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# RUSSIA REFOCUSSES ITS POLICIES IN THE SOUTHERN CAUCASUS

By Pavel Baev



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## Russia Refocuses its Policies in the Southern Caucasus

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## PREFACE

Dear Colleagues,

I am pleased to present to you a research paper by Dr. Pavel K. Baev entitled “Russia Refocuses its Policies in the Southern Caucasus,” as part of the Caspian Studies Program’s Working Paper Series. Dr. Baev is a Senior Researcher at the International Peace Research Institute, Oslo (PRIO), and the Editor of *Security Dialogue*.

Previous Caspian Studies Program publications this year have addressed the question of Russian policy in the Caucasus and greater Caspian region since Putin’s ascendancy to the presidency. These works have argued that Russia’s policy toward the Caspian region is becoming more centralized and assertive. Baev agrees that the Kremlin has raised the profile of its activity and increased the coordination of its activities in the Caucasus. However, at the same time he finds that Russia’s policy toward the region reflects “no clear and realistic aims” and that the “Russian leadership has no strategy for the Southern Caucasus and pays far too little attention to the potentially grave problems there.” Baev writes that lack of Russian strategy toward the Caspian region is compounded by the fact that Putin’s inner circle contains few advisors who are well versed in the Caspian region.

Baev argues that Russia’s calculations in the Caucasus region have changed substantially due to the fact that Moscow views Turkey primarily as a “valuable partner,” rather than a threat. If Baev’s view on Russia’s perception of Turkey is correct, this shift would indicate a significant change in Russia’s policy toward the region. Some claim that Russia has recently begun to promote resolution of the Nagorno-Karabagh conflict; and a shift in Moscow’s perceptions of Turkey, if it has taken place, could explain some of the background of the supposed Russian changed stance on the conflict. The question of Russian-Turkish relations would be a good subject for future research on the region.

In this working paper, Baev also claims that the results of the second Chechen War have forced Russia to review its interests in the wider Caucasus region. Moreover, he explains that Moscow now appears “ready to settle the legal issues related to the division of the Caspian waters and the seabed, rather than using legal obstacles as brakes.”

Katherine Bourne and Emily Van Buskirk provided editorial assistance and prepared the publication of this working paper.

We hope you will find the paper useful as well as future publications in this series and others by the Caspian Studies Program at Harvard University.

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## Russia Refocuses its Policies in the Southern Caucasus

Pavel Baev

### Introduction

Throughout the 1990s Russia, struggling with the pains of transition and agonizing over its new identity, had nothing resembling a consistent policy in the Caucasus, not to mention a midterm strategy. Its military withdrawals and new ad hoc engagements had no comprehensible political aims; its maneuvering around the Caspian Sea often worked cross-purpose with the activities of Russian oil companies.<sup>1</sup> In addition, the first Chechen War sharply reduced Moscow's ability to influence developments in the wider Caucasus region. The defeat debilitated and demoralized the Armed Forces, which had functioned as the key instrument in Russia's Caucasian policies.<sup>2</sup>

The tactically smooth change of Russia's political leadership in 1999-2000 created expectations for a much stronger policy guided by an increased understanding of the state's interests in the Caucasus. Indeed, President Putin has placed a heavy emphasis on integrating the government's efforts, abandoning Yeltsin's leadership style of playing one bureaucracy against another. Russia's Security Council had a special meeting on strategy in the Caspian area as early as April of 2000. Putin's visit to Baku in January of 2001 (the first ever by a Russian president), while bringing few tangible results in resolving deadlocked disputes, significantly strengthened Russia's regional profile. The second Chechen War has been conducted with more military skill and with a firm political determination to achieve stabilization.<sup>3</sup> Do these facts suggest the emergence of

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<sup>1</sup> My extensive analysis of Russia's Caucasian engagements up to the mid-1990s can be found in Pavel Baev, *Russia's Policies in the Caucasus*. (London: The Royal Institute of International Affairs, 1997). For a more recent analysis see Pavel Baev, "Russia in the Caucasus: Sovereignty, Intervention and Retreat", pp. 239-260 in Col. Michael Crutcher (ed.) *The Russian Armed Forces at the Dawn of the Millennium*. Carlisle Barracks: The U.S. Army War College, 2000.

<sup>2</sup> The vast bibliography of Anatol Lieven's book *Chechnya: The Tombstone of Russia's Power* (New Haven & London: Yale University Press, 1998) stands apart due to its unique combination of field experience and academic rigour. My own analysis can be found in chapters 5 and 6 of Pavel Baev, *The Russian Army in a Time of Troubles* (London: SAGE, 1996).

<sup>3</sup> I have looked into the features of this war in Pavel Baev "Will Russia Go for a Military Victory in Chechnya?" PONARS Memo 107, Harvard University, 2000. Its impact on the Russian army is analysed in Pavel Baev "The Russian Army and Chechnya: Victory Instead of Reform?" pp. 75-96 in Stephen J. Cimbala (ed.) *The Russian Military into the 21<sup>st</sup> Century* (London: Frank Cass, 2001).

a considerate, coordinated and sustainable Russian policy in the Caucasus generally and in the Southern Caucasus in particular?

This paper will argue that while Russia's policy has become better coordinated and more firmly controlled by the Kremlin, it still has no clear and realistic aims and continues to rest on an insufficient and shrinking resource base. The Russian leadership has no strategy for the Southern Caucasus and pays far too little attention to the potentially grave problems there. The war in Chechnya increasingly works against Russia's interests, and Putin will find no easy way out of the deadlock.

## **A Reassessment of Russia's Interests in the Caucasus**

Although Vladimir Putin arrived in the Kremlin as the hand-picked and loyal successor to Boris Yeltsin, his intention to make a fresh start beginning with thorough reevaluation of the state's assets and interests has been serious and persistent. Putin's narrow pragmatic aim has been to consolidate and build up his own power base, but his ambition has stretched much further and involves redefining very basic goals and redesigning Russia's image. It is the much-strengthened Security Council that has taken on these tasks,<sup>4</sup> duly producing a series of fundamental documents in the first half of 2000.<sup>5</sup> Together with several of Putin's programmatic statements (including his message to the Federal Assembly on July 8, 2000), these doctrines and concepts describe a vertically integrated state that defines its interests carefully and pragmatically and pursues them with vigor.

Taking these declared goals as a point of departure, one might expect to find a much better coordinated, proactive and consistent Russian policy in the Caucasus, but several other features of the Yeltsin-to-Putin transition have distorted the picture. In particular, the significant repositioning of interest groups and the reshuffling of the top bureaucracy have resulted in a disappearance from the central political arena of most actors with links to or personal interests in the Caucasus. In the Yeltsin era, with all of its permanent cadre reshuffling, there were always several strong figures in the president's near orbit who had interests in the Caucasus. Names like Sergei Shakhrai, Nikolai Egorov, or even Boris Berezovsky can be recalled, while Evgeny Primakov certainly was among the few "heavyweights" with proven survivability. The Ministry of Nationalities under Vyacheslav Mikhailov was deeply involved in the Caucasus region (engaging specialists like Ramazan Abdulatipov and Valery Tishkov), while experts such as Emil Pain and Andranik Migranian were members of the Presidential Council. With the arrival of Vladimir Putin, there is neither a Caucasus lobby in the Kremlin nor a demand

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<sup>4</sup> On the central role of the Security Council at the start of Putin's reign, see Aleksandr Golts & Dmitry Pinsker "Supreme Commander's Headquarters," *Izvestia*, no. 28, 12 July 2000. With the departure of Sergei Ivanov to the Ministry of Defence in April 2001, the profile of this body has visibly weakened.

<sup>5</sup> The National Security Concept was approved by the presidential decree of January 10, 2000; the Military Doctrine of April 21, 2000; the Foreign Policy Concept of July 1, 2000; and the Information Security Doctrine of September 9, 2000. For the texts, see the Security Council's website ([www.scrf.gov.ru](http://www.scrf.gov.ru)).

for any academic expertise on the Caucasus.<sup>6</sup> Cadre reshuffling in the power ministries in April of 2001 gave the Security Council prime responsibility for managing the conflict in Chechnya (much the same way as in 1995-1996), but its new Secretary Vladimir Rushailo (former Interior Minister) does not seem sufficiently well-positioned in both the Kremlin and the region to perform this task.<sup>7</sup>

Economic interests have been proclaimed as the core of Russia's strategy for the midterm, but no comprehensible assessment of these interests has been offered, and the relevance of the "innovative" ideas produced by German Gref and his team of economists remains questionable.<sup>8</sup> In the absence of any midterm economic program, it is the current budgetary issues that take priority and determine policy.<sup>9</sup> For that matter, Russia has become much more strict in demanding payments for gas and electricity, which is not necessarily helpful in advancing its influence in the Caucasus. One very clear change in the political style of handling economic matters has been President Putin's desire to kick Yeltsin's oligarchs out of the Kremlin and keep them on a short leash. The media magnates Vladimir Gusinsky and Boris Berezovsky have borne the brunt of most of the pressure, but even such giants as Gazprom have felt a new squeeze. The guiding principle now appears to be that the big companies (whether state-owned or private) should serve the state's interests and not the other way around. A particularly important dimension of economic interests involves the energy industries and markets, not least because Putin's arrival to power was greatly eased by the unexpectedly high world oil prices, which brought a nice surplus to Russia's state budget in 2000.

The first articulation of the administration's energy interests emphasized the difference between three key sectors: gas, electricity and oil. In the first of those, the main goal was to increase real state control over Gazprom, which had evolved into a huge

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<sup>6</sup> For that matter, the excellent report "The Peace Ways in the North Caucasus" (ed. Valery Tishkov, Moscow: Institute of Ethnology and Anthropology, 1999) failed to make any impression on policy-making.

<sup>7</sup> The expected arrival of Anatoly Kvashnin (poised to be removed from the position of Chief of the General Staff) to the Security Council could bring only a very special kind of expertise. See Dmitry Safonov, "Two Weeks till the Order," *Izvestiya*, April 10, 2001.

<sup>8</sup> In his second address to the Federal Assembly in April of 2001, Putin reiterated his intention to advance liberal economic reforms, but these pledges appear less and less convincing, since the "securitization" of the political agenda advances much more strongly than its "economization." For an insightful comment on the phrasing of the address, see Mikhail Kozyrev, Bulat Stolyarov, Aleksandr Berger, "Behind the Scenes at the Presidential Address," *Vedomosti*, April 4, 2001; for the text of the address, see *Johnson's Russia List*, no. 5185, April 3, 2000.

<sup>9</sup> For that matter, the presidential budget message to the parliament, delivered later the same month, was much more precise, with the specific point of increasing taxation on extra profits of energy exporters emerging due to high world prices. One sharp comment is "Putin Proclaimed the End of the Ideology of Budget Socialism," *Polit.Ru*, April 21, 2001.

business empire. The hostile takeover of NTV proves that this aim has been achieved. In the electricity sector, the key goal was to reform and perhaps split the UES monopoly, but several sharp controversies have prevented Anatoly Chubais from implementing his plans.<sup>10</sup> As for the oil interests, they have emphasized tighter state control over the private oil companies in order to force them to pay more taxes<sup>11</sup> and to invest more in modernizing their basic assets, thus reducing the capital flight.<sup>12</sup>

The administration's longer-term assessments, in contrast to those discussed above, emphasized the integrity of the energy complex and the connection between its elements. These assessments were reflected in the Energy Strategy, approved by the government in November of 2000, which prescribed above all the need to invest massively in the infrastructure of the industry.<sup>13</sup> An early diagnosis will note that the short-term aims in the oil sector are at best partly achieved (the state budget shows surplus but the capital flight remains high);<sup>14</sup> while the sector's long-term goals are barely advanced, since the energy infrastructure remains underfinanced (as demonstrated by the Far East's catastrophic collapse of long-neglected heating systems).

The projection of Russia's priority oil interests toward the Caucasus region, however, has remained rather vague. After the April 2000 Security Council meeting, Viktor Kaluzhny, former Energy Minister, was appointed to the newly-created post of Special Presidential Representative for the Caspian, and he has since engaged in intensive shuttle diplomacy. Seeking to put the oil companies in their place, the government and the Kremlin have singled out LUKOil, which until recently conducted its own foreign

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<sup>10</sup> Two programs of reforming this sector (one designed by Chubais and Gref, another by the special group of the Stat Council chaired by Viktor Kress) appear destined for a final clash on Putin's table by late May. See Vladislav Kuzmichev, "Putin Will Get a Single Plan of Reforming Electro-Energy," *Nezavisimaya Gazeta*, May 16, 2001.

<sup>11</sup> On the investigations by the Finance Ministry targeting oil companies, see "The Smartest Oil Businesses Will Be Reported to Putin," *SMIRU* (www.smi.ru), November 23, 2000.

<sup>12</sup> Aleksandr Lifshits has produced a reasonably reliable report on this problem, estimating the average scale of the annual capital flight from Russia at about 20 billion dollars and the total sum for 1992-1998 at 150 billion dollars. A good summary can be found at (www.polit.ru.articles). In 2000, according to most estimates, capital flight first dipped sharply, but since late spring has rebounded to around 2 billion dollars a month. See "Boom and Gloom," *The Economist*, November 25-December 1 2000, p. 125.

<sup>13</sup> The necessary size of these investments was estimated at 35 billion dollars a year, with the impressive total figure of 700 billion dollars for the next 20 years. These estimates were presented at the conference "The 2003 Problem: Myths and Reality" held in Moscow in April of 2001. See Mikhail Klasson & Aleksandr Shaburkin, "Economic Collapse Awaiting Russia in 2003," *Vremya MN*, April 13, 2001.

<sup>14</sup> Some Russian economists, including presidential adviser Andrei Illarionov, are now trying to make a virtue out of a vice and present the outflow of capital as helpful for preventing the undesirable strengthening of the ruble. See Boris Grozovsky, "A New Medicine for the Economy: Export of Capital," *Polit.Ru*, April 18, 2001.

policy. The company's president Vagit Alekperov has wisely demonstrated readiness to accept tighter state control, pay more taxes, and limit his ambition;<sup>15</sup> in late July of 2000, LUKOil joined forces with another oil company, YUKOS, and with the energy giant Gazprom in a newly-created Caspian Oil Company. This multiple-identity player may become a strong competitor to Western investors, but its anticipated policies are still unclear.<sup>16</sup> It remains to be seen whether this taming of LUKOil is more than just a pause and a pose, because Moscow from its side has not shown much activity in advancing the company's interests.<sup>17</sup>

The basic assumption of the government's economic "team" (quarrelsome as it is) is that the sustainability of high oil prices—an issue critically important for Putin's near prospects—depends directly on limiting the supply in the global markets, particularly in times of slow growth. While Russia has no say in defining the OPEC quota distribution, it can effectively slow down the development of the Caspian oilfields. Another part of this assumption is that major Western oil companies, having secured their shares of Caspian resources, may also be interested in keeping them in reserve for the near future. For that reason, Moscow now appears ready to settle the legal issues related to the division of the Caspian waters and the seabed, rather than using legal obstacles as brakes—albeit ineffective ones—to the exploration of hydrocarbon resources.

For the midterm, Russia continues to be opposed to the construction of the Baku-Ceyhan pipeline. Instead of trying to block the project, it has taken final steps toward finishing the construction of the high capacity Tengiz-Novorossiisk pipeline, cautiously but shrewdly playing the Kazakh oil against the Azerbaijani oil on the world markets.<sup>18</sup> Despite occasional over-heated statements, Moscow clearly prefers to present this issue

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<sup>15</sup> In July of 2000, the federal tax police announced that it opened an investigation against LUKOil, suspecting the company of underpaying some 500 million dollars in taxes. After Putin's meeting with the oligarchs in early September, the case was quietly shelved. The conditions of the deal are unclear and LUKOil—even seeking to attract Western partners—refuses to release information on its activities according to the generally accepted accounting principles (GAAP). See Andrew Jack & Arkady Ostrovsky, "LUKOil Data Delay Is Blow to Hopes for Transparency," *The Financial Times*, November 6, 2000.

<sup>16</sup> Ravil Maganov, LUKOil's first vice president, explained that the new company would "help Russia strengthen its stand in the region." Quoted in Carol R. Saivetz, "Putin's Caspian Policy," Caspian Studies Program Policy Brief No. 1, Harvard University, October 2000.

<sup>17</sup> In a symbolic breakthrough, LUKOil in autumn of 2000 bought a small chain of petrol stations in the U.S. See Andrew Jack & Arkady Ostrovsky, "LUKOil's U.S. Leap Marks Dawning of New Era," *The Financial Times*, November 8, 2000.

<sup>18</sup> While the Tengiz oil is now being pumped into the pipeline and is expected to reach Novorossiisk this summer, Moscow shows no rush in constructing a 75-kilometer link that would allow pumping some Siberian oil into this "strategic" pipeline; the tactical considerations regarding the oil prices apparently take precedence over long-term guidelines. See Mariya Ignatova, "Temporary Way Out," *Izvestiya*, April 12, 2001.

in geoeconomic rather than geopolitical terms, putting cost-efficiency ahead of balance of power and emphasizing competition between economic actors rather than struggle for spheres of influence with the U.S.<sup>19</sup> While considerable anxiety about American activities and intentions in the Caspian area remains in many of Moscow's political quarters, there also is a predominant line toward downplaying the so-called "Great Game" and avoiding confrontational paradigms.<sup>20</sup>

It is therefore significant that the second Chechen War has no connection whatsoever with oil geopolitics. In the first war, although their relative impact remains questionable, oil considerations were obviously present.<sup>21</sup> Accordingly, federal forces made every effort to spare the oil infrastructure from combat destruction. That provided for maintaining some oil production throughout the war and restoring the key pipeline in a matter of months after the withdrawal of Russian troops in October 1996. In contrast, from the very start of the new campaign, the oil infrastructure has been a priority target for Russian forces, which perhaps explains Moscow's decision to abandon plans for the "strategic" Baku-Novorosiisk pipeline going through Chechnya. The bypass pipeline going through Dagestan (also a highly unstable region) is being built as a reserve option rather than as an alternative to Baku-Ceyhan.

The second Chechen War has forced Russia to review (practically if not formally) its interests, and first of all its military interests, in the wider Caucasus region. While in the initial stage the Russian forces showed more combat efficiency and were considerably more successful than in the 1994-1995 winter campaign, it was obvious that the exertion required left little reserve for any other possible contingencies. The symbolic Russian military/peacekeeping presence in Georgia (including Abkhazia and South Ossetia) and Armenia could be sustained only in the absence of significant threats, becoming a "good weather" deployment. The prospect of withdrawal has become a matter of time and convenience rather than a matter of principle.<sup>22</sup> An important factor here is the changing

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<sup>19</sup> See, for instance Maxim Ostanin, "Caspian Pipe Blow to U.S. Oil Ambition," *Gazeta.Ru* ([www.gazeta.ru](http://www.gazeta.ru)), November 23, 2000.

<sup>20</sup> The shortcomings of the U.S. approach are sharply presented in the Cato Institute study "The Great Game, Round 2: Washington's Misguided Support for the Baku-Ceyhan Oil Pipeline" by Stanley Kober (for the digest see *Johnson's Russia List*, no. 4628, November 9, 2000). Many of the sensational media comments on the "Great Game" subject were influenced by Zbigniew Brzezinski, *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives*. New York: Basic Books, 1997.

<sup>21</sup> See Elaine Holoboff, "Oil and the Burning of Grozny," *Jane's Intelligence Review*, June 1995, pp. 253-257.

<sup>22</sup> I have argued about the inevitable downsizing and discontinuation of Russia's "peace operations" in Pavel Baev, "Peacekeeping and Conflict Management in Eurasia," pp. 209-229, Roy Allison &

perception of Turkey—from a geopolitical challenger to a valuable partner—, a shift significantly influenced by Ankara’s cautious and reserved stance in the Chechen wars. Because of the massive concentration of political attention and military efforts on Chechnya, the region has become a major determinant of Russia’s interests in the Caucasus. Adding to the importance of Chechnya is the fact that the outcome of the second Chechen War inevitably will define the scale and limits of Russia’s influence in the general area. While the dominant view in Moscow now is that the war might continue for years,<sup>23</sup> the Russian army can hardly sustain operations in a prolonged “partisan” war and cannot reform itself in the middle of it.<sup>24</sup> Russia’s limitations in this regard define a rather short timespan for the current deadlock phase in the war, while the space for political maneuvering also is quite narrow.

One of the seemingly illogical and even paradoxical consequences of Moscow’s inability to conclude the Chechen problem and to garner resources to resolve any of the frozen conflicts in the Caucasus has been the visible shift of political attention away from the region since the summer of 2000. Putin’s visit to Azerbaijan in January of 2001 has not significantly altered this refocusing. For that matter, more attention has been given to the interplay of cross-border conflicts in the outer periphery of the Caspian area, involving militant groupings in Uzbekistan and rebel clans in Tajikistan, both of which are spreading their activities into western Kyrgyzstan; as well as to Taliban offensives in Afghanistan.<sup>25</sup> While Russia has so far refrained from any major new engagements in this troubled area, it has taken several risky steps on this slippery slope.<sup>26</sup> While leaders in Central Asia might invite Moscow to intervene more actively to counter terrorist threats, the Caucasus region is much more important to Russia. The failure to address the

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Christopher Bluth (eds), *Security Dilemmas in Russia and Eurasia* (London: The Royal Institute of International Affairs, 1998).

<sup>23</sup> See, for instance, Galina Kovalskaya, “The Trap Has Shut,” *Itogi*, no. 33, August 15, 2000.

<sup>24</sup> For that matter, the newly-appointed Defence Minister Sergei Ivanov, while visiting the area of combat operations in early May of 2001, had to order a discontinuation of the reductions in the strength of the military grouping, which Putin had announced in January. (Only 5000 troops were in fact withdrawn.) See Artyom Vernidub, “Chechnya—An Order Too Tall for FSB,” *Gazeta.Ru*, May 7, 2001.

<sup>25</sup> Thus, Deputy Secretary of the Russian Security Council Oleg Chernov, who took part in the meeting of the Committee of Secretaries of Security Councils in Yerevan, Armenia, emphasized that the most urgent security threat for the coming summer would be fighting in the Fergana Valley. See Vadim Solovyev, “Russia: From the Chechen Fire into the Asian Freeze,” *Nezavisimoe Voennoe Obozrenie*, April 27, 2001.

<sup>26</sup> Russian Defence Minister Sergeev and Akhmad Shakh Masud’s October 2000 discussion in Dushanbe, where they addressed possible Russian military assistance, may prove to be a particularly dangerous step. See Vladimir Dunaev, “Marshal Has Met with the Pandsher Lion,” *Izvestiya*, October 27, 2000.

challenges that are growing there might have grave consequences for Russia's vital interests.

## Russia in Regional and International Settings in the Southern Caucasus

There were few substantial changes in the pattern of Russia's interactions with key actors in the Southern Caucasus during Putin's first year in power, but some new accents and nuances of political style may point toward more drastic alterations in the near future. One rather distinctive feature of Moscow's policy is the total lack of interest in using multilateral institutions or political fora, very unlike Central Asia's preference for a multilateral format. Russia never showed much enthusiasm for building any sort of "Caucasian House;" it continues to dismiss with irritation the initiatives in the GUUAM grouping.<sup>27</sup> While in the mid-1990s Moscow painstakingly forced Georgia and Azerbaijan to join the CIS, this formal union of countries now plays only a marginal role in the region, as in providing the mandate for the Russian peacekeeping operation in Abkhazia. The general trend toward downplaying the CIS signals that this ineffectual and unpopular grouping could be abandoned if not completely dismantled.<sup>28</sup> The most definite signal was sent by Secretary of the Security Council Sergei Ivanov at a major international conference in Munich, where he stated that Moscow no longer will perceive the CIS as a viable institution embodying integrationist trends, but will prioritize bilateral contacts.<sup>29</sup> Putin, unlike Yeltsin, has no personal stake in the CIS and finds membership in this "presidents' club" to be of very little value, much preferring bilateral contacts. While disbanding the CIS may seem a radical step, it would make little difference for nor create strong resonance in the Southern Caucasus.

The country that has seen the most pressure from Moscow is Georgia. Georgia's leadership loudly complains on many international fora about Putin's heavy squeeze. Complaints include military tension and incidents along the border between Georgia and Chechnya, Russia's hard demands for gas and electric payments and cuts in supplies, Russia's unilateral rescheduling of the agreed-upon withdrawal of Russian troops and

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<sup>27</sup> For that matter, the prospect of Ukraine taking on some peacekeeping responsibilities in the Southern Caucasus has never been considered seriously in Moscow. For a more positive outlook, see Oleksandr Pavliuk, "GUUAM: The Maturing of a Political Grouping into Economic Cooperation," pp. 33-55 in Dwan & Pavliuk (eds.), 2000 (note 13). The security angle is examined in Tomas Valasek, "Military Cooperation between Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova in the GUUAM Framework," Caspian Studies Program Brief no. 2, Harvard University, December 2000.

<sup>28</sup> For a negative reaction, see Alan Kasaev, "Security Council Has Decided to Close Down the CIS," *Nezavisimaya Gazeta*, February 2001.

<sup>29</sup> See Vladimir Sokor, "Dezinformatzia in Munich," *Jamestown Foundation Monitor*, February 5, 2001, vol. VII, issue 24.

bases, and Russia's introduction of a visa regime for Georgians travelling to Russia. While the list is significant and impressive, one could make the case that some points have little if anything to do with Russia's attempt to subdue Georgia.<sup>30</sup> For that matter, the question of payments for gas and electricity is part of the internal Russian energy policy, which now places heavy emphasis on cost-efficiency and earnings.<sup>31</sup> The issue of payments apparently also was engaged in sharp conflicts related to a restructuring of the natural monopolies.<sup>32</sup> Border incidents are linked to the maneuvering of Chechen armed groups from the Argun valley into the Pankiisky gorge (in Georgia) and back.<sup>33</sup> Russia formally agreed to withdraw its 5,000 troops and four military bases from Georgia in December of 1999 (when Putin already was de facto in charge), but has failed to implement this agreement. Moscow now, while not questioning the commitment to withdraw, is trying to negotiate a more favorable deal.<sup>34</sup> Russia also shows signs of irritation over Georgia's military contacts with Turkey.<sup>35</sup> The new visa regime perhaps gives the most serious grounds for accusations that Russia wants to punish Georgia (Chechnya most often is cited as the reason),<sup>36</sup> but here also such reasons as the desire to tighten control over cross-border movement of people, goods and capital may play a key role. Tbilisi is angered particularly with the fact that the quasi-independent South Ossetia and Abkhazia are exempt from the visa regime, but in both cases there are quite obvious practical reasons in the field that explain this inconsistency. Keeping Chechnya and the principle of territorial integrity in mind, Putin's government so far has been very reluctant to give any sort of encouragement to separatist entities in the South Caucasus.

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<sup>30</sup> Georgian leadership, taking an example of some Central European states, has good reason to assume that emphasizing the Russian threat is one of the best ways to get positive attention from the West. For a good example, see Peter Baker, "For Georgia, Russia Remains an Intimidating Neighbour," *Washington Post*, May 6, 2001.

<sup>31</sup> One of the recent jokes in Moscow was that the UES had demanded all citizens to cover their bills, for the light at the end of the tunnel otherwise would be switched off.

<sup>32</sup> Many Western commentators were inclined to present the energy pressure as a part of a complicated political scheme. See, for instance, Lesia Rudakewych & Astrid Wendlandt, "Russia Cuts Off Gas Supplies to Georgia," *Financial Times*, January 4, 2001; and Ariel Cohen, "The New Tools of Russian Power: Oil and Gas Pipelines," UPI on *Johnson's Russia List* No. 5003, January 2, 2001. With hindsight, economic reasons and conflicts between energy companies (Gazprom's subsidiary *Itera* is the main suspect) make a more plausible explanation; the supplies of both gas and electricity have been restored in a matter of days after a personal appeal from Shevardnadze and some emergency payments.

<sup>33</sup> See Igor Rotar, "Chechen Stronghold in Georgia," *Nezavisimaya Gazeta*, April 25, 2000.

<sup>34</sup> Besides obvious problems with evacuating the Gugauta base in Abkhazia, Russia tries to negotiate the right to use the airstrip in Vaziani for a limited time. See Vladimir Georgiev, "Moscow Bargains with Tbilisi," *Nezavisimoe Voennoe Obozrenie*, no. 40, October 27, 2000.

<sup>35</sup> A particular irritant is Turkey's assistance in modernizing the Marneuli airbase near Tbilisi. See Aleksandr Lomtadze, "Caucasian Combat Circle," *Izvestiya*, April 9, 2001.

<sup>36</sup> See, for instance, Vladimir Voronov, "Putin Has Taken Revenge to Shevardnadze," *DeadLine.Ru*, December 6, 2000.

Azerbaijan has received more positive attention from Russia during 2000 and early 2001 than ever before in its post-Soviet history. Putin's two-day visit to Baku in January of 2001 was the high profile culmination of this focus. While practical results are not overly impressive, Baku can take pride in two tangible achievements. One is the agreement that was reached (although not formalized) on dividing the Caspian Sea bed and the resources it contains, drawn along lines close to Azerbaijan's original position.<sup>37</sup> The second is the postponement of Russia's introduction of a visa regime. While allowing Russia to continue using the Gabala radio station, Baku again has ignored pressure from Moscow and delayed the agreement on a long-term lease of the station.<sup>38</sup> It is fair to say that Azerbaijan has received everything that was realistically possible from its big neighbor, and it has done so with very little effort or sacrifice. (Azerbaijan did not, for example, abandon its mind-boggling claim to join NATO or to establish a U.S. military base.)<sup>39</sup> Russia has presented several valuable gifts and has withdrawn its earlier demand to station troops on the Azerbaijan-Iran border, but has received very little in return. For that matter, the Baku-Ceyhan pipeline issue was not touched upon in the talks. It may be that Aliyev simply has outfoxed Putin, but generally it remains unclear what Moscow seeks to achieve with its approach to Azerbaijan.<sup>40</sup>

Armenia is the closest and most reliable Russian ally in the Southern Caucasus. At the same time, Armenia perceives itself as receiving insufficient attention from Moscow. Some commentators saw in this signs of "pragmatic reorientation" driven by oil interests and warned Putin against betraying a strategic partner.<sup>41</sup> This decline of Russian attention is both relative (compared with two other South Caucasian states) and

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<sup>37</sup> At the same time, Moscow has refrained from interfering in the sharp argument between Azerbaijan and Turkmenistan about drawing the dividing line between their respective zones in the Caspian Sea. See Mikhail Pereplesin & Egor Yashin, "Talks Ended with a Scandal," *Nezavisimaya Gazeta*, May 8, 2001.

<sup>38</sup> The usefulness of this huge long-range phased-array radar station is limited to tracking ballistic missile launches in the Indian Ocean, so it cannot supply any information on, for instance, missile exchanges between Iraq and Iran or Iraq's missile attacks on Israel. It cannot follow aircraft and is useless against cruise missiles. Nevertheless, Russia has accepted Azerbaijani demands for paying about \$4 million a year for keeping this station operational. My understanding of this issue has benefited from exchanges with Nikolai Sokov, Pavel Podvig, Mark Kramer and Douglas Blum on the PONARS network.

<sup>39</sup> There has been a noticeable cooling in Azerbaijan-U.S. relations, perhaps caused by the growing irritation of the ruling clique in Baku about Washington's advanced planning for the post-Aliyev period. See Mekhman Gafarly, "Return to Azerbaijan," *Nezavisimaya Gazeta*, January 31, 2001.

<sup>40</sup> Russia used the opportunity of the state's visit in order to conduct joint naval exercises with Azerbaijan in the Caspian Sea, but this military demonstration can hardly qualify as an impressive show of force; it is too clear that Russia is unable to deploy even a fraction of the force used in early 1990 in an assault on Baku. On the atmosphere of Putin's visit, see Sanobar Shermatova, "Work on Past Mistakes," *Moskovskie Novosti*, no. 3, January 16-21, 2001.

<sup>41</sup> See, for instance, Karen Gazaryan, "Strategic Self-Deception," *Polit.Ru*, September 19, 2000.

absolute (compared with the late 1990s).<sup>42</sup> One of the possible explanations is the reassessment of threat coming from Turkey, a country that in the mid-1990s was perceived as a massive security challenge but now is normally portrayed as a weakening competitor, preoccupied with internal political instability and economic troubles.<sup>43</sup> Another explanation may be that Moscow is inclined to take Armenia for granted, assuming that it is highly dependent on Russia's political support and military presence and has no other options. In the several intensive rounds of negotiations on the Karabagh conflict in the spring of 2001 (which generally cannot be covered in this paper), Moscow played a reasonably constructive role but reportedly was not very supportive of Armenia.

Overall, while the intensity of Russia's bilateral contacts with two of the three states of the Southern Caucasus has increased noticeably during Putin's presidency, there is hardly anything resembling a strategic course behind the day-to-day activities. Russia executes a series of tactical maneuvers, combining friendly and power-pressure steps, but obviously does not count on the stability of the regimes in Azerbaijan and Georgia, which in fact cannot be taken for granted.<sup>44</sup>

Neither the OSCE, with its demands for Russian withdrawal from Georgia and the end of "interference" (hesitant as it is) in Chechnya, nor the Council of Europe, with its emphasis on the human rights agenda (particularly after the symbolic but humiliating "punishment" of Russia), is perceived as a useful partner. Russia's relations with NATO, against many gloomy predictions, have been showing signs of steady improvement in 2000 and early 2001.<sup>45</sup> Putin has demonstrated much flexibility in dealing with NATO, perhaps seeking to place his personal contact with Lord Robertson into the context of the "special relations" with Prime Minister Blair. However, Russia remains suspicious and seriously allergic to any NATO penetration into the Southern Caucasus; joint activities almost certainly are out of the question. As far as the EU is

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<sup>42</sup> High priority of relations with Armenia in the late 1990s is well illustrated by the solid research volume prepared in the Russian Institute of Strategic Studies, closely linked to the Security Council. See Mikhail Kozhokin (ed.), *Armenia: Problems of the Independent Development*. (Moscow: RISI, 1998).

<sup>43</sup> For instance, The White Book of Russian Special Services (Moscow: Obozrevatel, 1996), describes Turkey as an aspiring regional power that supports "Muslim movements" and cherishes "pan-Turkic ideas"; it also argues that Turkey might move into the "geo-strategic niche" in the Caucasus created by Russia's weakening state (p. 35).

<sup>44</sup> For a penetrating analysis of the situation in Georgia, see Anatol Lieven, "Georgia: A Failing State," Eurasia Insight on Johnson's Russia List, no. 5077, February 7, 2001.

<sup>45</sup> For my analysis of the possible trajectories of Russia-NATO relations, see Pavel Baev, "Selective Engagement and Permanent Crisis," pp. 37-52 in David G. Haglund (ed.), *What NATO for Canada?* Martello Papers 23, 2000, Queen's University, Kingston, Canada.

concerned, Russia cannot quite figure out how to relate to its activities.<sup>46</sup> Brussels is placing a heavy emphasis on economic reforms and a humanitarian agenda, but Moscow has little to contribute here. Many of the EU-sponsored projects are channeled through local NGOs, which Moscow perceives as irrelevant actors.

In contrast, Russia gives much attention to developing bilateral contacts with two states bordering the region from the south: Iran and Turkey. With the former, many aspects of Russia's policy have global rather than regional dimension; Moscow consciously pursues nuclear cooperation with and seeks to export conventional armaments to Iran as a means of undermining the American "hegemony," while commercial interests also play an obvious role. Russia shows an interest to involve Iran in conflict management in the Southern Caucasus, first in Nagorno-Karabagh, where Russia expects to expand its space for maneuvering.<sup>47</sup> While Russian policy very actively pursues issues related to international and particularly Islamic terrorism, Russia does not consider Iran a sponsor of anti-Russian activity, but rather a partner in creating stability in Central Asia and the Caucasus. Moscow is worried about disagreements that have emerged since 1998 on the issue of dividing the Caspian Sea, and is taking great pains to secure Tehran's consent to its plans. However, President Khatami's visit to Moscow in March of 2001 did not result in agreement, despite Putin's promises of nuclear cooperation and arms export.<sup>48</sup> Russia obviously is not interested in implementing large-scale projects to build pipelines for oil transportation through Iranian territory, as this could undermine Russia's effective monopoly on delivering Caspian energy resources to world markets.

As for Russia's dealings with Turkey, security considerations often take second priority after economic perspectives.<sup>49</sup> Such issues as the construction of a pipeline

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<sup>46</sup> This confusion is quite typical of Russia's uncertain relations with the EU, where partnership is mixed with exclusion and cooperation with discrimination. See Hiski Haukkala & Sergei Medvedev (eds), *The EU Common Strategy on Russia*. Programme on the Northern Dimension of the SFSP no. 11, Helsinki: The Finnish Institute of International Affairs, 2001.

<sup>47</sup> For an insightful current analysis, see Brenda Shaffer, *Partners in Need: The Strategic Relationship of Russia and Iran*, (WA, DC: Washington Institute for Near East Policy, 2001).

<sup>48</sup> Russian presidential envoy Viktor Kalyzhny performed an intensive "shuttle diplomacy" act in early 2001, including a special working group meeting in Tehran that sought to build consensus for a plan to divide the Caspian Sea bed. The summit in Ashgabat, however, where the plan was expected to be finalized, had first to be postponed from March to April, and then cancelled altogether. While Kalyzhny has expressed disappointment and concern, splits between the littoral states objectively give Moscow more space for maneuvering. See Michael Lelyveld, "Caspian: More Questions Arise About Cancelled Summit," *RFE/RL Features*, May 9, 2001; see also Roland Dannreuther, "The Geopolitics of Russian-Central Asian Relations," *Security Dialogue*, June 2001 (forthcoming).

<sup>49</sup> For a comprehensive overview, see Vitaly Naunkin (ed.), *Turkey Between Europe and Asia*. Moscow: Institute of Oriental Studies, 2000.

across the Black Sea for exporting Russian gas to Turkey, tanker traffic through the Straits, and regulation of the so-called “shuttle” trade dominate the agendas of intensive bilateral contacts at various levels. Strategic alliance with Armenia notwithstanding, Russia has stayed clear of the brewing international controversy around the genocide of 1916-1918, in contrast to the proactive stance taken by France. Ankara, from its side, has not provided any political or material support to the rebels in the second Chechen War and has not shown any softness toward the Chechens inside Turkey. The Russian Security Council, after a comprehensive reevaluation of security challenges, now perceives Turkey’s penetration into the Caucasus as a low-intensity risk, and the sharp political and economic crisis in Turkey in February-March of 2001 probably will confirm these assessments.<sup>50</sup> The Russian General Staff still updates plans for such worst-case scenarios as a new escalation of the Nagorno-Karabagh conflict that might bring Russian forces in Armenia into direct confrontation with Turkish troops, but the probability of such incidents is estimated as very low. During Putin’s presidency, no joint Russian-Armenian military exercises have been held, but Armenian forces did take part in “coalitional” air force/air defense exercises in Russia’s Astrakhan oblast in August of 2000, where both Armenian and Azerbaijani defense ministers were present.<sup>51</sup>

<sup>50</sup> For a balanced view on Turkey’s involvement in the region, see Gareth Winrow, *Turkey and the Caucasus: Domestic Interests and Security Concerns*. London: The Royal Institute of International Affairs, July 2000.

<sup>51</sup> See Vladimir Mukhin, “Coalitional Exercises in Ashuluk Were Found Successful,” *Nezavisimoe Voennoe Obozrenie*, September 1, 2000. Other lower-profile air defence exercises were held in April of 2001.

## Conclusions

In the absence of a coherent view in Moscow on Russia's interests in the Caucasus and a reliable structure of interactions with the key players, even the near perspectives of Russia's policy cannot be determined with any certainty. Russia's shortage of resources for a proactive foreign policy and lack of cohesion in policymaking prevent the seizing of opportunities that emerge from initiatives undertaken by other powers. Moscow has invested efforts in improving bilateral relations with Iran and Turkey and does not expect much competition from them in the area. It is inclined to dismiss far-reaching projects on building the "South Caucasus Community" as irrelevant, assuming that the EU has neither political interest nor sufficient resources for a "Caucasian Stability Pact," particularly since its similar ambitious project in the Balkans has shown rather mixed results so far.<sup>52</sup> Russia considers the U.S. the most important external actor in the Caucasus and, from the Russian point of view, significant changes in the behavior of this actor have started to emerge. Moscow will be carefully tracking these changes. The last two years of the Clinton administration are now seen as a period of desperate attempts to advance American interests in the Southern Caucasus. Disappointing results of those attempts were effected by serious miscalculations in two key areas: democratic state building and investment in the oil sector. Up to now, Moscow has not determined what to expect from the Bush administration in this region. Generally, it is possible to foresee that Moscow will remain quite passive in the Southern Caucasus. As a result, any escalation of conflict in the area would find Russia poorly prepared, and the country's ad hoc reactions might be totally inadequate.

<sup>52</sup> The most elaborate proposal for a Caucasian Stability Pact has been developed by Michael Emerson at the Center for European Policy Studies (CEPS) in early 2000. For the papers from the "brainstorming conference" in January of 2000, see Michael Emerson & Nathalie Tocci, "Perspectives on the Future in the Caucasus," CEPS Working Document no. 148, Brussels: July 2000. For an overview of reactions in the region, see Emil Danielyan, "Caucasus: Peace and Integration Still Far Off," *RFE/RL Features*, October 2, 2000.

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