

A new concept for the Caucasus

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This article offers a new perspective of the regional dimensions and historical, political and economic legacies of the Caucasus. The Caucasus is composed of three regions: the Central Caucasus (Armenia, Azerbaijan and Georgia), the North Caucasus (some southern autonomous republics of Russia), and the South Caucasus (some northern provinces of Iran and Turkey). Azerbaijan, Georgia and Turkey are one ‘team’ in the implementation of regional projects for the development of transportation networks, while Armenia, Iran and Russia are in principle opposed to these projects. Further activation of the cooperation of the United States and the European Union in the Caucasus is, therefore, very important in obtaining as many alternative sources of oil and natural gas as possible.

Keywords: Caucasus; economic integration; energy; pipelines; Russia

Introduction

The Caucasus, a region that until recently was part of the former USSR’s political space, is now an arena of inter-relationships and clashes between different geopolitical and economic interests (Yalowitz and Cornell 2004). Unlike other regions of the former Soviet Union (SU), such as the Baltic States, Central Asia and the Western Slavonic states, the legal and political status of the Caucasus is heterogeneous. The Caucasus is not an integrated region in the political, legal and socioeconomic senses. The North Caucasus is part of the Russian Federation, while the three central Caucasus independent republics (Armenia, Azerbaijan and Georgia) have different kinds of relationships with Russia. Armenia has enjoyed the broadest support from Russia, whereas Azerbaijan and Georgia, which have clearly expressed their Western orientation, have been shaken by domestic conflicts and their ethnic minorities have enjoyed the support and protection of Moscow. The third part of the Caucasus, the South Caucasus, is composed of some of the northern provinces of Iran and Turkey.

The multidimensional nature of the Caucasus political space, the region’s importance due to its hydrocarbon resources and due to the fact that it is a major transport corridor through which Central Asian oil and gas can be delivered to the world markets, as well as the difficulties that the countries have faced in the process of achieving independent statehood, are among the reasons that have attracted scholarly and political attention to this region. All countries that have interests and stakes in the Caucasus – primarily Russia, Turkey, Iran, and the United States, as well as countries from Europe and Asia – have developed their own views regarding the region and its development perspectives (see, for instance, Nuriyev 2007).

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However broad the range of views and approaches for the region may be, the defining question continues to be whether or not traditional factors (and primarily Russia's influence) that have always determined the region's development remain powerful, or if the future belongs to new, increasingly influential strategic priorities. In this context, we are able to consider the region from the following two perspectives: (a) the Caucasus, as a whole, in a new political system of relationships; (b) the future of the Caucasus within a newly reshaped old integrative model.

Often, when discussing 'new strategic priorities', this essentially means the replacement of one traditionally influential actor (in this context, mainly Russia) with another (be it Western, Turkish, or Iranian). This dichotomy has been referred to as the alternation of 'big brothers'.

Based upon the current state of each individual country in the region and, particularly, their inter-relations, any analysis of the prospects for Caucasian integration is to a certain extent tentative. In so doing, at least a partial recognition of the inexpediency of this kind of analysis would mean accepting the current situation of isolation and rivalry that is characteristic of several entities of the region. This is not only undesirable in the globalizing world, particularly in the long term, but it is also essentially impossible. The Caucasus cannot and should not remain isolated from the global integration processes.

This article aims to reconsider the views that have formed about the Caucasus and to analyze the main geopolitical and geo-economic problems of the integration prospects of the region. It is particularly relevant in the present context, given that research on the Caucasus mainly regarding geopolitical economy¹ is acquiring special significance due to the energy resources of the Caspian Sea Basin.

In order to avoid an oversimplified presentation of the current situation and to offer a deeper understanding of the region's potential for integration and its defining factors, a brief overview of its history is useful. The next section offers some insight into the region's recent historical developments and the various attempts of regional integration.

Brief historical overview

The first steps towards the integration of the peoples of the Caucasus region were made in the late eighteenth century as a response to the expansionist policy of the Russian Empire (Breyfogle 2005). This resulted in a long and exhausting Russo-Caucasian war in which the peoples of the North Caucasus had to come together to wage a common war for independence. The first ambitious attempt to accomplish this goal was a movement launched by Sheikh Mansur in 1785, which failed to arrive at a reliable and stable integration of the peoples of the Caucasus. Later, it was Sheikh Shamil who managed to establish a more-or-less steady ethno-religious unity in the North Caucasus, called *Imamat*, which existed from 1834 to 1859.

With the breakdown of the Russian Empire in the early twentieth century, the North Caucasus regained its status as a region of integrative processes. An independent Republic of the Mountainous Peoples was declared in 1918, which brought together many peoples of the North Caucasus, but it did not survive for more than two years before disintegrating in 1920. In the same period (April 1918), for the first time in history, a Democratic Federal Republic of the Transcaucasus was proclaimed in the southern part of the Great Caucasus. This integrative establishment, however, did not survive for more than a month and split into the three independent states; namely, the Democratic Republics of Armenia, Azerbaijan and Georgia.

With the strengthening of the Bolshevik (Communist) rule, integrative developments in the Caucasus assumed new features. In particular, in 1922, a new regional union called the Transcaucasian Soviet Federal Socialist Republic (TSFSR) was established, based upon political and ideological roots; this consisted of the Soviet republics of Armenia, Azerbaijan and Georgia. As a supranational federative organization and component of a broader union called the USSR, the TSFSR, in essence, was an intermediate mechanism by which the more effective governance of this turbulent region by the centre (Moscow) was to be ensured. In 1936, once its basic functions had been fulfilled (mainly dealing with interethnic disputes and laying the foundations for the Transcaucasus' integration with Russia), the TSFSR was abolished.

After the elimination of the Republic of the Mountainous Peoples and the TSFSR, all key economic and legal mechanisms of governance were concentrated towards the wider region's overall integration into the Soviet Union. Thus, the autonomous republics of the North Caucasus and all three Soviet republics of the Transcaucasus constituted the wider economic region of the North Caucasus and the Transcaucasus within the SU. This situation continued until the USSR's break-up.

After the collapse of the USSR, just as in the early twentieth century, the three newly independent states of Armenia, Azerbaijan and Georgia came into existence. At the same time, fights for independence emerged in the North Caucasus. This movement was led by Chechnya, which proclaimed independence in 1992 (e.g., Lapidus 1998).

This short historical overview of efforts to integrate the Caucasus suggests that these have been directly related to and affected by developments in Russia. Moscow's influence over the region and the resulting attempts to integrate this region has contributed to the formation of fragile communities across this region.

Political models for the Caucasus

There is currently no shortage of conceptual integration models for the peoples of the Caucasus: 'Caucasian Home', 'Common Caucasian Market' and the 'United States of the Transcaucasus' are some of the proposals that have been put forward. The number of potential members of such integrated groupings varies from two (Azerbaijan and Georgia) to eight (Azerbaijan, Georgia, Armenia, Turkey, Russia, Iran, the United States and the EU). The configuration of these models, as well as the consistency of potential participation of individual nations, is highly variable. Each model is proposed to address a certain set of problems.

The idea of the 'Caucasian Home', which was put on agenda immediately after the break-up of the SU (e.g. Aliev R. 1998), was a substitute for the idea of an 'Independent Caucasus'. It was represented as a modernized variant of the latter idea, as it was thought to have been adjusted to new geopolitical realities and pursuing the goals of peace, stability and prosperity across the Caucasus region.

The first step in this direction was made in 1989, when an Assembly of the Mountainous Peoples of the Caucasus was established. In 1991, the Assembly was transformed into a Confederation bringing together the Chechens, Kabardians, Adygeys, Abazins, Abkhaz and other ethnic groups in the Caucasus.

In the beginning, the idea of a 'Caucasian Home' had a broad resonance amongst the peoples of the North Caucasus, who visualized this regional structure as a unification of the peoples of the North Caucasus only. However, given the important limitations faced in terms of sovereignty, own resources, and so on, the Confederation's goals proved to be unrealistic. This led politicians in the North Caucasus to consider expanding their

relationships with their immediate southern neighbours, Azerbaijan and Georgia. Soon after, with Moscow strengthening its power and control over the autonomous regions in the North Caucasus, it became evident that the involvement of those regions in the efforts to integrate the Caucasus had a very long-term prospect only.

At the same time, Armenia's policy with respect to Azerbaijan practically precluded the former from joining any efforts towards regional integration or regional cooperation in the Caucasus. Thus, with the growing significance and popularity of the idea of a 'Caucasian Home,' it became less practicable and realizable.

Under the present circumstances, a framework that would bring together the three independent countries of Armenia, Azerbaijan and Georgia is equally unrealistic. The probability of this model is blocked by the Armenian occupation of much of Azerbaijan. The situation is rendered more sensitive with periodic violence by the Armenian separatist forces in the Georgian province of Samtskhe–Javakheti (see Young 2006). In this context of unresolved conflict, economic cooperation between Azerbaijan and Armenia is highly unlikely.

One of the variants of efforts to promote regional integration consists of the establishment of a 'United States of the Transcaucasus' or a United States of the Caucasus (USC) (Guliyev 2003). This proposal implies an initial unification between Azerbaijan and Georgia, with the prospect of Armenia joining the union at some point in the future. According to the author of this idea, this approach could contribute to solving the problem of separatism, which has served as a brake on the development of Azerbaijan and Georgia. Under this model, Abkhazia, South Ossetia and Nagorno–Karabakh could enjoy the status of federal lands without the right to secede from the union.

Another integration model for the Caucasus countries, called '3+1', was proposed by Russia at the Kislovodsk summit in 1996. This summit brought together representatives from Armenia, Azerbaijan, Georgia and Russia, as well as representatives from the autonomous republics of the North Caucasus (except Chechnya). During the summit, the Russian party emphasized that 'Russia has its own interests in the Transcaucasus' and that in a geopolitical sense the Caucasus could not be detached from Russia. The '3+1' model of the Caucasian integration proposed by Russia was rejected at the very embryonic stage, as it responded to the interests of only one party and was completely incompatible with the aims of the independent countries of the Caucasus.

In addition, one has to distinguish a number of wider integration models aimed at encouraging the Caucasus to fulfil the expectations of some for the region to function as a centre linking some major regional systems with one another (for example, the European Union and the Pacific region). A '3+3+2' model (Russia–Turkey–Iran + Azerbaijan–Georgia–Armenia + United States/EU), discussed at the Istanbul summit of the OSCE member states in 1999, is another of the variants of this type.

All of the above proposals contain a number of interesting points and rational arguments for the viability of these proposals. However, they are largely abstract models which, for a number of objective and/or subjective reasons, have hitherto not been fulfilled, even though the idea of Caucasian integration has been actively supported by the international community. It is thus argued that these models have a common shortcoming preventing them from practically 'triggering' political, social and economic mechanisms of integration: they are based on an incomplete understanding of the problem, of the structures, mechanisms and basic motives for Caucasian integration.

To develop a realistic model of integration in the Caucasus, which could be laid down as a foundation for practical steps in this direction, it is necessary to situate the Caucasus in the global political space and to take into account recent global and regional changes. To

this end, it is also necessary to reconsider the conceptual apparatus and give up the existing stereotypes associated with the political and geographical divisions of the Caucasus. This is proposed in the section that follows.

Revision of the traditional concept

The roots of the modern meaning of the geopolitical concept of the 'Caucasus' lead us back to the eighteenth and nineteenth centuries to the times of the Russian invasion of the Caucasus. It was not until Russia's arrival in the region that it started dividing the whole territory into two sections – the 'Caucasus' and the 'Transcaucasus' ('lands beyond the Caucasus') (Gamkrelidze 1999). This was soon followed by a third geographical definition of the territory to the north of the Transcaucasus, and the introduction of the concept of 'North Caucasus' by Russia. The concept of the 'Transcaucasus' was the product of a Russian foreign policy approach reflecting its preferences for this region's political and administrative division. The interests of the local populations, as well as economic, cultural and other social links and networks between the local ethnic groups, took second place to Russian interests. Furthermore, the latent implication of the concept of the Transcaucasus was that the lands located to the south of the Main Caucasus Range did not belong to the Caucasus as such, but were 'beyond' it or 'away from' it. Thus, the concept actually served as an expression and, to a certain extent, the means of achieving the key political goal of the Russian Empire in the region: to divide the local populations living in the northern and the southern sections of the Caucasus from each other.

Thus, the concept of the Transcaucasus contained not only geographical but also a geopolitical meaning. It suffices to note that the Transcaucasus stretched as far as the southern frontiers of the Russian Empire stretched and were subject to any changes of these frontiers. Illustrative of this is the fact that in the late nineteenth century, after the Russian occupation of the Kars province of the Ottoman Empire, the province was considered an integral part of the Caucasus. Once Russia lost the provinces of Kars, Ardagan and Bayazet, however, the Russian political and historical documents no longer referred to those provinces as constituents of the Caucasus region. In November 1918, having proclaimed their independence, those provinces established a Democratic Republic of the South-Western Caucasus (Kars).

Reflecting the geopolitical reality of the times and effectively Russia control over the Caucasus region, the concept of the Transcaucasus was used up to the early 1990s. The first attempt to give up the 'Russian' model of the region's geopolitical division consisted in the replacement of the 'Transcaucasus' with a more accurate term of the 'South Caucasus' which embraced the same three independent republics of Armenia, Azerbaijan and Georgia.

It must be emphasized that the concept of the 'South Caucasus,' like its forerunner concept of 'Transcaucasus,' contains a certain 'Russian' geopolitical meaning, as it denotes the part of the Caucasus that became independent from Russia, as opposed to the North Caucasus, which remains as a part of the Russian Federation. The division of the Caucasus into the abovementioned two parts matches the existing frontiers between Russia and the independent states of the Caucasus. The term 'South Caucasus' was hence introduced and established in the political discourse after the breakdown of the SU reflecting the emergence of a new geopolitical situation in the Caucasus; namely, the establishment of the three independent states. In terms of historical significance, the fact that these three republics achieved statehood is significant, not least because it has laid the foundations for the development in a long-term perspective of an integrated Caucasus.

In this context, it is useful to define the term ‘Caucasian state.’ It must be a fully independent, sovereign state in terms of both form and substance. Second, it involves a geographic positioning in the Caucasus. Under the present circumstances, the above conditions are met by the three countries – Armenia, Azerbaijan and Georgia. Russia, in this light, may only be considered as a nation contiguous to the Caucasus, given that just a minor part of it belongs to the Caucasus region, even though for geopolitical reasons Russia has always claimed the status of a ‘Caucasian state.’

We consider that the term ‘South Caucasus’ in its contemporary meaning does not fully reflect the geopolitical developments that have been taking place in the Caucasus. In fact, what has happened is a mechanical replacement of one concept with another under the old ‘Russian’ model of the structuring of the Caucasus, consisting in the division of the region into the northern and southern sections within the boundaries of the post-Soviet jurisdictions. There are two basic shortcomings that need to be considered. First, it is outdated, given that the foundation upon which it was based – namely, the geopolitical reality of Russian control over the region – is no longer relevant. Second, the model is based on an inappropriate understanding of the Caucasus based on the region’s socio-economic and socio-cultural history. This is in reference to the incorrect exclusion of the north-eastern provinces of Turkey (*ilys* of Kars, Ardagan, Artvin, Igdyr, etc.) and the north-western lands of Iran (*ostans* of East Azerbaijan and West Azerbaijan) from the region. In effect, long before the Russian invasion of the Caucasus, these territories were constituents of a broad social, economic and ethnocultural area that is inhabited by the Caucasian ethnic groups. For this reason, they could be referred to as the ‘Caucasian’ lands of these countries, just as the North Caucasus is the Caucasian region of Russia. Moreover, Armenia, which is undoubtedly a Caucasian nation, is located outside the Great Caucasus and – similarly to the above-mentioned provinces of Turkey (Kars, Igdyr, Ardagan, etc.) and Iran – is partially located within the area of the Minor Caucasus. Given the above points, we would like to propose the following structure of the Caucasus region (Ismailov 2002; Ismailov and Kengerli 2003):

- (1) *Central Caucasus*, which consists of the three independent states of Armenia, Azerbaijan and Georgia;
- (2) *North Caucasus*, which consists of the adjacent autonomous republics of the Russian Federation; and
- (3) *South Caucasus*, which consists of the Turkish provinces contiguous with Armenia, Azerbaijan and Georgia (*Southwest Caucasus*) and north-western *ostans* of Iran (*Southeast Caucasus*).

We believe that the proposed categorization offers the most complete and accurate reflection of the contemporary geopolitical reality in the region; it embraces all constituent elements (countries, provinces, autonomous units) and takes into account the historical characteristics of the Caucasus as a socio-cultural phenomenon. Furthermore, the dividing of the Caucasus into the central, northern and southern parts allows new and realistic ways of encouraging cooperation and integration in the Caucasus.

Unlike traditional approaches, according to which the concept of the ‘Caucasus’ embraced only post-Soviet territories (the North Caucasus and the Transcaucasus), the present method proposes to include the north-western provinces of Iran and north-eastern lands of Turkey in the Caucasus region. At first glance, it may seem that this makes the already confusing geopolitical picture of the region even more so. That is, however, exactly how the wholeness of the Caucasus might be re-established. Indeed, by bringing back the

'lacking elements' to their roots, it may become possible to accomplish a stable and sustainable development of integrative processes across the region.

Opportunities for economic partnership in the Caucasus

A country's economic development is significantly affected by external economic factors that should be taken into account when formulating economic policy. It is necessary to keep in mind the main trends in international relations in order for the country to be able to find its own place within the world economic system. This perspective is relevant for determining the strategic directions of economic development and for prioritizing reforms in the Central Caucasian countries. Given the small size of their economies, economic progress in the Central Caucasian states will primarily be predetermined by their degree of openness and the rate of their integration into the globalized economy. Taking into account the present state of the economy (in addition to other issues) and nation-building in the Central Caucasian countries (e.g. Coppieters and Legvold 2005; Hunter 1994; Lynch 2006; Rondeli 2004),² it is difficult to proceed with integration.

The Central Caucasian region, in spite of its various political difficulties, is far from isolated from the rest of the world. First, it is an integral part of the Commonwealth of Independent States (CIS). Second, Armenia, Azerbaijan and Georgia are members of the Black Sea Economic Co-operation (BSEC) organization. Third, all three Central Caucasian states signed agreements with the EU on cooperation and partnership at the same time: all these countries are participants of European Neighbourhood Policy, and have agreed their action plans with the EU. Further, Georgia and Armenia are members of the World Trade Organization (WTO), while Azerbaijan holds an observer status. What is more, bilateral trade and economic interrelations are being established with many countries around the world. These conditions, however, are still far from being sufficient for the region's integration in the world economy.

The CIS, however, is maintaining similar lines to the close production cooperation characteristics of the Soviet economic system (Coppieters 1998, 194–7; Friedman 1996; Olcott, Aslund, and Garnett 1999). Furthermore, Russia's economic interests today are related more to other parts of the world economy than to the CIS: Russia's main sales markets are not within the Commonwealth, but beyond its boundaries, since the CIS accounts for only 15% of Russia's foreign trade turnover (Vardomskiy 2007). In other words, for the Russian Federation, the Commonwealth is a 'legless' organization that will not move forward, and so Russia can afford to direct its attention to more economically attractive regions while secure in the knowledge that it always has the CIS within its reach. All of this promoted a gradual fragmentation of the post-Soviet geopolitical and geo-economic space (Papava 2008, 48–51) when, inside the CIS, Russia triggered a number of regional arrangements with the formation of a Customs Union (with Belarus, Kazakhstan, Kyrgyzstan and Tajikistan), the Eurasian Economic Community (EurAsEC) (with the same countries plus Uzbekistan), the Single Economic Space (SES) (with Kazakhstan, Ukraine and Belarus) and the Central Asian Co-operation Organization (CACO) (with Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan).

Based on the current economic relations of the Black Sea Basin countries (see, for example, Constantinescu 1997), the BSEC has great prospects. It must be underlined nevertheless that the BSEC needs further institutional enhancement and, to a degree, an intensification of its efforts to address the challenges faced by its member countries (Japaridze 2007). In this context, the BSEC can play a rather active role in encouraging further development of and economic cooperation between its members.

Cooperation with the EU, particularly in economic matters, cannot be carried out in equal partnership terms. It is more a matter of the EU assisting the Central Caucasian countries through the promotion of democratic principles aimed at forming market mechanisms for managing the economy and building their social and political life (Alieva 2004; Gegeshidze 1999a; Japaridze and Rondeli 2004; Papava and Tokmazishvili 2006; Shugarian 2004). In this area, it is equally, if not more, important that Georgia and Azerbaijan expand their cooperation potential with NATO (Rumer and Simon 2006).

What is more, the more economically developed parts of the world often play a wait-and-see game as they prefer to 'sit on the fence' and observe the developments of events in the Central Caucasus rather than get more actively involved. There is the general perception that the Central Caucasus is a 'frozen' (though rather 'hot') region (e.g. Antonenko 2005; Birch 1996; Chorbajian, Donabedian, and Mutafian 1994; Coppieters 2001; Cornell 2001, 2002; Croissant 1998; Dragadze 1999; Fairbanks 1995; Hunter 1994; Khaindrava 2002; King 2001, 2005; Lynch 2004; O'Ballance 1997; Panico and Rone 1994; Socor 2004; de Waal 2003; Walker 2000; Zverev 1996). Therefore, it does not offer sufficient political and economic stability to attract economic partners. This is not at all surprising if we keep in mind that conflict zones directly become not only a stronghold for terrorists and a refuge for drug traffickers and dealers, but also zones for laundering dirty money, kidnapping hostages and trafficking in human beings (Yaz'kova 2005).

Due to the low levels of economic development of the Central Caucasian countries and their low competitiveness on the international markets, it is particularly important to find ways for economic actors in these states to interact in order to combine efforts for the region's sustainable economic growth. In other words, finding ways through which to establish economic partnerships in the Central Caucasus are becoming of paramount importance (Papava 1998). Only joint efforts (even if they are informal at first) will make it easier to find common areas in which the region can attract foreign investments (Papava and Gogatadze 1998; Reznikova 2003; Starr 2003; Yudanov 1999).

As for attracting large-scale investments, it is important to reduce the high risk of long-term investments that is making investment activity in the Central Caucasus unattractive. The region has areas that are of special interest to foreign investors. In this respect, it is enough to mention the oil of the Caspian Basin (e.g. Gökay 1999; Croissant and Croissant 1999; Karl 1998; Mahnovski 2003; Roberts 2001; Tsalik 2003) and the Euro-Asian Transportation and Communication Corridor (EATCC) (e.g. Chebotarev and Bondartsev 1999; Gegeshidze 1999b; Martirosian 2000; Mitiaev 2001) that links Europe and Asia via Central Asia and the Central Caucasus in order to conclude that the Central Caucasus is acquiring a special importance and many states and leading international companies are staking a claim for themselves in this region.

Both development of the oil industry and the future economic development of the entire Central Caucasus largely depend upon streamlining the transportation arteries of the EATCC. The practical implementation of this plan began with the widely known the Transport Corridor Europe–Caucasus–Asia (TRACECA) project (Shevardnadze 1999). TRACECA is considered a transit corridor for supplementing and extending already existing routes, primarily those European. In this respect, opportunities are appearing to unite the transportation systems of the Black, Caspian, Adriatic and Mediterranean Seas.

It is just as important to resolve the problem of transporting energy resources via pipelines (e.g. Asadov 2000; Chase 2002; DeLay 1999; Kalicki 2001; Müller 2000; Starr and Cornell 2005; Starr and Cornell eds. 2005; Tevzadze 2004). In particular, the Azerbaijan–Georgian route for transporting early oil became the first priority large-scale project in

Georgia to attract significant foreign investments. Moreover, the implementation of this project created prerequisites for more active investment in other spheres of the economy of Azerbaijan and Georgia not to mention raising the level of security in this region (e.g. Maisaia 2002; Winrow 2007). Launching the project for transporting early oil from Azerbaijan via Russia was significant, since in conditions of conflict, when oil pipelines pass through or close to 'hot spots,' the existence of alternative pipelines makes all the difference. In this particular case, Azerbaijan and Georgia are strategic economic partners between them; and also in relation to Russia (although, unfortunately, Russia has never really admitted this).

In addition, the following pipeline projects laid the foundations for an economic partnership between Azerbaijan and Georgia in the post-Soviet period: the Baku–Tbilisi–Supsa and Baku–Tbilisi–Ceyhan (BTC) oil pipelines as well as the South Caucasus Pipeline (SCP) pipeline for transporting gas from the Shah–Deniz offshore field. Turkey is directly involved in implementing the last two projects (Caglayan, Mamedov, Medzmariashvili et al. 2003). A further step in strengthening economic partnership between Azerbaijan and Georgia, as well as in involving Turkey in this process, could be building and operating the Kars–Akhalkalaki–Tbilisi–Baku rail system (Ziyadov 2005).

From the very time the idea arose of transporting Caspian oil to the West and building the BTC oil pipeline (bypassing Russia and Iran) for this purpose, Azerbaijan, Georgia and Turkey essentially represented one team (Starr and Cornell eds. 2005) with significant support from the United States (Kalicki 2001). It is important to keep in mind that the US administration highly prioritized energy security and focused on the Black and Caspian Sea regions with a renewed interest (Baran and Smith 2007). The United States's strategy in the region can be paraphrased as one of 'multiple pipelines', which means adding new pipelines to the existing ones (Pamir 2000). After the tragic events of 9/11, the United States became more interested in promoting development in the region's countries that would help reduce the risk of new terrorist acts and bring the war on terrorism to its successful conclusion (Gati and Christiansen 2003).

Russia's strategy to use energy diplomacy as a means to re-establish its 'superpower' status (Monaghan 2007), for its part, is intended to provoke Europeans to be more actively involved in the process of the diversification of oil and gas supply sources to obtaining direct access to oil and gas reserves (Paillard 2007). As a result, through the use of Common Foreign and Security Policy instruments, the EU is defending its energy interests (Triantaphyllou 2007). The more active involvement of the Europeans in the pipeline construction projects is expected to eventually lessen the EU's dependence on the Kremlin's 'good will' and reduce the latter's power to dictate its conditions in supplying energy resources to the EU countries.

All of these projects (pipeline and railroad) are explicit examples of the coincidence of economic interests between the two Central Caucasian countries (Azerbaijan and Georgia) and Turkey (Pamir 2007) whose northern regions, as noted above, represent the southwestern Caucasus.

According to Russian experts, the construction of the BTC oil pipeline contradicts Russia's interests (e.g. Zagashvili 2000). Having obtained this alternative access to Azerbaijani oil, and avoiding passing through Russian territory thanks to the West, Russia consequently lost the ability to control the process of extraction and transportation of Azerbaijani oil. Russia and Iran, with their large oil and gas sectors (e.g. Cantley 2002; Dienes 2004; Gaddy 2004; Kuboniwa, Tabata, and Ustinova 2005; Maleki 2003/2004; Mohsenin 2001; Mojtahed-Zadeh and Hafeznia 2003) and Armenia, as Russia's strategic partner, are generally opposed to a Europe–Caucasus–Asia transportation corridor.

Iran was particularly vexed about its exclusion, at the insistence of the United States, from the projects for developing and transporting Azerbaijani energy resources (Entessar 1999, 171; Freedman 1997, 107). In this respect, it is important to note that Iran has a real interest in Georgia. Georgia forms a significant section of the transportation corridor linking Iran to Europe (e.g. Malysheva 2000).

The transportation corridor project through Georgia, Armenia and Iran is of special significance for the Georgian and Armenian economies, which can be considered a component of a larger project: the North–South transportation corridor (Mukhin and Mesamed 2004). This project, however, has its difficulties. The North–South transportation corridor naturally implies Russia’s participation and the activation of Russia–Georgia–Armenia–Iran transportation ties but, given the security threats and concerns posed by Iran, the dubious expediency of any transport communication between it and its open partner, Russia, is obvious (see Katcharava 2006).

The future of the Central Caucasian countries largely depends upon settling the conflicts in the region and achieving a fundamental change in the approaches of the Caucasus’ neighbours toward these countries. Armenia, Azerbaijan and Georgia should be perceived as partners in regional economic (amongst other) projects. Consequently, the economic significance of the Central Caucasus and of the Caucasus as a whole will increase even more; this will in turn encourage international investment and further the region’s economic development.

Conclusions

The modern geopolitical meaning of the word ‘Caucasus’ was developed after Russia’s conquest of the region. It is not a surprise that the international standpoint about this region and its identity was influenced by the Russian tradition. As a rule, the perception of the southern boundaries of the Caucasus region was based upon the actual location of the southern boundaries of the Russian Empire.

This imperial tradition of identifying the southern boundaries of the Caucasus was also continued in the Soviet times, when the region of the Transcaucasus conventionally consisted of the three Soviet republics of Armenia, Azerbaijan and Georgia. After the disintegration of the Soviet Union and the restoration of independence of Armenia, Azerbaijan and Georgia in the early 1990s, the term ‘Transcaucasus’ was replaced by ‘South Caucasus’ almost everywhere (except in Russia). It is worth noting that both terms, the ‘Transcaucasus’ and the ‘South Caucasus,’ are manifestations of the Russian geopolitical point of view with respect to this region: the concepts of the ‘North Caucasus’ and the ‘South Caucasus’ reflect Russia’s present and former national boundaries in the Caucasus.

In fact, in addition to Armenia, Azerbaijan and Georgia, as well as the Russian regions of the North Caucasus, the concept of the ‘Caucasus’ also includes the north-eastern regions of Turkey and north-western provinces of Iran. Both areas have been inhabited by the indigenous Caucasian ethnic groups; that is, mainly ethnic Georgians and Azerbaijanis. Consequently, the Caucasus is not composed only of the two regions (Northern and Southern Caucasus), as has been widely recognized, but, rather, of the three major segments: the Central Caucasus, consisting of the three independent states of Armenia, Azerbaijan and Georgia; the North Caucasus, consisting of the autonomous regions of the Russian Federation situated to the north of the Main Caucasus Range, and the South Caucasus, consisting of the Turkish (the South-West Caucasus) and the Iranian (the South-East Caucasus) provinces adjacent to Armenia, Azerbaijan and Georgia.

At present, the Caucasus represents the intersection of various geopolitical and economic interests and the Central Caucasus is a theatre to a very wide range of problems from across the region, while the three so-called 'frozen conflicts' – those of Abkhazia, Nagorno–Karabakh and South Ossetia – continue to destabilize the region. In view of the present status of each country of the Central Caucasus and of their inter-relations, prospects for regional integrations remain at a rather theoretical level.

The international relations and the core foreign policy directions of the countries of the Central Caucasus are determined to a significant degree by their historical roots: Azerbaijan and – to a greater degree – Georgia have been oriented toward the West, whereas Armenia has traditionally been Russia's ally.

Among the countries of the Central Caucasus, Azerbaijan has the greatest relative advantages, given the fact that the country is rich with its hydrocarbonic deposits. In view of the region's geographical characteristics, however, the effective utilization of Azerbaijan's transport potential broadly depends upon the other countries of the Central Caucasus; namely, Georgia and Armenia.

Notwithstanding the fact that the shortest way connecting Azerbaijan and Turkey goes through the territory of Armenia, this potentially best transportation route, in economic terms, was declined first of all due to Armenia's conflict with Azerbaijan over the problem of Nagorno–Karabakh. The exclusion of the Armenian route increased Georgia's chances and, eventually, the Georgian route was actually selected and implemented. In geopolitical terms, Georgia plays a key role in the Central Caucasus, especially under the conditions of the conflict between Armenia and Azerbaijan, wherein it has assumed the function of a 'liaison' between the other countries of the region.

Azerbaijan's hydrocarbonic resources and their transportation routes have led to both positive and negative reactions and consequences for the country and the region as a whole. On the positive side, we argue that it has led to a wider association with the Western countries, which are interested in obtaining as many alternative sources of oil and natural gas as possible. As to the negative dimensions, there have been significant efforts to control the exploitation of the resources and, especially, the transportation of Azerbaijani hydrocarbonic resources, by the regional competitors in oil and gas exploitation and transportation – namely, Russia and Iran. Furthermore, as has been admitted by Russian experts, Russia has been waging an 'energy war' with some former Soviet republics, including Georgia and Azerbaijan (see Druzhilovskiy 2006, 80).

Practically from the very moment of the inception of the idea of transporting Caspian oil to the West and the construction of oil pipelines bypassing the territories of Russia and Iran, Azerbaijan, Georgia and Turkey appeared as one 'team' that simultaneously enjoyed extensive support from the United States, since this was in line with the US key objectives in the region: containing Iran's influence, preventing the re-establishment of Russia's monopoly in the region, supporting Turkey in furthering its regional influence, and supporting US companies in their investment programmes in the region.

Over the last few years, the EU's interest in the countries of the Central Caucasus has drastically increased. This has provided opportunities for the EU and the United States to coordinate their interests in the region. Furthermore, the region's pipeline system could be understood as an important integral part of the EU's strategy of an 'Expanded Europe.' Finally, Russia's energy policy in Central Asia, aimed at the further enhancing its monopoly positions and making it almost the sole supplier of energy resources from the East to the West, increases the need for further activation of the US and EU cooperation in the region in developing and implementing new pipeline projects, some of which would enable the transportation of the Central Asian energy resources by bypassing Russian territories.

Notes

1. Geopolitical economy expands the framework of political economy by drawing geographical and historical aspects of the topic under study into the analysis (Reifer 2005, 195–6).
2. On the difficulties of the nation-building in Georgia after Rose Revolution, see Mitchell 2006; Papava 2006.

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