

Future and Consequences of US Strategic Interest in the South Caucasus

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One of the unexpected outcomes of the Russian invasion of Ukraine is a reconsideration of the strategic importance of the South Caucasus to the United States' effort to protect its global interests and responsibilities. Although the region does not represent a vital interest for the US, stability, prosperity, and regional integration in the South Caucasus are now becoming increasingly important to it, given the current military crisis in another part of the European neighbourhood. Therefore, there is a need for greater engagement from the US, in concert with its European and Middle East allies, in promoting a broader range of security, economic, and energy partnerships. Most notably, Washington is expected to look more favourably on accelerating regional integration along the "middle corridor" – the sea and land route from Southern Europe via the Black Sea to Georgia, Azerbaijan, the Caspian Sea, and the Central Asian states. This process will likely be supported by Türkiye and accepted with growing accommodation by Russia, China, and Iran.

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Beyond the Road to Nowhere

To Washington, for most of modern history, the nations of South Caucasus region were the epitome of the furthest foreign country: far away, poorly understood, and of little import. During the Cold War, the lands beyond the Black Sea lay well behind the Iron Curtain. With the fall of the Berlin Wall and the “end of history”, geo-politics seemed to matter less, with “middle earth” mattering the least of all.

From an American perspective, until recently, prospects for overcoming the obstacles to regional integration across the heart of the ancient Silk Road looked overwhelming. Across the former Soviet space and neighbourhood, many issues bedevilled cooperation, including the former conflict between Armenia and Azerbaijan, the occupation of Georgia’s territory by Russia, and the collapse of the government in Afghanistan after the US withdrawal. Further, the continued antagonism of the West to Russia, China, and Iran, all of which border and influence the region, has led to viewing the region as an area of elevated strategic risk and uncertainty.

After 9/11, if the US paid attention at all, the post-Soviet space and surrounding nations were viewed through the prism of global counterterrorism operations. The focus of American action was, without question, Afghanistan. The prolonged post-conflict occupation and major force presence in support of the Afghan government, as well as the growing strategic bilateral relationship with India, expanded American interests in South Asia in new and important ways. During the presidency of Donald Trump, the US also increased its engagement in Central Asia, while traditional relations with Pakistan became increasingly strained.

In many ways, the Trump administration marked a return to great power politics for the US.¹ Arguably, since the end of the Cold War, the US, like many Western powers, looked to increasing international cooperation and the establishment of global norms to mitigate and moderate conflict. Republican and Democratic presidents, each in their own manner, viewed increasing globalism as both constructive and inevitable.

1 O’Rourke, R., “Renewed Great Power Competition: Implications for Defense—Issues for Congress”, *Congressional Research Service*, March 10, 2022, p. 4, available at: <https://crsreports.congress.gov/product/pdf/R/R43838/92> (accessed: September 9, 2022).

In contrast, the Trump administration recognized the challenge that great power competition represented to global stability and adopted increasingly aggressive policies in dealing with adversarial powers, principally China, Iran, and Russia.² The administration, for instance, withdrew from the Iran Deal (The Joint Comprehensive Plan of Action, which granted Tehran access to international markets and sanctions relief in exchange for promises to constrain its nuclear programme), insisted on strengthening NATO, and challenged China in the Indo-Pacific region, notably joining the “Quad”, a cooperative group of the US, Japan, Australia, and India.

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Bringing geo-politics back to American foreign policy was like getting a retired racehorse back on the track. Washington had to recover its muscle memory on how to compete with great powers. As a global power with global interests and responsibilities, the primary geo-political priorities for the US are a stable Europe, greater Middle East, and Indo-Pacific – the three great “lily pads” that link the world together – as well as the critical commons: the air, sea, and cyber routes that connect them. This worldview is different from globalization; it shifts the focus from obsessing about global integration to a preoccupation with global access, including surety, redundancy, resiliency in infrastructure, and supply chains.

This strategic shift explains, in part, the increased attention Washington began to show to the space from the Black Sea to Central Asia. The Trump administration, for instance, looked to improved relations in the Central Asia to strengthen the American position in Afghanistan and challenge the Russian and Chinese spheres of influence.

The US also recognized the value of the middle corridor (this runs from Europe to Kazakhstan, the Caspian Sea, Azerbaijan, and Georgia and, via the Black Sea, to Türkiye) for expanding European energy security, a key aspect of strengthening the NATO alliance. The Trump administration, for instance, embraced the Central European Three Seas Initiative to enhance north–south energy infrastructure. Former President Trump intervened with the Italian Prime Minister to press

² Carafano, J.J. et al., “Preparing the US National Security Strategy for 2020 and Beyond”, *The Heritage Foundation*, May 23, 2019, available at: <https://www.heritage.org/defense/report/preparing-the-us-national-security-strategy-2020-and-beyond> (accessed: September 9, 2022).

for the completion of the Southern Gas Corridor (SGC). Initiatives to pair wider European access to energy, while at the same time opposing the completion of Nord Stream 2, reflected the US interest in limiting the dependence of NATO partners on Russian energy and promoting diverse energy options including Azerbaijan and Central Asia. Notably, the Trump administration did not intervene in the Azerbaijan–Armenia conflict in Autumn 2020, viewing Azerbaijan regaining control over most of its occupied territory as a positive and stabilizing development in the region.

Back to the Future

When Joe Biden assumed the US presidency in 2020, there was initially an abrupt shift in US policy, in large part reflecting a return to more the more traditional post-Cold War policies practised during the Obama administration (2009–2017). Biden intended to readopt of a model of managed competition and cooperation with China, Russia, and Iran. The administration quickly dropped objections to the completion of Nord Stream 2, started talks to re-enter the Iran Deal, and rolled back tariffs on Chinese imports.

Most notably, in the summer of 2021, President Biden abruptly decided on the withdrawal of US forces from Afghanistan. Following this action, the government of Afghanistan quickly collapsed. The potential for the expansion of US influence in South and the Central Asia evaporated as well. Further, the administration demonstrated scant interest in the South Caucasus or Central Asia. This portended a return to a diminishing US interest in the middle corridor. However, what the administration intended to do and the reality of what geopolitics demand quickly proved to be two very different things.

Changing Strategic Landscape: Before and After the Ukraine War

Several factors have come together to cause both Americans and Europeans to rethink how they think about this region in an era of great power competition. Meanwhile, Russia’s protracted war in Ukraine, while raising regional tensions, also exposes the reality that – win, lose, or draw – Russia will require months and years to re-arm and re-equip before it can contemplate further significant expansion in the in post-Soviet space. In the wake of sanctions on Russia after the invasion of

Ukraine, an expanded European effort to improve energy security by diversifying energy sources became an imperative as never before.

To this extent, one significant project that matured despite the many concerns over regional stability was the SGC, which linked gas fields in Azerbaijan via a pipeline from the Caspian Sea to Georgia, Türkiye, and across the Mediterranean to Italy. This project proceeded despite regional challenges, as well as opposition by Germany and Russian efforts to thwart competition by funding environmental and political groups to obstruct competition. The US active engagement with the Italian government brought to fruition the final leg of the system, which is now operational.

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In July 2022, the European Union signed a deal with Azerbaijan to obtain additional gas via the SGC. Though the volume is a fraction of the amount needed to replace Russian gas, the deal is considered strategically important. The SGC has renewed interest in the Caucasus and Central Asia as potential sources of energy, global transport, and logistics, and potentially manufacturing and trade partnerships.

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In addition to the pipeline, regional logistics hubs continue to develop, including the modernization of the port of Poti in Georgia and the redevelopment of the port of Baku in Azerbaijan. Azerbaijan also sees the middle corridor as of strategic importance and promotes regional integration as a priority.

In the following years, Türkiye will likely play an increasingly important role in the South Caucasus. In addition to its current bilateral relations, Türkiye will continue developing closer bonds with Georgia, a strategically important country for connectivity along the middle corridor. With the prospects for NATO and EU membership looking less likely in the near term, Georgia may well turn to Türkiye for the security guarantees and economic engagement it is not gaining at present. Türkiye has been a major investor in and supporter of regional efforts, and has also revitalized the Turkic Council, which includes Azerbaijan, Kazakhstan, Kyrgyzstan, Türkiye, and Uzbekistan. In Central Asia, Uzbekistan appears most forward-leaning in seeing the middle corridor as a strategic advantage and an opportunity to further develop its role in energy, logistics, and manufacturing.

The interest of other stakeholders in engagement with the US, Europe, and, to some extent, South Korea and Japan in this region is growing. Japan, for example, has tested the middle corridor for shipping goods to ports in China, then railed across the Central Asia to Azerbaijan and trans-shipped across the Caspian Sea to Europe. The US is considering a regional hub of its International Development Finance Corporation (DFC) in Tbilisi, Georgia.³

China's effort to develop the middle corridor as part of the vast global "belt and road" network envisioned by Beijing met with scant success. Many regional partners were deeply sceptical of joint projects with the Chinese, witnessing the limited success of the Pakistan–China Economic Corridor and being distrustful of Beijing, which sought to control and dominate projects, often using its own workforce and materials. China, if anything seems to be less engaged in the Caucasus and Southern Europe, focusing more effort on expanding opportunities in Latin America and Africa.

At the same time, a new Iran Deal remains elusive. The regime will still be under significant sanctions, suggesting it is less likely that, in the near-term, Iran will make significant efforts to interfere with its northern neighbours.

Another factor that has changed the state of play and presented a new reality is Azerbaijan's success in the Second Karabakh War in 2020.⁴

Together, these developments leave more geopolitical "breathing spaces" for countries in the region to chart more independent policies.

A Path Forward

While the prospects for an East–West transport corridor look more positive, the likelihood of a North–South economic corridor (Russia to the Caucasus to Iran) looks increasingly less promising due to the continued political and economic isolation of Russia and Iran. Though

3 Dfc.gov, *Expanding trade and port capacity in Georgia*, available at: <https://www.dfc.gov/investment-story/expanding-trade-and-port-capacity-georgia> (accessed: September 30, 2022).

4 Coffey, L., "One Year After the Second Karabakh War, the US Needs to Increase Engagement in the South Caucasus", *The Heritage Foundation*, October 1, 2021, available at: <https://www.heritage.org/europe/report/one-year-after-the-second-karabakh-war-the-us-needs-increase-engagement-the-south> (accessed: September 9, 2022).

the East–West corridor has made significant progress through a combination of public–private investments and management, largely without Chinese funds and influence, there are several issues, such as customs and border controls, data management, and lack of modernized infrastructure, that thwart efficient integration, making the route less economically competitive with the northern corridor across Russia or southern maritime routes. Nevertheless, the global demand for alternative transport and supply chains to mitigate disruptions makes the middle corridor attractive as an alternative means to get some goods to market. As a result, the route will continue to develop. However, a dramatic downturn in demand due to a global economic slowdown would negatively impact future efforts.

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The middle corridor will likely continue to develop as an economic belt with increasing interest and support from the US and Europe, who see the potential for increasing the resilience of supply chains and energy supplies. In addition, both will see strategic benefits in a more stable and prosperous region, buffering global competition with China, Iran, and Russia. As China, Iran, and Russia are all overstretched strategically, and since the corridor is unlikely to be used as a means to isolate or contain any of these powers, it is more likely they will opt for cooperation and acceptance than competition.

That said, there is every expectation that all three will continue to use soft power and “grey zone” tactics to continue to try to influence the political alignment of the region to their advantage. Kazakhstan, for instance, will likely remain highly susceptible to Russian influence. Moscow will also continue to use its partnership with Armenia with a view to impacting Azerbaijan’s policy. Georgia continues to undergo political turmoil with political forces pulling in opposing directions: one pro-Moscow and the other pressing for continuing integration with the West.⁵

There are wild cards that could impact the path of regional progress. One is stable, effective, and focused governments that are able and willing

⁵ Carafano, J.J., “How NATO Can Avoid the Death Spiral on Europe’s Frontier”, *The National Interest*, November 8, 2021, available at: <https://nationalinterest.org/blog/buzz/how-nato-can-avoid-death-spiral-europe%E2%80%99s-frontier-195887> (accessed: September 9, 2022).

to cooperate. Kazakhstan and Georgia are of particular concern. The Russian strategy of using occupied areas and Russian ethnic minorities in neighbouring states to expand its influence and control is likely to continue regardless of the outcome of the war against Ukraine. In particular, influence operations, military threats, and pressure on states such as Kazakhstan and Georgia are bound to increase.

Another is the impact of global inflation and productivity, which could significantly diminish the viability of the middle corridor as a logistics route. A recent assessment from the Pew Research Center finds that the world's forty-four most advanced economies are nearly all seeing a spike in inflation, stating "consumer prices have risen substantially since pre-pandemic times."⁶ The highest is in Türkiye at over 50 percent. US inflation was more than nine percent in June 2022: in contrast, in 2020, the US inflation rate was 1.4 percent. Further, slowing economic growth and, in some cases, recession is plaguing a number of industrialized economies. These developments could very well slow interest and investment in the middle corridor.

Yet another potential gamechanger is the Three Seas Initiative (3SI). This was launched in 2015 as a joint project of Central European nations to promote critical infrastructure development in the region. The goal was to create a regional development initiative that would operate on commercial terms and redress the region's chronic infrastructure shortfalls. If this initiative in Central Europe is a success and looks to extend beyond EU-member states and expand connectivity and integration, there is a potential to grow to a "four seas initiative" looking to bridge projects across the Caspian Sea.⁷

Finally, there is the issue of climate policy, which adjures the development of oil and gas. Oil and gas are crucial to generating the prosperity needed to advance national and regional development in the region. The war against Ukraine, the energy crisis and spiralling prices in Europe have prompted reconsideration and moderation of some of the most aggressive anti-fossil fuel policies. If, however, policies become

⁶ DeSilver, D., "In the US and around the world, inflation is high and getting higher", *Pew Research Center*, June 15, 2022, available at: <https://www.pewresearch.org/fact-tank/2022/06/15/in-the-u-s-and-around-the-world-inflation-is-high-and-getting-higher/> (accessed: September 9, 2022).

⁷ Official website of the Three Sea Initiatives, available at: <https://3seas.eu/about/objectives> (accessed: September 30, 2022).

more strident, that could significantly and adversely affect the region.

Trigger Points (In Lieu of Conclusion)

There are several developments to watch for that could well signal whether the middle corridor is going to continue to gain momentum as an area of strategic interest for the West – or not.

Military to military cooperation: The US currently provides limited security assistance and no military sales programme to Azerbaijan as a result of prohibitions dating to the early years of the conflict with Armenia. If those restrictions are lifted and Washington actively engages in helping Baku enhance its self-defence capabilities, that will be an important sign of deeper US commitment to security and stability in the region. Whether progress is made in this area will largely be determined not only by US–Azerbaijani bilateral relations, but by the how the administration handles an aggressive Armenian lobbying effort targeting the administration and Congress.

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Three Seas Initiative: A successful expansion of the 3SI would bode well for the South Caucasus, if the 3SI receives a burst of support from the Partnership for Global Infrastructure and Investment or a substantial role in the reconstruction of Ukraine. At present, there are too many unknowns in the G7 plan, including reconciling the need for energy security with ambitious plans for a rapid green energy transition, the governance structure and funding for the G7 initiative, and the counter-actions to be expected from China and Russia to thwart Central Europe’s consolidation with the West. Regional issues that increase instability, however, such as renewed conflict in the Balkans, could also impact the focus on and efforts towards 3SI. The deciding factor in how 3SI develops could well be how effectively the region engages with Washington, Berlin, and Brussels. The Central European nations need powerful strategic partners to jump start their initiative; for that to happen, however, Central Europeans will need to deliver a more coherent and collective effort and sustained and persistent presence on the initiative in all three capitals.⁸

⁸ Kim, A., “3 Seas Initiative Deserves Greater Attention, America’s Increased Strategic Support”, *The Heritage Foundation*, June 21, 2022, available at: <https://www.heritage.org/europe/commentary/3-seas-initiative-deserves-greater-attention-americas-increased-strategic-support> (accessed: September 9, 2022).

The Caspian region's great energy resources could play a significant role in helping Europe to loosen its dependence on Russia for oil and gas.

Black Sea Security: An increasing NATO role in Black Sea security and stability would be another indicator of further interest in linking to the middle corridor. The NATO Strategic Concept unveiled in Madrid in 2022 highlighted the necessity of strengthening NATO's forward defensive posture, particularly singling out the Black Sea.⁹ This development is unsurprising given

Russia's war on Ukraine. Without question, beyond energy, maritime transport, and geopolitics, regional security will be the number one driver of competition and cooperation in the Black Sea region. Among the other inescapable realities that the war against Ukraine confirms is that the Black Sea is definitely part of Russia's strategic priority, now and into the future. Dominating the Black Sea is part of Russia's "counter encirclement" strategy. Weakening NATO's strategic position in the region is also important for China's plans to expand its scope of influence in Europe and North Africa. It is clear that Türkiye will continue to try to steer a course maintaining a relationship with Russia and its good standing as a NATO member. This will most strongly be reflected in continuing what Ankara sees as its stewardship role in the Black Sea, with free and open access to commerce over the long-term after the Ukraine conflict resolves, one way or the other. The role NATO, in particular the US and its Central European allies, chooses to play will be key. If they move aggressively to ensure a free and open Black Sea, that will be a prerequisite to assuring a linkage to the middle corridor.

Transcaspian Gas Pipeline: Another important indicator will be foreign interest in investment in the Transcaspian Gas Pipeline. The Caspian region's great energy resources could play a significant role in helping Europe to loosen its dependence on Russia for oil and gas. Europe already imports oil and gas from the Caspian, but it desperately needs oil and gas from Central Asia, and the only practical, cost-effective means to achieve this end is transportation initiatives that connect the eastern and western shores of the Caspian while bypassing both Russia and Iran.¹⁰

9 Nato.int, "The Strategic Concept's Key Aspects", available at: <https://www.nato.int/strategic-concept/> (accessed: September 30, 2022).

10 Coffey, L., "A Trans-Caspian Gas Pipeline: Start Small but Aim Big", *The Heritage Foundation*, May 20, 2019, available at: <https://www.heritage.org/global-politics/commentary/trans-caspian-gas-pipeline-start-small-aim-big> (accessed: September 9, 2022).

Climate Policy: Look for a significant shift in US and European climate policy that takes a more realistic approach to gas and oil investments.¹¹ Europe needs more energy. The notion that a short-term fix of importing more oil and gas can be a stop gap to a transition to a continent powered by green energy is fanciful. For starters, renewable energies will never meet Europe's future needs. Further, no one is going to invest in more gas and oil infrastructure on the premise that these will be abandoned in a few years. There must be an opportunity to recoup their investments. Realistic investments in more oil and gas infrastructure are a prerequisite to more integration between the West and the middle corridor.

There are no guarantees that the US strategic interest in the region will be sustained over time. After all, in a region bordered by Europe, Russia, Iran, and Central Asia, lots of people get a vote in the future peace, security and prosperity of the neighbourhood. The reality is that the region and the wider circle nations that border the Caucasus would all benefit from a middle corridor that added to the value chain through the free flow of goods and services from East to West. It is project that should accommodate many interests.

11 Graziosi, S. and Carafano, J.J., "Europe still struggling through Ukraine crisis", *The Korean Herald*, April 27, 2022, available at: <https://m.koreaherald.com/view.php?ud=20220425000858> (accessed: September 9, 2022).