

# BAKU DIALOGUES

POLICY PERSPECTIVES ON THE SILK ROAD REGION

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## Identity & Language

**'Azeri' vs. 'Azerbaijani'**

Jala Garibova

## New Caucasus Emerging

**Achieving Full Resolution to the Karabakh Conflict**

Steven J. Klein

**Spotlight on Normalization**

Gulshan Pashayeva

**Winning the Peace**

F. Murat Özkaleli

**Security and Economic Implications for Georgia**

Mamuka Tsereteli

## Geopolitics Along the Silk Road

**What Do Energy Sanctions Say About the World?**

Aurélie Bros

**The China-Pakistan Economic Corridor**

Ali Haider Saleem & Arhama Siddiq

## Profile in Leadership

**Azerbaijan's Educator-Statesman at Eighty**

S. Frederick Starr



# Georgia After the Second Karabakh War

## Security and Economic Implications

*Mamuka Tsereteli*

The outcome of the Second Karabakh War between Azerbaijan and Armenia significantly transformed the geopolitical reality in the South Caucasus, with implications for the wider Black Sea-Caspian region. The unsettled political geography of the South Caucasus and the ethno-political separatism fueled by external actors since the early 1990s left bleeding wounds on the bodies of the newly re-emerged sovereign states of Armenia, Azerbaijan, and Georgia. These conflicts have determined the trajectory of the geopolitical developments of the region for the last 30 years, including on the foreign policy orientations of these new states.

The conflicts in the South Caucasus were the primary challenge for transforming the strategic assets of this region into greater political and economic success. Three major conflict areas in the South Caucasus were former autonomous regions, created in the early Soviet period: Nagorno-Karabakh, Abkhazia, and the Tskhinvali region, what was called South Ossetia. (Briefly: the latter term was introduced by the Soviets in the 1920s as a name for the newly created autonomous area in Georgia, populated by Ossetians alongside ethnic Georgians. The historic homeland of Ossetians is located to the north of the Greater Caucasus mountains. Following the Soviet tradition of planting ethno-political time bombs, Ossetia proper—located in the

Russian Federation—was named North Ossetia, while the Tskhinvali region of Georgia—with the Ossetian population at the time concentrated in the border areas with Russia—was named South Ossetia.)

As of today, all three of these areas are self-proclaimed independent states, are formally ruled by *de facto* governments, and saw fierce military confrontation in the early 1990s. In 2008, the Tskhinvali region became the battleground between Russian and Georgian forces. In 2020, Azerbaijan regained through a combination of military action and diplomatic brinkmanship all seven regions outside of Nagorno-Karabakh that had been occupied by Armenia, as well as one-third of the former Nagorno-Karabakh region. In the case of Abkhazia and the Tskhinvali region/South Ossetia, as of mid-2021, these territories remain, in reality, governed by Russian occupational forces. The Russian military influence was inserted into Karabakh after the war that ended on November 10th, 2020, with Russian peacekeepers playing an increasing role in the governance of the region.

In terms of geopolitical orientation, Armenia willingly allowed Russian troops onto its territory, seeing them as a security guarantee and deterrent against Azer-

baijan. Georgia aligned itself with the Western powers, determined to join NATO and the EU. The conflicts on Georgian territory are seen as punishment from Russia for Georgia's pro-Western focus. As a result, there has been a heavy Russian military presence in the separatist areas of Georgia since the Russian invasion to Georgia in 2008.

Azerbaijan has a more nuanced foreign policy, balancing between Russia, Turkey, and the West. Azerbaijan also has substantial hydrocarbon wealth located in the Caspian Sea, with major oil and natural gas fields already connected to the Black Sea and Mediterranean through pipelines, ports, railroads, and so on. Azerbaijan and Georgia are allied with Turkey in energy projects and in trade. Azerbaijan had no Russian troops on its territory until the resumption of the military conflict in 2020 and, more precisely, the follow-up peace deal, which allowed Russian peacekeepers to separate Armenian and Azerbaijani forces in Karabakh.

Despite the conflicts of the early 1990s, the first decades of independence after the breakup of the Soviet Union were marked by the strengthening of the sovereignty and statehood of all three South

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Caucasus states. The United States strongly supported this process in partnership with its NATO ally Turkey, facilitating energy infrastructure development in the region as a foundation for the economic sovereignty of these countries. American and Turkish support was enforced by multiple economic and transportation initiatives from the EU. These efforts brought about the development of vibrant energy, trade, and transit connections between the Black Sea-Caspian region and the Mediterranean, delivering huge economic and political benefits to all the energy producing and transit countries of the region: Kazakhstan, Turkmenistan, Azerbaijan, and Georgia. Turkey was, and continues to be, the major beneficiary of the economic, political, and security benefits of the East-West energy and transportation corridor, as well as of the expanding pipeline, railway, highway, and port infrastructure linking the country to Caspian resources and markets. But due to a weakening U.S.-Turkish alliance since the start of the Second Iraq War and the overall decline of America's

presence and leadership in the region, Russia has regained significant power and influence in the Black Sea region and the South Caucasus.

The prelude to Russia's increased role in the Black Sea region was the 2008 invasion of Georgia and subsequent military occupation of significant parts of the country. This was followed by the annexation of

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Crimea in 2014, which allowed Russia to exponentially increase its military presence in the Black Sea region, as well as to establish a platform for power projection that aimed not only at the Black Sea but the Mediterranean as well. By controlling Crimea, Russia

has now almost complete strategic dominance over the Black Sea. This situation, however, re-emphasized the importance of NATO membership for Turkey, despite the deterioration of Turkey's bilateral relationships with several leading NATO member states.

After the Second Karabakh War, Russia increased its military presence in the South Caucasus, adding

1,960 peacekeepers in Karabakh to an already significant military presence in Armenia and in Georgia's two breakaway regions. This military presence can allow Russia to establish military control over parts of the South Caucasus on relatively short notice. After the use of military force in Georgia in 2008 and in Ukraine in 2014, this threat is not merely perceived, but real. Military success in Georgia and Ukraine also emboldened Russia to move more aggressively in the Middle East, especially with its presence in Syria. The strategic significance of the weak Western response to Russian aggression in the South Caucasus and the Black Sea region has become more evident as time has passed.

### *Broader Implications of the Second Karabakh War*

The outcome of the military conflict between Azerbaijan and Armenia in Karabakh also has significant implications beyond the regional perspective. The war demonstrated that with great power consent (in this case, from Russia and Turkey), smaller actors (in this case, Azerbaijan) can achieve their national objectives with military means more efficiently than with diplomacy. Russia, by maintaining neutrality in the military con-

flict, obtained some leverage over Azerbaijan while further increasing Armenia's security dependence on Russia. While Turkey now has a greater role in the affairs of the South Caucasus, it is no longer seen as necessarily the channel of Western interests in the region; Turkey rather appears to be representing its own national interest the way President Recep Tayyip Erdogan and his domestic allies understand it.

As a result, we are moving towards a new and yet still forming status quo in the South Caucasus, with different actors facing different challenges as well as opportunities.

Azerbaijan achieved a significant military victory and territorial gains, more than it ever realistically hoped to achieve at the negotiating table. Seven regions outside of Nagorno-Karabakh, previously occupied by Armenia, returned to Azerbaijani control. These include the entire length of the Azerbaijani-Iranian border in the south of the country and regions between Armenia and Nagorno-Karabakh, except for a 5-kilometer-wide transportation corridor known as the Lachin Corridor, that remains under the control of the Russian peacekeeper force. About one-third of the former Soviet-era Nagorno-Karabakh

Autonomous Oblast reverted to Azerbaijani control, including the town of Shusha—a medieval citadel of utmost military and cultural-historical importance to both sides.

This military success will help Ilham Aliyev, Azerbaijan’s president, to further consolidate power domestically and gain more respect internationally, particularly in the wider Black Sea-Caspian region where strong leaders traditionally garner greater respect.

At the same time, Azerbaijan’s success is not without cost. Azerbaijan had to agree to delegate part of its sovereign rights to the Russian military over some parts of *de jure* Azerbaijani territory (for a five-year period, according to the November 10th, 2020, trilateral agreement between Armenia, Azerbaijan, and Russia that ended the war). The unstated implication of the aforementioned document is that the majority of the former Nagorno-Karabakh Autonomous Oblast will remain under Armenian administrative control—of course now secured by Russian mili-

tary peacekeepers. The access road via Lachin from Armenia to Armenian-controlled territories in Karabakh will also be under Russian control. In addition, one important segment of the trilateral document is that border troops of the Russian Federal Security Service (FSB) will be in charge of safeguarding access from Azerbaijan to Nakhchivan via Armenia. The agreement does not specify the size and operational modalities of those troops, however.

All of these elements of Russian military engagement represent gains for the Russian Federation and were the result of compromises made by the Azerbaijani side. The geopolitical consequences of this decision are yet to be seen and understood. Meanwhile, at this stage Azerbaijan clearly wants to work with Russia to achieve what it con-

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siders a priority national objective. This sends a positive message from the Russian perspective: you have a better chance of success in the conflict if you are on good terms with Russia. This contrasts with the Western effort of mediation, which

has not delivered any meaningful results for Azerbaijan for three decades.

Consequently, Russia is a beneficiary of the outcome of the war; while this should not be exaggerated, it cannot be disregarded either. It is now back in the role of the arbiter and peacekeeper in the Azerbaijani-Armenian conflict, with the ability to change the status quo again in the future at its discretion. Most importantly, with its peacekeeping role in the conflict and the necessity of keeping logistical and supply lines open, Russia is establishing a long-term military presence in the region.

The military defeat caused significant internal political tensions in Armenia. It weakened the country’s reform-minded leadership, headed by Prime Minister Nicol Pashinyan, who came to power through one of President Vladimir Putin’s much-despised color revolutions. To the extent that an Armenian leader can be independent-minded vis-à-vis Russia, Pashinyan was perceived as such, but also as being more Western-leaning compared to his predecessors. Reminding him

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about Russia’s role in the security interests of Armenia seems to be one explanation for the limited and slow Russian response to the conflict.

Meanwhile, Turkey moved further away from

the role of channeling Western interests in the region to the role of pursuing sovereign Turkish interests in the South Caucasus and wider Black Sea-Caspian region—essentially neglecting the opinion of its Western partners. Turkey is very happy with the outcome of the war, as Erdogan has stated on many occasions. If all the points of the trilateral agreement are implemented, Turkey will have direct access to mainland Azerbaijan via Nakhchivan and Armenia, hypothetically leading to normalized relations with Yerevan and the opening of its borders with Armenia as well—one of Erdogan’s longtime objectives. Due to these interests, it appears that Turkey is not overly concerned with the Russian peacekeeper presence in Azerbaijan.

Both the Second Karabakh War and the November 10th, 2020, trilateral agreement concluded between Armenia, Azerbaijan, and

Russia represents major diplomatic failures for the West. The absence of the United States and the European Union (as well as the OSCE Minsk Group) from the process of negotiating the modalities of the peace agreement demonstrate that the international framework for conflict settlement was replaced by a *de facto* Turkey-Russia format. The two Western co-chairs of the OSCE Minsk Group in charge of the conflict (namely France and the United States), were completely ignored by its third co-chair (namely Russia) in the talks that determined the timing and the outcome of the war (enshrined in the trilateral agreement). The West and NATO were also ignored by NATO ally Turkey, which provided support to Azerbaijan without consulting its NATO partners. The diminishing role of Western institutions in developments in the Russian neighborhood has been in Russia's interest for more than two decades.

A potentially significant development for the region may be the eventual re-opening of the direct railway line between Azerbaijan, Armenia, and Turkey as a consequence of the post-war settlement. Obviously, it will take time, investment, and significant political will to implement this element of the trilateral agreement. But if and

when it is fully implemented, this transportation route may attract Russian cargo destined for Turkey along with some volume from Central Asia, which would mean that Georgian Black Sea ports would be bypassed. Also, there may be some volumes redirected from the Baku-Tbilisi-Kars (BTK) railway toward the Baku-Nakhchivan-Turkey direction, although these volumes are insignificant; transshipments on the BTK railway in 2020 amounted to only 10,500 TEU, a tiny fraction of the railway's planned capacity of 6.5 million tons.

While very important for Azerbaijan—and potentially for the normalization of Armenian-Azerbaijani-Turkish relationships going forward—the real transit potential of the Nakhchivan corridor will be limited for the foreseeable future due to political, geographic, infrastructural, and financial reasons. At the same time, this potential normalization significantly improves the strategic position of Azerbaijan while also opening up opportunities for Armenia, which has found itself in a very painful position after its military defeat in Karabakh.

In terms of Russia's use of the Nakhchivan corridor, it is more realistic to expect greater utilization by Russia of Iranian infrastructure

to trade with India and China via the Iranian ports of Bender Abbas and Chabahar. This north-south trade route is a major competitor with the Caspian-Black Sea route, since it may also attract increased volumes of Central Asian cargo destined for Asian markets. The Nakhchivan corridor may be attractive for some volumes of specific Russian cargo going to Turkey, but Russia would prefer Iran as a transit partner to access Asian markets, and its own Black Sea ports to access the Eastern Mediterranean and Europe.

### *Security and Economic Implications for Georgia*

The impacts for Georgia of the outcome of the Second Karabakh War are multiple and Tbilisi needs a new strategy to adapt to new realities: consideration must be taken of the gains and losses of the conflict's active participants as well as of post-conflict developments. For Georgia, the goals of European and Transatlantic integration remain the same,

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but the new reality in the region calls for reevaluating and reassessing Georgia's strategy more than ever in the past. What follows is an assessment of the principal challenges that Georgia needs to take into account in the formulation of its new strategy whilst keeping in mind that previous strategies did not result in tangible (and credible) security guarantees for the country.

The major and most obvious challenge is the increased Russian military presence in the region. In addition to the larger geopolitical implications of this fact, it has direct military-security implications for Georgia itself. Russian peacekeepers in the region will need logistical support; thus, Georgia may find itself pressured to open air or land access for Russian military supplies. Georgia was already asked to open its airspace to transport Russian peacekeepers on November 10th and 11th, 2020—immediately after the signing of the trilateral peace statement. As was reported, requests to allow overflights of Russian military planes were made by both the Armenian and Azerbaijani governments.



Another important challenge is the renewed call for a six-party cooperation platform featuring the three countries of the South Caucasus plus Iran, Russia, and Turkey—a proposal first introduced by Erdogan as the Pact for Stability and Cooperation in the South Caucasus after Russia's invasion of Georgia in 2008. While in Baku to attend the Victory Day military parade in December 2020, Erdogan stated that this initiative has the support of all three major regional powers (namely Russia, Turkey and Iran). During his January 2021 regional tour, Iranian foreign minister Mohammad Javad Zarif said in Moscow that this initiative was the “most important goal of this regional trip” for Tehran.

By construction this initiative would exclude Western institutions and countries from the affairs of the South Caucasus; and this indeed appears to be one of its central objectives. At the same time, this initiative recalls for many in the Caucasus the successful collaboration between two newly-established states—the Soviet Union and the Republic of Turkey—emerging from the ashes of two fallen empires more than a century ago to keep Western powers out of the Caucasus. It is a dramatic

understatement to say that this collaboration did not end well for the independence and sovereignty of the three young South Caucasus states that were extinguished by the machinations of Moscow and Ankara, allowing the Bolshevik regime to annex of all three of the Caucasus' nascent states.

But the interest of the Russian Federation in the 3+3 initiative, as it has been called by some, has not been confirmed by any official statement or comment from Putin, or by any other top Russian official, for that matter. Some Russian observers have been openly negative about the initiative because it would institutionalize Turkey's growing influence in the region, which they perceive as a danger to their country's interests.

However, one indirect positive indication may be gleaned from this statement made by Russian Foreign Minister Sergey Lavrov at a press conference held after meeting Zarif during the latter's aforementioned visit to Moscow:

You asked me whether the three countries will face challenges on the road to peace. If you have in mind Russia, Azerbaijan, and Armenia, they are not the only ones that are interested in a calm, peaceful life and prosperity in the re-

gion. Iran, Turkey, and Georgia (I mention Georgia as well, as being a part of the South Caucasus) have the same interests. In general, initiatives are being made to motivate the three republics of the South Caucasus to build their relations with the participation of their neighbors—Russia, Iran, and Turkey—in the context of the new reality where there is no war and all parties agree to lift the embargos and other restrictions on normal life in this important part of the world. There is no doubt that the Islamic Republic of Iran is interested in joining all of these projects.

This should, however, be read alongside the final part of his answer, in which he speaks of Russia taking a “direct part in the efforts envisioned by the agreements on unblocking economic and transport connections” before adding that,

in addition to Russia, Iran, and Turkey, many countries, including several European states, are willing to join the efforts to restore the economy in Nagorno-Karabakh and around it. I think this intention can only be welcomed. The bottom line is that all external participants must realize that now it is important to create, strengthen, and make reliable and durable the economic foundation of future life in the South Caucasus.

One interesting detail is that there is no mention of either Abkhazia or the Tskhinvali region/South Ossetia as political entities in the South Caucasus in the context of the 3+3 initiative's discussion among Russian policymakers and observers (as a reminder, Russia technically recognizes these parts of Georgia as “independent states”). There are different interpretations as to why this may be the case. The obvious one is that even Russia doesn't really see these regions as independent states. A less obvious reason is that Russia is sending a message to Georgia—you settle with us, and, like Azerbaijan, you may have a chance for some territorial gains as well.

So far, there is no clarity concerning the official Armenian or Azerbaijani attitude with regards to this 3+3 initiative, but Georgia affiliates itself with Western institutions and, realistically or not, desires greater Western participation in the affairs of the South Caucasus. Obviously, Turkey is a part of NATO and supports Georgia's NATO membership as well, so participation in this new initiative doesn't necessarily mean closing the door to all Western institutions for the participant countries.

But the question remains: what value could this new grouping bring to Georgia? Would it help to restore the country's territorial integrity?

Would Russia move its troops out of Georgia's *de jure* sovereign territory and reverse its decision on recognizing the independence of the separatist regions of Georgia?

These are highly unlikely developments, which makes Georgia's participation in this type of initiative impossible.

In the context of opening transportation links between Azerbaijan and Armenia as part of the post-conflict settlement outlined in the November 10th, 2020, trilateral statement, an initiative may arise to consider re-opening the rail link between Russia and Georgia through the separatist region of Abkhazia, which is currently under the effective control of the Russian military. This link would be important for Armenia, and for many years both Yerevan and Moscow have called on Tbilisi to allow its operation to restart.

Georgia has always wanted this issue to be linked to both the withdrawal of Russian troops from Georgian territory and the return of the displaced ethnic Georgian population to Abkhazia, which constituted a majority of the region's pre-conflict population. In the past, Azerbaijan opposed the opening of this railway connection between Russia and Armenia out of fear that

it could become the source of additional military supplies to the latter. But given new geopolitical realities that include Azerbaijan itself planning to allow Russian transit to Armenia, the Georgia-Russia rail link may become less of a sensitive issue for Baku.

However, Georgian preconditions for opening the railway are unlikely to change significantly. In addition, Russia's real appetite to open this railway was always at question, as any normalization between Georgians and Abkhazians would be seen as a threat to Moscow's ability to manipulate the situation in Georgia's occupied regions.

The next challenge is the increased Russian pressure on the separatist leadership in Abkhazia to give up whatever domestic power it has on local affairs in the Georgian breakaway region. The case of Karabakh has shown to others, that Russia carries a big stick yet a very small carrot for those 'allies' that fully depend on Moscow. It should come as no surprise, then, that when the leader of the Abkhaz separatist regime met Putin on November 12th, 2020, he began to discuss multiple concessions that had been unacceptable previously to

this same regime, including steps towards greater economic integration, the rights of Russians to own property in Abkhazia, and so on. These concessions, if materialized, would ease the *de facto* annexation of the region by the Russian Federation.

### Georgia's Response

As it responds to these and other national security challenges (including the ongoing and expected negative economic impact of the COVID-19 pandemic) it is important for Georgia to reevaluate and redefine its national security strategy and create functioning mechanisms for its optimal implementation. The best possible way forward for Tbilisi would be to conceptualize national objectives in light of new realities, formulate the basic principles of its national security strategy on this basis, and engage its international partners in designing a detailed action plan with assigned resources and organizational mechanisms of implementation.

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Georgia's security priorities should remain moving forward with regards to both EU and NATO integration in the multilateral sphere, as well as deepening bilateral security ties with key strategic partners like the United States, Turkey, and Azerbaijan as well as the country's Black Sea neighbors (namely Ukraine, Romania, and Bulgaria). But it is essential for Georgia to understand how far outside support can go, and to not exaggerate expectations while trying to extract as much as possible from international partnerships. With the help of partners, Georgia should continue to focus on developing its territorial defense capabilities and on acquiring advanced, more efficient and cost-effective defensive technologies and weapons.

This focus on hardcore security needs to be complemented with meaningful cooperation on regional infrastructure development and EU-Black Sea-Caspian connectivity. The new reality in the region cannot change Georgia's role as *the* critical transit country for energy resources.

Put simply: Caspian oil and gas will continue to flow via Georgia to outside markets for many years to come; and the South Caucasus corridor will remain the shortest transportation link between Central Asia and the Black Sea and Eastern Europe.

Moreover, it will be important for Georgia and Azerbaijan—as well as other partner countries—to continue working together on issues of container and general cargo transit. Georgia needs to take a proactive position in this process. Attracting cargo for European markets from the broader Silk Road region, which extends into Western China, Afghanistan, and perhaps the Indian subcontinent, is a realistic target if all the transit countries can collaborate. Significant public funding invested in Caspian ports and other infrastructure in Turkmenistan, Kazakhstan, and Azerbaijan, as well as private investments in Georgian ports, can only be justified if those cargo volumes are attracted by lower cost and efficient movement of cargo.

An increased role in bridging the Silk Road region with Europe and the states of the Mediterranean littoral would represent a key factor of stability for Georgia.

This process will require major diplomatic effort and coordination, along with political leadership. In the past, the most successful infrastructure projects in the energy

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sector became possible with leadership and strong diplomatic effort from the United States, backed by Turkey and regional leaders. The region's countries need to make extra efforts to re-engage with major actors. Particular attention should be paid to reaching out to the European Union, which may

be a major beneficiary of the additional access routes to markets and resources.

**I**n the absence of active support from the outside, greater regional coordination is crucial. Georgia needs to adopt a more proactive posture and invite partner countries and institutions to play an active role in facilitating trade

and transit between the Caspian and Black Sea countries. It is important for Georgia and Azerbaijan to achieve the same degree of understanding and collaboration on issues of general cargo transit as they similarly had (and continue to have) on the development of energy transit infrastructure. International donor institutions, like the World Bank, the European Bank for Reconstruction and Development, the U.S. International Development Finance Corporation, and the Asian Development Bank can play positive roles not only in this coordination effort but also in funding projects that will facilitate transport as well as digital and energy connectivity. These institutions, together with the EU, could also help Georgia to capitalize on its Deep and Comprehensive Free Trade Agreement with the EU.

Moreover, the re-arrangement of global supply chains in the post-pandemic world could open opportunities for Georgia to attract industries that are oriented towards European markets. The

economic security of Georgia will depend on its openness and ability to attract more export-oriented industries and activities. Collaborative efforts with Georgian partners would allow regional companies to be a part of this process during the post-pandemic recovery.

When it comes to internal development, Tbilisi's priority should be

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structural reform, which can reduce the state's role in the economy and help to unleash the creative entrepreneurial capacity of Georgians. In times of dealing with the consequences of global crises, the privatization of state assets is the only way that Georgia can attract international and domestic capital

and transform passive state assets into productive assets.

Internal political stability and the full mobilization of intellectual, organizational, economic, military/political, and diplomatic resources are all essential preconditions for the successful planning of Georgia's national security for several, very difficult years to come.



The Second Karabakh War has drastically changed geopolitical and geo-economic realities in the South Caucasus, with different moving parts whose shapes are still evolving whilst proceeding in the general direction of a new tectonic of regional stability. Georgia needs to adapt to these new emerging realities by expanding its horizon for alliances whilst deepening rela-

tions with its strategic partners. Stability in the South Caucasus in general, and in Georgia in particular, needs to be seen as being in the interest of many different actors. Such a development represents the only conceivable way for Georgia to ensure its security in the absence of full NATO membership or the credible issuance of bilateral security guarantees from its strategic partners. **BD**

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