

## **The Caucasus and Caspian Region: Understanding United States Policy**

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Surrounded by Turkey, Russia, Azerbaijan, Armenia and the Black Sea, Georgia is a key transit country from Central Asia and Caucasus to Europe. Georgia's independence and stability is essential for the east-west linkage. Since the dissolution of USSR, Georgia has relied heavily on the United States as a counter-balance against Russian aggression. Now there is a risk that due to the U.S.-Russian cooperation on the fight against terrorism, Georgia's interests may be superseded. But I think, given its location and unequivocal pro-U.S. stand, Georgia will become even more relevant to United States national security interests.

I am very thankful to be invited to today's hearing and given an opportunity to talk about some recent developments in Georgia, as well as to point out opportunities for enhancing United States interests in Georgia and through Georgia in the Caucasus and Caspian region.

#### **Georgia's Role in the Caspian Region**

Georgia's continued stability is extremely important to the United States interests in the region, which have been repeatedly outlined as "strengthening the independence and prosperity of the new Caspian states, bolstering regional cooperation, enhancing global energy security through the free-flow of Caspian oil and gas to world markets, and increasing investment opportunities for companies from the U.S. and other countries."

To further all these objectives, the Clinton administration cooperated closely with Azerbaijan and Georgia, and NATO ally Turkey, on developing oil and gas pipelines along an east-west transportation corridor. The Bush administration has unequivocally embraced this policy as well. The administration maintains that this policy is not anti-Russia, but anti-monopoly. Russia, however, wants to maintain its monopoly in this region, and has been putting enormous political and economic pressure on Georgia. One thing is clear: if Georgia "fails," then Russia will effectively reassert its influence over the whole corridor, and the pipelines would no longer be "non-Russian alternatives."

Chevron was the first U.S. oil company to invest in the east-west corridor to transport its oil from Baku to Batumi in Georgia, and then out to the Black Sea. A group of oil companies operating in Azerbaijan then sponsored the Baku-Supsa oil pipeline, which became operational in 1999. The proposed Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Shah Deniz gas pipeline will solidify this east-west corridor and provide commercially attractive outlets for Azeri, and possibly Kazakh and Turkmen hydrocarbon resources as well.

There is already enormous progress with these two pipeline projects. All the necessary agreements have been reached on BTC after two years of negotiations with all three governments and the companies. The basic engineering work was completed in May 2001, detailed engineering work started in June and construction is expected to commence summer of

2002. There is also significant progress on finalizing the necessary governmental and commercial agreements for the Shah Deniz project. Both projects gained further momentum when the chairman of BP, the consortium operator of both projects, announced last summer the company's full commitment to the success of these projects.

Nonetheless, continued U.S. engagement is essential. Moreover, given that the oil and gas pipelines are U.S.-backed, especially in light of the recent terrorist attacks against the United States, greater security measures need to be taken to protect these critical infrastructure projects in Georgia, and the rest of the Caucasus. The U.S. Department of Defense should train its Georgian counterparts for quick reaction force against terrorist activities-both ground and air. Additional funding may be necessary for border security assistance, as well as training and assistance on better communication and coordination among the various Georgian agencies, as well as Azerbaijan and Turkey.

### **Current Political And Economic Environment In Georgia**

While overall it is doing better compared to Armenia and Azerbaijan, Georgia suffers from rampant corruption, a weak economy and lack of institutionalization. At the same time, the reformist, pro-Western groups in Georgia have started a real push for concrete changes, and that gives great hope for Georgia's future.

There is now a clear understanding that widespread corruption at all levels of the government has left Georgia vulnerable to internal and external pressures. Corruption has discouraged international investors and hindered successful implementation of economic reforms. Georgia still has very low tax collection, which leaves its budget short of the necessary income. The shadow economy accounts for over 45% of Georgia's economy. With almost half of the economy not contributing to the country's budget, the Georgian economy has not been doing well.

More recently, however, in part due to increased U.S. conditionality for assistance, reformist sections in the government have found the necessary courage to push for tangible changes. Some ministers even resigned, stating that they no longer want to be part of a corrupt government. It is an open secret in Tbilisi that some of the most corrupt people in Georgia are associated with the Ministry of Interior Affairs, Tax Ministry and the Police. But these same corrupt power ministries are those that are responsible for presidential security and internal stability, and taking hasty actions against them poses serious risks.

The next Presidential elections in Georgia are in 2005. There is now a great opportunity for the United States to work with the reformist camp, as well as President Shevardnadze, to help Georgia take the tough steps that will allow it to become stable and prosperous. The outcome of such a policy would be guaranteeing an internally strong, reliable ally in the Caucasus region.

### **Abkhazia and South Ossetia in Georgian Stability**

Since independence Georgia has suffered civil wars in Abkhazia and South Ossetia, and neither has been resolved up to now. This is in part due to Russia's close relations with these two separatist regions. Last year Russia imposed a visa regime on Georgia, but excluded Abkhazia and South Ossetia. In July, the Russian Duma passed legislation that allows regions to accede to the Russian federation. With such actions, Russia encourages the separatist regions in Georgia.

While South Ossetia has been relatively stable over the last few years, there is always risk of escalation. The solution of South Ossetia depends to a large degree on how the Abkhaz issue will develop.

Abkhazia is a complicated and active conflict area. I was in Abkhazia last April, and was taken around the capital Sukhumi by the United Nations Observer Mission in Georgia (UNOMIG). UNOMIG was quite concerned at the time that Georgians were not in control of the Kodori valley in Abkhazia. I want to express my sadness for the death of the UNOMIG personnel and the crew that lost their lives in Monday's helicopter crash in Abkhazia.

Over the last few weeks, especially since September 11, tension in Abkhazia has risen, with Russia and Georgia accusing each other of fomenting instability. If Abkhazian separatism gains further momentum, then other regions in Georgia might also challenge Georgian authority, and all this would create huge instability in the region.

The continued presence of the Russian military base in Gudauta is further increasing tension in Abkhazia. In November 1999 at the Organization for Security and Cooperation in Europe (OSCE) summit Russia agreed to withdraw from this military base by July 2001, but repeated meetings between Russian deputy prime minister and Georgian foreign minister have failed to produce any results.

It is widely believed that Russia trained and sent Chechens to fight against Georgians in Abkhazia during the civil war. One of the Chechen fighters was Bassaev, who later became one of the leaders of Chechen rebels fighting against Russians. In a twist of fate, Russia now accuses Georgia for allowing the smuggling of Chechens into the Kodori valley to fight against the Abkhaz.

### **Terrorism, Russia And Chechens**

At the beginning of the second Russian-Chechen war, Georgia took in thousands of Chechen refugees and placed them at the border region in the Pankisi gorge, where thousands of Kists already lived. Kists are Georgian citizens of Chechen origin. Consequently, when Yeltsin asked Shevardnadze to use bases in Georgia to mount attacks against the Chechens, Shevardnadze did not agree for fear of being dragged into a war. Since then, Russia has put enormous political and economic pressure on Georgia. Now that Moscow has decided to target the Chechens, Georgia is at the center of Moscow's anti-terrorism efforts.

Some among the Russian decision-makers may think that the United States is distracted by its own war against terrorism, and therefore not pay sufficient attention to developments in the Caucasus. Moreover, they may think that cooperating with the United States against terrorism in Central Asia would win them some leeway in their efforts to re-exert influence in the Caucasus. Even worse, individual military commanders at the Russian-Georgian border areas may take matters into their own hands-with or without the permission from Moscow.

The hardliners still have not forgotten and forgiven President Eduard Shevardnadze, who was a key player in both the demise of the Soviet Union and the reunification of Germany. These men have mounted several assassination attempts, and are continuously looking for opportunities to destabilize Georgia. The growing concern is, no matter what the Georgians do now, such groups in Russia may use going after terrorists as a pretext to exert more military and political pressure on Georgia and later on the entire Caucasus.

We need Russia's cooperation in the war against terrorism, and clearly there will be a price tag attached. But that cannot be a free hand in Georgia. Moreover, Georgia should not become an excuse for the failure of the Russian military actions in Chechnya. There were extremely worrisome reports yesterday that helicopters that took off from Russia bombed Georgian territory in Abkhazia. The U.S. administration needs to communicate firmly with Russia at the highest levels that anti-terrorism cooperation in Central Asia and against the Taliban by no means translates into turning a blind eye to Russia's actions in Georgia.

The United States administration officials for years have talked about a "clear red line" to deter any destabilizing actions in the Caucasus. Now is the time to prove that even in extremely challenging times, the United States will remain committed to the stability of Georgia, and through Georgia, the whole Caucasus region.