

University of California, Berkeley

**Berkeley Program in Soviet and Post-Soviet Studies  
Center for Slavic and East European Studies**

***STATE BUILDING AND THE  
RECONSTRUCTION OF SHATTERED SOCIETIES***

**April 20, 1999**

**Conference Report**



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Editors:

Ivan Ascher, Alexandra Patten, Denise Monczewski

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# *State Building and the Reconstruction of Shattered Societies*

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# State Building and the Reconstruction of Shattered Societies

April 30, 1999

University of California at Berkeley

## Conference Participants

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**Stephan Astourian** is the William Saroyan Visiting Professor in Armenian Studies at UC Berkeley for 1998-1999 and 1999-2000. Professor Astourian received his Ph.D. from the University of California, Los Angeles in 1996 in the Department of History. He completed his undergraduate studies at the University of Paris (Sorbonne). He has taught at the University of Michigan, Ann Arbor, California State University, Long Beach, and UCLA prior to coming to Berkeley. He is a specialist in Armenian and Ottoman history since 1500; the history of the Caucasus, Central Asia, and the Middle East; and European intellectual and cultural history. He was the editor-in-chief of *Jusur: The UCLA Journal of Middle Eastern Studies* from 1988-90. He has published numerous articles and book reviews on Armenian history, national identity and nation-building, and contemporary Armenian and South Caucasus politics.

**Vladimir Degoev** is Professor of History at North Ossetian State University (NOSU), Vladikavkaz, Russian Federation, and a Visiting Scholar in the Department of History at UC Berkeley in Spring 1999. He received his doctorate in History from Moscow State University in 1988 and a masters from NOSU in 1972. He has been a Visiting Professor at Stanford University (1994) and at Appalachian State University (1993). He is an expert on Russian nineteenth century history, Russia in the Caucasus, and Caucasian history generally. He is the author of numerous books and papers, including *The Caucasian War* [in Russian] with M. Bliev (1994), and *The Caucasian Question in International Relations, 1830s-1860s* [in Russian] (1992). He is currently working on a book entitled *Imam Shamil: The Prophet, Ruler, Warrior*.

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## Introduction

*Edward W. Walker*

The title of this conference—“State Building and the Reconstruction of Shattered Societies”—is an appropriate one given the conflict and instability that still persists in our region of study. Sadly, the past year has confirmed how difficult it will be to build and consolidate the new states in the region and to return to a condition where the peoples of the Caucasus no longer have good reason to look back on the Soviet past with nostalgia. Certainly the political and economic changes that began in the region in the late 1980s have been extremely disruptive. Not only have the peoples of the region suffered from the economic costs of decentralizing and marketizing their economies, as well as the political difficulties associated with constructing new political and legal infrastructures, but they have had to contend with full-blown wars in Nagorno-Karabakh, Abkhazia, South Ossetia, and Chechnya, and a civil war between ethnic Georgians in 1991-92, wars that may well have killed over 100,000 people. The region was also struck by a devastating earthquake, centered in Armenia, that killed another 20,000 to 30,000 people and caused massive damage in late 1988.

Despite these difficulties, there were some encouraging signs of regional stabilization and recovery in 1997. All three countries of the South Caucasus—Armenia, Azerbaijan, and Georgia—recorded positive economic growth that year for the first time since the Soviet collapse. The level of violence in the region had abated, with precarious cease-fires in place in all the former war zones. In Karabakh, there even seemed to be some prospect of a political settlement between Armenians and Azeris, brokered by the OSCE’s so-called “Minsk” Group. In Azerbaijan and Georgia, internal order had been more or less restored, at least when compared to the political turmoil during the years immediately following the Soviet collapse. In Chechnya, the war between Russian federal forces and Chechen rebels of 1994-96 had been ended by the Khasavyurt Agreement; a moderate, Aslan Maskhadov, had been elected president; and there was at least some prospect that the appalling conditions in the republic might begin to improve, in part because of plans to begin pumping oil through a pipeline running from Baku, in Azerbaijan, through Chechnya and then on to the Russian port of Novorossiisk. More broadly, there was considerable optimism about the size of the Caspian’s oil and gas reserves and about the prospect that Caspian oil and gas would become an engine of growth and a promoter of stability throughout the region. There was even talk of a “peace pipeline” from Azerbaijan through Armenia that would pass into Turkey, while in Georgia there were high expectations for the European Union’s plan to build a transportation route from Central Asia through Georgia into Eastern Europe that would, in effect, resurrect the ancient Silk Road.

When I visited the Caucasus in the summer of 1997, I was accordingly struck by the palpable improvement in the atmosphere, as well as in general political and economic conditions, compared to the previous year. There was a sense of cautious optimism, particularly in Tbilisi and Baku, with most people expressing the hope that the worst was over. Reflecting this optimism, there were countless conferences on “regional cooperation,” “regional development,” and “regional security.”

Unfortunately, 1998 reminded us that the Caucasus still has an enormous number of problems to overcome and that whatever stability there is in the region remains brittle. Last year, there was a “constitutional coup” in Armenia; an assassination attempt against President Shevardnadze in Georgia; currency depreciations after the Russian economic crisis, most notably in Georgia; the expulsion of repatriated Georgians from southern Abkhazia; the failure of the OSCE Minsk Group’s peace plan for Karabakh; a tainted presidential election in Azerbaijan and political violence on the streets of Baku; and a collapse in the price of oil and other commodities on world markets. By far the most unhappy part of the region, however, is still the eastern part of Russia’s North Caucasus, particularly Chechnya but also Dagestan, where internal political disorder and conflict have been accompanied by an explosion of crime and kidnappings, culminating in the murder of four Western employees of a British telecommunications company in the republic at the end of 1998. These developments have contributed to the almost obsessive fear that Russian officials have about a growing security threat to Moscow from Islamic fundamentalism, particularly so-called “Wahhabism,” which they believe is becoming increasingly entrenched in Chechnya and Dagestan.

Indeed, we probably should have put a question mark at the end of the title of the conference this year—“State Building and the Reconstruction of Shattered Societies?” I should say, however, that I believe that, at least in most cases (with the possible exception of Dagestan and Chechnya), the worst is over and that material conditions for most people are likely to get better before they get worse. But it will be a very long time before the region returns to the political stability and living standards of the late Soviet period.

Let me take the opportunity to thank our sponsors. We are very grateful to the Ford Foundation for giving us a startup grant some five years ago for our Caucasus initiative. I would also like to thank the U.S. Department of Education for contributing funding for advertising and the reproduction of the handouts. Finally, let me thank the National Security Education Program (NSEP) for providing us with a follow-on grant two years ago for our Caucasus initiative. The NSEP grant will allow us to carry the initiative forward into 1999-2000, expand it to cover the other Caspian littoral states, and publish a report of this year’s conference’s proceedings.

# The Challenge of the Caucasus to Russian Statehood: The Legacy of History

*Vladimir Degoev*

Relations between center and periphery are notoriously complicated in any state of considerable size. In Russia, these relations became particularly important and complex as the empire expanded, spreading over vast territories with populations of considerable diversity (whether ethnic, religious, economic or cultural). As they looked for ways to hold the empire together, rulers in Moscow and Saint Petersburg found that force was not enough, and they adapted their policies to realities encountered on the ground. The government thus sided with regional elites where they existed and fostered their creation where they had not yet appeared, all the while co-opting them into an increasingly international “Russian” ruling class. It showed some tolerance toward non-Orthodox populations and allowed the newly acquired provinces to preserve a degree of autonomy.

It is partly thanks to geography that Russia was able to build its empire relatively peacefully. Since the days of Kievan Rus, the Slavs in the East-European plain were surrounded by different peoples, with whom relations were not always hostile. There were wars and conflicts, but there were also extensive trade and cultural relations between Kievan Rus and the world outside; not to mention the normal diplomatic and personal relations that exist between rulers of different countries. Even the struggle between “the forest” and “the steppes,” to use Solovyov’s words, eternal as it seems, was in fact sporadic and interspersed with long periods of calm and reasonably harmonious relations.

The lands that stretched south and east of Moscow were not *terra incognita* to the capital city. These were familiar territories that were not necessarily hostile, and in some ways the story of Russian expansion bears a resemblance to the American frontier. In the eighteenth and early nineteenth century, the tumultuous border region between Russia and the North Caucasus was torn between war and peace, between cruelty and compassion, and was never simply a battlefield. It was often a meeting place where people formed commercial, political, and personal ties, increasing mutual understanding and reducing distrust between groups. The incessant migration flows and the emergence of economic and religious urban centers all contributed to diversifying the region’s demographic and cultural make-up.

For all of Russia’s mistakes in the North Caucasus, its policy toward the region overall was one of pragmatism. Rather than force all the territories to fit a single administrative standard, Russia chose to adapt to the realities of the region. St. Petersburg abandoned attempts to reshape the Caucasus into a typical Russian *guberniya* (indeed the official use of the term *guberniya* in documents concerning the North Caucasus did not in itself mean anything), and until the early 1860’s the highlanders saw rather little Russian interference in their lives. Their patriarchal social order was left almost intact, and Russia even tried to restore it where it had been disturbed by Shamil’s Islamic reforms. Testifying to the adaptability of Russian policy to local requirements, special institutions were established in the latter half of the nineteenth century that

introduced basic forms of statehood to the population but also took local customs and mindsets into account.

The fact that Russia set up such institutions to ease the regions' "transition" into the empire does not diminish the scope or consequences of its regional policy. It means simply that the Tsar's government realized the dangers entailed in unifying the empire too quickly. Indeed the so-called "transitional" phase lasted well into the twentieth century, though at times, of course, the government succumbed to temptation and tried to speed up the "transition."

Soviet historians (and many contemporary historians as well) have insisted that St. Petersburg's social policy toward the Caucasus was based on a "class approach." In the final analysis, however, it is obvious that Russia's policy was mostly pragmatic—Russia supported the social and religious forces that were most loyal to her. Russia's pragmatism is also evident in the unusual level of autonomy granted by St. Petersburg to the Cossacks in their territories (which had been remarkably democratic and self-sufficient).

Russia did not act in the Transcaucasus as bluntly or uncompromisingly as some scholars seem to believe. In many cases, Russia was in no rush to remove local potentates and remained satisfied with their formal declarations of loyalty. As a result, domestic politics in the Khanates of the Transcaucasus remained unchanged for a long time.

Russia's "centralizing" tendencies cannot be dismissed, however, and many in the corridors of power wanted the Caucasus to become part of the Russian imperial structure. But there also existed trends toward "regionalism," and though some historians argue that these diverging trends both led, in the end, to the imposition of a rigid imperial pattern, policy in the nineteenth century allowed in fact for considerable political, social, religious and cultural diversity (e.g., in Poland, Finland, the Baltic provinces, and Bessarabia).

In the Caucasus, a Caucasian Viceroyalty was established in 1845 as a special form of government that was adapted to local realities. A kind of "state within the state," it was led by intelligent pragmatists who knew the region well, respected its inhabitants, and considered it counterproductive to incorporate the Caucasus into the Russian empire by sheer force. Instead, they argued, measures should be taken to promote mutual understanding (and mutual gains) between people. They understood that the multiethnic and multicultural universe of the Caucasus was the result of a centuries-long evolution and that the Caucasus would never become completely Russian. Perhaps it could be turned into an integral part of the Russian Empire, but even that would require caution and constant attention. Accordingly, the Tsar's government established a "Caucasian Committee," a semi-autonomous department that included experts on the region and was supervised by top Russian officials.

Whatever criticisms it may deserve, Tsarist policy in the Caucasus was at least designed by intelligent people, some of whom we would today call "professional scholars" of the Caucasus. As experts on the peoples, languages, religions, geography, and economy of the region, they sometimes enjoyed considerable influence on decision-making in St. Petersburg and Tiflis.

Russian policy in the Caucasus was not without failures, but it was systematic—the ends were very clear, the means reasonably so, and the staff was competent. Tsarist experience in the region convinced the government to forsake the usual colonial policy and attempts at standardizing the empire.

Too often, discussions about Russia and the Caucasus are reduced to the question: was this a case of “military conquest” or one of “voluntary incorporation”? This formulation is fundamentally incorrect, for it overlooks the complexity of the relations between Russia and the Caucasus. These ran from hatred to friendship, and cannot be painted simply in black and white. Historically, it is as if a centripetal force drew the Caucasus into Russia’s geopolitical orbit and a centrifugal force kept the two regions apart. Ultimately, the first force proved greater, since it lasted past the 1917 Revolution, the Civil War, and the period of foreign intervention, when the Caucasus conceivably could have seceded from Russia.

When various regions of the Caucasus declared independence between 1917 and 1921, it was not so much in order to escape the Russian Empire as to escape chaos and the promise of ruin. There were still pro-Russian sentiments among the local elites and the population, who were deeply embedded in the socio-economic, political, and cultural matrix of the empire. In fact, the very existence of local elites owed a great deal to the Russian imperial framework. Indeed, attempts at creating quasi-bourgeois and democratic states in the Caucasus could not have even been envisaged without the economic progress of the late nineteenth-early twentieth century, the restructuring of the local population, and the spread of Western ideas (including Marxism).

The Bolsheviks thus inherited a unique territory of great size and complexity, which they dealt with remarkable ingenuity. After renouncing revolutionary romanticism (all the while intensifying the revolutionary rhetoric), they managed to centralize state power to the extreme and enslave all groups in society. To borrow a phrase from Solovyov, a new “loan” was taken from the peoples of the empire, this time for the creation of a Communist paradise. Inspired by such grandiose hopes, the masses responded with enthusiasm and were ready to sacrifice the present in the name of the future. Of course, the Bolsheviks realized that in designing the blueprint for this Communist dream, they had to stage their experiment not on a world scale but in a single country, in roughly what had been the Russian Empire. They made the necessary sacrifices (of Poland and Finland), some of which proved but temporary, but preserved the empire in the main. Thus, it turned out that the empire had its inherent cohesiveness. Totalitarian dictatorship alone cannot explain their success, for no amount of coercion could have prevented an empire that vast from coming undone, had it been inclined to do so.

Communism’s potential for social cohesion was the Bolsheviks’ main ideological weapon. The Communist illusion, indeed, held greater promise in this domain than the three available alternatives: a theory of official nationality based on orthodoxy, autocracy, and ethnicity; non-Marxist Western doctrines, which clearly served the interests of a social minority; and nationalist doctrines that proclaimed the superiority of one race over others. On the ideological front, then, the Bolsheviks knew no rivals: the universalistic scope and messianic implications of Communism gave them a *carte blanche* to run a grandiose experiment, the results of which are still not entirely clear.

From 1917 to 1921, all political parties in Russia were more or less utopian, except for the Bolsheviks. Humanistic rhetoric notwithstanding, they were pragmatic, if not cynical, in their policies, and they clearly sought to preserve the autocratic tradition of the empire, masking it in order to obtain the support of the masses. The Bolsheviks thus proved to be better heirs to the Tsar than the Russian bourgeoisie. The Communists managed to industrialize the country in record time, reducing the discrepancy between Russia's geopolitical stature and economic weakness, catching up with the West in time for a second round of partitioning the world after World War II. In a sense, they deserve credit for spectacular economic successes, which they achieved through a non-economic form of coercion (to use the Marxist term), or rather, through a kind of non-economic enticement. They made the future so hypnotic that people looked to it with joyful and frenzied anticipation, ready to endure the present and its harshness. All told, the Bolsheviks' experiment was a mix of socialism, capitalism, autocracy, communist religion, and pseudo-parliamentarism. But perhaps the most striking feature of the Soviet system was its solution to the "nationalities problem."

After two masterful decrees "On Peace" and "On Land," the Bolsheviks issued a third and even more remarkable decree proclaiming the right of all nations in Russia to self-determination, which included the right to secession. The subtext of the proclamation went something like this: "Break away if you wish. But ask yourself: what for? To give complete power to your own khans, landlords, and capitalists? To become a colony of the great powers?" The Bolsheviks proposed paradise, and very few would choose to separate from a country that held such promise. Thus, the Bolsheviks condemned the empire in word, but in deed they did their best to preserve and strengthen its structure. They were able to unify the peoples of Russia "horizontally," by instilling their new ideology and its biblical message, and "vertically," by creating a totalitarian power structure that incorporated the local Communist-minded elites. The resulting combination has no parallel in history: a centralized totalitarian empire comprised of national quasi-states. This system, so complex and yet so simple, was held together by a peculiar social structure, which, though democratic in appearance, was feudal in reality.

Morality and justice aside, the Soviet party machinery proved a highly efficient and durable institution. In addition to the shared Soviet economy, culture, way of life, and Russian language which gave it cohesion, the supra-national character of the Communist party machinery served to neutralize possible interethnic tensions. Indeed, elites in the Caucasus felt closer to members of their own class in Russia than they did to their ethnic kin. Likewise, Soviet party functionaries of different ethnic backgrounds understood each other better than they understood people of their own ethnic background. The USSR became a kind of Fourth Rome, combining the aspirations of a great power to world supremacy with the ideals of social justice and national equality.

Taking advantage of the trends in Russia-Caucasus relations, the Soviets were able to achieve a high degree of cohesion between the two regions within their modernized imperial mold. The Caucasian periphery was made a part of the USSR, itself a grandiose and remarkably solid geopolitical structure, and the concepts of "the new historical community of peoples" (which stood for "Soviet society") and of "the friendship of peoples" (*bratsvo narodov*) were much more than chimeras. However much they were used in Party propaganda, these were

meaningful concepts that reduced interethnic tensions where they existed and, along with totalitarianism, served as an effective deterrent.

The USSR's difficulties in the 1980s need not have been fatal. With time and attention, they might have been understood and addressed successfully. Instead, the entire country underwent irreparable surgery at the hands of young reformers, as self-confident as they were unqualified. There is no telling what alternatives existed, but the causes of the collapse are worth considering. Some scholars say the process of disintegration started from above; others say it started from below. Many even think that the crisis was deliberately catalyzed from the outside. At any rate, it is clear that the conflict between the center and the periphery (including the Transcaucasus) played a considerable role in bringing down the USSR. Initially, it surfaced as a clash between ruling elites. As the struggle continued, however, it moved down into society and drew ethnic groups into conflict.

To this day, the centrifugal trends initiated by the Kremlin are gathering momentum, only this time they are threatening the integrity of the Russian Federation. The possibility of disintegration exists along various dimensions: socio-economic, political, ideological, cultural, and ethnic. Letting such trends continue unabated will destroy Russia. The oligarchization of the Russian economy and body politic, coupled with rampant crime, is undermining society's foundation. For many people in the former Soviet Union, breaking away from Russia seems to be the only hope, when the Kremlin commits only blunder upon blunder. Its gravest mistake was the war in Chechnya, which precipitated a severe crisis in the Russian federal structure and left Russian-Chechen relations at a standstill. Regions are calling for increasing autonomy, and local elites are blackmailing Moscow into granting it. Chechnya's *de facto* secession and its assertive "foreign policy" in the North Caucasus, Lower Volga, the CIS, and beyond have set a precedent that could be followed by others in short order.

The Chechen syndrome will keep Russia from finding its own path for years to come, assuming that Russia wishes to remain a great multinational power. But even if the Kremlin had not committed its disastrous mistake in Chechnya, Russia sooner or later would have had to confront issues of identity in all its aspects: political, economic, ideological, cultural, and psychological.

Allowing present trends to continue would mean chronic problems for Russia and the world community. Too much time has passed already, and many windows of opportunity have been shut. The most one can attempt now is to preserve what exists, but even that will require a functioning power structure capable of strong social and economic policy. It will also require a flexible arrangement between "the center" and "the periphery": an arrangement that allows for different types of relations—from loose and even symbolic ties to more closely knit connections. In elaborating such a model, one may wish to examine the nineteenth century experience of the Russian empire, not because it is an example to follow, but because it suggests that Russia could indeed be strengthened, not undermined, by a political and administrative arrangement less rigid than the one in place today.

# Society, Nation, State: Ethnographic Perspectives on Armenia

*Stephanie Platz*

I will speak today about problems of social fragmentation in Caucasian society. In the ethnographic examination of transitions to independence, we discover that beyond the macro-level problems of war and poverty, shifting alignments of state-society relations may fragment existing social networks. Such micro-level phenomena are the ingredients from which civil society and new states emerge. My case study is Armenia, where, as in Georgia and Azerbaijan, social change was forged during a period of crisis. My particular concern is with changes in the fabric of social life that were triggered by the disintegration of a central Soviet state and the emergence of a national one.

Armenia was one of the most densely populated and technologically developed republics of the Soviet Union. In the 1970's, a policy of urbanization more than doubled the population of Armenia's capital city, Yerevan. In a single decade, the population grew from approximately 500,000 to more than one million, bringing hundreds of thousands of villagers to the city. By 1990, more than 60 percent of Armenia's population lived in Yerevan and its industrial environs. This rapid industrialization and migration severely overloaded the existing urban infrastructure and exacerbated shortages of food, housing, and services, problems that were endemic to Soviet society.

These shortages necessitated continuous interdependence among relatives and acquaintances, even as rural patterns of interdependence were being imported to the city. For example, as in other parts of the Soviet Union, one woman might wait in line for eggs, purchase enough for two families, and then divide the eggs and trade with a cousin, who had waited in line for coffee. Patterns of intense interdependence among relations and neighbors, characteristic of village life, were revived and enacted in Yerevan, resulting in a sometimes permeable boundary between kinship (*barekamut 'yun*) and "neighborship" (*harevanut 'yun*).

Kinship, in the Soviet era, was an important part of Armenian daily life and identity. Although Soviet and Western sources on kinship under state socialism have sometimes argued that extended family traditions had been eradicated with the implementation of Soviet policy (Creuziger 1993: 24; Girenko 1984), ideologies of "traditional" kinship persisted and were associated with images of national identity portrayed in daily discourse. Armenians conceived of their "traditional" kinship as a static and enduring model that was distinctly and uniquely Armenian. Individual identity was both constructed and understood with reference to a "traditional" extended family, even when actual behavior diverged from the ideal. Further, it was in the performance of kin-based duties and emotions that individuals were considered to be "Armenian" or not.

Concepts of Armenianness and of the family were mutually reinforcing, both because kin-based roles (such as bride, mother-in-law, and patriarch) were thought to be characteristically Armenian, and because the Armenian nation (*azg*) derives from lineages composed of extended



families. Married sons lived with their parents, and their mothers were responsible for food preparation. Daughters and wives in an extended family household were generally responsible for housework and childcare, while the senior male of the household and his sons were responsible for the family's income. Exceptions to these traditions were not uncommon, but divergence from kinship stereotypes was regarded as "un-Armenian."

While urban infrastructure in Armenia enabled sustained closeness and interdependence of kin, which in turn permitted the endurance of practices thought of as "traditional," Soviet housing neither reflected nor accommodated the reality of Armenian kinship practices. Because Soviet design was premised upon a nuclear family, including a single married couple and young children, basic units never met the needs of multigenerational, patrilocal, Armenian families. Consequently, Armenians became famous in the Soviet Union for their propensity to remodel their apartments from within and to build illegal additions to state buildings from without. In fact, this form of domestication, or "place-making," as Vysokovskii (1993:276) calls it, was so prevalent that a majority of apartments had been enlarged in that way. Yet given the overcrowding of urban apartments, many Soviet Armenians struggled daily to maintain a sense of privacy. The Yerevan public transportation system functioned quite effectively, and school friends, married women, and kin were able to communicate and visit regularly, despite being separated by one to ten kilometers of urban landscape.

Visiting and entertaining were two components of a significant tradition of hospitality. It was both appropriate and respectful to visit the homes of neighbors, colleagues, and acquaintances—alone or with one's own kin or companions—and visits were invariably met with the "spreading of a table" (*seghan gts'el*). As in other parts of the Caucasus region, hospitality included a reciprocal obligation, by which "to fail or refuse to give hospitality is unthinkable; to decline to take it (or more generally, to fail to maximize others' opportunities to offer it) is ill-mannered and offensive" (Nichols 1994: 74). The reciprocal obligation entailed in this hospitality was both salient and compelling: guests and hosts respected each other by enacting their roles appropriately, and they further perpetuated the show of respect by switching roles in future visits. To fail to behave appropriately as a host or guest, or to fail to return a visitor's respect with a subsequent visit, could lead to offense and dishonor.

Spontaneous visits among old and new friends were obligatory: to fail to make a spontaneous visit to an acquaintance's home could be interpreted as a sign of disaffection. Armenian women facilitated this tradition by constantly preparing large quantities of excess food in case a guest might appear. It was considered shameful to be unprepared with food and drink when receiving a surprise visitor.

Yerevan residents frequently visited family in the village, and village residents came regularly to Yerevan, resulting in a permeable, fluid boundary between city and countryside. Hospitality and visiting, like multigenerational residence, were important components of Armenians' descriptions of themselves as "close" (*motik*) people, who value "closeness" (*motikut 'yun*). Until the 1990s, urban conditions in Yerevan facilitated the interdependence, interconnection, and closeness of people in daily life. Though a fully industrialized, modern city, Yerevan's transportation and communication infrastructure allowed many kin and social networks imported or reconstituted from villages to flourish. At the same time, it enabled the

maintenance of relations with kin still in the villages, as well as new networks based on neighborhoods and the workplace, to develop. Understanding of Armenianness depended simultaneously on perceptions of Armenia as a “modern”, industrially developed, and “advanced” society with good economic and technological standing within the Soviet Union. It also depended on attachments to pre-Soviet “traditional” practices, such as kinship, which were thought to resemble, and to support, continuity with the national past.

The transition from socialism began in 1988 with the Karabakh Movement, a mass movement in support of national self-determination. Unprecedented in Soviet history in both its nature and its scope, the movement brought hundreds of thousands of Armenians to demonstrate in Yerevan for the transfer of Nagorno-Karabakh from Azerbaijan to Armenia, for the fulfillment of constitutional rights, and eventually for the redress of historical grievances and independence from the Soviet Union. Meetings of the movement bolstered enthusiasm and expectations for independence, and for two years prior to independence (1988-1990) fostered a “euphoric” pan-Armenian solidarity (Abrahamian 1993:103-9; Dudwick 1994:168), which many anticipated would replace the corrupt relations of bureaucratic authority that characterized Soviet society.

In the same period, armed conflict in Nagorno-Karabakh itself escalated into a war between Karabakh Armenians and Azerbaijan, with Armenia playing a strong role in support of its ethnic brethren across the border. In retaliation, Azerbaijan placed sanctions upon Armenia, in the form of a total economic blockade, which effectively interrupted the flow of natural gas and oil into landlocked Armenia. The impact of this blockade was all the greater because Armenian environmentalists, in concert with national activists, had pressured the government to shut Armenia’s nuclear power plant, following a devastating earthquake in December 1988. Beginning in November 1991, the flow of energy into Armenia decreased and then stopped. The lack of energy halted industry and dampened the political aspirations and expectations of the Armenian people. With Turkey’s border closed to the west in solidarity with Turkic interests in Azerbaijan, the Iranian border closed to the southeast as a legacy of Soviet policy, and all land routes through Georgia subject to sabotage in the chaos that immediately followed independence, Armenia underwent a catastrophic energy crisis.

Thus independence began with an energy crisis that resulted in irregularly rationed electricity and long periods of total blackout, a permanent end to heat and hot water (previously provided by the state), and the halt of Armenian industry. Without energy, only a small number of new private businesses functioned, while state employees of factories and other institutions were indefinitely laid off. The impact of the energy crisis is reflected in statistical data compiled between 1992 and 1994. In the short interval between 1988 and 1993, Armenia’s gross national product underwent a five- to six-fold decline, and by 1994 only 30 percent of Armenia’s industry was functioning. Though Armenians had enjoyed one of the highest standards of living in the Soviet Union, unemployment in Armenia rose to the highest level in the CIS, at the same time that estimates indicated that 94 percent of the population lived below the international poverty line. Prior to the introduction of the Armenian national currency, prices rose as much as 100 percent in a single day. Even after the stabilization of the Dram in 1994, an estimated 80 percent of the population could not afford the minimum amount of basic foodstuffs, and the average family continued spending 80 percent of its monthly income on food. During the same period, the Armenian Ministry of Economics estimated that the cost of minimal nutrition for an

individual was 35 times the amount of the average monthly wage, which was somewhere between one and two U.S. dollars. To make matters worse, in 1993 approximately one-third of Armenia's entire population was estimated to be homeless, including more than 300,000 refugees from the war in Nagorno-Karabakh, and more than 500,000 who had lost their homes in the 1988 earthquake.

By 1991, the vast majority of Armenia's population lived either in towns or cities like Yerevan. Such urban landscapes changed rapidly as the decorative trees which adorned them were cut down, to be burned in homes for heat or cooking. Lumber brought from outside of Armenia was scarce, and indigenous resources were quickly depleted. Eventually, when people had burned everything that was expendable at home, and had exhausted all the lumber supplies available to them, they began to burn wooden boards from park benches and any other random bits of wood found around the city. Not only did deforestation and smoke-blackened walls transform the city's outer appearance, but the consumption of municipal lumber severely inhibited the flow of people through the parks and cafes, where they once went for privacy.

Other factors began to make the city's streets and parks less welcoming and navigable to pedestrians, as well. As municipal resources dwindled, the city curtailed many of its services, such as garbage collection and pest control. Piles of garbage around dumpsters on street corners grew higher and wider, often blocking passage with their size and stench. The garbage attracted wild dogs and rats, which combined with the lack of streetlights made dark city streets dangerous in the evening. Such changes in the urban landscape dramatically altered the motion of people through it.

As a new, commercial elite began to form, however, flashy shops opened around the city, selling a random collection of luxury and status items, mixed with appliances, tools, and food products. The availability of these goods almost instantaneously began to stratify society visually, distinguishing the *nouveau riche* from the increasingly impoverished. Networks of entrepreneurs began selling fuel from trucks at the roadside, at the same time that state-owned gas stations closed. Few could afford fuel to drive cars, and the state itself was forced to curtail public transportation for lack of financial resources. Developments such as these transformed the urban landscape, rearranging the loci of commerce, changing the daily patterns of motion through the city, and the boundaries between the public and the private.

Within a changing city, private homes began to change as well. As the winter weather reached record cold temperatures and indoor temperatures dropped below freezing, many families installed homemade gas and wood burning stoves in their living rooms. This installation required many changes to the apartment itself. Cement blocks or stones had to be placed under the stove, so that its heat would not burn the floor, and beds were often arranged in a single room, so that all family members could sleep near a source of heat. When food was prepared on a stove in the living room, the kitchen ceased to be a place where women would gather to talk and share chores. On cold winter days, when workplaces and schools were closed, entire families might sit in relative darkness, around a stove in a single room, sometimes joined by neighbors, friends, or kin. However, gatherings became largely impromptu, or coincidental, as phone lines went down and public transportation flagged, impeding communication.

Gradually, as unemployment and inflation grew, many families began to burn their collections of books and, eventually, pieces of their furniture for heat in the winter, further altering the configuration of domestic space. Valuable items such as jewelry, crystal, china and art, which once domesticated the space and incorporated it into the realm of social relations, were sold to pay for food and fuel. Alterations to the domestic environment such as these had severe consequences for the flow of people through space and for relations between individuals and families. Two important symbols of social status—material wealth and hospitality in the form of elaborate banquets held for weddings, funerals, graduations, or impromptu gatherings—were heavily impacted by financial hardship, the rearrangement of domestic space, and the lack of cooking fuel. Thus, relations among neighbors, friends, extended families, and colleagues began to change, as embarrassment about the inability to be hospitable grew. On the one hand, people did not want to induce their loved ones to go to an expense they could not afford or to be shamed by being unable to respect their visitors with the hospitality of food and drink. On the other hand, they did not want to incur the reciprocal obligation of returning hospitality to someone they had visited, due to the embarrassment of not being able to lavish them with traditional excess. Despite the mutual good will underlying their decisions not to visit one another spontaneously, individuals could not avoid taking offense instinctively at the absence of friends and family who failed to appear. Often, such offenses grew incrementally into estrangement, influencing individual and collective identities, by contradicting the ideal of closeness (*motikut'yun*), which had been conceived of as an inherent part of being Armenian.

Transformations of the physical and social configurations of city and home altered the patterns of implicit and explicit action of individuals upon which identity in everyday life was based. Without cooking gas, women began to prepare food on electric hot plates and space heaters when electricity was available. In the summer, an elaborate calculus was required for maximizing the cooking time allowed by one or two hours of electricity without producing an excessive quantity of food which might spoil without refrigeration. Water had to be stored in tubs, buckets, pots and pans so that it could be heated during the hours of electricity. Because hours of rationed electricity and water were not scheduled by the state, it was usually necessary for at least one family member to stay home to collect fresh water during the day. Cooking, bathing, and laundry could only be accomplished when electricity and water were present, so many women began to stay home from work as the result of the new demands of housekeeping, severely disrupting their habitual activities and motion between private and public realms.

The energy crisis had further consequences for adults of all ages and both genders. Lack of energy in many workplaces meant that employees were indefinitely laid off, and many husbands and wives found themselves at home together, day after day. Many reported that unemployment made them feel useless, but even worse, that their lives had been reduced to an “animal-like” existence, and that they could not “recognize” themselves. People who had taken pride in their skill at work now lacked an important context for experiencing their individuality.

In 1992, schools and universities began to close for the winter months, and thus an entire family (*entanik'*) might find itself at home on a weekday. Socially embedded identities began to fade outside of socially demarcated places. Domestic roles and relations began to change as those unaccustomed to constant togetherness struggled to maintain private identities, in a new context, and without the balancing forces of public identities experienced in work and social

environments. Similarly, the speed of passing time was perceived to slow with the boredom of relative idleness, inactivity, and monotony. For example, in one household a husband and provider for a large extended family, whose laboratory was shut due to the lack of electricity, began sitting in the kitchen with his wife, widowed sister-in-law, and daughter, to stay warm throughout the day. In self-mockery, he began to wear his wife's pink sweater to stay warm and to symbolize the emasculation he felt at being confined to a 'female' realm by freezing conditions.

Sitting together in the dark and cold, families found themselves discussing current conditions, political rumors, and memories of the recent Soviet past. As Chatwin notes of Georgian nostalgia, life experience was divided between "before" and "after." Discourse came to be universally characterized by constant temporal referencing: events, feelings, and states of being "before the war" (*paterazmits'araj*), "before the earthquake" (*yerkrasharzhits'araj*), "before independence" (*ankakhutyunits'araj*), and in "Soviet times" (*sovyetakan zhamanak*) were continuously juxtaposed with the time after these markers, such as "after the earthquake" (*yerkrasharzhits'heto*). Over and over, older people would repeat that life was better in the Soviet Union—that "life was better before" because there was always a "guarantor" in the form of the state. In response to greetings, Armenians of all ages and backgrounds recited "there is no light, there is no bread, there isn't anything" (*luis ch'ka, hats'ch'ka, voch'mi ban ch'ka*). Young and old alike would recite new prices in comparison to old ones, and complain that "this is not life... there is no life," and "there is no way out." As one man explained to me, "existence doesn't exist." Armenians described themselves as backsliding to "the Middle Ages" (*mijnadar*), to an unfamiliar pre-modern world.

In this way, the energy crisis soon acquired national dimensions as it pertained to identity. The blockade revoked what has been called a "frontier" of the industrial age: the night (Friedland and Boden 1993: 8). In wintertime, without electricity, it became dark indoors by 5:00 p.m., and families would gather around a single candle or lamp, along with a single heat source, or they would sit in total darkness to conserve resources.

With phone lines down, and without transportation, relatives on the other side of the city, in the nearest village, or abroad were equally far away and inaccessible to the moment. Because a transcendent connectedness had been essential to Armenian identity, changes to the familiar distances binding people, places, and things eroded perceptions and experiences of identities, just as the advent of mass transportation had destroyed local identities by collapsing distances in Western Europe more than a century before (Schivelbusch 1979: 45).

Prior to independence, neighbors had often been allied against the Soviet state; helping each other with goods, labor, bureaucratic connections, and even money, particularly in their "place-making" and domesticating efforts. I was frequently told that in the past, neighbors had left their apartment doors open and that there was a constant flow of traffic between apartments, as if neighbors were members of "one family." "Neighborship" (*harevanut'yun*) was valued much like kinship, and it was considered something particular to Armenian society. One of the first questions asked of travelers returning home from abroad, along with "is there Armenianness there?" (*hayut'yun ka*), was "is there neighborship there?" (*harevanut'yun ka*). Therefore, when families closed and locked their doors against the threat of rodents or crime during the crisis,

neighbors felt offended, though no offense was intended. Despite intellectual comprehension of new, shared circumstances, neighbors unconsciously and unintentionally felt hurt and disoriented by the reinforcement of the boundaries between private spaces. Neighbors slowly ceased to recognize or identify with each other, and they became increasingly likely to accuse each other when conflicts of interest arose.

As the state-based infrastructure dwindled to almost nothing, the deteriorating conditions led to damaged buildings, phone lines, electrical wiring, and plumbing. In one building in Armenia, when rats had gnawed through a main telephone cable, neighbors were forced to collect money for the necessary replacement themselves. In previous days, the city would have been responsible not only for repairing the cable but for collecting garbage and exterminating pests before such damage might occur in the first place. Now, residents had no alternative but to mutually invest in the property themselves. Yet some residents were in a state of financial distress, while others had found lucrative business in trade after independence. In this instance, it was rumored that certain families were asked to contribute more to the collection by repair organizers than were others. Such rumors led to debate and conflict among neighbors, and eventually to irreparable rifts between families.

Thus, ownership differentiated social interests and began to change social interactions. Ownership redefined space in previously state-owned buildings, erecting distinctions of ‘ours and theirs’ among neighbors who had previously shared common responsibility and dispossession with respect to the state. Concomitantly, Armenian independence, marking the relaxation of state control, began to redefine time, dividing it into opposing categories of “before” and “after.” In the time before, the world was known: prices, places, and relations were constant and the meanings behind words and actions were transparent. After independence and the onset of economic crisis, the world was in flux: value, location, and meaning all became opaque. The redefinition of space in ownership, and the redefinition of time after independence, intersected in the practice of neighborhood, resulting in the disruption of social relations, and manifested in criticism and conflicts. Because Armenians considered closeness and neighborhood to be characteristic of themselves and of Armenianness, changes in neighborly relations, reflecting newly divided spaces in a new era, elicited discussion of the nation and of national character. In this way, daily interaction among neighbors, including conflict and disagreement, acquired significance for the experience and representation of national identity.

When we look at the challenges new states in the region must overcome, it is tempting to focus upon the dramatic images of war and economic trends. However, though the energy crisis has been partially reversed in Armenia, it persists in Georgia. And even as conditions improve, the interdependencies of individuals have changed, weakening support networks and creating new allegiances through exclusion and income disparity. New relations of groups within society foster a multiplicity of relationships between social groups and the state, and the balance between family-based and state-based authority is rearticulated.

## **Economic Transitions in the Transcaucasus: Institutions, Performance and Prospects**

*Bartłomiej Kaminski*

This presentation considers the Transcaucasus region as a whole, and tries to assess where it stands in its economic transition from central planning. I also ask how the region compares to other countries of the former Soviet Union and the former Soviet bloc, and what are its prospects in the emerging global economy.

Let me start with an elementary observation: the region of the Transcaucasus is economically very small. Its total GDP is around six to eight billion dollars, slightly larger than the budget of Washington, D.C. In terms of its import demand (which matters more when one is assessing a region's importance), the Transcaucasus represents about one billion dollars in imports, which is also minuscule. Poland, as a point of comparison, has imports of forty billion dollars.

According to the current World Bank operational guidelines, Armenia and Azerbaijan, with GDP per capita below \$750, fall into the group of low-income developing countries. Georgia would qualify as a lower-middle income country, *i.e.*, one with a GDP per capita higher than \$750 but less than \$3,125 (Table 1). This has one advantage—it means they can obtain so-called “concessional credits,” and indeed they have been borrowing actively from one of the facilities of the World Bank group, the International Development Agency (IDA), which provides credit at low interest rates or even outright grants.

These figures notwithstanding, structural indicators of development suggest that Armenia, Azerbaijan and Georgia should encounter fewer problems in moving up the development ladder than most other developing countries at similar levels of GDP per capita. They are more industrialized, urbanized, the population growth rate is lower, and life expectancy is relatively high.

These countries were part of the Soviet Union and have suffered greatly since its demise. In this regard, however, I have a couple of observations. First, our point of reference should not be the situation that existed in 1989, but rather the projected economic situation had the Soviet Union survived. One can only speculate on this matter, but there are reasons to believe that things would have been much worse than they actually are. Secondly, these countries share some of the legacies of the former Soviet Union, especially the legacy of central planning, which greatly distorted their economic structure. Nevertheless, I think the frequently encountered notion of de-modernization is inappropriate, for it implies that these countries are regressing from a civilized state to one of barbarism. The process we are observing is simply one of economic structures adjusting to what is in fact possible and into the sectors where these countries probably have comparative advantage.

The declining share of industry is not a phenomenon restricted to the Transcaucasus. If one looks at the most successful transition countries—the Czech Republic, Poland, or Hungary—

one finds that they, too, have witnessed a dramatic decline of the share of industry in their economy, to below 30 percent, compared to some 40 percent in the Transcaucasus. Everywhere the change has been dramatic, simply because under central planning, services were underdeveloped and industry was going in the wrong direction. The share of heavy industry was very large (which was not justified by the level of economic development), and it was maintained by a system of cross-subsidization. Once the Soviet system collapsed and market considerations came to the fore, some of these industries had to disappear.

**Table 1: Population and GDP**

	Population (in millions)	GDP per capita, 1997 in US dollars	GDP per capita in PPP, 1997 (US dollars)	Rank in the world in terms of GDP per capita at PPP
Armenia	3.7	530	2,280	79
Azerbaijan	7.6	510	1,520	96
Georgia	5.4	840	1,980	85

**Source:** World Development Report 1998/99, The World Bank, Washington, D.C. 1998.

There is a remarkable pattern throughout the former Soviet Union. Whether or not a country went through civil war or major political instability (as did the countries in the Transcaucasus), the dominant approach throughout the former Soviet Union (with the exception of the Baltic states) was one of gradualism. It was supposed to ease the pain of transition to competitive markets. But by 1994-1995, all the countries of the former Soviet Union, with the exception of Uzbekistan, realized that shock measures had to be taken, lest the situation grow even more disastrous, with hyperinflation, a decline in production, and no prospects for economic turnaround. The period of hyperinflation in Armenia, Azerbaijan, and Georgia was probably comparable to the hyperinflation seen in North America during the Civil War. Armenia reached inflation levels of almost 11,000 percent, meaning 20 to 30 percent a day.

Around 1994, when they realized that something had to be done to prevent an even more serious economic and political catastrophe, all these countries tackled the problem of inflation more or less at the same time. This was done with the assistance of the IMF. Almost all former Soviet republics were on so-called “stand-by arrangements,” and were given systemic assistance to address the disruption caused by the Soviet collapse. Between September 1994 and January 1995, the three countries of the Transcaucasus adopted very serious stabilization programs. At around the same time, Azerbaijan (which, compared to Armenia, was a laggard in economic reform) introduced a stabilization-*cum*-transformation program that proved extremely successful. Inflation declined, as did inflationary expectations, which are necessary conditions for any economic recovery.

I would like to emphasize the remarkable similarity in how the three countries shifted from hyperinflation to disinflation and launched IMF-assisted stabilization programs around late



1994 and early 1995 (Table 2). All three moved very swiftly to introduce “big-bang” programs: they fully liberalized prices and introduced the convertibility of the domestic currencies, and by 1998 all had convertibility on their current account transactions. Some even had convertibility on capital account transactions, though that may not have been the wisest thing to do. The striking feature of their stabilization programs is the limited use of formal exchange rates or monetary targets. Armenia and Georgia adopted a managed-float exchange rate regime, while Azerbaijan adopted a floating exchange rate regime.

**Table 2: Profiles of stabilization**

	Peak Inflation (in percent)	Date	Stabilization Program (date)	Inflation below 60 percent	Inflation below 30 percent
Armenia	29,601	May 1994	December 1994	June 1995	May 1996
Azerbaijan	1,899	November 1994	January 1995	June 1995	August 1995
Georgia	50,654	September 1994	September 1994	December 1994	May 1996

Source: IMF data.

All three countries have also made remarkable progress in moving toward a stable macroeconomic environment. Obviously, problems remain concerning external equilibrium, and macroeconomic stability alone does not guarantee economic recovery. Recovery requires well-established state structures. I won't go into how much state is needed, but one needs enough state to secure property rights and ensure that transactions can occur smoothly.

**Table 3: Tax Revenue (in percent of GDP)**

	1992	1993	1994	1995	1996	1997	1998
Armenia	20.5	13.1	13.0	12.7	12.9	18.4	20.4
Azerbaijan	31.1	33.2	16.9	10.4	14.2	17.0	...
Georgia	8.2	2.0	3.7	4.6	7.2	8.8	8.7
Unweighted CIS	25.1	26.7	26.6	22.6	23.2	24.9	23.3
Unweighted CEE	33.8	33.7	35.2	34.6	33.6	32.8	33.0

Source: IMF data.

How does one measure how well established the state is? One indicator is the amount of tax revenue as percentage of GDP. The tax revenue of Armenia and Azerbaijan is at appropriate levels, below the average for CIS countries (22 percent). For countries at this level of economic development, an appropriate level is somewhere between 20-30 percent. A higher figure would raise concerns (given the low GDP), as would a figure below 20 percent. In Georgia, the tax

burden is very low (see Table 3), either because tax laws are difficult to apply but easy to evade, or because the state apparatus has limited capacity to function properly. Whatever the variation in tax burdens, all three countries have been running budget deficits of about three percent of GDP (Table 4).

**Table 4: General Government Revenue and Primary Expenditure (in percent of GDP)**

		1993	1994	1995	1996	1997
Armenia	Revenue	29	28	20	18	19
	Expenditure	...	36	28	24	23
Azerbaijan	Revenue	34	25	15	16	18
	Expenditure	...	36	28	24	23
Georgia	Revenue	12	8	7	9	10
	Expenditure	38	22	10	13	13

Source: IMF data.

What about the future? Macroeconomic stability remains very precarious; it hinges critically on institutional change and on the establishment of transparent state structures and well-functioning economic bureaucracies. In this respect, Georgia is lagging, but the other two countries are not bright spots either.

Where do these countries stand in terms of institutional change? With the implementation of stabilization programs, all three countries have made significant strides in establishing market-supporting institutions and an environment stimulating private sector development. The pace is different, but the variation in institutional development is strikingly small (Tables 5, 6, and 7).

International organizations and organizations like the Heritage Foundation provide indices that seek to capture how much progress has been made by various countries in moving from “economic repression” to “economic freedom.” The indices I use are based on two studies. I place the three Transcaucasian countries at the top of the list; then I put Turkmenistan, not because of its natural gas reserves, but because it was a laggard. Hungary and Estonia are also included, because they topped the lists of transitioning economies and former Soviet republics, respectively (Table 5). Bear in mind, of course, that such indices should be taken with a grain of salt, especially the index of economic freedom put out by the Heritage Foundation.

What is interesting here is that Azerbaijan and Turkmenistan were assessed in 1991 as showing the same level of progress in moving toward a market economy. Georgia ranked much higher, simply because it has a large private agricultural sector, and obviously Armenia ranked higher as well. But if one considers the progress achieved by 1997, there was clearly considerable convergence among the three countries, and Azerbaijan seems to be moving very rapidly to catch up with the rest of the group (especially with its current privatization program and its restructuring of the banking sector).

**Table 5: Structural Reform Indices**

	1991	1992	1993	1994	1995*	1996	1997
Armenia	13	39	42	46	54	61	61
Azerbaijan	4	25	31	33	40	44	51
Georgia	22	32	35	33	50	61	66
Turkmenistan	4	13	16	29	27	27	36
Estonia	32	64	81	83	77	78	82
Hungary	74	78	82	83	82	82	87

**Source:** Martha de Melo, Denizir Cevdet, Alan Gelb, and Stoyan Tenev. 1997. "From Plan to Market: Patterns of Transition," The World Bank, Policy Research Department and European Bank for Reconstruction and Development, *Transition Reports* (various annual publications).

Where are we in 1998? Table 6 is an assessment of the progress of reform. It is put out by the European Bank for Reconstruction and Development (which is heavily involved in all these countries), and assesses how many enterprises have been privatized. Obviously, one does not privatize for the sake of privatizing (although in 1991 there were efforts in the U.S. to link assistance to the number of enterprises each country privatized). What matters is whether the privatization of enterprises results in an improvement of management and of corporate governance.

**Table 6: The State of Progress in Structural Reforms in 1998**

	Private sector share of GDP in %, mid-1998	Enterprises			Price liberalization	Markets and Trade		Financial institutions	
		Large-scale privatization	Small-scale privatization	Governance and enterprise restructuring		Trade and foreign exchange system	Competition policy	Banking reform, interest rate liberalization	Securities markets, non-bank financial institutions
Armenia	60	3	3	2	3	4	2	2+	2
Azerbaijan	45	2	3	2	3	3	1	2	2-
Georgia	60	3+	4	2	3	4	2	2+	1
Turkmenistan	25	2	2	2-	2	1	1	1	1
Estonia	70	4	4+	3	3	4	3-	3+	3
Hungary	80	4	4+	3+	3+	4+	3	4	3+

**Source:** European Bank for Reconstruction and Development, *Transition Report 1998*, London.

The EBRD assesses progress in three different areas: small-scale privatization, large-scale privatization, and governance and enterprise restructuring. According to the EBRD data, large-scale privatization is slow in Azerbaijan, and in terms of improved corporate governance, all countries leave much to be desired. Where corporate governance was assessed as relatively good (as in Hungary), most of the privatization was done by foreign capital.

Along with privatization, prices have been liberalized. However, since competition policies do not function well, there is still room for manipulating prices. In this area, the countries of the Transcaucasus earn a grade of three or four.

Let me now turn to how those countries are perceived by international and domestic business (Table 7). In 1997, the World Bank conducted a large survey in a number of countries to ascertain how the business community—both within the country and abroad—assess the business climate in each country. This is an important measure, since one of the major conditions for economic growth in a market economy is an environment that is friendly to private entrepreneurs—an environment without too many regulations, where there is transparency, a simple tax code, enforceable laws, and where local bureaucrats do not behave in a predatory fashion toward businesses.

**Table 7: Average Country Scores of Perception of Domestic Institutional Constraints from the World Bank 1997 Private Sector Survey (100=perfectly business friendly environment)**

	Surveys across	
	all firms	firms with foreign participation
Armenia	39	38
Azerbaijan	33	38
Georgia	36	37
Kazakhstan	31	31
Estonia	45	48
Hungary	45	46
<i>Averages:</i>		
Baltic states	40	41
Russia	34	35
Other CIS	33	34

Source: <http://www.worldbank.org/html/prdmg/grthweb/wdr97.htm>.

Transition countries still have a long way to go on that front: even Hungary and Estonia only attain a score of 45. Among the Transcaucasian countries, Armenia ranks highest with a score of 39. Azerbaijan, interestingly enough, is assessed less favorably by domestic firms than by foreign firms, but this is largely because foreign companies in Azerbaijan deal mostly in oil and have a special relationship with the government that shields them from lower-level bureaucrats.

Given this overview of the current economic situation, let us return to the question I began with: what are the necessary conditions for economic growth and sustainable development in the region? First, there must be a stable macroeconomic environment. This requires sustainable fiscal deficits, realistic (unified and competitive) exchange rates, effective tax collection, as well as a broad tax base. This objective has been largely achieved. Secondly, once an economy moves away from central planning, it needs institutional development. This includes redesigning the role of the government in the economy and removing harmful interventions by the state—pervasive distortions and predatory states are disastrous economically. Thirdly, there

must be a competitive climate for enterprises. Openness to trade, investment, and ideas encourages domestic producers to cut costs, improve productivity, and develop new and better products. Privatization is an important component of this, insofar as it results in improvements in corporate governance. Fourthly, there must be a well-developed human and physical infrastructure. The economic returns from public and private investments in education are extremely high.

Overall, as we have seen, there has been recovery (granted starting levels were very low). Whether the trend is sustainable is hard to say. One thing is sure, however—the transition to competitive markets is not over yet. Politics and business remain intertwined. The state administration is still predatory, and the over-regulated environment is conducive to corruption, which decreases growth. These countries still face politically difficult and time-consuming reforms in the domain of public administration, tax collection, and financial intermediation. Without progress in these areas, there will be a reversal in growth.

The key to development is access to international markets. Here political impediments remain, and they seem intractable, including Abkhaz separatism, disorder in Dagestan and South Ossetia, the Iran factor, and last but not least, Nagorno-Karabakh. These are particularly costly to Armenia and Azerbaijan, but Georgia also incurs significant economic losses from these political hotspots.

Could a “Transcaucasian miracle” occur nonetheless? Could these countries become new lions in the world economy? The answer is clearly no, if only because of one attribute all three countries have in common: geographic location, which puts them at a disadvantage for several reasons. First, they are not close to any large market. Some had hoped Russia would provide such a market, but the transformation in Russia has gone very badly, and Russia’s influence on the region can now only be destructive, not constructive. Second, they do not fit well into the current global trend that economists call the “fragmentation of production,” which fosters the integration of trade in the global economy. With current technologies, one can take a small portion of the production process and move it from one place to another. The key then becomes transportation costs, and in that respect Armenia and Azerbaijan do not fit into the calculations of any multi-national corporation. Moreover, even if transportation costs could be offset, production activities do not move to unfriendly environments where customs do not function well and where one needs to pay bribes to survive. The countries of the Transcaucasus still have a long way to go, in other words, before they can become part of this rapidly growing international trade. They may receive foreign direct investment to produce goods locally or to develop their energy base, but they will not fit into the newly fragmented global production. Finally, Armenia is a landlocked country, not exactly surrounded by friends; Georgia’s state structure is shattered (Shevardnadze’s progress notwithstanding), and though these countries could emerge as transit economies, this critically depends on regional cooperation. The prospects of the region, indeed, may be said to hinge on three big “C’s:” cooperation, cooperation, and cooperation. Without cooperation, the region’s development will be stunted.

## Tradition and Prosperity in the Caucasus: Are They in Conflict?

*Sergei Arutiunov*

What are the potential sources of income and prosperity for the people of the Caucasus? Traditionally, the Caucasus has relied on four sources of income: agriculture, the mining industry, various manufacturing industries (e.g., machine assembly), and the tourism and recreation industry. Today, of the four, only the latter holds real promise as a source of income and prosperity.

Agriculture continues to exist, but its yield is destined mostly for local consumption. Recently, the production of grain and, to some extent, dairy farming have increased, at the expense of the decreasing production of fruits, wine, and seasonal vegetables. These once provided the rural populations of the Caucasus with a huge source of income, but this was when they had a monopoly in the enormous Russian market. Today, with the opening of the Russian market to the outside world, the Caucasus is in no position to compete with producers like Spain, Morocco, Cyprus, Algeria, Turkey, Israel, and other Mediterranean countries. This present situation may change, to be sure, but the monopoly of the Soviet days will never return.

As for mining, naturally ores, mines, and metallurgical plants can still be found in the Caucasus. There is tungsten and molybdenum in Kabardino-Balkaria and Armenia; copper in Armenia; zinc, silver, and lead in North Ossetia; and manganese in Georgia, to cite just a few examples. But by now these mines have largely been exhausted, the cost of production is high, and prices on the world market for these products are dropping. What is more, the mining industry and smelting plants have been a source of great pollution, endangering the ecosystem of the region and its beautiful but fragile natural landscape. All in all, it is probably for the best that these plants have closed and that the mining has stopped, with little chance of starting again.

Some industrial production will continue, of course, but there will hardly be any demand for, say, trucks from the huge Kotaisi plant in Georgia, now practically idle. Likewise the automobile factory in Yerevan is operating at a fraction of its capacity, and it will be unable to compete with the world's huge automobile companies. It may come to occupy a certain place in the economy, and it may even be rearranged to build some cars for the local market or to serve as an assembly plant for larger companies, but it is not an industry on which the local or national economy can rely.

What remains, therefore, is tourism and recreation, which has all the attributes required for development in the future: a balmy climate, a wonderful natural environment with beaches and skiing sites, local cultures with exotic and exquisite cuisine, a rich history with monuments going back many centuries, a great artistic tradition, and interesting ethnic customs. All these ingredients could make the Caucasus as attractive as Italy, for example. Moreover, if agricultural products from the Caucasus have few prospects on world markets, be it wine, vegetables, fruits, or tea (the tea plantations in Western Georgia and elsewhere are in complete decay), an increase in tourism would mean a greater local market for these agricultural products and would raise production above subsistence level.

In the Soviet era, of course, there already existed a fairly developed tourism industry from which locals benefited, but it was run inefficiently by trade unions, and the benefits to the local population were not as great as one might have expected. Nonetheless, even before *perestroika*, there existed many small, semi-illegal private hotels and restaurants catering to tourists.

There are, however, some aspects inherent to the society in various parts of the Caucasus that may constitute obstacles to the development of an efficient and prosperous tourism industry in the region. Some of these lie in the traditional values of the people of the Caucasus, which have made the region less attractive to tourists than it could be.

I am not speaking here of the civil war or the shaky cease-fires that prevail in many areas of the Caucasus, which have all but ruined the tourist industry in Abkhazia, for instance, and have kept people from vacationing in Chechnya, with its wonderful landscape. In many areas of the Caucasus, lack of safety and the risk of violence are keeping visitors at bay, even potential tourists from Russia. People prefer to vacation in Cyprus or Southern Turkey—places that are affordable (about as affordable as the Caucasus) but are much safer and provide much better service and living conditions than the Caucasus.

I have in mind, rather, the traditional values, customs, and attitudes that have impeded the development of tourism, and in particular those that concern the local population's ability to *serve* tourists. Many traditional values in the Caucasus are the medieval values of an early feudal society, and people take the petty gentry and early feudal aristocracy as reference points for their behavior. They have a certain view of dignity, decency, and pride—views that can be quite attractive if one romanticizes medieval feudal society, but that are not easily compatible with modernists. People are reluctant to serve, for instance. They refuse to take jobs that entail serving others in exchange for payment. In fact, until recently at least, most highlanders looked upon trade or the exchange of money with a certain contempt.

Let me draw a few examples from my fieldwork: I know a farm family in Karachai, for instance, whose main income came from Angora goats and their wool. They knit and sell hats, scarves, and sweaters, but in addition to this they had a large surplus of potatoes, carrots and other vegetables. Several times they took these vegetables to the markets in the towns of Kislovodsk and Piatigorsk and sold them at great profit. But when I asked the farmer's wife whether she would pursue this activity further, she replied that it was too humiliating for her to stand all day in a farmers' market, selling potatoes to unknown people standing in line. In many cases, such as this one, people consider it damaging to their dignity to sell goods. This sentiment, while more or less natural in early feudal society, is incompatible with capitalism or post-capitalism.

Another example comes from Svanetia—a mountainous region of Georgia, potentially very attractive to tourists, with climbing facilities, seventeenth-century castles and a great many churches, and unique in their art and architecture, that is decorated with frescoes dating back to the eleventh and twelfth centuries. There, in the town of Mestia, I found a small café where all the waitresses were Russian. They were perhaps the only Russians living in this little town, but only they would agree to work as waitresses. The local women refused, and were in general

hostile to the very idea of working as waitresses in cafés, as chambermaids in hotels, or in any other part of a service industry.

In Karachai-Cherkessia, I met some people who ran a little café-restaurant in a very picturesque and somewhat remote setting, a natural cave some distance from the villages. Their business was rather successful, but they complained to me that it was extremely difficult to find waitresses and personnel to staff such restaurants or little inns. Local Karachai women refuse to take these kinds of jobs for the same reasons, while Russian women refuse for reasons of safety, afraid they might be harassed or be targets of violence while commuting from their hometown to their job in this remote, isolated area in a beautiful mountain gorge.

There are, however, some subgroups of the population—the Racha people in Northwestern Georgia, for instance, for whom catering has become a kind of traditional profession. There is even a joke that goes something like this: When asked, “Are you not afraid of bears?,” a Racha man replies: “Why should I be? I don’t go into the forest, and bears never go to restaurants!” The mere existence of such ethnic jokes suggests that these occupations are not typical of all Georgians but only of some small subgroups who are (or are believed to be) predisposed to catering or such activities.

Another factor inhibiting tourism in the future is the fact that modern standards of hygiene have yet to be introduced and taught in the highlands. The local population does not pay much attention to these considerations and they also have little knowledge of ecology.

Then, of course, there is violence and crime. Unfortunately, theft, plunder, or hostage-taking are part of the latent traditional culture, part of the warrior’s knightly activities, much as they were part a part European knights’ socially recognized behavior in the times of the crusades. The aspects of traditional customary law that allow for plunder and the taking of hostages had been dormant in Soviet times under the strict rule of Moscow. But now that anarchy and chaos prevail in many parts of the Caucasus, the practices have been revived to take the place of an official legal structure, and there remain certain traditional values that make it difficult to eradicate this violence. Among these values is the custom that neighbors should not intervene against, or even report, acts of violence, be they acts of robbery, theft or hostage-taking. It is indeed considered far worse to report such a crime than to commit it. These things will change with time, of course, and I would remind you that, at least according to nineteenth-century stories and novels, the vicinities of Rome only a century ago were as unsafe as Chechnya is today. But they will be overcome, only with some effort.

Lastly, there is a macho complex among many young men in the Caucasus that leads them to sexually harass and molest women who come on vacation to the region, and indeed makes such behavior almost mandatory. This, too, will have to be overcome if the region is ever to become attractive to tourists. A lot of education and self-education is necessary to change some of the traditional values. At the same time, of course, there are many traditional values that outsiders will appreciate, like hospitality, etiquette and politeness. But in order to overcome the more negative aspects of traditional culture, there will have to be a persistent effort to alter behavior. This will require a strong, centralized power in every corner of the Caucasus, and a leadership that is educated and intelligent but exercises a form of power and rule more



authoritarian, perhaps, than would be found in a complete democracy. Democracy, in my opinion, cannot yet provide the order and environment necessary for the enforcement of law in the Caucasus, and it cannot provide the kind of education or the kind of consistent, targeted efforts necessary to make the region attractive to tourists. Efforts are required to educate people in how to run businesses efficiently and in a manner attractive to foreign visitors. For this, and for future prosperity and development of the Caucasus, therefore, a kind of enlightened authoritarianism is indispensable. Whether this is achieved will depend on a multiplicity of factors, and it is difficult to predict how these will play out. But there are possibilities still, and there is nothing to rule out that the Caucasus might become—not overnight, of course, but perhaps in several decades—a major attraction for visitors from all over the world.

## The Weak State: Public and Private Armies in the Caucasus

*Charles Fairbanks*

The topic of my presentation, broadly speaking, is how weak states in the former Soviet space are connected with armed forces. When discussing this topic, I often make a distinction between four types of armies that developed in the Soviet Union: old armies formed by the state (these include the cases of the Russian, Ukrainian, and Belorussian armies); new armies formed by the state; new armies formed from society; and private armies or military forces. I will not discuss the case of the old armies today, since the only old army in the Caucasus is the Russian army. It is quite weak and, in its enlisted ranks, consists largely of Armenians and Georgians serving under Russian officers.

Let me begin instead with the new armies that have been formed in the Caucasus. They do not have much combat capability, if one excepts the Armenian army (the Azerbaijani army is getting better, and the Georgian army may be getting better as well). The Armenian army has benefited from several factors. There were many Armenian officers in the Soviet army, and the new Armenian army received substantial help from the Russian Federation. Most of all, the intense awareness among Caucasian Armenians of the possibility of genocide provided the army with a clear *raison d'être* lacking in the other cases.

The new armies that emerged from society are those of Azerbaijan, Georgia, Nagorno-Karabakh, Abkhazia, South Ossetia, and Chechnya, along with others outside the Caucasus. Originally founded on the basis of private armies, they were then nationalized. There have been quite a few occasions in history when such a process worked well. Oliver Cromwell's Ironsides during the English Civil War of the 1650s, for example, was originally raised by Cromwell and others in his political faction from among their tenants, the members of their churches, and so forth. It intermittently obeyed the authority of the Parliament, but it was certainly not formed by existing institutions of the state. In the same way, both armies at the beginning of the American Civil War, particularly on the Confederate side, were formed by rich men who raised regiments from people in their towns, designed their uniforms, gave them their names, and supported them in other ways. The British army deployed in 1916 (the Kitchener armies) was also largely formed (in its lower ranks) by spontaneous enlistment. People in an office would enlist and form a platoon; people in another office in the same town would form another platoon; together they would form a battalion, and so forth. This process of army formation has worked well in the Caucasus, except in the case of Nagorno-Karabakh.

As for the region's private armies, in all cases except Chechnya (and possibly Nagorno-Karabakh, at the beginning), they did not fight very well. They were sometimes brave in particular engagements, but they were disorganized, and in some cases they ran away quite readily. As a result, all the governments that have depended on them have been very fragile, and indeed I think the Georgian, Azerbaijani, and Abkhaz governments (among others) are fragile to this day.

The private armies of the region tend to be rather small—never more than a few thousand, and their real building blocks tend to be groups of twenty to fifty fighters. In the Georgian National Guard, these groups are called brigades, but they don't have a systematic and replicable organization: the term "brigade" can mean utterly different things from one case to the next. The private armies also tend to have two levels of command: an overall warlord, and sub-warlords who dominate these small face-to-face groups of twenty or so. The officers do not usually have professional training, or they have lost it, and it is quite striking that even professional officers tend to lose their military routine. They do not mark minefields, for instance, though this is a very basic task taught in military school. Usually, these armies have no set term of service, they often have no uniforms (particularly in the enlisted ranks), and they are not paid by the state. There are mercenaries in the Caucasus, but there are no armies-for-hire of the kind that exist in Africa.

It seems to me that private armies in the Caucasus come from two sources, which combine with one another. One source is the *ethno-religious mobilization* that occurs at the beginning of a national crisis like the Nagorno-Karabakh crisis, the Chechen independence movement in 1991, or the formation of the Azerbaijani Popular Front. Because they are crisis-dependent, private armies tend to emerge and then sink into the background. In Russian Dagestan, for instance, there had been no totally open private armies until last year, when Nadirshakh Khachilae, the president of the Union of Muslims of Russia, suddenly seized the Dagestani Parliament with a few hundred armed fighters. In a few hours, that crisis was temporarily resolved, and the fighters went back into civilian guise.

In places like Azerbaijan and Georgia, there exist latent private armies not visible on the surface. They seem to be reemerging in Georgia, however, and Georgian guerilla groups, like the White Eagle or the Forest Brethren, which fight against Abkhazia with some Georgian government involvement, are encouraging such reemergence.

The other source is patron-client networks that are based on what a social scientist would call "affective ties" (ties of kinship, friendship, ethnicity, regionalism, etc.), and a kind of exchange more associated with feudalism. Plunder, indeed, is an important means by which these armies are paid, as is the exploitation of the businesses controlled by the armed forces. Protecting private shipments is also an important source of support.

Let me now turn to the Chechen case, which is the classic "weak" case (you might add the government of Kosovo under Rugova, perhaps). Chechnya has formal state institutions (there is a president, a flag, a national anthem, etc.), but there is no state in the Weberian sense. Specifically, I want to talk about the *financial basis* of the private armies and of the weak states in Chechnya. This is an important topic, since as Max Weber's definition of the state points out, modern salaried armies have been very closely connected with the modern state since about 1650. The work that Professor William Reno has done on this theme in West Africa serves as a model of sorts for a study of the former Soviet Union.

In 1991, Chechnya became *de facto* independent of Russia, with a weak state and no state army. The private armies of certain quasi-criminal warlords, like the former mayor of Grozny, Beslar Gantemirov, served as the armed forces of Dzhokhar Dudaev, though it is not entirely

clear to what extent. During the great crisis of the Chechen people, the war of 1994-1996, stronger warlord armies were formed around particular leaders and were loosely integrated under the command of Dudaev and his Chief of Staff, Aslan Maskhadov. For the purposes of the war, they formed a real national army, an extremely effective one at that, since they defeated the vast Russian army with its thousands of nuclear warheads—an amazing achievement.

After the war, in early 1997, General Maskhadov, who I do not believe had a private army of his own, was elected president and began building a National Guard (an army). He attempted to rule the country by allying himself with the major warlords, particularly the strongest among them, Shamil Basaev. The chart I have distributed (see the following page) tries to show in graphic form that relationship in the period from 1997 to 1998. The round marks indicate people. They have a black border if they are warlords who have a following of *boeviki* (fighters), and a plain border if they are not, as in the case of Shervan Basaev, Shamil's brother, who is the head of the Chechen national oil enterprise. The triangles represent military units. They have a black border if they were nominally part of the Chechen army in 1997-8, and they have a gray border if they were totally private. For example, the so-called army of General Dudaev, which is commanded by the warlord Salman Raduev, does not acknowledge the principle that the war is over and was never considered part of the Chechen national army.

Let me try to explain the distribution of military power in Chechnya. There is a National Guard—which is an attempt to form an army, originally by taking the ten best fighters of each private army. At least in principle, the National Guard receives salaries and lives in barracks (in Grozny and in two other garrisons near the eastern and western borders). Although there have been significant armed clashes between the president and various warlords, and also among the warlords, one gets the impression that the National Guard is neutral in these intra-Chechen fights, and that the police are neutral as well. They have by far more armed men than any other group in Chechnya (some five thousand), but have never been mobilized in these factional conflicts, possibly because they are scattered around the country and are partly inherited from the previous Russian puppet regime in Chechnya.

The neutrality of the National Guard in factional fighting within Chechnya illustrates a distinctive characteristic of weak post-Communist states, where there is a deeply-rooted feeling that politics is a dirty game, and where leaders are seen as partisan representatives of their own interests, not necessarily of the national interest. Therefore, an army like the national guard may not fight in civil conflicts among the elite, but only in external or national conflicts in which tribal solidarity, independent of the state, comes into play.

In the middle of the diagram, we have Aslan Maskhadov, the president of Chechnya. I don't believe he has fighters of his own, and he relies for intimidation (and in a few cases, fighting against competing warlords) primarily on the National Security Service, and on Israpilov's anti-terrorism center (Israpilov has since defected from Maskhadov, as have almost all of the other major warlords).

All of the other military units in Chechnya in 1997-1998, except the Presidential Guard, were private armies. Thus, most military power is out of the hands of the state, as was the case in

feudal Europe, where the decisive weapon (the armored knight) could sometimes be co-opted by the state but who supported himself from the revenues of his peasants' land.

What about the financial base of these private armies? Most of the arrows on the diagram indicate flows of money. For instance, the Chechen diaspora in Turkey gives money to the president, Maskhadov. A Jordanian of Chechen origin, who died in 1997, gave a lot of money to Movladi Udugov, who was then the foreign minister. The big dollar bills indicate reserves of money, i.e., money that is in the bank or that can be converted into revenue and drawn when needed. Maskhadov, it appears, does not really have any reserves, except for a few gifts. He depends on revenue flows that come primarily from Russia.

The flow from the Russian Ministry of Finance and Transneft is greater than the lines suggest, which is a tremendous source of political weakness for Maskhadov. Russian money is ideologically very controversial, since Moscow refuses to allow Chechnya to become independent and carried out a brutal war against it in 1994-96. Maskhadov's dependence on Russia makes him ideologically suspect within Chechnya, and it is rather striking that, as far as I can ascertain, president Maskhadov (meaning, in this case, the Chechen state) has less revenue than his important rivals, particularly Shamil Basaev and Movladi, who reportedly is the richest man in Chechnya. Again this situation reminds us of early medieval France, where the King did not have as much land in his personal domain as the Duke of Aquitaine, the Duke of Normandy (in his capacity as King of England), the Count of Toulouse, or the Count of Champagne. It is very hard to develop a real state under these conditions.

In Chechnya, foreign subsidies are the most important financial source for maintaining a private army. Russia and international Islamic charity (which does have some state involvement, especially from the Pakistani intelligence service) are the largest source of such foreign subsidies. Then there is the Chechen diaspora, including Fattakh and Ahmed Saidulaev in Saudi Arabia, who has given a lot of money to Movladi Udugov.

Some money also comes from Russian businessmen. One Chechen diplomat I know was told by Udugov that he would get the money he needed from Boris Berezovskii, the wealthy Russian tycoon. And he did. There may also be money, very conjecturally, coming to people like Vakha Arsanov (the former Chechen vice president) or Movladi Udugov from the Russian domestic intelligence service. A second general source of financial support is profit from factories that are owned or controlled within Chechnya. A third source, I would guess, is profit from investments abroad (bank accounts, for example). I think only Udugov and Basaev have substantial investments abroad. A fourth source is protection rackets, i.e., making sure that shipments of one kind or another arrive at their destination. A fifth source is kidnapping (some of these militias have no revenues, as far as I know, except for kidnapping). Finally, there are fees for services, such as policing, which also constitute an important source of revenue. Lecha Khultygov, for instance, sometimes put people in jail when he was low on money, counting on relatives to buy them out of jail.

External sources of money are dominant over internal sources, which raises the question of the relation of the weak state in Chechnya to global capitalism. In the case of Africa, William Reno argues that private armies are an attempt to deal with global capitalism. It is true, in a sense

that everything in politics depends on money. As a Chechen official once said to me, “You are right, money is everything in Chechnya.” And it is striking indeed that Movladi Udugov, who seems to have no fighters of his own but has a lot of money, is able to play a very big political role in the country. However, the notion that this comes from global capitalism is clearly incorrect, in the sense that there is virtually no foreign investment in Chechnya. Indeed, there is very little of it in all of these weak states, except for Azerbaijan, where oil investments are substantial and increasing. Western companies are very cautious—much more cautious, I think, about operating and investing in unrecognized mini-states like Abkhazia or Chechnya than they would be in similar cases in Africa, for example. What matters is the sheer size of the global economy, and how easy it is to tap into it, even from a very primitive place like Chechnya. It is easy, much easier than it has ever been before, to manage financial flows, and there is tremendous demand coming out of the former Soviet Union for access to these flows, a demand that connects the region in a very powerful way to the international economy. I think here of the case of Colombia. Colombia is a very weak state, partly because of Colombian history and Latin American political culture, but most of all because of the drug trade. Why is the drug trade so important in Colombia? Because drugs will grow there, for one thing. But more importantly, because nearby, in North America, there is an incredible demand for narcotics. One could say that the ‘neediness’ of American society for illegal drugs has served as a kind of vacuum cleaner, which over time has sucked the guts out of the Colombian state. Something similar is taking place in Chechnya.



# Leadership Assets in the Foreign Policy Strategies of the Caucasus

*Leila Alieva*

The former Soviet states of the Caucasus—Armenia, Georgia and Azerbaijan—are attractive case studies for political science. Studying their foreign policy, in particular, could shed light on the behavior of small and weak states and may help settle the long-standing dispute between realist scholars, who offer international-level explanations of foreign policy, and theorists who privilege domestic-level explanations.

Overall, evidence from the Caucasus suggests that domestic and international factors matter differently at different stages of state building. As Miriam Ellman (1995) has argued, international and security factors matter more in the early stages of a nation's history when they influence how state institutions are formed, affecting, for instance, the choice of a presidential or a parliamentary regime. As time passes and external threats diminish, however, domestic factors come to matter more—including the type of institutions established in the earlier phase.

How does domestic policy affect the success or failure of foreign policy? How is it that states that are seemingly incapable of fulfilling even basic state functions, such as collecting taxes or securing domestic stability, are able to conduct a reasonably successful foreign policy? Why were particular leaders so important in determining policy performance in the post-Soviet era? These are some of the questions I hope to address in this presentation.

It is not by accident that these three post-Soviet republics adopted presidential regimes. The Soviet Union's institutional legacy and the region's security context, with both internal and external threats, influenced the choice of institutions, and the preference was for constitutions that gave leaders strong executive powers and control over parliament and the judiciary. In semi-authoritarian presidential regimes, the executive branch has considerable freedom to determine foreign policy. Foreign policy decisions lie beyond the reach of interest groups and depend instead on the particular abilities of the leader.

In the 1960s, a corrupt system developed in the Soviet Union in which people were appointed on the basis of personal connections. As a result, local elites grew more autonomous from the center, which caused Moscow concern. In the Brezhnev era, these networks were crushed, but the people chosen by Moscow created their own networks. These networks included segments of the old bureaucracy, and their cohesion has helped them stay in power.

By virtue of participating in this Soviet system, some of these people acquired various skills and traits that have proven useful in the post-Soviet period, both in domestic and international affairs. Respect for one's more powerful adversaries proved useful, as did a readiness to suppress (or resist) the weaker ones. The capacity to create and survive intrigues, and the skills needed to create opportune alliances at opportune moments, also helped. Despite its ideological cast, the Soviet system of personal networks developed a strong sense of pragmatism in some of its members. Aliev and Shevardnadze, for instance, unlike the first series of post-Soviet leaders (who remained ideological in their choice of foreign policy), allowed



economic interests to guide their foreign policy. An understanding of propaganda and rhetoric also helped them survive pressures at home and shape their image abroad. Finally, a degree of opportunism and the ability to sense shifts in power allowed both Shevardnadze and Aliiev to anticipate and take advantage of the shift in orientation to the West, which proved essential to their success. In many ways, they possessed the traits necessary for outstanding leadership in any political context or regime.

State building has been the overarching objective shaping both foreign and domestic policy, but insofar as the state has been largely identified with the authority of one person, issues of state security and personal power are greatly intertwined. When internal threats are perceived as tied to external threats, they are partly addressed through foreign policy.

## ***Armenia***

Let me now turn to the specific case of each country, beginning with Armenia. On the surface, Armenia does not have much going for it. It is a landlocked country with few resources. Compared to neighboring countries, however, it does have some advantages. Its society is homogeneous and strongly nationalistic, and it has religion as a unifying national cause. It has no legacy of separatist movements, its diaspora is vast and influential, and it is internationally perceived as a victim. Last but not least, it has a tradition of good relations with Russia, as a result of which Armenia has felt less pressure from Moscow than its neighbors.

Why was Levon Ter-Petrossian able to stay in power for so long? His strategy relied on nationalist sentiments toward Karabakh. He used Armenia's ostensible weakness to focus on stabilizing the country and to mobilize its resources for war. He met with more success than his counterparts in Azerbaijan, by using the military bases of the former Soviet Union, by disarming opposition movements, and by using some of the humanitarian aid received after the earthquake of 1988 for Karabakh. In 1991, he had Armenia join the CIS, and in 1992 he even signed a military agreement with Russia. In 1990, the new Armenian government had been a balance of nationalists, Communist technocrats, and members of the diaspora. By 1994, the president's office and the government had changed drastically, and most of their members owed their political careers to Ter-Petrossian.

Ter-Petrossian used the country's sense of a military emergency to strengthen institutions, including the President's office, the Ministry of Internal Affairs, and the Ministry of Defense. War diverted attention away from internal problems and allowed Ter-Petrossian to strengthen his hold on power. He used the crisis period to shield himself, and the constitution permitted him to avoid clashes between the executive and legislative branches. As he grew more powerful, his potential rivals gradually left the government. The removal of Vazgen Manukian and Raffi Hovannisian as Minister of Defense and the Foreign Ministers, in particular, helped strengthen his foreign policy decision-making considerably.

In 1992, the opposition in parliament began to criticize the government's Karabakh policy openly. Ter-Petrossian ordered the expulsion from the country of Hrair Maroukhian, a

Dashnak leader. In August 1992, when the Karabakh parliament created a State Committee for Defense, the main positions went to Ter-Petrosian's allies in the Council of Ministers, including Robert Kocharian. In December 1994, in a gesture symptomatic of general trends, Ter-Petrosian issued a decree banning the Dashnak Party altogether. Power became increasingly concentrated in the executive, abuses of power became ever more possible, and corruption and unaccountability became institutionalized (in particular, in the Ministries of Defense and Internal Affairs). By the fall of 1994, as Jonathan Aves notes, Armenia was drifting toward authoritarianism. A number of politically motivated killings occurred that year, and according to international observers, neither the parliamentary elections of 1995 nor the presidential elections of 1996 were fair.

While the consolidation of executive power simplified foreign policy decisions, the regime's authoritarianism discredited it internally and ultimately undermined its foreign credibility. Moreover, by strengthening the Ministries of Defense and Internal Affairs, the president diminished his own role. When he called for a compromise in Nagorno-Karabakh, he weakened his position further. He thus lost the support of the key ministries, putting an end to his eight-year rule.

## **Georgia**

What were the assets available to Zviad Gamsakhurdia and Eduard Shevardnadze in Georgia? Georgia has few resources, and its society is fragmented, but its leaders had assets of their own. Gamsakhurdia benefited from wide support among the population, and Shevardnadze had the advantage of being known internationally. Georgia's importance as a transportation corridor also became an asset for the leadership.

Although the policies adopted by Gamsakhurdia and Shevardnadze were quite different, their outlook on foreign policy was roughly the same. This was indeed dictated largely by society and the resolutely pro-Western orientation of its main political forces, except for the Communists, of course. The Georgian political elite embraced two core ideas: democracy (by which they really meant "Europe") and national independence.

After the Soviet collapse, the political scene in Georgia was dominated by radicals, primarily because the liberals were so weak. To this day, their legacy explains key features of Georgian politics, such as the disdain for compromise and gradual reforms and the lack of pragmatism. Gamsakhurdia himself displayed some of these features, which led him to rely naively on the West and alienate Russia, and, later, the West as well.

Before and after coming to power, Gamsakhurdia relied on a populist form of nationalism. He did not tolerate any opposition, and he shut down newspapers and denounced many intellectuals. This earned him the reputation of being an autocrat, but he was in fact more autocratic in style than in substance, as Ghia Nodia stresses. He did not even know how to strike deals with lesser opponents in order to combat more threatening adversaries, and he succeeded in making enemies of his friends, never the reverse.

Pro-Western nationalists were able to set the foreign policy agenda for the most part, but events did not unfold as they had hoped. Georgia's image in the West was tarnished by ethno-territorial conflicts and civil unrest, and Gamsakhurdia proved a contradictory mix of Western democratic ideas and undemocratic behavior. The existence of autonomous regions was an explosive issue in and of itself, and Gamsakhurdia's rhetoric and uncompromising stance only served to aggravate it.

As Darrel Slider has explained, with the Round Table (the coalition of parties that supported Gamsakhurdia and Georgian independence) dominant in parliament after the 1990 elections, Gamsakhurdia faced no real parliamentary opposition. Since most Round Table deputies (who had no background in politics) owed their election to him, Gamsakhurdia's influence over parliament was considerable. In January of 1991, parliament even passed a controversial law on the appointment of local prefects, which further increased Gamsakhurdia's control over local officials.

When Shevardnadze came to power, the Communist *nomenklatura* welcomed him as proof of its legitimacy, and much of the population also perceived him as a symbol of stability. During the first 18 months of his rule, however, Georgia became the site of violent conflicts. After the defeat in Abkhazia in October 1993 and the Zviadist insurrection, Shevardnadze made a few concessions to Russia. He appointed Igor Giorgadze and Vardiko Nadibaidze as head of Security and Minister of Defense, respectively, and authorized the presence of Russian peacekeepers and border guards, and the maintenance of Russian military bases in Georgian territory. He suppressed the Zviadist insurrection and established control of the Western regions, later neutralizing the major warlords. After the October 1995 elections, his control of the state, including the police, was complete.

Shevardnadze was able to make concessions to Russia for a number of reasons. Nationalism in the country was not as strong as it had once been, and the patriotic enthusiasm of the earlier days had given way to public apathy. People also had come to see Gamsakhurdia's disregard of Russian interests as the reason for his failures. Lastly, Shevardnadze's support base consisted largely of political moderates, and he had complete authority in matters of foreign policy.

To establish order domestically, Shevardnadze relied on the police more than the army. Once he secured order, with the help of Russia, and achieved some peace with ethnic minorities, Shevardnadze got rid of most internal rivals and successfully attracted Western aid and investment.

In the long run, of course, corruption could erode the regime's legitimacy, but in the meantime it has served as a stabilizing factor. Any serious measure against corruption would have upset the status quo, which all the major players had an interest in maintaining. Even the reformers refrained from opposing the police, afraid of jeopardizing their future in politics.

Under Shevardnadze, Georgia joined the CIS, hoping for Russia's economic and political help. Georgia's foreign policy would not be geared toward Russia exclusively, Shevardnadze promised at the time, but the country had to seize this opportunity to normalize its relations with

Moscow. Should this cooperation prove unsuccessful, he said, adequate steps could be taken later. When he realized that no help would be forthcoming from Russia, Shevardnadze turned instead to the West and to the IMF and World Bank. Because he frequently changed his orientation, Shevardnadze's foreign policy tactics were confusing to Georgian society.

Shevardnadze has a remarkable ability to negotiate his way among competing interests. This ability has helped him navigate grave political crises, but it also required a long-term strategy or vision for Georgia's future. Without long-term thinking to go with it, skills like his amount only to opportunism, as one local analyst wrote in 1996. To some extent, there was evidence of long-term thinking in the idea, expressed by Shevardnadze in the early 1990s, that Georgia would be an important link in the "new Silk Road."

Georgia's main asset is its location in relation to the oil fields in the Caspian. The oil pipeline through Georgia is expected to mean thousands of new jobs, huge revenues for the state, and greater political influence for the country. However, the annual income from the pipeline will not be as high as expected. Georgia gets only seventeen cents per barrel, partly because it exempts the oil consortium from paying taxes. The pipeline is more politically than economically significant. It is perceived as the key to political stability in Georgia, and that is why the parliament so easily passed measures that promised to be economically disadvantageous to the country.

In sum, in Georgia, as in Armenia, internal and external threats led the leadership to concentrate power in the president, causing conflict with the opposition and undermining the legitimacy of the regime. It made foreign policy easier, but at the same time made it dependent on the style and character of its leader.

Gamsakhurdia's assets were nationalism and personal charisma. He failed because he could not translate his popularity into successful state institutions, and once he alienated his supporters, there were no institutions on which to rely. Shevardnadze succeeded for two reasons. First, he had a shrewd understanding of the workings of power—he entered into coalitions when he needed to, and made the most of the conflicts between his rivals. Second, his legitimacy was based on order within the country and international recognition.

In Georgia and Azerbaijan, popular support and international recognition, combined with good tactics, turned out to be the leaders' greatest resources. Leaders in both countries were able to translate these assets into control of state institutions. Shevardnadze achieved this through his international status; Aliiev through oil diplomacy.

## **Azerbaijan**

Although it is a Muslim country, Azerbaijan is no less oriented toward the West than Georgia. Despite Moscow's repressive rule and the lack of Western support, the memory of the brief but independent democratic republic during the Russian Civil War seems to have lasted. Another remarkable thing is that despite the failure of the first post-Soviet leader, Abdulfaz Elchibey,

there has been a remarkable consistency between his foreign policy and that of his successor, Heydar Aliev. The ideas put forth by Elchibey (such as economic cooperation between Georgia, Azerbaijan and Ukraine) have been implemented by Aliev.

Elchibey failed in Azerbaijan for some of the same reasons as his counterpart in Georgia, although their domestic policy styles were very different. Both faced complex situations, including a polarized society where elites were resistant to change and considerable pressure from Moscow (though Elchibey managed to rid his country of Soviet troops before everyone else).

In Azerbaijan, too, the pro-Western orientation of foreign policy was largely determined by society and its elites. The process of institution-building under Elchibey was of a peculiar kind, akin to anarchy, especially in foreign policy. The Foreign Minister had no expertise, and he was no more powerful than other members of government. When Elchibey came to power, the war with Armenia over Karabakh was already going on. Both in Karabakh and Armenia, nationalist forces had come to power when Azerbaijan was still under a Communist puppet regime.

Elchibey's assets were his personal charisma and ideology, but he alienated other countries and failed to find allies. He miscalculated that Azerbaijan could win the war unaided, and he expected Turkish political support to counterbalance the Armenian-Russian military alliance.

It was Elchibey's inability to secure control of the key ministries, his failure to establish basic order in the country, and his military defeat that led to the so-called "coup" that removed him from power and made Aliev president.

Initially, Aliev suppressed the opposition and established control of the police. He proved more skillful than Elchibey at mobilizing resources at his disposal and at using Azerbaijan's oil wealth on the international front. He neutralized or arrested some opponents, and he then held a referendum and elections to strengthen his legitimacy. He expanded the contract with oil companies to include Russia, and even took advantage of a failed coup attempt to get rid of adversaries, charging them with treason or removing them from key ministries. In March 1995, another coup was attempted, which gave Aliev another excuse to get rid of the remaining opposition in the military and led to the sacking of twelve senior officials.

Aliev's consolidation of power was not just a series of intrigues and maneuvering. He relied as well on traditional behind-the-scenes patronage relations from the Soviet era. He also played the international game very well, simultaneously joining the CIS and rebuilding a relationship with Turkey and the West. At first, Aliev gave priority to relations with Azerbaijan's immediate neighbors, Russia and Iran. After an unsuccessful military operation in the winter of 1993, when the nationalist agenda failed (as it had already in Georgia), Aliev signed an agreement with Armenia, with Russia as mediator. He understood that he should find as many allies as possible to balance Russia's clout and to secure the country's territorial integrity. To that end, he turned to oil diplomacy. The 1994 signing of the oil "contract of the century" was a test of Aliev's leadership abilities. Both internally and externally he passed the test handily and laid

the basis for a Western presence in the Caspian. This also allowed countries in the region to develop bilateral and multilateral economic, political, and security agreements, such as those within the TRASECA project and GUUAM (the informal alliance between Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova).

In his distribution of oil resources, Aliev followed three principles—tie as many countries' interests to the region as possible to give them a stake in regional peace; balance the interests of these countries to avoid becoming dependent on any one of them; and change the balance of power in Karabakh in Azerbaijan's favor. Given the Russian military support for Armenia and the Minsk Group's failure to resolve the conflict, Azerbaijan focused on building alliances, especially with the United States, Israel, and Turkey. By tying the interests of the outside world to the development of oil in Azerbaijan, Aliev aimed both to secure his regime domestically and to protect himself from Iran and Russia.

All in all, it seems that in the three countries that concern us, achievements in the foreign policy realm have strengthened the regime internally. This, no doubt, is largely because independence remains the paramount concern of these states. As for the particular choice of foreign policy—its Western orientation—it is dictated by the popular consensus in each country. Foreign policy strategies in the post-Soviet Caucasus are thus framed by the security environment, which includes internal and external threats for each country. What particular strategies are adopted reflects the leaders' ability to manage domestic pressures, such as nationalism, along with external factors.

The security environment of the post-Soviet Caucasus has tended to increase the centralization of power. But how the centralization has been achieved in each country depends on the leader's background and his reliance on patronage. The centralization of power simplifies decision-making and makes it more effective, but insofar as it weakens institutions, it makes it dependent on one person and his popularity. Ultimately, the international community—especially the West—will be the most important player in determining foreign policy in the Caucasus in the years to come.

# State Building and the Reconstruction of Shattered Societies

April 30, 1999  
University of California at Berkeley  
Lipman Room, 8th Floor, Barrows Hall

## Useful Websites

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### UC BERKELEY SITES

- Berkeley Program in Soviet and Post-Soviet Studies: <http://socrates.berkeley.edu/~bsp>
- Center for Slavic & East European Studies: <http://socrates.berkeley.edu/~csees>
- Slavic & East European Collections at the UC Berkeley Library:  
<http://www.lib.berkeley.edu/Collections/Slavic/>
- Government & Social Science Information Collection of the UC Berkeley Library:  
<http://www.lib.berkeley.edu/GSSI/>

### GENERAL REFERENCE/NEWS

- World Factbook: <http://www.odci.gov/cia/publications/factbook/index.html>  
Detailed listings of facts and figures for over 250 countries, including all the nations comprising the Caspian littoral states.
- BISNIS: Business Information Service for the Newly Independent States <http://bisnis.doc.gov>  
Wealth of information for western companies or individuals interested in conducting business in the NIS. Includes Caucasus country reports with detailed information on commercial codes, trade regulations, US consular information, etc.
- CIA Maps and Publications: <http://www.odci.gov/cia/publications/mapspub/index.html>  
Maps released to the public and available for purchase.
- Maps from the Perry Castaneda Library, University of Texas-Austin:  
[http://www.lib.utexas.edu/Libs/PCL/Map\\_collection/Map\\_collection.html](http://www.lib.utexas.edu/Libs/PCL/Map_collection/Map_collection.html)  
Mostly scanned images of CIA maps available for viewing and downloading. Several different maps of the Caucasus and Caspian littoral states.
- Library of Congress Country Studies/Area Handbook Series: <http://lcweb2.loc.gov/frd/cs/cshome.html>  
Fairly comprehensive, although somewhat dated (the latest was published in 1996), data on 91 countries or world regions. The Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) were added in 1998.
- Radio Free Europe/Radio Liberty: <http://www.rferl.org/>
- University of Pittsburgh-Russian & East European Studies (REESWeb): <http://www.ucis.pitt.edu/reesweb/>  
A comprehensive index of electronic resources on the Balkans, the Baltic states, the Caucasus, Central Asia, Central Europe, the CIS, Eastern Europe, the NIS, the Russian Federation, and the former Soviet Union.

### CAUCASUS AND CENTRAL ASIAN RESOURCES

- Caspian Crossroads Magazine: <http://ourworld.compuserve.com/homepages/usazerb/casp.htm>  
Articles from quarterly magazine on politics, business, and economics of the Caucasus and Caspian littoral region.
- Central Asia & Caucasus Update: <http://www.cpss.org/updates/cacupd.htm>  
Monthly report on news and events concerning conflicts in Central Asia and the Southern Caucasus, published by the Center for Political and Strategic Studies.
- Central Asian Studies World Wide: <http://www.fas.harvard.edu/%7Ecasww/>  
Clearinghouse of resources for the study of Central Asia, including the Caucasus.
- Central Eurasia Project Resource Pages: [http://www.soros.org/central\\_eurasia.html](http://www.soros.org/central_eurasia.html)  
Contains resource pages on the countries of the Caucasus and Central Asia.

- Eurasia Research Center: <http://eurasianews.com/erc/homepage.htm>  
Contains message boards and information on the Caucasus, Human Rights, US Foreign Policy, Russia, Turkey, Iran, and other subjects of international interest.
- UNDP Regional Gender in Development Programme in Central Asia, the Caucasus and Turkey:  
<http://www.undp.uz/GID>

#### **INTERNATIONAL AND US GOVERNMENTAL DEVELOPMENT ORGANIZATIONS**

- Organization for Security and Cooperation in Europe (OSCE): <http://www.osce.org>
- United Nations: <http://www.un.org>
- US Agency for International Development (US AID): <http://www.info.usaid.gov/>

#### **FINANCIAL INSTITUTIONS**

- European Bank for Reconstruction and Development (EBRD): <http://www.ebrd.com/>
- International Monetary Fund (IMF): <http://www.imf.org>
- World Bank: <http://www.worldbank.org>

#### **NON-GOVERNMENTAL ORGANIZATIONS (HUMAN RIGHTS)**

- Amnesty International: <http://www.amnesty.org>
- International Red Cross: <http://www.icrc.org>
- Human Rights Watch: <http://www.hrw.org/>

#### **COUNTRY-SPECIFIC RESOURCES (GENERAL)**

##### **Armenia**

- Armenian Embassy (in US) Website: <http://www.armeniaemb.org/>  
Includes information on visa regulations, Armenian foreign relations, travel/tourism, and investment opportunities. Contains extensive list of links to other websites in or about Armenia.
- ASBAREZ - Armenian Daily News Service <http://www.asbarez.com/frontpage.htm>

##### **Azerbaijan**

- Virtual Azerbaijan Republic: <http://www-scf.usc.edu/~baguirov/azeri.htm>  
Personal web page by Adil Baguirov, has comprehensive links to sites on or related to Azerbaijan.
- The US-Azerbaijan Council Home Page: <http://ourworld.compuserve.com/homepages/usazerb/>
- Azerbaijan International Magazine: <http://azer.com>  
Claims to be the largest online source of information on Azerbaijan. In operation since 1993. Contains over articles, photos, and other cultural and business information about Azerbaijan.

##### **Georgia**

- Georgian Parliament: <http://www.parliament.ge/>  
Good source of information on Georgian government, business, environment, and internet resources.
- Sakartvelo-Georgia: <http://www.sakartvelo.com> Fairly comprehensive page on Georgian culture, politics, history, society, but many of the links are out-of-date now.

##### **Kazakhstan**

- Republic of Kazakstan: <http://welcome.to/kazakhstan>  
General information on culture, economy, history of Kazakhstan and substantial web links page.
- All WWW Kazakhstan: <http://www.khazaria.com/turkic/index.html>  
Touted as the "largest catalog of Kazakhstan Web sources." In Russian.
- The Almaty Herald: <http://www.herald.asdc.kz/>  
English-language online newspaper from Almaty, Kazakhstan.

##### **Kyrgyzstan**

- Kyrgyz Embassy in the US: <http://www.kyrgyzstan.org/embassy.htm>  
General information on the country, politics, economics, culture and travel.



- Kyrgyzstan Freenet: <http://freenet.kg/main.shtml>  
One of the first websites in and about Kyrgyzstan. Information on history, geography, culture, and a brief page of links to NGOs operating in Kyrgyzstan.

#### **Russian Federation**

- Embassy of the Russian Federation (in the US): <http://russianembassy.org/>
- Friends and Partners: <http://www.friends-partners.org/friends/>

#### **Tajikistan**

- Tajikistan Update - <http://www.angelfire.com/sd/tajikistanupdate/>
- Tadjikistan REENIC Navigator (University of Texas, Austin):  
<http://link.lanic.utexas.edu/reenic/Countries/Tadjikistan/tadjikistan.html>

#### **Turkmenistan**

- Turkmenistan Information Center - <http://www.turkmenistan.com/>
- Turkmenistan On-line - <http://www.turkmen.net/>