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THE SOUTH CAUCASUS AT A CROSSROADS: Russia, Iran, China – and the EU’s Role in Governance and Conflict Resolution

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Teodora Coptil, Aspen-GMF Bucharest Forum Fellow



EXECUTIVE SUMMARY

The South Caucasus—comprising Armenia, Azerbaijan, and Georgia—stands at the intersection of global power competition and regional fragility. Following Russia’s declining influence after the Ukraine war, the region has become an arena where Iran and China are asserting political and economic influence, while Turkey also plays a strategic role. External conflicts, notably the ongoing Israel–Palestine crisis, also have indirect repercussions, influencing diaspora communities, political narratives, and potential radicalization in the region.

The EU faces a critical challenge: to transform its engagement from reactive and technical cooperation to a strategic, governance-centered approach capable of fostering conflict resolution, stability, and resilience. The 2020 and 2023 Nagorno–Karabakh conflicts reshaped regional dynamics. Russian peacekeeping credibility has declined, Azerbaijan consolidates territorial gains, and Armenia seeks alternative partners. Georgia faces democratic backsliding and political polarization, while governance weaknesses, corruption, and hybrid threats persist across the region.

The EU has now appointed a **Special Envoy for the South Caucasus and the Crisis in Georgia**, Ms. Magdalena Grono, who assumed her mandate on 1 September 2024 under Council Decision (CFSP) 2024/2080. Empowering this position is central to enhancing the EU’s strategic role in the region. This paper argues that the EU should anchor its engagement in three pillars:

- 1. Resilient Governance** – supporting anti-corruption measures, judicial independence, and decentralization to strengthen domestic legitimacy.
- 2. Conflict Resolution and Mediation** – fully resourcing the Special Envoy to sustain impartial facilitation in Armenia–Azerbaijan normalization and broader regional dialogue.
- 3. Strategic Connectivity and Inclusion** – ensuring that infrastructure and energy projects advance political stability and equitable development.

Recommendations include expanding the Special Envoy’s mandate, strengthening the EU Mission in Armenia (EUMA), linking financial assistance to governance benchmarks, supporting civil society, and coordinating diplomacy with the United States, and international organizations such as OSCE and UNDP.

INTRODUCTION

The South Caucasus occupies a critical geopolitical corridor linking Europe and Asia, bordered by Russia, Iran, Turkey, and the Black and Caspian Seas. Historically, it has served both as a bridge and a buffer between empires. Since the collapse of the Soviet Union, Armenia, Azerbaijan, and Georgia have navigated protracted conflicts, fragile governance, and competing spheres of influence.

Russia’s invasion of Ukraine in 2022 accelerated geopolitical shifts, weakening Moscow’s regional dominance and creating openings for other powers. Iran seeks to secure strategic corridors and counterbalance Turkish and Western influence, while China expands economic ties through the Belt and Road Initiative (BRI). Turkey pursues regional influence in trade, energy, and military cooperation.

The EU's presence, long technical and fragmented, now requires strategic recalibration. The appointment of Ms. Magdalena Grono as Special Envoy for the South Caucasus provides an institutional focal point for EU diplomacy, governance support, and conflict mediation. This paper examines how the EU can strengthen governance, support conflict resolution, and enhance regional stability amid multipolar competition.

THE SOUTH CAUCASUS IN FLUX

1. Russia: Declining Influence, Persistent Leverage

Russia historically viewed the South Caucasus as a near-abroad zone, maintaining influence through military bases, peacekeeping missions, and economic interdependence. The 2020 Nagorno-Karabakh ceasefire, brokered by Moscow, reaffirmed this role. However, Russia's military overstretch in Ukraine has reduced its credibility, as evidenced by the 2023 Azerbaijani offensive, which occurred despite Russian peacekeeping presence.

Nevertheless, Russia retains significant leverage: energy dependencies, remittance flows (particularly in Armenia and Georgia), and frozen conflicts that can be exploited to disrupt EU engagement. Moscow's current approach is largely strategic disruption, aiming to undermine Western influence rather than stabilize the region.

2. Iran: Tactical Opportunism

Iran's engagement is primarily reactive, focusing on Armenia and Azerbaijan. Tehran supports Armenia politically and economically, particularly to prevent an Azerbaijani corridor linking Turkey to the Caspian via Syunik province. Simultaneously, Iran aims to contain Azerbaijani nationalism from spilling over into its own Azeri population.

Iran's approach combines deterrence and opportunism, leveraging trade corridors such as the International North-South Transport Corridor (INSTC) to strengthen regional connectivity and secure influence.

3. China: Economic Entrenchment Without Political Conditionality

China's influence is mainly economic, prioritizing stability and access over governance. Investments in energy, logistics, and digital infrastructure in Georgia and Azerbaijan deepen Beijing's footprint, while non-interference policies make Chinese engagement attractive to regional elites.

However, the lack of governance conditionality allows elite capture and undermines EU reform initiatives. Digital infrastructure projects also risk long-term dependence on Chinese technology.

4. Regional Volatility

The region's paradox is "relative peace without reconciliation." While overt conflict has decreased, political instability and ethnic tensions persist. The 2023 Nagorno-Karabakh crisis displaced Armenian populations and exposed gaps in security guarantees. Georgia faces democratic erosion, while Azerbaijan consolidates power, often sidelining inclusive governance.

THE EU'S STRATEGIC PRESENCE AND LIMITATION

1. Eastern Partnership and Fragmented Engagement

The EU's primary instruments—the Eastern Partnership (EaP) and European Neighbourhood Policy (ENP)—have provided platforms for dialogue and reform support but failed to establish strategic leverage. The EU's approach—technical, rule-based, and focused on economic integration—has limited transformative impact.

Georgia's Association Agreement and Armenia's Comprehensive and Enhanced Partnership Agreement (CEPA) advance economic and legal alignment but have not fully addressed governance or security deficits. Azerbaijan, resisting governance conditionality, remains largely outside this framework.

2. Mediation: Michel Process and Special Envoy Role

Post-2020, the EU gained visibility through mediation between Armenia and Azerbaijan under the European Council President Charles Michel. The appointment of Ms. Magdalena Grono as Special Envoy in 2024 institutionalizes EU engagement. This appointment is grounded in Council Decision (CFSP) 2024/2080 of 26 July 2024, which formally designates Ms. Grono as the European Union Special Representative (EUSR) for the South Caucasus and the crisis in Georgia for the period 1 September 2024–31 August 2025. On 15 July 2025, the Council of the European Union adopted Decision (CFSP) 2025/1450, extending her mandate until 31 August 2027. This extension underscores the EU's commitment to promoting stability and conflict resolution in the region.

The Decision outlines a broad mandate: facilitating conflict resolution, supporting the normalization process between Armenia and Azerbaijan, contributing to the peaceful settlement of the crisis in Georgia, and promoting regional cooperation in line with EU policy objectives. It directs the EUSR to engage governments, parliaments, civil society, and neighboring countries; coordinate with international partners including the OSCE and UN; provide political guidance to CSDP missions (EUMM Georgia and EUMA Armenia); and ensure EU visibility and coherence in the region. Reporting obligations, financial arrangements, and staffing provisions are clearly defined to enable effective implementation.

The Special Envoy thus serves as the central instrument through which the EU can link governance support, conflict resolution, and strategic connectivity in a coherent regional strategy.

3. CSDP Presence and Humanitarian Engagement

The EU Monitoring Mission in Georgia (EUMM) and the EU Mission in Armenia (EUMA) provide the EU's only permanent CSDP presence. Their impartiality is valued but their mandates are constrained. Expanding their scope to include hybrid threat analysis, civilian protection, and early warning systems would enhance strategic relevance.

The EU also provides humanitarian aid, particularly for displaced populations. Yet, without governance-linked political strategies coordinated by the Special Envoy, these efforts risk being perceived as technocratic rather than transformative.

GOVERNANCE AND CONFLICT RESOLUTION: EU'S ADDED VALUE

1. Governance as Conflict Prevention

Weak governance—corruption, politicized institutions, elite capture—fuels instability. EU support for judicial reform, decentralization, anti-corruption initiatives, and media independence strengthens domestic legitimacy and reduces vulnerabilities to external manipulation.

2. Mediation and Peacebuilding

The EU's comparative advantage is its perceived neutrality. Institutionalized mediation under the Special Envoy, with consistent incentives and integration with EU technical support, increases the likelihood of sustained conflict resolution. Integrating civil society participation ensures local buy-in and prevents elite monopolization of peace processes

3. Human Security and Local Ownership

Peacebuilding requires investing in local communities. EU initiatives supporting displaced persons, women's participation, youth programs, and cross-border projects increase resilience and social cohesion.

POLICY RECOMMENDATIONS

1 Strategic Measures

1. Strengthen the mandate and resources of the EU Special Envoy for the South Caucasus to coordinate diplomacy, CSDP missions, and EU development initiatives, with a focus on governance and conflict resolution.
2. Integrate the region into the EU Strategic Compass review.
3. Expand EUMA's mandate to include hybrid threat monitoring and early-warning systems.

2 Governance and Rule of Law

1. Link financial assistance to anti-corruption, judicial reform, and transparency benchmarks.
2. Provide direct grants to civil society and independent media.
3. Establish a Regional Governance Forum to exchange best practices and oversight mechanisms.

3 Conflict Resolution

1. Institutionalize the Michel process with a permanent EU-facilitated dialogue secretariat under the Special Envoy's coordination.
2. Support Track II diplomacy (academic, NGO, and cultural exchanges).
3. Fund microgrants for community resilience in border regions affected by displacement or conflict.

4 Connectivity and Economic Inclusion

1. Align Global Gateway and BRI-linked projects with transparency and sustainability standards.
2. Promote inclusive development along the Middle Corridor (Trans-Caspian route).
3. Support renewable energy and digital governance initiatives aligned with EU norms.

5 Strategic Partnerships

1. Coordinate with the United States, OSCE, and UNDP to avoid duplication.
2. Engage Turkey and Iran pragmatically on practical issues while maintaining principled positions.
3. Promote trilateral cooperation among Armenia, Azerbaijan, and Georgia in non-political sectors.

6 Incorporate external conflict monitoring into regional strategy. The EU, in coordination with Romania, should integrate early-warning mechanisms, civil society engagement, and strategic communication programs to mitigate the indirect impact of conflicts such as Israel–Palestine on the South Caucasus, including risks of radicalization, political polarization, and diaspora tensions.

REGIONAL IMPLICATIONS OF THE ISRAEL–PALESTINE CONFLICT FOR THE SOUTH CAUCASUS

The ongoing Israel–Palestine conflict has reverberations far beyond the Middle East, affecting political alignments, diaspora dynamics, and security perceptions in regions such as the South Caucasus. While geographically distant, the conflict intersects with the South Caucasus in three main ways:

1 Sectarian and Diaspora Dynamics

The South Caucasus hosts diverse communities with historical and religious ties to the broader Middle East. Azerbaijan, a majority-Muslim country, has historically expressed solidarity with Palestinians, while Armenia maintains strong relationships with Christian communities and Israel. Heightened tensions in Israel–Palestine can inflame domestic political narratives, particularly in Azerbaijan, where government rhetoric occasionally frames foreign policy in religious terms. This can complicate reconciliation efforts with Armenia and affect internal stability in a region already marked by fragile governance.

2 Security and Radicalization Risks

Escalation in the Middle East can indirectly fuel extremist narratives and mobilization in the South Caucasus. Conflict imagery and political messaging may be exploited by radical actors to recruit or radicalize marginalized populations, particularly in regions with porous borders or disaffected youth. EU support for early-warning mechanisms, community resilience programs, and counter-radicalization initiatives becomes increasingly relevant in mitigating these risks.

3 The EU and Romania's Role

The European Union, including Romania as a proactive member state, can serve as a stabilizing actor by linking conflict-resolution initiatives in the South Caucasus to broader multilateral diplomacy. Romania, as a regional EU advocate, can facilitate dialogue, support humanitarian programming, and strengthen the EU Special Envoy's mandate by providing diplomatic, technical, and financial backing. The EU can also engage in strategic communication campaigns to prevent spillover of Middle East tensions into South Caucasus domestic politics. Coordinated initiatives—linking governance support, civil society empowerment, and cross-border confidence-building—can insulate the region from the destabilizing effects of the Israeli–Palestinian conflict.

Policy Implication: Incorporating the potential indirect impact of Middle East conflicts into the EU's regional strategy underscores the importance of a **comprehensive, multi-level**

approach, combining mediation, governance support, and proactive diplomacy. Romania's historical experience with conflict mediation, EU Council engagement, and diaspora networks positions it as a key contributor to such efforts.

CONCLUSION

The South Caucasus remains a strategically critical region at the intersection of global power competition, fragile governance, and unresolved conflicts. Russia, Iran, and China continue to assert influence, while regional actors such as Turkey and local elites shape internal dynamics. External crises, notably the ongoing Israel–Palestine conflict, have indirect but significant effects on diaspora dynamics, political narratives, and potential radicalization, highlighting the importance of a multi-level EU strategy.

The appointment and subsequent extension of Ms. Magdalena Grono's mandate as EU Special Representative (EUSR) for the South Caucasus and the crisis in Georgia until 31 August 2027 demonstrates the EU's commitment to sustained engagement, conflict resolution, and governance support in the region. The EUSR provides a central instrument to coordinate EU diplomacy, CSDP missions, and multilateral partnerships, ensuring continuity, visibility, and coherence across the EU's efforts.

For the EU and member states such as Romania, the imperative is clear: invest in resilient governance, support inclusive conflict resolution, and strengthen civil society and cross-border cooperation. Integrating external conflict awareness, particularly regarding Middle East crises, into regional programming further enhances the EU's capacity to prevent destabilization.

A long-term, coherent, and well-resourced EU strategy, anchored by the Special Envoy, offers the best path to consolidate peace, reinforce governance, and ensure the South Caucasus contributes to a stable, rules-based European neighborhood. The EU's ability to sustain this engagement will define its credibility and influence as a strategic actor on its Eastern flank.

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