



# Metis

## Study

### Central Asia and the Caucasus

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# Summary

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that react sensitively to price fluctuations in the oil and gas markets and depend on external investments. The Caucasus can similarly be regarded as a transit area for energy, raw materials and goods as well as a smouldering trouble spot. After highlighting the political, economic and security situations, the study examines how the visibility and influence of the EU can be increased in the regions.

## Frozen conflicts in Central Asia and the Caucasus

Central Asia is increasingly becoming a focus region for matters of geopolitics, security and energy due to its energy resources and China's new Silk Road. The local deposits of oil and gas have proven to be both an advantage and a disadvantage for the Central Asian states, however, because they are strengthening the positions of authoritarian elites in the regional fossil economies and resulting in national economies that react sensitively to price fluctuations in the oil and gas markets and depend on external investments. The Caucasus can similarly be regarded as a transit area for energy, raw materials and goods and as a smouldering trouble spot. After highlighting the political, economic and security situations, the study will examine how the visibility and influence of the EU can be increased in the regions.

Due to the collapse of the Soviet Union in 1991, Georgia, Azerbaijan and Armenia gained their independence in the Caucasus, while Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan emerged as new states in Central Asia. The political transformation processes were notably accompanied by numerous ethnic conflicts in the Caucasus region, and these may still be having a considerable impact as *frozen conflicts*<sup>1</sup>. While the Central Asian

region was afflicted by the Tajik Civil War from 1992 to 1997 and ethnic unrest in Kyrgyzstan in 2010, a patchwork of ethnic, separatist and religious conflicts has evolved in the North Caucasus and South Caucasus. In addition to conventional conflicts like the two Chechen Wars of Secession (1994–1996; 1999–2000), the Azerbaijani–Armenian war (1994) and the conflict between Russia and Georgia (2008), it is above all intrastate and transnational conflicts that have dominated the post-Soviet phase. These include the smouldering Nagorno-Karabakh conflict between Armenia and Azerbaijan, the sub-state conflict between Georgia and the de-facto regime of the Republic of Ossetia over South Ossetia and the secession conflict between the de-facto regime of the Republic of Abkhazia and Georgia. The Russian Federation's antiterrorism and counterinsurgency operations after the Chechen Wars against the so-called Caucasus Emirate in Chechnya, Dagestan, Ingushetia, Kabardino-Balkaria, Karachay-Cherkessia and North Ossetia are considered resolved since 2017. In addition, the secession conflict between Georgia and Ajaria

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where a violent conflict was ended by a ceasefire. In a *frozen conflict*, the parties to the conflict continue to be irreconcilable. There is neither a viable political solution of the conflict nor a use of (massive, military) force. *Frozen conflicts* endanger regional security and stability. In some cases, they flare up time and again or may be rekindled deliberately by third actors.

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<sup>1</sup> The term *frozen conflict* refers to conflicts in state-like entities



has been regarded as resolved since the withdrawal of the Russian armed forces and the resignation of the autocrat Aslan Abashidze in 2004. In recent years, there have also been fears of the region being destabilised by the continuing conflict in Afghanistan and by a reinvigoration of radical extremist forces in Central Asian states induced by returning Islamists.

### The political order in Central Asia and the Caucasus

Authoritarian forms of government are dominant in the states of Central Asia and the Caucasus. Armenia, Georgia and Kyrgyzstan have hybrid political systems with democratic elements and so differ greatly politically from the other states in the regions. A major democratisation process is rather unlikely in the foreseeable future, however, because of the tense political situation, multiple ethnic conflicts, geopolitical pressure due to energy issues and the predominance of authoritarian regimes. Corruption is

widespread in most of the states. Turkmenistan and Uzbekistan are regarded as especially affected by it (cf. Figure 1). According to the *Freedom House Index* and the *Democracy Index*, Turkmenistan, Tajikistan, Uzbekistan and Azerbaijan have always been in the lowest ranks. The Soviet legacy of the Central Asian and Caucasian states hinders them substantially from opening up politically and economically. The regional political elites and decision makers have primarily been trained in the Soviet Union, are thus predominantly pro-Russian and consider statehood from the Soviet regulatory policy angle. The result is that a kind of pseudo-pluralism can be found in these states. The governments control both the ruling party and the opposition and restrict the freedom of the press by means of control and censorship. Thus, a separation of powers exists only on paper. Opposition leaders who are unwilling to accept this situation are frequently imprisoned or seek refuge in exile. The Central Asian states therefore suffer from

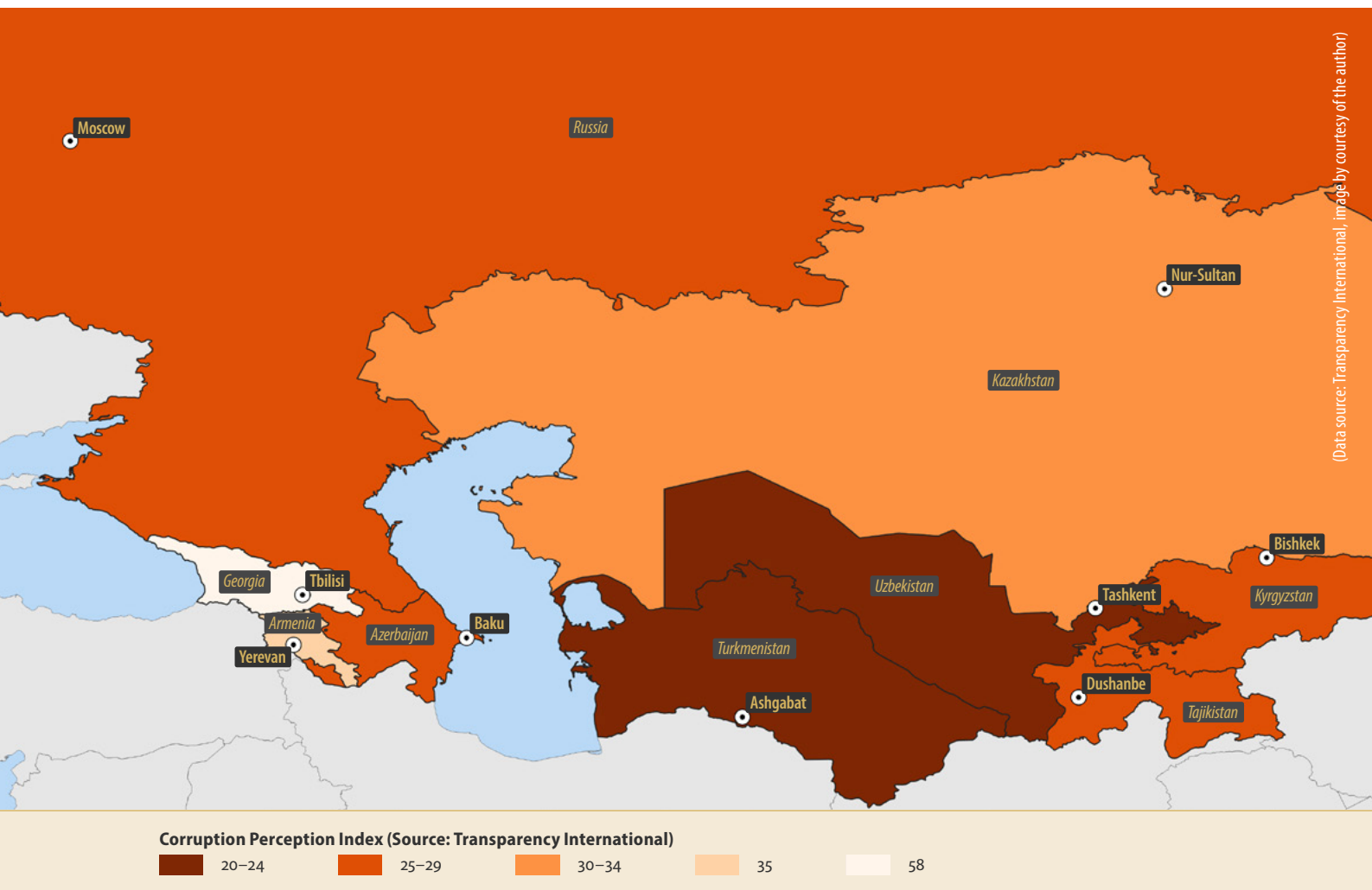


Fig. 1 Corruption Perception Index in Central Asia and the Caucasus



serious deficits with regard to the protection of human and civil rights. The independence of the judiciary is not guaranteed, while the private business sector and the largest enterprises are mostly controlled by members of the government or oligarchs. The overlapping of private and state interests that is evident at government level substantially impedes positive economic development and has led to the formation of elitist distribution cartels.

In view of these political, economic and social conditions, which are encountered in most of the states, the political sensitivity for political change is not very pronounced at the local level. Instead, it is possible to spot cycles that start with a tentative economic liberalisation and an opening of society, but then transform and produce widespread social unrest and protest movements and end with the re-authoritarisation of the business world and society. The elites in the Central Asian and Caucasian states are therefore at present indicating that they have an increased interest in maintaining the political status quo.

A particular feature of Central Asia is the weakness of regional organisations to faster integration because the relations between member states are less developed due to conflicts over water, borders and resources. Even the "Central Asian Union", which was dissolved in 2004, but has been experiencing a revival since 2018, has also failed so far because of these disputes. In the absence of integrating political and economic cooperation enhancement projects that work, cooperation is mainly bilateral. Exceptions are the memberships of the Central Asian and Caucasian states in the "Commonwealth of Independent States", a union of post-Soviet states<sup>2</sup> founded in 1991 and based in Minsk, and the "Collective Security Treaty Organization".<sup>3</sup> Recent attempts to initiate regional level cooperation are the result of security necessities. One saw the heads of state and government holding the first summit meetings on regional security cooperation in 2018. The risk of an expansion of extremist Islamist movements and the effects of the Afghanistan conflict served as possible political fields for transnational cooperation. The economic cooperation that has existed to date is intended to be intensified in the coming years in view of the large-scale investments being made by China to develop the new Silk Road. Up to now, however, this has been a lip-service and the domestic trade within the region remains at the almost insignificant level of less than

10 percent of the export volume. The two organisations cited must primarily be seen as organisations shaped by Russia, while China has been working for some years now on increasingly integrating the Central Asian states into the "Shanghai Cooperation Organisation".

### **The resource curse? Central Asia as an economic area and energy corridor**

The Central Asian states have economic potential due to their geographical position and their wealth in resources. The area was even part of an important section of the old Silk Road in the ancient world.<sup>4</sup> The region is regarded as a point of contact between the Greco-Roman cultural area on one hand and the Chinese world on the other. Caravan trade dominated the period from late antiquity to modern times. Walled and fortified trading posts – the so-called caravanserais – divided the trade routes into sections, facilitating secure trading in rare goods from the East to the West. Historically, Central Asia has also been notorious for its slave trade, which was a main source of revenue until the late 19th century. The current economic situation in Central Asia has only little in common with the tradition and importance of the old Silk Road. Even though the region continues to regard itself as a link and transit area between the East and West, local oil and gas production as well as the extraction and export of natural resources, particularly rare earth elements and metals, play a much more important role. In recent decades, the economies in most Central Asian states have thus developed from transit economies into export economies. In Kazakhstan, for example, approximately 66% of the export economy is based on the export of crude oil, natural gas, coal and metals. Natural gas also dominates Turkmenistan's exports, while Tajikistan above all exports aluminium. Uzbekistan mainly exports gold and cotton. The abundance of natural resources, however, also entails the risks of the so-called resource curse, which leaves national economies less robust due to a lack of diversity in production and an insufficiency in domestic consumption. In addition, the wealth of resources makes it easier for the authoritarian elites to enrich themselves. In most cases, the effects include strong regulation, high inflation, price control, trade intervention, national economic planning, attacks on private property, restrictions of human rights and a stagnating economic development.

There are numerous examples of this in the region. Kazakhstan, for instance, has invested more funds in prestige projects like the model capital Astana than in

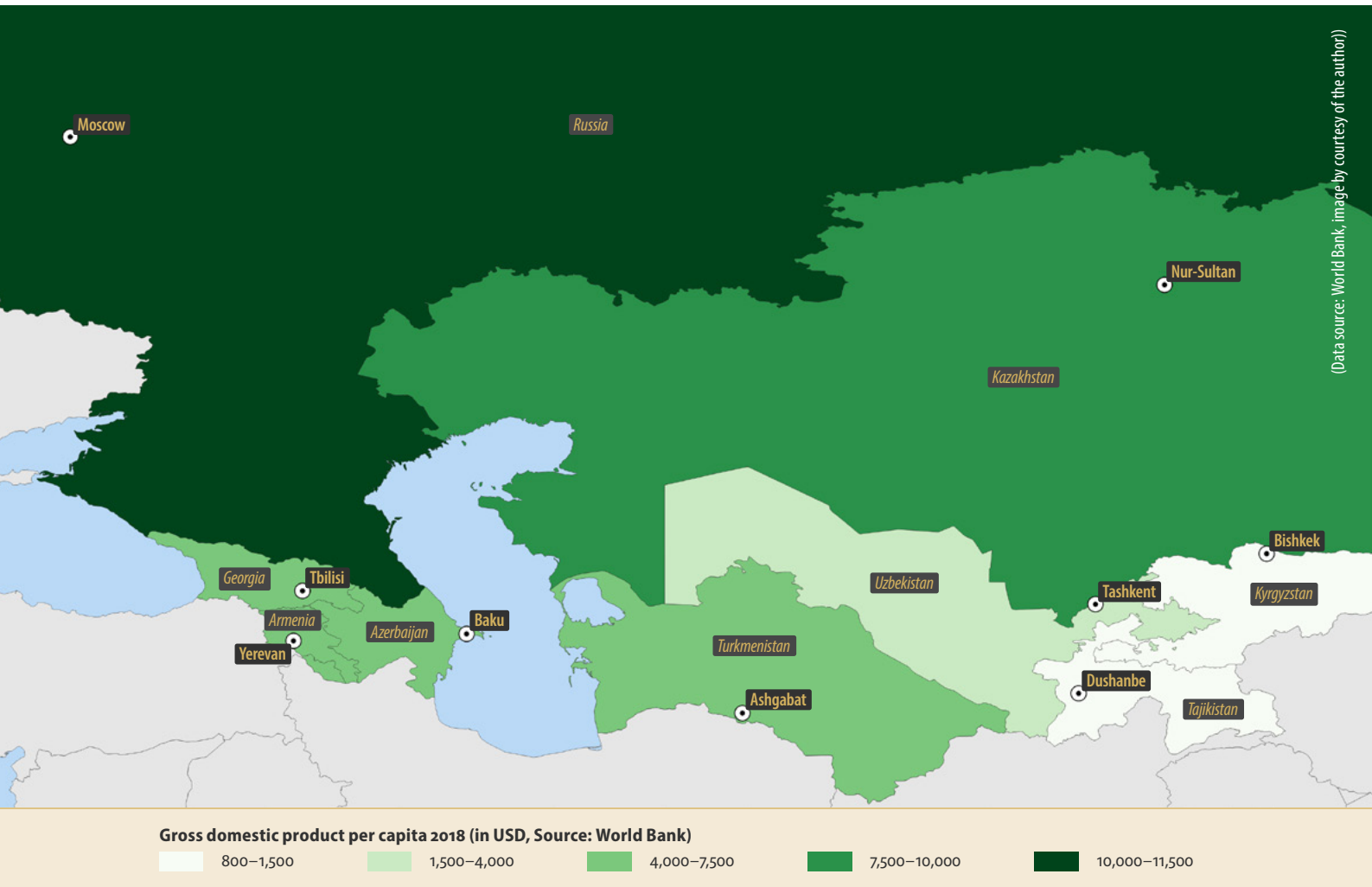
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<sup>2</sup> Turkmenistan is not a full member, but only an associate member.

<sup>3</sup> The purpose of the organisation is to preserve the security, sovereignty and territorial integrity of the member states. Uzbekistan left the organisation in 2006. Turkmenistan has never been a member.

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<sup>4</sup> Numerous cities in the region, such as Alexandria Eschate ("Alexandria the Furthest") in present-day Tajikistan, can retrace the history of their foundation back to the beginnings of the Silk Road in the Hellenistic era.



Data source: World Bank, image by courtesy of the author)

**Fig. 2** Gross domestic product per capita in Central Asia and the Caucasus

health care and education. The level of investment in the country’s infrastructure, which dates back to the Soviet era and is partly dilapidated, is more modest. Economic growth in Kazakhstan has been strong in the past decade, but the wealth gap between the poor and the rich has widened just as quickly. Even though the gross domestic product per capita has reached the level of Eastern European states (cf. Figure 2), life expectancy is a decade lower in comparison. There is neither diversity in business nor a strong tertiary sector, while production is being slowed down by an overvalued currency and the exposure of the economy to shocks should the energy prices on the world market fall.

All these problems are even more extreme in Turkmenistan. In spite of relatively high per-capita income, most Turkmens live in poverty. Investment in the infrastructure has stalled, and the country lacks important technological developments that will increase the

efficiency of energy generation. Uzbekistan, on the other hand, imports oil and sells the major part of its declining gas production to Russia. Most proceeds go to the elite and are managed outside the country on offshore accounts, while the remaining funds flow into the repressive surveillance system. In the event of a shortage of energy, precedence is given to maintaining exports rather than to meeting the needs of the people.

**A new “Great Game”? – The security dimension in Central Asia and the Caucasus**

In the next few years, Central Asia and the Caucasus will increasingly become a focus region for security matters due to geopolitical and economic developments. The Russian Federation, the People’s Republic of China, the United States of America, the European Union and various middle-rank powers like India and Turkey are trying to extend their influence in the region. The vying of the major



powers for influence in the region brings back to mind the Great Game, the antagonism between the British Empire and the Russian Empire in 19th-century Asia.

The EU and the USA are key players in Central Asia, but they are being marginalised more and more by the rise of China and the increase in commitment of Russia. At present, the "Transport Corridor Europe–Caucasus–Asia" (TRACECA), which has been planned as an alternative to China's Silk Road and Russia's "International North–South Transport Corridor" (INSTC), seems to be underfunded and non-competitive in comparison. The priorities in the new EU strategy (2019) for Central Asia have also become more pragmatic and concentrate on the promotion of resilience, prosperity and regional cooperation. Even though the intention is to further enhance the democratisation efforts, on which the emphasis previously lied, they are less prominent than in the 2007 strategy. The focus of the USA is primarily on security-related cooperation with the states, particularly as long as they regard the area as a rear area for their commitment in Afghanistan. It is trying to reduce Russia's and China's influence by participating in the "Turkmenistan–Afghanistan–Pakistan–India Pipeline" (TAPI), which is the American equivalent to the Silk Road, and similar gas projects running from the north to the south.

While the European and US initiatives in the region seem to reveal little in the way of coordination, Russia and China fulfil complementary roles in Central Asia. Russia regards Central Asia and the Caucasus as a traditional sphere of interest, maintains close relations to the political elites, operates military bases in the region and is anxious to protect Russian minorities there from western influence, using force if necessary. This deterrence strategy is aimed at binding the former Soviet states closely to Moscow so that it is able to exert a more direct influence on the political and economic developments. For this, Moscow can draw on a large number of the *frozen conflicts* referred to at the beginning of this study and use them as required to achieve foreign or energy policy objectives.

China, on the other hand, is ensnaring the states in the region with economic incentives and presenting itself as a counter-construct to European and American influences. China's investments are already indispensable for some states as factors of growth. Since 1992, at least 22 trade agreements with a total volume of 7 billion dollars have been concluded. In May 2017, Beijing signed a package of economic agreements worth an additional 20 billion dollars with Kazakhstan and Uzbekistan. The states of Central Asia and the Caucasus hope to get approximately a third of the total amount of 1 trillion dollars estimated to be required for the development of the Silk Road. China is thus becoming a model for economic prosperity for the region. In recent years, however, there have been anti-Chinese protests in numerous Central Asian states, but most of them have been contained by

the respective governments. Chinese enterprises are accused of circumventing minimum quality standards for the construction of infrastructure, refineries and production facilities. The investments China has made in connection with the Silk Road are also leading to some of the states becoming dependent on new Chinese money as their national investments are frequently dependent on Chinese follow-on investments.

These developments have long-term security policy and energy policy implications. In order to secure transport corridors and raw material sources, the major powers will continue to seek to gain influence in the region. These efforts will be increasingly intensified as the completion of the Silk Road and other pipelines and transport corridors draws closer. The establishment of military bases, the exertion of influence on domestic affairs, the development of asymmetric interdependences, the outbreak of local border conflicts or ethnic tensions will increase in the course of the geopolitical antagonism. In a future global economy, in which just-in-time logistic supply chains become more and more important, embargoes, sanctions and other political tensions may seriously disrupt European economies because they are dependent on free trade through Asia. The EU is currently the most passive player in the region, even though Europe is the final destination of the traffic routes and the European business world is thus particularly interested in trade in goods and services being free of disruption. In the absence of adequate abilities of its own to exert a sustainable influence and in view of its at present low political priority, Europe should examine the possibility of cooperating more closely with the USA or Russia and China. This cooperation would have to allow the management of the act of balancing pragmatic necessity in the light of energy-related and economic dependencies on the one hand and the aim to support democratisation and liberalisation in the states of Central Asia and the Caucasus on the other.

#### **Increasing the EU's visibility**

Measures for enhancing the influence of the EU should aim at increasing Europe's visibility in the regions. At bilateral level, the EU can particularly bring about effects in individual states in *low-politics* areas like the protection of intellectual property, the regulation of economic processes, green energy or environmental protection. In order for the EU to actually make use of its possibilities of exerting influence, it is crucial for the local political elites not to regard its measures as a threat to their own power. For example, it is currently easier to establish regulatory processes in the field of disaster control with assistance from the EU than to promote constitutional or democratic processes in the political system with a view to civil liberties and the work of non-governmental organisations. At present, too radical demands could endanger the tentative transformation processes in the respective region.





At international level, the “EU–China Connectivity Platform” should above all be used to exert influence on the states in Central Asia. The primary objective of the platform is to explore possibilities for further cooperation in the transport sector in order to create synergies between the "Trans-European Transport Network" and China’s new Silk Road. The EU can use the platform to work with China on specifying standards for open market access and equal terms of competition for enterprises. This can ensure that China and the EU submit identical demands to the states of Central Asia in terms of the implementation of transparent processes and standards. The strong interest these states have in foreign direct investments will raise the probability of transparent processes being implemented sustainably.

From the security angle, the work on the exchange, training and cooperation projects already being implemented in cooperation with the USA within the framework of the "Partnership for Peace" programme should be further intensified. This can enable the states of Central Asia to be offered an attractive alternative to the international security organisations dominated by Russia and China. The aim should also be to establish conflict regulation mechanisms in the respective armed forces so as to reduce the probability of interstate, domestic and ethnic conflicts. In addition, the cooperation in the fight against transnational terrorism as well as in drug, arms and human trafficking should be intensified. The result could be that confidence-building measures lead to spill-over effects in other areas of politics. 🏡



**Fig. 3** Kyrgyzstan, in the vicinity of the city of Osh





Image credit: Oziel Gómez on Unsplash





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