real credibility. These include the Armenian Center for National and International Studies, headed by the former foreign minister Raffi Hovannisian, the Caucasian Institute for Peace, Democracy and Development headed by Ghia Nodia, and the Georgian Foundation for Strategic and International Studies, headed by Alexander Rondeli. Private institutions of higher learning

have been established in all three states; some of the most advanced are Khazar and Western universities in Baku and Hrachya Acharyan University in Yerevan. In addition, American Universities were established in Baku and Yerevan, though the one in Baku shut down in the late 1990s.

The print media has been significantly liberalized…

All three countries have constitutional guarantees for freedom of the press. In practice, the print media has been significantly liberalized. Oppositional forces can and do publish newspapers that harshly criticize the government; however, oppositional journalists are not exempt from harassment by authorities. Moreover, the judicial system is frequently used against the independent media in the form of libel suits and fines that remove the financial basis of the media's operation. Broadcast media is much more heavily controlled by the state, as it reaches much greater numbers of people, including in the provinces. Newspapers have rather limited circulation, and most people get their news from television. As a result, government attempts to curtail the media have focused on independent TV stations. In Armenia and Azerbaijan, TV stations have been closed down; in Georgia, government attempts to suppress the independent Rustavi-2 channel prompted the November 2001 government crisis. Self-censorship is widely practiced in all media. The state TV channels have low popularity among the public, due to the low quality of their programs. The internet has continued to be a growth industry in the Caucasus, especially in Azerbaijan. The number of 'internet clubs' has grown at a staggering rate, providing cheaper and faster internet access to the public, mostly the youth. This has also positively contributed to the growth of the independent media.

Armenia has several TV channels and dozens of newspapers which are mostly partisan in their views and activity. In April 2002, the government took away the broadcasting license from one of the most independent TV channels, "A1+". This caused much turmoil and disapproval among the general public.

…but broadcast media remains heavily controlled by the state.

The print media operates rather freely in Azerbaijan, although there are frequent cases of harassment and pressure on journalists. Most newspapers are either pro-opposition, like daily *Yeni Musavat* (18,500 copies) or pro-governmental. Few newspapers, like *Ekho*, *Zerkalo* and *525-Gazet* have managed to maintain relative independence. There are also a few English-language newspapers in Azerbaijan, mostly aimed at foreign citizens and the business community. In 2001, there were a number of cases of harassment of media representatives, which led to street rallies and President Aliyev's personal promise to protect the journalists. There are two state and four independent TV channels in Baku with ANS TV station having the reputation of the most independent one. In the past, authorities have closed down two independent TV channels, Sara TV and ABA TV, and put unofficial restrictions on the opening of new independent TV stations. Two regional stations, "Xayal" and "Gutb" were forced to close down in 2001.

In Georgia, independent newspapers such as *Resonansi* and *24 Hours* have replaced the government-controlled press as the population's source of information. However, independent newspapers continue to struggle in the regions, due largely to the population's lack of purchasing power. High printing costs and general poverty, especially in the countryside, limited the circulation of most newspapers to a few hundred or a few thousand readers. Few newspapers are editorially independent or commercially viable, and are usually subsidized by patrons in politics and business. The Government finances and controls one newspaper (which also appears in Russian-, Azeri-, and Armenian-language versions) and a radio and television network with a national audience, which reflect official viewpoints. Most persons continue to get their news from television and ra-

dio. The Government's monopoly on television news was broken when Rustavi-2, a member of the independent television network TNG, emerged in 1998 as an important alternative to state television, after successfully resisting 2 years of government attempts to shut it down. In addition to Rustavi-2, there are seven independent television stations in Tbilisi.

Economic Development

All three countries of the Caucasus suffered significantly from the collapse of the Soviet Union and the break-up of the central planning system. Regional conflicts and the absence of export markets worsened the situation. The majority of industrial entities stopped functioning and the general infrastructure has worn out. GDP has decreased roughly by 50% since 1991, poverty levels have reached 60-80%, and unemployment has skyrocketed. This has resulted in dramatic levels of emigration from the region to Russia, Turkey, the Persian Gulf, and the West. Nevertheless, since 1994 all three countries have shown signs of macroeconomic recovery and progress in the implementation of structural reforms. Loans from international organizations were spent to cover budget deficits and finance reforms. The Caucasian states have laid the ground for a market economy, and have implemented free foreign currency exchange and the unimpeded repatriation of profits abroad.

Armenia has arguably been hardest hit by the economic downturn. In the early 1990s, it struggled with the economic embargo imposed by Turkey and Azerbaijan and the absence of energy resources. Since 1994, Armenia's GDP has been on the rise at the average rate of 5%, even at the time of the Russian Financial Crisis in 1998. Armenia declined to enter the CIS Customs Union and instead aimed at becoming a member of the WTO. It is estimated that nearly 1,5 million people (half of the country's population) have left Armenia permanently or temporarily in search of jobs, mainly to Russia. 45% of the work force is employed in the state sector, of which 36% are engaged in agriculture. Armenia's economy is dominated by such industries as machine building, metalworking, electronics, chemicals and non-ferrous metallurgy. Other industries include construction, food processing and knitwear. Much of the heavy industry is based on the extraction and processing of ores and chemicals. Armenia's economy is heavily dependent on imports of raw materials. Real wages in Armenia have dropped more than in any other country of the former Soviet Union, except Tajikistan. PPP (purchasing power parity) GDP per capita is estimated at $2200. Armenians, reportedly, spend 80% of their income on food.

Close to half of Armenia's population has left the country since independence.

The recovery of the Azerbaijani economy, on the other hand, started in 1994 after several Production Sharing Agreements (PSA) with leading Western oil companies, for the exploration of the nation's hydrocarbon resources, were signed. Industrial output increased, and the gradual privatization of state property continued. The 2001 UNDP Human Development Report placed Azerbaijan's GDP per capita at $2850, calculated on purchasing power parity (PPP). Conventional figures are closer to $650. The heavy dependence on the oil and gas sector (84% of exports) remains a concern among local and international economists as it poses a significant risk of the 'Dutch disease' hitting the country. Foreign Direct Investments (FDI) is also disproportionately concentrated in the oil and gas sectors, and in the Baku area, while the rest of the country gets only a minimum of foreign investment. The national currency, the Manat, remains weak and unpopular among the public, which prefers to invest in US Dollars as a secure way to fight inflation.

Over the last decade, Georgia's industry and agriculture stagnated, and many structural problems fundamental to the economy remain unsolved. The economic crisis also affected social welfare systems, such as health, education and pensions. Despite macroeconomic stability achieved in

1994, no significant progress has been made in the strengthening of the State finances. Today, Georgia is classified as a food-deficit, low-income country. GDP per capita at PPP is ca. $2400. The new Georgian currency, the Lari (GEL), introduced in October 1995, has nevertheless performed satisfactorily. Starting from 1998, budgetary problems emerged, which were aggravated by the financial crisis in Russia – Georgia's then major trading partner – resulting in a significant worsening of the macroeconomic and financial situation in the country. In the year 2000, severe drought significantly damaged the agricultural sector, while floods in Summer 2002 did severe harm to many parts of the country, especially Northern districts.

Structural Reforms.

When elected President of Armenia in 1998, Robert Kocharian promised to implement an effective economic policy. His economic program included supporting the industry, creating more jobs, creating favorable conditions for foreign investments, and cracking down on tax evasion and the black market. The IMF and the World Bank continue to have a large influence over the Armenian government. They have been urging the conduct of structural reforms in the country, especially the privatization of Armenia's electricity network. The IMF has approved $40 million loan for the improvements in the transportation sector, and it was announced that future loans would be contingent upon progress in the fight with corruption. 85% of Armenia's medium and large size enterprises and almost all of the agricultural land have been privatized. The telecommunication sector of Armenia has been largely privatized**,** with the Greek company OTE acquiring 90% of ArmenTel, the Armenian state operator, in 1998. In order to liquidate its debt to Russia, the Armenian Government has agreed to transfer several large Armenian industrial enterprises to Russian ownership with Russia agreeing to write off $98 million of Armenia's debt.

The reform process in Azerbaijan is progressing, with a major novelty being the creation of an oil fund. Nearly 95% of all rural land and property will be transferred to private hands by 2002, yet due to poor financing and lagging supply-side reforms, the agricultural sector continues to experience growth problems. Floods in Summer 2002 worsened the situation. In the industrial sector, the long-awaited second stage of privatization started in August 2000, and should finally open up access to the larger enterprises of Azerbaijan's industry and speed up the privatization process in general. 300 enterprises will be put on auction. In some sectors, such as agriculture, the share of private production is now close to 100%, whereas in service and industrial sectors it is at ca. 50%. Currently nearly 31% of the total work force is concentrated in the agricultural sector. According to the Azerbaijan Confederation of Entrepreneurs, some 70% of the able-bodied population (nearly 2,600,000 people) work in the private sector of the economy. The number of commercial banks in Azerbaijan decreased in the past few years as the National Bank tried to tighten regulations of the banking system by increasing the requirements of the level of founding capital for commercial banks. Currently there are 4 large state-owned banks and nearly 50 commercial banks. High levels of corruption, harassment by governmental officials and tax police, and a weak legal system nevertheless create little incentives for local businessmen to operate in the country. As part of the structural reforms in the Government and in order to create transparency in oil revenues, President Aliyev in 1999 created a special 'State Oil Fund', where all revenues from the extraction and sale of oil and gas**,** as well as bonuses from contracts with the western oil companies, will be accumulated. The state oil fund is subordinated to the President and is expected to spend funds for the development of Azerbaijan's infrastructure, an investment-friendly environment, and the welfare needs of IDPs and refugees.

After the implementation of an anti-crisis program in 1994, developed in close consultation with international financial organizations, Georgia achieved macroeconomic stability. The IMF and World Bank have supported structural reforms in fiscal, budgetary and energy sectors. In Janu-

ary 2001 Georgia's arrangement under the IMF's Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 108 million (about US$144 million) was approved. Georgia has made progress in implementing the economic program supported under the PRGF. Notable achievements include higher GDP growth and lower inflation, and an agreement with Paris Club creditors on debt rescheduling. However, progress was slow in some key areas. There has not yet been a sustained improvement in tax revenue collections, due to slow reforms of the tax and customs administration and frequent tax code amendments that have narrowed the tax base. And the serious situation in the energy sector constitutes a significant risk to macroeconomic stability and growth. Regional and political instability in Georgia and widespread corruption are important obstacles to reforms and private sector development, and have undermined the prospect for foreign investment. Nevertheless, progress in economic reforms enabled Georgia to draw an amount equivalent to SDR 22.5 million (about US$30 million) from the IMF in July 2002. So far, Georgia has drawn SDR 27 million (about US$36 million). To sum up, economic reforms have been more successful than political reforms. The government developed a legislative framework to promote and sustain a free and competitive market-oriented economy and to encourage foreign investment. Important legislative milestones were reached in 2000 with the passage of key legislation aimed at extending the scope of the privatization program, creating capital markets, promoting accounting reform, and registering ownership of enterprises and agricultural land. Georgia professes to have some of the most progressive business legislation in the former Soviet Union, although there is often a disparity between the passage of legislation and implementation of the laws. Georgia became a member of the WTO in June 2000. By the end of 1997 about 60 percent of cultivated agricultural land was in private ownership. Privatization of small and medium enterprises was conducted between 1993-1998, during which more than 12,800 objects of trade and service were privatized. After that, the privatization of larger companies was launched. A total of 1,200 large enterprises have been transformed into joint stock companies, of which 910 have been privatized. Privatization remains to be carried out in the energy sector. Work is currently underway to elaborate strategies for privatizing energy distribution and energy generation branches, as well as the communications sector and the seaport of Poti.

In all three countries, IMF and WB play a major role in securing the macroeconomic stability by providing much-needed loans to cover budget deficits. Often these loans are made on the promise of a specific structural reform, as well as on the general success of macroeconomic policy of the states in the area of GDP growth, inflation control and trade liberalization. However, both institutions exhort a larger degree of control over Armenian government than over the Azerbaijani and Georgian ones, due to Armenia's heavy dependence on international donors. In the past year, the relations between the Azerbaijani Government and IMF/WB have been rough due to the pressure on the government to raise prices on energy and liberalize prices on home utilities. Similar pressure was made on Georgian government in 2001 to urge the latter to negotiate higher tariffs for Baku-Tbilisi-Ceyhan pipeline's passage through Georgian territory. Neither Armenia nor Azerbaijan are members of the WTO, although both governments have announced their intention and desire to join the organization. Negotiations are underway, with both governments taking measures in trade liberalization and economic reform in order to meet the requirements for membership.

Transport and Communications: The 'Silk Road'

The South Caucasus has a favorable geographic location at the crossroads of Asia, Europe and the Middle East, and the three states have been eager to develop East-West and North-South transport corridors through their territory. Communication links through Iran and Turkey have been developed from scratch, since borders were mainly closed in the Soviet era and little trading took

place. The key issues currently are the building and development of energy pipelines from Azerbaijan's Caspian coast to Georgia's Black sea coast**,** as well as through to Turkey; and the creation of new and modern highway and rail links across the region. Together with the highway from the Georgian-Turkish border to Istanbul, that is currently under construction, these new initiatives will link the Caucasus to western markets by road more efficiently. In 1998, Azerbaijan organized a major international conference in Baku on the restoration of the Ancient Silk Road, with the participation of the leaders of several regional nations. The Azerbaijani government has been successful in pushing through East-West energy projects, such as the completion of the Baku-Supsa pipeline in 1999, the decision to build the Baku-Ceyhan oil pipeline and the Baku-Erzurum gas pipeline. Construction on these twin lines is expected to begin in Summer 2002 and expected to be completed by 2005. At the same time, the reconstruction of major highways and seaports has been underway with credits from the World Bank and the EU. The latter has established the TRACECA (Transport Corridor Europe-Caucasus-Asia) and the TACIS (Technical Assistance to CIS) programs for similar purposes. In 1999, Azerbaijan completed the construction of its new airport, whose international standards and increased capacity should further develop Baku's role as the transportation hub of the Caspian region.

Armenia is a landlocked country. Its major transportation routes, particularly railroads, were through Azerbaijan, and have hence been closed due to the war in Mountainous Karabakh, and the economic embargo imposed by Turkey prevented the opening of links westward. Infrastructure in the north of the country was severely hit by a 1988 earthquake. 40% of Armenia's roads are in need of repair and only the roads to Georgia and Iran are main arteries. The American-Armenian billionaire Kirk Kerkorian allocated $38 million for the repair of roads, a program that started in 2001 and should finish by the end of 2002. In 2001, an Argentinean-Armenian businessman, Eduardo Eurnekian pledged to invest $50 million in upgrading Armenia's main airport, Yerevan's *Zvartnots*. Armenia has been largely excluded from the regional "East-West" transport corridors and oil and gas pipelines because of its war with Azerbaijan. Even though an Armenian delegation was invited and took part in the Silk Road conference in Baku in 1998, little came out of it for the Armenian side. Azerbaijan demands the liberation of its occupied territories before getting engaged in any kind of economic, trade or transportation cooperation with Armenia. In addition to that, the economic embargo by Turkey has also severely hit Turkey's economy and transportation. Georgia's ports of Batumi and Poti remain Armenia's major gates to the outside world.

Georgia, with its outlets to the Black Sea, has a pivotal location to provide the shortest and most secure route between the Caspian and Central Asian basins and the West, as alternative to the vulnerable routes through Russia and Iran. Since April 1999, oil is flowing westward through the territory of Georgia via the new Baku-Supsa pipeline. Georgia has several main airports and two major Black Sea ports. Georgia has rail ferry links with Ukraine, Romania, and Bulgaria. The privatization and rehabilitation of the port of Poti, with technical assistance from USAID, is seen as an integral part of the development of the 'Eurasian Corridor' across Georgia. The port of Sukhumi in Abkhazia is currently not under the control of the Georgian government. The transport system in Georgia is relatively stable due to various international projects. However, Georgia's road and rail transport systems are, as yet, inadequate to support Georgia's role as a major transit route for trade between Europe and Central Asia. The Soviet-built transport systems were not designed to fulfill such a role, and several years of minimal maintenance during the early 1990s took a heavy toll. Upgrading these systems is a major priority. An important proposed construction project is the Akhalkalaki-Kars rail link with Turkey. The transit of Azerbaijani oil is also important for the Georgian economy. TRACECA will imply the establishment of strong and sus-

tainable transport and energy corridors and their effective maintenance by a modernized telecommunication network across the whole region. The TRACECA countries have also signed bilateral agreements on a preferential trade regime and on cargo treatment.

Social Development, Health, Poverty

In spite of dire socio-economic conditions and widespread poverty, the Caucasian states are not traditional developing countries. Due to their Soviet past, they have high levels of literacy, relatively high life expectancy, high access to education for both men and women, and a rather advanced health care system. However, socio-economic indicators have dropped dramatically since independence. Poverty is the greatest problem for people that only a decade ago lived in relative wealth. The severance of Soviet-time economic links and the travails of transition from a centrally planned to a market economy are major causes of this phenomenon, which has led to the devastation of industry in the region and to rampant unemployment. Over half of the region's population lives below the poverty line. The economic collapse has also restricted the state's ability to fulfill key functions, and as a result both the health care and education systems have deteriorated. The number of HIV-infected persons is increasing at a dramatic rate, even though many of the infected people remain unreported due to the social stigma attached to this disease by society.

The South Caucasian states rank relatively high in the UNDP Human Development index (HDI); Armenia is 72nd, Georgia 76th, and Azerbaijan 79th. These rankings are nevertheless due mainly to high education and literacy levels and other high indicators dating from Soviet time; for example, the number of physicians per capita is higher in these states than in most western countries, while GDP per capita figures, even when calculated according to Purchasing Power Parity, are much lower than countries in the same HDI range.

Refugees and IDPs

The most vulnerable section of the population in the South Caucasus is the refugee and IDP population. They often live in poor to miserable conditions, especially IDPs from Armenian-occupied territories outside Mountainous Karabakh in Azerbaijan and from the Gali district of Abkhazia in Georgia. The Azerbaijani and Georgian government housed numerous refugees in schools and hotels, such as the Iveria hotel in central Tbilisi, and in rail wagons, as in Saatli in southern Azerbaijan. Some IDPs live in prefabricated houses, tent camps, or self-made mud huts, while the worst off still live in dugouts. The IDP issue is politically sensitive, and the governments have been reluctant to integrate the IDP population into society, since they feel that would amount to an implicit acceptance of ethnic cleansing. In the case of Azerbaijan, the country hardest hit by refugee and IDP flows, ca. 12% of the population, one of the highest rates in the world, consists of refugees and IDPs, making it extremely difficult for the population to handle the problem.

The refugee and IDP population is the most vulnerable section of the population.

International assistance has been meager, and in the early 2000s, UNHCR and other international organizations continued to downscale their assistance to the Caucasus in spite of nothing having changed in the conditions on the ground. UNHCR allocation to Azerbaijan, for example, was $11 million in 1999 but only $2 million are budgeted for 2003. Many Western relief agencies based in the area could soon be on their way out as well. In order to partially compensate for the withdrawal of international humanitarian aid, President Aliyev issued decree to pay $30 million from the State Oil Fund to the urgent needs of refugees and internally displaced people, to be spent mainly on the improvement of IDP housing. Currently,

IDPs receive a monthly stipend of AZM20,000 ($4). The health and educational needs of the IDP populations have been handled either by the IDPs themselves, especially regarding primary schooling, whereas for health matters the local communities where they have settled have borne an additional burden. Generally speaking, the lack of proper education, sanitary and health conditions, and employment among this segment of population is likely to display negative results in the near future, as an entire generation of IDP children is being raised in tent camps. Given the size of this group, it could create a major social and economic blow to the country as well as a source of potential political instability, especially in times of political succession. The same is true to a lesser extent in Georgia.

By the end of 2001 more than 264,000 persons remained internally displaced in Georgia. The overwhelming majority (about 252,200) were ethnic Georgians displaced from Abkhazia, Another 12,000 persons remained displaced from South Ossetia. About 41 percent of Georgia's displaced population (107,629 persons) lived in the Samegrelo region adjacent to Abkhazia. Large numbers of displaced persons also settled in Tbilisi (89,629 persons, or 34 percent), and Imereti (32,433 persons, or 12 percent). About half of the displaced population lived in collective centers or camps and half in private accommodations. Budgetary constraints have prevented the government from regularly providing the stipends GEL13 ($6) per month to IDPs. IDPs are easily inclined to various diseases, especially tuberculosis. Criminal misconduct among IDPs is rather common, and provokes confrontation between them and local residents. In 2001 the Georgian government, with funding and technical assistance from UNHCR, the UN Development Program, the Swiss Agency for Development and Cooperation, the World Bank, and the U.S. Agency for International Development, tried to implement a Georgia Self-Reliance Fund designed to integrate displaced people into mainstream Georgian society. By early 2002, however, the $1.2 million program had only approved two projects. Georgia and Azerbaijan have also hosted refugees from Chechnya, and Azerbaijan has hosted numerous refugees from Afghanistan. International humanitarian organizations have provided only sporadic aid to over 7,000 refugees in the Pankisi Valley. Chechen sources claimed that an outbreak of viral hepatitis threatened refugees in the Pankisi Valley late in 2001.

Poverty and Poverty Reduction

Armenia is a poor country, with the poverty rate reaching 55%, although the number of those living under extreme poverty has decreased in the past several years. Unemployment is very high and close to half of the population has emigrated to Russia and other countries either temporarily or permanently in search for jobs. The collapse of the Soviet Union has hit the pensioners and disabled people the most, as the state welfare system collapsed overnight. The earthquake in the north of the country in 1988 also brought severe hardships to peoples' lives as many of them lost homes and jobs. The issue of poverty alleviation has received very careful consideration by government. In January 1999 the government established the 'Family Benefit System' – which is a unified social benefit system that was instituted to ensure that only the most vulnerable receive government aid, based on a vulnerability index. However, given inadequate government resources, it is estimated that less than 50% of the most vulnerable households receive welfare assistance. Furthermore, the monthly average family benefit is not enough to cover the gap between disposable income and subsistence. One of the largest anti-poverty programs in Armenia has been the $90 million "Poverty Reduction and Growth Loan" program, funded by the IMF and due to be distributed in three annual tranches.

Whereas literacy rate and access to health system and education remain high in Azerbaijan, unemployment and economic poverty limit people's opportunities to enjoy sustainable develop-

ment and income security. The average life expectancy, according to the UNDP's Human Development Index is 71.3 years. Official unemployment figures remain at the level of 15-20%, although statistics on this question are highly unreliable. Nearly 2 million Azerbaijanis have emigrated abroad, mainly to Russia, to earn a living. Although the government continues to report economic growth, the high and increasing level of inequality in society creates problems in the proper distribution of these economic gains. In order to fight the problem of poverty, a Poverty Reduction Strategy Program has recently been finalized, and includes concrete steps that the government should take in the economic and social sectors for the reduction of poverty.

Unemployment, corruption, poverty, and low incomes have risen to the top of people's agenda in Georgia. More than 50% of the population lives below the poverty line. Unemployment in urban areas is about 26% and in Tbilisi ranges between 30% and 40% depending on the season. Even for employed people, salaries are often below what is needed to cover basic needs. The current level of the pension flat rate benefit is extremely low, under $10 per month. Despite its problems, the current pension system seems to play a crucial role in reducing poverty. Although benefits are low they have a positive welfare impact on the population in that they help the part of the population that is vulnerable to poverty, however rising arrears have disproportionately hurt the most vulnerable groups. Difficult economic conditions have also increased the number of street children, which are estimated to number over 2,500 in Tbilisi alone due to the inability of orphanages and the Government to provide support. Street children often survive by turning to criminal activity, narcotics, and prostitution.

In recent years, poverty reduction in Georgia has advanced to the forefront of the agenda of international organizations The fight against poverty is going beyond the income poverty arena to encompass other dimensions of life, such as access to education and health care, and individual freedoms. This approach is reflected in the Government of Georgia's "Poverty Reduction and Economic Growth Program"(PREGP), which was produced with contributions from international organizations. The PREGP presents actions for the short-term (3 years), medium term (7 years) and long term (15 years). It is an extensive document that covers almost every aspect of public policy, and it has designed a strategy for poverty reduction that is focused on four main fields: Macroeconomic stability and private sector development; Public sector governance and the strengthening of Government finances; the protection of human capital and; and empowerment of the poor. This task, as it has become apparent in Georgia, is not easy. The successful implementation of anti-poverty policies will demand not only first class technical expertise but also overwhelming political support.

Health

Inadequate government resources are also responsible for the deteriorating health care conditions in Armenia. The lack of budgetary funding in Armenia has led to a severe drop both in the quality and the quantity of medical services in the country, although there has been significant amount of international aid and charitable activity. Medical support is poor in major urban areas, but almost non-existent in border areas affected by conflict. As a result of rising unemployment and displaced persons and the growth of poverty, evidence suggests that the rate of chronic diseases and disability is increasing. In 1995, health expenditures amounted to 8% of the total GDP. In 1998, the Ministry of Health reported an outbreak of cholera. Deteriorating health care will inevitably have a negative impact on the economic situation.

Health care in Azerbaijan continues to unction in the Soviet-style system, although several private clinics have opened and the government has partially switched to paid health care. Generally it is a state-subsidized sector, with little developed insurance system. People rely on their own funds to

buy medicines and pay for surgeries. The Ministry of Health has cooperated with UNICEF, WHO and UNDP in eradicating polio and malaria in the country. Social security in the country is at miserable levels, providing very little for retired and handicapped people. The majority of current retirees have invested their pension funds in the Soviet Pension system and have lost most of their savings after the collapse of the Soviet Union. As a result, people rely extensively on social networks and kinship to survive. In spite of this, the government, under heavy budgetary pressure from international financial institutions, has decided to slash social benefits from $200 to $30 million. Other important sectors, such as education, health care and science remain under-funded. According to the state budget for the year 2002, submitted by the government to parliament for ratification, science receives 1.2%, the health sector 5.2%, education 21%, and social benefits 13% of the budget's share.

HIV and other STDs are spreading rapidly, while drug use has increased sharply.

Social security in Georgia includes a system of social allowances and unemployment benefits and the pension system. However, due to state budget restrictions, institutional weaknesses and poor management the overall resources available do not provide social security even for the most vulnerable. Approximately. 90% of benefits goes to the pensions for more than 900,000 pensioners in Georgia, or around 20% of the population. The average pension is only 14 GEL ($5) per month. The crisis in the pensions system has deep implications in terms of poverty, as well as social and economic marginalization. The 1998 economic crisis had a large negative impact on the health care system. Expenditures on health care constituted only 0.9% of the GPD in 1999. Due to the inability of the major part of the population to use the health care system, diseases like tuberculosis, hepatitis, HIV, other sexually transmitted diseases and socially dangerous infections spread widely. Drug use has also increased sharply.

Education

Compulsory education up to the age of 16 is free and universal in Armenia. University education is also free, but there are problems with the provision of electricity and heat to these institutions during winter. Several private universities also function in the capital city, most notable of which is the American University of Armenia.

The education level in Azerbaijan is also high, although there has been some decline in the quality of education after the collapse of the Soviet Union. According to UNDP statistics, there is no difference between females and males when it comes to the access of primary and secondary education, the participation of females in higher and post-graduate education slightly lags behind that of males. There are nearly 20 universities in Azerbaijan, with the number of private universities skyrocketing after independence. The literacy rate is around 97%. According to minister of Education Misir Mardanov, in the past decade, only one secondary school has been built in the country.

Georgia's high HDI score is also based on secondary education enrolment figures, which although high, has been declining substantially over the last 10 years. Georgia ranked first among the Soviet Union's republics in terms of education. It was an important cultural and intellectual center in the Soviet Union, and its universities hosted many students from other Soviet republics and from overseas. The positive legacy of the Soviet system is that more than 20 percent of the adult population has higher education. While the level of education remains generally high, the HDI index does not portray a fair picture of the overall sustainability of the education system. The quality of the education provided is very poor, suffering from out-of-date curricula and teaching methods, lacking investments in infrastructure, low or unpaid teachers' salaries, and overall low public ex-

penditures on education in constrained state budgetary conditions. Many schools have been obliged to close during harsh winter weather. Attendance rates have dramatically fallen in primary and secondary schools, and education differs greatly according to income. The richest 20 percent of households spend an average of 22 times more on educating children than the poorest 20 percent. Access to quality education is now confined substantially to those who can afford fees, or private tuition.

Environmental Issues

The economic collapse in the South Caucasus has also contributed greatly to environmental problems, which were already significant in Soviet times. In fact, the first public demonstration in Armenia and Georgia in 1987 were related to environmental issues. The main problems are pollution, deforestation, the Caspian sea, and the Medzamor Nuclear Plant in Armenia.

Pollution

The main waterways in the region, the Kür/Mtkvari and Araxes rivers that flow into the Caspian from Turkey, Armenia, Iran and Georgia gather significant amounts of industrial waste from these countries. Municipal, industrial and medical wastewater is discharged in the river. Concentrations of heavy metals, phenols and nitrogen are considerably higher than the national and international standards. The Kura-Aras basin is heavily populated. The three countries of the South Caucasus have the greatest concentration of major urban areas and industrial centers in the Kura-Aras river basin. Therefore, anthropogenic pressure over the ecosystem is enormous (the basin is populated by 6.8 million people). River pollution poses serious health risks to the riparian countries as the waters are used for drinking, irrigation and fishing purposes.

Along with the river Mtkvari (KUR) the most polluted rivers in Georgia are Rioni, Kvirila, Galidzga, Tkibuli, Enguri and Gubistskali. In most of these rivers, concentrations of phenols, hydrocarbons, copper, manganese, zinc and nitrogen are considerably higher than the national and international standards. Most water treatment plants are not operating or work at a very low level of efficiency. It is stated that more than 60% of the sewage treatment plants is obsolete and in urgent need of replacement. Coliform levels in reservoirs and water supply systems have reached dangerous levels in many areas.

Moreover, the Apsheron peninsula on which Baku is located is one of the environmentally most destroyed areas in the world. Damage from Industries, a century and a half of oil production, energy and transport in the peninsula have made it a wasteland. The pollution of air, water, and soil in Baku, Sumgait and surrounding settlements are particular problems. Sumgait was developed during the 1960s as a center for Chemical and Machinery Industry. The concentration of so many factories and plants in one city has led to a dramatic deterioration of soil and water, as well as to air pollution in the Apsheron peninsula. Industrial waste has also damaged the Caspian Sea, where most of it was disposed. The situation somewhat improved in 1990s, but not because of improvements in standards, but rather due to the majority of plants ceasing work due to the collapse of the Soviet economy. In areas of Baku, air pollution from transport and soil pollution from over hundred years of oil production are major areas of concern. Traffic and industrial air pollution in major cities of Georgia is also a problem. Besides, management of potentially toxic chemicals in agriculture, and prevention of industrial pollution of soil is urgent.

The Caspian Sea

The water level of the Caspian sea has been rising since the 1980s and has already left hundreds of agricultural lands in the south of Azerbaijan under water. Over fishing and poaching of sturgeon by a powerful and armed caviar mafia, and the over-sale of black caviar, have also created such a problem that in 2001 the UN imposed restrictions on the five Caspian littoral states on the sale of caviar. Exploration and production of oil and gas have also led to massive ecological problems in the sea. In 1999-2000, Azerbaijani environmentalists reported the death of hundreds of sea lions in the Caspian.

Deforestation

The war in Mountainous Karabakh and the subsequent economic embargo by Turkey and Azerbaijan has severely hit Armenia's energy sector. Because of this, people heavily relied on local forests to provide heat and energy for their homes, especially in 1992-1993. This led to a severe deforestation in the country. Currently, the energy crisis has largely been solved, however it is estimated that 4% of the country's budget will be required to stop any further degradation of natural resources. Deforestation has also been a major problem in Azerbaijan in the past decade, as many people in the regions lost their gas and electricity supplies, and therefore relied on wood as a source of heat and energy in the winter. The newly created Ministry of Ecology and Natural Resources in 2002 drafted a plan of action for the creation of national parks and preservation of forests in Azerbaijan. Deforestation is a problem for Georgia. Recent intensive deforestation activities have been unprecedented in the history of the country. This is mainly due to the almost complete reduction of the timber import from Russia after the declaration of independence (this used to be total to 2 - 2.5 mill. m3, more then 85% of country's requirements). Besides, sharp reduction into gas and electricity was largely compensated by the illegal forest cutting. Especially vulnerable to cutting activities are former kolkhoz owned forests: their structure is destroyed, the modification of species is speeded up, erosion processes are accelerating, the forest forming plant species are substituted by satellite plant species and scrubs, or even worse. The slopes are simply washed away

Medzamor

Another problem is the Medzamor nuclear power station in Armenia and the potential ecological threat it poses should an earthquake take place. The activity of the plant outside Yerevan has caused much disagreement between the Armenian government and the EU. The latter claims that the plant causes risks for the environment and people, because Armenia is located in a high-risk earthquake zone. The severe earthquake of 1988 already slightly damaged the station, which forced the Armenian government to close it down until 1994. Currently, the station provides up to 50% of Armenia's energy and therefore, the government refuses to close it down before 2008. The EU has earmarked $100 million for a program aimed at closing down *Medzamor*. Much of these funds will be spent on constructing hydroelectric power plants and gas pipelines.

Measures

International organizations have been working on these pressing issues within the framework of several projects. Donors, like USAID, UNDP, EU-TACIS, USEPA, and SADC, have funded/will fund various regional/transboundary projects related to: Kuro-Araxes water resource management, protecting and developing highland/mountain environment, public participation and access to information, environmental education, and environmental legislation. There are also the ecological rehabilitation of the town of Sumgait by the UNDP, an "Urgent Environmental Invest-

ment Project" by the World Bank; moreover, the Soros Foundation's East-West program has supported ecological education on the problems of the Caspian Sea, ozone depletion and health consequences, and sustainable development of the Caspian countries. In addition to that, ISAR-Azerbaijan has been providing grants for environmental programs aimed at strengthening cooperation between environmental NGOs in Azerbaijan, Georgia, Kazakhstan, Russia and Turkmenistan. IREX scholarships in environmental science cover nuclear safety, urban studies and planning, and the oil and gas industry. The three states all finalized National Environmental Action Plans in the late 1990s. The Armenian EAP identifies the excess exploitation of natural resources, including depletion of water resources, erosion of soil, and degradation of biodiversity as the main environmental concerns, focusing specifically on the deteriorating condition of Lake Sevan and the decreasing forest coverage of the country). Azerbaijan's plan assessed and prioritized environmental issues and provided a framework for investment in the sector. Some of the most pressing environmental problems that the NEAP aims to deal with include the Caspian sea and the Apsheron peninsula's situation. The Georgian NEAP has prioritized to reduce the environmental impact of agriculture through a program of development and demonstration of best agricultural practices, and a watershed management demonstration program to promote public awareness and protection of soil resources; to implement programs for protecting the Black Sea together with riparian states; to protect biodiversity in Georgia; to protect Georgia's forests through introducing concepts of forest management and sustainable use, development of forest management capacity, enforcement of protective regulations, and participation in regional and international cooperative forestry initiatives.

Ongoing Activities of Donors

USAID Activities

In all three countries of the South Caucasus, USAID is the largest donor. Its budget for Armenia, Azerbaijan and Georgia breaks down as follows:

Country	Budget for FY2002	Requested Budget for FY2003
Armenia	$90 million	$70 million
Azerbaijan	$43,89 million	$46 million
Georgia	$89 million	$87 million

The vision of USAID programs is to support a stable, more prosperous market-oriented economy that empowers citizens, is governed by the rule of law and promotes the basic welfare of the population. This vision is carried out through 5 major programs:

1) *Economic growth* (technical assistance to the agriculture policy; rural credits for small farmers; business association development; commercial and financial law; economic restructuring and private sector development; credits to micro, small and medium enterprises; tax, customs and fiscal reform; land market reform; improving the legal and regulatory environment for trade investment and economic growth; reforming and developing accounting and auditing infrastructure; improving bank supervision).

2) *Energy Sector* (restructuring and reform of the energy sector to promote economic and environmental efficiency; strengthening the private sector in the energy sector, developing environmentally sound laws, energy efficiency, improving water quality and water management).

3) *Democracy and Governance* (strengthening rule of law, anti-corruption programs, judiciary reform, local governance, political parties and elections, independent media, strengthening the legislature, building civil society).

4) *Community Development and Health* (improving social welfare and health systems, providing relief assistance to refugees and displaced people, community development; winter heating assistance, reproductive health)

5) *Cross-Sectoral Activities* (training programs, building cross-border bonds between professional associations and NGOs from Azerbaijan, Armenia and Georgia)

Country specific activities of USAID in *Armenia include* facilitating recovery from the 1988 earthquake, including improving housing opportunities for families still living in temporary shelters. In *Azerbaijan*, USAID efforts are also directed on enhancing mutual tolerance and understanding between Azerbaijan and Armenia through the popular television program "Space Bridge", which reached an estimated 5 million people; moreover, new and supportive activities are now being designed in response to the waiving of Section 907 sanctions. In *Georgia*, the agency is shifting from working with Tbilisi-based institutions toward doing more to improve the lives of people in the regions, especially in those areas prone to conflict. USAID also implements a regional Caucasus farmer-to-farmer program, assisting rural farmers by placing volunteer technical advisors at their farms on a short-term basis. The technical advisors develop and disseminate a set of best practices to their local clients and assist in strengthening local credit providers. Advisors have assisted on issues of production, appropriate processing technology, and business management and planning. The State Department provides democracy-related training and exchange programs.

Multilateral Donors

As far as multilateral donors are concerned, the scene is dominated by the World Bank, which is *Armenia's* largest multilateral donor. World Bank and USAID activities complement one another in most sectors. The World Bank's activities focus on enterprise development, energy, water, education, health, agricultural reform, municipal development, and judicial reform. The WB aims to help the government accelerate the transition to a market economy and to reduce large pockets of poverty that have emerged over the last few years. As concerns structural reforms, the WB has placed emphasis on private sector development, better social protection, and improved health and education services. Total IBRD/IDA commitments to Armenia, as of June 1, 2001, are about US$658 million.

Other multilateral donors include the IMF (macroeconomic policy), the EBRD (credit and energy), the EU's TACIS program (civil society, the social sector, energy, education, private sector development, land titling, agriculture, statistics and transport), and the United Nations network of agencies, e.g. UNDP (poverty reduction, democracy and governance), UNHCR (refugee support), UNICEF (health, education, social sector), and the WFP and WHO. Since independence, the EU has given Armenia •286.13 million of grant-based assistance. The Soros Foundation is also active in Armenia in the areas of civil society, education, public health, culture, media, and judicial reform. There are also several Armenian Diaspora donors, the largest of which is the Lincy Foundation (SME development, road network, Yerevan city public works restoration and improvements, tourism and earthquake recovery).

The World Bank in *Azerbaijan* works primarily in the area of agricultural development and infrastructure. It provides policy advice, financing for both investments and the government budget, and coordination of aid. In particular, the World Bank is working with the authorities to strengthen the government's institutional capacity to manage its petroleum resources and formulate key policy changes to accelerate reform. In 2000, the Irrigation and Drainage Infrastructure Project (US$42 million) was approved to prevent the decline in water supplied to Baku. In June 2001 three projects were approved: the Health Reform Project (US$5 million) aimed to test ways to strengthen and reform district primary health care systems; the Financial Sector Technical Assistance Project (US$5.4 million) to provide advisory services to the Government of Azerbaijan in support of further implementation of its financial sector development strategy; the Highway project (US$ 40 million) to help promote economic growth by improving access and lowering transport costs for goods and passenger traffic on the East-West highway between Ganja and the town of Gazakh.

Other major multilateral donor in Azerbaijan is EU/TACIS, working in the areas of trade (Azerbaijan is the EU's largest trading partner in the Caucasus although this primarily relates to cotton, oil and gas) and assistance (since its independence Azerbaijan has benefited a total of •333 Million of EC assistance in the form of humanitarian aid, food aid and budgetary food security assistance, exceptional assistance, rehabilitation and technical assistance). The Soros Foundation/Open Society Institute, and the United Nations work in the field of democracy and governance. UNHCR plays an important role in assisting refugees and internally displaced persons and the EU assists with refugee housing.

The largest multilateral donors to *Georgia* are the World Bank, the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD), and the European Union (EU). Since independence the EU has given Georgia • 342.88 million in grants. Donor coordination and collaboration has been exemplary in supporting the Georgian Government's Poverty Reduction and Economic Growth Program. World Bank assistance includes structural adjustment credits, agricultural development loans, assistance to the health and power sectors, and technical assistance to strengthen the private sector. The activities of UNDP Georgia are focused on poverty reduction, democratic governance and environmental protection. UNDP Georgia has achieved good working relations with bilateral donors operating in the country. A number of projects are fully or partially financed by bilateral donors, among which the Netherlands, Sweden, Switzerland and Greece. In addition, funds are provided through GEF and the EU.

The EU's Country Strategic Paper for 2002-2003 is in line with the Statement on Development Policy, adopted by the Commission and the Council in November 2000 which identifies poverty reduction as the primary focus of EU development assistance. The EU Food Security Program will continue to remain a priority for Georgia. The Tacis program focuses on two priority areas: firstly, support for institutional, legal and administrative reform, including: implementation of the EU-Georgia PCA; reforms in key sectors supported by the EU Food Security Program; development of the Georgian National Health Program and training of medical and administrative personnel; restructuring of the Georgian Border Guards; and secondly, support in addressing the social consequences of transition, in particular through investments in the primary healthcare reconstruction program. The development of transport infrastructure networks along the Traceca road could be a third priority if but only if the conditions agreed under the previous. The budget amounts to a total for •14 million. By the end of 2000 EBRD signed 14 investments in Georgia, some of them prepared by technical assistance provided by Tacis, focussed on electricity supplies, removal of transport bottlenecks (Tbilisi airport, railways rehabilitation, ports of Batumi and

Poti), post-privatisation support for SMEs, private sector investment, agriculture. Energy, telecommunications, industry and transport are the main sectors for prospective projects. Total cumulative commitments amount to •252 million, (of which 60% has been disbursed), with about 60% of the portfolio in the private sector.

Bilateral donors

Several countries have been active in the region since the collapse of the Soviet Union, providing bilateral assistance to South Caucasian states. Japan has provided soft loans to the government of Azerbaijan to reform its energy sector, particularly reconstructing the power station "Severnaya", outside Baku. Japan has been also providing aid to refugees and internally displaced people. In Armenia, Japan also focused on the energy sector, as well as health and agriculture.

Although Danish and Norwegian International Development Agencies have not been formally present in the region, both the Danish Refugee Council and the Norwegian Refugee Council have been operating in the Caucasus from the mid-1990s, providing technical and humanitarian assistance for vulnerable segments of population.

The government of the Netherlands has been particularly interested in human trafficking and illegal migration problem, funding research studies in this field and providing funds to the International Organization for Migration's Caucasus offices.

British embassies have traditionally been supporting projects in democracy and civil society areas. In Azerbaijan, the British embassy has also been involved in macroeconomic forecasting and advising the Ministry of Finance, while in Armenia the UK has been involved in supporting the development of customs, and other public sector reforms. Germany has been assisting in the privatization sector and technical aid, while in Armenia it directed its assistance to the energy and infrastructure development sector. The Canadian government has provided grain supplies as part of the humanitarian relief to refugees and IDPs. Turkey has been heavily involved in military assistance both to Georgia and Azerbaijan. The private sector has also played a role in aid: in 1999, several Italian oil companies provided $2 million for the construction of shelters for Azerbaijani IDPs.

Conflict and Security Assessment

The South Caucasus region has been plagued by conflict and instability since before the independence of the three states of Armenia, Azerbaijan, and Georgia. The ethnopolitical conflicts in the region that raged in the early 1990s have led to the death of over 50,000 people, great material destruction, and contributed significantly to the political instability, economic hardships, and the increase in transnational crime that has characterized the region in its first decade of independence. The conflicts came on the heels of the weakening and subsequent break-up of the Soviet Union. The weakening of Communist control from the Kremlin stirred national liberation movements in the three republics, which had been forcefully annexed by the Red Army in the 1920s. The conflicts centered over the territorial status of three regions populated by ethnic minorities: the Mountainous Karabakh Autonomous Province of Azerbaijan, populated mainly by Armenians (armed conflict between 1988 and 1994); the Autonomous Socialist Soviet Republic of Abkhazia (1992-93) and the South Ossetian Autonomous Province (1989-92), both in Georgia. The lack of civic consciousness contributed to the incompatibility of the conflicting sides. Majorities and minorities alike considered belonging to the newly emerging nations in a purely ethnic sense, leading to attempts by minorities to secede and by majorities to dominate. A mythification and glorification of history and nation developed on all sides, interweaving truth and fiction and further widening the gap between ever-more conscious national groups. Political immaturity and extremism prevented politicians from bringing the sides to conflicts to a common ground; a tit for tat legislative struggle for the sovereignty over the territories followed – which was made possible by autonomous institutions in the minority regions in question. Vague notions of ethnic self-determination and rights of ownership over a particular territory as well as reunification with brethren (in the Ossetian and Karabakh cases) led to warfare, which ended in defeat by the central governments in all three cases.

At present, none of the conflicts in the South Caucasus has found a negotiated solution, and the conflicts are frozen along unsteady cease-fire lines. A relapse to warfare is a distinct possibility in all three conflict areas as negotiations have yielded no positive results. Besides these active conflicts, other minority regions in the three states have seen tensions between the central government and representatives of ethnic minority populations rising. Areas with conflict potential include Georgia's Javakheti region and Azerbaijan's Talysh and Lezgin areas. In addition to ethnic tensions, which have been the region's main type of conflict, all three countries have been afflicted by the use of violent means to alter the leadership of the respective states. This has included armed insurgencies that managed to overthrow existing governments in Georgia in 1991, in Azerbaijan in 1993, as well as several unsuccessful attempts made to alter the political environment since then. Assassination attempts have also been made against leaders, including two failed attempts on the life of Georgia's President and the assassination of Armenia's Prime Minister and Speaker of Parliament in 1999. To compound this unruly picture, the South Caucasus has in the last few years been increasingly affected by other security threats of a more transnational nature, including organized crime, specifically trafficking of narcotics, arms and persons, and the rise of Islamic radical movements.

The ethnic conflicts in the Caucasus are three of five armed ethnic conflicts that erupted in the Caucasus region during the last years of the Soviet Union's existence. Significantly, of the nine armed conflicts in the former Soviet Union until today, five have taken place in the Caucasus. These included, in order of magnitude, the war in Chechnya; the Armenian-Azerbaijani conflict

over Mountainous Karabakh; the Georgian-Abkhaz war; the Georgian-South Ossetian war; and the Ingush-Ossetian conflict. While each of these five conflicts were and are unique in their own roots and circumstances, several common elements in their emergence are notable – elements that lie at the heart of these conflicts and that are crucial to understanding their character, and therefore, their possible solutions.

The emergence of ethnic conflict in the Caucasus is intimately tied to the structure of the Soviet Union. A hierarchically structured asymmetric federation of ethnically based territorial entities, the Soviet Union – despite its Communist ideology – afforded great importance to ethnicity. Ethnically based territorial units received great rights of self-rule on paper, and though these never changed the totalitarian nature of the Union, the Soviet regime actively promoted the creation of titular, ethnic political elites and intelligentsia in the republics, autonomous republics, and autonomous provinces of the Union. This ensured that ethnic segregation was kept in place, and safeguarded the salience of ethnicity in political and public life. As the ideology of Communism, that had served as a glue keeping the disparate ethnic groups of the union together, lost its legitimacy in the late 1980s, the scene was set for the rise of ethnic nationalism to replace it as the dominant political ideology. This was increasingly the case as the Soviet Union had prepared its population extremely poorly for participatory politics: there was close to no civil society, no experience of democracy or tolerance, and the population was accustomed to the use of violence and repression instead of dialogue and compromise in solving political differences.

The Caucasus region, in addition, shared several elements that accentuated ethnic tensions there compared to other areas in the Union. Firstly, the salience of ethnic identity was comparatively higher there, as evidenced by higher levels of native language retention, resistance to linguistic Russification, and a lower geographic mobility of the population. Moreover, the region had seen past ethnic conflict in the immediate pre-Soviet era, during and after the First World War, and continued inter-ethnic tensions in the Soviet era. Unresolved grievances hence existed between ethnic groups, with diametrically different interpretations of History. The Caucasus was also a border area of the USSR, and as such contained a significant number of military installations in a relatively small area. With the breakdown of military discipline in the early 1990s, a large amount of weaponry was available in the region to secessionist movements and paramilitary organizations in a way that was not the case in many other parts of the Soviet Union.

An additional factor was the role of the central government in Moscow. Whether in the guise of the Soviet government in the late 1980s or the independent Russian Federation of the 1990s, the leadership in Moscow sought to maintain its dominant influence over the South Caucasus, and to prevent the South Caucasian states from seceding from the Union. The same attitude prevailed after the dissolution of the Union, as Moscow continued to prevent them from pursuing independent and pro-western foreign policies. The Russian government has had a clear intention to weaken the South Caucasian states' viability and independence, a policy that continues to various degrees to this day. The Soviet government entertained minority secessionism in Georgia in order to counterbalance Georgian attempts to secede from the USSR; likewise, Moscow at different times supported both Armenia and Azerbaijan against each other to weaken their independence and increase their reliance on Moscow. This accentuated tensions between ethnic groups and contributed to the escalation of conflict. It should also be mentioned that do-called 'democratic' and 'conservative' forces in Moscow have followed closely similar and destabilizing policies against the Caucasus, especially Georgia.

To provide a comprehensive understanding of the current conflict situation in the Caucasus, this study will first briefly outline the current status of open conflicts, view the situation in minority

areas within the regional states, and detail the transnational and external security threats that exist in the region at present. Secondly, the study will discuss the most pressing dangers for future instability and conflict in the Caucasus. Finally, it will address the role of development assistance in conflict management and prevention.

Current Status of Active and Potential Conflicts and Security Threats

The security threats in the South Caucasus region can be roughly divided into four interrelated categories. These are first, ethnic tensions and conflicts, actual and potential; second, civil conflicts and political violence, including coups d'état and insurgencies; third, transnational threats including narcotics trafficking and Islamic radicalism; and fourth, the external realm, specifically negative fallout of geopolitical competition among regional and great powers. It is important to note that all of these four realms are closely inter-related. In the past decade, geopolitical competition has directly influenced ethnic conflicts and played a direct role in the overthrow of governments; similarly, the civil conflicts that have emerged have been closely tied to the ethnopolitical conflicts in the region, and to the growth of transnational criminality.

Ethnic Relations and Ethnic Conflicts

The Caucasus region is one of the most ethnically diverse areas in the world. Over 50 ethnic groups find their home in this region, though the North Caucasus in particular displays a stunning diversity. Even in the South Caucasus, however, ethnic diversity is remarkable and has challenged the attempts in the past century to draw political borders in the region. The three largest ethnic groups are the titular groups of the three independent states of today: the Armenians, Azerbaijanis, and Georgians. (See Map x on p. xx – Ethnocaucasus map). The Armenians speak an Indo-European language and are Monophysite Christians; the Azerbaijanis speak a Turkic language and are predominantly (ca. 75%) Shi'ite Muslims; the Georgians speak a unique, South Caucasian language, and are predominantly (over 95%) Orthodox Christians. Only Armenia, among the three republics, is relatively homogeneously populated, especially since the forced exodus of Azerbaijanis in the late 1980s; at present, only a small number of Yezidi Kurds remain. Georgia and Azerbaijan, however, are multi-ethnic states. Relatively small, dispersed and declining Russian minorities exist in all three countries.

The main minorities in Azerbaijan at the time of the last Soviet census of 1989 were the Armenians, Lezgins, Kurds, and Talysh. The largest community of Armenians, ca. 250,000, lived in the capital Baku and thousands lived scattered in Azerbaijan's other cities, whereas Armenians were the titular nationality of the Mountainous Karabakh Autonomous Province, where they composed 75% of the Province's 175,000 inhabitants. The Lezgins, a Dagestani ethnic group, lives in the Northeast of Azerbaijan, close to the border with Dagestan. They form a community estimated at ca. 250,000, with a roughly equal number of co-ethnics in Dagestan. Kurds live scattered over Azerbaijan, but the main concentrations were in the Kelbajar region between Mountainous Karabakh and Armenia, areas that were ethnically cleansed in early 1993. The Talysh, finally, are a strongly Shi'ite Muslim Iranian group that lives in the extreme southeast of the country, on the Iranian border, numbering some 300,000. The main minorities in Georgia were the Armenians, Azeris, Abkhaz and Ossetians. Armenians, 9% of Georgia's population, live in three separate areas in Georgia: in the capital Tbilisi (roughly 100,000), in the province of Samtskhe-Javakheti in southern Georgia (ca. 150,000) and in Abkhazia (ca. 75,000). The Azeris live com-

pactly settled in the southeastern Kvemo Kartli province, forming a rapidly increasing population of ca. 400,000. The Abkhaz live in their ancestral homeland chiefly in the north of the Autonomous Republic of Abkhazia, forming ca. 100,000 people. The Ossetians held a South Ossetian Autonomous Province in north-central Georgia, but only 66,000 of the 165,000 Ossetians in Georgia lived there, the remainder lived in adjoining areas of Kakheti, Kartli, and Meskheti.

Ongoing Conflicts

Three unresolved conflicts are frozen along cease-fire lines: that between Armenia and Azerbaijan over Mountainous Karabakh; and those in Georgia between the central government on the one hand and the secessionist territories of Abkhazia and South Ossetia.

– *Mountainous Karabakh*. Mountainous Karabakh is a predominantly Armenian-populated region in the west of Azerbaijan. The conflict over the area, dating back to the first period of independence of Armenia and Azerbaijan in 1918-20, re-emerged during the Soviet period at various times of central government weakness, most markedly in the late 1980s during Glasnost' as Armenians demanded the annexation of the region to Armenia. Beginning in late 1987 with the forced expulsion of ethnic Azerbaijanis from Armenia followed by demonstrations in Mountainous Karabakh and Armenia for the transfer of the region to Armenian jurisdiction, the conflict was driven to escalation in 1988 and 1989 with anti-Armenian riots in Sumgait, Baku and Ganja and a two-way ethnic cleansing campaign in the two republics, with over 300,000 Armenians leaving Azerbaijan and ca. 200,000 Azeris leaving Armenia.

Russian peacekeepers, Georgian paramilitaries, and Abkhaz forces are involved in the smuggling business, which knows no ethnic limits.

The Soviet government failed to stop these riots or contain the conflict, and with the unexpected independence of Armenia and Azerbaijan in late 1991, the conflict rapidly escalated to a full-scale war between the two countries. In Spring 1992, Armenia and the 'self-defense forces' of Mountainous Karabakh achieved control over the entire Province and created a corridor to Armenia. In 1993, Armenian forces occupied six additional Azerbaijani-populated districts outside Mountainous Karabakh, which remain under Armenian occupation to this day, with a massive ethnic cleansing of over 700,000 IDPs.

A cease-fire was signed in May 1994, which has held without major violations ever since. Negotiations to find a peaceful solution to the conflict have been held for the past ten years under the auspices of the OSCE. The OSCE's 'Minsk Group' was created in 1992, and was co-chaired by Sweden and Russia in 1993-94. Finland took over Sweden's role in 1995, and in 1996 the U.S., France and Russia have co-chaired the mediation efforts. Many approaches have been tried in the conflict. A 1997 OSCE proposal suggested a staged solution to the conflict, which would begin by the withdrawal of Armenian forces from occupied territories, and subsequently continue with the return of refugees, economic interaction, and finally a solution to the status issue. This option was refused by the Karabakh leadership. A 1998 solution alternatively proposed the creation of a 'common state' between Azerbaijan and Mountainous Karabakh, which was rejected by Baku. In 1999, advanced discussions, where a preliminary deal was reportedly even reached before the October 27 tragedy, envisaged a land swap whereby Armenia would receive Mountainous Karabakh, and the Lachin corridor linking it with Armenia; in return, Azerbaijan would receive a corridor to Nakhchivan, cutting Armenia off from Iran. However, negotiations have yielded no concrete results, in spite of expectations of an imminent solution several times, most noticeably in Fall 1997, Fall 1999, and Spring 2001.

– *Abkhazia.* Ethnic unrest re-emerged in Abkhazia in 1988-89, with increasing demands by Abkhaz to be removed from Georgian jurisdiction. Abkhazia factually declared independence in Summer 1992, prompting an attack by Georgian paramilitary forces in mid-August. However an Abkhaz counter-offensive, equipped with large amounts of Russian weaponry and North Caucasian volunteers, eventually pushed back the Georgians and acquired control over almost all of Abkhazia by late 1993. This was followed by the ethnic cleansing of about 240,000 Georgians living in the Gali raion of southern Abkhazia.

Abkhaz authorities under "President" Vladislav Ardzinba control the power structures of the region. The buffer zone along the Inguri River is extremely unstable. UNOMIG, which is responsible for monitoring the situation in the region and the demilitarization of the border, has practically no influence over the Russian peacekeepers, who, together with Georgian Paramilitaries and Abkhaz forces, are heavily involved in the smuggling business going through Abkhazia. Participation in the illegal economy extends high into the state hierarchy, knows no ethnic limits, and remains one of the few areas where quick enrichment (and ironically, interethnic cooperation) is possible. Neither side has an economic interest to finding a resolution to the conflict, although neither desires a resumption of hostilities. Recent clashes between peacekeepers and guerrillas in Gali have occurred on economic (redistribution of spheres of influence) rather than political grounds. There are no guarantees for the safety and dignity of the 40,000 IDPs, who returned to the Gali region after hostilities in May 1998. Russian peacekeepers deployed along the Inguri have assisted Abkhaz de facto authorities to build up a state border with Georgia, and to advance towards the Kodori gorge in eastern Abkhazia, which is out of Sukhumi's control and remains a Georgian outpost in Abkhazia. Kodori became a haven for Georgian guerillas and Chechen irregulars, who launched abortive attack against Sukhumi in October 2001.

The peace process is presently stagnant. A document on 'basic principles' authored by the UN Secretary-General's envoy Mr. Boden has gained support of the UN, the OSCE, and the 'Group of Friends to Secretary-General' (the U.S., U.K., Germany, France, and Russia). The Abkhaz side refuses to discuss the issue of final status, insisting on its independence, and demands that the return of IDPs be linked to economic rehabilitation of the conflict zone and a final peace agreement. Though not very happy with the document, the Georgian side agreed to sign it. Georgia also advocates the internationalization of peacekeeping forces, which are presently solely Russian. The 'Group of Friends of the Secretary-General', while capable of exerting appropriate pressure on the two sides, has not exhibited the will to do so. Hopes were raised for a movement toward accommodation between Tbilisi and Sukhumi when Aslan Abashidze, leader of Ajaria, was appointed as the Georgian President's representative to the conflict resolution process. The Ajarian example of autonomy and strong economic performance through open international trade may serve as a useful model for conflict resolution in Abkhazia. Abashidze's good relations with Russian military, political, and economic leaders may also be instrumental in promoting a peaceful resolution to the conflict.

– *South Ossetia.* The armed conflict between Georgians and Ossetians between 1989-1992 led to hundreds of casualties and thousands of refugees on both sides. The talks on settling the conflict launched in 1995 under OSCE auspices and with Russian mediation helped bringing the sides closer on many issues. However, the main issue – the political status of South Ossetia – remains unresolved. Georgia has offered South Ossetia broad autonomy and reconstruction of the region's infrastructure, while South Ossetia remains reluctant to relinquish its de facto independence. Talks in 2000 made significant steps towards final status talks, yet little has been done since. The moderate "President" of South Ossetia, Ludvig Chibirov, lost the 2001 elections to Russian citizen and Moscow-based businessman Eduard Kokoev. Kokoev has called

for South Ossetia's merger with North Ossetia as a subject of the Russian Federation, and has actively negotiated with Russia on South Ossetia's accession to the Russian Federation. The deadlock in negotiations does nevertheless not necessarily mean that an armed conflict will erupt. Unofficial reports suggest Shevardnadze and Kokoev have met privately in Gori, suggesting that steps are being taken to establish a new *modus vivendi* between Tbilisi and Tskhinvali. Special attention has been accorded to the problem of IDPs. Although Georgians and South Ossetians have committed themselves to facilitating the return of refugees and displaced persons, in practice both sides have created obstacles to return. Consequently, not only did few ethnic Georgians return to South Ossetia during the year, but some displaced people who had previously returned to their homes left again in 2001. The Georgian government, in turn, has not implemented proactive measures to help ethnic Ossetians return to their homes in other areas of Georgia.

South Ossetia remains one of the most heavily armed regions of Georgia. Robbery and violence are common features of life of the breakaway republic. Attacks on peacekeepers are commonplace, and smuggling is flourishing along the trucking route from Russia. An extensive market *(Falloy Bazaa*r) has developed between Tskhinvali and Georgia proper. Neither Georgian nor Ossetian authorities officially control this market, the primary commodity of which is fuel, which has permitted the creation of a tax-free smuggling haven. Since officials in both Tskhinvali and Tbilisi pocket a portion of the revenue generated by this illicit market, there is little incentive to see this market dismantled.

Processes and Situation in Minority Areas

Several minority areas have attracted attention. The Javakheti region of southern Georgian is Armenian-populated, while adjacent Kvemo Kartli includes a large Azerbaijani population. In the Southwest of Georgia, the autonomous republic of Ajaria is populated by Muslim Georgians. Azerbaijan's main minorities are the Lezgins in the North and the Talysh in the South.

– *Javakheti Armenians (Georgia).* Javakheti is a part of the Samtskhe-Javakheti province, located in the southern part of Georgia, bordering Turkey. The population of Javakheti of more than 100,000 is concentrated in the districts of Akhalkalaki and Ninotsminda, and is over 90% ethnic Armenian. International experts have frequently cited Javakheti as a potential secessionist region. The presence of a Russian military base in Akhalkalaki, a high concentration of ethnic Armenians along the border with Armenia, rumors of weapons in the population, isolation from Georgian language and culture, and the possible repatriation of the Meskhetian Turks (deported to Central Asia in 1943) are cited as issues that could transform this region into a hotspot. A 1998 armed protest by Javakheti residents, who prevented the Georgian military from entering the region to conduct military exercises, is frequently mentioned as further evidence of separatist ambitions.

Javakheti is often cited by Georgian and international experts alike as a potential secessionist region

Separatism is nourished by several factors. In a weak state like Georgia, the central Government exercises its authority by establishing mutually beneficial relations with elites and clans who exercise local control, through the privatization of major regional assets and control over illegal transit flows. Some members of these clans were appointed to senior government positions in Tbilisi and in Javakheti itself. The Georgian authorities practically turns a blind eye to the activities of the Russian military base, particularly those that provide considerable benefits to the local residents. However, the region has been unable to integrate into Georgia's political processes since most of the local Armenian population, including government

officials and civil servants, do not speak Georgian. However, the opening of a branch of Tbilisi University in Akhalkalaki was aimed at developing social and cultural integration. Javakheti is poorly integrated in Georgia economically as well, a result of poorly maintained communications infrastructure. Cross-border trade with Armenia has developed more rapidly than economic relations with other parts of Georgia. Moreover, direct power supply from Armenia has enhanced economic links between Armenia and Javakheti. Economic relations with Russia are also preserved due to the presence of the Russian military base. The Russian ruble's status as the main local currency instead of the Georgian lari is a demonstration, as well as further contribution to, the economic isolation of Javakheti. The main sources of instability in the region have been linked to general economic decline, high unemployment and corruption, which are symptomatic for all regions of Georgia**.** The primary grievances are common to both ethnic Georgian and Armenian communities: sharp deterioration in living standards since the collapse of the Soviet Union, environmental problems which affect public health and agriculture, lack of reliable electricity and heating. Increasing poverty and deteriorating economic conditions, partially connected with the 1998 Russian crisis, as well as growing speculation over the withdrawal of the Russian military base following a decision taken at the 1999 OSCE Summit, and which provoked a new wave of public protest from the end of 1999.

Demands for local autonomy reappeared following the decision of the Georgian government to codify the autonomous status of Ajaria in March 2000. These demands are supported by radical nationalist groups in Javakheti ("Javakhk", "Virk") and increasingly being endorsed by Armenian Diaspora groups; especially the Dashnaktsutiun in the U.S. Recognizing the critical situation in Javakheti, in February 2001 the President issued a decree to develop a Comprehensive State Program for Regional Development. But so far the government has failed to allocate additional resources, and has opposed any proposals for autonomy.

– *Kvemo Kartli Azerbaijanis (Georgia).* Less than 50 km south of Tbilisi, a compactly settled community of Azerbaijanis live in the *raions* of Marneuli (80%), Bolnisi (74%), Dmanisi (70%), and Gardabani (51%). The Azerbaijani-populated areas include some of the best agricultural lands in Georgia, providing the Azerbaijanis with an economic condition at par with the rest of Georgia. The mainly Sunni Muslim Azerbaijani minority has seen little tension with the central government since independence. However, the conclusion that this is an area without problems is premature. In 1989, at the height of the Georgian nationalist movement, some extreme nationalist groups expressed concern over the rapid demographic increase of the Muslim population in Georgia that means, chiefly the Azerbaijanis. Georgian groups at this point tried to incite Azerbaijanis to leave Georgia, and the pressure got so intense in areas of the Bolnisi region that an estimated 800 families left Georgia for Azerbaijan. Partly due to the lack of political organization among the rural and mainly agricultural Azerbaijani population, however, no response occurred and the situation calmed down in 1990-91. While the problems of the region are similar to those of the rest of the country, settlement patterns of village-based enclaves create tensions within and between communities over access to resources (water, arable lands, pasture). Corrupt, brutal police brought in from outside the region, and the perception that they operate with the contrivance of local authorities, fuels discontent. A feeling of mistreatment in parliamentary and local elections is another source of grievances. Azeris still complain of a lack of political access and representation, and of other types of discrimination. However, the good relations between Georgia and Azerbaijan have ensured that this area remains relatively stable.

– *Ajaria (Georgia).* Ajaria, on Georgia's Black Sea coast and bordering Turkey, is populated mainly by Muslim Georgians. Ajaria was part of the Ottoman empire until 1878, when it was incorpo-

rated into the Russian empire. Ajaria received the status of an autonomous republic in 1923. However, Ajars as a separate people disappeared from Soviet censuses after 1926, and were counted as Georgians. Since independence, however, Ajaria has been led by Aslan Abashidze, a local strongman who has managed to strengthen Ajaria's autonomy from Georgia's central government during the conflicts in South Ossetia and Abkhazia. Abashidze has refused to subordinate Ajaria to Tbilisi's control, and ruled the region as a semi-independent fiefdom. Due to trade with Turkey, Ajaria is relatively wealthy, a wealth that has been the base for Abashidze's public support. A Russian military base in Batumi as well as Turkish backing have helped Abashidze remain aloof of Shevardnadze attempts to control Ajaria. Ajaria is however a case of regionalism, not secessionism. Ajars have a strong sense of Georgian identity, implying that the risk of secession or ethnic conflict is low.

– *Lezgins in Azerbaijan.* The Lezgin people reside in the north of the country, near the border with Russia's Dagestan Republic. In the towns of Qusar and Khachmaz, Lezgins make up ca. 75% of the population. The Lezgins belong to the North Caucasian group of peoples and a large portion of them also resides across the border in Dagestan. Lezgins are generally Sunni Muslims. Strong marriage and community relations connect the Lezgins in Azerbaijan and in Dagestan, and the two groups are engaged in daily trade and commerce over the border. The history of separatism among Lezgins is very long, and culminated in the first half of the 1990s. Many Lezgins were somewhat fearful of former President Elchibey's nationalist rhetoric. When Elchibey came to power in 1992, he declared Turkish the national language and adopted the Latin alphabet in the place of old Cyrillic one. This created friction with the non-Turkic Lezgins, who felt increasingly dominated by the titular nation and feared further hostility from the central government. An additional problem was the lack of textbooks and educational curriculum in the Lezgin language. Fueled by difficult socio-economic conditions and by elements in the Russian government interested in weakening Azerbaijan, some Lezgin representatives called for secession. An organization, *Sadval* (unity) became associated with secessionist demands for the creation of a Lezgistan republic composed of southern Dagestan and Northern Azerbaijan. In 1995, Sadval was accused of masterminding an explosion in Baku metro that killed 12 people. Sadval also allegedly cooperated with Armenian intelligence services. At the time of political chaos and civil war in Azerbaijan in 1993, the Lezgin secessionist movement reached its peak. With the declaration of the independent Talysh Mugan republic in the south of Azerbaijan, some Lezgins politicians also called for the creation of Lezgistan. However, the election of President Aliyev and the subsequent stabilization of the political situation in Azerbaijan diminished secessionist claims among Lezgins. Several prominent Lezgins were elected or appointed to high governmental positions. For instance, General Safar Abiyev was appointed the Minister of Defense and Ms. Asya Manafova was elected chairperson of the Parliament's commission on natural resources. For the time being, the Lezgin secessionist movement has calmed down and Sadval has all but disappeared. However, the Azerbaijani press regularly reports on the regrouping of Sadval in Russia.

– *Talysh in Azerbaijan.* As with the Lezgins, the Talysh are one of the largest minorities in Azerbaijan. Officially, their numbers reach 100,000; however, the actual number could be significantly higher due to incorrect reporting of ethnicity during the Soviet times: many Talysh were registered as ethnic Azeris. Talysh people live in the south of the country near the border with Iran, speak a western Iranian language and belong to the Shia branch of Islam. The secessionist movement among Talysh is relatively recent, as Talysh people have generally been passive in national politics. The only major political event related to the Talysh took place during the turmoil of the summer of 1993, when retired colonel Aliakram Humbatov, an ethnic

Talysh, declared an independent Talysh –Mugan republic and attempted to fortify its borders. The idea of independence did not gain popularity even among the majority of Talysh people and seemed to closely relate to political games in Baku at the time of the coup d'etat. Specifically, Humbatov allied himself with then Prime Minister Suret Husseynov to weaken President Aliyev's position. The latter sent government troops to Lenkoran, where Humbatov's forces were concentrated. The rebellion was rapidly crushed and Humbatov fled to Iran. Later, Humbatov was extradited to Azerbaijan and up to this day remains in prison, convicted of high treason. Talysh ethnic mobilization has been on decline since then, as many leaders of the so-called "Talysh Mugan Republic" were arrested.

Civil Conflicts and Political Violence

The three Caucasian states have seen a relatively high level of political violence in the past decade, spurring fears that the use of violence for political aims may be used by domestic actors in the future as well. Political instability and civil conflict seriously worsened the economic situation in the region and adversely affected the welfare of the population. In turn, public disaffection with government leads to a risk of civil unrest, with disaffection focusing on chronic energy shortages, increased electricity tariff, rampant corruption, the unresponsiveness of government, and the growing gap between a privileged elite that holds economic and political power and the rest of the population. While public dissatisfaction with governments is often high, discontent rarely galvanizes into violent conflict.

The first civil conflicts in the South Caucasus took place at the end of Soviet rule, as nationalist demonstrations in all three countries challenged Soviet rule. The Soviet army intervened in Tbilisi on April 9, 1989, killing 17 people; almost a year later, the Soviet military entered Baku on January 20, 1990, killing up to 300 people. These interventions led to the complete loss of legitimacy of the Soviet regime, and speeded up the process of secession of the Caucasian republics.

Coups d'état have also taken place in various forms in all three countries. For example, in late 1991, the elected President of Georgia, Zviad Gamsakhurdia, was deposed after a short military confrontation in the center of Tbilisi by a paramilitary junta that failed to receive international recognition until it invited former Soviet foreign minister Eduard Shevardnadze to head the newly formed 'State Council of Georgia'. Gamsakhurdia had alienated most political opponents and erstwhile allies alike by his eccentric style of government and paranoia. Yet Gamsakhurdia returned from exile in Chechnya in late 1993, at the height of the Abkhaz war, and tried to reassert himself as the legitimate President of Georgia, leading to another brief civil war. His grab for power that threatened to push Georgia to the point of disintegration nevertheless failed, and he committed suicide in the end of December 1993. In Azerbaijan, popular demonstrations succeeded in forcing the resignation of the Communist government in April 1992. Elections were held that brought the leader of the Popular Front, Abulfaz Elçibey, to power in June. In May 1993, however, a rebellious military commander in Ganja, Surat Husseinov, launched a revolt against the government and marched on Baku. This forced President Elçibey to leave Baku, thus averting a civil war as Azerbaijan's former communist leader, Heydar Aliyev (who was nevertheless not involved in the coup) returned to power. In 1994-95, President Aliyev averted two coups by elements of the armed forces, though Azerbaijan has been spared such events since. In Armenia, no similarly dramatic events have taken place. However, when President Levon Ter-Petrossian in October 1997 accepted a OSCE proposal that would leave Mountainous Karabakh within Azerbaijan, he was deposed in a palace coup by his Prime Minister Robert Kocharyan, Defense Minister, Vazgen Sarkissian, and Security Minister Serzh Sarkissian.

> Coups d'état have taken place in various forms in all three countries … attempts to murder political leaders have also occurred.

Attempts to murder political leaders have also occurred. The 1994 and 1995 coups against Aliyev clearly intended to eliminate him. In Georgia, two attempts to assassinate President Shevardnadze have narrowly failed, in 1995 and 1998, and several other coup or assassination attempts have been foiled. The most tragic event took place in October 1999 in Armenia, when armed gunmen entered the parliament in full session and succeeded in killing the Prime Minister while addressing a plenary session, as well as the Speaker of Parliament and several cabinet members, plunging Armenia into a political crisis that it has barely managed to recover from. Military insurgencies are another problem that has especially plagued Georgia, whose army is in the worst material condition and suffers from poor discipline. A revolt by a tank battalion in Senaki in western Georgia in 1998 led by colonel Akaki Eliava was put down, while a National Guard insurgency in Mukhrovani 25km East of Tbilisi in May 2001 was silenced, though it seemed to have more to do with the desperate condition of the soldiers than with politics.

In spite of these many problems, it should be noted that relations between the Governments and their domestic opposition have mainly been handled in a non-violent way. Unlike in Central Asia, there are relatively few instances of beatings and disappearances of political figures and activists. Police beatings at demonstrations has happened in all countries, most frequently in Azerbaijan, but on the whole, the regular political process in the three states seems to develop in the direction of acceptance and recognition of the principles of dialogue and non-violent means of protest. Public discontent may nevertheless be rising, and labor strikes, riots, and violent demonstrations are becoming more frequent. Armenian demonstrations protesting the closure of a TV channel were observed in 2002; Unrest in Sheki and other areas in Azerbaijan after the 2000 parliamentary elections had to be put down; and most dramatically, Georgian security forces' abortive raid on the Rustavi-2 TV channel brought students and others into the streets of Tbilisi, forcing a government crisis and Shevardnadze firing the entire cabinet.

Transnational Threats

The transnational threats that are present in the Caucasus today are both criminal and ideological in nature. The trafficking of narcotics, arms and persons in the South Caucasus has gradually increased since the demise of the Soviet Union. While transnational crime does not yet pose a danger to these states to the level that they do in Central Asia (where several states are in danger of becoming so-called narco-states) the location of the South Caucasus on the major trafficking routes from Afghanistan to western Europe imply that drug trafficking may become a serious threat to statehood and breed instability. In the ideological realm, radical Islamic movements are another transnational threat. These groups exist in the South Caucasus though not on a significant scale. However, dire socio-economic conditions and the continued deficit of democratic governance are factors that could spur the rising influence of radical and militant Islamic movements. Being the only overwhelmingly Muslim country in the region, Azerbaijan is more affected by this problem than its neighbors, though Georgia also experienced its fair share of the problem.

Narcotics and Arms Trafficking

The states of the South Caucasus have been increasingly plagued by illicit activities perpetrated by criminal organizations. In addition to cigarette, fuel and alcohol smuggling rings – which pose little more than an economic threat – the region, situated along both the 'Balkan' and 'Northern' smuggling routes, is an important international centre for narcotics and arms trafficking. Widespread corruption, political and economic instability, and both real and potential armed conflict have further helped the rooting of transnational crime in the Caucasus – most obviously as armed conflict has resulted in the loss of central government control over territory, including approxi-

mately 30% of Georgia and 20% of Azerbaijan. Given its proximity to Russia, Turkey and the Arab world, the South Caucasus acts as a natural channel for arms smuggling. Separatist and civil conflicts also led to a flood of weapons pouring into the region since 1989/1990, from Russia, Turkey, Iran, Greece and Western states. Given the unresolved nature of these conflicts, there is both a great demand for arms in the region and a steady supply. The majority of illicit trafficking operations in the South Caucasus are conducted by criminal groups, as opposed to terrorists or individuals. Criminal organizations involved in the large scale trafficking of arms and drugs tend to be highly organized entities with influential leaders and connections to key state institutions, in some cases directly connected to the upper echelons of government.

Armenia is least involved in arms and drugs trafficking, mainly due to Armenia's lack of transportation links with two of its four neighbors. It is also surrounded by countries traditionally involved in drug production and trafficking, restricting its opportunities to penetrate the regional drugs and arms trade. That said, narcotics transiting Iran subsequently transit Armenian territory en route to Russia or further to Western Europe.

Azerbaijan, on the other hand, plays a key role in both the 'Balkan' (Iran to Western Europe) and 'Northern' (Central Asia to Western Europe, often from Turkmenistan via the Caspian Sea) trafficking routes. Insufficient border controls and collusive government relations with trafficking groups have secured Azerbaijani territory as a transshipment point for narcotics being transported to Russia and Central and Western Europe. Among the most important centers for trafficking are the port of Sumgait and the exclave of Nakhchivan – both with their own entrenched criminal structures. The Sumgait mafia, with direct links to Central Asia, has been involved in the drugs trade for much of the past decade, and drugs also enter Azerbaijan from Iran through the Astara and Jalilabad areas. Recent evidence also shows that the Nakhchivan mafia is involved in the drug trade, partly due to Nakhchivan's location between Iran and Turkey and its detachment from the rest of Azerbaijan. Nakhchivan is presently an important transshipment point for Afghan heroin. Azerbaijan is also a natural conduit for weapons being smuggled between Russia and Iran. Despite seizures in April 1998 of suspected missile parts by the National Security Service, and given the corruption present in Azerbaijan, this probably remains the tip of the iceberg as far as trade in conventional arms and possibly even the trade in weapons of mass destruction goes.

Georgia seems to play an increasingly important role in the international trafficking game, for several reasons. A first factor is its internal problems including corruption, low living standards, and weak law enforcement. Another is its location on the Black sea coast, within easy reach of Central and Eastern Europe; a third is the existence of the uncontrolled territories of Abkhazia and South Ossetia, which have become smuggling havens. Abkhazia, on the Black sea coast with its ports of Sukhumi, Ochamchira and Gudauta, has hence logically become a key heroin transiting point. The narcotics, typically handled by Turkish and Iranian groups, reach Georgia either from Azerbaijan, or from the Russian North Caucasus through South Ossetia or the Pankisi gorge, another area that the government doesn't control. The drugs then transit Georgia either to Abkhazia or the ports of Batumi in Ajaria or Poti, from where they are shipped to Ukraine and Rumania. The existence of serious corruption within the Georgian law enforcement agencies and military have facilitated criminal activities. Although civil servants are not regularly connected to drug trafficking operations, they have been commonly associated with arms smuggling. There have been several cases pointing to the involvement of the state security ministries and soldiers as mediators in the regional arms trade, involving Chechnya. It is estimated that since 1990, Georgian officials have confiscated approxi-

Abkhazia on the Black Sea coast has become a key heroin transiting point.

mately 20,000 wagons of weapons and ammunition – the majority of which are believed to have originated in South Ossetia and Abkhazia, and Russian military bases (in Georgia and Armenia).

The greatest concern with regards to arms smuggling, however, is that the Caucasus is being used as transshipment points for nuclear, biological, chemical and radiological weapons. There have been several recent cases of clandestine trafficking of radiological material (which could be used for dirty bombs), primarily through Georgia; in addition to suggestions that enriched uranium and other radioactive materials stored in Abkhazia may have been sold to Iraq or terrorist groups during the Abkhaz conflict. Given the evident role of both Georgia and Central Asia in NBCR weapons smuggling, it is not far-fetched to assume that Azerbaijan would also play a central role in smuggling operations of this nature.

Islamic Radicalism

The threat of radical Islam gaining a foothold in the South Caucasus is less acute than in either Central Asia or the North Caucasus. Only Azerbaijan among the three states of the South Caucasus is predominantly Muslim, whereas Muslims also live in parts of Georgia: Ajaria is majority Muslim, Kvemo Kartli is populated by Sunni Azeris, and the Pankisi gorge in the North of the Country is populated by several thousand *Kists* or ethnic Chechens with Georgian citizenship. Foreign missionaries from Saudi Arabia, Iran, Turkey, Egypt, and other Muslim countries have flocked to the former Soviet Union's Muslim areas since independence, mainly to Azerbaijan – pouring millions of dollars into religious activities that have fueled the rise of Islamic radicalism. Hundreds of mosques and religious schools, *medreses*, were built in the country in the 1990s with the financial help of these countries. Every year, dozens of Azerbaijani youth are sent to study religion in the Middle East. Due to Azerbaijan's Shi'a heritage, state-supported Iranian missionaries have been especially active. However, in the Sunni North of Azerbaijan, Turkish, Saudi and Dagestani activists have lately been very active. Among these activists, some have belonged to the purist *Salafi* sect of Islam, colloquially known as Wahhabism, one of the strictest forms of Islam. Radical thoughts have nevertheless not found a foothold among Azerbaijan's traditionally tolerant population. Except for the religious areas in the Sunni North and the Shi'a South, little religious fervor can be observed in Azerbaijan; nevertheless, in the capital Baku, increasing numbers of people started flocking to the Abu Bakr mosque by mid-2001, which had developed into a center of Islamic fervor with Wahhabi undertones in the city. The Mosque was closed down in late 2001.

After September 11, both Azerbaijan and Georgia joined the war on terrorism, and have fed the hype on Islamic radicalism, managing thereby to obtain increased levels of U.S. support. Most obvious was the connection made between the Pankisi gorge and Al Qaeda (see below) Moreover, several members of the Egyptian Gama-al-Islami, closely connected with Al Qaeda, were arrested in Azerbaijan and extradited to Egypt. Even before 9/11, the government had found it necessary to crack down on the radical Shi'a *Jeyshaullah* movement, which had apparent support from Iran, connections to Hizbullah, and has been implicated in plotting subversive actions in the country. As a result of rising suspicion, the crackdown intensified in 2002. President Aliyev also created the State Committee on Religious Affairs, which immediately started the re-registration process of nearly 2,000 mosques, churches and other religious communities and organizations. Only 410 of these have so far been registered by the state. The commission intends to keep a close eye on the activity of all religious institutions in the country. Azerbaijani security services have increased surveillance at mosques that are not state-affiliated, and have focused their attention on locating and confiscating 'anti-state' religious materials, mostly in the northern regions. Most recently, the government has sought to increase its influence on religious affair by licensing the *Mullahs* (religious clergy), a move that has been met with great criticism among the clergy and some government

officials. Furthermore, Azerbaijan has officially named Hizb-ut-Tahrir a terrorist organization because their activities, which are not violent in nature, have been deemed to be "directed against the State system and the sovereignty of Azerbaijan". This move could be alienating followers of Islam, though Hizb-ut-Tahrir is a Sunni organization and Azerbaijan is predominantly Shi'a, and therefore has a limited constituency, unlike in Central Asia. The government is still at a loss in finding a way to balance its support of the U.S.-led campaign against terrorism with the interests of the domestic religious constituency.

The Pankisi Gorge

The Pankisi gorge is home to several transnational phenomena, including drug trafficking, kidnappings, extortion, and allegedly Islamic radicalism. General instability and conflict in Georgia and in Chechnya over the past decade, coupled with Tbilisi's lack of control over Pankisi, have made the gorge a perfect location for criminals from the North and South Caucasus engaged in smuggling illicit commodities, and a major route for arms and drug trafficking. Local criminals – mostly Georgians of Chechen ethnicity, known as Kists – have also engaged in systematic kidnapping for ransom. Crime caused tension between the Chechen and Georgian communities to rise to dangerous levels in Pankisi. Criminals' activities and unabated attacks on and kidnapping of Georgian security officers have also underscored the weakness of state authority. Since the late 1990s, close ties have developed between state and law enforcement officials (possibly up to the ministerial level in the Georgian cabinet that was sacked in November 2001) and entrenched criminal barons in the Pankisi Gorge. The influx of Chechen refugees served as a political fuse that called attention to the security situation in Pankisi. The presence of ca. 600 Chechen militants in the gorge, loyal to several field commanders, most prominently Ruslan Gelayev, has added to the complexity of the situation. This led to Russian accusation against Tbilisi of sheltering Chechen fighters – terrorists in Moscow's parlance - and demands to start military operations on Georgian territory.

Close ties developed between Georgian high officials and entrenched criminal barons in Pankisi.

The chaos in the Pankisi gorge provides an ideal operating environment for Islamic radicals. Fears that the Pankisi housed Islamic radicals other than Chechen militants were raised in February 2002, when a top U.S. diplomat in Tbilisi publicly alleged that Islamic radicals directly linked to Al Qaeda were operating in Pankisi. It was thus strongly inferred that Pankisi could become a terrorist haven. Following these allegations, Washington speedily dispatched military advisors to Georgia, which was soon followed by an anti-terrorism training program. However, although Pankisi has long been home to kidnappers, heroin traffickers, weapons dealers, and armed Chechen militants, there is no viable evidence to suggest that the gorge has ever been a haven for al-Qaeda. There are several reasons to explain U.S. perceptions of an al-Qaeda presence, including the fact that a small population of Arabs have settled in Pankisi over the past few years. These Arabs seem to be involved in humanitarian operations (they have built a mosque and a health clinic, and distribute food and wood), and peacefully endorse the teaching of Islam and the Arabic language. Little evidence suggests that these individuals are connected to al-Qaeda, or involved in terrorist activities of any kind.

The Zaqatala Region

Events in summer 2001 showed Azerbaijan's vulnerability to organized crime and attempts to incite ethnic separatism. Groups of armed individuals in the Zaqatala region in the extreme northwest of the country, close to the border of Georgia and of Dagestan, attacked the offices of

local authorities and police several times, wounded and killed several policemen and terrorized the local population. These groups were allegedly connected with Chechen criminal gangs and used the issue of separatism to gain support among the local population. Communities of Dagestani peoples, including Avars and Lezgins, live in the area. Reportedly, anonymous persons in Zaqatala distributed leaflets, calling the locals to revolt against Azerbaijani domination. Although it remains unclear what goals these criminal groups were pursuing, allegations emerged that these groups were involved in narcotics trafficking and demanded the return of "dirty money" that Azerbaijani authorities had previously confiscated. Links with Armenian and Russian secret services were also alleged, though not proven. Nevertheless, these events significantly alarmed the Azerbaijani government. President Aliyev sent deputy Minister of Interior Zahid Dunyamaliyev to control the anti-criminal operation in the region. The government also sent large army and police forces to the region to restore order and crush down any armed groups. The situation was rapidly calmed and the central authorities restored control over the area. Whether this was made possible due to the efficiency of the government or through secret negotiations between authorities and the criminal groups is unclear. The government still maintains a large military presence in the region, fearing the renewal of this kind of violence.

Geopolitical Competition and External Threats

The South Caucasus has become one of the most attractive areas for great power competition in the post-cold war era. The region's location and its own energy resources have contributed to this competition. Geographically, the South Caucasus is located on the ancient trade and communication routes linking Europe and Asia. Moreover, it is the meeting place of Slavic, Turkic, Persian and indigenous Caucasian cultures, and of the Christian and Islamic civilizations. Politically, it is located in the historical intersection of the Russian, Persian, and Ottoman empires, and in the modern era, between the regional powers Russia, Turkey and Iran. As a result, these three powers see a logical and natural influence for themselves in this area, which is compounded by historical links of amity as well as enmity among each other and with the states and people in the region. These links have interacted with the perceived national interests of the three powers as well as the three regional states to form a complex but well-defined Caucasian 'security complex' in the present era. In addition to this, the oil and natural gas resources of the Caspian sea area, in particular Azerbaijan, have increased both private and state interests in the region. Issues of ownership of the energy resources, and even more strongly of their transportation to world markets, have formed an intrinsic part of the geopolitical competition in the South Caucasus. The regional politics in the Caucasus cannot be viewed in isolation, but is heavily affected by developments in adjacent regions, including Central Asia, the Middle East, and as far as Afghanistan and Pakistan, adding to the unpredictability and ambiguity of the region.

The South Caucasus has become one of the most attractive areas for great power competition in the post-cold war era.

Roles and Interests of Regional Powers

Geopolitical competition has presented the three South Caucasian states with both threats to their security and opportunities to further their perceived national interests. Hence all three states have sought to cement their statehood and independence with the help of friendly regional powers, while all three also perceive considerable and even lethal security threats from other powers, interlinked with the security threats they perceive from one another. Four major powers form a part of the Caucasian security complex: Russia, Iran, Turkey, and the United States.

– *Russia.* Since the independence of the South Caucasus, Moscow has reluctantly seen its influ-

ence in the region gradually declining, a process that it has sought to block by the use of various diplomatic, economic, and military means. Moscow has tried to keep the South Caucasus within the Russian sphere of influence, and has to that end tried to prevent the local states from pursuing independent foreign policies, and hinder the United States and Turkey from increasing their presence and influence in the region. Ties with Iran have also served this purpose. Russian overt policy demanded that all three states acceded to the CIS, accepted Russian border guards on their 'external' border with Iran and Turkey, and allowed Russian military bases on their territory. Moreover, Russia seeks to monopolize the transportation of Caspian energy resources to world markets, and has sheltered coup-makers and secessionist leaders from Azerbaijan and Georgia.

Moscow played a crucial role in the separatist's wars in Georgia and in the Armenian-Azerbaijani conflict. Russia effectively used these conflicts as levers to rein in independent-minded Georgia and Azerbaijan. Russian support was crucial in providing the breakaway republics with de facto independence; Russia forced both Georgia and Azerbaijan to join the CIS in 1993, and Georgia to recognize its military presence for the next 25 years. Military bases in Vaziani (close to Tbilisi), Gudauta (Abkhazia), Batumi (Ajaria), and Akhalkalaki (Javakheti) promoted Russian influence throughout the country. The bases then engaged in arms trading and strengthening of separatist forces in the minority areas. At the 1999 OSCE Istanbul Summit, Russia agreed to withdraw from the Vaziani and Gudauta bases and to reach an accord with Georgia on the status of bases in Akhalkalaki and Batumi by the end of 2001. Russia demands a 15-year time frame for withdrawal, while Georgia seeks a three-year time limit for withdrawal. Through the CIS Peacekeeping Force, Russia maintains a firm military presence in Abkhazia and South Ossetia. While Russia has not recognized independence of the Abkhazian and Ossetian republics, Russian government policies provide them direct political and economic, and indirect military support. Russia exempted Abkhaz and Ossetians from a visa requirement imposed on Georgia in December 2000, and granted Russian citizenship to the Abkhaz and Ossetians in June 2002, amounting to a de facto annexation of these territories. Meanwhile, the Russian military continues to pursue a harder-line foreign policy towards Georgia; the bombing of the Kodori and Pankisi gorges are evidence of this. Russia has also developed close military ties with Armenia, which has become an outpost of Russian influence in the South Caucasus.

Since President Putin came to power, Russia has adopted a more pragmatic position toward Azerbaijan, leading to an improvement in relations and a more constructive attitude in the Minsk Group negotiations; Russia has also been less vocal toward expanded American and Turkish influence in the region. However, continued strong-arm policies toward Georgia generate doubt as to what Moscow's intentions are. With respect to the stalemated conflicts of the region, Moscow's policies have given abundant evidence to support that Russia finds the present status quo convenient, and does not desire a resolution to any conflict. In particular, Moscow seems to fear that an Armenian-Azerbaijani peace deal would decrease Armenia's security dependence on Russia.

– *Iran.* The independence of the South Caucasian states took Iran by surprise, especially as the war between Azerbaijan and Armenia revealed deep contradictions in the foreign policy of the Islamic Republic. Disagreements within the ruling circles in Tehran have ensured a certain level of mixed signals, but in spite of these differences, Iranian policy has proven remarkably durable. Three main facets have characterized Iranian policy. Firstly, a concern over the emergence of the independent state of Azerbaijan, leading to a gradual tilt toward Armenia in the Armenian-Azerbaijani conflict. Secondly, a dramatic improvement in relations with Russia that, despite a shaky basis, have developed into a strategic partnership. Thirdly, an increasing desire to influence the development of oil and gas resources in the Caspian sea, seeking to

avoid Turkish influence over pipeline routes. Iran's recent belligerence in Caspian naval matters is a rising concern, as viewed below. Concern over the large Azeri minority in Iran has guided Iran's policy toward the Caucasus. The over 20 million-strong (over twice the population of the state of Azerbaijan) Azeri minority is a growing concern to the Iranian government, as Tehran fears increased nationalism and separatism among Azeris could threaten the integrity of the Iranian state. Aware of its waning legitimacy and popularity, the clerical regime seeks to prevent the emergence of a strong and wealthy Republic of Azerbaijan that would act as a magnet for Azeris in Iran. Azerbaijani President Elçibey's anti-Iranian attitude worsened relations to the freezing point in 1992, and speeded up Tehran's tilt toward Armenia in the conflict. Iran has also found common ground with Russia in many issues. Beyond economic benefits, Iran and Russia share an ambition to limit Turkish and American influence in their backyard, and to restrict the westward orientation of the South Caucasian nations.

– *Turkey.* After a bout of pan-Turkic euphoria in the early 1990s that frightened Armenia, Iran, Russia, and discomforted Georgia, Ankara has since the late 1990s pursued a pragmatic and stable policy toward the South Caucasus. Turkey gives primacy to relations with Azerbaijan, both because of the close cultural and linguistic affinities between the two states, and because of Azerbaijan's pivotal geopolitical position. The projected Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline have added economic importance to the Caucasus for Turkey. A logical result of Turkey's ambition to become an energy corridor between the Caspian and Europe has led to increased attention on Georgia, the geographic link between Turkey and Azerbaijan and Central Asia. Turkey has improved its relations with Georgia to the level of strategic partnership. After Iranian military threats toward Azerbaijan in July-August 2001, Turkey strongly signaled that it had taken on a role as guarantor of Azerbaijan's security. Turkey has supervised the building-up of Azerbaijan's military forces, and entertains close military ties not only with Azerbaijan but also with Georgia, in a sense forging a Turkish-Georgian-Azerbaijani military relationship that is in turn linked to the Turkish-Israeli alliance.

The only South Caucasian country with which Turkey has extremely poor relations is with Armenia. Armenia sees Turkey as the chief threat to its security, and still suspects Turkey of having genocidal ambitions against Armenia. Turkey, for its part, refuses to recognize the occurrence of a Genocide of Armenians during the First World War and sees the Armenian government's struggle to achieve international recognition of the alleged Genocide as a step toward territorial demands on Turkey – a fear compounded by the Armenian government's reluctance to recognize its border with Turkey. Ankara reacted strongly to Armenia's occupation of Azerbaijani territories in 1992-93, and refuses to open diplomatic relations with Armenia until it withdraws from the occupied territories in Azerbaijan. Turkey's military and security role in the South Caucasus increased gradually in the early 2000s.

– *United States.* American interest in the South Caucasus began in 1994 and was spearheaded by two camps: the Department of Defense and the Oil industry. The Pentagon saw the South Caucasus as a strategically important region and urged the U.S. Government to help secure the independence and stability of the South Caucasian States. The oil industry sought government support in its ambition to maximize its market share in the extraction of Caspian oil, and in stabilizing the area to decrease political risks. By the late 1990s, U.S. attention had increased, based on an understanding of the Caucasus as the lynchpin of any U.S. role in Central Asia. This perception increased dramatically in the aftermath of September 11, 2002, as the U.S. deployed military units in Central Asia. Unable or unwilling to rely on supply routes through Iran, Russia, or China, the U.S. saw the Caucasus as a crucial corridor, especially as all Ameri-

can aircraft that took part in military operations in Afghanistan from bases in the U.S. or Europe transited the airspace of Georgia and Azerbaijan. In January 2002, sanctions imposed at the behest of the Armenian lobby in the U.S. Congress against Azerbaijan were waived, and the DoD embarked on a large program of military cooperation with Azerbaijan. In February, U.S. troops were sent to Georgia, tasked to train Georgian special forces in a bid to build up the Georgian army and to help Tbilisi assert control over the situation in the Pankisi gorge. American attention to the South Caucasus is hence likely to remain high, and American coordination with their Turkish ally is an important element in its engagement there. However, uncertainty regarding American intentions in the region may create instability rather than stability.

All American aircraft that took part in military operations in Afghanistan from bases in the U.S. or Europe transited the airspace of Georgia and Azerbaijan.

– *Other Powers.* In addition to these four major regional powers, the European Union, Israel, Pakistan and China are also involved – albeit on a lower scale – in the region. EU member states Great Britain, France, Germany and Italy are involved in the Caucasus at a high level, yet none of them is able to single-handedly exert significant influence there. In concert, the EU could conceivably be one of the major actors in the region – in the middle to long term even the most influential – but inability and unwillingness to forge a common policy toward the South Caucasus has prevented Europe from fulfilling its potential. Israel has been active in the Caucasus both through its private sector, investing heavily in Georgia and Azerbaijan, and politically due to the region's proximity to Iran. Azerbaijan's close relations with Israel, in particular, have irritated Iran. Pakistan's role in the Caucasus is mainly as a supporter and ally of Azerbaijan in its conflict with Armenia. Pakistan early on condemned Armenia's occupation of Azerbaijan's territories; in Summer 2002, a defense agreement between Pakistan and Azerbaijan was signed. China's interest in the Caucasus is mainly related to the oil and gas industry of the region, and Chinese companies moved in during the 1998 oil bust to buy shares in Azerbaijani consortia sold at low prices by smaller western companies abandoning the region.

Competition over Natural Resources

Aside from political influence, all regional powers have attempted to increase their influence over the natural resources of the region, especially the energy resources of the Caspian sea, and sought to have oil and gas exporting pipelines pass through their territory. This competition has had a negative effect on the development of the region and has created serious potential threats to its stability.

Azerbaijan at present uses two pipelines to export its 'early' oil. The Baku-Novorossiysk pipeline through Russia to the Black Sea coast existed since Soviet times, and since 1999, a Baku-Supsa (Georgia) pipeline, also to the Black Sea, has been operating. However, the capacity of these pipelines is small and plans to construct a Main Export Pipeline (MEP) have been under way since major consortia were created in the mid-1990s. Options for pipelines from Baku have ranged from transiting Russia or Georgia to the Black Sea coast; Iran to the Persian Gulf; and via either Iran, Armenia, or Georgia to the Turkish Mediterranean coast. The two former options have been politically impossible, and the Azerbaijani government is reluctant to rely on either Russia or Iran for its main source of hard currency earnings. Since 1994, Azerbaijan, the U.S. and Turkey have been endorsing the construction of the MEP from Baku through Tbilisi to the Turkish Mediterranean terminal of Ceyhan (The BTC pipeline). Russia and Iran have opposed the idea, claiming the project is commercially not viable, and urged Azerbaijan to route the pipeline through their countries. BTC was at times a doubtful project that seemed far-fetched, but it has managed to sur-

vive. In the summer of 2002, BP and several other major oil companies announced that they were beginning construction of the $2.9 billion pipeline. Pipeline security will become a priority as several terrorist groups, including the Kurdistan Workers' Party (PKK) have in the past threatened to target the regional pipeline network if their demands were not met.

The legal status of the Caspian Sea has been a point of contention between the littoral states, as historical treaties between Iran and the Soviet Union provide an insufficient legal framework for the division of the Caspian sea between its five littoral states. Azerbaijan signed agreements with Russia and Kazakhstan on dividing the seabed and sharing the water resources. Caspian leaders have met numerous times, most recently in Ashgabat in April 2002, to discuss the division of the Caspian Sea. Summits have nevertheless produced no results, with especially Iran rejecting median line division. Immediately following the April summit, Russian President Putin ordered the Russian fleet in the Caspian to conduct its most comprehensive naval exercises in post-Soviet history, a show of force that has not been heavily criticized either internationally or regionally. Of the five littoral states, Russia is the only one that has effectively, and seriously, pursued its demands for dividing the Caspian. Even Iran appears to be accepting Russia's show of force, in order not to put the wider range of bilateral relations at risk. The unresolved status of the Caspian Sea has also led to problems especially for Azerbaijan, which since 1997 is engaged in a legal dispute with Turkmenistan over the Kyapaz/Serdar fields and since 2001 with Iran over the Sharq/Alov oilfields. The conflict with Iran came reached a climax in July 2001 as Iranian warships forcibly evicted a BP-owned exploration vessel operating over the Sharq/Alov field, claiming the waters to be Iranian. This was followed by almost two weeks of daily overflights of Azerbaijani waters and land by the Iranian air force, which eventually prompted a Turkish reaction and in its aftermath, increased American military assistance to Azerbaijan, with a focus on naval defense. The disputed status of the Caspian Sea can be a real source of political and military conflict between the littoral states, and hinders the exploration of the oil and gas fields in the Caspian as well as the flow of investments into the region.

Dangers for Future Instability

The overview above illustrates the complexity and interrelated nature of security threats in the South Caucasus. Either individually or in combination, frozen territorial conflicts, dormant ethnic tensions, internal power struggles, foreign meddling, political violence and transnational crime all contribute present and potential threats to the security of the region. This section aims at identifying the most pressing threats to peace and stability in the South Caucasus. Before listing these, however, an overview of the more general factors that aggravate the regional situation is in order.

General Aggravating Factors

The regional situation in the South Caucasus is conflict-prone and inherently unstable as a result of several interrelated factors. Weak state structures breed corruption, incapacitate law enforcement, prevent tax collection, and lessen governments' legitimacy and control. Socio-economic problems create poverty and frustration and dangers of social reactions against mismanaged governments; a weak political culture prone to nationalism and the personalization of politics breeds fragmentation and the risk of aggressive populism. Exacerbating this situation, regional and great powers regularly take advantage of state weakness to pursue their narrow self-interest in the region; and transnational criminal or subversive groups take advantage of state weakness, corruption and public frustration to operate in the region, increase their control over state structures, and recruit followers.

Weak State Structures

The South Caucasian states are young, carry the heavy burden of a Soviet heritage, and have been unable to reform their bureaucracies to build efficient and functioning institutions that can fulfill normal state functions, such as effective law enforcement over tax collection to the provision of basic social services to the population. Government organs are still run by large and inefficient bureaucracies that hinder economic activity and investment; state organs are run by Soviet-minded bureaucrats that lack training for their jobs and receive extremely low wages (in the order of $30-50 per month) that are grossly insufficient to support their families. As a result, corruption is rampant from primary school teachers to government ministers – a Georgian ministerial salary is ca. $250 per month. The inability of the South Caucasian states to direct a concerted crackdown against corruption will continue to pose the single greatest obstacle to bringing stability in the region. It is the existence of corruption, for example, that fuels major smuggling operations, which subsequently feed violence in the many forms it appears throughout the South Caucasus. At a political level, power rests in personalities, not in institutions. Armenia and Azerbaijan enjoy some stability and governments can be said to control their territories – with the exception of the occupied territories in Azerbaijan. However, this is mainly due to the personal authority of Heydar Aliyev, his ability to keep the government and state organs together and therefore keep the state functioning. This authority and order may not be transferred easily into the post-Aliyev era. As the Elçibey era's end in 1993 showed, centrifugal tendencies exist in the country, as both ethnically and regionally based potentates may be waiting to challenge the government's authority and maximize their autonomy, threatening to fragment the country. This process is already present in Georgia, in spite of Shevardnadze's stabilizing influence. Both Shevardnadze and Aliyev ruled their respective republics for over two decades in the Soviet era, and therefore maintained networks and authority that they used to stabilize their war-ridden countries in the mid-1990s. Yet Shevardnadze's government is considerably weaker than Aliyev's. Besides the secessionist areas of Abkhazia and South Ossetia, his government has practically no control over the areas Power and authority rest in personalities, not in institutions of Javakheti, Ajaria, and Pankisi, whereas government authority barely exists in parts of Svaneti and Mingrelia. Given the fragmented nature of Georgian politics, the risk of further loss of central government influence and control is high in the post-Shevardnadze era. The process of institution-building is still in a preliminary phase in the three republics. Unless this process is advanced and developed, the Caucasus will remain prone to corruption and mismanagement, which in turn will continue to restrict economic growth and enable criminal structures to gain influence.

Power and authority rest in personalities, not in institutions

Dire Socio-Economic Conditions

The South Caucasian states saw dramatic plunges in socio-economic indicators in the 1990s. Economic production declined by over 50%, communications was cut in many instances, and the entire economic pattern collapsed. From having been relatively well-off parts of the Soviet Union (especially Armenia and Georgia), the South Caucasus already in the late 1980s saw a drastic decline in economic production. Armenia's production level of 1992 was less than 40% of the level in 1985. By 1995, Georgia's GDP had dropped to ca. 20% of the 1990 level, and to 40% in Azerbaijan. This unparalleled economic recession brought poverty and misery to large numbers of people, and over half of the population of the region are classified as living under the poverty line. This situation has created significant frustration with the performance of governments, with corruption in government circles and with the rapidly growing income differentials. The situation is worst in Georgia, where much of the country has simply been left without electricity during winter months. These hardships create a frustrated and disillusioned population, that is currently

showing clear indications of political apathy. The risk of apathy turning into violent protest at any given time is already evident – as illustrated in the demonstrations in Georgia, especially in the winter of 2001. Moreover, dire conditions also increase the possibility of extremist ideologies gaining ground among the population, or of masses spontaneously supporting militant anti-government movements – as the case was in Iran in the late 1970s, when most political factions supported the revolution. Religious extremism has increased in Georgia and Azerbaijan, and has most publicly revealed itself in Georgian religious extremists' attacks on non-traditional religious minorities.

Political Culture

With a past in the former Soviet Union's totalitarian system, the Caucasian states' experience of participatory politics, free speech, and civil society is only a decade old. The Soviet experience fueled a political culture already marked by authoritarian traditions, implying that with the exception of a two-year period in 1918-21, the Caucasus never experienced a political system that could be classified as anything close to liberal or participatory. The 'Soviet mentality' is a major problem that impedes these countries' development, as civil servant are not trained or inclined to serve the people but to serve and please higher officials. In the judicial system, law enforcement still sticks to old patterns of extracting confessions under duress rather than finding evidence; and local election commissioners are likely to falsify elections in favor of whoever is in power, whether the latter desire it or not. The population at large has little belief in their ability to influence their leadership. The term 'democracy' has come to be associated with everything negative in the past decade, and surveys show that people value free speech and liberties less than the order and economic wealth they associate with authoritarian rule. The principles of democratic rule are hence not yet firmly engrained in the Caucasian societies, and this in turn increases the appeal of non-democratic and non-tolerant ideologies. Nationalism conquered the Caucasus in the late 1990s; while nationalist euphoria has decreased since then, the wars have strengthened mutual prejudice and thwarted efforts at conciliation. Even among ethnic groups that have preserved peace, suspicion often remains strong – a marked increase in anti-Armenian sentiment has been witnessed in Georgia, for example. Likewise, radical religious ideologies have gained ground in this atmosphere.

Great Power Meddling

The political balance within and between the three Caucasian states and societies is already fragile; however, the weakness of these states has required them to seek foreign patronage and support, while the attractiveness of the region has itself led to a high level of great power interest, as described above. Political processes within the three states therefore typically take place in relation to the interests of and relationships with foreign powers. Especially in the unavoidable processes of political succession, the influence of foreign power is likely to be significant. Pretenders to the leadership of both Georgia and Azerbaijan have found exile in Moscow and Tehran, and are widely expected to stage a return in a succession crisis. In particular, it is feared that the succession to President Aliyev in Azerbaijan will lead to overt or covert Turkish, American, Iranian, and Russian meddling, with unknown consequences. In Georgia, the relationship between Moscow and Washington is likely to strongly influence the succession to Shevardnadze that is to take place in 2005. Hence political parties and leaders in the Caucasus remain watchful of their relations with Moscow, Washington or Ankara, in the hope that such relations would give them an advantage in domestic political struggles.

Combined with the wobbling and uncertain policies of the great powers, this increases the instability and unpredictability of Caucasian political processes. The profile of the region has risen in

the early 2000s, not only in Europe and the United States, but also throughout East and South Asia, and interaction with these regions continues to grow, increasing the role of regional and international politics in the affairs of the Caucasus. The region is no longer an isolated backwater as it was between 1990-93; it is at a crossroads of the interests of powerful external interests. Concretely, an increasing factor of insecurity stems from U.S. attempts to assert itself without careful consideration of the implications its actions in the region may have in the medium to long-term. This is especially true if Washington is developing its South Caucasian strategy on short-term interests, and if the U.S. is perceived as utilizing its regional inroads to secure economic interests on the back of security rhetoric.

Narcotics and Terrorism

In a situation of persisting economic and political instability in the region, combined with the inability of South Caucasian governments to gain control over all their territory, transnational crime is likely to remain a considerable threat well into the future. Criminal networks have successfully found allies in state institutions, thus ensuring their security from any menial attempts to crackdown on criminality. Given rising opium production in Afghanistan, the South Caucasus will continue (and likely to increasingly) be used as a major trafficking route. Neither of the three states have the capability or political will to control the illicit drugs trade, unwilling as they are to face the potential reprisals associated with targeting relatively powerful actors. As far as the arms trade is concerned, there will remain great demand for weapons and ammunition until the secessionist conflicts are resolved and the influence of criminal actors is significantly eliminated. The threat of transnational crime capturing state organs is evident by Georgia's Pankisi Gorge experience, where reliable indications suggest that transnational criminal groups were practically renting the area from the former leadership of the ministries of interior and national security for large sums of money. The situation has improved with the new leadership in these ministries since November 2001, yet the consequences of transnational crime networks utilizing high-level corruption are apparent. International influence may prove capable of preventing this type of collusion in the future. However, during periods of instability, for example in the event of a protracted succession struggle or revival of ethnic conflicts, it is conceivable that criminal or terrorist networks in search for a base of operations will seek to find a haven in the South Caucasus – especially given the strategic location of the region.

Specific Sources of Concern

The main threats to peace and stability in the South Caucasus are identified below, listed in a rough order of their likelihood and the scale of their implications.

Risk of new war between Azerbaijan and Armenia

The unresolved conflict between Armenia and Azerbaijan is the largest threat to peace and security in the South Caucasus and perhaps in the wider region. With every year that the deadlocked conflict continues without a solution, the risk of a resumption of hostilities looms larger, with ever larger implications. At present, the current political elites in both Armenia and Azerbaijan seem inclined to find a solution by peaceful means. While Armenia has suffered considerably in both economic and demographic terms as a result of the conflict, its current leadership refuses to compromise on Mountainous Karabakh's independence. This is the case in part due to the dominance of a Karabakh elite in Armenian politics: President Kocharian is the former President of the unrecognized republic, and defense minister Sarkisian is its former defense minister. This elite seems to give at least equal emphasis to Karabakh's interests compared to those of Armenia, un-

like former President Ter-Petrossian, who concluded by 1997 that Armenia's interests required a compromise on the status of Karabakh. The Armenian leadership currently controls the territory of Mountainous Karabakh and adjacent Azerbaijani regions, and therefore feels less urgency in a solution. Armenia is clearly interested in preserving the military *status quo* until it can get a favorable deal. The Azerbaijani society and leadership, on the other hand, is deeply disturbed by the humiliation of losing almost a fifth of the country's territory, and the massive refugee and IDP population is both an economic drain and a political concern. Both Azerbaijan's Communist regime and the Elçibey government fell in great part due to their failures in the war, and President Aliyev is aware that the same fate may await if not him, then possibly his son Ilham if he comes to power. Moreover, popular frustration in the country is on the rise with what is perceived as Armenian intransigence and international disregard to the aggression committed against their country. President Aliyev's control seems to be the major reason that spontaneous *revanchist* movements, including paramilitary ones, are not emerging, especially among the refugee population.

With every year of deadlock, the risk of a resumption of war is growing, with ever larger implications.

The failure of negotiations has worsened matters. When President Ter-Petrossian accepted the 1997 Minsk Group proposal, hundreds of thousands of IDPs rejoiced at the prospect of an imminent return home. In late 1999, an imminent deal was shelved after the October 27 tragedy in the Armenian parliament, while great hopes were again dashed in the Spring of 2001. The opposition and large tracts of the Azerbaijani public seems to have concluded that a military solution is the only remaining option to restore the country's territorial integrity and enable refugees to return to their homes. The Aliyev government, which has earlier ruled out the military option, is now increasingly stressing that the Azerbaijani army is ready to liberate its territory if negotiations fail. If the present deadlock continues, the public and elite mood in Azerbaijan will continue to gradually tilt towards war. Meanwhile, Azerbaijan is recovering economically, and will begin to receive substantial oil revenues within a few years. It is also building its armed forces with Turkish assistance – and Armenia's population is shrinking. Azerbaijan may hence feel the odds are in its favor.

A new war between Armenia and Azerbaijan is unlikely to remain as limited as the previous one was. In 1992-94, the two states had only rudimentary weaponry, and the military forces involved were far from professional. But in the last eight years, both states have acquired more sophisticated and therefore more deadly arms, meaning that a new war would almost certainly cause much larger human and material destruction. Perhaps even more alarming is the network of alliances that both states have built. Armenia and Russia have strong military ties, and even joint military units, while Turkey has basically built the Azerbaijani military and provides advisers. Neither Turkey nor Russia is hence likely to remain on the sidelines of a new confrontation. Fighting is also likely to take place close to the Iranian border, therefore possibly drawing Iran into the conflict as well. Pakistan has also offered Azerbaijan military assistance. Great power involvement may help prevent a new war, but would give it regional implications of a massive scale if it were to occur.

Several possible scenarios could lead to a new war. The most likely is after a change of leadership in Azerbaijan, especially if it occurs after the Baku-Ceyhan pipeline is completed in 2005 and Azerbaijan has thereby cemented its role in energy markets. Should a representative of the nationalist opposition come to power, its tougher stance on the Karabakh issue will increase the risk of conflict, as the new government is likely to seriously consider the war option to liberate occupied territories. If a member of the current regime takes over power, including Ilham Aliyev, the new government's popular legitimacy will be extremely low. Under such conditions, it may see a successful military operation in Karabakh as the easiest and quickest way to gain popular support. This scenario is reminiscent of the Russian example, where President Putin's ascent to power was

effectively built on the resumption of the war in Chechnya. A third scenario, which could occur in conjunction with any of the two above, is if a conflict between Armenia and Georgia over Javakheti erupts, distracting Armenia's attention and providing Azerbaijan with a 'golden opportunity' to reconquer Karabakh. (see below) The fallout of a renewed war between Armenia and Azerbaijan, obviously, would be disastrous for the South Caucasus. As mentioned above, the likelihood of this actually taking place is rising as negotiations do not inspire hope for a solution; but regional powers also have a great deal of influence on the two parties, hence their stances and actions could play an important role in either preventing or permitting a war to occur.

Risk of armed conflict in Javakheti

The tense situation in Javakheti is the most delicate minority situation in the South Caucasus today. Several triggering factors could destabilize the situation in Javakheti and lead to unrest and armed conflict, and the regional implications of such a conflict are large and possibly devastating. Triggering factors that could spark a conflict in Javakheti are the possible withdrawal of the Russian military base in Akhalkalaki; the repatriation of Meskhetian Turks; clan struggles in the region; and increased nationalist activity of ethnic Armenian political movements.

At the 1999 OSCE Istanbul Summit, Russia agreed to withdraw military bases from Georgia. Javakheti Armenians, however, are for both economic and political reasons closer to the Armenian than Georgian government in their favorable attitude to Russia and Russian military presence in the region. They feel that the Russian military presence helped alleviate their traditional fear of Turkey. Moreover, Russia's influence balances the nationalizing efforts of the Georgian state. No less important, the Russian base is the main provider of jobs, money, health care, and revenues from smuggling in an economically devastated region. About 70% of the people employed on the base are local Armenians, often Russian passport-holders, and the cash contribution of the Russian base to the region probably exceeds the local budget. There is a widespread belief among residents of the Akhalkalaki region that the Russian military base is the only factor that keeps the economy of this isolated region afloat. All of this has contributed to fears that the withdrawal of the Russian bases will lead both Russian and Armenian nationalist groups to try to exploit the concerns of the local population against the interests of regional stability.

Increased activity of the *Virk* political party could also raise tensions in the region. The party has been denied registration with the Ministry of Justice, and accuses the government of oppressing the rights of ethnic minorities. *Virk* and another Armenian political party, *Javakhk*, are advocating greater rights for the ethnic Armenian community, rising concerns about a potential Turkish threat to the local Armenian population, and strongly opposing a Russian military withdrawal. They continue to drive a local debate on Javakheti's status within Georgia, calling for regional autonomy. Javakhk has a radical faction tied to the Armenian nationalist movement Dashnaktsutiun, which is a leading force in the Armenian Diaspora. The Dashnaktsutiun party, which is allied with Armenian President Kocharyan, supports Javakheti's unification with Armenia. Armenian Diaspora groups have also increasingly advocated autonomy for Javakheti. Competition between clans, who share control of the trade route to Armenia and the fuel business, could also be destabilizing, as Javakheti is one of the most heavily armed regions of Georgia. Another crucial triggering factor is the expected repatriation of the Meskhetian Turks. As a condition for membership in the Council of Europe in 1999, Georgia agreed that the Meskhetians, deported in 1944, would be allowed to repatriate within 12 years to their homes in the Meskheti region adjacent to Javakheti. There is strong opposition to their return among both the Georgian and the Armenian population of the region. Competition for scarce land, water, and employment would be exacerbated by their return.

Stability or instability in Javakheti is largely dependent on Russian and Armenian policies towards Georgia. Whereas the Armenian government has been careful to exert a calming influence on Javakheti in the past decade due to Armenia's dependence on Georgia for trade and access to the world, territorial ambitions on Georgia exist among influential sectors of the Armenian political sphere. Moreover, Russian hard-line policies could easily set fire to Javakheti. The regional implication of such a conflict is large. If a conflict erupts between Armenian groups and Georgian authorities in Javakheti, it will be extremely difficult for the Armenian leadership to remain neutral in this conflict. Strong domestic pressures are likely to be exerted on the Armenian leadership to protect Armenians in Javakheti and to secure the detachment of the region from Georgia. There is hence an obvious risk that conflict in Javakheti would lead to a confrontation between Armenia and Georgia; as noted above, this would disrupt the military balance between Armenia and Azerbaijan, creating a temptation for Baku to attempt to evict Armenian occupation forces from its territories. It is not too far-fetched to assume Azerbaijan and Georgia would make common cause in such an event, leading to a full-blown South Caucasian war in which several regional powers including Turkey, Russia, the United States and Iran could be implicated. While this is a worst-case scenario, it illustrates the crucial role that Javakheti plays in the security of the South Caucasus and the imperative of keeping the fragile stability there and working to prevent a conflict in the region.

The emergence of ethnic conflict in Javakheti could spark a wider, full-blown South Caucasian war.

Risk of resumption of hostilities in Abkhazia

The conflict in Abkhazia has the same symbolic importance for Georgia as Mountainous Karabakh has for Azerbaijan. Similarities abound, including a humiliating defeat against a much smaller enemy supported by external powers; ethnic cleansing and the creation of a large IDP population; a mutiny during the war that threatened collapse of the state; and protracted negotiations that yield no results. But unlike in Karabakh, unrest has returned to Abkhazia several times since the end of large-scale hostilities. Firstly, Georgian paramilitary forces issued from the IDP population have been carrying on a low-intensity conflict along the border regions of Abkhazia and Samegrelo for several years. But more importantly, a brief return to warfare occurred in May 1998, which forced ca. 30,000 Georgians that had returned to their homes in Abkhazia's Gali region to flee again. Then as now, the Abkhazian side relied heavily on Russian peacekeeping troops that have been considerably closer to the Abkhaz *de facto* authorities than to the Georgian side. In the Fall of 2001, unrest again erupted in Abkhazia, when Georgian paramilitaries, in apparent conjunction with several hundred Chechen irregulars belonging to Chechen field commander Ruslan Gelayev's forces, entered Abkhazia from the Kodori gorge bordering on Svaneti. This irregular force managed to make a deep dent into the Abkhaz defenses before Russian air force jets bombed their positions and forced them to retreat. The Georgian government denied any knowledge of the events, however high echelons of power were undoubtedly informed. The episode spurred debate in Georgia on whether a reconquest of Abkhazia was possible. In March 2002, Georgian guerrillas took four CIS peacekeeping troops hostage, overtly offending Moscow.

The Georgian regular army is presently in no condition to stage a military operation in Abkhazia. However, the size differential is so large that even a small but reasonably well-trained and disciplined Georgian force could alter the balance heavily in Georgia's favor. The U.S. decision to send a train and equip assistance program consisting of lose to 200 American soldiers and a US$64 million grant is going to create exactly that. While the U.S. intends to create a Georgian force that can restore order in the Pankisi gorge, Abkhazian concern centers around the future potential of Georgian troops using their training and newly acquired equipment in renewed attempts to

reconquer separatist territories in Abkhazia and South Ossetia. Indeed, given current political turmoil in Georgia, it is not far-fetched to assume a future leadership would want to use its newly acquired military force to restore its territorial integrity, especially given the strong influence of the IDP lobby in politics.

Risk of succession struggles degenerating into civil conflict

Succession has for several years been a key word in the Caucasus. As mentioned above, the personal roles of Presidents Shevardnadze and Aliyev in ensuring stability in their respective countries is understood as being so central that their passing or demise would risk to bring instability and, in the worst-case scenario, civil unrest and conflict. The advanced age of the two Presidents – Aliev is 80 years old and Shevardnadze 75 – entails that the succession crisis is likely to be nearer in time than for any of the Central Asian countries. A succession crisis may emerge in Armenia as well, if President Kocharyan is impeached or is removed from the political scene. However, the likelihood that Armenia would be hit by protracted instability or large-scale unrest is comparatively low.

Shevardnadze's decision to refrain from extending his stay in power after 2005 has both made the succession in Georgia more predictable, but also more acute. Analysts suggest that a sudden, unexpected succession could spark open conflict among elites. As Shevardnadze has (unlike Aliyev) not indicated a heir apparent, uncertainty about who would next hold the vast power of the Presidency creates strong incentives for contenders to use force as part of their efforts. If Shevardnadze is not successful in tapping a successor who is acceptable to other power brokers, tensions will rise as 2005 approaches or his health deteriorates. Like Yeltsin who named Putin as his heir apparent, Shevardnadze has incentives to ensure his close circle will remain under the wing of the new president**.** Therefore, his designee will not be a reformer, like former parliamentary speaker Zurab Zhvania, who was earlier groomed as an heir. The heir could be among the business magnates, who publicly support all of president's deeds, and are seeking to legitimize their property. Shevardnadze could also reckon on the *New Rights* political party of young nouveau riches, who are trying to control not only business, but political structures as well. Their circle includes Badri Patarkatsishvili, media magnate and partner of Russian mogul Boris Berezovski, who is wanted in Russia. Shevardnadze has sheltered Patarkatsishvili, hoping that would help him maintain a tight grasp on political power. The clique of notorious Vano Chkartishvili, former Minister of Economics and trade and Kakha Targamadze, the ousted Minister of Internal affairs, is also part of the same grouping. This movement is thought to be willing to promise security to the President's clan. In all probability, economic interests opposed to a reformist successor have had enough time to join forces to take preemptive action, and are ready to nominate a future President. Such a clique could easily use force to secure their interests, possibly leading to civil unrest if the reformers manage to coalesce significant amounts of people against these structures. Whether the U.S. or Russia will get involved in the succession struggle, especially if it becomes violent, is another factor that will influence its outcome.

In the case of Azerbaijan, President Aliyev's health problems and obvious attempts to groom his son Ilham for the Presidency have led to a perception of urgency and uncertainty regarding the inevitable succession. Aliyev has announced his intention to run for re-election in 2003, and seems fully capable of continuing to rule in the near term, and perhaps even to win a fair election unless the opposition manages to unite around one strong candidate, presently a distant prospect. However, incipient divisions within the ruling New Azerbaijan Party, as well as power struggle among opposition parties raises the distinct possibility for instability, violence and even a civil war following Aliyev's inevitable exit, whether planned or unplanned, from the political scene.

Ilham Aliyev is a top official with the state oil company SOCAR and was appointed head of the Azerbaijani delegation to the Council of Europe's Parliamentary Assembly (PACE) in 2001. Several political alliances have allegedly begun to back candidates largely based on territorial orientations. This trend is worrisome because the emergence of strong regional affiliations in the politics of former Soviet republics has commonly been associated with protracted struggles. Two alleged realignments within the ruling party have attracted attention. The first group, known as the *91st Group*, is comprised of founding members including the former Press and Media Minister Siruz Tebrizli and the former Mayor of Baku, Rafael Allakhverdiev. This alliance seems directed against Ramiz Mekhtiyev, head of the Presidential administration and a potential obstacle to Ilham's succession as president. The second faction is allegedly supported by Mehtiev, thus explaining the potential threat that he poses to President Aliyev's dynastic plans. Interested in avoiding a succession crisis that could breed political in-fighting or outright civil war, Aliyev appears determined to organize a clear political heir that will enjoy significant governmental support. However, the vocal opposition is unlikely to accept a dynastic succession but will press for the implementation of democratic reforms with western assistance in the post-Aliyev era. Moreover, exiled figures such as Ayaz Mutalibov, who spent a decade in Moscow, and Mahir Javadov in Iran, may seek to return with support from these foreign powers; speculation also abounds that Aliyev is seeking to secure Moscow's support (as well as Washington's, with lesser success) for his son Ilham. The ability and willingness of the U.S. or Turkey to influence the succession struggle is also unclear. A possible scenario is that an entrenched and weak successor to Aliyev may be beleaguered by parts of the former ruling elite (as the ruling party is unlikely to stay united after Aliyev's demise), the democratic opposition, and possibly Islamic forces, with foreign powers playing subversive roles. The rivalry between the two camps, if protracted, could then lead to discord within law enforcement agencies and the army, and in the worst case scenario a civil unrest and bloodshed.

Another factor that could aggravate the situation in both countries would be a lack of attention on the part of international organizations. Their role in ensuring that the transition of power is smooth, peaceful and democratic is great. By building democratic governance and insisting on the conduct of fair and free elections as well as the development of civil society institutions, international organizations can help ensure political stability in the South Caucasus. If they do not, the risk of violent succession struggles will be high.

Risk of Russian intervention under alleged terrorism framework

For the last three years, Moscow has accused Tbilisi of allowing Chechen guerrillas to use the Pankisi gorge for training and logistics, as well as a base from which to move into Chechnya, and has therefore exerted continuous pressure on Georgia to crack down on the movements of Chechen separatists. Since September 11, Georgia has also come under US pressure to curb lawlessness in Pankisi. The presence of Chechen fighters in Georgia undermines the country's security, and Russian officials have utilized the Pankisi situation to damage Georgia's international image, and to gain leverage over Tbilisi in negotiations on the withdrawal of Russian forces from the country. Russian media reports in February 2002 that al Qaeda fighters, possibly including Osama bin Laden himself, found refuge in Georgia were stoking pressure for outside military intervention. The Russian Defense Minister declared that Moscow might feel compelled to intervene militarily to contain Islamic radicals in Georgia, and other Russian officials have asserted Russia's "moral right" to launch an antiterrorist operation in Pankisi. The American military assistance program that was speedily announced in February may have been designed to forestall a Russian military move against Georgia. In spite of this, President Putin has insisted that the

Pankisi problem could be solved only with Russian military participation. Clashes near the Georgian border in late July 2002 led to Russian rocket strikes on Georgian territory, indicating that the problem may escalate at any point.

Risk of strengthening of Islamic radicalism

The risk of a strengthening of Islamic radicalism at a level threatening regional security or the national security of either Georgia or Azerbaijan seems relatively low at present. However, the proximity of the war in Chechnya and disillusionment with the ideologies of democracy and market economy are factors that ensure that this risk is clear and present. The second war in Chechnya, raging since 1999, has led to a marked increase of Islamic radicalism not only among the Chechens but among neighboring republics of the North Caucasus, including Dagestan. Arab missionaries preach the *Salafi* version of Islam and are gaining a growing popularity among people whose lives have been ravaged by war and economic despair. By 2000-2001, this process had begun to affect the South Caucasus as well. The Sunni north of Azerbaijan has become an area of *Salafi* influence, whereas both the Pankisi gorge of Georgia and other, not traditionally Muslim parts of mountainous northern Georgia are also affected. As long as the genocidal war in Chechnya is continuing, the injustices and massive human rights violations it has engendered are likely to fan the flames of Islamic radicalism both among the directly affected population in Chechnya and in its wider neighborhood.

Secondly, the rise of Islamic radicalism in Azerbaijan was able to develop not primarily because of the support it has received from Iran, but because of widespread disappointment among the general public with the current regime and the existing ideology. People have lost faith both in communism and market economy, and the vacuum created increases the appeal of Islam, with its notions of equality, brotherhood and fairness. This could potentially serve as an aggravating factor in the democratic development of the country. In the short term, the rise of Islamic radicalism is likely to remain manageable. However, in case of continued poverty, authoritarian rule and growing income disparities, Islamic radicalism may prove to gradually gain ground in Azerbaijan.

The Role of Development Assistance in Conflict Management

The prevention of conflict in the South Caucasus can be achieved in three main ways: strengthening democratic governance, development of civil society, and support for private enterprises. These and humanitarian assistance have been the major areas of support by the international development agencies over the past 10 years.

Urging democratic governance is very important to the Caucasian states, because all three are plagued by corruption, lack of transparency and authoritarianism at all levels of government. The democratic experiment is important – especially for regions such as the South Caucasus – because, as international experience has shown, democracies tend not to go to war with one another. Supporting the democratic developments in the region is hence essential to maintaining peace and stability and preventing future conflicts. That said, international agencies should be extremely careful about which elements of western-style democracy should be brought in to the South Caucasus. Supporting and developing free media, free and fair elections, and strengthening the judicial systems are very much needed. In fact, the latter has received the least attention by the international organizations, regardless of the fact that it is an essential part of democracy. At the same time, spreading information on the meaning and advantage of democracy among the general populations needs to be done. The youth can particularly be targeted in an effort to further an

understanding of why democracy is important for their country's prosperity. Many people dislike democracy simply because they do not know much about it and blame it for all the problems that have emerged in the post-Soviet period.

However, some other elements of western democracy are still very premature for the Caucasian countries, and risk being counter-productive if imposed. These are the development of local self-governance and the enrichment of the country's diversity by strengthening the concept of territorial autonomy, especially for ethnic minorities. The South Caucasian countries have always been under strong central leadership and people are used to living in this system. Development of local self-governance before the statehood of the regional states is fully established and consolidated would not only break up the model of nation-states with strong central authority but also creates conditions for social anarchy in the region and for its fragmentation into several little "fiefdoms". The South Caucasus realistically only has two options: the creation of three strong states in which market economies and democracy can grow, or the fragmentation of the region into up to a dozen mini-states that are weak, vulnerable to great power bullying, in conflict with one another, and likely authoritarian and corrupt. The development of the concept of "autonomy" for minorities may in the abstract be conceived as strengthening the diversity of the regional countries, however, as the statehood of the regional states is not yet established and representative institutions are extremely weak, the risks are overwhelming that devolution of power to minority regions would lead to separatism and the dissolution of statehood. While cultural and political rights of all individuals of the region, including minorities, should be at par with other citizens of the states, priority must be given to state-building in the immediate future.

In the area of civil society development, it is important not only to increase the number of NGOs and voluntary organizations, but also to pave the way for their inclusion in the decision making process. Channeling funds to the creation and strengthening of the NGO sector alone has led to a situation where a lot of NGOs in the region are grant-dependent and often created for the main or sole purpose of providing employment to the NGO head and his or her relatives. Real civil society in the South Caucasus, as elsewhere, can only develop if these NGOs truly participate in the decision making process and have real influence on the government. Such programs as the participation of NGOs in legislative reform, design and analysis of policy proposals should be encouraged.

At the same time, civil society cannot be developed without proper education. Investments in educational projects, internet resources, conflict prevention training, tolerance, and peaceful co-existence are useful and should be increased. Programs on cross-cultural understanding and information on "enemy" groups and their lifestyle and culture are seriously needed to help the general public break existing stereotypes about ethnic groups with which conflict has occurred, and to create conditions for a mutual dialogue. In the area of human rights, seminars and training on the legal and human rights of citizens are important for the overall democracy in the country, but more practically people need technical skills and professional development more than simply information about human rights.

Finally, one of the most effective ways to prevent conflicts is to develop the private sector, so that people are engaged in daily market operations and do not have a need or desire to fight. All three countries of the South Caucasus have experienced devastation in their economies in the post-Soviet period and therefore the development of the private sector is particularly important. The programs that aim at the reduction of corruption and bureaucratic red tape, at the strengthening of micro-crediting for small and medium enterprises, and at improvements in the area of taxation are essential for the development of these countries.

It should also be noted that humanitarian assistance should not remain outside the general focus, as the assistance to refugees, IDPs and other vulnerable segments of the population are vital for short-term stability in the region, especially in Azerbaijan and Georgia. However, this assistance should gradually shift toward sustainable development and income-generating activities in order to provide ”tools” for these groups to take care of themselves in the long term.

One important aspect of the development programs and their role in conflict prevention is that these programs should not be designed and imposed from outside only. This not only alienates the local beneficiaries but also creates conditions for significant errors in program implementation. Often, programs that have succeeded in other countries are brought in and implemented in the South Caucasus with very little contextual changes. These programs all too often turn out to be complete failures as the conditions, mentalities, social structures, and values among Caucasian peoples differ greatly from those areas where these programs have been successful. When designing programs, it is important that local beneficiaries and experts are included in the process. This will ensure capacity building and the empowerment of the local populations as well as increase the likelihood of the success of the programs.

Glossary

Ademon Nykhas: Ossetian Popular Front, founded in 1989, driving force for South Ossetian secession from Georgia

AIOC: Azerbaijan International Oil Consortium, created in 1994 in a $7 billion contract between the Azerbaijani government and numerous international oil companies in order to develop the three oil fields of Azeri, Chirag and Güneshli in the Azerbaijani sector of the Caspian sea.

ANM: Armenian National Movement, *Hayots Hamazgayin Sharjum*, organization that led Armenia to independence, founded in 1988 from the Karabakh Committee, which was founded to campaign for Mountainous Karabakh's annexation to Armenia. Its leader, Levon Ter-Petrossian, served as President of Armenia 1991-1998.

APF: Azerbaijani Popular Front, *Azärbaijan Xalq Cäphësi*, anti-Soviet movement that campaigned for Azerbaijan's independence, founded in 1989. Its leader, Abulfaz Elçibey, served as President of Azerbaijan 1992-1993.

Aydgylara: Abkhaz Popular Front, founded in 1988, driving force for Abkhazian secession from Georgia

BTC: Baku-Tbilisi-Ceyhan Main oil Export Pipeline, which is scheduled to transport one million barrels a day of Azerbaijani and perhaps Kazakh oil to western markets. Construction began in 2002.

CIS: Commonwealth of Independent States

GUUAM: Regional organization grouping together Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova, created in 1997.

Hizb-ut-Tahrir: Sunni Radical Islamic Movement active underground in the entire world, with a leadership somewhere in western Europe.

IDP: Internally Displaced Person

Javakhk: Armenian political party/movement in the Javakheti province of Georgia. Javakhk is the Armenian name of the region.

Jeyshullah: Shi'a Radical Islamic movement active underground in Azerbaijan

MEP: Main Export Pipeline

OSCE Minsk Group: Body designated by OSCE to mediate the Mountainous Karabakh conflict

OSCE: Organization for Security and Cooperation in Europe

Raion: Soviet-era administrative division

Salafi: Ultra-orthodox sect of Islam, often known as 'Wahhabi', originating in Sa'udi Arabia in the mid-nineteenth century

TRACECA: Transport Corridor Europe-Caucasus Asia Project, founded by the European Union

UNDP United Nations Development Program

Virk: Armenian political party/movement active in the Javakheti region of Georgia

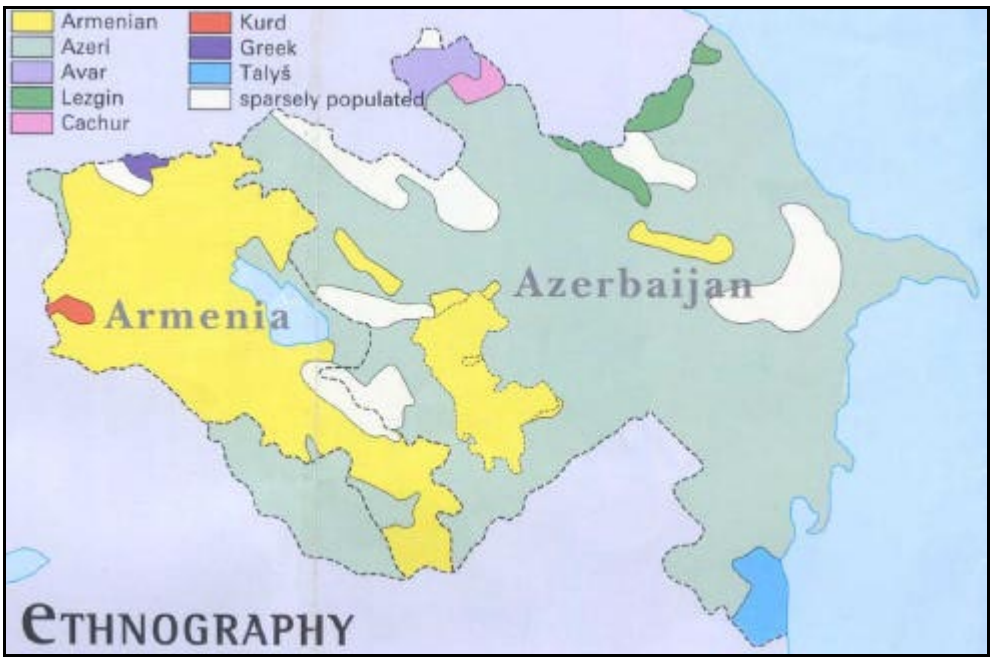
Yeni Azerbaycan Partiyasi: Ruling party of Azerbaijan, chaired by President Heydar Aliyev.

Maps

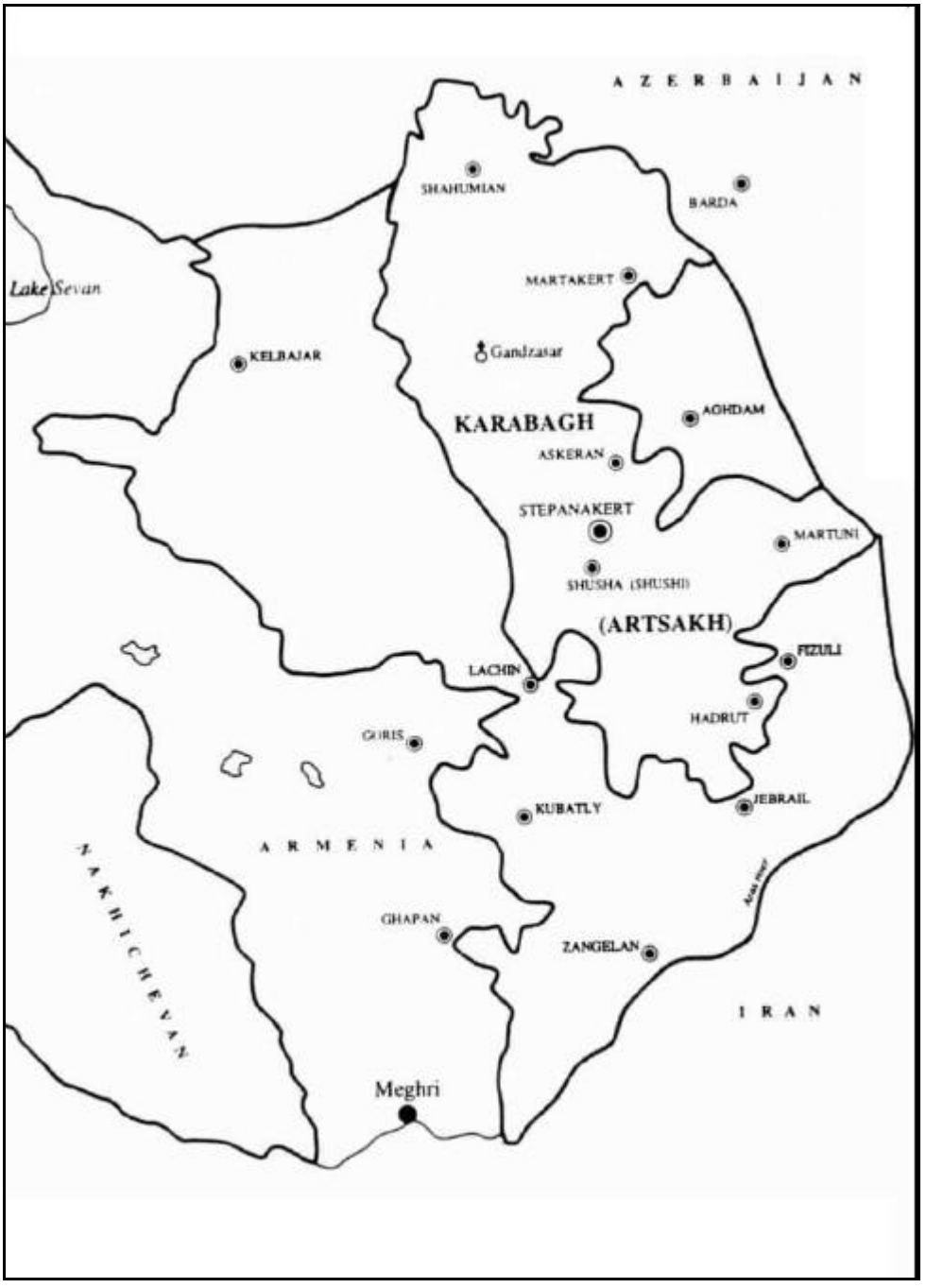
Map 1: Political Boundaries in the Caucasus

Map 2: Topography of the Caucasus

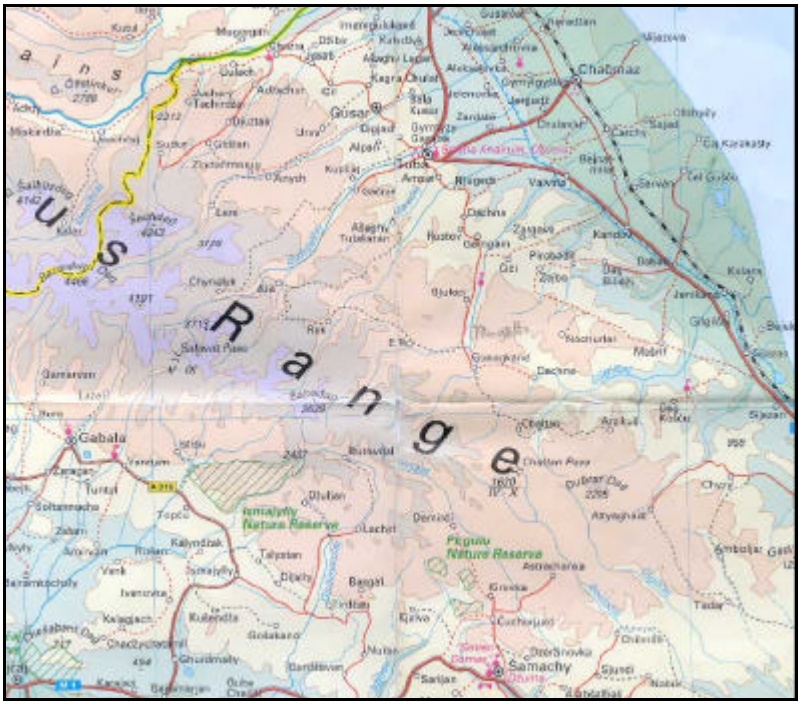
Map 3: Ethnic Settlement Patterns in Armenia and Azerbaijan, 1989



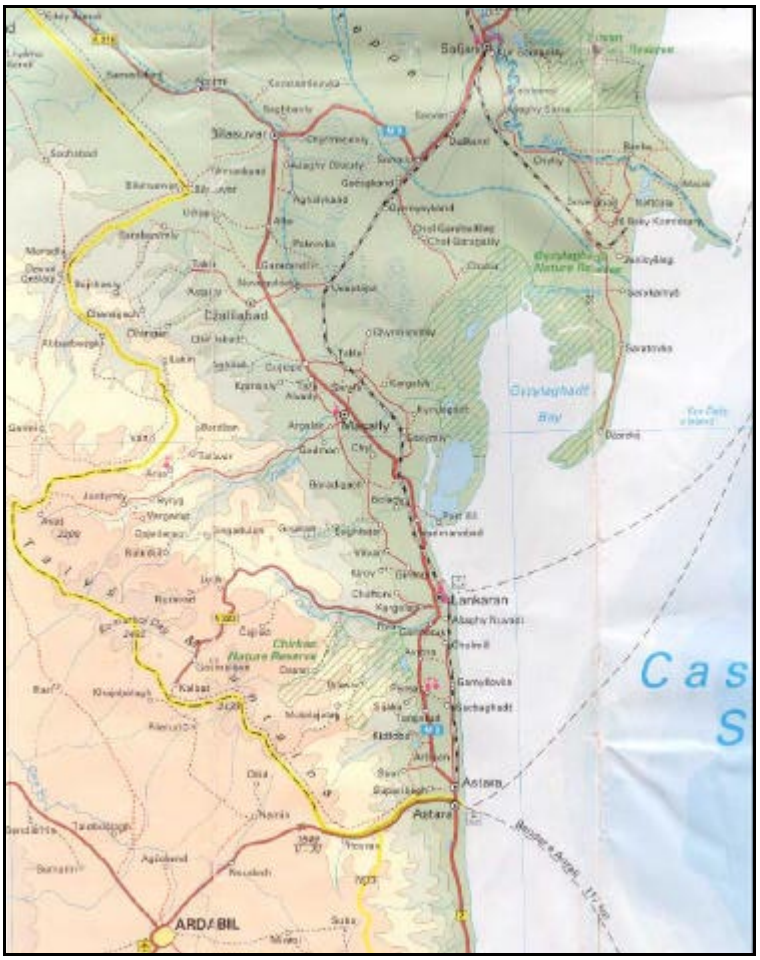
Map 4: Military Control Along Cease-Fire Line Between Armenia and Azerbaijan



Map 5: Northeastern Areas of Azerbaijan

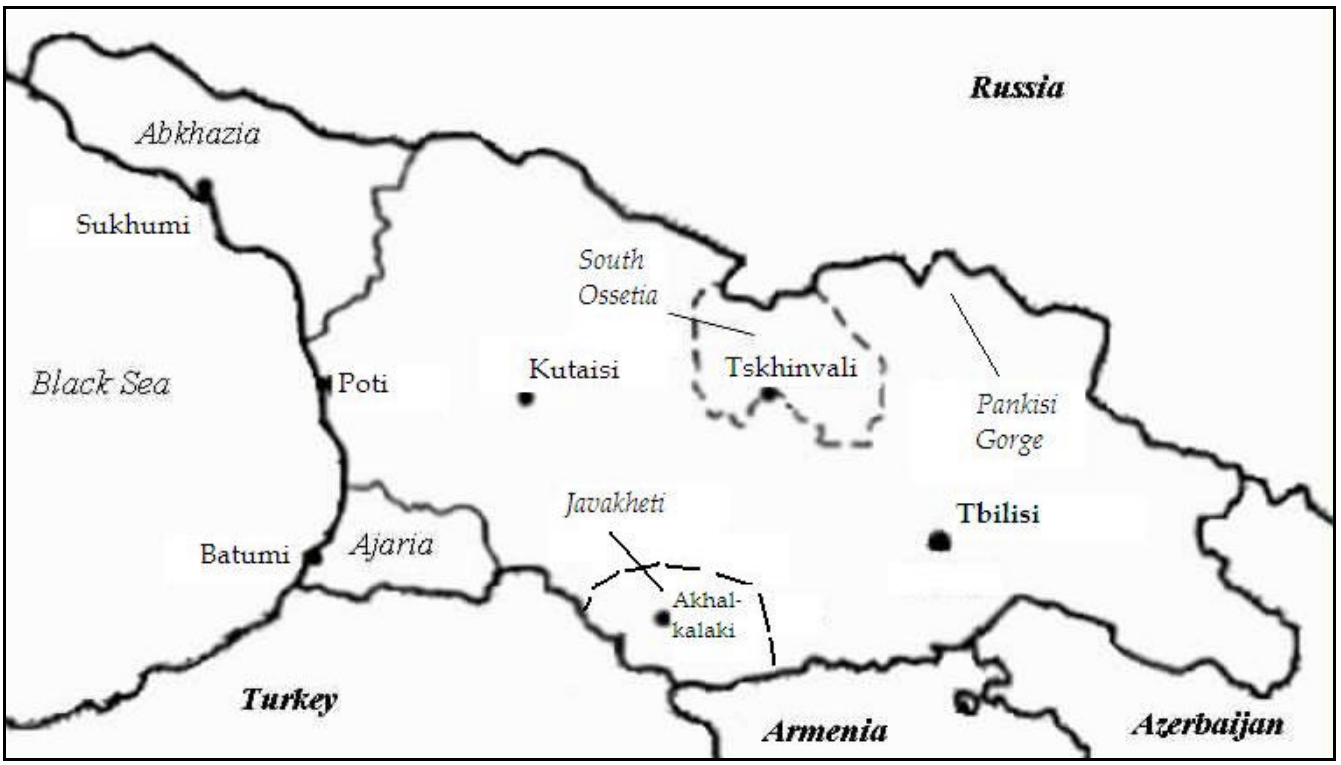


Map 6: Southeastern Areas of Azerbaijan



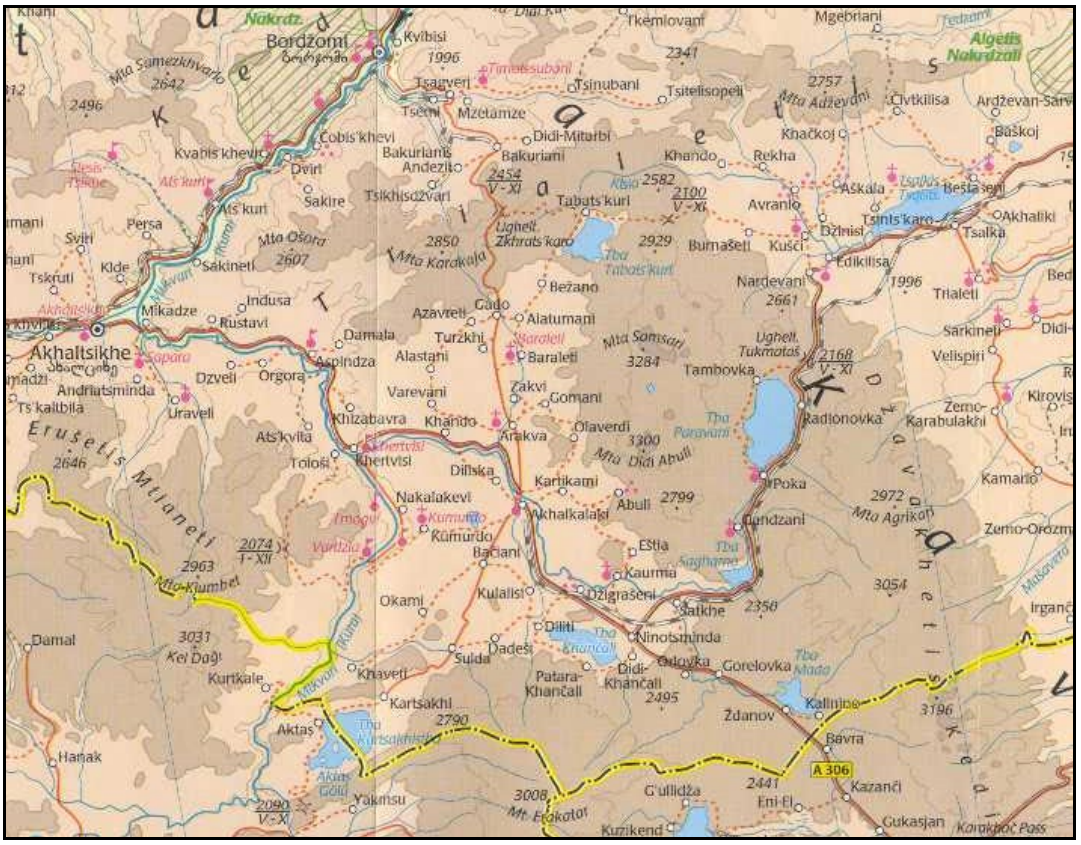
Map 7: Administrative Divisions in Georgia

Map 8: Ethnic/Political Map of Georgia



Map 9: Ethnic Settlement Patterns, Georgia, 1994

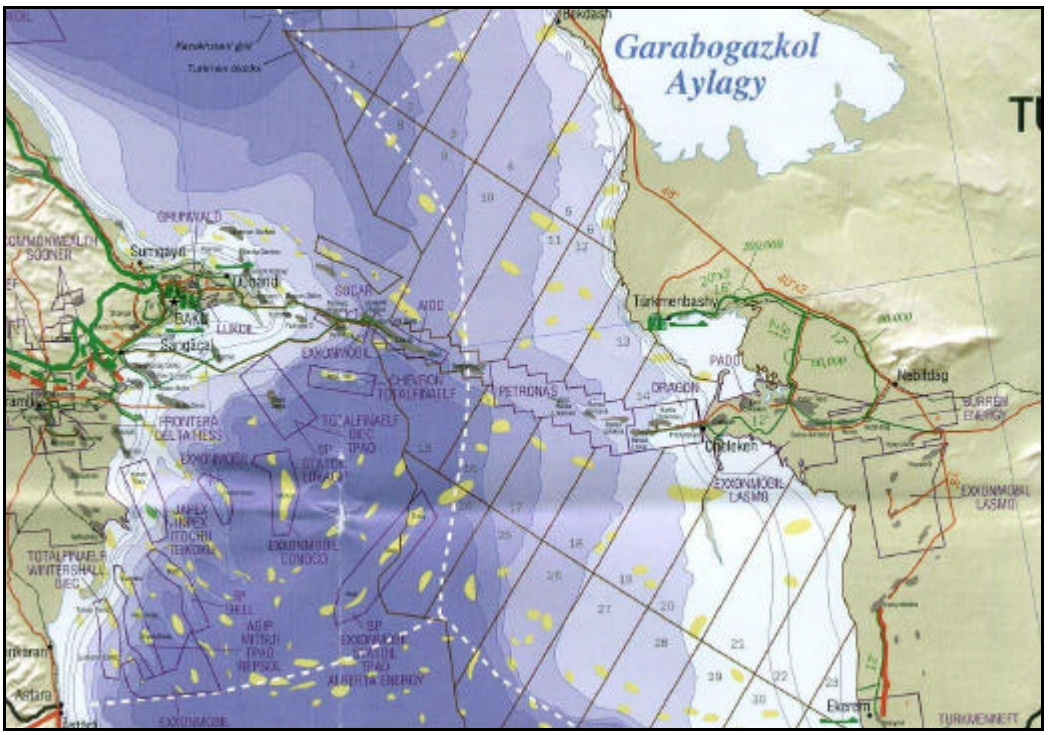
Map 10: Samtskhe-Javakheti



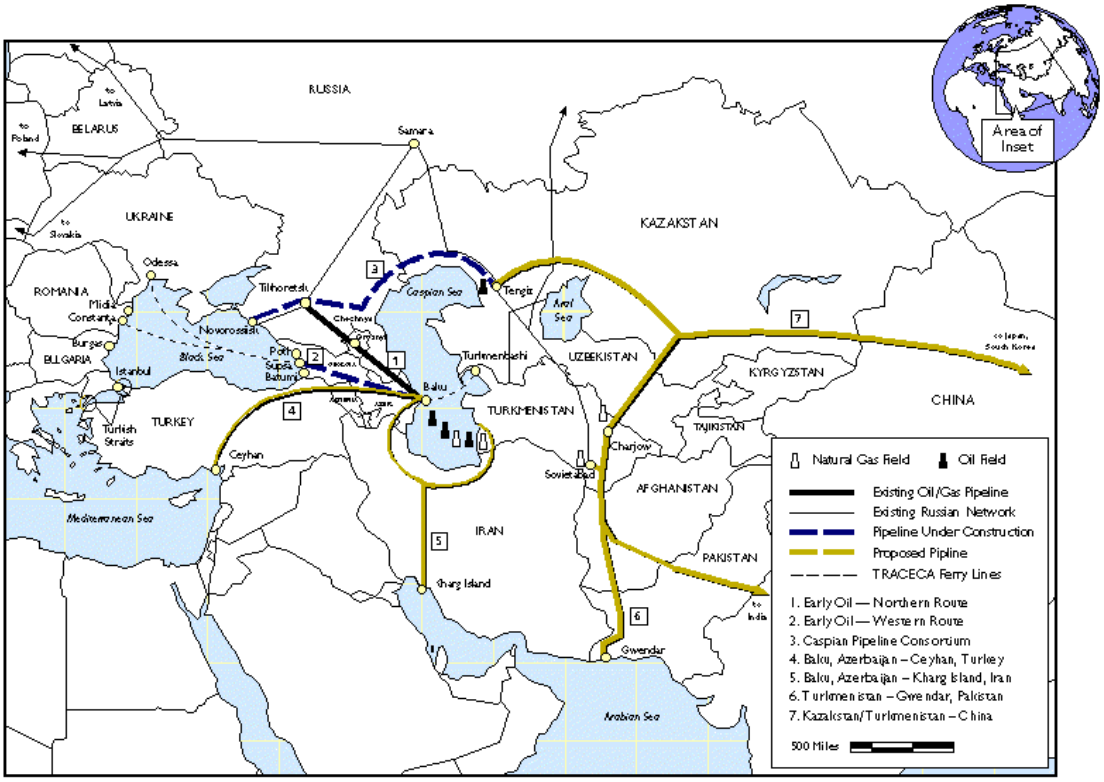
Map 11: Kvemo Kartli

Map 12: Abkhazia

Map 13: Oil and Gas Deposits in Azerbaijan's Sector of the Caspian Sea



Map 14: Oil and Gas Transportation Pipelines, Existing and Proposed



Oil and Natural Gas Export Infrastructure in Central Asia and the Caucasus

Sources: U.S. Department of State.

Statistical Appendix

Table 1: Basic Economic Indicators

Indicator	Azerbaijan	Armenia	Georgia	Russia	Uzbekistan
GDP (in USD Billion, 2000)	5.3	1.9	3.0	251.1	7.7
GDP per capita (in USD, 2000)	2,936	2,559	2,664	8,377	2,441
Poverty Level	60%	55%	53%	40%	
Unemployment (% of labor force, official rate) 2000	20%	10.1%	14.9%	10.5%	10%
Real Annual GDP growth, 2000	11.4%	5%	1.9%	6.3%	1.5%
Annual Inflation, 2000	1.8%	1%	4.1%	20.6%	35.5%

Sources: UNDP, USAID, CIA Factbook

Table 2: Export and Import of Goods, Balance

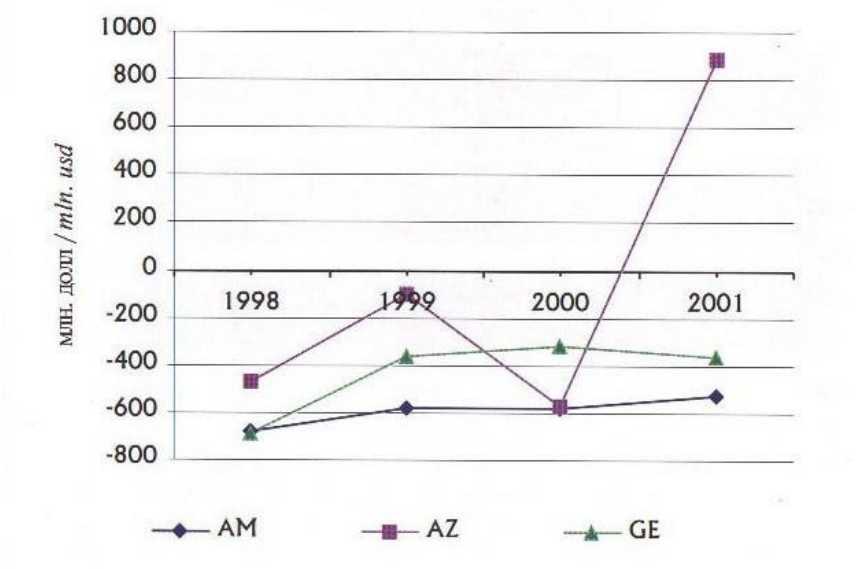


Table 3: Imports by Geographical Area, 2001

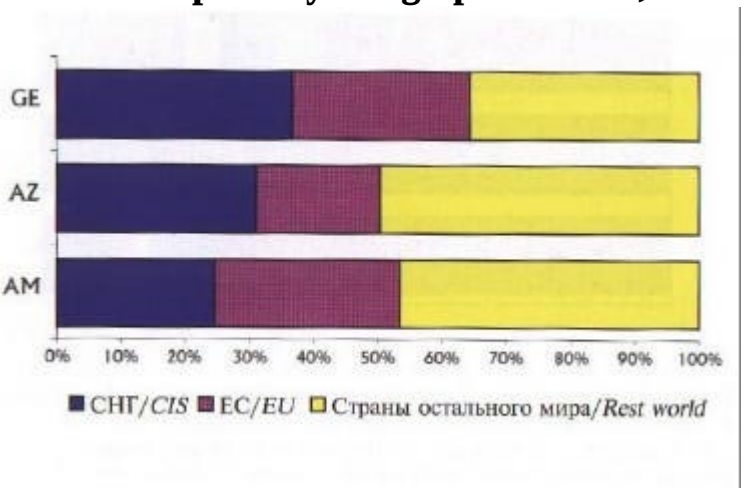


Table 4: Exports by Geographical Area, 2001

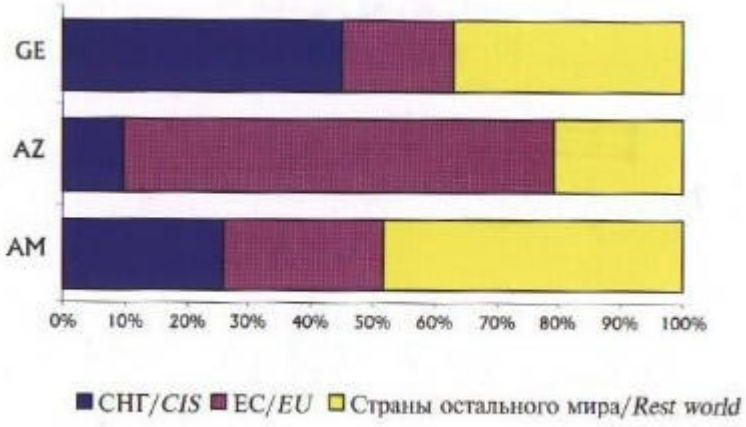


Table 5: GDP per Person in US$

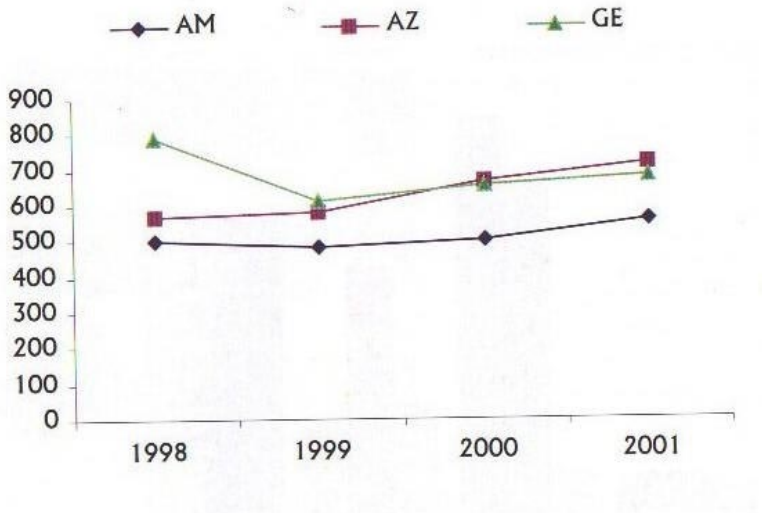


Table 6: Structure of Industry, 2000

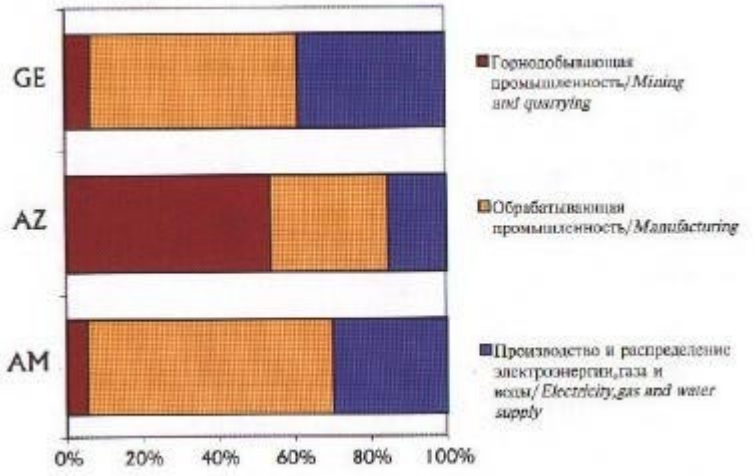


Table 7: Index of Investments to Fixed Capital

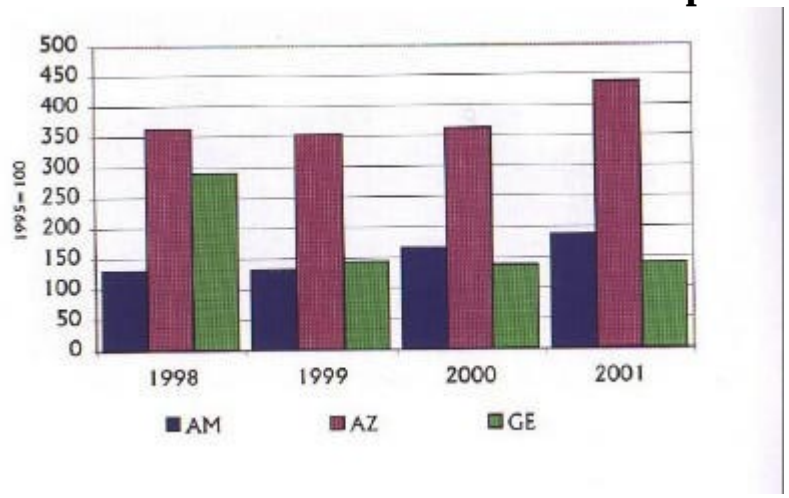


Table 8: Electricity Production per Capita, 2001

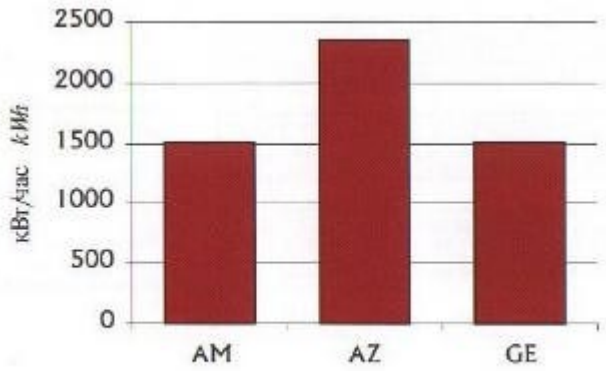


Table 9: Infant Mortality per 1000 Births

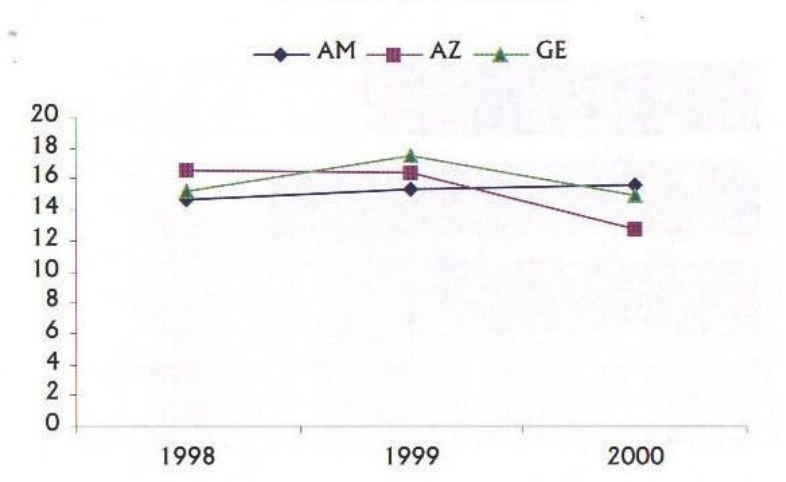


Table 10: Number of Telephones per 100 Persons, 2000

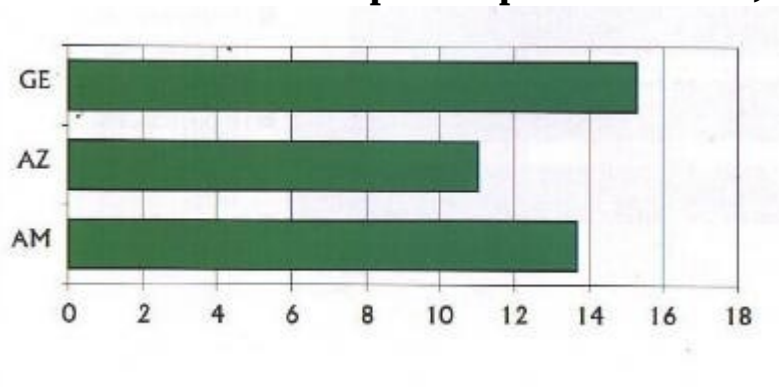


Table 11: Consumption of Selected Foodstuffs per Person

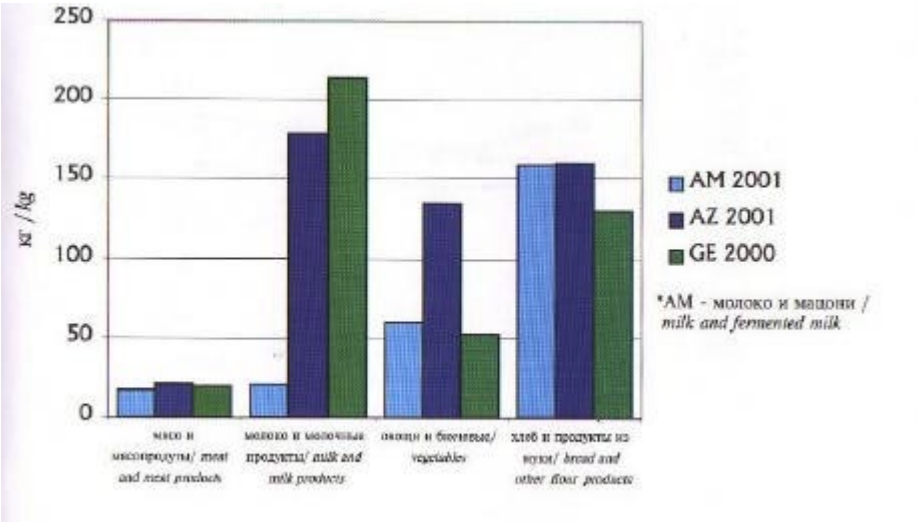


Table 12a-c: Changes in Nominal Earnings and Consumer Prices, to Previous Year

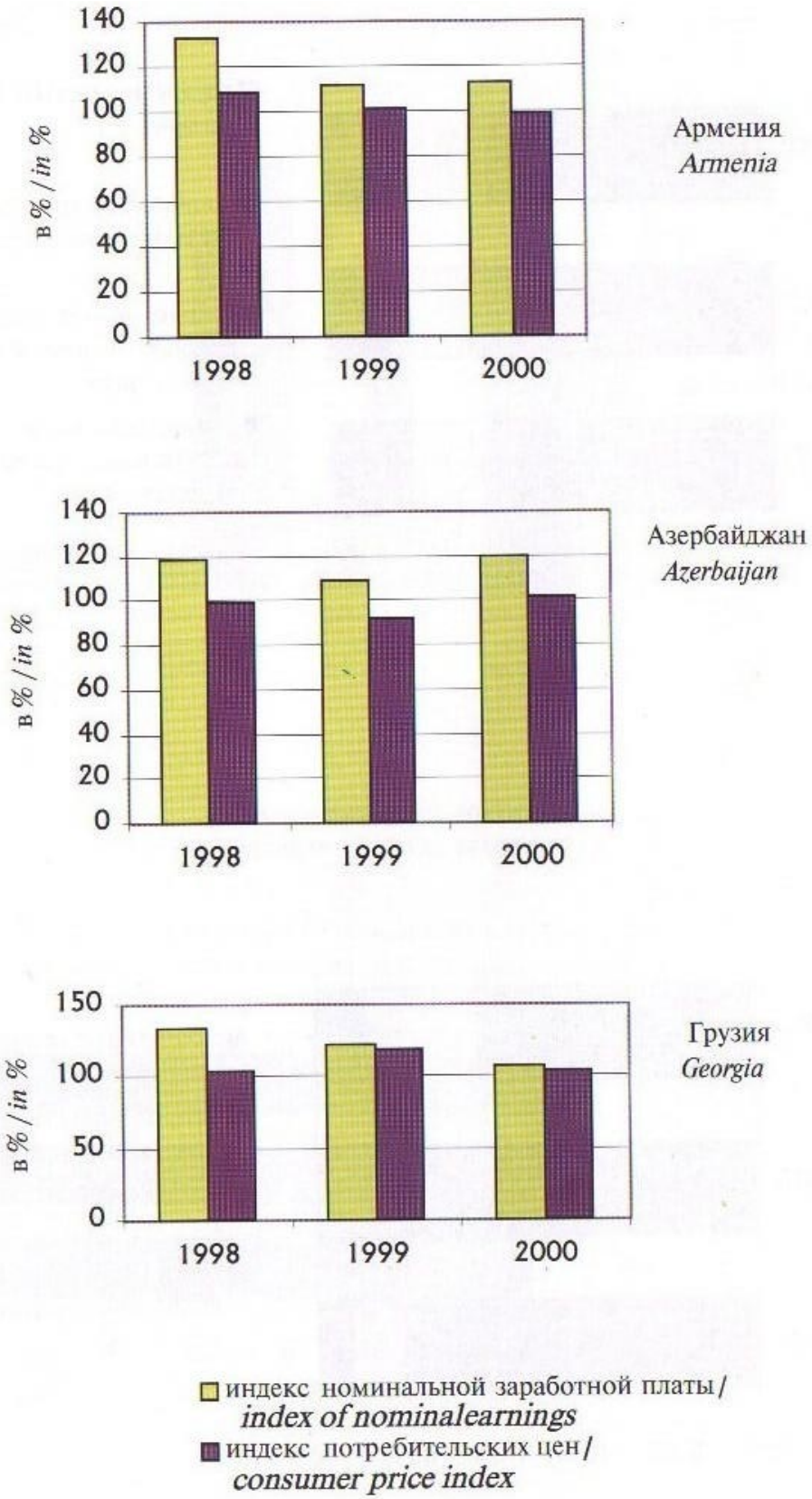


Table 13: Population Age Groups, 2000

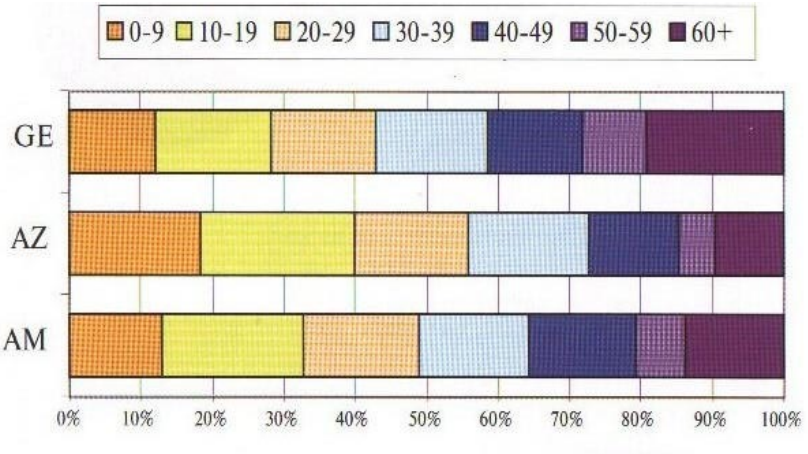


Table 14: Rural / Urban Population Distribution, 2000

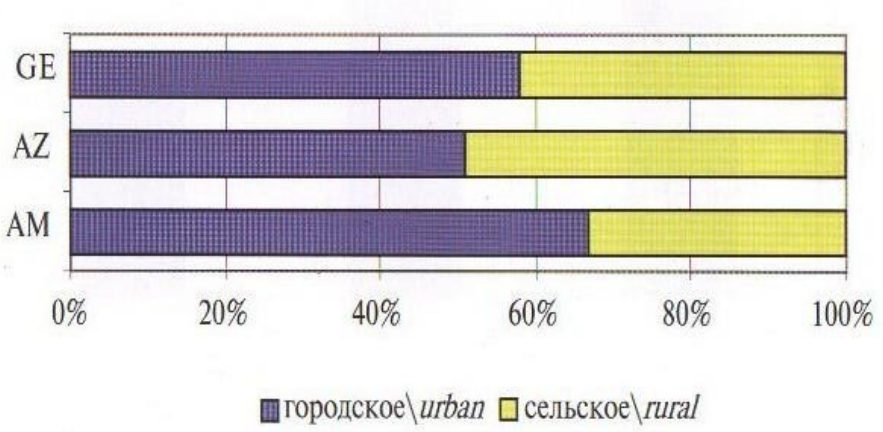


Table 15: Average Monthly Wages

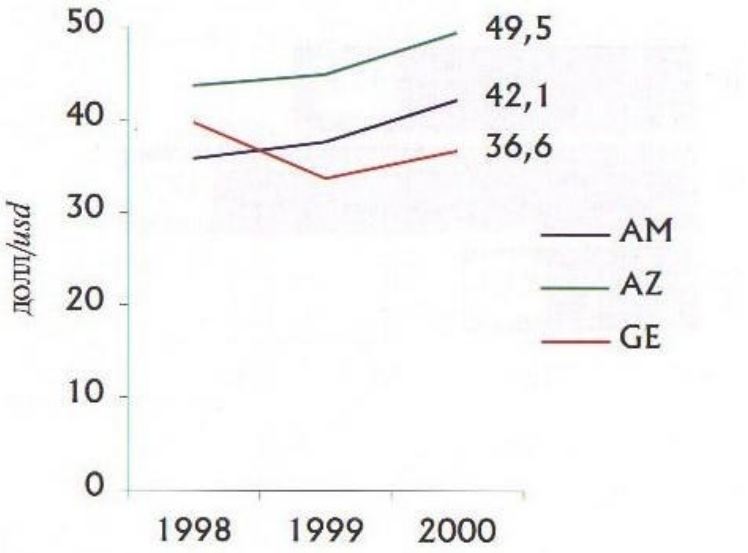
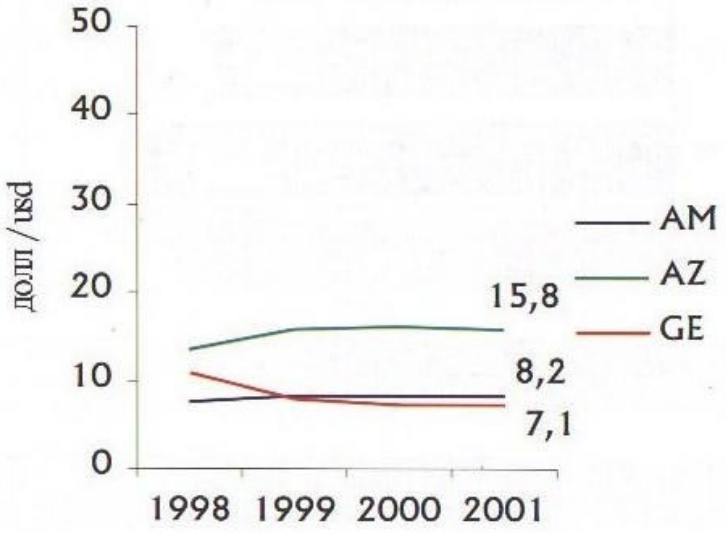


Table 16: Average Monthly Pensions



Bibliographical Appendix

Akbarzadeh, Shifteh, 'Local Cultures and Global Change: The Case of Marneuli, a Rural Setting of the Azeri Minority in Georgia', Paper Presented at the Annual Conference of the Association for the Study of Nationalities, New York, N.Y., 13-16 April 2000.

Akinci, Ugur, "Javakhetia: The Bottle-Neck of the Baku-Ceyhan Pipeline", in *Silk Road: A Journal of West Asian Studies*, vol. 1 no. 2, December 1997.

Altstadt, Audrey L., *The Azerbaijani Turks: Power and Identity under Russian Rule*, Stanford: Hoover Institution Press, 1992.

Aves, Jonathan, *Georgia: From Chaos to Stability?*, London: Royal Institute for International Affairs, 1996.

Aves, Jonathan, *Paths to National Independence in Georgia, 1987-1990*, London: School of Slavonic and east European Studies, University of London, 1991.

Baran, Zeyno, 'Georgia Under Worst Pressure Since Independence', *Georgia Update*, Center for Strategic and International Studies, 10 January 2001.

Baran, Zeyno, 'The Caucasus: Ten Years since Independence', *The Washington Quarterly*, Winter 2002.

Bekoeva, Sof'ia Grigor'evna, *Iugo-Osetiia v period pervoi Russkoi revoliutsii*, Vladikavkaz 1956.

Bennigsen, Alexandre and S. Enders Wimbush, *Muslims of the Soviet Empire: A Guide*, Bloomington: Indiana University Press, 1986.

Billingsley, Dodge, 'Confederates of the Caucasus', *Jane's Intelligence Review*, February 1997.

Birch, Julian, 'Ethnic Cleansing in the Caucasus', *Nationalism and Ethnic Politics*, vol. 1 no. 4, 1995.

Birch, Julian, 'Ossetia: A Caucasian Bosnia in Microcosm', *Central Asian Survey*, vol. 14 no. 1, 1995.

Bournoutian, George, *A History of the Armenian People*, Costa Mesa, CA: Mazda Publishers, 1993, 2 volumes.

Chantladze, David, 'The Adjara Region of the Republic of Georgia', U.S. Department of Commerce *Bisnis*, September 1999.

Chervonnaya, Svetlana, *Conflict in the Caucasus: Georgia, Abkhazia and the Russian Shadow*, Oxford, Gothic Image Publications, 1994.

Chirikba, Viacheslav, 'The Georgian-Abkhaz Conflict and its Aftermath', in Mehmet Tütüncü, ed., *Caucasus: War and Peace*, Haarlem: SOTA, 1998.

Coppieters, Bruno, ed., *Georgians and Abkazians: the search for a Settlement*, Brussels: Vrije Universiteit Brussels, 1998.Cornell, Svante E., 'Conflicting Identities in the Caucasus', in *Peace Review? a Transnational Quarterly*, vol. 9 no. 4, December 1997.

Cornell, Svante E., *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, Richmond, UK: Curzon Press, 2001.

Croissant, Michael P., *The Armenian-Azerbaijani Conflict: Causes and Implications*, New York: Praeger, 1998.

Cvetkovski, Nikola, *The Georgian-South Ossetian Conflict*, Aalborg University, 1999.

Darchiashvili, David, 'Ethnic Relations as a Security Factor in Southern Georgia', *Central Asia and the Caucasus*, no. 1, 2000.

Davies, John L. and Ted Robert Gurr, eds., *Preventive Measures: Building Risk Assessment and Crisis Early Warning Systems*, Lanham, ML: Rownam & Littlefield Publishers inc., 1998.

Derluguian, Georgi M., 'A Tale of Two Resorts: Abkhazia and Ajaria Before and Since the Soviet Collapse', in Beverly Crawford and Ronnie D. Lipschutz', *The Myth of Ethnic Conflict*, Berkeley: University of California, International and Area Studies Research Series.

Derluguian, Georgi, 'The Forgotten Abkhazia: Anatomy of Post-Socialist Ethnic War', PONARS Policy Memo no. 163, November 2000.

Doguzov, Pavel V., *Revolutsionnoe Dvizhenie v Iugo-Osetii*, Moscow 1960.

Economist Intelligence Unit, *Country Report Armenia*, November 2001.

Economist Intelligence Unit, *Country Report Azerbaijan*, January 2002.

Economist Intelligence Unit, *Country Report Georgia*, November 2001.

Fairbanks, Charles H. Jr., 'The Post-Communist Wars', *Journal of Democracy*, October 1995.

Fairbanks, Charles H. Jr., "Party, Ideology and the Public World in the Former Soviet Space," in Arthur M. Meltzer, Jerry Einberger, and M. Richard Zinman, eds., *Politics at the End of the Century*, Lanham, Md.: Rowman and Littlefield, 2001.

Fuller, Elizabeth, 'Azerbaijani Exodus from Georgia Imminent?', *Report on the USSR*, 15 February 1991.

Fuller, Elizabeth, 'Georgian Parliament Votes to Abolish Ossetian Autonomy', *Report on the USSR*, 21 December 1990, p. 8.

Fuller, Elizabeth, 'How Serious Are Inter-Nationality Tensions in Georgia?', *Radio Liberty* Report No. 444/83, 25 November 1983.

Fuller, Elizabeth, 'The South Ossetian Campaign for Unification', *Report on the USSR*, 8 December 1989.

Fuller, Elizabeth, "Draft 'State Program' on Georgian Language Published", in *Radio Liberty Research Report*, 559/88, 12 December 1988.

Fuller, Elizabeth, "Georgia's Adzhar Crisis", in *Report on the USSR*, 9 August 1991.

Fuller, Elizabeth, "Zviad Gamsakhurdia Proposes Abolition of Adzhar Autonomy", in *Report on the USSR*, 30 November 1990.

Gabashvili, Manana, 'K Psikologicheskomu Analizu Konflikta Na Primere Vooruzhennogo Konflikta v Abkhazii', in Georgi Gogsadze et. al., *Etnopoliticheskie Konflikty v Zakavkaze: Ikh Istoki I Puti Resheniia*¸ College Park, MD: University of Maryland CIDCM, 1997, pp. 146-153.

Gachechildze, Revaz, *The New Georgia: Space, Society, Politics*, London: University College of London Press, 1995.

Gerber, Jürgen, *Georgien:: Nationale Opposition und Kommunistische Herrschaft seit 1956*, Baden-Baden: Nomos Verlagsgesellschaft, 1997.

Gogzadze, Georgii, 'Glavnye Asspekty Mezhetnicheskikh Otnoshenii v Gruzii', in Georgi Gogsadze et. al., *Etnopoliticheskie Konflikty v Zakavkaze: Ikh Istoki I Puti Resheniia*¸ College Park, MD: University of Maryland CIDCM, 1997.

Goldenberg, Suzanne, *Pride of Small Nations: The Caucasus and Post-Soviet Disorder*, London: Zed, 1994.

Goltz, Thomas, *Azerbaijan Diary: A Rogue Reporter's Adventures in an Oil-Rich, War-Torn Post-Soviet Republic*, Armonk, N.Y.: M.E. Sharpe, 1998.

Guretski, Voitsekh, 'The Question of Javakheti', *Caucasian Regional Studies*, vol. 3 no. 1, 1998.

Gurr, Ted R., *Peoples versus States: Minorities at Risk in the New Century*, Washington, D.C.: USIP Press, 2000.

Herzig, Edmund, *The New Caucasus*, London: RIIA, 1998.

Hill, Fiona and Pamela Jewett, *'Back in the USSR'*, Cambridge, MA: Harvard University Strengthening Democratic Institutions Project, 1994.

Hin, Judith, 'Ajaria: The interest of the Local Potentate in Keeping Violent Conflict at Bay', Paper Presented at the Annual Convention of the Association for the Study of Nationalities, New York, 13-15 April 2000.

Hin, Judith, 'Ethnic and Civic Identity in Georgia: A Comparison between the Main Population Groups: Georgians and Armenians', Paper Presented at the Annual Convention of the Association for the Study of Nationalities, New York, 15-17 April 1999.

Human Rights Watch, *World Report 2002*, New York: Human Rights Watch, 2002.

Human Rights Watch/Helsinki, *'Punished Peoples' of the Soviet Union: the Continuing Legacy of Stalin's Deportations*, New York: Human Rights Watch, 1991.

International Monetary Fund And International Development Association Georgia, *Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper*, December 2001.

International Monetary Fund and World Bank, *Poverty Reduction, Growth and Debt Sustainability in Low-Income CIS Countries*, Prepared jointly by the Europe and Central Asia Region of the World Bank and the European II Department of the IMF in consultation with the staffs of the Asian Development Bank and the European Bank for Reconstruction and Development, 4 February 2002.

Jones, Stephen and Robert Parsons, "Georgia and the Georgians", in Graham Smith (ed.) *The Nationalities Question in the Post-Soviet States*, New York: Longman, 1996.

Jones, Stephen, "Border Disputes and Disputed Borders in the Soviet Federal System", in *Nationalities Papers*, vol. 15 no. 1, Spring 1987.

Kabisov, Albert, 'Konflikt v Iuzhnoi Osetii i tsennost opyta Alanskoi Avtonomii dlia razresheniia konfliktov v Zakavkaze', in Georgi Gogsadze et. al., *Etnopoliticheskie Konflikty v Zakavkaze: Ikh Istoki I Puti Resheniia*¸ College Park, MD: University of Maryland CIDCM, 1997.

Kanbolat, Hasan and Nazmi Gul, *The Geopolitics and Quest for Autonomy of the Armenians of Javakheti (Georgia) and Kransodar (Russia) in the Caucasus*, Ankara: AVSAM, 2000.

Kaufman, Stuart, *Modern Hatreds: The Symbolic Politics of Ethnic War*, Ithaca: Cornell University Press, 2001.

Kazemzadeh, Firuz, *The Struggle for Transcaucasia*, Oxford: Oxford University Press, 1951.

Kholbaia, Vakhtang, et. al., *Labyrinth of Abkhazia*, (trans. Nana Japaridze-Chkoidze), Tbilisi 1999.

Kipnis, Mark, "The Georgian National Movement: Problems and Trends", in *Crossroads? Trends and Issues in Contemporary Society*, vol. 1, Autumn 1978.

Kokoev, Konstantin and Guram Svanidze, 'Problems of (Ethnic) Minorities in Georgia', *Central Asia and the Caucasus*, no. 1, 2000.

Kozhokin, Evgeniy M., 'Georgia-Abkhazia', in Jeremy Azrael and Emil Payin, eds., *U.S. and Russian Policy-Making with Respect to the Use of Force*, Santa Monica: RAND Corporation, 1996.

KPSS v rezoliutsiiakh i resheniakh sezdov, konferentsii i plenumov CK, vol. 2, Moscow, 1970, p. 252.

MacFarlane, S. Neil et. al., *Armed Conflict in Georgia: A Case Study in Humanitarian Action and Peacekeeping*, Occasional Paper no. 21, Watson Institute for International Studies, Brown University, 1996.

Mamedli, Imir, *Iki Prezident Arasynda*, Tbilisi: Intellekti Neshriyaty, 2001.

McCarthy, Clem, *The Lezgins: A Situation Assessment*, International Alert Report, May 1997.

Melikishvili, Lia, *Latent Conflict in Polyethnic Society*, Tbilisi: CIPDD, 1999.

Menteshashvili, Avtandil, *Iz Istorii Vzaimootnosheniy Gruzinskogo, Abkhazskogo i Osetinskogo Narodov (1918-1920 gg.)*¸Tbilisi 1990.

Nasmyth, Peter, *Georgia: Mountains of Poetry*, Richmond: Curzon Press, 1998.

Nekrich, Aleksandr, *The Punished Peoples*, New York: Norton, 1978.

Nodia, Ghia, 'Georgia's Identity Crisis', *Journal of Democracy*, vol. 6 no. 1, 1995.

Nodia, Ghia, 'The Conflict in Abkhazia: National Projects and Political Circumstances', in Bruno Coppieters, ed., *Georgians and Abkazians: the search for a Settlement*, Brussels: Vrije Universiteit Brussels, 1998.

Nodia, Ghia, "The Ethnic Policies of Zviad Gamsakhurdia", in Bruno Coppetiers, (ed.), *Contested Borders in the Caucasus*, Brussels: VUBPress, 1996.

Otyrba, Gueorgui, 'War in Abkhazia: the Regional Significance of the Georgian-Abkhazian Conflict', in Roman Szporluk, ed., *The International Relations of Eurasia vol. 1*, Armonk, NY: ME Sharpe, 1994.

Ro'i, Yaacov, *Islam in the Soviet Union*, London: Hurst, 1999

Rotar, Igor, "Tbilisi Has Only Partial Control Over Georgia's Armenian Regions" *Jamestown Prism*, vol. 4, no.10, May 15, 1998.

Schwartz, Donald D. and Razmik Panossian, eds., *Nationalism and History: The Politics of State-Building in Post-Soviet Armenia, Azerbaijan and Georgia*, Toronto: University of Toronto Press, 1994.

Sevunts, Levon, 'Squeeze Play in the Caucasus: Russia Could Tighten its Grip as Georgia, Armenia Break out of Bear Hug', *The Gazette (Montreal)*, 29 November 1999.

Siukayev, N.V., *Dve Tragedii Yuzhnaya Osetiya*, Vladikavkaz, 1994.

Slider, Darrel, 'Democratization in Georgia', in Karen Dawisha and Bruce Parrott, eds., *Conflict, Cleavage and Change in Central Asia and the Caucasus*, Cambridge: Cambridge University Press, 1996

Slider, Darrell, "Crisis and Response in Soviet Nationality Policy: The Case of Abkhazia", in *Central Asian Survey*, vol. 4 no. 4, 1985, pp. 51-6.

Starr, S. Frederick, 'Altitude Sickness', *The National Interest*¸ Spring 2001.

Suny, Ronald Grigor, *The Making of the Georgian Nation*, Bloomington: Indiana University Press, 1994 (rev. ed.)

Suny, Ronald Grigor, *The Revenge of the Past: Nationalism, Revolution, and the Collapse of the Soviet Union*, Stanford, CA: Stanford University Press, 1993.

Taheri, Amir, *Crescent in a Red Sky: The Future of Islam in the Soviet Union*, New York, 1989.

Toft, Monica Duffy, 'Two-Way Mirror Nationalism: the Case of Ajaria', in Moshe Gammer, ed., *The Politics of the Caspian*, London: FrankCass, 2002.

Tololyan, Khachig, 'National Self-Determination and the limits of Sovereignty: Armenia, Azerbaijan, and the Secession on Mountainous Karabakh', *Nationalism and Ethnic Politics*, vol. 1 no. 1, Spring 1995.

Tsikhelashvili, Ketevan, 'The Case Studies of Abkhazia and South Ossetia', draft chapter, European Center for Minority Issues, 30 September 2001.

United Nations Development Program, *Azerbaijan Human Development Report 2000*, Baku: UNDP, 2002.

United Nations Development Program, *Human Rights and Human Development: Action for Progress – Human Development Report for Armenia 2000*, Yerevan: United Nations, 2000.

United Nations Development Program, *Human Rights and Human Development: Action for Progress – Human Development Report for Armenia 2000*, Yerevan: United Nations, 2000.

United Nations Development Program, *National Human Development Report Georgia 2001/2002*, Tbilisi: UNDP, 2002.

World Health Organization, *Highlights on Health in Azerbaijan*, Copenhagen: WHO Regional Office for Europe, March 2001.

World Health Organization, *Highlights on Health in Georgia*, Copenhagen: WHO Regional Office for Europe, April 2001.

Zoidze, O., 'Postsovietskaia Gruzia: Problemy Natsionalogo Edinstvo I Stanovleniia Gosudarstvennosti', in *Severniy Kavkaz-Zakavkaz'e: Problemy Stabilnosti I Perspektivy Razvitiia – Materialy Mezhdunarodnoy Konferentsii*, Moscow: Firedrich Ebert Foundation, 1997.

Zverev, Alexei, "Ethnic Conflicts in the Caucasus 1988-94", in Bruno Coppetiers, (ed.), *Contested Borders in the Caucasus*, Brussels: VUBPress, 1996.

Biographies of Contributors

Dr. Svante E. Cornell is Executive Director of CCC. He is the editor of the *Central Asia-Caucasus Analyst*, a publication of the Central Asia-Caucasus Institute of Johns Hopkins University-SAIS. (http://www.cacianalyst.org/), a leading publication on Central Eurasia. Dr. Cornell, who received his Ph.D. in Peace and Conflict Studies from Uppsala University, also teaches East European Security at Uppsala University. His recent book *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, is the first comprehensive treatment of ethnic conflict and regional politics in the Caucasus. His commentaries appear in the U.S., Swedish, Turkish and Pakistani daily press, and he is the author of over twenty academic articles on the region. He speaks Swedish, English, French, German, Italian, Turkish, Azerbaijani, Russian, and some Urdu.

Fariz Ismailzade is a senior associate and represents CCC in Azerbaijan. He is also an Assistant Program Officer with the International Republican Institute in Baku. He holds an M.SC. in Social and Economic Development from Washington University in St. Louis, Missouri, and a degree in Political Science from the Western University in Baku. He was also educated at Wesleyan University, Connecticut. His research mainly focuses on the geopolitics of the Caucasus region and CIS affairs. He has done research at the Center for Strategic and International Studies in Washington, DC, and also worked for 4 years in the NGO sector in Azerbaijan, mainly in the area of refugees and IDPs. He has written on politics and economics of Azerbaijan and Caucasus region for various international publications, and presented papers at numerous international conferences. He speaks English, Azerbaijani, Russian, and Turkish.

Tamara Makarenko is a senior associate of CCC, representing the company in the United Kingdom. Ms. Makarenko is a leading expert on issues of international crime in the former Soviet Union. She is a lecturer in Criminology at the University of Glamorgan, and the transnational crime consulting editor for the professional journal *Jane's Intelligence Review*. She received her Master's degree in terrorism and international security at the University of St. Andrews in 1997, and is completing her PhD in international politics at the University of Wales, Aberystwyth. Her research focuses on organized crime and terrorism in the former Soviet Union, especially Central Asia. She held an academic post at the American University in Kyrgyzstan in 1999, and has widely published in academic and professional journals. She speaks English, Ukrainian, Russian, and Greek.

Dr. Khatuna Salukvadze is a senior associate of CCC, representing CCC in Tbilisi, Georgia. Currently she is a Mason Fellow at the John F. Kennedy School of Government of Harvard University. She is a political scientist specialized in defense and security issues in the South Caucasus and Caspian region. She holds a doctorate from the Georgian Academy of Sciences as well as a Masters degree from the London School of Economics and Political Science. Her areas of expertise include international security politics and strategic issues, including Euro-Atlantic security bodies and especially NATO's relationship with the Caucasus. She is a former NATO fellow and most recently served as a Senior Consultant to the Committee on Defense and Security of the Georgian Parliament. She speaks Georgian, English, Russian and French.

Dr. Georgi Tcheishvili is a senior associate and represents CCC in Tbilisi, Georgia. He is deputy program manager for the British corporation PA Government Services, inc. He graduated with honors from the department of History, Tbilisi State University, in 1985, and received his doctoral degree (Kandidat Nauk) from the institute of History and Ethnology of the Georgian Academy of Sciences in 1994. He has been a researcher at the institute since 1985. He participated in the Advanced Conflict Studies program of Uppsala University in 1999. Between 1993 and 1999, he lectured in Georgian history at the Georgian Technical University, while teaching history and civic education at a secondary school in Tbilisi. He is also a volunteer research consultant for the NGO Caucasia. He speaks Georgian, Russian, German and English.

SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
S-105 25 Stockholm, Sweden
Tel: +46 (0)8-698 50 00. Fax: +46 (0)8-20 88 64
Homepage: http://www.sida.se