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Foreign Economic
and Security
Interests

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The South Caucasus in a Reconnecting Eurasia

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Center for Strategic & International Studies
1616 Rhode Island Avenue, NW
Washington, DC 20036
202-887-0200 | www.csis.org

Rowman & Littlefield
4501 Forbes Boulevard
Lanham, MD 20706
301-459-3366 | www.rowman.com

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Preface

In January 2014, the CSIS Russia and Eurasia Program launched its Eurasia Initiative. The vast Eurasian landmass, stretching from China in the east to Europe in the west and from the Arctic Ocean in the north to the Indian Ocean in the south, includes some of the world's most powerful and dynamic states, as well as some of the world's most intractable challenges. Scholars and analysts are accustomed to focusing on Eurasia's various regions—Europe, the former Soviet Union, East Asia, South Asia, and Southeast Asia—rather than on the interactions between them. The goal of this initiative is to focus on these interactions, while analyzing and understanding Eurasia in a comprehensive way.

Today, more than any time since the collapse of the Silk Road five centuries ago, understanding these individual regions is impossible without also understanding the connections between them. Over the past two decades, Eurasia has begun to slowly reconnect, with the emergence of new trade relationships and transit infrastructure, as well as the integration of Russia, China, and India into the global economy. Even as this reconnection is under way, the center of economic dynamism in Eurasia, and in the world as a whole, continues shifting to the East. The impact of these shifts is potentially enormous, but they remain poorly understood because of intellectual and bureaucratic stovepiping in government and the broader analytic community.

The report you are holding in your hands is one of the fruits of the Eurasia Initiative. Following the production of six reports as part of our 2015 series on *Central Asia in a Reconnecting Eurasia*, the CSIS Russia and Eurasia Program is now proud to announce the release of the next installment: *The South Caucasus in a Reconnecting Eurasia*. This four-report series includes detailed analytic reports on the foreign economic and security interests of Armenia, Azerbaijan, and Georgia, as well as a summary report laying out the challenges and opportunities for U.S. policy in the region. Long an important transit corridor between the western and eastern parts of Eurasia, the South Caucasus continues to face a range of geopolitical challenges, exacerbated by tectonic shifts taking place around the region's borders: the crisis in Ukraine, growing confrontation between Russia and Turkey, turmoil in the Middle East, and reduced appetite for engagement in both the European Union and the United States.

To better understand the geopolitical and geoeconomic environment confronting the South Caucasus states, starting in 2014, members of the CSIS Russia and Eurasia Program traveled to the region and conducted interviews with a wide range of government officials, experts, private-sector actors, and representatives of international organizations to understand how elites in Armenia, Azerbaijan, and Georgia perceive the economic and security environment changing around them.

This report and the others in the series reflect what we gleaned from these interviews, along with analysis of published data and secondary literature, to provide a broad overview of how the world looks from the perspective of the South Caucasus. As in our earlier report series on Central Asia, the emphasis in these reports is the foreign economic and security policies of the three states. While we are cognizant of the complex situation surrounding domestic politics and human rights in some of these countries, the focus of this particular project is the strategic implications of a reconnecting Eurasia—in other words, how the states of the South Caucasus interact with each other and with the outside world. We address domestic issues, including human rights, corruption, and authoritarian practices, to the extent that they affect the interactions between Armenia, Azerbaijan, and Georgia, on the one hand, and the rest of the world, on the other.

The South Caucasus has throughout history been a political and civilizational fault zone between Europe, Turkey, Russia, and Persia. Since the Soviet collapse, the South Caucasus states have themselves acquired agency in international politics, even as they remain buffeted by the larger forces swirling around them. For the United States and other Western governments, effective policymaking in the South Caucasus requires a nuanced understanding of the interests, objectives, worries, and levers of influence available to the South Caucasus states. *The South Caucasus in a Reconnecting Eurasia* report series is designed to give a regional perspective to foreign officials, activists, investors, and others to help them better navigate the complex environment of the South Caucasus.

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We also owe a debt of gratitude to the reviewers who read and provided feedback on drafts of the reports in this series. These include Ambassador William Courtney, Rosemarie Forsythe, Richard Giragosian, Ambassador Batu Kutelia, Ambassador Richard Morningstar, Wayne Merry, and Sufian Zhemukhov. Finally we would also like to extend our thanks to the many current and former members of the CSIS Russia and Eurasia Program who contributed to the project in various ways: Program Coordinator Sung In Marshall, as well as interns Fuad Abdul, Yulia Danilina, Jacob Gladysz, Yana Gololobova, Eric Griffith, Kendra Harkins, Vlad Kondratiuk, Peter Krivicich, Allen Maggard, Brina Malachowski, Daniel Mark, Kirill Prudnikov, Dylan Royce, Narek Sevacheryan, Jason Siler, and Nic Wondra.

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The View from Tbilisi

Georgia



Source: Based on a United Nations map, https://commons.wikimedia.org/wiki/File:Georgia_high_detail_map.png.

Georgia has long been at the forefront among the former Soviet states in its embrace of a Euro-Atlantic orientation. Largely eschewing the multivector foreign and security policies of most of its post-Soviet brethren, Georgia has stated quite clearly that its future lies with Europe and the West. Georgia has doggedly pursued economic, political, and military integration with the North Atlantic Treaty Organization (NATO) and the European Union (EU). Despite limited progress on accession to either organization in recent years, Tbilisi's Euro-Atlantic aspirations remain the lodestar of its foreign policy and the guiding light of its domestic reform program. As one high-ranking official told us, Georgia has made an "irreversible transatlantic choice" and does not intend to deviate. While Georgia's Western vocation remains strong, it faces mounting challenges from incomplete reforms, the West's limited appetite for integrating Georgia, and the persistence of Russian economic and political influence.

In addition to identifying with Europe for historical and cultural reasons, Georgia's emphasis on engagement with the West also stems from concerns about Russia, with which it has long had a difficult relationship. Moscow's support for secessionist movements in the Georgian regions of Abkhazia and South Ossetia, dating back to the early 1990s, has been the principal point of friction. Officials in Tbilisi have long seen Russia as the country's principal antagonist and a major security threat, especially following the 2003 Rose Revolution and the ascension of former president Mikheil Saakashvili. Russia's invasion of Georgia in 2008, a disastrous war that solidified Russia's occupation of both Abkhazia and South Ossetia (which the Georgian government refers to as the Tskhinvali Region, after its capital city), and the establishment of what amount to occupation regimes administering de facto states with close ties to Moscow in both territories, only reinforced Georgia's long-standing concerns about Russia's intentions, while cementing Tbilisi's estrangement from Moscow.

But just as the 2008 war crystallized Georgia's Euro-Atlantic aspirations, so too did it erect barriers to them. At the April 2008 NATO summit in Bucharest, Romania, Georgia was promised NATO membership at an unspecified future date. This open-ended promise, a reflection of disputes within the alliance over the wisdom of admitting Georgia, was soon followed by the Russian invasion, which for many European NATO members only confirmed the risks of bringing Georgia into the alliance. To this day, Georgian officials express a deep-seated frustration with Western policymakers over the stagnation of the accession process. They argue that staunch Western support for aspirants such as Georgia or, more recently, Ukraine, which have been the victims of Russian aggression, is preferable to acquiescence that only confirms Russia's right to exercise a veto over Tbilisi and Kyiv's foreign policy choices. Because Georgia and Ukraine are only partially consolidated democracies and have per capita incomes less than half that of NATO's poorest member (Bulgaria), an acceleration of political and economic reforms will be important in helping them make the case for future NATO admission.

While Georgia has made strong efforts toward closer integration into the European Union and NATO, as well as toward deepening of the strategic partnership with the United States, there is an increasing recognition that Tbilisi cannot rely on these Western partners, alone or in combination, to ensure the country's sovereignty and security—a point that U.S. and European policymakers have long pressed. Georgia has actively worked to expand existing regional multilateral partnerships and develop new bilateral relationships both in its immediate neighborhood and across a

wider Eurasia. This includes a significant deepening of economic and security ties with neighbors Turkey and Azerbaijan and the maintenance of a friendly, mutually beneficial relationship with southern neighbor Armenia. Similarly, Georgia has courted Chinese investment and preserved a relatively positive relationship with the Islamic Republic of Iran. Since the rise of the Georgian Dream coalition, which emphasized a policy of de-escalation with Moscow, Georgia has also sought to maintain informal dialogue and mutually beneficial economic cooperation with Russia by decoupling economic and commercial ties from the more fraught political and security issues.

Georgian policymakers emphasize that a key aspect of Georgia's efforts to forge deeper economic and political ties with not only its Euro-Atlantic partners but also regional states is Georgia's commitment to becoming a hub for transcontinental trade and transit. Though lacking significant natural resources, Tbilisi considers its location astride the South Caucasus and along the Black Sea coast to be a strategic advantage that must be exploited. As such, Georgia has enthusiastically positioned itself as a key player in a number of trade, transport, and pipeline infrastructure projects, often in collaboration with both Western allies and key regional partners such as Turkey and Azerbaijan. In particular, Georgia has made itself a key corridor for the east-west energy infrastructure that sends resources from the Caspian region to the major markets of Turkey and Europe, an area of cooperation that could expand in light of Europe's commitment to lessen its dependence on Russian energy imports.

Georgia's Foreign Economic and Security Policy

Georgia's principal national security objectives are to ameliorate the considerable security threat posed by Russia while—eventually—restoring its territorial integrity by regaining control over South Ossetia and Abkhazia. In their public rhetoric, Georgian leaders especially emphasize the recovery and reintegration of these regions, even though they have few expectations of being able to restore them to Tbilisi's control anytime soon. At the same time, Georgian officials and analysts see deeper integration into the Euro-Atlantic community as critical for deterring additional Russian aggression. Even before the 2008 war, the common thread throughout the Georgian National Security Concept was that the top threats to the country stem from its larger neighbor to the north. The Concept cites not only the threat of further Russian military aggression but also Russia's alleged training of and support for terrorists from the occupied territories and the cyber threat posed by Russia. The Concept points to other regional security concerns, principally the possibility of spillover from the conflict between Armenia and Azerbaijan over Nagorno-Karabakh, as weakening the overall security of the South Caucasus and "increas[ing] Russia's political influence over the entire region."¹

Largely in response to the perceived Russian threat, Georgia has sought to ensure its security, not to mention its political and economic future, through association with and integration into NATO and the European Union, as well as closer bilateral ties with key Western states. Described in the National Security Concept as a "part of Europe geographically, politically, and culturally [that] was cut off from its natural course of development by historical cataclysms," Georgia continues to actively engage with both organizations in reform efforts and stage-by-stage integration, although, especially in the aftermath of the 2008 war, Tbilisi's prospects of membership anytime soon (especially in NATO) appear slim. Georgia has also collaborated with NATO and the European Union to pursue domestic reforms in order to more closely align with Euro-Atlantic standards. These reform efforts have met with varying degrees of success, and our interlocutors in Tbilisi

1. Georgian Ministry of Foreign Affairs, "National Security Concept of Georgia," 2011, <http://www.mfa.gov.ge/MainNav/ForeignPolicy/NationalSecurityConcept.aspx?lang=en-US>.

made clear that even greater support from the United States and the European Union will be required for Georgia's domestic transformation to be fully realized, which in turn will make Georgia a more appealing partner for the West. As one senior official we spoke with said, "Georgia has made a civilizational choice" for the West but continues to face "existential threats" closer to home. Yet Georgia's volatile and divisive politics, combined with external threats and regional economic difficulties, are the greatest impediments to this hoped-for domestic transformation.

Thus, as a number of officials acknowledged, Georgia cannot rely entirely on the United States or NATO to ensure its security. Instead, Tbilisi has emphasized the development and expansion of a multiplicity of regional relationships. Georgia has pursued a deepening of engagement with neighbors Azerbaijan and Turkey while maintaining positive ties with Armenia, all with the goal of facilitating "the transformation of the South Caucasus into an economically attractive, peaceful, and safe region."² This collaboration extends to Georgia's proactive involvement in trade, transit, and energy infrastructure projects as Tbilisi looks to make itself a hub for transcontinental trade between Europe and Asia. So too has Georgia worked to develop economically beneficial and cordial relations with other Eurasian powers, such as Iran and China. While Georgia remains singularly focused on its Euro-Atlantic ambitions, the expansion of these other relationships gives other players a stake in Georgia's sovereignty, independence, and economic development while further insulating Tbilisi from Russian pressure.

NATO, THE EUROPEAN UNION, AND THE UNITED STATES

The principal objective of Georgia's foreign policy since the early 1990s has been to integrate with the Euro-Atlantic community. This emphasis on Euro-Atlantic integration began primarily as a response to Russian support for the Abkhazian and South Ossetian separatists and de facto seizure of the breakaway regions in the first years of Georgia's independence. Former president Eduard Shevardnadze appealed to NATO for assistance against Abkhazian separatists as early as 1993.³ Along with many of its post-Soviet neighbors, Georgia joined NATO's partnership for peace in 1994, and Shevardnadze formally requested an invitation to join the alliance in 2002.^{4, 5}

Today, Georgia explicitly seeks membership in both NATO and the European Union, an approach that enjoys a high degree of elite and public support, both before and following the 2008 war with Russia. This vision of Georgia's future was shared by all of our interlocutors in Tbilisi and is

2. Ibid.

3. AP, "Shevardnadze Asks NATO Aid in Georgia Strife," *Los Angeles Times*, June 24, 1993, http://articles.latimes.com/1993-06-24/news/mn-6623_1_georgia-nato-shevardnadze.

4. NATO, "Relations with Georgia," December 8, 2015, http://www.nato.int/cps/en/natohq/topics_38988.htm?selectedLocale=en.

5. Jean-Christophe Peuch, "Georgia: Shevardnadze Officially Requests Invitation to Join NATO," Radio Free Europe/Radio Liberty, February 18, 2016, <http://www.rferl.org/content/article/1101463.html>. For the original speech by President Shevardnadze at the 2002 Prague NATO Summit, see NATO, "Prague Summit, 21–22 November 2002: Statement by President of Georgia Eduard Shevardnadze at the EAPC Summit," November 22, 2002, <http://www.nato.int/docu/speech/2002/s021122h.htm>.

universally emphasized in Georgia's strategy documents, including the National Security Concept, released in 2012, which states that "one of Georgia's major foreign and security policy priorities is membership in NATO and the European Union."⁶

Georgian officials tie these transatlantic aspirations to Georgia's larger task of domestic transformation, with one official referring to a "master plan for Georgia's path to Europe," encompassing economic, political, and security reforms, with the promise of Euro-Atlantic integration being used to overcome domestic inertia and resistance to reform. In practice, however, Georgia's Western partners continue to criticize the extent of reforms, despite their importance for the success of Georgia's push for Euro-Atlantic integration.

Despite strong bilateral ties with many Western states and growing cooperation with both NATO and the European Union, Georgia continues to find full integration into the transatlantic community beyond its grasp, though Tbilisi firmly believes it to be an attainable goal in the future. Georgia has not yet received a Membership Action Plan (MAP) from NATO, despite a promise from the alliance of membership at an unspecified future date and a verbal commitment that a MAP would be forthcoming, pending Georgia's fulfillment of all necessary political, economic, and military requirements for membership. Georgia did not receive a MAP at the 2008 Bucharest summit or subsequently because of divisions within the alliance about the wisdom of admitting a small state in the South Caucasus in the face of sustained Russian opposition. The Russo-Georgian war later that year seemingly confirmed the fears of Germany and other particularly Western European member states that incorporating Georgia would not enhance the alliance's security, but rather create new problems with Moscow—though other allies (and Georgia itself) argued that a clear path to membership would serve as a deterrent to Russia. The conflict also exacerbated the disputes regarding the status of South Ossetia and Abkhazia, which Moscow moved to recognize as independent states with which it has recently signed "integration treaties."⁷

Georgia's relationship with NATO is now stuck in a status that falls short of a MAP called Intensified Dialogue, through which Tbilisi has engaged with NATO since 2006.⁸ Despite the de facto freezing of Georgia's path toward full membership, Tbilisi has broadened its engagement with NATO since 2008, through vehicles such as the NATO-Georgia Commission, which was established following the war as a forum for dialogue and cooperation on reform efforts to help Georgia qualify for eventual membership. Within the NATO-Georgia Commission, Georgia holds regular high-level meetings with officials from NATO and its member states and, since December 2008, collaborates on the development and implementation of an Annual National Program (ANP) that incorporates engagement on political, military, and security-sector reforms.⁹ At the 2014 Wales summit, NATO leaders endorsed the Substantial NATO-Georgia Package (SNGP) that includes commitments for

6. Georgian Ministry of Foreign Affairs, "National Security Concept of Georgia."

7. The only other states to recognize South Ossetia and Abkhazia were Venezuela, Nicaragua, and the Pacific micro-states of Nauru, Tuvalu, and Vanuatu (which only recognized Abkhazia). Tuvalu and Vanuatu subsequently withdrew their recognition.

8. NATO, "NATO Update: Georgia Begins Intensified Dialogue with NATO," December 14, 2006, <http://www.nato.int/docu/update/2006/12-december/e1214b.htm>.

9. NATO, "Media Backgrounder: NATO Georgia Relations," February 2015, http://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2015_02/20150203_1502-Backgrounder_Georgia_en.pdf.

“defence capacity building, training, exercises, strengthened liaison, and enhanced interoperability opportunities,” all with the ultimate goal of strengthening “Georgia’s defence and interoperability capabilities with the Alliance, which will help Georgia advance in its preparations towards membership.”¹⁰

As a member of NATO’s Partnership for Peace program and a close partner of the United States, Georgia has contributed substantial resources and personnel to NATO and other Western missions abroad, including participation in the “coalition of the willing” in Iraq. Georgia was also the largest non-NATO contributor to the International Security Assistance Force (ISAF) in Afghanistan, and its dedication of resources and personnel far exceeded the commitment of many NATO members. Georgia sent units—up to two battalions totaling over 1,500 soldiers at a time—to Afghanistan’s most violent regions where they worked with U.S. forces and operated without restrictions on how or where they could be deployed. As a result, Georgian troops suffered 29 killed and over 400 wounded.¹¹ Georgia has also committed approximately 855 soldiers to Resolute Support, NATO’s follow-on mission in Afghanistan, making it the second-largest contributor behind the United States.¹² Georgia was also the third-largest contributor of soldiers in Iraq following the United States and Great Britain.¹³ Georgian officials have stated both publicly and in private interviews that these deployments are valuable training opportunities, as well as a contribution designed to encourage current NATO members to look more favorably on a MAP, or bilateral U.S. military aid, in the future.¹⁴

Since 2008, NATO has repeatedly affirmed its decision to offer Georgia membership at some point in the future, although it has refused to set a time frame or move forward with a MAP. The 2008 conflict, and the events of the recent past in Ukraine, which have seen the Russian annexation of Crimea and direct Russian support for a pro-Russian insurgency in eastern Ukraine, only reinforced the belief on the part of many Western officials that offering Georgia and other post-Soviet states a MAP is too destabilizing to consider, at least for the foreseeable future. According to one foreign official based in Tbilisi with whom we spoke, in this period of “shifting tectonic plates” the West cannot guarantee Georgia’s security, and the message from some European officials to Tbilisi has been to “make it work” with Russia.

10. NATO, “Wales Summit Declaration Issued by the Heads of State and Government Participating in the Meeting of the North Atlantic Council in Wales,” press release, September 5, 2014, http://www.nato.int/cps/en/natohq/official_texts_112964.htm.

11. “Georgian Troops End Mission in Helmand,” *Civil Georgia*, July 17, 2014, <http://civil.ge/eng/article.php?id=27498>.

12. NATO, “Resolute Support Mission: Key Facts and Figures,” October 2015, http://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2015_10/20151007_2015-10-rsm-placemat.pdf. Georgia and Germany contributed an approximately equal number of forces (around 850), though the Georgian contingent was slightly larger at the time of publication.

13. Koba Liklikadze, “Iraq: As Third-Largest Contingent, Georgia Hopes to Show Its Worth,” *Radio Free Europe/Radio Liberty*, September 10, 2007, <http://www.rferl.org/content/article/1078614.html>.

14. Ernesto Londono, “Georgia’s role as U.S. coalition partner has honed its army, bolstered NATO hopes,” *Washington Post*, August 13, 2014, https://www.washingtonpost.com/world/national-security/georgias-mettle-as-us-coalition-partner-has-honed-its-army-bolstered-nato-hopes/2014/08/13/431f192a-1bea-11e4-ab7b-696c295ddfd1_story.html.

At the 2014 NATO summit in Wales, the summit declaration reconfirmed the decision taken at Bucharest and stated that “Georgia’s relationship with the Alliance contains the tools necessary to continue moving Georgia forward towards eventual membership.”¹⁵ Nevertheless, Georgian officials express a great deal of frustration with what they perceive as foot-dragging by NATO. One official with whom we spoke emphasized that Georgia needs “timely and efficient” implementation of NATO commitments, while another Tbilisi-based analyst pointed to widespread dissatisfaction with NATO (and the United States in particular), referring to Western foreign policy toward Russia and Georgia as “fantasy.” These sentiments were publicly echoed during a visit to Washington by Georgian defense minister Tina Khidasheli in August 2015, in which she openly criticized NATO’s tentativeness, stating that “a strong decision on [NATO enlargement] looks like, today at least, the only deterrence policy” against further Russian aggression.¹⁶

Senior Georgian officials understand the alliance’s dilemma and now argue that NATO needs to either ensure a MAP is forthcoming soon or state definitively that a MAP is not in the cards, allowing both sides to pursue alternate arrangements. Absent a commitment to move forward with a MAP at the upcoming 2016 Warsaw summit, Georgian officials argue that NATO should recognize Tbilisi’s progress in fulfilling the bulk of NATO’s membership criteria and on that basis offer it expedited membership without going through the lengthy MAP process. They argue that the current uncertainty, as well as the transition period envisioned by a MAP, gives Russia a window of opportunity to create problems before the alliance’s mutual security guarantee comes into effect.

Tbilisi would also like to see the United States do more to push the more tentative members of NATO toward progress on the issue of Georgia’s accession. As one high-ranking official stated, states like Georgia, Moldova, and Ukraine, all affected by Russia’s aggressive policies, must see a “light at the end of the tunnel” from their engagement with NATO and the European Union if they are to continue their path toward reform and closer partnership with the West.

Officials and analysts also point to economic benefits, including via infrastructure investment from NATO, to any forward movement in NATO-Georgia relations, as concerns about Georgia’s security have reportedly scared off some investors. According to a report published by the Atlantic Council of Georgia in February 2015, the Baltic states each saw a significant increase in foreign investment following their NATO accession in 2004, with investment in Estonia alone increasing more than threefold from \$965.8 million to \$3.8 billion.¹⁷ The report goes on to argue that Georgia would see similar economic benefits. Furthermore, proponents argue that a MAP would likely preclude another economically devastating conflict with Russia.

Though NATO (and the European Union) has been reluctant to take on members with unresolved territorial disputes, a number of nongovernmental analysts with whom we spoke indicated that Georgia could finesse the issue of the occupied territories of Abkhazia and South Ossetia. These analysts suggested that Georgia and NATO could jointly exempt Abkhazia and South Ossetia from

15. NATO, “Wales Summit Declaration.”

16. RFE/RL, “Georgia Calls on NATO to Deliver on Membership Promises,” Radio Free Europe/Radio Liberty, August 21, 2015, <http://www.rferl.org/content/georgia-nato-membership/27201794.html>.

17. Nina Chitaia, “Economic Benefits of NATO Integration,” Atlantic Council of Georgia, February 20, 2015, <http://acge.ge/2015/02/economic-benefits-of-nato-integration-2/>.

NATO's Article V mutual security guarantee (one analyst cited, by way of comparison, the exclusion of Soviet-occupied East Germany from Article V consideration at a time when alliance members did not recognize the German Democratic Republic as a separate state). It is unclear, however, if the government in Tbilisi or the NATO member states would consider such an unorthodox proposal, which would at least have the virtue of not ceding to Russia the power to veto its neighbors' ability to join NATO. For its part, the 2013 Georgian Strategic Defense Review, as one of its major political assumptions, presumes that "NATO support with [sic] the peaceful restoration of the territorial integrity . . . of the occupied territories has critical importance," and that a secure, prosperous Georgia inside NATO would have the best opportunity to successfully reintegrate the occupied regions.¹⁸

In the absence of NATO membership as a near-term option, Georgia emphasizes the development of mutually beneficial economic and security relationships with the United States and the countries of the European Union as a parallel path to transatlantic integration. Cooperation with the United States is seen in Tbilisi as particularly important in this regard, as Washington is a principal security and economic partner for Georgia. However, the sense of frustration or dissatisfaction that is felt in Tbilisi over the pace of integration with NATO extends in part to bilateral ties with Western partners, in particular the United States.

The United States has served as Georgia's largest bilateral aid donor over the last two decades, with cumulative aid of \$3.37 billion between 1993 and 2010, nearly \$1 billion of which was allocated for humanitarian assistance, support for the Georgian economy, and security-related programs.¹⁹ Washington also maintains a large Office of Defense Cooperation (ODC) presence at Georgia's Ministry of Defense that manages a Foreign Military Financing (FMF) program amounting to \$14 million annually (set to reach \$20 million in fiscal 2016) and a substantial international military education and training program through which officers, cadets, defense ministry civilians, and noncommissioned officers attend U.S. training schools. According to interviews with Georgian and foreign officials, bilateral security cooperation increased following the 2008 war with Russia and continues to this day. The United States continues to provide military assistance, including transportation helicopters, though not the anti-armor missiles and other lethal assistance Tbilisi has requested. The U.S. military has also helped the Georgians build a West Point-style military academy not far from Tbilisi.²⁰

With NATO membership seemingly off the table for the time being, some officials we spoke with indicated that Georgia would like to receive, at a minimum, security guarantees, perhaps on a bilateral basis from the United States. They argued that such guarantees would allow for greater stability in the country's long-term planning and, in the words of one analyst, allow Georgia to "systematize reforms." The United States, however, has made clear that such guarantees are not in the cards.

18. Georgian Ministry of Defence, *Strategic Defence Review 2013–2016*, 15, <http://www.mod.gov.ge/assets/up-modul/uploads/pdf/SDR-ENG.pdf>.

19. Jim Nichol, *Georgia [Republic]: Recent Developments and U.S. Interests* (Washington, DC: Congressional Research Service, June 2013), <http://www.fas.org/sgp/crs/row/97-727.pdf>.

20. Londono, "Georgia's role as U.S. coalition partner has honed its army, bolstered NATO hopes."

While Georgian officials and experts with whom we met universally underscored the importance of ties with the United States, many expressed a desire for greater assistance from Washington and frustration that Georgia cannot rely on the United States to provide even minimal security guarantees. Some pointed to the possibility of bilateral security arrangements between Georgia and the United States as an avenue for further security cooperation and possible fallback option should NATO membership remain off the table. One official indicated that Georgia would like a U.S. military presence “in any form” as a political signal to Russia and others in the region. At the same time, Georgian leaders believe the United States and NATO should develop a more comprehensive strategy for challenging Russia’s notion of “privileged interests” in Eurasia and should take a harder line in resisting Russia’s aggression against Ukraine. They would also like to see Washington take steps to implement a free-trade agreement with Georgia and to liberalize visa rules for Georgians coming to the United States.

Georgia also seeks closer ties with the European Union. Taken together, the European Union is Georgia’s top trade partner, with total bilateral trade turnover in 2014 of \$2.99 billion, accounting for approximately one-quarter of Georgia’s overall trade. Trend lines suggest that Georgia’s economic ties with Europe will only increase over the coming decades. In July 2014, Georgia and the European Union signed an Association Agreement, which created a Deep and Comprehensive Free Trade Area.^{21, 22} The DCFTA eliminates customs duties on all Georgian products and streamlines Georgian regulations in accordance with the EU *acquis communautaire*, an essential prerequisite for EU membership. Georgia has underlined, though, that the Association Agreement is not the final goal for Georgia-EU cooperation, making clear that full membership in the European Union is Georgia’s long-term goal.²³ However, Georgia is not currently included in the EU list of “potential candidates,” and with the European Union itself badly fragmented by the Greek crisis, the conflict in Ukraine, and the swarm of migrants that flooded its borders in late 2015, Georgia’s membership prospects appear distant.²⁴ One senior official we spoke with indicated that Brussels needed to give Georgia and other vulnerable post-Soviet states a “European perspective,” or a vision of deeper integration with Europe, even if that did not include promises of membership in the European Union (or NATO).

Mirroring its contribution to NATO and U.S. military missions abroad to garner political capital, Georgia has also signed a framework agreement with the European Union, pledging support for EU crisis management operations.²⁵ To that end, Georgia provided about 140 soldiers to the

21. European Union, “EU Relations with Georgia,” <http://www.eeas.europa.eu/georgia/>.

22. Georgian Ministry of Foreign Affairs, *Annual Report 2014* (Tbilisi: Ministry of Foreign Affairs, 2014), 6, http://www.mfa.gov.ge/getattachment/HeaderNav/PublicInfo/GeneralInformation/Annual-Reports/Report-S_ENG.pdf.aspx.

23. European Commission, “Joint Statement following the Meeting between the European Commission and the Government of Georgia,” press release, May 21, 2014, http://europa.eu/rapid/press-release_MEMO-14-372_en.htm.

24. European Union, “About the EU: Countries,” http://europa.eu/about-eu/countries/index_en.htm.

25. “Georgian Troops Heading to EU Mission in Central African Republic,” *Civil Georgia*, June 6, 2014, <http://civil.ge/eng/article.php?id=27322>.

European mission in the Central African Republic and also sent soldiers to support the EU peace-keeping mission in Mali.^{26, 27}

Tbilisi would like to see the European Union play a greater role in helping it restore its territorial integrity and deterring future aggression from Russia as well. The Georgian National Security Concept states that “Georgia places special emphasis on more active EU involvement in resolving the Russian-Georgian conflict. It is important that the European Union and other members of the international community have recognized the occupation of Georgian territory by the Russian Federation.”²⁸ Georgian defense documents also note the important role played by the EU Monitoring Mission in Georgia (EUMM) in ensuring there will be no future escalation.²⁹

Georgia is also a key partner to the United States and the European Union in the regional economic and infrastructure initiatives that have been a pillar of Western policy in the South Caucasus since the collapse of the Soviet Union. This is particularly true in the development of pipelines that transit Caspian energy resources across Georgia’s territory to the markets of Turkey and the European Union. While producing little oil or gas of its own, Georgia sits astride the route for the Southern Gas Corridor and has carved out a role as a stable transit state for energy supplies that circumvent Russian territory. Similarly, Georgia would like to build on the role it played as a transit state during the U.S.-led war in Afghanistan—when its railroads provided one of the corridors comprising the Northern Distribution Network (NDN)—as part of new efforts at creating overland trade and transit corridors across Eurasia. Tbilisi sees its participation in these transit corridors as a physical link to Europe that also gives the European Union a stake in Georgia’s continued success and security.

RUSSIA

Georgia’s foreign policy writ large is shaped by its complicated relationship with Russia, a country that continues occupying nearly 20 percent of Georgia’s internationally recognized territory and remains a potent security threat. Officials in Tbilisi almost universally view Russia as a threat to Georgian security, one that not only seeks to bite off further chunks of Georgian territory, but also to reverse Georgia’s westward shift through a mix of political, military, and economic pressure. The 2012 National Security Concept lists the Russian occupation of Abkhazia and South Ossetia and attacks organized and launched by the Russian Federation from these territories as the country’s top security threat.³⁰ Georgian elites see this threat in military terms, but also in efforts by Moscow to undermine Georgia’s pro-Western consensus through support of pro-Russian political, cultural, and religious organizations.

26. Ibid.

27. “Georgia continues to participate in Central African mission,” Agenda.ge, May 14, 2015, <http://agenda.ge/news/35232/eng>.

28. Georgian Ministry of Foreign Affairs, “National Security Concept of Georgia,” 17.

29. Georgian Ministry of Defence, *Strategic Defence Review 2013–2016*, 15.

30. Georgian Ministry of Foreign Affairs, “National Security Concept of Georgia.”

Even so, our Georgian interlocutors indicated that Tbilisi understands the necessity of selectively engaging Moscow, especially on economic issues, due to Russia's importance as a trading partner and the mere fact of geographic proximity. The current Georgian leadership, headed by President Giorgi Margvelashvili and Prime Minister Giorgi Kvirikashvili, is pursuing a de-escalation policy with Moscow, designed to allow Georgia to pursue closer relations with the West while avoiding overt hostility and preserving its commercial ties to Russia at the same time. The result has been a dual-track policy toward Russia, with Tbilisi seeking to delink economic and security issues. Following his 2012 election, then Georgian prime minister Bidzina Ivanishvili sought to create an informal dialogue with Russia to focus on economic issues as a step toward gradually improving relations and, in the words of one senior official, "to talk about things that can be calculated," rather than engage in geopolitical posturing. These talks, conducted in Prague between the special representative of the prime minister Zurab Abashidze and Russia's deputy foreign minister Grigorii Karasin, have led to agreements on restoring market access for Georgian agricultural goods.

Moreover, many Georgians—including, notably, former prime minister Bidzina Ivanishvili³¹—maintain close ties with Russian business and economic interests, while some sectors of the Georgian economy remain dependent on the Russian market. In 2013, Russia accounted for approximately 7.25 percent of Georgia's total trade, according to International Monetary Fund data, and overall trend lines suggest that trade will continue to expand over the coming years after a major disruption tied to the 2008 war. In fact, Georgian exports to Russia are higher today than in the last decade.³²

Russia, of course, is much more important for Georgia's economy than Georgia is for Russia's economy, and none of our interlocutors suggested that economic ties alone would be sufficient to ameliorate Russian coercive measures against Georgia. If anything, commercial ties give Moscow another lever. Although Russia banned Georgian wine (and mineral water) from its market for a time as early as 2006, today Russia has again become one of the largest markets for Georgian wine. One of our interlocutors noted that Georgian winemakers' return to Russia was a natural development, given the lower transaction costs and mutual familiarity, but that it created a strategic vulnerability for the Georgian economy. Just last year, Russia threatened to suspend its 1994 free-trade agreement with Georgia in response to the signing of Georgia's EU Association Agreement, again negatively impacting Georgia's agricultural sector.³³ The Ukraine crisis, meanwhile, has confirmed what many Georgians have long said to their Western partners: that nothing is off the table when it comes to Russia's policy in its neighborhood. As one official noted to us, Ukraine is not an isolated case, with Russia seeking actively to foment frozen conflicts to retain influence in the former Soviet states—a pattern for which the 2008 conflict with Georgia was a template.

Ongoing Russian support for Abkhazia and South Ossetia consequently remains a key concern for Tbilisi in its dealings with Moscow. South Ossetia and Abkhazia have enjoyed varying degrees of

31. Vladimir Socor, "Ivanishvili starts selling Russian assets for liquidity," *Eurasia Daily Monitor* 9, no. 93 (May 16, 2012), http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=39379&cHash=96c643ceb1ef997b987c6a9f77b05a2b#.VY2VxflViko.

32. Sergi Kapanadze, "Georgia's Vulnerability to Russian Pressure Points," European Council on Foreign Relations, June 19, 2014, http://www.ecfr.eu/publications/summary/georgias_vulnerability_to_russian_pressure_points312.

33. ITAR TASS, "Russia plans to suspend free trade agreement with Georgia," July 30, 2014, <http://tass.ru/en/economy/742973>.

Russian support since they first rebelled against Georgian rule in the early 1990s, and Moscow long cultivated close ties with the separatist leadership in Sokhumi and Tskhinvali. This patronage reached its apex after the 2008 Russo-Georgian war, when the then president Dmitry Medvedev recognized Abkhazia and South Ossetia's "independence." While Sokhumi and Tskhinvali ostensibly exercise de facto sovereignty over their respective territories, in practice both entities are subject to a high degree of Kremlin oversight, though such dependence has been a source of frustration, particularly in Abkhazia, where it contributed to the revolt that ousted Aleksandr Ankvab, the de facto president, in mid-2014. In November 2014, Russia and the de facto authorities in Abkhazia signed an agreement under which the latter would receive military assistance in exchange for harmonizing its trade codes with those of the Russian-led Eurasian Economic Union. The "treaty," *inter alia*, provided for the establishment of a "joint socioeconomic space," as well as a "common security and defense space," including the creation of a joint group of military forces. Within a few months, Russia had concluded a virtually identical treaty with the de facto regime in South Ossetia.³⁴

Since 2008, Russia has pursued an aggressive program of physically demarcating the administrative border between South Ossetia and the rest of Georgia, a process that has essentially pushed the cease-fire line ever deeper inside internationally recognized Georgian territory. This strategy of "borderization" serves not only to demonstrate Russia's ability to act with impunity, but to directly threaten Georgia's stability and economic security. As recently as July 2015, Russian forces advanced South Ossetia's administrative boundary line to within one mile of Georgia's main national artery, the East-West Highway, seizing a section of the Baku-Supsa oil pipeline in the process, facilitating both the theft of oil from the pipeline and adding to Russia's efforts to intimidate Georgia into dropping its Euro-Atlantic aspirations.³⁵

Russia also maintains substantial military contingents in both Abkhazia and South Ossetia and continues to provide both territories with economic aid.³⁶ According to the Russian Federation's own figures, there are approximately 5,000 Russian personnel in Abkhazia alone; of these troops, 3,500 belong to the armed forces proper, while the remaining 1,500 are said to be from the ranks of the Federal Security Service (FSB) and the Federal Border Service.³⁷

34. David M. Herszenhorn, "Pact Tightens Russian Ties with Abkhazia," *New York Times*, November 24, 2014, <http://www.nytimes.com/2014/11/25/world/europe/pact-tightens-russian-ties-with-abkhazia.html>; Olga Razumovskaya, "Pact Brings South Ossetia Closer to Russia," *Wall Street Journal*, March 18, 2015, <http://www.wsj.com/articles/russia-tightens-control-over-breakaway-georgian-region-of-south-ossetia-1426688743>.

35. George Tsereteli, "Russia's warfare strategy and borderization in Georgia," *Central Asia-Caucasus Analyst*, August 5, 2015, <http://www.cacianalyst.org/publications/analytical-articles/item/13254-russia-warfare-strategy-borderization-georgia.html>; George Mchedlishvili, "Putin Slyly Redraws Georgia's Borders," *Newsweek*, July 21, 2015, <http://www.newsweek.com/putin-slyly-redraws-georgias-borders-355816>; Vladimir Socor, "Russia Accelerates 'Borderization' in Georgia on War's 20th Anniversary," *Eurasia Daily Monitor* 10, no. 175 (October 2, 2013), http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=41437&no_cache=1#.VdzeFPIViko.

36. Paul Rimple, "Economics Not Impacting Russian Support for Georgian Separatists," *EurasiaNet.org*, February 13, 2015, <http://www.eurasianet.org/node/72066>.

37. International Crisis Group, *Abkhazia: The Long Road to Reconciliation*, Europe Report No. 224 (Brussels: International Crisis Group, April 10, 2013), 3, [http://www.crisisgroup.org/~media/Files/europe/caucasus/georgia/224-abkhazia-the-long-road-to-reconciliation.pdf](http://www.crisisgroup.org/~/media/Files/europe/caucasus/georgia/224-abkhazia-the-long-road-to-reconciliation.pdf).

As the Georgian government has been forced by economic necessity to slash its defense budget by more than half between 2008 and 2013,³⁸ in recent years Tbilisi has adopted a more nuanced policy toward the de facto leaderships of Abkhazia and South Ossetia. In the first instance, Tbilisi seeks to “internationalize” the dispute as much as possible through the UN, the Organization for Security and Co-operation in Europe (OSCE), the Council of Europe, and other bodies. More recently, the Georgian government has supplemented the policy of “internationalizing”³⁹ the conflict, which our interlocutors in Tbilisi emphasize remains a major avenue to place pressure on Russia and the separatist regions, with a focus on constructive, community-focused dialogue. Tbilisi believes that this softer approach has the potential to circumvent Moscow’s efforts at obstructing international conflict resolution efforts by appealing directly to local populations in separatist-held areas with various economic and institutional incentives.⁴⁰ The policy of community engagement has met with limited success, however, in the face of Russian efforts to undermine it. Moscow’s security pacts with Tskhinvali and Sokhumi have reportedly left the de facto authorities much less leeway to pursue such grassroots engagement. At the same time, Georgia’s pursuit of domestic reform aims in part at encouraging prosperity that will make the prospect of reintegration more attractive to the inhabitants of South Ossetia and Abkhazia.

Bemoaning the “creeping annexation”⁴¹ of the occupied territories by Russia, our contacts argued that Tbilisi would be capable of reaching a satisfactory agreement with Sokhumi and Tskhinvali were it not for Moscow’s influence over the de facto states. One official intimated to us that the principal question that faces the Georgian government at present is whether it should engage the de facto authorities themselves as partners or as adversaries. Although the Georgian government would like to reconcile with Abkhazia and South Ossetia, the general feeling is that of talking to an empty room; even if Sokhumi and Tskhinvali were to reciprocate, it would be as proxies of a Russian state that itself remains an implacable foe. South Ossetian officials’ comments from late 2015 about a possible referendum on annexation by Russia would, if consummated, represent a further serious obstacle to reconciliation with Tbilisi.

THE SOUTH CAUCASUS AND TURKEY

Georgia’s policy in the neighborhood to its immediate south has emphasized mutually beneficial engagement on trade, transit, and energy issues while fostering security ties as a hedge against threats from Russia.

38. Georgian Ministry of Defence, *Strategic Defence Review 2013–2016*, 28.

39. Iskra Kirova, *Public Diplomacy and Conflict Resolution: Russia, Georgia, and the EU in Abkhazia and South Ossetia*, CPD Perspectives on Public Diplomacy Paper No. 7 (Los Angeles: Figueroa Press, August 2012), 26–27, <http://uscpublicdiplomacy.org/sites/uscpublicdiplomacy.org/files/legacy/publications/perspectives/CPDPerspectivesConflict%20Resolution.pdf>.

40. Government of Georgia, “State Strategy on Occupied Territories: Engagement through Cooperation,” January 2010, http://gov.ge/files/225_31228_370287_SMR-Strategy-en.pdf.

41. Adrian Croft, “Georgia says Russia bent on ‘creeping annexation’ of breakaway regions,” Reuters, February 26, 2015, <http://www.reuters.com/article/2015/02/26/us-georgia-russia-idUSKBN0LU2M020150226>.

Tbilisi's relationship with the governments of Turkey and Azerbaijan, both bilaterally and, in recent years, trilaterally, has become a pillar of Georgia's regional economic and security policies, according to numerous officials in Tbilisi. Although trilateral cooperation extends back to the early 1990s, especially on trans-Caucasian energy projects, the Trabzon Declaration now provides the structure for this relationship moving forward. The Declaration is a joint statement issued by the foreign ministers of the three countries following a June 2012 summit in Trabzon, Turkey, which grew out of Georgia's conflict with Russia in 2008 and the slow pace of EU and (in Georgia's case) NATO integration.⁴² The Declaration emphasizes the further development of relations "in every field, especially in the field of trade, energy, transport, finance and banking, [and] environment," placing particular emphasis on energy and transport-related projects, such as the Southern Gas Corridor and the Transport Corridor Europe-Caucasus-Asia (TRACECA), that envision the South Caucasus and Turkey as major players in transcontinental trade.⁴³ The Trabzon Declaration further commits Tbilisi, Baku, and Ankara to continued engagement at the presidential and ministerial levels on these major policy questions and has set the stage for a gradual increase in coordination over the last few years.

Officials in Tbilisi made clear that Georgia views this trilateral "strategic partnership" as a crucial piece of its regional economic and security policies. One official stated that cooperation among the three states is "mostly about energy" and part and parcel of Georgia's broader ambitions of becoming a hub for the rapidly growing trade and transit ties proliferating across Eurasia (an ambition that is shared by Azerbaijan and Turkey as well). This emphasis is manifested in particular through the development of major pipelines and transport routes, including most notably the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline, the South Caucasus or Baku-Tbilisi-Erzurum (BTE) pipeline, and the Baku-Tbilisi-Kars (BTK) railway project (now set for completion in 2017). In this vein, the goals of the trilateral cooperation outlined in Trabzon dovetail with Georgia's engagement with Western partners on these same transit, trade, and energy issues.

It is important to note that the projects outlined have the potential to tie Georgia and its partners to the abundant energy resources of the Caspian and Central Asia, allowing them to enhance their value to global energy markets.⁴⁴ A particular focus in this regard has been Turkmenistan, with which Georgian officials say they have had more positive conversations about the development of pipelines to Europe in recent years (previous attempts floundered on Turkmenistan's insistence on "positive neutrality" in its energy dealings). This could be made possible with the completion of the Trans-Caspian gas pipeline, which would run from Turkmenistan to Azerbaijan and link up with the South Caucasus pipeline. According to the Georgian officials, Tbilisi-based analysts, and other foreign officials we interviewed, the value of Georgia's involvement in these regional projects has

42. Cavid Veliyev, "From Alliance to Integration: The Turkey-Azerbaijan-Georgia Triangle," *Eurasia Daily Monitor* 11, no. 46 (March 11, 2014), http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=42079&no_cache=1#.YYRVpPIViko. Three additional communiqués were issued by leaders of the three states in 2014.

43. Turkish Ministry of Foreign Affairs, "Trabzon Declaration of the Ministers of Foreign Affairs of the Republic of Azerbaijan, Georgia and the Republic of Turkey, 08 June 2012, Trabzon," http://www.mfa.gov.tr/trabzon_-declaration-of-the-ministers-of-foreign-affairs-of-the-republic-of-azerbaijan_-georgia-and-the-republic-of-turkey_-08-june-2012_-trabzon.en.mfa.

44. Veliyev, "From Alliance to Integration."

only been enhanced following recent events in Ukraine and Iraq, as they have led European customers to seek a diversification of their energy sources.

As a result of this emphasis on economic cooperation, overall trade and investment between the three states has grown significantly in recent years. According to International Monetary Fund (IMF) statistics, Turkey was Georgia's largest single trading partner in 2014, with total turnover of \$1.97 billion and a major source of investment, with total Turkish foreign direct investment (FDI) in Georgia exceeding \$1 billion.^{45, 46} Georgia has also seen its economic engagement with Azerbaijan grow significantly in recent years, with trade turnover second only to Turkey in 2014 at \$1.18 billion. Georgia now acts as the key transport route for Azerbaijani oil and natural gas, and if the BTC, BTE, and BTK projects are included, total Azerbaijani investment in Georgia has exceeded \$3 billion since 2008.⁴⁷

Trilateral cooperation is not limited to improving economic and infrastructure ties, however, as security and defense cooperation has also become a major pillar of the trilateral relationships. Since the 2008 war, Georgia, Turkey, and Azerbaijan have stepped up mutual military aid in the form of joint military exercises oriented toward pipeline defense and security, joint technological development, and cooperation in officer education.⁴⁸ Georgia, Turkey, and Azerbaijan held their first joint military exercises in 2013; subsequent military exercises between the three countries have focused on the defense of regional energy transit infrastructure.⁴⁹

Georgian defense officials have reiterated that military cooperation between the three is not directed at any other state in particular.⁵⁰ Yet the Trabzon Declaration confirmed each member's commitment to the inviolability of borders, an issue of serious mutual concern given Georgia's tense relationship with Russia and the occupation of South Ossetia and Abkhazia, as well as Azerbaijan's dispute with Armenia over Nagorno-Karabakh and Turkey's challenge with Kurdish separatism. Some experts consequently argue that Georgia sees the emerging military cooperation between the three countries (especially with Turkey) as at least a partial answer to its need to limit the potential for conflict with Russia in the future (Turkey already provides security guarantees to Azerbaijan, though analysts question how extensive and how solid these guarantees are).⁵¹ NATO

45. Observatory of Economic Complexity (OEC), "Georgia," <http://atlas.media.mit.edu/en/profile/country/geo/>; World Bank, World Integrated Trade Solution (WITS) database, 2014, <http://wits.worldbank.org/>.

46. Valeri Modebadze, Fatih Mehmet Sayin, and Reha Yilmaz, "Georgian-Turkish Relations Since the Breakdown of the Soviet Union," *Çankırı Karatekin University Journal of the Faculty of Economics and Administrative Sciences* 4, no. 1 (Spring 2014): 359–369, http://iibfdergi.karatekin.edu.tr/Makaleler/154509717_JFEAS_4_1_19.pdf.

47. Zaur Shiriyev and Kornely Kakachia, "Azerbaijani-Georgian Relations: The Foundations and Challenges of the Strategic Alliance," *SAM Review* 7–8 (July 2013): 42, http://www.academia.edu/4344816/Azerbaijan-Georgian_relations_The_Foundations_and_Challenges_of_the_Strategic_Alliance; World Bank, WITS databank.

48. Joshua Kucera, "Georgia, Azerbaijan, Turkey Agree on Joint Military Exercises," EurasiaNet.org, August 21, 2014, <http://www.eurasianet.org/node/69646>.

49. Ibid.

50. RFE/RL, "Georgian, Turkish, Azerbaijani Defense Ministers Convene in Tbilisi," Radio Free Europe/Radio Liberty, April 2, 2015, <http://www.rferl.org/content/georgian-turkish-azerbaijani-defense-ministers-convene-in-tbilisi/26934825.html>.

51. Michael Hikari Cecire, "Turkey-Georgia-Azerbaijan: Trilateralism and the Future of Black Sea Regional Geopolitics," *Central Asia–Caucasus Analyst*, October 16, 2013, <http://www.cacianalyst.org/publications/analytical-articles/item/12837-turkey-georgia-azerbaijan-trilateralism-and-the-future-of-black-sea-regional-geopolitics.html>.

member Turkey has also consistently supported Georgia's quest to become a full member of the alliance, while both Tbilisi and Baku participate in the alliance's Partnership for Peace program.⁵²

While Georgia and its two neighbors have grown closer of late, some areas of friction in these relationships remain. Georgia's ties with Turkey have been strained, in particular, over the issues of religion and Turkey's unofficial contacts with the de facto authorities in Abkhazia. Predominantly Orthodox Georgia is concerned about the possibly pernicious impact of Islamism, some of it emanating from Turkey, according to one foreign official with whom we spoke. For example, the government in Tbilisi reportedly monitors closely the growing presence of schools affiliated with the *Hizmet* movement led by Fethullah Gülen, which has also suffered a falling out with the Turkish government in recent years. In addition, the summer of 2012 witnessed the outbreak of protests in Batumi over government-endorsed plans to rebuild an Ottoman mosque.⁵³ As one foreign official put it, Georgia chafes at Turkey's "neo-Ottoman interest in [its] former territories," Georgia among them. Turkey's more recent difficulties along its southeastern border have, however, entirely overshadowed such comparatively minor disputes with Georgia.

Also of concern for the Georgian government is Turkey's unofficial contacts with the separatist government of Abkhazia. Although Turkey does not recognize Abkhazia's de facto independence, in practice certain non- and semi-governmental structures and political parties maintain limited political and economic relations with the occupied region, and Turkey is its second-largest trade partner after Russia. The strength of this relationship rests on the fact that Turkey hosts the largest population of diaspora Abkhaz in the world (many descended from those who fled to the Ottoman Empire after the Russian conquest of Abkhazia in 1864) and, indeed, the de facto regime in Sokhumi actively encourages Turkish Abkhaz to return to their native soil. The Georgian government, for its part, has voiced its displeasure at such contacts with the Abkhaz regime, going so far as to intercept more than 60 Abkhazia-bound Turkish freighters between 1999 and 2009. The Saakashvili administration proposed the implementation of a joint customs regime between the two countries to monitor Turkish trade in and out of Abkhazia, but this deal fell through. Yet, these challenges have not limited Georgia and Turkey's cooperation in other critical areas, where their shared geopolitical and economic interests allow Ankara and Tbilisi to take precedence.

Certain areas of friction also exist in Tbilisi's relationship with Baku. Although investment and trade between Georgia and Azerbaijan remains strong, according to one foreign official with knowledge of the subject, corruption in Azerbaijan acts as a brake on even more robust engagement. The status of the ethnic Azeri minority within Georgia (about 6.5 percent of the Georgian population, according to the 2002 census)⁵⁴ has, at times, also been an issue. In 2004, Georgian Azeris began

52. Turkish Ministry of Foreign Affairs, "Trabzon Declaration."

53. Molly Corso and Justin Vela, "Georgia: Gülen Schools Flourishing," EurasiaNet.org, May 6, 2013, <http://www.eurasianet.org/node/66929>.

54. The 2002 census is the most recent for which data on Georgia's ethnic makeup is available. The results of a more recent census from 2014 are set to be released in early 2016. For 2002 census data, see International Household Survey Network (IHSN), "Georgia—General Population Census of 2002," <http://catalog.ihsn.org/index.php/catalog/4371>.

to protest over Tbilisi's handling of land privatization.⁵⁵ The resulting clashes led to the death of one ethnic Azeri woman and the eventual limitation by the Azerbaijani government of cargo transport across the border.⁵⁶ Yet, as with Turkey, shared interests ensure the relationship between Georgia and Azerbaijan can effectively manage such complications.

Armenia, lying to Georgia's south, is an important neighbor for Tbilisi as well, despite its poor relations with both Turkey and Azerbaijan. Georgian officials emphasized in interviews that they want to maintain and expand relations with Yerevan, especially commercial ties, as part of a policy of improving relations throughout Georgia's immediate neighborhood. Total bilateral trade with Armenia has grown more than 20 percent per year since 2005, reaching nearly \$500 million in 2014 and making Armenia a top-ten trade partner for Georgia. Due to the poor state of relations with Azerbaijan and Turkey that have led to the imposition of economic blockades, Armenia relies on Georgia to transit approximately 80 percent of its imports, including crucial energy supplies.⁵⁷

One particular area of friction in the Georgia-Armenia relationship centers on developments in the Samtskhe-Javakheti region of Georgia, which contains a sizable ethnic Armenian population. Religion, education, poverty, and lack of knowledge of the official state language are all key issues that concern ethnic Armenians in the region,⁵⁸ with resentments and frustrations boiling over at times, prompting violent demonstrations in 2005 and 2006.⁵⁹ More recently, the Georgian government has grown concerned that the Armenian Church in the region is making attempts to radicalize the local population. Many of the region's ethnic Armenians reportedly believe that they are not seen as full-fledged citizens of Georgia and so choose to associate themselves more with the politics and culture of Armenia, sometimes seeking membership in nationalist groups critical of the Georgian government.⁶⁰

Despite these issue areas, the relationship between Tbilisi and Yerevan remains largely positive, and both sides appear committed to maintaining a healthy partnership. Georgia's presence has seemed to ease Armenia's concerns that any military cooperation with Azerbaijan and Turkey may be directed at it, with Armenia's deputy defense minister Davit Donoyan recently noting that he believes "Georgian engagement will restrain these tripartite relations from being at odds with

55. Anar Valiyev and Yusuf Valiyev, "Azerbaijan-Georgia Relations Put to the Test," *Central Asia-Caucasus Analyst*, January 26, 2005, <http://www.cacianalyst.org/publications/analytical-articles/item/9634-analytical-articles-caci-analyst-2005-1-26-art-9634.html>.

56. Ibid.

57. Johnny Melikyan, "Georgia Looks West, Armenia East," *openDemocracy*, September 3, 2014, <https://www.opendemocracy.net/od-russia/johnny-melikyan/georgia-looks-west-armenia-east-EU-CU-NATO>; World Bank, WITS databank.

58. Giorgi Menabde, "Georgia and Armenia Try to Maintain Friendship Across Geopolitical Barriers," *Eurasia Daily Monitor* 11, no. 225 (December 17, 2014), http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=43212&cHash=6fa05adae027a8d6809001fc8a7dab23#VXX2Ys9Viko.

59. International Crisis Group, *Georgia: The Javakheti Region's Integration Challenges*, Europe Briefing No. 63 (Brussels: International Crisis Group, May 23, 2011), <http://www.crisisgroup.org/en/regions/europe/south-caucasus/georgia/b063-georgia-the-javakheti-regions-integration-challenges.aspx>.

60. Ibid.

Armenian national security.”⁶¹ During high-level talks in late 2014, Prime Ministers Hovik Abrahamyan of Armenia and Irakli Garibashvili of Georgia emphasized the need to maintain a normal economic relationship despite the countries’ divergent approaches to the Eurasian Economic Union (EEU) and the European Union.⁶² Even Samtskhe-Javakheti has never been an area of conflict between the two states, and Georgia has made significant strides in ensuring that Armenians there feel included in the Georgian polity through government-sponsored programs.⁶³

CHINA

Georgia 2020, Tbilisi’s principal economy strategy document, places a heavy emphasis on the benefits that Georgia’s geographic position affords it as a potential hub for international trade and transit—and makes clear that Georgia seeks to realize its full potential in this regard.⁶⁴ Tbilisi views China, in particular, as a partner that can finance these ambitions. With Georgia’s entrance into a Deep and Comprehensive Free Trade Agreement with the European Union, the former Georgian minister of economy and sustainable development Giorgi Kvirikashvili has said he wants to allow Chinese companies to use Georgia as a “springboard” to access the European market.⁶⁵ “If Georgia brings at least one percent of China’s international transit [of goods] through its transport corridor, our trade turnover will double,” he said.⁶⁶ Georgia also sees China as a market to be exploited. In 2011 alone, China imported \$1.8 million in Georgian wine, a 260 percent increase from the previous year.⁶⁷

Chinese investments in Georgia in recent years appear to indicate some degree of reciprocity in China’s thinking about Georgia’s place in Eurasia, including its potential as a hub for transit and trade and as a partner in wider ambitions (under the One Belt, One Road rubric) for promoting connectivity across the Eurasian continent. In December 2013, the Chinese ambassador to Georgia, Yue Bin, and Georgian finance minister Nodar Khaduri signed an Agreement on Economic and Technical Cooperation⁶⁸ to facilitate mutual economic support between the two countries.

61. Kucera, “Georgia, Azerbaijan, Turkey Agree on Joint Military Exercises.”

62. Menabde, “Georgia and Armenia Try to Maintain Friendship Across Geopolitical Barriers.”

63. International Crisis Group, “Georgia: The Javakheti Region’s Integration Challenges.”

64. Georgian Ministry of Regional Development and Infrastructure, *Social-economic Development Strategy of Georgia: “Georgia 2020”* (Tbilisi: Ministry of Regional Development and Infrastructure, November 2013), 31, <http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-sd-01.pdf>.

65. DFWatch staff, “Georgia wants to be a springboard for Chinese trade with Europe,” *Democracy and Freedom Watch*, March 23, 2015, <http://dfwatch.net/georgia-wants-to-be-a-springboard-for-chinese-trade-with-europe-34575>.

66. Ibid.

67. “Chinese Ambassador speaks on Georgian wine export,” *Hvino News*, May 23, 2012, <http://news.hvino.com/2012/05/chinese-ambassador-speaks-on-georgian.html>.

68. PRC Ministry of Foreign Affairs, “Ambassador to Georgia Yue Bin and Georgian Minister of Finance Nodar Khaduri Sign the Agreement on Economic and Technical Cooperation Between Chinese and Georgian Governments,” December 16, 2013, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/zwbd_665378/t1110321.shtml.

In March 2015, China proposed a \$5 billion investment in the port town of Anaklia, which Tbilisi plans to turn into a major port handling 100 million tons of cargo annually.⁶⁹

Since Georgia's independence, Chinese economic penetration has increased steadily. Chinese FDI into Georgia was nearly \$218 million in 2014, a more than twofold increase over the previous year.⁷⁰ Chinese involvement in large construction projects have led to a dramatic increase in the presence of Chinese companies in Georgia. Since 2010, Chinese construction companies have been actively working in Tbilisi after obtaining four large multimillion-dollar construction contracts: the Adjara Bypass Road project (48 million EUR);⁷¹ the Rikoti Tunnel in western Georgia, which is the first public infrastructural project given to a Chinese company through bidding practices (19.8 million EUR);⁷² the Tbilisi Bypass Railway (277.3 million EUR);⁷³ and the Khadori Hydro-electric power plant (\$34 million).⁷⁴

While China's economic footprint in Georgia has grown in recent years, the impact has been considerably less than in much of the rest of the former Soviet Union, particularly Central Asia (which has seen China emerge as the principal trade and investment partner). In 2014, China-Georgia trade was only \$823 million, well behind other critical partners such as Turkey, many European states, and Azerbaijan, though the overall trade relationship has grown since 2005 at an annualized rate (32 percent) that is the highest among the three states of the South Caucasus.

Ordinary Georgians nonetheless remain wary of growing Chinese investment and the demographic changes that it might bring. According to a representative survey conducted by the Caucasus Research Resource Center, while 57 percent of Georgian respondents said they were in favor of closer ties with the Chinese, 80 percent voiced disapproval at the notion of intermarriage between Chinese and Georgian nationals.⁷⁵ Public attitudes of this kind are alone not likely to act as a substantial brake on investment, though they could lead to public discontent, as has happened in some of the countries across Eurasia where China's economic footprint has grown rapidly, if the local population does not appear to benefit.

IRAN

While the Islamic Republic of Iran and Georgia, given their very differing approaches to the United States and Euro-Atlantic institutions more broadly, may appear odd bedfellows, powerful

69. Sofia Pale, "On perspective partnerships between Georgia and China in 2015," *New Eastern Outlook*, April 12, 2015, <http://journal-neo.org/2015/04/12/rus-o-perspektivah-partnerstva-gruzii-i-kitaya-v-2015-godu/>.

70. National Statistics Office of Georgia, "Foreign Direct Investments," http://www.geostat.ge/index.php?action=page&p_id=140&lang=eng.

71. Jiayi Zhou, *Chinese in Georgia*, ECMI Working Paper 54 (Flensburg, Germany: European Centre for Minority Issues, January 2012), 6, http://www.ecmi.de/uploads/tx_lfpubdb/Working_Paper_54_en_corrected.pdf.

72. Ibid.

73. Ibid., 3.

74. Ibid.

75. Molly Corso, "Georgia: Chinese Investment Tests Limits of Georgian Hospitality," *EurasiaNet.org*, April 1, 2013, <http://www.eurasianet.org/node/66764>.

geopolitical forces have brought the two countries closer together in recent years. Following the 2008 conflict with Russia, in which Iran offered to act as a go-between, Georgia accelerated its expansion of existing regional partnerships and the development of new ones to bolster both its economic position and overall security. Iran, which has long looked warily at Georgia's desire to integrate with NATO—reportedly worrying that Georgia could be used as a staging ground for a U.S. assault on Iran⁷⁶—refused to recognize the independence of Abkhazia and South Ossetia, though Tehran did send a delegation to Abkhazia in 2009.

Iran and Georgia then signed a bilateral agreement in 2010 that allowed for visa-free travel for Iranian citizens.⁷⁷ Since that time, commercial ties have flourished, with Iranian imports to Georgia increasing by 1,590 percent to \$99.4 million soon after.⁷⁸ Between 2005 and 2013, bilateral trade with Iran has grown at more than 20 percent each year, making it Georgia's third-fastest-growing bilateral partnership, though the overall value of trade is still comparatively low (\$177 million or just 1.6 percent of Georgia's total trade). Likewise, from 2010 to 2012, the number of registered Iranian businesses in Georgia increased from 84 to 1,489.⁷⁹ Direct flights between the two countries have also resumed, and Iran opened a consulate in the seaside resort of Batumi, popular with Iranian tourists.⁸⁰

The growth of economic ties has raised concerns in some Western capitals, which have worried that Iran was using Georgia as an outlet through which to bypass sanctions while using economic ties to establish political influence in Georgia. Iran's Islamic Revolutionary Guard Corps alone was reported to own 150 front organizations in Georgia.⁸¹ As a result, the United States has ramped up pressure on Georgia to clamp down on Iranian business activity, resulting in the cancellation of the visa-free travel regime in 2013.

Tbilisi enthusiastically supported the 2015 accord between Tehran and the P5+1 (the UN Security Council's permanent five members, plus Germany) over Iran's nuclear program, which laid the groundwork for the removal of international sanctions on Iran. Georgia's parliamentary speaker noted that "Iran may turn into a stabilizing factor in the Middle East. Georgia has a chance to play an important role in relations between Iran and the West."⁸² More broadly, the reintegration of Iran into the global economy offers Georgia and its neighbors a potentially attractive outlet for their trade.

76. Kornely K. Kakachia, "Iran and Georgia: Genuine Partnership or Marriage of Convenience?," PONARS Eurasia Policy Memo No. 186, George Washington University, September 2011, http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm_186.pdf.

77. "Georgia, Geopolitics, and Iran," *The Economist*, November 8, 2010, http://www.economist.com/blogs/easternapproaches/2010/11/georgia_geopolitics_and_iran.

78. Molly Corso, "Georgia: Is Tehran Trying to Use Tbilisi to Evade Sanctions?," EurasiaNet.org, July 15, 2013, <http://www.eurasianet.org/node/67253>.

79. Ibid.

80. "Georgia, Geopolitics, and Iran."

81. Benoit Faucon, Jay Solomon, and Farnaz Fassihi, "As Sanctions Bite, Iranians Invest Big in Georgia," *Wall Street Journal*, June 20, 2013, <http://www.wsj.com/articles/SB10001424127887323864304578320754133982778>.

82. "Tbilisi Welcomes Iran Nuclear Deal," *Civil Georgia*, July 15, 2015, <http://www.civil.ge/eng/article.php?id=28436>.

Georgia in a Reconnecting Eurasia

A principal goal of Georgia's economic development strategy is to take maximum advantage of its potential as a corridor for transit and trade between Europe and Asia—or, put more simply by one high-level Georgian official, “we want to be a hub.” The Georgian government's *Georgia 2020* socioeconomic development strategy notes that Georgia's unique geographical location puts it in close proximity to multiple international markets, making it well suited to interstate trade and movement of cargo and other resources, principally hydrocarbons.¹ By virtue of its advantageous position between the Black and Caspian Seas, Georgia, as one foreign diplomat noted, is poised to become the “western terminus” of a new Silk Road.

Georgia has in recent years experienced an overall expansion in trade and investment ties both in its immediate neighborhood and across Eurasia as a whole. Since 2005, Georgia has seen an annualized rate of bilateral trade growth above 10 percent with nearly all of its major trading partners, including the European Union, Armenia and Azerbaijan, Turkey, and Iran, with China the fastest-growing of them all at 32 percent (though overall trade with China remains relatively low). Overall trade with the world has nearly tripled over the same period. It should be noted that, unlike some of the other states in the former Soviet Union (principally in Central Asia), Georgia has not yet seen any major shift in the overall composition of its global trade portfolio over time due to the emergence of China as a new major trading partner.

One principal exception is Georgia's relationship with Russia, which has experienced anemic growth (4.2 percent) in the years since the 2008 conflict. Trade volumes have nevertheless crept up after bottoming out in 2009, in line with Georgia's policy of disaggregating economic issues from the more fraught political and security-related questions that plague relations with Russia. Between 2012 and 2013, Georgia-Russia bilateral trade grew by 50 percent, and Georgian government statistics indicate that Georgian exports to Russia were higher in 2014 (\$274.9 million)² than

1. Georgian Ministry of Regional Development and Infrastructure, *Social-economic Development Strategy of Georgia*, 31.

2. “Georgia's 2014 Foreign Trade,” *Civil Georgia*, January 21, 2015, <http://www.civil.ge/eng/article.php?id=27984>.

Table 3.1. Annualized Growth in Georgia's Global Trade Ties, 2005–2013
(million USD)

Partner Country/ Group	Growth Rate	Value (2005)	Value (2013)
World	13.90%	3,342	10,780
European Union	12.38%	1,006	2,876
South Caucasus	18.65%	396	1,846
Turkey	15.91%	405	1,529
Russian Federation	4.20%	538	780
China	32.06%	54	655
United States	9.34%	175	391
Central Asia	3.66%	201	278
Iran	21.46%	31	177
South Asia	23.82%	12	79

Source: IMF DOTS (Direction of Trade Statistics database).

at any other time since independence.³ Trade with the European Union has also grown substantially since the signing of a Deep and Comprehensive Free Trade Agreement in mid-2014. In the first eight months of 2015, EU-Georgia trade turnover was just under \$2 billion, or 31 percent of Georgia's total trade.⁴

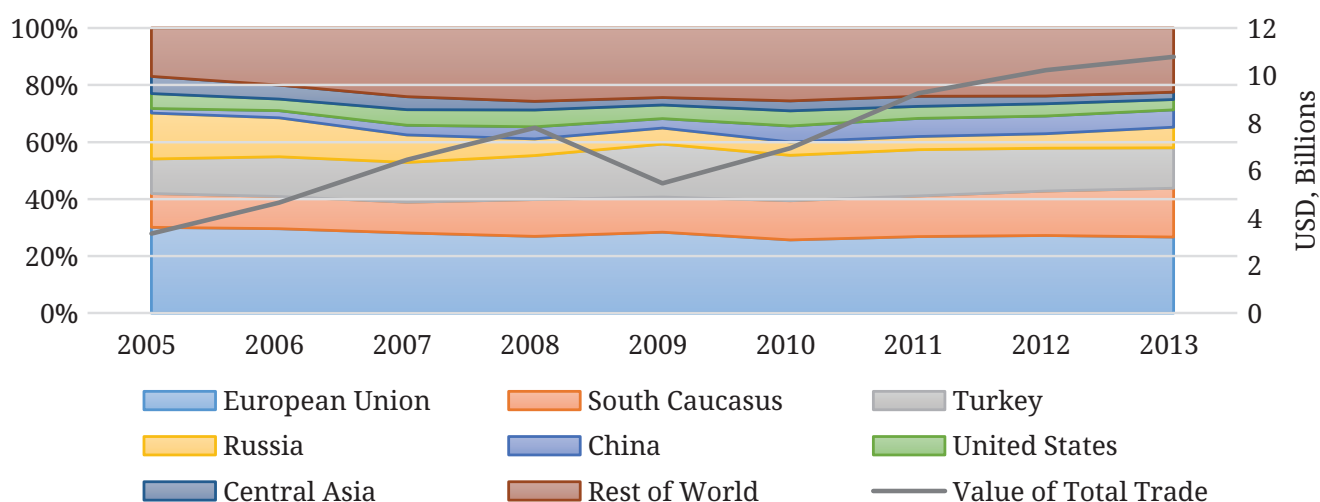
The stable composition in Georgia's overall trade portfolio is also reflected in its foreign direct investment, though growth in FDI has been limited in large part due to the 2008 conflict and its aftermath. The *Georgia 2020* development strategy lists attraction of FDI to export-oriented enterprises as a principal goal.⁵ The government has accordingly sought to create a liberal

3. Kapanadze, "Georgia's Vulnerability to Russian Pressure Points."

4. Malkhaz Narindoshvili, "The Myths of Free Trade Deal with the EU Yielding Zero Results and Georgian Economy Having No Prospect for Success without Further Integration with Russia Are Groundless," *Euro Communicator*, October 9, 2015, http://eurocommunicator.ge/eng/view_myth/133.

5. Georgian Ministry of Regional Development and Infrastructure, *Social-economic Development Strategy of Georgia*, 59.

Figure 3.1. Breakdown of Georgia's Global Trade Portfolio, 2005–2013



Source: IMF DOTS.

investment climate that extends equal treatment to local and foreign investors alike.⁶ However, officials in Tbilisi indicated to us that Georgia continues struggling to attract investment. One official stated that Georgia has likely reached a plateau in terms of the volume of FDI it can attract, while another indicated that security concerns have scared off investors.

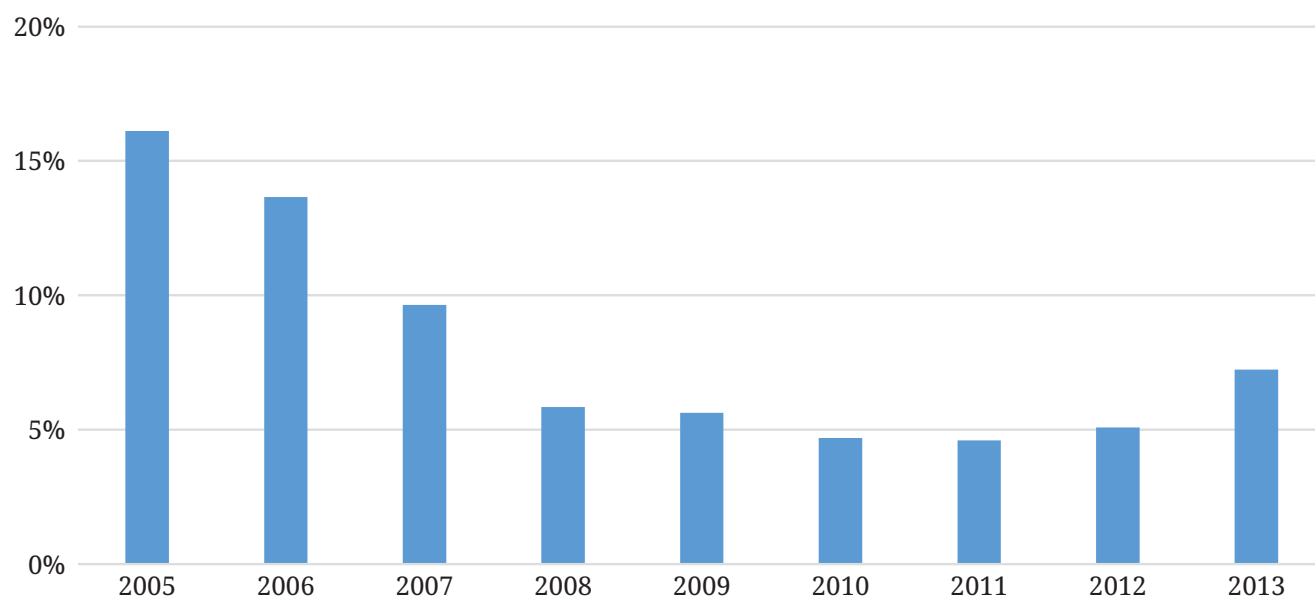
According to the United Nations Conference on Trade and Development (UNCTAD), Georgia's total FDI stock amounted to approximately \$11 billion in 2013, demonstrating an annualized growth rate of 14.11 percent since 2005. The World Bank, meanwhile, identifies 5.9 percent of Georgia's gross domestic product (GDP) in 2013 as coming from inward FDI, down from 7.5 percent in 2010. Georgia has, in particular, placed an emphasis on attracting FDI for transportation-related infrastructure projects that advance its goal of becoming a Eurasian transit hub. For example, in 2014 more than a quarter of all FDI went toward Georgia's transport and communications sector, while another 23 percent went to the construction sector.

INFRASTRUCTURE AND CONNECTIVITY

In pursuit of its goal of becoming a hub for trade between East and West, Georgia has emphasized the development of transit infrastructure and its involvement in initiatives aimed at the integration of regional transport and energy infrastructure. Georgia, of course, also plays a vital role in the westward movement of Caspian hydrocarbons by virtue of the pipelines that cross its territory, connecting the region's largest energy suppliers on the Caspian with the markets of Turkey and the European Union. With assistance from the World Bank and other sources, including the

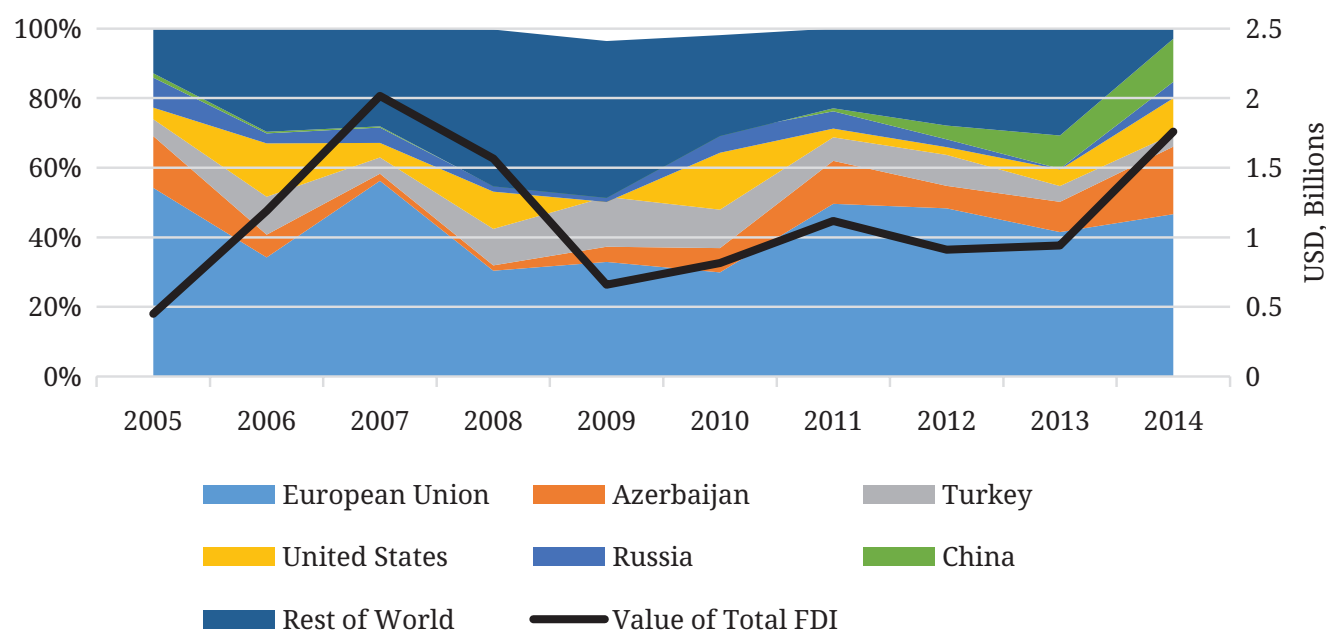
6. Georgian Ministry of Economy and Sustainable Development, "Foreign Direct Investments," May 2015, http://www.economy.ge/uploads/ek_mimokhilva/fdi_investiciebi/FDI__2015.05_eng.pdf.

Figure 3.2. Russia's Share of Georgia's Bilateral Trade, 2005–2013



Source: IMF DOTS.

Figure 3.3. Breakdown of Georgia's FDI Portfolio, 2005–2014



Source: GeoStat.

Figure 3.4. Estimated FDI in Georgia by Major Economic Sectors, 2014

■ Transport/Communications

■ Construction

■ Manufacturing

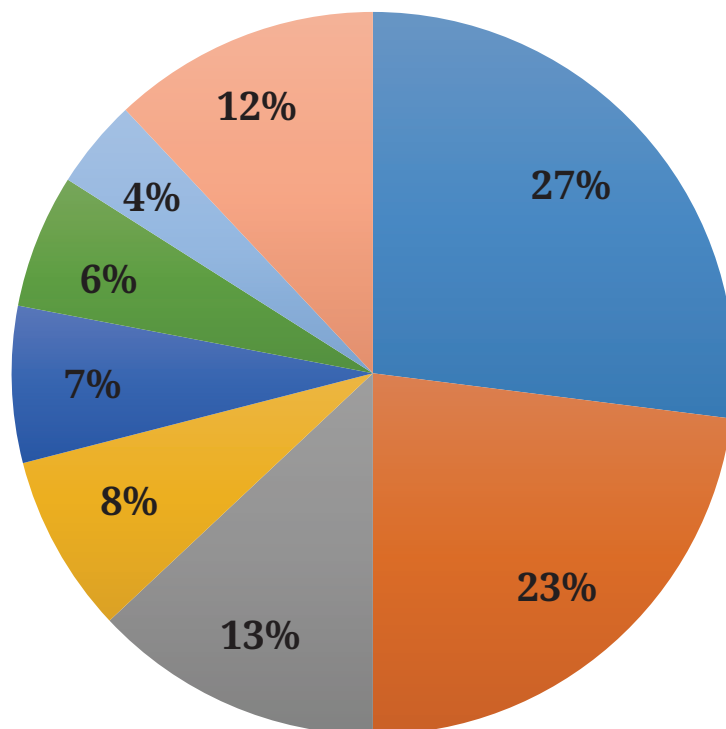
■ Energy Sector

■ Real Estate

■ Financial Sector

■ Mining

■ Other Sectors



Source: GeoStat.

European Union and the United States, Georgia has moved to capitalize on its geographic advantages to carry out extensive construction and modernization of roads, ports, pipelines, and various other transit facilities. As a partner country of the EU Baku Initiative, Georgia actively participates in both the Interstate Oil and Gas Transportation to Europe (INOGATE) scheme and Transport Corridor Europe-Caucasus-Asia (TRACECA), two programs that seek to enhance security and development by promoting transnational commerce between East and West. In this sense, Tbilisi seeks also to strengthen its political and economic ties to the European Union by positioning itself as an eastern gateway for goods and traffic traveling to and from Europe.

Tbilisi has thus far prioritized improvements to the connectivity of its east-west corridors at the expense of north-south routes (e.g., the Georgian Military Road) as a result of ongoing tensions and the lack of economic potential that characterize Tbilisi's relationship with Moscow. At the same time, however, some officials feel that the current emphasis on projects like the East-West Highway has shortchanged many of Georgia's more isolated and underdeveloped communities.

Tbilisi also aims to enhance its domestic energy capacity by taking advantage of its hydropower potential. According to one Georgian official we spoke with, the country's energy strategy aims to double hydroelectric output within 10 years, which would allow it to increase exports to Turkey's large electricity market. Even so, another of our interlocutors noted that increased hydroelectric

development could damage other lucrative sectors, such as ecological tourism, as a result of weak standards and the potential for environmental damage.

ENERGY AND PIPELINES

It is arguably in the sphere of energy that Georgia has most effectively capitalized on the natural advantages conferred by its geographic position. Georgia has few domestic hydrocarbon resources, and while Georgia's official *Georgia 2020* socioeconomic development strategy emphasizes maximizing domestic generation, the thrust of Georgian policy has been to position itself as a reliable transit corridor for Caspian oil and natural gas.⁷ Georgian officials see in this strategy both immense economic potential and even greater security benefits, as Tbilisi seeks to ensure the states purchasing oil and gas from pipelines across its territory retain a stake in Georgia's security and territorial integrity.

Four main pipelines—two carrying natural gas and two carrying oil—transit Georgia. In the oil sector, the BTC pipeline, which now transports a million barrels per day of Azerbaijani crude to Western consumers through Turkey's Mediterranean port at Ceyhan, brings Georgia almost \$50 million in transit revenue annually.⁸ The Baku-Supsa pipeline (also called the Western Route Export Pipeline, or WREP), in operation since 1999, transports Azerbaijani oil 830 kilometers (375 kilometers through Georgia) to the Supsa terminal in western Georgia, from where it is shipped across the Black Sea to Europe. WREP carried 30 million barrels of oil in 2013, resulting in 50 tanker loadings at the Supsa terminal.⁹

On the gas side, since 2006 the South Caucasus pipeline (Baku-Tbilisi-Erzurum) has carried natural gas approximately 690 kilometers (249 kilometers across Georgia) delivering more 5.1 billion cubic meters (bcm) of gas. While most of Georgia's pipelines run east to west, another smaller line (235 kilometers) runs north to south, carrying Russian gas from the Georgian-Russian border to the Georgian-Armenian border;¹⁰ Georgia itself receives a 10 percent share of this gas as part of the transit-sharing agreement.¹¹

7. Ariela Shapiro, "The Challenges to Georgia's Energy Sector," *Central Asia–Caucasus Analyst*, May 27, 2015, <http://www.cacianalyst.org/publications/analytical-articles/item/13215-the-challenges-to-georgias-energy-sector.html>.

8. International Finance Corporation, "Principal Economic Benefits," [http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/0/e0bf99bac8cdd8e5852576c10080cbda/\\$FILE/attachment%20--%20Principal%20Economic%20Benefits.pdf](http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/0/e0bf99bac8cdd8e5852576c10080cbda/$FILE/attachment%20--%20Principal%20Economic%20Benefits.pdf).

9. BP, *BP in Georgia: Sustainability Report 2013* (Tbilisi: BP Georgia, 2013), http://www.bp.com/content/dam/bp/pdf/sustainability/group-reports/BP_Georgia_sustainability_review_2013.pdf.

10. Jenik Radon, ed., *Expanding the Extractive Industries Transparency Initiative (EITI) Agenda to Transportation of Hydrocarbon Resources: A joint proposal by non-governmental organizations from Kazakhstan, Azerbaijan, Georgia, and Ukraine* (New York: Revenue Watch Institute/Open Society Georgia Foundation, January 2009), 36, <http://eiti.org/files/A%20joint%20proposal%20by%20NGOs%20from%20Kazakhstan%20Azerbaijan,%20Georgia%20and%20Ukraine.pdf>.

11. "Russian gas supplies resumed to Armenia via Georgia," Interfax-Ukraine, February 13, 2015, <http://en.interfax.com.ua/news/economic/250413.html>.

Georgia's role in energy transit looks set to expand thanks to its participation in the European Union's Southern Gas Corridor,¹² designed to deliver Caspian energy to Europe without going through Russia. In the coming years, the bulk of this gas will go through the Trans-Anatolian Pipeline (TANAP) across Turkey, and into the Trans-Adriatic Pipeline (TAP) across Greece and the Adriatic Sea to Italy. Georgia's South Caucasus Pipeline Expansion Project will connect Georgia's existing pipeline with TANAP at the Georgia/Turkey border, adding 7 bcm per year to TANAP's original 16 bcm capacity.¹³ Georgia is also participating in the so-called AGRI (Azerbaijan-Georgia-Romania Interconnector) project to transport Azerbaijani natural gas to Romania. During the second half of 2015, Georgian officials met on several occasions with executives from Gazprom to discuss expanding purchases of Russian gas beyond the 10 percent offtake on Russian gas transiting to Armenia. These talks came amid decreased Azerbaijani production, though some analysts worried that they also augured a possible drift back toward Moscow at a time of growing public frustration with the West.

Georgia itself possesses little in the way of oil and natural gas reserves (around 35 million barrels of oil and 8.49 bcm of gas).¹⁴ The Georgian Oil and Natural Gas Corporation estimates that Georgia's oil production averaged around 517 thousand barrels a year, while gas production averaged just 16.5 million cubic meters a year.¹⁵ One official told us that what little oil and natural gas Georgia does produce tends only to come in very small batches from near-depleted fields that produce low-quality product. In the absence of reliable domestic supplies Georgia relies on imports of oil and natural gas from its neighbors, but also earns transit fees from hosting pipeline infrastructure on its territory.

Elsewhere in the energy sector, Georgia hopes to modernize its Soviet-era power grid and increase exports of electricity to the wider region. Georgia's potential electricity generation capacity is significant, particularly in hydropower. During the Soviet period, Georgia's power network was integrated with the other republics of the South Caucasus, allowing Georgia to import power from neighboring republics during the winter when it faced deficits and export surplus power to them in the spring and summer.¹⁶ With the collapse of the USSR, this regional cooperation also broke down, leading to much higher prices and sporadic blackouts, with some during the winter that lasted for months at a time.¹⁷ Since the 2003 Rose Revolution, however, the Georgian government has begun systematically modernizing the energy sector in partnership with the International

12. The first stage of Southern Corridor included the Baku-Tbilisi-Ceyhan oil pipeline and the South Caucasus gas pipeline.

13. BP, *BP in Georgia: Sustainability Report 2013*.

14. John Roberts, "Georgia's oil prospects: déjà vu all over again," *The Barrel (Platts)*, March 28, 2013, <http://blogs.platts.com/2013/03/28/georgia-upstream/>. For oil, see Central Intelligence Agency (CIA), *The World Factbook*, "Country Comparison—Crude Oil—Proved Reserves," <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2244rank.html>. For gas, see U.S. Energy Information Administration (EIA), "International Energy Statistics: Natural Gas," <http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=3&pid=3&aid=6>.

15. Georgian Oil and Natural Gas Corporation, "Gas Production," 2013, <http://www.gogc.ge/en/Gas-Production>.

16. Elena Gvilava and Liana Garibashvili, *Country Report: Georgia* (Vienna: Ener2i, November 2014), 7, https://ener2i.eu/page/34/attach/0_Georgia_Country_Report.pdf.

17. Ibid.

Development Association, the European Bank for Reconstruction and Development, and Germany's state-owned development bank KfW. New metering, systems control, and management techniques have nearly ended Georgia's susceptibility to blackouts.¹⁸

Hydropower has played a central role in this process. In 2012, Georgia's nearly 8,000 hydroelectric plants accounted for 93 percent of the country's electricity supply.¹⁹ The most important of these plants is at Enguri, situated between northwestern Georgia and Abkhazia, which produces more than 40 percent of the country's electricity.²⁰ Tbilisi hopes to completely phase out thermal power plants in the near future, making electricity supply 100 percent reliant on hydropower. The Georgian government believes that it can double electricity output from hydropower sources in the next 10 years, given that only one-quarter of the country's 40 billion kilowatt-hours (kWh) of hydropower potential has yet been realized. Growth in domestic electricity production will also serve to reduce its vulnerability to seasonal fluctuations, which continue because Georgia is still reliant on Russia for electricity imports during the winter months, when rivers and streams begin to freeze.

The World Bank has pumped \$60 million into the "Transmission Grid Strengthening Project for Georgia," directed at updating the power grid in the southwestern region of Adjara. The Black Sea Transmission Line (BSTL), a major infrastructure project that will allow Georgia to more easily export hydroelectricity to Turkey, has received funding from the EBRD, Germany's KfW, the European Investment Bank (EIB), as well as the Georgian government.²¹ New hydropower stations are also receiving funding to feed the BSTL. The Paravani and Darawali plants, with capacities of 87 and 108 megawatts (MW), respectively, have received a total injection of \$129 million from the EBRD.²² The BSTL plays an important role in reshaping Georgia's power grid from one designed for interconnectivity between Soviet republics to one more fitting of an energy-independent state capable of exporting electricity to all of its neighbors, including states such as Turkey that were not formerly Soviet republics.²³

Already, Georgia is a net exporter of electricity and hopes to increase exports in the coming years. One official told us, however, that approximately 70 percent of Georgia's hydropower projects will be export-oriented, with the unregulated Turkish market a key target. Georgian electricity exports to Russia, Armenia, Azerbaijan, and Turkey have fluctuated at times over the past decade and lately

18. Ibid., 8. See also "Electricity Market Support Project," World Bank, March 31, 2010, <http://www.worldbank.org/projects/P054886/electricity-market-support-project?lang=en>.

19. Liza Tavdumadze, "Georgian Hydropower Turns River Flow into Cash Flow," *Hydro Review Worldwide* 21, no. 1 (February 1, 2013), <http://www.hydroworld.com/articles/print/volume-21/issue-01/articles/russia---central-asia/georgian-hydropower-turns-river.html>.

20. "EBRD Helps Restore Georgia's Enguri Dam," European Bank for Reconstruction and Development (EBRD), July 8, 2013, <http://www.ebrd.com/news/2013/ebrd-helps-restore-georgias-enguri-dam.html>.

21. Svitlana Pyrkalo, "Black Sea Transmission Line Redraws Europe's Energy Map," EBRD, March 19, 2015, <http://www.ebrd.com/news/2015/black-sea-transmission-line-redraws-europes-energy-map.html>.

22. Ibid.

23. Siemens, "Georgia Now Exporting Green Energy to Turkey," December 13, 2013, <http://www.siemens.com/press/en/feature/2013/energy/2013-12-blacksea.php>.

have fallen off from their peak in 2010.²⁴ But efforts to enhance the country's electricity interconnectivity with Turkey in particular have had an impact. In May 2015, net exports to Georgia's southwestern neighbor were already more than half of what they were in all of 2014 (over 158 million kWh, compared to roughly 236 million kWh in 2014), a figure all the more significant for having been achieved primarily during the winter months.

LAND, SEA, AND AIR TRANSIT

Georgia seeks to emerge as a geographical pivot²⁵ between Europe and Asia through its participation in several various "Silk Road" initiatives. It participates in intergovernmental transport-oriented schemes like TRACECA and the Central Asia Regional Economic Cooperation (CAREC) program. Tbilisi also coordinates its domestic infrastructure policy with its regional and international ambitions.

In keeping with its goal of facilitating Georgia's integration into regional and international transport networks, Georgia has worked to develop its domestic and interstate transportation capacity.²⁶ External assessments stress the inadequacy of Georgia's inter- and multimodal connections.²⁷ In conjunction with comparatively high logistical and operational costs,²⁸ these factors have limited Georgia's access to regional and international markets.²⁹ With these deficiencies in mind, Georgia's development strategy attaches special importance to the development of sophisticated transport infrastructure, which Tbilisi views, in the words of the *Georgia 2020* development strategy, as a "very necessary precondition" for attaining economic competitiveness.³⁰

Georgia continues upgrading the transportation network it inherited from the Soviet Union. Although upgrades were initially disrupted by civil war and economic mismanagement in the years immediately following independence, Tbilisi has in the last decade managed to attract significant financial support from abroad for modernization projects across the country. Between 2007 and 2011 alone, Georgia received more than \$2 billion in funding for transportation-related

24. Electricity System Commercial Operator (ESCO), "Electricity Import/Export Statistics, 2010–2016," http://esco.ge/index.php?article_id=43&clang=1.

25. Stephen Jones, *Georgia: A Political History Since Independence* (London: I. B. Tauris, 2013), 246.

26. Georgian Ministry of Economy and Sustainable Development, "Economic Review: Transport, 2011," <http://www.economy.ge/en/economic-review>.

27. Asian Development Bank (ADB), *Georgia Transport Sector Assessment, Strategy, and Road Map* (Manila: ADB, 2014), 2, <http://www.adb.org/sites/default/files/institutional-document/34108/files/georgia-transport-assessment-strategy-road-map.pdf>.

28. David L. Phillips, *Stability, Security, and Sovereignty in the Republic of Georgia* (New York: Council on Foreign Relations, January 2004), 11, <http://www.cfr.org/georgia/stability-security-sovereignty-republic-georgia/p6656>.

29. ADB, *Country Partnership Strategy: Georgia, 2014–2018* (Manila: ADB, December 2014), 1, <http://www.adb.org/sites/default/files/institutional-document/153660/cps-geo-2014-2018.pdf>.

30. Georgian Ministry of Regional Development and Infrastructure, *Social-economic Development Strategy of Georgia*, 31–32.

refurbishments.³¹ In 2009, the Asian Development Bank (ADB) approved the Road Corridor Investment Program, a \$500 million program aimed at traffic decongestion, road safety, and the promotion of regional trade flows. In 2010, the ADB approved \$300 million for the Sustainable Urban Transport Investment Program to improve the efficiency, reliability, and affordability of urban transport infrastructure and services.³² The BTK railroad, which would further strengthen the trilateral Azerbaijani-Georgian-Turkish axis and expand opportunities for transit between the Caspian Sea and Europe, has been another priority, although both Ankara and Baku have criticized the Georgians for lagging behind on construction of their segment.

From 2005 to 2011, total freight movement across Georgia expanded by an average of 3.5 percent per year. Cross-border truck traffic, meanwhile, increased at an annual rate of 15 percent during that same period. Since 2005, various reforms have resulted in the complete or partial privatization of aviation, maritime, freight and intercity passenger, and pipeline services. Railways, by contrast, still operate under state auspices, though they are allowed to raise capital in private markets; only the national road network remains fully in the public sector.³³

Georgia's road and rail networks constitute the main thoroughfare for interstate freight cargo. At present, the total length of the Georgian road network is 20,229 kilometers, some 1,474 kilometers of which are international routes.³⁴ The centerpiece of this system, the East-West Highway (EWH), comprises approximately 476 kilometers of single- and multilane roadway from Sarpi on the Turkish border to Tsiteli Khidi (Red Bridge) on the Azerbaijani border. Almost 60 percent of the international trade that passes through Georgia travels along the EWH,³⁵ which is consequently a major magnet for FDI; the World Bank has committed \$265 million to EWH capacity-building through 2018 (in addition to \$75 million for secondary and local roads), while the European Investment Bank has committed €200 million (\$225.97 million) through 2017.³⁶ Public investments, meanwhile, are focused especially on the amelioration of bottlenecks and implementation of advanced measures aimed at traffic management.³⁷

31. Gohar Badalyan, Thomas Herzfel, and Miroslava Rajcaniova, "Transport infrastructure and economic growth: Panel data approach for Armenia, Georgia, and Turkey" (paper presented at 142nd Seminar of the European Association of Agricultural Economists, Budapest, May 29–30, 2014), 4, http://ageconsearch.umn.edu/bitstream/168922/2/paper_Badalyan_Herzfeld_Rajcaniova.pdf.

32. Ibid.

33. ADB, *Georgia Transport Sector Assessment, Strategy, and Road Map*, 2.

34. Organization for Economic Co-operation and Development (OECD) International Transport Forum, "Assessment of strategic plans and policy measures on investment and maintenance in transport infrastructure: Georgia," 2013, 4, <http://www.internationaltransportforum.org/statistics/investment/Country-responses/Georgia.pdf>.

35. ADB, *Country Partnership Strategy: Georgia, 2014–2018*, "Sector Assessment (Summary): Transport," 1, <http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-ssa-01.pdf>.

36. European Investment Bank, "Georgia East-West Highway," 2010, <http://www.eib.org/projects/loans/2010/20100571.htm>.

37. ADB, *Georgia Transport Sector Assessment, Strategy, and Road Map*, 23.

Conclusion

Georgia's experience of Russian invasion and occupation has only hardened its resolve to achieve integration into the Euro-Atlantic community. Through an unwavering commitment to engagement with NATO and the European Union, Georgia has deepened its identification with Europe and the West while seeking to avoid further escalation of conflict with Russia and pushing for the eventual recovery of Abkhazia and South Ossetia. The Russian annexation of Crimea and ongoing invasion of Ukraine have altered the geopolitical environment around Georgia, while vindicating Tbilisi's long-standing portrayal of Russia as a revisionist power seeking to reassert its hegemony in the post-Soviet region.

If the response of U.S. and European leaders to date is any indication, the rapid deterioration of relations between Russia and the West portends a period of prolonged tension in which continued apprehension about further antagonizing Moscow may act as a further brake on Georgia's NATO ambitions. Regardless of whether it receives a path to NATO membership, Georgia remains adamant that the West—especially the United States—do more to ensure its security in the face of continued Russian threats, while arguing that NATO membership will establish a precedent for strengthening democracy and pursuing Western integration even in the face of significant external pressure. Though the critical decisions will be made in Washington and Brussels, Tbilisi can strengthen its case by accelerating domestic reforms and demonstrating its continued commitment to Western norms and values at a time when several of its neighbors are backtracking in this regard.

Tbilisi, meanwhile, has to navigate relations with an even more belligerent Moscow that remains implacably opposed to its Euro-Atlantic orientation. Though Tbilisi has pursued de-escalation with Moscow and sought to focus on pragmatic issues like trade and tourism, questions remain about its ability to continue decoupling economic and political engagement. Broad international outrage at the annexation of Crimea have reinforced Georgia's case for bringing international pressure to bear on Moscow for its continued occupation of Abkhazia and South Ossetia, while at the same time moving Georgia further down the international community's list of priorities.

In this environment of increased threats, Georgia's ability to manage its regional security ties will be of paramount importance. Russia aside, Georgia faces serious challenges related to instability in the South Caucasus, with spillover from a possible conflict between Armenia and Azerbaijan over Nagorno-Karabakh a key concern. Through its deepening of ties with Azerbaijan and Turkey, coupled with the maintenance of friendly ties with Armenia, Georgia is positioning itself as an important regional interlocutor. Its ability to balance and hold together these relationships while maintaining its commitments to cooperation with the United States, NATO, and the European Union, not to mention managing growing Iranian and Chinese influence, will be a challenge. Nonetheless, Georgia is sophisticated enough to understand that at a time of Russian aggression elsewhere in the former Soviet Union, the preservation and cultivation of regional security partnerships is crucial.

Georgia's efforts to position itself as a hub for the transit of goods and energy resources between Europe and Asia have been largely successful, and officials in Tbilisi remain optimistic about the prospects for the future, assuming the regional security environment does not deteriorate. With the support of its regional partners Azerbaijan and Turkey, along with the European Union and the United States, Georgia has become a key transit state for Caspian oil and gas supplies to reach Turkish and Western markets. Projects such as the TANAP and TAP pipelines to expand these routes to Europe are in development and would allow Georgia to build on this success. To fully realize its potential as a transit hub, Tbilisi needs to continue to promote cooperation developing trade and transit infrastructure while further improving its investment climate.

Georgia's pursuit of security through greater integration with European and transatlantic institutions, coupled with the promotion of international trade and transit corridors, is analogous to the concerns and aspiration of many former Soviet states. Yet in a group characterized by attempts to balance the great powers that surround them, Georgia stands out for its singular commitment to a Euro-Atlantic orientation, even in the face of direct military pressure from Moscow. Georgia's Western vocation predates Russia's seizure of Abkhazia and South Ossetia, but rather than coercing Tbilisi into accepting a Russian protectorate, the 2008 war and its aftermath galvanized Tbilisi even further.

Georgia's challenge going forward is to regain momentum for carrying out political, legal, and economic reforms that are critical to both Georgia's own development and its Euro-Atlantic aspirations. Georgia's embrace of expanded ties with many of its neighbors and a vision of the South Caucasus—with Georgia at its center—as a hub for transit and trade across Eurasia are also key to Tbilisi's ability to maintain its sovereignty and security. One Georgian official we spoke with in Tbilisi described the country as “the forerunner for the rest of the former Soviet Union, for problems as well as solutions.” The problems facing Georgia are, in many ways, immense; but so too are the opportunities. Tbilisi needs to build on existing successes and manufacture new solutions to these problems in the face of strengthening geopolitical headwinds over which Georgia itself exerts little control.

About the Authors

Andrew C. Kuchins is a senior associate of the CSIS Russia and Eurasia Program. He is an internationally known expert on Russian foreign and domestic policies who publishes widely and is frequently called on by business, government, media, and academic leaders for comment and consulting on Russian and Eurasian affairs. His more recent scholarship has been devoted to issues including U.S.-Russia relations and the “reset,” Russia’s Asia strategy, and the role of energy in the Russian Far East. From 2000 to 2006, Kuchins was a senior associate at the Carnegie Endowment for International Peace, where he previously served as director of its Russian and Eurasian Program in Washington, DC, from 2000 to 2003 and again in 2006. He was director of the Carnegie Moscow Center in Russia from 2003 to 2005. He has also held senior management and research positions at the John D. and Catherine T. MacArthur Foundation, Stanford University, and the University of California at Berkeley. Kuchins currently teaches at Johns Hopkins School of Advanced International Studies (SAIS) and has also taught at Georgetown and Stanford Universities. He holds a BA degree from Amherst College and an MA degree and PhD from Johns Hopkins SAIS.

Jeffrey Mankoff is deputy director and senior fellow with the CSIS Russia and Eurasia Program. He is the author of *Russian Foreign Policy: The Return of Great Power Politics* (Rowman and Littlefield, 2009) and a frequent commentator on international security, Russian foreign policy, regional security in the Caucasus and Central Asia, ethnic conflict, and energy security. Before coming to CSIS, he served as an adviser on U.S.-Russia relations at the U.S. Department of State as a Council on Foreign Relations International Affairs Fellow. From 2008 to 2010, he was associate director of International Security Studies at Yale University and an adjunct fellow at the Council on Foreign Relations. In addition to his policy research, Mankoff teaches courses on international security and Central Asia at Georgetown University’s School of Foreign Service. Mankoff has held academic fellowships at Harvard, Yale, and Moscow State Universities. He holds dual BAs in international studies and Russian from the University of Oklahoma and an MA, MPhil, and PhD in diplomatic history from Yale.

Oliver Backes is a program manager and research associate with the CSIS Russia and Eurasia Program. He manages research projects on the foreign and domestic policies of Russia and the states of the former Soviet Union, focusing on the changing geopolitical and geoeconomic dynamics of Eurasia and the crisis in Ukraine. His current research interests are in Russian foreign policy and the foreign economic and security policies of the states of Central Asia and the South Caucasus. Backes is the creator and principal author of CSIS's Ukraine Crisis Timeline, a multimedia tool that tracks developments in Ukraine. He holds dual BAs in international relations and diplomatic history from the University of Pennsylvania.

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1616 Rhode Island Avenue NW
Washington, DC 20036
202 887 0200 | www.csis.org

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