

South Caucasus 20 Years of Independence



**FRIEDRICH
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**South Caucasus –
20 Years of
Independence**

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Preface and Introduction



Europe's interest in a peaceful and stable South Caucasus

Gernot Erler

Meanwhile, we are able to look back on twenty years of independence of the three South Caucasian states. However, there is no other region of the former Soviet Union in which the emergence of state sovereignty was connected with so much bloodshed as in South Caucasus. Thus, the happiness about the act of national self-determination is at the same time subdued by the failure to resolve the diverging interests peacefully.

General perception was determined most by the conflicts between Armenia and Azerbaijan on the Armenian exclave Nagorno-Karabakh and the inner-Georgian disputes surrounding the meanwhile completely separatist regions of Abkhazia and South Ossetia. Both conflicts resulted in tens of thousands of deaths and hundreds of thousands of internally displaced persons, many of whom still have to live under inhumane conditions even today.

Only those who remember the events that took place on the territories of the three republics Georgia, Armenia and Azerbaijan in the late 1980s and early 1990s know about the difficulties and the dramatic challenges faced by the region even today. Unfortunately, it does not seem like all the political players are aware of how playing with fire may end up in an inferno once more, instead of moving closer towards a political settlement.

Europe's interests with regard to South Caucasus are varied. They comprise both the interest in a secure and diversified energy supply (Azerbaijan) as well as in political reforms/democratization and a peaceful settlement of the conflicts.

With the Eastern Partnership (EaP) an instrument was created in May 2009 that lives up to the wish of the eastern partner countries, including the three South Caucasian countries, for a further approximation towards the European Union (EU). At the same time, prerequisites are to be established for accelerated political association and further economic integration.

All the countries encompassed in the EaP as regarded a potential candidates for accession. Thus, the EaP reaches beyond the European Neighborhood Policy (ENP), which does not envisage this step. Still, the issue of concrete EU accession negotiations will not be on the agenda for the foreseeable future. On the one hand, the EU is so busy dealing with its own issues that any notion of an enlargement round going beyond the commitments entered thus far is fallacious. On the other hand, the elementary prerequisites for such a step are not yet in place in the three South Caucasian countries. Just to mention the democratic deficits, which represent a weighty legacy, but also the unresolved ethno-territorial conflicts, whose peaceful solution seems to be a long way off. Furthermore, at least Azerbaijan has indicated clearly that is not overly keen on EU membership.

Thus, it has to be the EU's priority to lend the best possible help to all three countries in conducting the necessary political reforms and in overcoming the conflicts mentioned.

Already in 2008, the Black Sea Synergy set up was an expression of the heightened interest of the EU in promoting regional cooperation around the Black Sea. The framework conditions for a trusting cooperation among the countries of the region are still extremely difficult. Still, the EU has

managed to put on the road a reform partnership, even though the implementation is sometimes stagnating.

The "Five-Day War" between Russia and Georgia in August 2008 represented a bitter setback in the efforts to overcome the regional tensions. Up until that point, people referred to Abkhazia and South Ossetia as a so-called "frozen conflict". The assumption prevailing at the time that conflicts of this nature are not resolved but do not represent an immediate danger either was rendered deceptive, at that point at the latest.

At the end of this violent clash, there were only losers. The attempt undertaken by Georgia to recover the area of South Ossetia, previously removed from its own direct influence, by means of a surprise coup using military force was an utter failure. The internationally binding principle of resolving territorial conflicts by mutual agreement and with peaceful means only was disregarded recklessly. Not only that South Ossetia was lost for good but also Abkhazia. A re-integration of these two entities into the Georgian state territory has become less probable than ever before.

However, the assumption that Russia emerged from this conflict the victor does not hold up to close scrutiny either. With the premature recognition of South Ossetia and Abkhazia as independent states, Moscow did itself a disservice. This act violated the principle of territorial integrity otherwise held high by Moscow, and may yet prove a challenging legacy in view of the efforts of secession undertaken in North Caucasus.

What is more, neither Abkhazia nor South Ossetia will ever be able to exist on their own. Both politically as well as economically, they will remain on the drip-feed of Russia for an indefinite period of time. There has not been a diplomatic recognition by a representative number of states to the present day.

Immediately after the outbreak the war, the EU reacted swiftly in August 2008. By dispatching the EU-Monitoring

Mission, it was possible to keep apart the hostile parties to the conflict and to prevent a renewed eruption of the fights.

The main task of the mission was to monitor the stability, to observe and analyze the situation, especially adherence to human rights and humanitarian international law, as well as the implementation of the Six-Point Plan of 12 August 2008. In the years to come, efforts need to concentrate on achieving practical progress, which will benefit the people directly. Germany and Europe are able to lend assistance based on their own experience. However, these offers need to be requested locally.

And there is a further conflict that shadows the entire region: the Nagorno-Karabakh conflict. The EU has so far not been engaged directly as a mediator here. Up until now, it has left the field to the Organization for Security and Cooperation in Europe (OSCE), which has not been able to achieve a breakthrough with the two conflicting parties in meanwhile twenty years either. What gives rise to concern is the growing war rhetoric on both sides. Azerbaijan has been using its economic potential for a military arms build-up, for years, connected with verbal threats, which are matched by the Armenian side in no lesser manner.

Neither of the two sides has displayed any recognizable serious intention to resolve the conflict peacefully and to enter into any painful political compromise in doing so. Those responsible in the two countries obviously fear being branded traitors by their own followers and thus maneuvered to the political sidelines. They prefer to insist on their maximum demands securing their own political survival, however, at the price of keeping alive a conflict that may break out again at any time and may lead to new bloodshed. The EU should consider seriously whether it should enter the scene as an independent player earlier and preventatively instead of as firefighters later on.

The area of political reforms and democratization is another issue. All three countries are characterized by more or less severe deficits in this respect. There can only be an

approximation with the option of later EU membership if the democratic standards, as they are binding within the EU, are applied also in South Caucasus. The levers to exert any pressure are limited, at least with regard to Azerbaijan, as it is not seeking EU membership thus far.

As regards Azerbaijan, Europe has further going interests that may be described with the words energy supply and diversification. In January 2011, the EU and Azerbaijan concluded an Energy Partnership. Especially with a view to the planned Nabucco Pipeline, Azerbaijan has become a strategically important partner. By undertaking the obligation to make available natural gas in sufficient amounts over a long period of time, Azerbaijan underlines its role as a bridge between the EU and Central Asia.

Still, this undoubtedly important role played by Azerbaijan should not lead the European side to overlook the internal social reform deficits. Especially when dealing with members of the opposition and critical journalists, the country is far removed from any European standards and this is placed on the agenda of bilateral talks regularly.

Europe should become involved more strongly in South Caucasus than before. The region belongs to Europe and it should be in our very own interests that the same values and norms are applied on the fringes of Europe as in the very heart. Europe cannot look on when basic human rights are disregarded and ethno-territorial conflicts are still fought out bloodily in the 21st century. There are mechanisms with the help of which they may be resolved peacefully. However, this requires the express will of the political players on site to apply them. The past should be warning enough to embark on this road.

* * *

Gernot Erlen, MP, Deputy Head of the SPD Parliamentary Group, State Minister in the Foreign Office from 2005 to 2009.

Introduction

Matthias Jobelius

Twenty years ago Georgia, Armenia and Azerbaijan achieved independence from the Soviet Union. Since then the South Caucasus has been in a constant state of turmoil. Since 1990 the region has experienced six wars or armed conflicts. Three separatist regions – Abkhazia, South Ossetia and Nagorno-Karabakh – are the subject of unresolved territorial conflicts. At no time in the past 20 years has it been possible in any of the three countries to organize a change in the head of state by means of free and fair elections. To this day, separatism, a wealth of natural resources, political instability and democratic deficits make the South Caucasus one of the most explosive regions in the direct neighbourhood of the European Union (EU).

In light of the complexity of the problems in the South Caucasus it is the task of political observers to explore the region's long-term trends and hidden development patterns. That is the aim of this collection of essays.¹

On the occasion of the 20th anniversary of the independence of the South Caucasus, the Friedrich-Ebert-Stiftung (FES) has commissioned authors from Georgia, Armenia, Azerbaijan, Russia, Europe, Turkey and the USA to take a look back on two eventful decades and explore the challenges for the coming years.² The collection concentrates on six themes, which also form the main

¹ We would like to thank Julia Hettler for her support in compiling this publication, in particular for her thorough editing of the various articles.

² The analyses and statements printed in this collection of essays exclusively reflect the opinions of the respective authors and do not necessarily correspond to the views of the FES.

chapters of this publication: Political transformation, the development of democracy, economic transformation, conflict and conflict resolution, the role of external players as well as cooperation between the South Caucasus and the EU.

The collection opens with a preface from **Gernot Erler**, who, as a German politician and former Minister of State on the Foreign Office, has experienced and accompanied political events in the South Caucasus over the last two decades. In his foreword Erler reminds us that in no other region of the Soviet Union did the establishment of independent states proceed as violently as in the South Caucasus. He highlights Europe's wide ranging interests in the region and pays tribute to the Eastern Partnership (EaP) as an instrument for an intensification of economic and political relations between Europe and The South Caucasus. However, in Erler's opinion, despite the progress made through cooperation programs such as the Black Sea Synergy, the European Neighbourhood Policy (ENP) and the EaP, the EU still needs to make a firmer commitment to the South Caucasus than it has done up to now. At the same time he calls on the three states in the region to increase their efforts to bring about peaceful conflict resolution and democratisation.

Transformation

In the first chapter of the book the authors Archil Gegeshidze, Arif Yunusov and Mikayel Zolyan examine the history of the region's transformation following the collapse of the Soviet Union. They explain how, in the initial years following independence, the course for the future development of the three states was set.

Archil Gegeshidze from the Georgian Foundation for Strategic and International Studies (GFSIS) begins his article by recalling the difficult starting conditions faced by Georgia in the 1990s. Two unresolved separatist conflicts, a drastic economic decline and the nationalism of the country's first president, Gamsakhurdia, hardly

provided fruitful ground for democratic transformation. It was only under Shevardnadze that a cautious democratic opening took place. However, this did not result in a sustained democratisation process, producing instead a hybrid political system. Although Gegeshidze pays tribute to the reforms following the Georgian Rose Revolution of 2003, he currently discerns an increase in authoritarian tendencies and describes Georgia's political system as an example of "competitive authoritarianism".

At the start of his account of transformation in Armenia, the historian and political scientist from Yerevan, **Mikayel Zolyan**, underlines the initial difficulties faced by the transformation process in Armenia. While it shared a lack of democratic traditions with other countries in the post-Soviet region, the Karabakh war, the blockade by Turkey and Azerbaijan and the consequences of the Spitak earthquake (1988) represented especially difficult starting conditions for an independent Armenia. According to Zolyan, the country has not succeeded in developing democratic institutions to this day. The author concludes that Armenia remains a hybrid political system and has not achieved any significant progress in democratisation or the protection of human rights.

The renowned historian and publicist **Arif Yunusov** begins his article by pointing to the idealism which accompanied the Azerbaijani independence movement under the leadership of the Azerbaijan Popular Front Party (APF) at the beginning of the 1990s. However, according to Yunusov, the burgeoning nationalism under the government of Abulfaz Elchibey was one of the reasons why the first independent government failed as early as 1993 and Heydar Aliyev was able to seize power following a military coup. Yunusov explains how an authoritarian regime was established under Heydar Aliyev which quickly destroyed the hopes of the independence movement. However Aliyev was also responsible for orienting the country to the West in terms of both energy policy and geostrategy. Yunusov regards the inauguration of Heydar Aliyev's son Ilham Aliyev as president of Azerbaijan in 2003 as a turning point. He

sees the hesitant reaction of the West to the repressive measures taken against the opposition and civil society following 2003 as one of the reasons for the growing turn away from Western values and the increasing influence of Islam in the Azerbaijani population.

Democratization

Following the examination of the genesis of the political systems in the South Caucasus in the first chapter of the book, the second chapter is devoted to the current state of the political systems in the region with a focus on the development of democracy and human rights.

Just as Gegeshidze has already observed, **Matthias Jobelius**, Director of the South Caucasus office of the FES, identifies a growing authoritarianism in Georgia. While many reforms following the change of power in 2003 had selective modernization effects, they simultaneously brought about a dismantling of democracy in the country. Through a combination of a consolidation of political power and libertarian economic policy political freedom and social rights have been restricted. Georgia is moving towards an authoritarian liberalism, that is, a system combining radical free market economic policy with authoritarian governance. The author cites the currently observed attempt to destroy the country's free trade union movement as an example of this development.

In his essay the director of the Yerevan Press Club (YPC), **Boris Navasardian**, focuses on the informal character of Armenia's political system as well as the influence of corrupt networks and clans. For Boris Navasardian there is hardly any political institution and decision making process in Armenia which is free from the influence of the oligarchy. Since 1996 every president has been forced to secure the support of the oligarchy in order to be elected and remain in power. This has resulted in a complete fusion of the economic and political elites, even though there are power struggles and competing groups within

this elite. Navasardian is doubtful whether a movement could develop within Armenia capable of fundamentally changing this situation. However, he sees civil society and the younger generation, often educated in the West, as important democratic counterforces. In his view, the extent to which social progress can be achieved depends not the least on the determination of Western partners to institute stronger ties between financial cooperation with the Armenian government and the issue of reforms.

In his article on democracy in Azerbaijan, *Shahin Abbasov*, journalist from Baku, makes similar observations to those already made by Arif Yunusov. Abbasov also sees Ilham Aliyev's assumption of the office of president as a political turning point. With the transfer of power from the father to the son, so argues Abbasov, an authoritarian political system has taken on dynastic and monarchic elements. The current regime is now more strongly tailored to personal ties. Knowledgeably, and in rare candour, Abbasov names the individuals at the centre of the country's networks of power, and whose mutual competition simultaneously assists in securing the rule of the president. The author also discusses the oppositional forces as well as the growing role of political Islam, however, he comes to the conclusion that there is little possibility of political change in Azerbaijan.

Conflict

The unresolved conflicts around the three separatist regions of Abkhazia and South Ossetia in Georgia as well as Nagorno-Karabakh in Azerbaijan are the greatest barriers to political stability and security in the region. The conflicts restrict trade between and with the three countries of the South Caucasus and prevent regional integration. Within the domestic policy of Armenia, Georgia and Azerbaijan they are instrumentalised for the purpose of retaining power. A long-term, sustained integration into the EU and the Western security architecture is virtually inconceivable without a resolution to these conflicts. Consequently, the third chapter in this collection of essays is devoted to the

conflicts and long standing efforts to bring about their peaceful resolution.

In his article on the Abkhazian and South Ossetian conflicts, the former UN Secretary General Special Representative to the South Caucasus, **Dieter Boden**, examines both the course of the conflicts over the last 20 years as well as the role of international organisations in the mediation efforts. Even though a permanent solution has never been reached in negotiations between the conflicting parties, international organisations have, according to the author, in numerous crisis situations successfully intervened to prevent the resurgence of armed conflicts in Georgia. Boden views the war between Georgia and Russia in August 2008 as a dramatic setback because this event destroyed all previous efforts to manage the conflict and re-legitimised violence as a means of conflict resolution. In the search for solutions to the conflict Boden points to democratic developments in Georgia. He argues that Georgia should focus on democratic qualities and become a more attractive model for Abkhazia and South Ossetia than Putin's Russia.

In his article on the conflict over Nagorno-Karabakh, the renowned Caucasus analyst **Thomas de Waal** names the reasons why a solution has not been reached to a conflict which has persisted for over two decades. The negotiations on the future status of the contested region, complicated enough in themselves, are aggravated by the fact that Karabakh has taken on a central, identity defining role in the political and cultural self-understanding of the two countries. According to the author, the instrumentalisation of the Karabakh conflict for domestic political ends, which can be observed in both countries, further impedes efforts at finding a solution. Furthermore, there is the exclusion of the public from conflict resolution initiatives, already practiced in the Soviet era, the insularity of the political system and the unwillingness of decision makers to campaign amongst the population in order to generate support for potential solutions.

The tense relations between Armenia and Turkey are the subject of the article from **Stepan Grigoryan** from the Analytical Centre on Globalization and Regional Cooperation (ACGRC). Grigoryan identifies different phases in the efforts at a rapprochement between the two neighbouring states, whereby impulses for a normalisation have come alternately from Yerevan and Ankara. The author devotes considerable attention to the, for the time being, last initiative for a normalisation of Armenian-Turkish relations, known as "Football Diplomacy". He states the reasons for the launch of the initiative in 2008, as well as the causes for its temporary failure in 2010. Despite the fact that the Armenian-Turkish protocols agreed in Zurich in 2009 on establishment of diplomatic relations and opening of the border have not yet been ratified, Grigoryan remains optimistic and sees potential for a revitalisation of the rapprochement process in the near future.

Economic development

The economic development of the three states was initially characterised by a massive economic slump following the collapse of the Soviet Union. To this were added regional developments such as the Karabakh conflict or the Spitak earthquake in Armenia which further exacerbated an already severe economic crisis. In the second half of the 1990s the three economic systems passed through a phase of structural reform and stabilisation. At the same time the three economies also developed characteristics which, to this day, have a negative effect on the economic life of the South Caucasus. These include monopolistic economic structures, unprotected property rights, regional and social fault lines as well as clientilistic ties between economics and politics. The precise course of economic transformation in the individual countries and future challenges are analysed in the fourth chapter.

Kakha Gogolashvili paints a graphic picture of the different phases of Georgia's economic development, from the collapse of the economic structures at the beginning of

the 1990s, through a short phase of consolidation between 1994 and 1997, which in turn was replaced by years of mismanagement until the change of power in 2003. The author describes how the Georgian government began a libertarian economic experiment in 2004 in an attempt to generate growth through a maximum of deregulation and liberalisation. Although, in Gogolashvili's view, this economic experiment has already failed, it cannot be ruled out that the government will initially stick to this path. Concretely, Gogolashvili identifies three possible paths for the development of Georgian economic policy: a continuation of libertarian policy with little regulation and poor social protection, further integration into the European market accompanied by the adoption of EU regulatory standards, or reintegration into the economic region of the Commonwealth of Independent States (CIS). It is only the second option, further integration into the EU market that the author sees as a viable and economically desirable path.

The Armenian parliamentarian and economist, **Ara Nranjan**, has compiled a critical report on the state of the Armenian economy. The country's economy is uncompetitive, riddled with monopolies and susceptible to external shocks. High unemployment and inadequate social security systems are a burden on the economy as well as society as a whole. The author holds an economic policy with both neoliberal and Bolshevistic features responsible for many undesirable developments and calls for a fundamental change of course on the part of the political decision makers. In his review of the different phases of Armenia's economic development Nranjan also recalls the difficult framework conditions at the start of the 1990s as the war over Karabakh, the Spitak earthquake and the isolation of the country intensified the economic collapse.

Anar Valiyev, political analyst from Baku, assesses the different phases of Azerbaijan's economic development, highlighting its one-sided emphasis on the oil and gas business. He explains that both the consolidation of Azerbaijan's economic development from the mid 1990s,

as well as the economic boom beginning in 2003 is primarily due to the export of raw materials. This one-sided dependence on raw material exports is viewed critically as even minor fluctuations in the price of oil can have significant effects on budgetary and economic developments. In addition to the economy's dependence on raw materials Valiyev addresses further structural deficits whose resolution calls for urgent action. These include the burgeoning corruption, the monopolistic markets or the reform of the social security systems.

External players: USA, Russia and Turkey

Historically, the South Caucasus has always been a region in which neighbouring major and regional powers have wrestled for influence. Over the last two decades the geopolitical interests of other states have continued to shape political and military developments in the region. It is for this reason that this volume also addresses the role of the USA, Russia and Turkey – and in the subsequent chapter – cooperation between the EU and the South Caucasus.

Richard Giragosian, Director of the Regional Studies Center (RSC), traces the changing strategic priorities of the USA's South Caucasus policy. He describes the transition from a policy directed towards securing energy supplies to the integration of the region into the "War on Terrorism" proclaimed by the USA under President George W. Bush and the attendant focus on stability and security. Most recently, the "reset" policy of the Obama government in respect of Russia has led to a further change in the US's South Caucasus policy. The USA has prioritised relations with Russia over and above an independent, formative strategy towards the South Caucasus. As a consequence, Washington's engagement in the region has declined, which has opened up an opportunity for the EU to make a stronger and more visible commitment. In his article Giragosian also points to the domestic political factors which influence US policy towards the South Caucasus, in particular the influence of the Armenian Diaspora in the USA.

As **Andrey Ryabov** from the Carnegie Moscow Centre makes clear in his article, Russia, along with the USA, has also altered its strategy towards the South Caucasus a number of times over the past two decades. The author examines the factors which determined Russia's South Caucasus politics in the first decade of independence and analyses the issue of Moscow's increasingly confrontational intervention in the region after 2004 in reaction to a changed geopolitical situation. The author clarifies why and how the tensions between Georgia and Russia increased in the following years, culminating in the war of 2008. Currently, and for the foreseeable future, Russia's policy will remain directed towards maintaining the status quo following the August war and continuing its support for Abkhazia and South Ossetia. In the author's view, this adherence to the status quo in combination with limited economic influence and an unattractive social model mean that Russia has little prospect of becoming a strong partner for the states of the South Caucasus.

Turkey's policy towards the South Caucasus is the subject of the article from **Burcu Gültekin-Punsmann** from the Economic Policy Research Foundation (TEPAV) in Ankara. While Turkey's South Caucasus policy was oriented over a long period towards a continuation of the status quo, Gültekin Punsmann illustrates how in recent years Ankara has opened up new scope for action in foreign and economic affairs through a more pro-active policy in the region. Punsmann sees the realisation of the Baku-Tbilisi-Ceyhan (BTC) pipeline in 2006 as a cornerstone of Turkish policy in the region. In addition, following the Georgia-Russia war from August 2008, Turkey has for the first time formulated its own regional initiative for stability and conflict resolution in the form of the Caucasus Stability and Cooperation Platform (CSCP). At the same time, with the Armenian-Turkish rapprochement process from 2009, an attempt has been made to pursue a more independent foreign policy in the South Caucasus, i.e. one less determined by the traditional alliance with Azerbaijan. The fact that to date both the CSCP and the rapprochement

process with Armenia has failed to bear fruit also shows that Turkey is still at the start of its search for an overall strategy for the region.

Europe

The final chapter of this volume is dedicated to the role of Europe and the cooperation between the three countries of the South Caucasus and the EU over the past 20 years.

In his article ***Uwe Halbach*** from the German Institute for International and Security Affairs (SWP) analyses the various phases of the relationship between the EU and the South Caucasus since the end of the Soviet Union. Amongst other things, he traces the "hesitant rapprochement" between the EU and the South Caucasus in the first decade following independence, to unclear security policy interests in the region. On the one side the region is near enough to Europe not to ignore its stability, at the same time it is too far away to be perceived as a risk for one's own security. However, as a result of the EU's eastern enlargement and regional developments such as the Rose Revolution in Georgia, there has been a noticeable consolidation of European policy on the Caucasus since 2003, reflected for example in the Black Sea Synergy, the European Neighbourhood Policy (ENP) or the Eastern Partnership (EaP). At the same time Halbach criticises European policy towards the region due to its lack of incentives, coordination deficits and unclear priorities.

This is followed by an article from ***Nicu Popescu*** from the European Council on Foreign Relations (ECFR) in which he takes a look at the cooperation instruments which the EU has used to shape its relations with the South Caucasus. He draws a critical balance. In the opinion of the author the 1990s were a "lost decade" in relations with the South Caucasus and it was only the ENP, initiated in 2003, that marked the start of a significant engagement in the region. The different cooperation programmes are wide ranging, but incapable of decisively influencing domestic and foreign policy developments in the three countries. Even the EaP

has changed little. However Popescu does not see the EU as the sole cause of these shortcomings. The policies in the partner countries, with their lack of reform initiative, corruption and democratic deficits have also contributed to this sober assessment.

One reason why the cooperation between the South Caucasus and the EU has increased in past years, despite the problems described by Halbach and Popescu, is the importance of the region as supplier and transit region for oil and gas. It is against this background that **Stefan Meister** and **Marcel Viëtor** from the German Council on Foreign Relations (DGAP) examine the importance of the South Caucasus for the expansion of the so called "southern Gas Corridor" as delivery route for natural gas from the Caspian Sea and the Middle East to the EU. Meister and Viëtor argue that the EU's energy policy engagement in the region is unable to reach its full potential due to the different interests of the member states and criticise the lack of a common EU energy foreign policy. Even though the two authors advocate a stronger energy policy engagement on the part of Brussels they also emphasise the dangers of a one-sided EU South Caucasus policy directed solely at energy security. According to the authors, energy policy also stands for stronger strategic ties between the region and the EU and the willingness of the EU to promote conflict resolution and the development of democracy.

From Soviet Rule to Post-Soviet Governance

Georgia's Political Transformation: Democracy in Zigzag

Archil Gegeshidze

Following the collapse of the Soviet Union Georgia immediately began to struggle for survival as an independent state. The most difficult task has been to manage a post-independence transition which was about democratization and the institutionalization of a market economy. Defining internal political order and defining an independent identity vis-à-vis Russia have been the most fundamental challenges that Georgia faced at independence and throughout the subsequent period.¹ No less importantly, however, this transformation implied state-building and nation-building as well. Hindered by two unresolved ethnic conflicts and severe economic downturn in the 1990s, Georgia's transition has always been characterised by a series of dramatic ups and downs. The purpose of this article is to take stock of the status of democracy and governance in Georgia, given two decades of independence. More specifically, the paper will look into the trajectory that Georgia's political transformation has followed since early 1990s.

The birth of new Georgia: The violent transition

The embryos of modern Georgia's political institutions were already conceived at the junction of the last decades

¹ USAID/Georgia (2002) Democracy and Governance Assessment of Georgia. December 2002, p. 3.

of the last century. As the Soviet Union approached its final curtain the first political parties, independent media and genuine public associations were created.¹ However, the transition from Soviet Republic to independent state has been violent which made evolution of democratic institutions difficult. In April 1989 the Soviet troops cracked down on public demonstrations against the 'soviet Empire' because pro-independence appeals under the leadership of Zviad Gamsakhurdia became increasingly threatening. The dispersal resulted in the killing of unarmed demonstrators, having the effect of reinforcing opposition and delegitimising both the Communist Party and the Soviet Union in the eyes of the Georgian public. As part of its survival agenda the Communist Party authorities sought to split the opposition and recover a popular base by playing on the ethnic divisions within Georgia. The latter tactics meant antagonising the Abkhaz and Ossetian minorities in particular.² Notwithstanding the failure of these tactics to achieve the intended outcome, it subsequently affected Georgian internal politics to a significant degree by having contributed to the escalation of interethnic conflict.

Meanwhile, as the Kremlin's grip on power irreversibly loosened, Georgia was heading towards its first multiparty elections. The October 1990 elections, conducted with little violence during the campaign and no evidence of overt interference with the polls, brought to power the nationalist and anti-Communist political forces led by the charismatic Zviad Gamsakhurdia. Initially, the electoral victory was consolidated in May 1991 when he won the first contested direct election for the presidency of any Soviet republic with an overwhelming majority of votes. This event has been peaceful and free and has marked the first constitutional change of government in Georgia's modern history.

¹ Nodia, Ghia / Scholtbach, Álvaro Pinto (eds.) (2006) *The Political Landscape of Georgia – Political Parties: Achievements, Challenges and Prospects*; p. 7.

² USAID/Georgia (2002), *op.cit.*, p. 3.

The political agenda of the new Georgia, its public discourse and the character of its political institutions were dominated by two ideas: nationalism and democracy.¹ The objective was twofold: Georgia had to be independent and free; and it had to become democratic in the manner of the Western world. Meanwhile, the political institutions faced serious challenges because different political actors and ethnic groups could not bridge differences over the twofold objective. The opposition against the Communists was internally divided. Different political leaders, replete with their own ambitions, would not accept Zviad Gamsakhurdia's pre-eminence as legitimate and were ready to challenge his rule. Despite the landslide victory in presidential elections, Zviad Gamsakhurdia failed to consolidate his rule, which mainly rested on charismatic mobilisation.² His rule embodied a paradox typical of young and immature democracies: it had a strong popular mandate but was soon denounced as authoritarian.³ Indeed, the government increasingly abused the popular mandate by dismissing the opposition and branding it as "loyal to the enemy" (i.e. Kremlin), while keeping the media under strong pressure. Accusations of authoritarianism were shared by an increasing section of society.

In addition to the difficulties with political pluralism, the authorities failed to allow for ethnic pluralism. In defining its identity vis-à-vis Russia the Gamsakhurdia regime displayed intolerance towards non-Georgian populations, and articulated nationalist slogans ("Georgia for the Georgians") that raised considerable concern among minority populations regarding their future in the country.⁴ For its part, the emergence of Georgian nationalism gave rise to counter-nationalist paradigms and programmes in autonomous regions of Abkhazia and South Ossetia.⁵

¹ Nodia, Ghia / Scholtbach, Álvaro Pinto (eds.) (2006), op.cit., p. 8.

² BTI 2010 – Georgia Country Report, p. 2.

³ Nodia, Ghia / Scholtbach, Álvaro Pinto (eds.) (2006), op.cit., p. 9.

⁴ USAID/Georgia (2002), op.cit., p. 4.

⁵ Nodia, Ghia / Scholtbach, Álvaro Pinto (eds.) (2006), op.cit., p. 9.

There was a lack of a clear idea about how to treat the autonomies. Since the agenda of independence focused on the struggle with the central government in Moscow, the minorities' problems were considered only in the context of that struggle.¹ As a result, the tensions quickly heightened. The conflict first reached a critical phase in the South Ossetian case in late 1990. The newly elected Ossetian Supreme Council proclaimed the South Ossetian Republic, – a step towards secession from Georgia. Gamsakhurdia's Supreme Council responded by abolishing South Ossetian autonomy. The conflict reached the point of no return and soon evolved into a war which, although low-intensity, was to continue for several years. Gamsakhurdia, avoiding making similar mistakes, offered a power-sharing compromise to the Abkhaz. This arrangement, however, did not last long as the internal power struggle in Georgia unraveled it. At the end of 1991 one of the most powerful paramilitaries, the Mkhedrioni (the Horsemen), formed a nucleus of the coup that soon unseated Gamsakhurdia. The commentators note that "the period of time between the 1990 elections and Gamsakhurdia's eventual downfall in January 1992 was marked by increasingly erratic one-man rule, a general increase in street violence, and the outbreak of war in South Ossetia"². In the wake of the coup, the newly created Military Council, dominated by warlords, immediately sought international legitimacy. The decision was taken to invite former Soviet Foreign Minister Eduard Shevardnadze to participate in the State Council, which was to replace the Military Council. Shevardnadze accepted and returned to Tbilisi.

In the aftermath of Shevardnadze's return modest signs of democratic transition began to emerge. Aggressive rhetoric against ethnic minorities declined, the political discourse became much more tolerant towards all kinds of differences, the independent media proliferated and

¹ Ibid. p. 10.

² Citation of Jonathan Wheatley in: USAID/Georgia (2002), op.cit., p. 4.

political parties were mainly free to act as long as they recognised the legitimacy of the new government.¹ Although many people perceived Gamsakhurdia's removal as a fresh start for democracy in Georgia, the period that followed Shevardnadze's return saw the continuation of violence. Having returned to political brawl in a politically dependent position, Shevardnadze initially focused on establishing order in the country. The initial years of his rule were marked by Shevardnadze's attempts to discard the competing gangs of criminals that had originally placed him in power. Meanwhile, supporters of Gamsakhurdia did not give up and put up resistance to the central government by establishing a stronghold in parts of Western Georgia. Although in July 1992 the Russia-brokered peace deal ended hostilities in South Ossetia, yet another bloodier war broke out in Abkhazia as Georgian troops entered the region avowedly to guard the railways and highways. Thus, at stake was not only Abkhazia but neighbouring Megrelia, which was under the control of Gamsakhurdia's supporters. Facing a triple challenge, Shevardnadze eventually succeeded in addressing two of them. Gamsakhurdia's supporters were effectively defeated followed by a crackdown on the paramilitary and criminal gangs. The adoption of the constitution and the successful organisation of elections signaled emerging consolidation. These events, however, were prefaced by failure in addressing the third challenge – separatism in Abkhazia. The Abkhaz militia, supported by armed volunteer groups from the North Caucasus and covertly by the Russian military, offered resistance resulting in defeat for the Georgian government forces and forced exodus of the ethnic Georgian community of Abkhazia. Russia, similar to the case of South Ossetia, brokered a ceasefire agreement and secured the role of the facilitator and mediator between the Georgian and Abkhaz sides. Since then, the perpetuation of these two "frozen conflicts" have been the single most important factors in Georgia's domestic and foreign policies.

¹ Nodia, Ghia / Scholtbach, Álvaro Pinto (eds.) (2006), *op.cit.*, p. 11.

Towards stability through power consolidation

Following the crack down on the paramilitary groupings in 1995, the new Constitution was adopted and the presidential and parliamentary elections were held. Shevardnadze was elected President by a wide margin and the Citizens, Union of Georgia (CUG), the party he created in 1993, gained a majority in the new Parliament. As a result, Shevardnadze created a hybrid political regime that allowed a certain space for civic and political freedoms but few conditions for genuine political competition and participation.¹ Real power was concentrated in fairly narrow elite. Within one of the most important power centers was the team of "young reformers" headed by Zurab Zhvania, Chairman of the Parliament.

Georgian-Russian relations played a critical role in the shaping of the Georgian internal political order during the process of state re-consolidation. The perceived threat of Russian intervention in Georgia's internal affairs coupled with Tbilisi's expressed commitment to democratic governance served to ensure the provision of external assistance from Western donors and to generate diplomatic support which bolstered Shevardnadze's internal legitimacy.²

Consolidation of power through increased legitimacy allowed for the pursuit of a bold reform agenda. The second half of the 1990s was marked by the rapid advancement of legal and institutional reforms. The Parliament adopted a series of important new laws, mainly tailored to Western legal frameworks. The civil code, civil proceedings code, criminal proceedings code, tax code, general administrative code, etc. were among those on the reform agenda, which brought Georgia closer to European standards. The young reformers pushed for radical reform in the judiciary. This effort, led by Mikheil Saakashvili, the future President of

¹ Ibid. p. 13.

² USAID/Georgia (2002), op.cit., p. 6.

Georgia, brought about the introduction of new meritocratic criteria in appointing new judges and replacing most of the Soviet-era judges.¹ Also, a legal basis for holding executive agencies accountable to standards of performance and probity was established. This was paralleled by the development of civil society institutions such as independent media and non-governmental organisations ensuring lively public debate on various policy issues and some level of public oversight of the government's performance. These novelties brought the spirit of pluralism into Georgian society. Not accidentally, as a consequence, in 1999 Georgia was the first country in the South Caucasus to be admitted to the Council of Europe.

From stability to stagnation

The dynamics of the reform process were, however, difficult to sustain. In the face of increasingly coherent opposition and continued economic decline further promotion of the reform agenda became arduous. The Russian financial crisis of 1998, which further undermined Georgia's economy, also highlighted many of the continuing internal problems. Most importantly, however, it was the style of Shevardnadze's governance practices that contributed to the loss of momentum. His strategy to keep afloat meant controlling the emergence of autonomous political actors. He would never allow for exclusive access to administrative resources and international development funds. By means of repeatedly reshuffling clientelistic networks Shevardnadze thus played down the role of "young reformers". Instead, as the effects of early reform began to be felt, Shevardnadze's "balancing tactics" allowed anti-reformist opposition to become increasingly resistant. Faced with tradeoffs between corrupt retrogrades and those of liberal reformers, Shevardnadze withdrew support for serious reforms. Consequently, the regime gradually lost democratic face. Two main characteristic features – fraudulent elections and corruption – became typical. Electoral violations included

¹ Nodia, Ghia / Scholtbach, Álvaro Pinto (eds.) (2006), op.cit., p. 14.

multiple voting, stuffing of ballot boxes, pressuring voters, and fraudulent tabulation of election results by electoral commissions at different levels.¹ Decision-making processes began to serve the interests of the narrow power elite, and clear signs of "state capture" appeared. As a result, Georgia's image degraded to one of the most corrupt countries in the world. This was paralleled by declining economic growth giving rise to public discontent. In press coverage as well as professional publications Georgia was cited as a "failing state". Meanwhile, the international donor community began to demonstrate growing reluctance to sustain existing assistance programmes. Facing declining support, the regime began adopting authoritarian measures. However, the attempt to crack down on the independent TV station provoked an internal split.² Saakashvili, Zhvania and Burjanadze, "heavyweights" of the young reformers, wing inside the ruling party, set up a new opposition. Soon the Troika led massive public protest to unseat Shevardnadze in what has been dubbed the "Rose Revolution", as the Parliamentary elections in 2003 were considered blatantly rigged. Ironically, it was the democratic façade erected under Shevardnadze's rule that determined the relative ease of the change of power.

"Rose Revolution": Another attempt at democratic transformation?

The 2003 Rose Revolution had unprecedented legitimacy. A tidal wave of popular protests carried new elite into power, with Mikheil Saakashvili winning 96% of the vote in the January 2004 presidential election, and his support base, the National Movement-Democrats party securing more than two-thirds of the mandates in the March 2004 parliamentary election. Electoral success compelled the new elite to undertake constitutional reform whereby substantial power was transferred from parliament to the presidency. Control over the executive and legislative branch

¹ Ibid. p. 15.

² BTI 2010, op.cit., p. 4.

allowed for implementation of the far-reaching structural reform agenda. More specifically, the new government was able to liberalise the economy, attract increased foreign direct investment, improve revenue collection, curb small scale corruption, streamline inefficient administration, legalise the 'shadow economy', reduce crime, provide uninterrupted energy supply, and rebuild roads and other infrastructure. Among the most important and spectacular successes of the new government has been the overthrow of the autocratic leader of Adjara previously defying the central government. The other commitments of the new government have been to regain control over Abkhazia and South Ossetia, pursue rapid NATO and EU membership, while at the same time normalise relations with Russia.

Georgia's "Rose Revolution" resonated powerfully in the world and immediately secured strong support and political backing paralleled by significant donor assistance from the West. During his unprecedented visit to Tbilisi in May 2005, George W. Bush, the U.S. President, called Georgia a "beacon of liberty" for the world.¹ Similarly, many Western governments and institutions went into raptures over the early successes of the "Rose Revolution".

Soon, however, the new leadership began to falter in managing overly ambitious expectations. Impatient to deliver, the government started to cut corners and bulldoze perceived obstacles.² Critics of the new government pointed at serious setbacks in terms of institutionalising checks and balances, eventually leading to serious misconduct. One of the early blunders of the new government has been an unsuccessful attempt to reintegrate South Ossetia in the summer of 2004. The implications were both diplomatic and political: relations with Russia plummeted and, more importantly, reignited the Georgian-South Ossetian conflict, which by that time had been almost resolved at the grassroots level. Further, the already mentioned

¹ <http://edition.cnn.com/2005/WORLD/europe/05/10/bush.tuesday/>

² Georgia: Sliding Towards Authoritarianism? (2007) Europe Report № 189. International Crisis Group, 19 December 2007, p. 1.

amendments to the Constitution substantially weakened a legislative body, thus disabling it in its exercise of oversight functions. Also, as the executive dominated the political landscape it increasingly coerced the judiciary, curbing its independence. Additionally, the state would intervene in the independence of the media, and brutally abuse property rights by means of seizing and demolishing unlicensed buildings. One of the most resonant cases, however, has been the murder of young banker Sandro Girgvliani in January 2006. The leadership of the Interior Ministry widely perceived to have been involved in the murder, never held a just inquiry into the case.

The government became progressively remote, failing to communicate with citizens and focusing on public relations rather than transparent communication and consultation.¹ Fast reforms, undertaken with excessive arrogance and self-confidence, failed to benefit most of the public. Instead, unemployment increased and the majority of the population remained below subsistence levels. The growing popular discontent culminated in the massive street demonstrations in November 2007, ostensibly provoked by a government decision to postpone general elections initially scheduled for the spring of 2008. The government, having run out of patience with the protest, employed indiscriminate and disproportionate force to disperse the demonstration. A state of emergency was declared and the principal opposition TV station Imedi was attacked and closed. Also, all television and radio except for public the broadcaster were suspended. The government claimed it acted to prevent a Russia-backed coup, however, as it failed to give proof few outside observers believe these claims.²

The November 2007 crackdown was seen as a major setback for democracy. The international response followed immediately. NATO, OSCE, the EU, Council of Europe and Western governments all expressed serious concern and

¹ MacFarlane, S. Neil (2011) Post-Revolutionary Georgia on the Edge? Briefing paper. Chatham House, March 2011, p. 9.

² Ibid. p. 6.

called for lifting the emergency and reopening media outlets. The following presidential election in January 2008 has been the most disputed since independence. Critics hold that Saakashvili had illegally used budgetary and administrative resources to secure victory with a narrow margin over the opposition candidate. Similar allegations were made about the unfairness of the general elections the same year. Although the international observer missions gave legitimacy to the outcome of both events, subsequent official reports admitted massive irregularities at all stages of the election process. Many interpreted the 2007-2008 period as the end of the "Rose Revolution".

Since the fall of 2007 the authoritarian tendencies continued to grow, paralleled by the failure of the government to translate dynamic economic growth into improvement in living standards for a majority of the population. Tragic war with Russia over South Ossetia in 2008, resulting in the loss of territories, deepened further political polarisation. Having learned lessons from the November stand-off, the government was more cautious while withstanding another massive street protest in the spring of 2009.

In the wake of the August 2008 war, despite undeclared diplomatic isolation of the Georgian authorities, during which Western government leaders restrained from frequent contacts with impulsive President Saakashvili and his entourage, Tbilisi nonetheless was able to sensibly use the huge post-war political and financial support rendered to Georgia as a country fallen victim to Russian aggression. Due to this assistance the impact of a significant slowdown in economic growth caused by a serious deterioration of the investment climate was mitigated.¹ Moreover, as the local elections in May 2010 have been deemed "clean" in toto, the challenge from the opposition was largely defused and President Saakashvili and other top brass have been rehabilitated in the eyes of influential Westerners. The

¹ The generous 4.5 billion USD received from 38 countries and fifteen international organisations over three years to help post-war recovery guaranteed economic stability.

ruling elite were thus finally able to reconsolidate and stabilise its position.

Over the past few years the government initiated important reforms in the judiciary and the media. Many Georgians, however, still perceive judges as dependent on the executive branch and overly respectful of the prosecution, especially as the acquittal rate in criminal cases is 1%.¹ The steep rise in the prison population from 6,100 in 2003 to 21,000 in 2009 is also discouraging.² Additionally, selective justice has become common, and property rights abuse remains unaddressed. The media enjoys relative freedom if compared to other countries in the wider region; however, government is in full editorial control of all national broadcast television stations both public and private. The recent EU Commission report points at a few other major challenges such as rights and integration of minorities, fighting corruption amongst high ranking officials, strengthening freedom of association, labour rights, employment and social policies, and poverty reduction.³

The key issue that dominates the transformation agenda these days, though, is whether Georgia will be able to ensure the first ever peaceful change of power in 2012-2013. Although government has recently engineered another constitutional reform, admitting more power-sharing between the branches of government⁴, it is widely expected that the new system will allow the incumbent to retain power after these elections should President Saakashvili

¹ Georgia: Securing a Stable Future (2010) Europe Briefing №58. International Crisis Group, 13 December 2010, p. 1.

² MacFarlane, S. Neil (2011), *op.cit.*, p. 12.

³ Implementation of the European Neighbourhood Policy in 2010 – Country report: Georgia, Joint Staff Working Paper, Brussels, 25 May 2011, pp. 2-3.

⁴ The amended constitution will diminish the powers of the president and increase those of the prime minister, who becomes a head of government, with executive authority over domestic and foreign policy. The parliamentary majority gains the authority to nominate the prime minister and approve the cabinet but otherwise has few new government functions (See more in Georgia: Securing a Stable Future (2010) *op.cit.*, p. 5).

decide to run for the post of prime minister.¹ Given the growing polarisation of Georgian society, augmented by brutal a crackdown on opposition demonstrators on 26 May 2011, chances for peaceful transition are slimmed down. Particularly worrisome is the lack of progress in negotiations between the ruling party and eight opposition parties about modalities for upcoming elections. At stake is trust in the electoral process, – something that has always been in short supply. Unless it is restored, Georgia's democratic future will be further delayed.

In lieu of conclusion

Georgia's record of democratic transformation is controversial. On the one hand, the country is freer than the immediate neighbourhood and demonstrates at times spectacular success at institutional modernization. On the other hand, the overall quality of democracy promotion raises concerns. Georgia's political development since the "Rose Revolution" can be measured in various ways, but The Freedom House's scores indicate an obvious stagnation.²

Georgia's violent transition from totalitarianism to market democracy at early stages of independence largely determined the subsequent trajectory of democratic transformation. What actually happened was that all power went to the executive body, and the legislative and judicial branches became their perfunctory appendages.³ Power and the political regime thus became associated with the president. The primary reason lies in the ever-present elements of patriarchal culture determining specific forms of power and subordination. Also, a historical feeling of trust in a charismatic leader needs to be mentioned.

¹ MacFarlane, S. Neil (2011), *op.cit.*, p. 16.

² On a scale of 1 (worst) to 7 (best), Georgia came in at 4.83 in 2003, peaked at 4.96 in 2005, dropped to 4.79 in 2008, rose to 4.93 in 2009, and stayed there in 2010. (Source: MacFarlane, S. Neil (2011), *op.cit.*, p. 14)

³ Tukvadze, Avtandil / Jaoshvili, Georgi et. al. (2006) Transformation of the Political System in Georgia Today. *Central Asia and the Caucasus*, № 2(38), 2006, p. 91.

The patriarchal culture and the search for a charismatic leader were successively embodied in the images of Zviad Gamsakhurdia, Eduard Shevardnadze and Mikheil Saakashvili.

Currently, Georgia is an example of a competitive authoritarianism.¹ Political institutions that provide pluralism and competition are manipulated by the ruling elite for one reason – to maintain and expand political power. The dynamics of the relations between the government and the opposition is worrisome, partly due to the oppressive heritage of the totalitarian ideology. The dismal history of coups, civil war and criminalisation of politics has played a central role here, and as result, extreme ideology has been periodically manifested. The ideology of radical opposition has a solid foundation in the social reality as large parts of the population are still deprived of a basic source of livelihood. Under such conditions there is an increasing demand for a charismatic leader or the contra elite.² Extreme polarization of society along political lines significantly impedes the design and implementation of a democratic transformation agenda.

Another hindrance to successful democratic transition has been the country's geography. Unlike the Baltic republics, Georgia did not enjoy an agreeable neighbourhood of established market democracies that could have positive impact on its development. Instead, poor and unstable neighbours with differing identities and aspirations held back the agenda for democratic transformation rather than providing resources for its implementation.

Unresolved conflicts in Abkhazia and South Ossetia have constantly been used as a pretext or excuse by the authoritarian leaders to delay genuine democratic reforms.

¹ Lazarus, Joel (2010) Neo-Liberal State Building and Western "Democracy Promotion": The Case of Georgia, 2010. Available at: <http://stockholm.sgir.eu/uploads/Neo-liberal%20state%20building%20and%20democracy%20promotion%20in%20Georgia.pdf>

² Tukvadze, Avtandil / Jaoshvili, Georgi et. al. (2006), op.cit., p. 94.

These conflicts, for their part, played the role of a serious irritant in bilateral relations with Russia. Every time Russia threatened Georgia the public would "rally round the flag" and "forget about freedom and democracy". Since 2008 the nature of these conflicts has changed and the presence of Russian occupying forces in the territories of Abkhazia and South Ossetia has become even more massive. Increased vulnerability in terms of national security enhances the importance of "frozen conflicts" as obstacles to Georgia's development.

As Georgia remains a primary target of Western assistance, some argue that future assistance programmes should be more carefully structured. It is believed that with Georgia being the success story of Western democracy support, too big a share of the assistance package has gone to the government without requiring accountability on spending. Also, the strong political and financial support for Georgia's democratic development after the "Rose Revolution" has backfired to some extent, since it has not been backed up by clear benchmarks for reform or by devoting sufficient attention to the security aspects of tensions growing in 2007 and 2008 leading up to the war over South Ossetia.¹

The next two years will determine Georgia's democratic future. The country has obvious advantages for pursuing an agenda of democratic consolidation. Luckily, Georgia lacks the factors that would deter democratic political transformation such as natural resource wealth, an autonomous military, blood- and marriage-based clans and ethnic party politics. Instead, it has high literacy rates and pro-Western orientation. However, the above-mentioned existing hindrances still throw up obstacles. Recent street protests and violent crackdown have pointed to the vulnerability of democratic institutions. Ghia Nodia and Álvaro Pinto Scholtbach question whether the "Rose

¹ Boonstra, Jos: Assessing Democracy Assistance. Georgia, Project Report, FRIDE, p. 9.

Revolution" has been a "Revolution to end all revolutions".¹ The answer to this question is not obvious. Straightening Georgia's zigzagging path of democratic development depends on so many structural factors.

* * *

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¹ Nodia, Ghia / Scholtbach, Álvaro Pinto (eds.) (2006), op.cit., p. 30.

Armenia's "Velvet Revolution": Successes and Failures

Mikayel Zolyan

Introduction

Zhou Enlai, China's former prime-minister (1949-1976), asked about his opinion on the French revolution, replied: "It is too soon to say". This approach seems quite appropriate when it comes to assessing the transformation the republics of the USSR underwent in the late 1980s and early 1990s. This is particularly true for Armenia. The processes that took place in the country in the 1990s remain a topic of heated debate. The importance of this debate in contemporary Armenia's political discourse is connected with the fact that some of the main figures of 1990s politics continue to play a definitive role in Armenia's politics even today, including the 1st, the 2nd and the current presidents of Armenia. Since 2007, when Levon Ter-Petrosyan returned to politics as the leader of the opposition, while his former government team members Robert Kocharyan and Serzh Sargsyan were in power, the issue of assessing the 1990s returned to the center of the political debate. As it usually happens in politics, the debate is dominated largely by two paradigms, which tend to portray the 1990s in black and white colours, leaving aside any greys. One paradigm portrays the 1990s as a period of utmost degradation, for which the government of the Armenian National Movement (ANM) bears responsibility. The opposing paradigm praises the government that led Armenia in the 1990s for dealing with the dangers and challenges of that time, and blames

the difficulties suffered by the Armenian population on external factors, particularly the war with Azerbaijan.

These two clichés are often reproduced in Armenian media. However, these two simplified images do not account for the complicated and multi-faceted reality of the 1990s. Another shortcoming of the debate is that the Armenian experience of 1990s is often taken out of the historical context. However, if we take into account the context of post-Soviet reality, it becomes obvious that Armenia's experience of the 1990s is not as unique and specific as many Armenians tend to think, whether in a positive or negative way. While it is important to consider the achievements and mistakes of the political leaders of the time, they should be viewed within a larger context of challenges and opportunities that have determined the patterns of development of post-Soviet states.

The Road to Independence 1988-1991: Formation of a Movement

The processes that took place in Armenia from 1988 to 1991 displayed all the major elements of what can be described as a non-violent revolution. While in the era of "coloured" and "twitter" revolutions it is common for every revolutionary upheaval to be branded a certain name (e.g. "Rose" or "Jasmine" revolutions), the overthrow of the communist regime in Armenia in 1988-1991 did not receive a special name, neither in the media coverage, nor in analytical literature.¹ Though the events of 1988-1991 in Armenia followed the pattern of a bloodless revolution, the term "revolution" is relatively little used in connection with these events. Yet, Armenia experienced the main phases of the cycle that countries of Eastern and Central Europe

¹ The term "Revolution of Mathematicians" was sometimes used, since some of the leaders and activists were mathematicians and other scientists, but the term did not become widely accepted. See: Iskandaryan, Alexander (2005) *Vybor Armenii [Armenia's Choice]*, in: *Diaspora, Neft I Rozy: Chem Zhivut Strany Yuzhnogo Kavkaza [Diaspora, Oil and Roses: What Makes the Countries of the Caucasus Tick]*. Heinrich Boell Stiftung and Caucasus Media Institute, Yerevan.

went through: mass protests, civil disobedience, strikes, repressions by the ruling regime, and finally free democratic elections, which resulted in the removal of the Communist Party from power and the dismantling of the Soviet system.

As a precursor to the events of 1988, a rally took place in Yerevan in 1987 that focused on issues of the environment. In February 1988, the first mass protests took place, triggered by the decision of the Regional Soviet of the Nagorno-Karabakh Autonomous Region to request the transfer of the region from the Azerbaijani Soviet Socialist Republic (Azerbaijani SSR) to the Armenian SSR.¹ The political entity that emerged is usually referred to as "the Karabakh Movement", and it occupies an important place in Armenian collective memory and public discourse. It can be argued that to some extent the history of the Karabakh Movement takes on the role of a kind of foundation myth for the Armenian state existing today, which Armenians call "the third Republic"². The Karabakh Movement is also a blueprint for political protests and movements in Armenia since 1991: virtually all major opposition protest movements that took place in Armenia in the past 20 years (e.g. 1996, 2003-2004, 2008) sought to emulate the Karabakh Movement. However, in spite of the importance of the events of 1988-1991 for the Armenian collective

¹ There are a number of academic publications in English that analyse the events of 1988-1991, which include:

Astourian, Stephan (2001) *From Ter-Petrosyan to Kocharyan: Leadership Change in Armenia*. Berkeley Programme in Soviet and Post-Soviet Studies. UC Berkeley Working Paper Series, Berkeley.
 Libaridian, Gerard, (ed.) (1991) *Armenia at the Crossroads: Democracy and Nationhood in the Post-Soviet Era*. Blue Crane Books, Watertown.
 Libaridian, Gerard (2007) *Modern Armenia: People, Nation, State*, Transaction Publishers. New Brunswick and London.
 Malkasian, Marc (1996) *Gha-Ra-Bagh!: The Emergence of the National Democratic Movement in Armenia*. Wayne State University Press, Detroit.
 Marutyan, Harutyun, (2009) *Iconography of Armenian Identity. Volume 1: The Memory of Genocide and the Karabagh Movement*. Gitutyun, Yerevan.
 Suny Ronald (1993) *Looking Toward Ararat: Armenia in Modern History*. Indiana University Press. Bloomington and Indianapolis.

² The term "first republic" is used for the independent Republic of Armenia that existed in 1918-1920, and the term "second republic" refers to Soviet Armenia.

psyche, no commonly accepted narrative exists at this point in Armenian public discourse: different approaches seek to emphasize different elements of the Karabakh Movement. To some, it was the struggle for Karabakh that was the main essence of the movement, others emphasize the struggle for national independence, and others again lay emphasis on the struggle for political liberties against a totalitarian system. However, all these elements were deeply interwoven in the Karabakh Movement, though different groups involved in the movement were often motivated more by one of these elements than by others.

The movement underwent serious transformations in the course of several months after the first protests in February 1988. The first rallies focused specifically on the Karabakh issue. The protesters were at pains to stress their loyalty to the Soviet system and to the policies of Mikhail Gorbachev. However, the failure of the Soviet authorities to prevent the mass killing of Armenians in the Azerbaijani town of Sumgait in late February 1988 and to issue a public condemnation of the massacre led to serious changes in the mood of the protesters: central authorities in Moscow started to be perceived as the main opponent of the movement. Attempts to quell the popular movement by banning demonstrations, imposing a curfew and deploying troops in central Yerevan only made things worse. The programme of the movement soon became broader: apart from the demands regarding the issue of Karabakh, it started to raise a wide range of issues from democratic reform to the protection of the environment.

The leadership of the movement also evolved: at the beginning, it seemed that the movement did not have any leaders per se, but rather spokespeople from the ranks of well-known intellectuals and artists. These people were ideally suited for representing the movement in this period, since they were perceived as figures of moral authority by Armenian society and at the same time treated with respect by the communist authorities. However, within a short period of time, a new group of leaders emerged. The group which called itself "Karabakh" Committee

consisted mostly of younger intellectuals, who quickly acquired a leading role in the movement. The Karabakh Movement had evolved from a spontaneous protest about one particular issue to a well-organized movement that aimed at a comprehensive transformation of society and the political system of Armenia. Moreover, demands for political independence from the USSR were beginning to be aired, albeit not very loudly in the beginning, in order to evade more brutal repression from Moscow as well as to appease the more moderate part of society.

The question of independence

The question of independence was perceived somewhat differently in Armenia as compared to some other Soviet republics that saw mass protests in the late 1980s. Particularly in the Baltic States, the Soviet government was largely viewed as an occupation force that had brought nothing but suffering and needed to be overthrown. In the case of Armenia, "the Sovietization" occurred not only earlier than in the Baltic States, but also in a different context. In 1920, when the Red Army forced the government of independent Armenia to cede power, Armenia had already been involved in a disastrous war with the Kemalist government of Turkey.¹ In this context, occupation by the Red Army meant loss of national sovereignty, occupation by Kemalist forces, however, meant either physical annihilation or deportation. Therefore, the Soviet option was perceived as "the lesser evil", especially since in the course of the 19th century Russian-Turkish and Russian-Persian wars, Russians had been perceived by most Armenians as a natural ally. Generations of Armenians in Soviet Armenia were raised with history textbooks that emphasized the help Russia had offered

¹ At that point, Turkey was governed formally by the Istanbul government, which had concluded the peace treaty of Sevres with the Entente countries and their allies, including Armenia. However, the nationalist movement led by Mustafa Kemal, which de facto controlled most of Turkey, refused to recognize the treaty and started a war, in which Armenia was defeated and lost almost half of its territory.

Armenians in different historical periods, but downplayed periods when Russian government's policies were hostile towards Armenians. Therefore, the demand for national independence was not anything imminent for Armenia's democratic movement. The demand for independence grew out of the realities on the ground, when it became obvious that the central government was opposed both to the pro-Armenian solution of the Karabakh issue and to the democracy demands that the movement had put forward.

First post-Soviet government

The mechanism of dismantling communist rule in Armenia largely followed a pattern that had worked in some Central and Eastern European countries. Under pressure of the popular movement on the one hand, and under the influence of the general process of liberalization in the whole communist bloc, the old communist elite lost its grip on power. This process was concluded by the first competitive elections of the legislative body in 1990. Ironically, these elections, which took place when Armenia still was a formal part of the Soviet Union, were freer and more democratic than most of the later parliamentary elections in the already independent Armenia. By the time elections were held, the Karabakh Movement had already given rise to several political organizations, the most influential of which was ANM.¹ Candidates from ANM and non-communist independents won the majority of seats in the Supreme Council, the main legislative body of Soviet Armenia. Eventually, one of the ANM's leaders, Levon Ter-Petrosyan, was elected Chairman of the Supreme Council, effectively assuming the highest government post in Armenia. By the time Armenia became independent, its political system had already been changed: the post of president had been introduced, and Levon Ter-Petrosyan was elected president in September

¹ Actually, the exact translation of its title "Hayots Hamazgain Sharzhum" is Armenian Pan-national Movement; however, following an established tradition in English literature the term "Armenian National Movement" is used in this paper.

1991 by an impressive majority. As in the case of the 1990 parliamentary election, the presidential election of 1991 was the only presidential election in Armenia so far in which official results were widely accepted as legitimate. By 1993, when Abulfaz Elchibey in Azerbaijan and Zviad Gamsakhurdia in Georgia had been overthrown and replaced by Heydar Aliyev and Eduard Shevardnadze, Levon Ter-Petrosyan remained the only head of state in the South Caucasus who was not a former communist leader. It seemed that the transition from a Soviet republic to an independent state with a democratically elected legislative and executive government was completed successfully. Even though the executive branch of the government did display certain authoritarian tendencies, Armenia had a democratically elected parliament, in which opposition was well-represented, opposition parties were able to organize rallies and protests, the opposition press was able to criticise the authorities. However, as it turned out, the real difficulties still lay ahead.

Progress and Backlashes in Post-Revolutionary Armenia

External challenges and lack of EU interest

The external challenges facing Armenia in the early 1990s are well-known: military conflict in Nagorno-Karabakh, blockade of Armenia's transportation routes by Turkey and Azerbaijan, which in early 1990s was exacerbated by the internal instability in Georgia, leaving Armenia isolated at times, with a dangerous mountain route connecting Armenia with Iran as the only link to the rest of the world.

During the Soviet years, Armenia, the smallest USSR republic with few natural resources, was largely dependent on economic ties with the rest of the USSR and the socialist countries, therefore the disruption of economic ties that followed the collapse of the socialist camp was especially painful for Armenia.

The 1988 earthquake that devastated northern Armenia and left tens of thousands dead, added to the seriousness

of the situation. The dire socio-economic conditions, resulting from the impact of the war and blockade, as well as from internal factors, such as the collapse of Armenia's economy and widespread corruption, triggered an exodus of hundreds of thousands of Armenians from their homeland.

Another important factor that might account for the differences in the level of success of the democratic transformation in Central Europe and the Baltic on the one hand, and Armenia and other post-Soviet countries, on the other hand, is the lack of interest on the part of European bodies. One of the major factors that aided democratic transition in Central Europe was the active involvement of the European Union. Most importantly, from the early 1990s, the prospect of European integration was offered to these countries. Most countries of the Soviet Union, with the notable exception of the Baltic region, have never been offered such a prospect. Even membership in the Council of Europe seemed quite distant, let alone any possibility of integration into other European structures. It was only in 2001 that all countries of the South Caucasus became members of the Council of Europe (CoE).¹ It was only then that important mechanisms for ensuring the democratic progress offered by the CoE began to work in the region. From the point of view of the West, the South Caucasus remained a remote region throughout the 1990s, within the Russian sphere of influence, and generally considered to be closer to Central Asia or the Middle East than to Europe. Even if there was considerable involvement on the part of Europe, it rather concerned the issue of ethno-political conflicts, which was more urgent in the 1990s, than issues of human rights and democracy.

¹ Georgia became a member of the CoE in 1999, Armenia and Azerbaijan joined in 2001.

Lack of democratic political culture and the influence of criminal networks

There were also factors that hampered Armenia's democratic development that were related rather to Armenia's internal developments than to external circumstances. As other post-Soviet states, Armenia lacked a democratic political culture. While formally democratic institutions were established, attitudes of the governing elite and the society at large often reflected decades of experience of life in a closed totalitarian system. A saying, attributed to Victor Chernomyrdin, a former communist apparatchik, who served as Russia's Prime Minister under Yeltsin, "whatever party we are trying to build, we get KPSS"¹, describes a challenge common to many post-Soviet countries.

This can be explained in part by the fact that many members of the former communist bureaucracy (especially of the medium and lower levels of the "nomenclatura") joined the new ruling elite.² However, influence of the former "nomenclatura" should not be presented as the main cause for the lack of democratic political culture, since the degree of continuity between the old and new elites was much lower than in some other post-communist countries. What is more important, lack of experience of the democratic political process meant that the new rulers, in spite of their dissident background and liberal-democratic ideals, in practice often followed long-established patterns of authoritarian and paternalistic government, be it consciously or unconsciously. This was all the easier since the society at large also had no experience of life in a democratic society.

¹ "KPSS" is the Russian acronym for the Communist Party of the Soviet Union (CPSU).

² Of course, not all former communists who became part of the new ruling elite were opportunists, some of them underwent a genuine change in their beliefs, and some of them were active in the national-democratic movement from the beginning and were even among its leaders.

Another challenge for developing a democratic culture was and still is the influence of the "blatnaya"¹, i.e. criminal subculture on the society in general. In the Soviet Union, organized crime networks had given birth to a set of rules that governed the life of those involved in crime, or, in other words, the Soviet criminal underworld, which was usually called "the world of thieves"². This set of rules was based on a certain mindset, which was not exactly opposed to official Soviet ideology but ignored it in a way: Soviet society and the "blatnoy" world existed in parallel realities. By the late 1980s, when Soviet societal structures and norms of behaviour based on the Soviet ideology were crumbling, criminal networks and the set of values of the criminal underworld started to influence the life of society at large.

This was especially true of the countries of the Caucasus where societies were more traditional and patriarchal in general than in some other post-Soviet states. Some elements of traditional culture of the peoples of the Caucasus blended in with the "blatnye" norms, creating a worldview that combined respect for brutal force and violence with contempt of law and legality. This worldview, which spread far beyond the sphere of organized crime, influencing both those in power and the societies at large, became one of the major obstacles for democratic development and modernization.

The blend of "blatnoy" and "traditional" Caucasian values emphasized the loyalty of a person to informal structures such as the family or the circle of friends ("akhperutyun", literally "brotherhood") over civic loyalty to the state. It also put loyalty understood as a certain "unwritten" code

¹ "Blatnoy" is a Russian term by which the criminal subculture of the post-Soviet countries is largely known outside the former USSR. In Armenia, the more proper term is "goghakan", stemming from the word "gogh" i.e. "thief".

² "Vororvskoi Mir" in Russian or "Goghakan Ashxar" in Armenian, for a description of the Soviet criminal underworld and the rules that governed it. See: Volkov, Vadim (2002) *Violent Entrepreneurs: the Use of Force in the Making of Russian Capitalism*. Cornell University Press. Ithaca and London, pp. 54-59.

of honour and the ability to 'solve issues' in accordance with the informal rules above the loyalty to laws and reliance on state institutions such as courts or law enforcement bodies. In absence of a coherent ideology, the "blatnoy" worldview provided a sort of "quasi-ideological" legitimation to members of semi-criminal informal networks, who exploited the weakness of the post-Soviet state in Armenia and penetrated the ranks of the new elite that emerged in Armenia in the course of the 1990s. It was members of these semi-criminal networks, who were set to play a decisive role in the disputed elections that have been taking place in Armenia since mid-1990s until the present day. Thus, semi-criminal "blatnoy" networks perform important roles in producing certain election results: they use their connections for mobilising and pressurising voters to vote for a certain candidate or party, intimidating the supporters of an opposing political force, ballot stuffing, etc. In exchange for services provided to political leaders, representatives of these informal groups demand various "favours" from the authorities, which may range from impunity for crimes committed to leading positions in mainstream "legal" businesses, as well as in state bureaucracy, and even in parliament. Many of the leading businessmen (usually called "oligarchs"), members of National Assembly, regional governors and mayors, and other members of Armenia's current elite have their roots in criminal or semi-criminal circles: their rise to current positions of power started in the turbulent 1990s, especially in the second half of the decade, when the political conflicts in internal Armenian politics were beginning to threaten the development of democracy in the country.

Domestic clashes and contested elections

By the mid-1990s, serious challenges emerged that endangered the democratic transition in Armenia. The stand-off between the government and the opposition, led by the diaspora-based party Dashnaksutyun, was one of the factors that led to internal instability and hard-line response from the government. The activities of the party were stopped, based on the charge that Dashnaksutyun

was governed and financed from abroad, which is illegal under Armenian laws. Later, several members of Dashnaktsutyun were arrested, on charges of a terrorist conspiracy to assassinate several government members. Until this day, these events remain an issue of heated debates. Dashnaktsutyun supporters claim that these measures constituted pure political repression. ANM supporters argue that Dashnaktsutyun represented a threat to Armenia's security at that point in time; therefore, actions against it were legal and justified.

The conflict with Dashnaktsutyun was among the factors that damaged relations between Armenia's government and the diaspora, since Dashnaktsutyun is one of the most influential political organizations in many diaspora communities. As researcher Razmik Panossian, himself a representative of Armenian diaspora, points out, it is instructive of the extent to which the ANM-Dashnaktsutyun conflict had divided Armenians both in and outside Armenia, that an Armenian language newspaper in Montreal, sympathetic to Dashnaktsutyun, stated that "a direct Turkish occupation of Armenia would have been preferable [to Ter-Petrosyan's presidency]".¹

The relations between Armenia and the diaspora in general were characterised by a dramatic discrepancy between the optimistic expectations and the far more complicated reality. In the late 1980s, the diaspora's political organization had their reservations about the popular movement. This period of initial coolness was followed by a "honeymoon" between Armenia and the diaspora, immediately after Armenia became independent. Some diaspora Armenians moved to Armenia, others considered investments in Armenia's economy, many more provided financial aid to the homeland. However, the period of euphoria did not last long. Apart from the conflict between the Armenian government and the most influential diaspora party

¹ Panossian, Razmik (2006) *The Armenians: From Kings and Priests to Merchants and Commissars*. Columbia University Press. New York, p. 386.

Dashnaktsutyun, the relations with the diaspora were also soured by a range of other issues. These included differences over relations with Turkey, Armenia's refusal to grant the option of double citizenship to diaspora Armenians, and, on a more general level, the discrepancy between the realities of the post-Soviet Armenia and the idealized image of the homeland that existed in the minds of many diaspora Armenians.

During the 1990s and until the present day, much of the domestic tension and clashes in independent Armenia focus around elections and their contested results. In the parliamentary election of 1995 and the presidential election of 1996, the incumbent government forces claimed decisive victory, while the opposition refused to accept the official results and accused the government of vote rigging. These elections set up a pattern repeated during virtually every subsequent major election, particularly in the presidential elections of 1998, 2003 and 2008 as well as the parliamentary elections of 2003 and 2007.¹ In case of the 1996 presidential elections, the opposition, led by former prime-minister Vazgen Manukyan not only refused to accept the official results but called for street protests, which attracted thousands of supporters. In a development, which, had it occurred a decade later, would have been dubbed an attempt of a "colour revolution", the protesters attempted to enter the building of the National Assembly, where the Central Election Committee headquarters were stationed.² The protesters, however, were dispersed by security forces, curfew was declared in Yerevan.

¹ The elections of 1999 stand out to a certain extent, since, as a result of a compromise between certain representatives in the government and the leader of the opposition, in these elections, the main opposition Armenia's People's Party had joined forces with the pro-government Republican party, and thus received a large number of seats in the new parliament. However, other opposition forces did not accept the elections results as completely legitimate.

² See the "Armenia" chapter, in: O' Beachain, Donnacha / Polese, Abel, (ed.) (2010) *The Colour Revolutions in the Former Soviet Republics: Successes and Failures*. Routledge, London.

The opposition continued to charge the ANM with stealing the election, while ANM supporters in turn accused their opponents of an attempted coup d'état. Some ANM supporters concede that there had been violations in the course of the presidential elections but refuse to accept that their extent was great enough to change the outcome. However, the consequences of the 1996 elections and post-elections developments were clear: ANM found itself politically weaker than before the elections, while the influence of the security apparatus and the military had grown considerably. After the elections of 1996, large parts of society were alienated from Levon Ter-Petrosyan and the ANM government. In 1998, the growing isolation of Ter-Petrosyan finally resulted in his resignation, as a result of a row between Levon Ter-Petrosyan and three most influential members of his government – Robert Kocharyan, Vazgen Sargsyan and Serzh Sargsyan, according to the official version over different approaches to a peace plan for Nagorno-Karabakh. As a result of the subsequent elections, Robert Kocharyan became Armenia's second president, according to official results. The opposition, led by former communist leader Karen Demirchyan, refused to accept the results of the elections as legitimate; however, unlike the opposition of 1996, it preferred negotiations and compromise with the pro-government camp.

The situation in Armenia remained quite unstable for some time, particularly because of the tragic events of October 27th, 1999, when terrorists assassinated Vazgen Sargsyan, who had by then become prime-minister, and Karen Demirchyan, who had become the Chairman of the National Assembly. The events of 1998-1999 can be described as the watershed that ended the era of the 1990s, not only chronologically, but also in terms of the logic of the political process.

The pattern that emerged in 1996, i.e. disputed elections, post-election protests and government crackdown, recurred virtually after every major election in independent

Armenia's history, particularly in 2003-2004 and 2008.¹ The disputed elections of 2008 stand out as the ones leading to a political crisis, which was the most intense in the history of post-Soviet Armenia. Somewhat ironically, the events of 2008, pitted against each other Levon Ter-Petrosyan (as the leader of opposition) and the president Robert Kocharyan and prime-minister Serzh Sargsyan, both former members of Ter-Petrosyan's team. Ter-Petrosyan put forward his candidacy for presidential elections, thus challenging Sargsyan, Kocharyan's favored candidate. After the government announced Sargsyan had won the elections, the opposition led by Ter-Petrosyan challenged the official elections results and started mass protests, which were violently crushed by the government.²

There is no space here to discuss in detail to what extent allegations of vote rigging were true in each concrete case (be it in 1996, 1998, 2003 or 2008). Yet, several observations can be made regarding the general pattern. First of all, in each of these cases, international observers had serious reservations about the elections, even though the language of these assessments varied from case to case. Besides, the very fact that for 20 years since 1991, the incumbent government forces have won all major elections, often in spite of the dire socio-economic conditions, creates grounds for doubting the free and fair nature of these elections. In any case, it is obvious that elections in Armenia have so far failed to fulfil the

¹ In 1998, the opposition led by former communist leader Karen Demirchyan also refused to accept the official results of the elections, however, no protests followed and Demirchyan reached a compromise with the government forces: this allowed his party, in coalition with the pro-government Republican Party, to win numerous votes in the parliamentary elections of 1999.

² On March 1 2008, 10 people died and dozens were wounded as a consequence of a government crackdown on the protest. On the disputed 2008 elections and the post-election developments, including the clashes of March 1, see: Human Rights Watch (2009) *Democracy on Rocky Ground: Armenia's Disputed 2008 Presidential Election, Post-Election Violence, and the One-Sided Pursuit of Accountability*. New York. Policy Forum Armenia (2008) *Armenia's 2008 Presidential Election: Select Issues and Analysis*.

main function they have in a developed democracy, i.e. to ensure the rotation of the ruling elites.

Moreover, in virtually all of these elections, the results were disputed by the opposition and rejected by significant parts of the population, which means that elections in Armenia have so far failed to perform another important function they have in a democratic system, i.e. providing legitimacy to the elected government. Deprived of a popular perception of legitimacy that is usually acquired through popular mandate, subsequent Armenian governments became increasingly dependent on the support of influential groups such as bureaucrats, high level military and police officers, as well as the so called "oligarchs" and informal "blatnye" networks. The "oligarchs" who own major businesses in Armenia often combine leading, sometimes monopolistic positions in business with prominent positions in the state bureaucracy and political elites, naturally in most cases from pro-government parties (though, off and on, a few "independent" or even "pro-opposition" oligarchs have emerged). In the absence of popular legitimacy stemming from disputed elections, the government, unable to count on a wide circle of voters, is forced to rely on the support of informal networks of bureaucrats and businessmen.

Contested economic transformation

Political transformations of the 1990s in Armenia took place against a background of extremely dire economic conditions. The fact that the Armenian economy was almost completely destroyed in the early 1990s is hardly disputed by anyone. However, supporters and critics of the ANM government differ in their assessment of the causes of the economic collapse. The former emphasize factors such as the war, blockade, and collapse of state socialism and the consequent disruption of economic ties with former Soviet republics.

Moreover, they argue that in these dire conditions, the government took important decisions that saved Armenians from starvation and provided ground for development in

the years after the war. Critics stress the wrong decisions taken by the government, such as the belated introduction of a national currency, questionable mechanisms of the privatization of state assets and inability to curb the widespread corruption.¹

While both sides of the debate may have their strong and weak arguments, it is clear that economic processes in Armenia were not that different from what was happening in other post-Soviet states. Thus, it is possible to argue that the development of post-Soviet Armenia's economy followed a certain pattern, well-known from other cases within the post-Soviet space, whatever part certain political parties or personalities of the leaders played. Even states with greater resources than Armenia went through such processes as a dramatic rise in poverty levels, the destruction of industrial production and an increasing gap between rich and poor, etc. In the end, after all the perturbations of the 1990s, by the beginning of the new century, Armenia ended up with a political and economic system reminding one painfully of that of Russia and some other post-Soviet states: formally a free market economy with a more or less democratic constitution, in reality, dominated by a closed circle of influential "oligarchs" and bureaucrats.

Conclusion

Political processes in Armenia in 1988-1991 followed the pattern of "velvet revolutions", similar to those in Central-Eastern Europe: mass mobilization, attempted repression by the government, dismantling of the Soviet system under pressure from society. The mass mobilization of the Armenian population, a movement that led to the overthrow of the Soviet system in Armenia, was conditioned by a range of issues, which included the Karabakh issue,

¹ Libaridian, Gerard (2007) *Modern Armenia: People, Nation, State*, Transaction Publishers. New Brunswick and London, pp. 224-23. Astourian, Stephan (2001) *From Ter-Petrosyan to Kocharyan: Leadership Change in Armenia*. Berkeley Programme in Soviet and Post-Soviet Studies. UC Berkeley Working Paper Series, Berkeley, pp. 6-17.

the struggle for national independence and the urge for democratic reforms.

In the post-1991 period, Armenia's democratic transformation faced numerous challenges, stemming both from unfavourable conditions (war, blockade, consequences of the 1988 earthquake lack of interest on the part of European bodies) and societal challenges (lack of democratic political culture, criminalization of the society, questionable economic and political decisions of the elites.

The post-1991 democratic transition has yielded mixed results for Armenia. On the one hand, Armenia survived extremely difficult external conditions and maintained a degree of internal stability. On the other hand, it did not succeed in building democratic institutions and fostering democratic political culture. The political regime that emerged in Armenia as a result of transition can be characterized as a hybrid regime, which is more open than some authoritarian regimes that have emerged in certain post-Soviet countries, yet it fails to reach the level of political freedom and participation existing in democratic political societies.

Like the legacy of the 1990s, the experience of the next decade is a subject of fierce debates today, which have political implications. While some emphasize political stability and economic growth, others focus on perpetuation of widespread corruption and institutionalization of inequality between the majority of the population and a small "elite" of bureaucrats and "oligarchs".

It is certainly difficult to deny that the first decade of the new millennium was a period of relative stability and economic growth, especially compared with the political instability and economic difficulties of the turbulent 1990s. However, it is also obvious that Armenia hardly made significant progress in the field of democracy and human rights, and the opportunities offered by the favourable economic conditions for reforming and modernising Armenia's economy and political system were not used

during the first decade of the new century. The political system of Armenia at the turn of the century was based on the assumption that political stability and economic development can be achieved at the expense of political liberty. While it did seem to work in Armenia for some time, this illusion was shattered brutally by the events of 2008, which shook the Armenian society, surpassing some of the fiercest political crises of the 1990s. However, this is a topic for a different paper.

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Twenty years of independence in Azerbaijan

Arif Yunusov

As a result of the 1991 collapse of the USSR, Azerbaijan regained the independence it had lost in 1920. The republic immediately decided to make a definitive break with its Communist past, completely dismantle its Soviet-style political system, and create in its place a politically stable and economically prosperous democratic state. It is true that Azerbaijan, like other countries from the former Soviet Union, faced many obstacles as it took its first steps toward independence, such as the lingering consequences of the savage, difficult conflict with Armenia over Nagorno-Karabakh and the collapse of its economy. But the Azerbaijani people felt a real sense of optimism at that time. After all, the republic was flush with oil and gas, which allowed Azerbaijanis to believe that the many economic problems they would have to face during the transitional period after the fall of the Soviet Union would be resolved relatively painlessly, and their political problems could be solved as well.

What has this complex, 20-year process been like in Azerbaijan? What changes has it brought and has Azerbaijan been able to make use of this window of opportunity to build a secular, democratic state bound by the rule of law? And if not, why? And, most important, what awaits Azerbaijan in the near and more distant future? These are the primary issues this article will examine.

The government of Abulfaz Elchibey: romantic hopes and disappointments

The Azerbaijan Popular Front Party (APF), headed by Abulfaz Elchibey, laid the foundation for Azerbaijan's independence. This party began as a social movement in 1989, in the declining years of the Soviet Union, when Mikhail Gorbachev's policy of "perestroika" had begun to transform both the republic's political system as well as the way most Azerbaijanis lived their lives. And it was the APF that took on the mantle of advocating for the interests of the nation, when Azerbaijan was forced to confront Armenian separatism in Nagorno-Karabakh in 1988. The dispute started as a regional interethnic conflict (1988-1991), but after the collapse of the USSR and the subsequent independence of Azerbaijan and Armenia, the fight escalated in 1992 into an undeclared cross-border war. The leaders of the Communist Party of Azerbaijan in those years (Abdurrahman Vazirov and Ayaz Mutalibov) were entirely dependent on Moscow, and this dependence, first on the Soviet leadership and later on Russia, explains why those leaders were so indecisive and unable to adequately respond to the challenges the nation faced either at home or abroad. In addition, the communist leaders of Azerbaijan were popularly seen as Russian-speaking puppets backed by Moscow, who were disconnected from their own people and uncomfortable with their own native language and culture.

Under these circumstances, the APF's ascent to power after the collapse of the Soviet Union and Azerbaijan's declaration of independence in May of 1992 was a natural and expected event. After all, the APF had conducted a propaganda campaign for years about the need to create a fully independent national state, based on a fraternal relationship with Turkey. The APF raised the issues of establishing a national army and possibly joining NATO at some point in the future, changing the country's political orientation from north to west, expanding the role of the Azerbaijani language in public life, and transforming the

socialist, planned economy into a market-based system. The country was awash with romantic sentiments and the belief that once the APF implemented all these ideas Azerbaijan would be able to resolve the issue of Nagorno-Karabakh and could quickly transition into a new political and economic reality. In other words, the Azerbaijani public saw the APF as symbolic of both their hopes for a new life and a resolution of the conflict in Nagorno-Karabakh. The party became the face of the revolution and it was seen as the antithesis of the nomenklatura elite who had run the country for so many decades.

This was a common attitude for that time in formerly Soviet countries. After many years of communist rule, the public was eager to begin a new life as quickly as possible. And it is true that under the direction of Elchibey, the leaders of the APF made sweeping policy changes from their very first days in office. In October of 1992, Azerbaijan pulled out of the CIS, and six months later the Russian army withdrew from the republic. Thus the era of Russian military presence in Azerbaijan ended. As soon as the party came to power in May of 1992, it established a national army, which immediately took offensive action in Nagorno-Karabakh, giving the Armenians their first taste of defeat.

Changes were also seen in other areas. For example, a system of examinations was established for entrance into institutes of higher education, which almost completely eliminated the corruption that had been an inherent part of the admissions process. And despite the sharp decline in industrial production after the collapse of the Soviet Union, Elchibey's administration established the National Bank, which managed to amass a reserve of hard currency and gold and to introduce the first post-Soviet Azerbaijani currency – the manat.

Steps were taken to reform the Azerbaijani economy. Since the country was at war the APF-led government shied away from radical privatization and decided to chart a different course. They began to reform the way the government was organized. They established the State Committee

on Property Issues, the Anti-Monopoly Committee, the Entrepreneurship Support Fund, the Committee on Foreign Investment, etc. Laws were adopted on privatization, securities, and stock exchanges, and a draft of a major oil contract was drawn up.

But the APF-led government headed by Elchibey was a typical revolutionary regime, and it saw breaking with the country's Russian past and joining the Turkic world as the new government's primary task. It was precisely for this reason that certain steps were taken. For example, the Latin alphabet was introduced as a replacement for the Cyrillic script, which was seen as emblematic of Russian hegemony. The official name of the Azerbaijani nationality was changed to Azerbaijani Turk and the name of their language to Azerbaijani Turkish. These measures met with a mixed reaction in the republic, especially among members of national minorities who feared the rise of pan-Turkism in their country.

But the APF was not deterred. President Elchibey behaved more like the leader of a nationalistic-democratic revolution aimed at taking over the entire Turkic world, than as the Azerbaijani head of state. This is precisely why Elchibey continually stressed his antipathy to Iran, a country which was oppressing ethnic Azerbaijanis south of the border and standing in the way of the unification of all Azerbaijanis. For this reason Elchibey also deliberately and publicly confronted the leaders of the Central Asian republics whom he considered to be enemies of democracy and of the Turkic people's desire for unification.¹

This revolutionary romanticism and idealism hurt Azerbaijan's relationships with many CIS countries, Russia in particular, and also with Iran. As a result, Russia and Iran both began working actively to overthrow the APF regime. Serious economic problems also arose. With

¹ Ali Abasov and Dmitry Furman, *"Azerbaidzhanskaya Revolutsiya", Azerbaidzhan i Rossiya: Obshchestva i Gosudarstva* (Moscow: 2005), 118-175, 151.

Russian support, the Armenian army went on the offensive in the spring of 1993. At the same time, supporters of Russia in the young Azerbaijani army rebelled in June of 1993 and moved on Baku. As they came to grips with defeats on the frontlines and a worsening socio-economic situation, the public who had so rapturously welcomed the APF's ascent to power only a year before now no longer trusted or supported their former idols.

The second coming of Heydar Aliyev

The June 1993 coup in Azerbaijan forced Elchibey to flee the capital, and Heydar Aliyev seized power. Aliyev had been the leader of the Azerbaijan Soviet Socialist Republic from 1969 to 1982. The new president and his supporters called for the ouster of the "incompetent upstarts from the streets", as the leaders of the APF were now called, in favor of "competent individuals", all of whom turned out to be former functionaries of the Communist Party of Azerbaijan. At the time, the public did not seem overly concerned when Heydar Aliyev began working from the outset to concentrate all the power in his own hands, raising the possibility that an authoritarian regime was being created. Azerbaijanis were convinced at the time that the country needed to be ruled by a strong individual (a "strong hand") in order to ensure stability and order, and this is what they saw in Heydar Aliyev. Consequently, within two years something happened that to many people was simply unthinkable. The Azerbaijani struggle against communism and their euphoria at the overthrow of the Communist Party was quickly replaced by widespread enthusiasm about the return to power of a former Communist leader and a general from the Soviet KGB!

In addition, the public forgave Heydar Aliyev for his many transgressions and willingly accepted the myths that were created about him at that time. In particular, the fable that Heydar Aliyev's return to power had saved the country from chaos and collapse was widely circulated and is still heard today. It was, in fact, at Heydar Aliyev's order that in the summer of 1993, 33 battalions of the

Azerbaijani army were disbanded on the pretext that they were under the influence of the APF. This resulted in up to 7,000 men, the most combat-ready unit of the Azerbaijani army, being stripped of duty.¹ Heydar Aliyev had counted on Russian support to help him halt the Armenian advance and create a new army, but his hopes were dashed. As a result, the Azerbaijani army virtually ceased to exist, the remaining units proved incapable of holding back the Armenian advance, and chaos reigned at the front, leading to a total defeat in the Nagorno-Karabakh war. By the end of 1993 Azerbaijan had lost seven administrative districts in the area surrounding Nagorno-Karabakh. Through the mediation of Russia in May, 1994, the warring parties signed the Bishkek Protocol, which suspended hostilities and created a ceasefire that is still observed today.

In contrast to the ideological romantics and revolutionaries of the APF, Heydar Aliyev was focused on a single goal, that of complete control over events in Azerbaijan, so that nothing or no one could pose a danger to him, his family, or his inner circle. It was precisely for this reason that Heydar Aliyev opted to preserve and safeguard the old Soviet political system, which was ideally suited to this purpose. Only the outer trappings of the party underwent a change. In reality, the ruling New Azerbaijan Party was nothing more than a carbon copy of the former Communist Party of Azerbaijan, with the same structure and systems of governance. Over time, Heydar Aliyev did make some changes to the Soviet political system, adapting it to meet his and his family's needs as well as the demands of his clan, a group consisting of both family and local elements.²

¹ Dzhangir Arasly, *Armyano-Azerbaidzhansky Konflikt: Voenny Aspekt* (Baku: 1995), 40.

² Arif Yunusov, "Azerbaijan: the Burden of History – Waiting for Change", *The Caucasus: Armed and Divided* (London: 2003), 45-64, 58. The term "clan" as used in Azerbaijan signifies an informal network that emerged during the Soviet period and that was based on a regional identity. These regional groups ("clans") were used as a base of support to seize resources and power in the country. See also: Bahodir Sidikov, "New or Traditional? 'Clans,' Regional Groupings, and State in Post-Soviet Azerbaijan", *Berliner Osteuropa Info.*, vol.

As a result, an eastern version of a modified Soviet political system had emerged in Azerbaijan by the early 21st century. The de facto Central Committee of the Communist Party still exists, but today it is called the presidential staff. Outside of the major cities, power is concentrated in the hands of the heads of the Communist Party's district committees, who are appointed by the president. Today these committees are called executive branch agencies. The cabinet and parliament do the bidding of the presidential staff and have no ability of their own to influence the life of the country. Nor do the local municipalities have an independent role.

Heydar Aliyev's system was very strictly centralized, and all actions had to be approved by the president. In addition, as an experienced politician Heydar Aliyev understood that in order to portray himself as a democratic leader, he needed the existence of certain democratic institutions, such as opposition parties, an independent media, and civic organizations. Although naturally these sectors could never pose any real threat to his personal grip on power. In the end he created an authoritarian political system that contained pseudo-democratic elements.¹

The suspension of hostilities in the Nagorno-Karabakh conflict allowed Aliyev to sign "the oil contract of the century", which has been very popular with the public. Although at the time these contracts were signed, the overall state of affairs in Azerbaijan was deplorable. The national economy was in a deep crisis. Living standards had plummeted. The legal minimum wage was the equivalent of \$2 per month, while 45 dollars per month was considered to be the minimum required for one person's subsistence-level existence. The rate of inflation in 1994 reached 1.700%.²

21 (Berlin: 2004), 68-74, and Zurab Todya, *Azerbaidzhan Segodnya* (Moscow: 1995), 29-32.

¹ Arif Yunusov, *Azerbaidzhan v Nachale XXI Veka: Konflikty i Potentsialnye Ugrozy* (Baku: 2005), 178-180.

² Gubad Ibadogly, "Izderzhki "Perekhodnogo Perioda" v Azerbaidzhane", *Azerbaidzhan i Rossiya: Obshchestva i Gosudarstva* (Moscow: 2005),

All this was in addition to the military defeat in Nagorno-Karabakh, which had dealt a great psychological blow to the country. Azerbaijanis felt impotent and incapable of regaining their lost territories militarily.

At that point, the public began to see oil as the country's only weapon in the battle to retake Nagorno-Karabakh and improve their economy. Aliyev then proposed that Azerbaijan offer concessions in its oil contracts to Western oil companies that would agree to support the country politically on the issue of Nagorno-Karabakh. Aliyev promised Azerbaijanis that their nation would become a "second Kuwait".¹ The public was desperate for a miracle and so they threw their support behind Heydar Aliyev's oil policies.

By skillfully maneuvering between Russia and the West (meaning the United States and the European Union), Aliyev just managed to keep the strained fabric of Russian-Azerbaijani relations intact. It was then that the West, and the US in particular, began to pay more attention to the region as a whole, and especially to energy-rich Azerbaijan.

By the mid-to late 1990s, the US and Russia were engaged in a quiet tussle over the region, which was much to the advantage of Azerbaijan and to Heydar Aliyev himself. In addition, the goal of US policy in the region was to reduce the dependence of the local countries on Russia and to integrate them into Western economic and political systems, as well as to further isolate Iran.

Naturally, Azerbaijan and its energy resources played a significant role in this geopolitical struggle. It was no accident that Zbigniew Brzezinski did not hesitate to

363-378, 365. R. M. Dzhabiev, *Sotsialno-Ekonomicheskoe Razvitie Azerbaidzhanskoi Respubliki za Gody Nezavisimosti* (Baku: 2005), 15-20.

¹ Alek Rasizade, "Desyatiletie 'Razvitogo Kapitalizma' v Azerbaidzhane: Obeshchaniya "Vtorogo Kuveita", Pechalnye Itogi, Mrachnye Perspektivy", *Tsentralnaya Aziya i Kavkaz*, 3 (2003), 116-128, 120.

call Azerbaijan the "geopolitical pivot" of not only the South Caucasus, but the entire Caspian region, and its government deserving of "America's strongest geopolitical support".¹

Heydar Aliyev took a pro-Western stance in this geopolitical confrontation. Iran was excluded from the oil project and then Azerbaijan stopped using the southern and northern oil shipping routes that cross Iran and Russia. Finally, in 1998 Heydar Aliyev made a definitive decision to support the construction of an oil pipeline from Baku to the Mediterranean port of Ceyhan in Turkey via Georgia, which is why this is now called the Baku-Tbilisi-Ceyhan pipeline.

In addition, during his US visit in February of 2000, Aliyev endorsed the idea of Azerbaijan possibly joining NATO in the future, at which point the leadership of NATO began focusing greater attention on the country, seeing it as a nation critical to NATO's interests in the Caucasus and part of the alliance's sphere of interest. Azerbaijan became a regular participant in NATO events.²

Western Europe also began paying attention to the region. On June 12, 1995, the Council of the European Union (EU) adopted a common position on the South Caucasus for the purpose of assisting Azerbaijan, Armenia, and Georgia with the difficulties of transitioning to a democratic system. On December 18, 1995, Azerbaijan initialed a Partnership and Cooperation Agreement with the EU, which took effect on Jan. 1, 1999, after it was approved by the parliaments of all the EU countries.

¹ Zbigniew Brzezinski, *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives* (Moscow: 2005), 179.

² Further details can be found in: Stanislav Tkachenko and Simon Petermann, *Sotrudnichestvo Stran SNG v Voennoi Sfere i Faktor NATO* (St. Petersburg: 2002), 109-111, and V. A. Zacharov and A. G. Areshev, *Sotrudnichestvo Azerbaidzhana s NATO i Situatsiya v Nagornom Karabakhe* (Moscow: 2008), 13-24.

Another European organization, the Council of Europe (CE) has also expanded its role in the region, and as a result, Azerbaijan became a member of the CE in January, 2001.

Consequently, by the early 21st century and only ten years after the collapse of the Soviet Union and five years after the signing of the "oil contract of the century", the West had achieved an almost total victory over Russia in Azerbaijan.

There is no question but that Heydar Aliyev had a significant part in this achievement. It explains the paradox of how a former communist leader and KGB general could be perceived by the West as a not entirely unsympathetic figure, and seen as somehow different from his counterparts in the CIS, particularly when compared with the leaders of Belarus and the Central Asian republics. The US and Western Europe also turned a blind eye to many of Heydar Aliyev's domestic policies, such as the complete mockeries that regularly posed as presidential and parliamentary elections, numerous examples of human rights abuses and the torture of opposition figures, the incarceration of political prisoners, an authoritarian style of governance, a shocking level of corruption, and much more.

Ilham Aliyev, and a new phase in the history of independent Azerbaijan

Heydar Aliyev's rapid decline in health and then his death in 2003 radically changed the situation in Azerbaijan. Even during his illness it was becoming clear that his time was at an end and the question of Azerbaijan's future was at hand. At that point, the presidential elections scheduled for Oct. 15, 2003 were perceived by the public as a "window of opportunity" to make a decisive move toward a more democratic society. A new revolutionary spirit emerged in Azerbaijan.

But the victory of Heydar Aliyev's son, Ilham Aliyev, that resulted from the electoral fraud on Oct. 15, 2003 and

the violent events of the next day dealt an enormous blow to the image of the West in Azerbaijan. The country was deeply disappointed by the hypocritical reaction of Western international organizations (the OSCE, CE, and EC) and leading Western nations to the repressive policies that emerged in Azerbaijan after the presidential elections. And when this scenario was repeated after the next parliamentary elections in 2005, it greatly undermined both Azerbaijanis' faith in Western democratic values as well as their Western sympathies.

The public was particularly annoyed and shocked by the stance of the American administration, which not only closed its eyes to the massive election fraud and abuse of power, but actually rushed to congratulate Ilham Aliyev on his victory even before the official election results were announced.¹ As a result, there has been a real explosion of anti-Western and, in particular, anti-American sentiment in Azerbaijan since 2003. In addition, those who were the most disappointed and offended were the people who until recently had been strong supporters of the country's pro-Western stance. This could be seen in many articles that were published in newspapers owned by pro-Western parties and organizations. These newspapers were filled with headlines such as "Democracy Traded for Oil", "Farewell to the West!" "Washington's Short-Sighted Policy", "Democracy Takes a Hit in Azerbaijan" and "The US Ambassador Acts as an Agent of the Azerbaijani Government". In fact, the public was so wounded by the Bush administration's support of the Azerbaijani government's fraud and repression that on Oct. 17, 2003, the newspaper *Yeni Musavat*, which had previously been a radically pro-Western publication, published an article with the shocking headline "If an Election Like This is Acceptable to the US, Then Long Live Bin Laden?".²

¹ Arif Yunusov, *Azerbaijan in the Early XXI Century: Conflicts and Potential Threats* (Baku: 2007). 108-109.

² Further details can be found in: Arif Yunusov, "Energetichesky Faktor v Politike Azerbaidzhana", *Yuzhny Flang SNG. Tsentralnaya Aziya - Kaspj - Kavkaz: Energetika i Politika*, 2 (Moscow: 2005) 337-

These sentiments only increased as time passed. Ilham Aliyev's administration did not even bother to conceal the new president's antipathy toward his political opponents in Azerbaijan, which included all pro-Western, pro-Russian, and pro-Islamist movements. But since pro-Western groups were the most prominent of these, they borne the brunt of the blow, and mass arrests and soon the repression of pro-Western activists became the norm. Since 2006 there has been a de facto ban on meetings, demonstrations, and protests of any kind in downtown Baku. Many rank-and-file activists from opposition parties have been fired from their jobs in government organizations and state-run businesses. And Ilham Aliyev's administration made it clear that they were not to be offered employment in any other state organizations. Opposition-party activists working outside of major cities were subjected to particularly intense pressure and constraints. Many individuals were forced to leave Azerbaijan because of their opposition views.

As a result of this oppression, the pro-Western democratic parties, which had played a prominent role in Azerbaijani society for 15 years (1992-2006), by early 2007 had lost much of their influence and could no longer have a significant impact within their country.

All these events met with indifference and silence from the EU and US, which for geopolitical reasons and because of Azerbaijan's energy resources, closed their eyes to the massive human rights violations in that country. As in the 1990s when Azerbaijan had to accept that its faith in Russia had been misplaced, the public's trust in the West now also seemed foolhardy. A significant segment of Azerbaijani society, particularly the younger generation, reacted by recalling the words of Ayatollah Khomeini, who led the Islamic revolution in Iran with the slogan, "No East. No West. Only an Islamic Republic!"¹

361, 359, R. Nuriev, "Neft i Demokratiya", *Monitor*, 28 (2003), 12-15, 13, Togrul Dzhuvarly, "Neft i Demokraticheskie Tsennosti: Opyt Azerbaidzhana", *Diaspora, Neft i Rozy* (Yerevan: 2005), 43-47.

¹ Arif Yunusov, *Azerbaijan in the Early XXI Century: Conflicts and Potential Threats* (Baku: 2007). 131-135.

Since 2006 there has been a vacuum in Azerbaijani politics, which the proponents of political Islam quickly began to fill.¹ Since there was a de facto ban on all meetings or public gatherings for either political or other purposes, the mosque became a kind of political club. And so a significant number of ordinary people who had previously favored secular opposition movements, now found themselves so disappointed in Western values that they joined the ranks of the Islamists, or at least began to support the movement. Consequently, after 2006, the atmosphere on the street changed in Azerbaijan. And although Islam had not previously played any special role in the country's national life, it began to assume a new prominence. Although Azerbaijan had previously stayed on the sidelines of the geopolitical confrontation between the West and the Islamic world, various international incidents involving Islam now provoked a resentful backlash in the country. Public protests against American and Israeli Middle East policies became a common occurrence, although this would previously have been difficult to even imagine.

And in the end, Islam and Islamic values became a political platform for a new generation of opposition figures. As political Islam became the only real opposition force in Azerbaijan, it also became the only movement capable of causing fear and anxiety within the administration. In addition, dozens of Azerbaijanis are now taking part in the fighting in the North Caucasus (in Chechnya, Dagestan, and Ingushetia), as well as in Afghanistan and Pakistan.

Recognizing the danger to itself, the government launched a campaign against the Islamists in 2007. In the past three years the government has tightened its religious censorship and unleashed a barrage of repression against Muslims, resulting in the arrest of thousands of Islamists. In addition, many mosques have been either destroyed

¹ The term "political Islam" in Azerbaijan is used to refer to any of the various religious movements or groups that use Islam as the basis for their political activities or campaigns.

or closed. Finally, the leaders of the Islamic Party of Azerbaijan (IPA) were arrested in 2011.

Unfortunately, all these measures and actions by the Azerbaijani government are extremely inconsistent and involve serious legal violations. There has been a change in the public's attitude since the 1990s, and as a result there is now an excellent chance the government's current actions will not meet with widespread support or understanding. Especially in light of the recent events in the Arab world.

Conclusions

Hence, Azerbaijan's twenty years of independence can be divided into three periods, each of which is quite distinct in terms of its length, motif, and consequences.

The first period lasted less than a year, and it can rightfully be labeled a time of revolutionary democracy, by virtue of the fact that it was a time of undisguised protest against the Soviet empire and against totalitarianism, as well as a battle for the independence of the republic. Revolutionary rhetoric and ideology were the hallmarks of the leaders of the nationalistic movement of that era, and this was the source of their power. Their goal was to fundamentally alter Azerbaijani society as quickly as possible, and to rid the country of the vestiges of its old Soviet life, and particularly the political system that was associated with it. They were not afraid of reform. But therein lay their weakness. Because they had no governing experience, they were quite naive and overly reliant on their ideology, which prevented them from enacting pragmatic policies.

The second stage of Azerbaijan's independence was the ten years of Heydar Aliyev's administration, which laid the foundations of the new Azerbaijan. In contrast to the nationalistic revolutionaries in the APF, Heydar Aliyev had no intention of trying to reform Azerbaijani society. On the contrary, he did his best to further strengthen the old Soviet political system that was tailor-made for the purpose

of maintaining total control over society and safeguarding power for as long as possible in a single set of hands. The outer trappings were changed but the essence of the system remained. Heydar Aliyev was primarily concerned with the well-being of his family and clan, and it was precisely for this reason that the members of Aliyev's inner circle were the primary beneficiaries of the country's privatization campaign. As a result, a small group of oligarchs rose to prominence in Azerbaijani society and seized monopoly control of the national economy. During this period Aliyev did nothing to encourage the development of small and medium businesses, and a pervasively corrupt monopoly soon controlled everything.

In fact, Heydar Aliyev laid the foundation of a new type of government in Azerbaijan, similar to the monarchies and authoritarian regimes found in the Middle East. Azerbaijan is geographically squeezed between two hostile neighbours, Russia and Iran, and the experienced and pragmatic Heydar Aliyev understood what threats those countries might pose in the event of a stormy confrontation, and so he tried to prevent any such showdown. During that time he was able to find a counterweight in the West, particularly the United States, by using oil contracts to attract American assistance. The oil policy did not really help to resolve the conflict in Nagorno-Karabakh diplomatically, but it did strengthen Aliyev's grasp on power.

And in this manner Heydar Aliyev and his inner circle managed to transfer the leadership of the country to his son, Ilham Aliyev. The third phase in the history of independent Azerbaijan has begun, and it has so far been marked by increasing government control of society and of the country in general. Unlike his father, from the very beginning of his administration Ilham Aliyev has chosen to harshly suppress the forces of dissent and opposition and to subject the country to his complete control. As a result, he has crushed the traditional, democratic, political opposition and those groups no longer have any impact. The pro-Western opposition in Azerbaijan has now been

replaced by pro-Islamic political organizations. Civil society is still in its infancy and has no social influence. The government has monopoly control of the media. The preconditions necessary for the development of a market economy and free enterprise are lacking. Azerbaijan under Ilham Aliyev is no longer place of democratic reform, but a country subject to massive violations of human rights, an astounding level of corruption, and a monopolized economy. In fact, after twenty years of independence, Azerbaijan is increasingly beginning to resemble an eastern Arabic monarchy, with pseudo-democratic elements. And all the while, the ruling administration relies on public fear of the repressive system.

But therein lies the weakness of the current political system and the ruling clan. History shows that these types of social orders inevitably become destabilized at the slightest external threat or challenge – the center cannot hold. Which naturally raises well-founded concerns about Azerbaijan's future, particularly since the flow of petrodollars will significantly diminish in the next few years before drying up completely.

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Authoritarianism and Democratic Perspectives

Georgia's authoritarian liberalism

Matthias Jobelius

Introduction: Myth of the Rose Revolution

If one looks at international reports on the democratic development of Georgia during the presidency of Eduard Shevardnadze (1995-2003), some readers might rub their eyes in surprise. The UNDP, for instance, draws the conclusion in the year 2000, "Of the former Soviet republics, Georgia has been one of the leading countries in providing its population with access to human rights. (...) The country's commitment to a free press and respect of political rights have been remarkable in a region of the world not yet known for ensuring respect of such rights to their full extent"¹. Even Freedom House write in their Georgia Report shortly before the Rose Revolution, "The country has made considerable progress in liberalizing its economy and guaranteeing the rights of political parties, civic organizations, and the media to function freely"².

These depictions of Georgia as a democratic reformer may come as a surprise, as they are in stark contrast to the legends being spun around the Rose Revolution of 2003, in whose wake the currently acting President Saakashvili came to power. Was it not the Rose Revolution that put an end to the allegedly unacceptable conditions under

¹ Cp. UNDP (2000) National Human Development Report Georgia. Tbilisi, p. 3.

² Freedom House (2010) Nations in Transit: Georgia. <http://freedomhouse.eu/images/Reports/NIT-2010-Georgia-final.pdf>.

Shevardnadze and transformed Georgia from a "failed state" to an economically and politically rising country? Up to the present day, this interpretation is upheld by the government camp in Georgia and was supported by many western analysts, at least up to the Georgian-Russian war of August 2008.

A closer look at the change of power in November 2003, a transition that lacked nearly every attribute of a revolution, is enough to raise doubts about this interpretation of the development of Georgia.

The change of power in 2003 was carried by representatives of a wing called "young reformers" in the government, headed by Nino Burjanadze, Zurab Zhvania and Mikheil Saakashvili, three political protégées of President Shevardnadze. This circle of young politicians of the ruling party Citizens Union of Georgia (CUG), promoted for years by the president, were to be found at the very heart of power already four years before the Rose Revolution. At the end of the year 2000, the reformers had taken up the positions of speaker of the parliament, CUG parliamentary party leader as well as ministers of economics, finance, justice, taxes and agriculture.¹

When the reformers Burjanadze, Zhvania and Saakashvili finally broke up with their patron in 2001 and 2002 respectively and set up a party of their own, Shevardnadze – following the rules of the political game in Georgia – tried to exclude them from power. He had the results of the parliamentary elections of November 2003 rigged. The ensuing protest by the opposition leaders did not aim to topple the president at first. Instead, Burjanadze and Zhvania wanted to see their party represented in parliament, after the first results indicated that they had failed to take the 7% threshold. Mikheil Saakashvili, on the

¹ Cp. King, Charles (2001) Potemkin democracy: Four myths about post-Soviet Georgia. *The National Interest*. 1 July 2001.

other hand, wanted to have the victory of the party led by him, the United National Movement, recognized.¹

For this purpose, they mobilized their supporters. The initial response was muted. In the days following the elections of 2 November 2003, there were no more than 5,000 demonstrators in the streets.² Later, some 20,000 people joined the protests. It was not, it seems the opposition's power to mobilize, but, the support it received from the Rustavi 2 television station that was decisive for the swing in the mood of the country. Mitchell observes correctly that most of the Georgians witnessed the legendary Rose Revolution as viewers in front of their TV-sets.³ When Shevardnadze had to step down on 23 November 2003, following a series of tactical mistakes in dealing with the protests, the transition amongst the political elite was completed. Shevardnadze's party and patronage system fell apart, his allies quickly changed sides, accompanied by a few thousand cheering supporters and significant media coverage.

Securing power and selective modernization

Following the government takeover, the new leadership concentrated on the consolidation and centralization of its power. Studying the most important legislative initiatives and political projects after November 2003, this goal has been the guiding theme on the agenda of the government to the present day.

With the help of a number of amendments of the constitution and the electoral law, the executive power and the dominance of the ruling was extended. The first constitutional amendments were decided already in February 2004. In an initial step the power of the president

¹ Cp. Mitchell, Lincoln (2004) Georgia's Rose Revolution. New York. <http://www.columbia.edu/~lam13/documents/Georgias%20Rose%20Revolution.pdf>, p. 346f.

² Ibid. p. 344.

³ Ibid.

was strengthened over the parliament, the cabinet and the prime minister. According to the constitutional amendments of 2004, the president appoints the prime minister, the minister of defense and of the interior as well as all the governors of the regions. The president has the right to dissolve the cabinet and may also dissolve the parliament if it does not decide on a budget. If the Prime Minister fails to survive a confidence vote, the President may appoint a new Prime Minister or dissolve Parliament.

Also following immediately after the Rose Revolution, the dominance of the new ruling party, the United National Movement (UNM), was secured with amendments of the electoral law. In the period between 2004 and 2008, the parliament amended the electoral laws and the relationship of majority vote to proportional representation six times, always in favor of the ruling party UNM.¹ Since 2005, it is no longer the political parties that determine the composition of the electoral commission but the president and the UNM-dominated parliament. For the time being, amendments that could be potentially dangerous for the UNM are not to be expected. The announcement by the government to have all the mayors elected with a direct vote in the local elections of May 2010 was not implemented. Only in the capital Tbilisi, there were direct elections, whereby the victory of the acting mayor was also supported by the use of public funds according to a study by Transparency International (TI).² All political institutions, parliament, government, governor's offices, town halls and municipal councils are in the hands of UNM today. In view of the marginalized, quarrelling and erratically acting opposition, Saakashvili's UNM has succeeded Shevardnadze's CUG as the dominating state party.

¹ See: Lanskoj, Miriam / Areshidze, Giorgi (2008) Georgia's year of turmoil. *Journal of Democracy*. October 2008, Volume 19 (4); p. 154-167.

² Cp. TI Georgia (2010) Use of Administrative Resources for Election Campaign Local Elections 2010. Reports 1-3.

The structure of power within the government camp is by no means static, however. Employing a permanently spinning merry-go-round of personnel, it is prevented that autonomously operating circles of power are formed. For instance, over the past six years, the minister of economics was replaced ten times. The defense ministry has seen six changes of minister. The prime minister, as well as the foreign and finance ministers, were replaced five times each. With every change of minister, there is a considerable turnover in the staff of the ministries as well.

After the dynamism of the power change of 2003/2004 thrived considerably on the media support by the TV-channel Rustavi 2, it was only consistent that access to the media became an important component in securing power after 2004. The results of these efforts are expressed meanwhile in criticism of the lack of media freedom many reports on Georgia by international organizations and western governments. The three main international indices for the evaluation of freedom of the press give Georgia a worse rating in 2011 than in 2004.¹ According to Transparency International, the Georgian media landscape is less free and pluralist today than before the Rose Revolution.² The two main private TV-channels Imedi TV and Rustavi 2, who together have a market share of more than 60%, as well as the state broadcasting corporation are regarded as loyal to the government.

The project of securing power has continued to the present day. With a view of the next presidential elections in the year 2013, the ruling party adopted further far-reaching constitutional changes in October 2010. They strengthen the power of the prime minister considerably and the

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- ¹ Cp. Reporters Without Borders: <http://www.rsf.org/>.
Freedom House – Freedom of the Press: <http://freedomhouse.org/template.cfm?page=16>.
International Research & Exchanges Board (IREX) – Media Sustainability Index: http://www.irex.org/programs/MSI_EUR/.
- ² Cp. TI Georgia (2009) Television in Georgia – Ownership, Control and Regulation. Transparency International Georgia. November 20, 2009.

office of the president is weakened. The parliament only experiences a little extension of its competence. What is especially remarkable about these constitutional changes: the amendments were adopted in an accelerated procedure in 2010, however, they are to come into force only in 2013. That is the point in time when the current president, following two periods in office, is not allowed to stand for election again. As the prime minister, he could continue to determine the fate of the country. How such a switch-over works has already been demonstrated by the northern neighbour, Russia.

Whereas the measures for securing power outlined above were accompanied by a dismantling of democracy in the country, further measures, on the other hand, had impressive modernization effects. This includes especially the break-up of informal, decentralized criminal and corrupt networks that had curbed the power of the central government during the presidency of Shevardnadze.

Following the Rose Revolution, challengers of the central government, such as the Adjarian dictator Aslan Abashidze and non-state actors of violence, such as the Georgian mafia, were disempowered. Corrupt police officers, customs and excise officials who worked into their own pockets and with their own networks were dismissed in their thousands. Thus, the central government in Georgia did not only achieve a strengthening of their own position but also a modernization effect. The civil service was rendered more efficient and even though political corruption within the elite still belongs to the ruling practice¹, petty corruption was fought successfully. In the corruption index of Transparency International, Georgia took position 68 of 178 countries in 2010. In the year 2003, the country was

¹ Cp. Kupatadze, Alexander (2011) Similar Events, Different Outcomes: Accounting for Diverging Corruption Patterns in Post-Revolution Georgia and Ukraine. *Caucasus Analytical Digest* №26. 26 April 2011. <http://www.res.ethz.ch/analysis/cad/index.cfm>, p. 2f.
European Commission (2011) Joint Staff Working Paper. Implementation of the European Neighbourhood Policy in 2010. Country report. Georgia. COM (2011) 303, p. 5.

still listed as one of the ten most corrupt states of the world (position 124 of 133). The financial scope of the central government has increased considerably with the reforms of the tax authorities and the tax system.

This simultaneous accord of modernization and the attainment of power is described by Stefes¹ in his comparative study on authoritarian ruling methods in Caucasus very vividly, "In large-scale raids, several former government officials and industrialists were arrested and were charged with corruption. Local rulers and their governments were removed from office by Saakashvili. The police force was replaced more or less completely, whereby the new police officers were better paid and equipped. Well-known markets for smuggled goods and smuggling routes were shut down by the government. Better laws and less corrupt tax authorities put a stop to tax evasion. Within a few years, the state budget multiplied in this way. Of this money, a significant proportion was channeled into modernizing the police and security apparatus (...). Overall, the modernization of the state apparatus enabled a concentration of power in the hands of the central government. Using his party, the president was able to build and develop patrimonial networks"².

Libertarianism in Georgia

This selective modernization in Georgia placed into of a bigger political narrative by the government. In contrast to the neighbouring states of Armenia and Azerbaijan, where the securing of power has become a de-ideologized project of elites enriching themselves, the government in Georgia has an ideological and programmatic superstructure. Major political decision-makers count themselves among the market-radical school of libertarianism. Libertarianism regards itself in the tradition of the Austrian school of

¹ Cp. Stefes, Christoph H. (2010) Autoritäre Parteien und Kooperation im Kaukasus und auf dem Balkan. Berliner Debatte Initial. Volume 21 (3). 2010, p. 100-112.

² Ibid. p. 104. own translation.

neo-classic economics around Hayek and von Mises. However, due to its anti-state orientation, it goes beyond neo-liberalism of European character in some points. Representatives of libertarianism doubt the legitimacy of state action as a principle and want to hand over more or less all social relations into the own responsibility of the individual or to the laws of the market. In contrast to ordoliberalism in Europe, they do not see the necessity to create an institutional framework through which the state enables an orderly and free competition using rules and procedures. Or to put it into the words of Kakha Bendukidze, the mastermind behind the Georgian economic reforms, "To ask the government for help is like trusting a drunk to do surgery on your brain"¹.

Many reforms that have been implemented since 2004, are characterized by this spirit. There is little left of a regulatory framework for economic activities. Anti-monopoly laws and a fair-trade authority were replaced by a system that does not permit the state to act against monopolies anymore. The labor market was deregulated so far that the International Labor Organization (ILO) regards it as a principal violation of ILO core labor and social standards. The work inspection that monitored adherence to health regulations at the workplace was abolished. The Labor Code adopted in 2006 is regarded as one of the codes most hostile to employees in the world. It enables the employers to dismiss their staff without giving them any reason for their dismissal. The Labor Code does not provide express rights to trade union participation, representation and collective bargaining. "Illegal" strikes, on the other hand, may be punished with imprisonment of up to two years. The ILO has identified several violations of conventions ratified by Georgia, especially Convention 87 (Right to Organize) and 98 (Collective Bargaining).

¹ Quote in ESI (2010) Georgia's Libertarian Revolution. Part 1: Georgia as a model. European Stability Initiative. Brussels, p. 10.

The de-regulations are regarded a success story by the government. The Georgian government points to the restoration of water and power supply in the urban centers, the expedition of customs and border-crossing formalities, the facilitation of import and export activities, the lowering of social expenses for wages and salaries, the simplification of the tax system, the high economic growth rates between 2005 and 2008 and the increase in foreign direct investments. The government is supported in its stance by libertarian and conservative think-tanks from North America, such as the Cato Institute, the Frazer Institute or the Heritage Foundation, who praise Georgia's government for their economic liberal reforms and the creation of an investment-friendly climate.

In October 2009, the president announced the Law on Economic Freedom, Opportunity and Dignity as well as a number of further measures, for instance, a ban on creating any new monitoring authorities or the obligation of the state to have the majority of the population approve of any tax increases by means of a referendum. The referendums were decided upon in a constitutional amendment of December 2010. These and other measures, the president said, had the objective of "preventing the executive from deviating from the course of liberalizing the economy" and would turn the country into a "flagship of worldwide economic liberalism"¹. Some libertarian think tanks are of the opinion that even these measures do not go far enough. They demand the complete abolition of any economic regulation authorities, stipulations and licensing.

Libertarianism is to be seen in a symbiotic relationship with the above-described project of securing power. Specifically, it fulfills three functions:

Firstly, libertarianism places the selective modernization of the economy and the society of Georgia into a greater political narrative. In selected policy areas, it makes for a

¹ see »Saakashvili Lays Out "Act on Economic Freedom"« Civil Georgia, Tbilisi. 6 Oct. 2009. www.civil.ge.

recognizable style of the government and thus suggests the existence of a stringent reform agenda. Thus, it becomes possible to conduct and communicate the securing of power as a modernization project, whereby the state is attempting to create a source of legitimization, at the same time, by pointing to their alleged efficiency.

Secondly, political loyalty and affiliation may be organized and delineated through such a polarizing ideology. Libertarianism provides for a clear-cut friend-or-foe pattern and enables networking among likeminded. The verbal (and actual) aggression against players and individuals who advocate a stronger regulatory framework or the provision of public assets by the states proves that the friend-or-foe pattern of differentiation is applied. Those who do not share the hypothesis of the natural efficiency of the market are pushed to the political margins and become the target of attacks. This is precisely what the (mostly liberal) economists and NGOs experience in Georgia today when they come out in favor of taking over European regulatory procedures as a prerequisite for an association agreement between Georgia and the EU. In order to discredit these advocates and embed libertarian patterns of interpretation, a special NGO-network by the name of For European Georgia was set up in December 2010. In their manifesto, the pro-government network refers to Thatcher, Hayek and von Mises, demanding a Georgia "free from regulations". The authors leave no room for doubt as to the aggressive nature of their mission, "Everyone who shares our values is our ally. Anyone who opposes them is our opponent", which is the last sentence of their manifesto.¹

This is where the third function of libertarianism comes into play: it lends itself to the mobilization against disagreeable players and political competitors. Similar examples from other countries show that libertarian experiments are

¹ Cp. CEG (2010) Manifesto – For a Europe of the Free. Coalition for the European Georgia. December 2010.

usually coupled with an authoritarian style of government. This is explained by the fact that libertarianism is suspicious of any collective decision-making mechanisms and organized interests. Any decisions or transactions that have not been brought about through the market between buyer and seller are regarded as inefficient, including parliamentary decisions and public participation. This anti-democratic character of libertarianism highlights the symbiosis of securing power and conducting ideological reform projects at the same time in Georgia. This is expressed most vividly in 2010 in the attempt to crush the free trade union movement in the country.

In view of the weakness of the system of political parties in Georgia, the trade unions are the only membership-based mass organization with a growing political influence. The government, which is not used to having to coordinate its decisions with other domestic players, started to perceive the trade unions, growing in strength, as a disruptive factor. They are holding the trade unions responsible for the increased international criticism of Georgia's libertarian economic and labor-market policy. As a next step, the strongest sector trade union, ESFTUG, was drained of finance after instructions were given not to pass on the membership fees, which were deducted by the employer, to the union any longer. This also brought down the income of the Georgian Trade Union Confederation GTUC that relies on the contributions of its single largest member organization. Since September 2010, the trade union of rail workers has also been affected by these state-ordered sanctions. While there is a dispute about the legal permissibility of such measures, the boundaries of legality have already been breached in other areas. Meanwhile, leading trade unionists are threatened personally and put under pressure.

Outlook: authoritarian liberalism

In March 2004, barely four months after the Rose Revolution, Nikolas Gvosdev said about the developments in Georgia: "the political processes in Georgia and in

Russia appear to be moving in tandem"¹ and compared the chaotic but politically pluralistic years under Yeltsin and Shevardnadze to the possible democratic setbacks caused by the authoritarianism on the horizon with Putin and Saakashvili. This observation is more appropriate than ever before, seven years after the Rose Revolution. By strengthening the executive and the central government in Tiflis, the break-up of decentralized criminal networks and the establishment of the UNM as the state party, the issue of power has been settled in Georgia. Also the switch-over from president to prime minister, following the Russian model, after the elections of 2013, has already been prepared by the decision on a constitutional amendment taken in October 2010. At the same time, the policy of securing power has led to a democratic setback in Georgia. The Parliament, the media and the judiciary are exposed to a stricter government control than before. According to the Democratization Index of Freedom House (2010), Georgia is in a worse position today than in the year of the Rose Revolution.

The simultaneous accord of securing power and libertarian economic policy leads both to a restriction of political freedoms as well as to a dismantling of social rights. Those who publish disagreeable reports may be dismissed due to a de-regulated Labor Code. Whoever fights for this trade union rights is put under pressure or loses his job. Anyone who cannot stand his ground because of his poor start-up conditions in the unequal competition of the market should not depend on public solidarity systems or expect the state distribution results to change.

In the year 2011, Georgia is moving towards an authoritarian liberalism, a system that combines its radical market economic policy with permanently restricted political freedoms and a lack of social rights. It's not for nothing that the president praises the authoritarian

¹ Gvosdev, Nikolas K. (2004) Vexing Questions of Democracy. The National Interest. 31 March 2004.

governed and economically successful Singapore as a role model for Georgia's development. The government attempts to sell the selective modernisation, which the Rose Revolution brought to the economy, public services and infrastructure, as a partial success on the road to this development model. This is how the Georgian government is following the example of authoritarian states that defend their political system and the lack of democratic procedures (input legitimacy) with the allegedly greater efficiency of governance and economic success (output legitimacy).

However, this does not work for Georgia. There are many macro-economic indicators that indicate that the years 2004-2011 only continued already existing tendencies (or stagnation) instead of changing them. For instance, Georgia had positive growth rates already since 1995. Two-digit growth rates were achieved three times by Georgia under the Shevardnadze government, i.e. in the years of 1996 (11.2%), 1997 (10.52%) and 2003 (11.6%), only once, however, under president Saakashvili (in the year 2007 with 12.34%). The first negative growth in 16 years was also in Saakashvili's period of office with -3.94% in 2009. The share of the service sector in the Gross Domestic Product (GDP) has been growing more or less evenly since 1993. The share of industry was 23.73% in 1996 and thus somewhat above the level of 2009.¹ Since the year 1997, the increase in prices has been under 10% and is thus more or less under control. Only in 2011, Inflation exceeded 14%, whereby the prices for food rose by 30%, which has turned into an existential threat for families of low income that is to say for more or less all Georgian households.² The share of employed people among the total population

¹ Insofar as not identified otherwise, the numbers in this part of the text come from www.worldbank.org. In particular from: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/GEORGIAEXTN/0,,contentMDK:20169119~menuPK:301771~pagePK:1497618~piPK:217854~theSitePK:301746,00.html>

² Cp. Civil Georgia (2011) Annual Inflation Goes Up to 14.3%. Tbilisi. 4 June 2011. <http://www.civil.ge/eng/article.php?id=23582>

has not changed very much according to the World Bank, whereby this number stood at 56% in the chaos year of 1995 and thus 2% above the current level of 2009. The official unemployment numbers rose from 12.6% to 16.3% between 2004 and 2011, according to the Georgian Office for Statistics. The actual unemployment figure will be far more than that due to the large informal labour sector. In surveys from the years 2010 and 2011, 25% of the people interviewed said that they did not have enough money for food and only 27% of the interviewees said that they held a full-time or part-time job.¹ The number of people who believe that Georgia is moving in the right direction has fallen significantly from 51% to 35% between July 2010 and March 2011. In the survey, the people expressed concern especially about their social situation, increasing prices and unemployment.²

Thus, as regards the economy, many of the already existing trends were continued after the power change in 2003, whereby the social and political situation worsened. Seven years after the change in power, the restrictions of political freedoms and social rights are tangible for many Georgians. These restrictions are not compensated by the selective modernization successes since 2004 either. Thus, many promises of the Rose Revolution have remained unfulfilled.

¹ Cp. De Waal, Thomas (2011) *Georgia's Choices. Charting a future in uncertain times.* Carnegie Endowment for International Peace. Washington D.C. c. 15f.

² Cp. Civil Georgia (2011) *Poll Shows Georgians Increasingly Concerned over Economy.* Tbilisi, 6 April 2011. <http://www.civil.ge/eng/article.php?id=23317>.

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Politics and Governance in Armenia: The Prospects for Democracy

Boris Navasardian

The problems of growth

One of the most popular explanations for the difficulties Armenia currently faces with its governance and democratic development is that the country had no national government for many centuries prior to its independence in 1991. The Armenian statehood that existed from 1918-1920, when the republic was fighting for its survival and was unable to focus on nation-building, was simply too short-lived to have had a significant impact.

Thus, for most of its history the country was forced to adapt and preserve itself being divided between empires, which were not particularly inclined to take a progressive approach to its social and political system. Patriotic Armenians are eager to offer this justification, and they emphasize the radically different circumstances in which the Baltic republics found themselves after the collapse of the Soviet Union. The Baltics also enjoyed two decades of European-style government before they were brought under Soviet control, so not only was their Soviet period 20 years shorter than Armenia's, but significantly, they were surrounded by neighbours with valuable lessons to offer.

When forming its state institutions, post-Soviet Armenia could not turn for guidance to its own history, to Scandinavian social pragmatism, or, like many former colonies, to the French parliamentary or British judicial systems. Instead,

a medley of conflicting influences affected the formation of Armenian state and civic institutions.

The most glaring example of these is the Soviet legacy, one of the primary components of which was the "leading and guiding role of the Communist Party". By the final years of the USSR's existence, the Communist Party had largely freed itself from its ideological component, which, beginning from the 1970s for the most part played only a ceremonial role and did not significantly affect the Party's pragmatic decision-making. Thus, the Communist Party and its subdivisions simply acted as the country's supreme authority, controlling the executive, legislative, and judicial branches of government. Politics in independent Armenia has been plagued by a recurrence of this model.

Another significant factor that influenced the current situation in Armenia was the "shadow" economy. Even during Soviet times, 40% of the Armenian economy was hidden, and that figure has not decreased in the years since. This fact suggests the existence of informal mechanisms for governing and for distributing the nation's wealth and that these mechanisms form a system that operates in parallel to the state system in its regulation of all aspects of life. In addition, this parallel system was created by typical figures from the Soviet "shadow" economy, such as the so-called "tsekhoviki" who established entirely (or largely) "shadow" manufacturing, service, and trade companies, the crime bosses who were affiliated with these activities, the managers of state-owned companies ("red directors") who hid part of their companies' business activities in the "shadow", the party bosses, Soviet ("representative" and executive-branch officials, and officials from law-enforcement agencies, without whose protection the "shadow" economy could not have survived in the Soviet Union on such a scale.

But it was the so-called "neighborhood bosses" who played the dominant role in the post-Soviet shadow, since they were able to foist themselves on the government in their role as its main supporters, using any means necessary

(legal or otherwise) to arrange for the "needed" election results and providing other financial and political services to national and regional leaders. Not a single political administration in the Republic of Armenia has been able to summon the fortitude and will to refuse these services. Instead, the "neighborhood bosses" were given control of the market as well as informal credit, tax, and other incentives, and they eventually become an integral part of the government, making their way into legislative and executive bodies and playing a role in all major decisions.

The construction of an independent Armenian government took place against the backdrop of the conflict in Nagorno-Karabakh, which resulted in the creation of armed militias that were hailed as the defenders of the homeland. Some of them deserved this reputation, but others merely secured it through manipulation. The most pragmatic members of these armed groups acquired or consolidated their status as "neighborhood bosses", obtained command positions in the army and in various branches of government, and were given a share of lucrative businesses. These privileges, as well as the unofficial immunity granted them in exchange for services rendered and absolving them of legal liability, gave rise to the extraordinary role of these groups and relationships that operate in parallel to the state. The clans and oligarchs that make up Armenia's elite class were the product of precisely this "shadow" economy, the Nagorno-Karabakh war, and the rules of behavior that govern the interrelationships between the "neighborhood bosses".

Despite the difficulties, Armenia took some steps in the early years of its independence to rid itself of its Soviet legacy, in particular by privatizing the land and finding a non-punitive way to exclude the Communist Party from the real-world struggle for power. Despite questions about the quality of these reforms, in the early 1990s they opened the door for the young Republic of Armenia to work with international organizations and Western countries. The cooperation of Armenia with foreign partners, the assistance of the latter was intended to strengthen the country's democratic institutions and bring its system of government into

conformity with contemporary international standards. However, for the most part, modernizing is only happening on a formal, institutional level. Laws are approved and new structures are created, but generally their operations do not violate the unofficial rules of the game that have been established by the system of clans and oligarchs.

While drawing nearer to the West, Armenia is also maintaining its close ties to Russia in many areas and is becoming one of the most loyal members of the Commonwealth of Independent States (CIS). Yerevan also attaches great importance to its membership in the Collective Security Treaty Organization. An inherent part of these relationships involves the borrowing of some elements from the Russian model of development. All of this, in addition to the give-and-take with the other CIS countries that is part of the process of becoming an independent state, can in some cases run counter to the assimilation of Western values and standards.

Yet another important factor, which by necessity must influence the development of the Armenian political system and civil relationships, is the well-organized Armenian diaspora in many countries around the world. Traditional Armenian national political parties, church groups, and nongovernmental and lobbying organizations are all active abroad. The repatriation of the Armenian Revolutionary Federation (the "Dashnaktsutyun" party), the Ramkavar-Azatakan Party, and the "Gnchakyan" social-democratic party, have contributed significantly to the formation of a multiparty system in Armenia. The NGO Training and Resource Center of the Armenian Assembly of America, based in Yerevan, has contributed much to the development of Armenia's "third sector". The goal of the "Armenia 2020" project, which was launched by a group of progressive foreign Armenian businessmen and experts, was to define a model of effective, civilized national development.

But the government of the Republic of Armenia has not always encouraged diaspora Armenians to involve themselves in the country's domestic public and political

life. In fact, political parties and media that receive funding from abroad have at times seen their work harshly suppressed. As a consequence, for much of the post-Soviet period, the most influential circles of the diaspora community have tried to focus their efforts on goals that do not conflict with the interests of the ruling elite of the Republic of Armenia, such as their campaign to have the genocide of 1915 recognized internationally, the defense of the Armenian position during the conflict in Nagorno-Karabakh, the launch of investment projects, and an increase in foreign aid to the country, all without tying any of these causes to demands for political reform. As a result, the financial, lobbying, and intellectual potential of the diaspora community is currently doing little to encourage democracy there. And influential Armenians in Russia are supporting the movement in Armenia to resist Western-style modernization.

These factors have produced a distinct set of forces that is now shaping the system of governance in Armenia. Obviously, other events had their influence as well but their role was less significant.

The priority of informal institutions

The separation of powers (or lack thereof) in Armenia is very similar to the situation in the USSR before its collapse, despite the country's radically altered constitutional and legislative framework. The office of the president has in a certain sense taken over the role formerly played by the Communist Party. Despite the restrictions on presidential authority that resulted from the 2005 constitutional reforms, the head of state still retains the right to have a final say on almost all important matters of the country. But of course these mechanisms are typically neither transparent nor subject to any procedural rules. Decisions made in this fashion are later dressed up to appear as though they were the product of the formal procedures stipulated by the constitution, such as laws adopted by parliament, governmental decrees, court rulings, etc.

Using the process of passing a law as an example, it is clear that any decisions about the substance of statutes with any significance for the regime are made by the president and his inner circle (a modification of the Soviet Politburo), at which point the government implements this decision, giving it the form of draft legislation, and the National Assembly, which consists of an acquiescent majority coalition, votes in favor of it, with few if any criticisms. According to recent data, 85% of all bills in the National Assembly were sponsored by the executive branch, which in itself is a clear demonstration of the lack of any real separation of powers. Some of the most important laws are passed via an "expedited procedure", in which there is almost no debate among the MPs of a ministries-sponsored bill and the Parliament vote before they have had any opportunity to review the contents.

Experts tend to label the Armenian system of government "authoritarian", but good arguments can be made against that designation. For several reasons, the Armenian system does not meet the general requirements of the classical definition of an authoritarian regime. A truly authoritarian system was unable to become fully entrenched because of the country's historical background, traditional structure of social relationships (a lack of nostalgia for the monarchy, an absence of conspicuous aristocratic dynasties, and active competition in the social and political arenas), as well as economic factors. The country lacks a significant and stable source of natural resources (such as oil or gas), which, were they under authoritarian control, would concentrate the distribution of essential consumer goods and political power in just a one person's or family's hands.

The difficult living conditions experienced by the majority of the Armenian population and their ongoing dissatisfaction with their current situation was reflected in the dominance of protest voters inclined to support an alternative to the existing administration. And at best the government can only use corrupt elections to maintain its power for a certain period of time. It is not possible for it to leave the outcome of elections indefinite or to bequeath the power to

a hand-picked successor. Given the concentration of power in Armenia, attempts to lift the restriction against serving two consecutive presidential terms were doomed to failure.

As a result, a president is forced to seek the support of other powerful political and economic figures in order to ensure political stability for the duration of the term allotted to him. Losing such support might well mean losing power even before the end of his term, as happened with the first president of the Republic of Armenia, Levon Ter-Petrosyan in 1998. For a number of objective and subjective reasons, the ever-present threat to political stability faced by the Republic of Armenia's third president, Serzh Sargsyan, forces him to maneuver and shuffle the deck of his political allies in order to preserve at least a minimal level of support for his administration. By delicate maneuvering and sheer force of will, Robert Kocharyan managed between 1999 and 2000 to retain his position as the second president of the Republic of Armenia. Although after the terrorist attack in the parliament building on October 27, 1999, Kocharyan's position was even less enviable than that of Ter-Petrosyan in 1998, or the current, third president who is faced with a serious economic crisis.

Once again, this invites comparisons to the post-Stalin years in the USSR. The enormous power wielded by the head of the Communist Party of the Soviet Union was suddenly paper-thin as soon as he lost the support of the majority of the party elite. In this context, Nikita Khrushchev's fate was the most telling example and bore a certain similarity to the resignation of Levon Ter-Petrosyan. Unlike in Western-style democracies, in Armenia (as well as in Soviet Union), a head of state who has fallen out of favor with the elite can be removed without the pretext of either a scandal, a breach incompatible with governing a country (such as Watergate), or a scheduled election. In every presidential campaign in the Republic of Armenia since 1996, the winning candidates were able to gain power through the support of the elite oligarchs. But regardless of the electoral results, the winners will either lose power

or find themselves in danger of losing power once they no longer enjoy this support. The so-called "Arshaluysgate" in 1996 or "Aragastgate" in 2001 were epic scandals that should have proven fatal for Ter-Petrosyan and Kocharyan, respectively, but a change of power was not in the interests of the elite at that time.

The mechanisms of decision-making are secretive and focused on the narrow interests of the oligarchs, and this, along with the powerful clans, the monopoly control of the key areas of the economy, the corrupted system of forming a government, the ruthless exploitation of the country's already scarce material resources that threatens the nation with environmental ruin, the counterfeit nature of most democratic institutions, and finally the almost complete capture of state have all become central features of the current regime.

But despite these elements, there are a number of factors that prevent Armenia from merely sliding into neo-feudal despotism. First, there is the energetic resistance of a wide swath of the population, who, although frequently being passive, are also in search of a way-out. Second, is the fact that the government must take into account the opinions of the international community, upon whom Armenia is dependent for economic assistance. The third factor is the civic engagement of the educated circles sympathetic to Western democratic values, who find an outlet for their efforts and abilities by working in nongovernmental organizations, some media, and in the professional community. Fourth, there is the Armenian national idea, which traditionally is quite popular in Armenian society, and which forces the oligarchs to make at least an outward show of patriotism, love, and respect for their compatriots. On one hand, this national idea can give rise to a recurrence of radical nationalism and to speculation as to the priority of democracy and human rights within the system of national values, which prevents the country from being reshaped so that it is more in line with modern trends. But on the other hand, it also creates certain ethical barriers, which

prevent the open manifestation of the cynicism and cruelty that are intrinsic to similar regimes.

But perhaps the primary factor driving the country to modernize is the deepening social, political, and economic crisis. The fact that the current method of governing the country dates back to the Soviet era and is not able to lead the country out of its crisis is obvious to everyone, including those at the highest levels of government.

"Unite and Rule"

In years past, the pillars of the regime have been the clans of oligarchs whose loyalty ensured the stability of the political system, so long as that system could protect their interests. A complete merger has occurred between big business and political power. Even the wealthiest entrepreneur can not be sure his property and economic rights will be protected if he does not play a role in the administration and ensure its perpetuation (by membership in the parliament or the leadership of the ruling political party, by owning or financing a pro-government media outlet). That said however, even the most senior government official remains nothing more than an administrator, a "manager", with no leverage to influence major decisions unless he is directly involved in the division of the spheres of influence in the economy.

The concentration of ownership and political power into just a few hands clearly does nothing to further the development of a healthy market economy. But until recent times the relative stability of the financial and economic system and even the growth of the economy were ensured through financial transfers from Armenians abroad and the property they buy in Armenia, as well as other purchases, expenses made in foreign currency. The global economic crisis, which sharply curtailed the influx of dollars, euros and rubles and reduced the level of aid from foreign governments, revealed the full inadequacy of the Armenian regime. The country was among those hardest

hit by the crisis and its recovery is also proceeding more slowly than seen elsewhere.

Armenia also experienced other adverse events. The scandal-plagued 2008 elections, the still-uninvestigated deaths of ten opposition protestors, the lack of progress in the fight against corruption, and the increasing monopolization of the economy, as well as other factors, all affected the country's image. The United States withheld the financial aid to Armenia that was being provided through the Millennium Challenge Corporation. It is becoming increasingly difficult to service Armenia's growing foreign debt. The country's economic potential is unable to satisfy the growing appetites of the oligarchs while still providing a standard of living adequate to keep the majority of the population from mutiny. To a certain extent, emigration serves as a "pressure valve" that keeps Armenia from exploding. The presence of a relatively prosperous diaspora population in many parts of the world encourages the frustrated segments of society to escape their lot by traveling abroad instead of plotting revolution.

But on the other hand, if Armenia continues to hemorrhage population, this will deplete the oligarch's source of wealth. And even assuming that they send more and more of their capital abroad, this is not really a satisfactory option, since the oligarchs cannot count on making the same exorbitant profits anywhere but in a "privatized" Armenia. In other words, the established rules of the game in politics and economics are becoming less viable. The clan rivalries in the deteriorating Armenian market are causing cracks in the monolithic union of government and big business.

Meanwhile, the political foundation of the regime is based on "integrating" the maximum number of strong players into the political system in exchange for their loyalty to the informally agreed-upon rules of the game, while also pressuring everyone who refuses to be "integrated" by squeezing them from all sides (forcing them out of politics, business, the media, and prestigious professional

positions). Analysts who refuse to mince words label this a "criminal conspiracy".

The most recent national elections were a clear illustration of the principle of "unite and rule". After the 2007 parliamentary elections, the Republican Party, which has held power since 1999, won 64 out of 131 seats. If this had happened in a country with a relatively well established parliamentary culture, the Party would have formed a majority government by forming a bloc with the independent deputies (just two of them!), most of whom were already close to the party. Or as a last resort, it would have entered into a coalition with another party in the parliament, preferably the smallest, so the Republican Party could retain a greater share of power. But the desire of those in the highest ranks of government to ally themselves with anyone who wields power and influence has led the ruling party to create a broad coalition, primarily bringing them together by informal and tacit debts to one another.

An even more cynical scenario played out after the 2008 presidential election. Lacking a genuine mandate, the government tried to substitute legitimacy by an artificial one inviting all five factions in the National Assembly to join the ruling coalition. Only the Heritage Party, which had the fewest representatives in the parliament, refused. As a finishing touch, a Public Council was formed under the president's administration that gathered together approximately 1,000 (!) nongovernmental organizations. This Public Council was primarily intended to bring under the sway of the informal rules of the game all those willing who were not already bound to the government as "coalition politicians" or government officials. In a sense this council was a duplicate of the Russian Public Chamber.

In this manner the authorities tried to create the appearance of uniting the public around the government. Given the scale of the electoral fraud (independent observers estimated that 30-40% of the election returns had been subject to tampering) the events described above could be characterized as a union of the illegitimate elite to oppose

the majority of the Armenian public and its vital interests. Naturally a union of this type is an obstacle to any type of reform. It merely imitates the reforms in order to preserve its international image.

Resources for modernization

Armenia's system of government began taking shape after the country gained independence, and it acquired its present form between 2001 and 2007. Those were years of unprecedented, but, as might be expected, extremely erratic growth in the national economy. But that system today is doomed. A clearer picture of the system that might replace it will be available after the regularly scheduled elections of 2012-2013. Awareness of the need for transformation does not necessarily imply the willingness and ability to carry it out. It is unlikely that the clans of oligarchs will voluntarily relinquish their privileges. They will resist to the end any reforms that would dismantle the system of monopolies and corruption. Given the fact that national elections are looming and the oligarchs have the resources and tools to ensure the "correct" electoral results, it would be extremely difficult for the political leadership of the Republic of Armenia to refuse the oligarchs' services in their struggle for power.

On the other hand, since the economic downturn has shrunk the size of the "pie" that the clans can divide between them, the idea of their "peaceful coexistence" is now in jeopardy. In addition to the increasing competition, the growing tension between the oligarchs is the result of differing views about which of the leading political figures will best protect their interests. This makes the upcoming elections far more unpredictable than if they were being held under favorable economic conditions.

Three centers of power currently exist representing the primary contenders in the struggle to rule, and it is easy to foresee that the battle (whether conducted openly or behind closed doors) will be held within this very triangle. One corner of the triangle is represented by the third

president, Serzh Sargsyan, plus the section of the ruling party that has always backed him. This group nominally promotes the idea of modernizing while avoiding drastic steps that would destroy the system. But even cautious steps taken by Sargsyan's team have run into strong opposition, directed mainly against the ideas of recruiting younger, "Westernized" government officials and raising the status of official state institutions, which would cause the weakening of the parallel, informal hierarchy.

Sargsyan-style modernization is particularly resisted by another corner of the triangle – the second president of the Republic of Armenia, Robert Kocharyan and his political allies. This is the most conservative center of power, which is guided by the events of recent years, when the strengthening neo-feudal system of oligarchs coupled economic growth with relative political stability in a crude imitation of reform. However, the second president remains in the background, while a range of parties, media outlets, and social movements openly represent his position in the political arena. But one weakness of Kocharyan's camp is the fact that the majority of the Armenian public strongly dislikes the second president. The strength of his group lies in its experience with effective management and publicity campaigns.

The third corner of the triangle is the Armenian National Congress, which is headed by the first president of the Republic of Armenia, Levon Ter-Petrosyan. The Armenian National Congress (ANC) is seen by a significant portion of the public as the primary agent of change, and this explains why the party has the support of many reform-minded young people. Despite the fact that the ANC champions the idea of fair elections and speaks out against the oligarchy and corruption, its leaders offer no specific prescriptions to treat those diseases. As a result, many believe that the ANC is seeking a return to power simply as an end unto itself.

The fact that the Armenian elite traditionally prefers consolidated power, stability, and a low probability that

any of the three centers of power can prevail on its own, suggests that the centers of power will combine in some fashion to create a united political bloc. And the elite is quite eager for this bloc to coalesce prior to the presidential election in 2013. Most of them need to know in advance whom to support and whom can be relied upon as a defender of their interests.

Despite the disagreements between the three centers of power, they are quite close ideologically and "biographically". Prior to 1998, the three presidents functioned as a single political team, and each of them made his own contribution to the formation of the current system of government. With few changes, they were supported by the same categories of the Armenian elite and even by some of the same representatives of that class. Since they are all pragmatists, in the end both they and their teams will be able to adapt their positions to meet the requirements of specific domestic or foreign political situations.

At first glance, it would seem that the goal of modernizing the country might best be served by an alliance between the first and third presidents of the Republic of Armenia. However, without revolutionary changes in the ruling party and early elections (and it is unlikely that the president would risk agreeing to this), such an alliance would merely result in the ANC being given a certain number of seats in the National Assembly and some ministerial portfolios.

In this case, or should the old alliance between the second and third presidents endure, it will still be difficult to overcome the tendencies to consolidate power and unify the oligarchs. Nor are the elite likely to give up their focus on their own narrow interests. In order to effect change, it is still essential to have an opposition force with the solid support of a significant segment of the population.

In the coming years, the unstable social and economic situation is likely to ensure a certain balance of power in the political arena, and that in itself will do the most to help the country modernize and democratize. Resistance

will open a forum for the discussion of many different types of problems, which will attract the participation of civic institutions, independent journalists, bloggers, etc., and these discussions will affect how the country's development priorities are set.

In the next 5-10 years one can expect Armenia to continue or even increase its dependence on foreign aid. Thus, the prospects for reform will largely depend on the adequacy and specificity of the conditions for cooperation imposed by Armenia's Western partners and international organizations. If their requirements of Armenia and their assessment of the situation are consistent with the approach taken by the independent and competent local NGOs and the professional community, then it is more likely that the current issues of democracy, human rights, good governance, etc. will become part of the dialogue between the government and the opposition and between the government and civil society.

If democratic reforms are to succeed, they must be seen by the Armenian government as more than just a commodity to be exchanged for financial aid. Such a "market" approach suggests a wish to sell as little as possible for as much money as possible. The Eastern Partnership initiative of the European Union (EU) could play a particularly important role in changing the nature of the relationship. Unlike similar programmes, this initiative includes the involvement of a parliamentary component (Euronest) and the Civil Society Forum. The negotiations between the national government and the European Commission over the Association Agreement can be an important means of promoting real reforms, but they will have to be very transparent and contain clear criteria and political preconditions addressing both the activities of democratic institutions as well the question of how to overcome market monopolies and high-level corruption.

It is true that clear criteria, as well as assessments of the situation and action plans based on these criteria, were frequently missing from earlier phases of the cooperation

between the EU and Armenia. There are now hopes that the events in the Arab world will prompt a new approach. These events have convincingly demonstrated that when the West places a higher priority on stability than on democracy in its partner countries, its support of the dictatorial regimes culminates in the wreckage of all its previous efforts. Now that the EU and the USA have come to this realization, it is time to develop an effective means of promoting reforms in their partner countries.

Unfortunately it is hard to imagine a purely domestic movement being created in Armenia in the next few years that would be capable of modernizing the country. But the level of interest abroad in real reform will allow Armenians to mobilize their "national resource": the political competition that still exists at a certain level, the availability of competent and selfless actors in the "third sector", Western-educated young people, and the wealth of potential offered by the diaspora community.

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Azerbaijan: Achievements and missed opportunities

Shahin Abbasov

There is currently a controversial perception of Azerbaijan: on the one hand, this is a country rich in hydrocarbon resources, potentially capable of contributing both to regional and European energy security; on the other hand, it is a state governed using authoritarian methods in the presence of decorative democratic institutions. The system of ruling the country is based on the regime of personal authority with elements of neo-monarchy. Although the USSR disintegrated, and Azerbaijan gained its independence, the country in fact retained the Soviet government system and did not establish mechanisms of elective democracy. The country is only formally a democracy, although in reality strict authoritarian measures are used to govern it.

At the beginning of the 21st century, an Eastern version of a modified Soviet political system emerged in Azerbaijan. As before, the Central Committee of the Communist Party exists de facto, but now it is called the President's Administration. In the provinces, all power is concentrated in the hands of heads of executive bodies, appointed by the President. The cabinet of ministers, as well as the parliament do not play an important role in the country's life. Local government bodies (municipalities) are of even lesser significance.

Taking into account a number of internal and external factors as well as hopes for political modernisation of the country within next 5 to 10 years, the ruling regime will most likely continue strengthening its personal power system.

Three historical stages of modern statehood

The history of modern Azerbaijan may be divided into three stages. The first stage started in autumn 1991 – when independence was declared – and ended in summer 1993. It is characterised by the formation of institutions of the young Azeri state organisations. At the dawn of its independence, Azerbaijan moved to establish a state governed by the rule of law, based on the model of Western democracies. This trend was especially noticeable during the Popular Front (PFA) government, which replaced the Communist nomenclature in May 1992. The PFA government undertook first steps to establish a multipartite political system; all political parties were registered; conditions were created for development of free media; measures were undertaken to ensure the separation of powers.

However, the absence of experience in state government, as well as an acute shortage of skilled human resources, grave social and economic situation which the country inherited from the failed Soviet system, external pressure from Russia and Iran, as well as the war with Armenia which aggravated all of the above, have predetermined a rapid failure of the National Front government as a result of the military opposition revolt in June 1993, behind which – it was maintained – stood Russian military and political circles.

The country was on the brink of a civil war but it retained its sovereignty due to the return of Heydar Aliyev, the former Communist leader of the Republic, a member of the Political bureau of the CPSU Central Committee, to the political Olympus of Azerbaijan.

As of this time, a new stage has begun in the modern history of Azerbaijan, which has been marked by extreme contrasts: on the one hand, consolidating the country's independence and its co-operation with Euro-Atlantic structures, becoming a member of the Council of Europe, joining NATO's Partnership for Peace, signing the Contract of the century with Western petroleum companies; at

the same time, it has walked away from the principles of democratic rule, and has strengthened further the regime of personal power in its internal policy.

The first Constitution of independent Azerbaijan (1995) established a strong presidential republic with limited powers for the parliament and of the judiciary. During the first years of independence, the old Soviet Constitution was amended, providing the parliament with effective control mechanisms over the government. But the new Main Law of the country deprived the Milli Mejlis (National Assembly, parliament) of all such mechanisms, and it lost its ability to form a government.

The President received almost unlimited power. The Constitution gave him powers to appoint and discharge members of the government, as well as to nominate candidates for Prime Minister to be approved by the parliament. The President has the right to appoint the head of government even without parliament's agreement if the Milli Mejlis turns him down three times. The President also has the right to propose candidates for the General prosecutor's post, as well as justices of the Constitutional and Supreme courts. As the Supreme Commander of the military forces, the President has powers to appoint and discharge high-ranking commanding officers of the military forces.

Strong presidential power was not only embedded in the Constitution but also reinforced through establishing traditions of parliament's submission to it. Thus new parliamentary elections organised in 1995 and marked by serious infringements of democratic standards allowed the President to keep "the parliament in his pocket" and use it to promote his desired decisions.

Although the measures aiming at strengthening the personal authority of the President were implemented on behalf of the group in power, at the same time they furthered the making and strengthening of the young state. The military opposition was completely suppressed, several attempts

to overturn the regime have been prevented, and the public and political stability was ensured. In mid-1990s, the government succeeded in achieving macro-economic stability using an unpopular tough monetary policy which was accompanied by the raising of consumer prices.

By 1997-1998, the political and economic situation in the country noticeably stabilised and objective preconditions emerged for implementing democratic reforms. However, this did not happen. The constituted democratic institutions were a sham and the influence of the political opposition and the civil society was insignificant. Elections to all power structures failed to meet international standards.

In October 2003, for the first time in the post-Soviet area, a dynastic power transfer scenario was carried out in Azerbaijan, and President Heydar Aliyev was replaced by his son Ilham Aliyev.

Many people both inside the country and abroad expected that Aliyev Jr., who, in contrast to his father, forged his political career in independent Azerbaijan, might become an authentic reformer. Ilham Aliyev's ascent to power, which may be regarded as the beginning of the third stage in the country's history, coincided with the inflow of huge petroleum revenues which created favourable conditions for political and economic reforms.

But optimists were rapidly disappointed. Using the inflow of petrodollars, the governing regime became even stronger and started to reject openly even the policy of "imitation democracy".

Regime of personal power, absence of alternatives

Several years into the 21st century, a number of things started happening in Azerbaijan, which had not occurred under Aliyev the Elder: journalists were killed (on 2 March 2005, Elhmar Guseinov, Editor-in-chief of Monitor Magazine, was shot dead on the doorstep of his apartment); there

was a series of arrests of media representatives, opposition parties were expelled from their offices; Western radio stations were forced to cease broadcasting.

In 2008, Ilham Aliyev was re-elected President at elections conducted practically without any alternative candidates. Half a year later, amendments were introduced to the Constitution rescinding any restrictions to his presidential term.

The apotheosis was reached when not a single representative of the traditional right-wing, pro-Western party was elected as a member of the parliament.

By the 20th anniversary of independence, a very strong regime of personal power was firmly established in Azerbaijan, but its legitimacy is strongly disputed by the opposition, still in existence but weakened to a marginal level.

In the opinion of the political scientist Zafar Guliev, "a deformed, absolutist model of legal dictatorship or elective autocracy" has been established in the country, "which only at a stretch can be considered a presidential form of government".¹

Ilham Aliyev's regime of personal authority rests upon a rigid vertical administrative apparatus, with a repressive police force, special services, prosecutor's office and courts, as well as a monopolised economy. Vast information resources – eight national television channels, 11 radio stations, numerous printed and Internet publications – serve the power as well. The ruling system is governed by its unwritten laws, which is a characteristic of authoritarian regimes.

¹ Zafar Guliev (2010) Once again on the same topic: Do we need such form of power? Internet publication "Contact": www.contact.az. 13 November 2010.

A narrow circle of the President's entourage unquestioningly acknowledges the authority of the first person in the country and submits to his power. In exchange for loyalty, people from this entourage have a right to be undivided rulers in realms entrusted to them without interfering in each other's realms. Periodically, frictions arise between them and they attempt to meddle in each other's sphere of influence. However, the mechanism of "arbitration" by the supreme leader snaps into action. In general, the self-preservation instinct plays a deterrent role as any relaxation of the authority is fraught with serious consequences for each of its representatives.

At the same time, there are contradictions between separate groups inside the ruling system resulting in a peculiar system of "deterrents and counterbalances", which makes it possible for the President to enjoy stable rule with a minimised risk of conspiracy. Naturally, this system hinders any attempts to implement reforms. Many influential ministers or other high-ranking officials have ruled for 10 to 15 or even 17 years.

Under Heydar Aliyev, the state government system was set up in such way that only people loyal to the leadership of the country were promoted to leading posts in the country. They were not popular in the society and lacked personal political ambitions aside from obtaining dividends from their participation in the power system. Those who are tempted to reform the system or to transform it into a legal state with all rights and freedoms guaranteed, including inviolability of property, and, therefore, legalisation of revenues, can expect severe punishment.

One of the sad examples is the story of Rasul Guliev, former speaker of parliament, whose liberal initiatives forced him into emigration.¹

¹ Rasul Guliev headed the Parliament of Azerbaijan in 1993-1996. As he demonstrated political independence from Heydar Aliyev and attempted to initiate reforms on the basis of the legislation, he was forced to resign and emigrate. While abroad, he openly criticised

At least Guliev remained free. Farhad Aliyev, former Minister of Economic Development, spent a long time in prison for his independent rhetoric and for lobbying for the interests of business circles. He was arrested in October 2005 on charges of an attempted coup d'état and was sentenced to 10 years in prison on the charge of having committed economic crimes.

Ali Insanov, former Minister of Health, was arrested at the same time as Farhad Aliyev. He was one of the outstanding representatives of the "old guard" of Heydar Aliyev who demonstrated his independence from the young President.

These arrests played an edifying role for other high-ranking officials, demonstrating the fate that is to be expected for disobedience and attempts to play outside the rules of the game.

On the whole, the regime is characterised by a stable personnel policy. After Ilham Aliyev became President, he repeated incessantly that he would go on working with his father's team. The President only replaced several of the most odious ministers without any serious personnel changes. After his re-election in 2008, Ilham Aliyev limited the changes to the new cabinet of ministers to one new minister.

Personnel "stagnation" and personnel placing

Personnel "stagnation" manifested itself particularly after the parliamentary elections of 2010. The Speaker of the parliament as well as all three vice-speakers and heads of all parliamentary committees retained their positions.

Given the absence of effective opposition, instead of which only deputies from the seven parties of the so-called "constructive opposition" (all these parties are loyal to the government) were allowed to join the 125-seat

Azerbaijan's authorities and was accused of economic crimes and, therefore, is unable to return to Azerbaijan.

parliament, the parliament ceased to be an arena of keen political debates on the topics reflecting the interests of a broader range of political groups.

The sharing of forces inside the ruling team is represented in the Parliament rather than the country's political spectrum. According to independent observers and the opposition press, most of the influential figures of the power elite have their unofficial "fractions" in Milli Mejlis. According to the opposition newspaper Azadlig, Ramiz Mehdiyev, the 73-year-old Head of the Presidential administration, de-facto the second person in the state and the chief ideologist of the regime, has the biggest "fraction" – up to 40 deputies are his henchmen.

They are followed by the approximately equal "fractions" of Kamaladdin Heydarov, Minister of Emergency situations, and the Pashayevs family (relatives of the First Lady Mehriban Aliyeva) with 17 and 13 deputies respectively.

The newspaper mentions four more "groups" of parliamentarians representing Ziya Mamedov, Minister of Transport (six deputies), Rovnag Abdullaev, President of SOCAR (four deputies including himself), Sheikhu'lislam Allahshukyur Pashazade, Head of the Board of Muslims of the Caucasus (three deputies), and Vassif Talybov, Head of the Supreme Mejlis of the Autonomous Republic of Nakhichevan (three deputies including himself). Naturally, these and all other parliamentarians are utterly loyal to the President.

According to unofficial sources, there is also a division of the country's regions between the spheres of influence of high-ranking officials.

The country's economy is also divided following the same principle. It effectively belongs to several big holdings run by most influential figures of the ruling elite.

Against this background, Pasha Holding, closely affiliated to relatives of the President's wife Mehriban Aliyeva,

has been rapidly developing over recent years. Other business groups related to this family figure prominently.¹ As a multi-profile group, Pasha Holding is rapidly gaining leading positions in different fields, such as banking, insurance, construction and other sectors, pushing aside other oligarchic groups.

The expansion of this business empire is happening at the same time as the growing public and international activities of Mehriban Aliyeva, who is represented in various capacities – as the First Lady, Head of the Heydar Aliyev Fund, Member of Parliament, a Good Will Ambassador for UNESCO and ISESCO, and President of the Gymnastics Federation. Acting as a generator of ideas for inter-cultural dialogue and the initiator of a number of international forums on this topic in Azerbaijan, which enjoyed support from leading international media, Mehriban Aliyeva succeeded in creating the image of a progressive politician in the international public opinion. Of course, these activities are being paid for out of the administrative and financial resources of the ruling elite of Azerbaijan.

Inside the country, all significant humanitarian projects and charity initiatives are also linked to the name of the First Lady, and events with her participation enjoy media coverage similar to the coverage of the President's activities.

Such image assets may form a solid foundation for her direct participation in the political life of the country playing a leading role in the near future. Similar forecasts started appearing towards the end of the first five-year presidential term of Ilham Aliyev. Then assumptions were made that at the elections in 2013, due to the restrictions imposed by the Constitution, Mehriban Aliyeva would be nominated as a presidential candidate instead of her husband.

¹ Internet publication "Contact": www.contact.az. 22 November 2010. http://www.contact.az/topics_ru.asp?id=4253&pb=1&vr=ru&yr=2010&mn=11&day=22&pg=1&cl=1&cmpg=1&cmcl=1&sbpg=1&sbcl=1&srch=0&ms=0&clnd=0&mdn=1)

However, the ruling elite do not accept such prospects uncritically. The power system built by Heydar Aliyev and passed by him to his successor Ilham Aliyev was designed as a clan system and was supported by descendants from Nakhichevan region and by Azeris from Armenia. Mehriban Aliyeva's origins have nothing in common with these two regions, and the prospect of her advancement to the first roles alarms some people in the ruling elite.

A month after I. Aliyev's re-election for the second term, the ruling party (naturally, with the knowledge of the President) initiated amendments to the Constitution, removing any restrictions on the number of times Ilham Aliyev may run for President. Some experts interpreted this initiative as Aliyev's message to his entourage aiming to reassure them and to preserve the team's unity.

A change of places within the power system in the future cannot be excluded but is unlikely

However, the existence of a constitutional provision does not mean that Ilham Aliyev will necessarily use it. The situation is changing worldwide and it has an effect on the processes inside the country. Fighting corruption is becoming not only a social need but also a persistent request from international organisations. The negative experience of the Arab countries shows that the absence of reforms finally exasperated people and provoked revolutions.

All the above dictates the necessity to start urgently implementing preventive measures "from the top", such as weakening groups of officials and oligarchs by depriving them of their economic foundation under the slogan of fighting corruption. On the other hand, in order to give the regime an appearance of modernisation and change, it cannot be ruled out that by 2013 a "reshuffling" of power might take place following the Russian scenario: M. Aliyeva would be proposed as Head of state and I. Aliyev would be appointed Prime Minister, although presently this seems to

be an unrealistic scenario and the situation might change later.

Many representatives of the intelligentsia who do not trust the current President's entourage and are utterly disappointed in opposition leaders plunged into their internecine dissension link their high hopes to M. Aliyeva with a better future of the country. In early 2009, before the referendum on the Constitution, the famous cinema writer Rustam Ibragimbekov brought forward a portentous idea. He appealed to I. Aliyev to withdraw from the referendum the amendment on abrogating the restrictions of the number of times he may run for President. In order to preserve the continuity of the political course of the state, Ibragimbekov proposed to nominate Mehriban Aliyeva as the presidential candidate in the 2013 elections.¹

The forthcoming Eurovision-2012 to take place in Baku will also enhance the image of M. Aliyeva. Obviously, the government of Azerbaijan, having no shortage of resources, will do all it can to organise the competition on the highest possible level. M. Aliyeva, heading the organisational committee of the event, will be credited with its success. Many of the cabinet ministers will participate in the organisational committee and, in this way, the First Lady will be leading a mini-government and, therefore, will be directly involved in state government, even if she does this by implementing a specific local task.

Forecast with little reassurance – probability of political modernisation is insignificant

The experience of democratic states shows that sustainable development and long-term stability may be achieved only if power is not based on the authority of a specific individual but established by citizens themselves on the basis of free and just elections.

¹ Newspaper "New time". "I expect a renewal of Azeri society", exclusive interview with Rustam Ibragimbekov for the agency Turan. 17-19 January 2009: 11-12.

However, Azeri authorities have their own ideas about modernisation and ways to develop democracy. To them, modernisation is, first of all, a process of technology and innovation, the creation of a certain "Azerbaijan miracle" due to the growing petroleum revenues of the country, following the example of South-East Asian "tigers". The success of Azerbaijan in the development of the energy transport system and, in particular, the construction of the Baku-Tbilisi-Ceyhan oil pipeline, which is of great international significance, were highly emphasised. The next goal is to turn Azerbaijan into largest transport and logistics hub in the region.

As far as democracy is concerned, in the opinion of Azeri authorities, it is not a universal value and should have a certain national flavour. In that, their position is similar to Putin's "sovereign democracy". The chief ideologist of the Azeri authorities, the head of the President's Administration, Ramiz Mehdiyev, believes that democracy cannot be imposed from the outside to the detriment of national interests and state independence. "Each society is democratised and becomes more transparent in the process of forming a new generation of administrative staff, top managers, intellectuals, and changing social and economic balance of the society", underlines Mehdiyev.¹

Today Azerbaijan, in Mehdiyev's opinion, "is demonstrating its own developmental model, understanding that democracy is not an end in itself but rather a process of historical development that a people undergo, taking into account their historical experience and traditions".

In that respect, a famous political scientist and member of the parliament Rasim Musabekov concurs with R. Mehdiyev. Reviewing 20 years of Azerbaijan's independence, he remarks: "The strategic course is defined as strengthening the independence, secular character, and European orientation of Azerbaijan by way of modernisation with

¹ Newspaper "Baku's worker". R. Mehdiyev. "Modern Azerbaijan as an embodiment of national idea", 19 May 2011.

an emphasis on technical refurbishment, the renovation of infrastructure, increasing living standards, and, with it, the promotion of more developed forms of democracy".¹

Such opinions among the political elite allow one to suppose that we should not expect any cardinal transformations in the political system in the near future.

The opposition and civil society, which have been under severe pressure for many years, exercise very little influence over public opinion and are unable to organise opposition to the current regime. Even the example of the "Arab spring" did not awaken a mass movement in support of introducing changes in the country. In spite of all attempts by the opposition to stir up the society and lead it out of its state of apathy, no more than fifteen hundred people went out into the streets of Baku in March-April 2011, and the authorities had no difficulty in suppressing these protests.

As for external factors, in spite of increased criticism of violations of democracy and human rights in Azerbaijan, the West, represented by the USA and the EU, is not in a hurry to exercise influence over official Baku. This is related to the geopolitical and energy interests of the West: Azerbaijan is regarded as a supplier and a transit country for the diversification of energy sources for Europe; its airspace is used to deliver supplies to the Alliance forces in Afghanistan; Azerbaijan is of great significance for the "issue of Iran" as it has a long border with this country.

Moreover, in spite of its warlike rhetoric, the leadership of Azerbaijan is quite predictable as far as the settlement of the Nagorno-Karabakh issue is concerned and, most likely, will keep refraining from a military resolution of the problem, preferring peace negotiations. Therefore, the West can be reassured that a brittle stability in the region will be preserved.

¹ Newspaper "Baku's worker". Rasim Musabekov. "Azerbaijan: 20 years of independence". 4 June 2011.

Evidently, stability based on strict authoritarian government methods slows down the progressive reforms necessary for strengthening state institutions. The Constitution is not operational, the principle of the separation of powers is not working, civil society institutes are underdeveloped, and market economy does not exist. Power structures, which should enhance the country's security, are corrupt and politicised, and their main task is to protect the narrow elite circles. Such stagnating stability serves only to strengthen and preserve the authoritarian power structure, and does not show any prospects for a democratisation of the country.

So, the political regime in the country is solid and a force which could resist it or, even less, replace it, does not exist. There are very few grounds to expect a possible change of power in the country. The country's economy keeps growing due to high oil prices and an increase in petroleum production, which is only strengthening the ruling regime. It is sufficiently monolithic and does not have any serious groups able to challenge the First Person from the inside.

Lately experts and the media have expressed assumptions on a possible emergence of a third political force in Azerbaijan (apart from the ruling elite and the traditional right-wing opposition). It is not numerous but is already noticeable in various Islamic communities¹, showing more and more interest in politics and in becoming a force. However, the events of early 2011, when all top people and leading activists of the Islamic Party of Azerbaijan were arrested, showed that, in the short and medium term, the

¹ By "Islamists" the author means the opposition movement that has recently emerged in Azerbaijan, which is trying to play a more active role in political life. This refers to Islamic traditions and criticises the government for infringing and oppressing Islamic values. This movement is not consolidated and consists of several groups whose goals converge. It includes members and supporters of the Islamic Party of Azerbaijan, people united around DEVAMM, groups which openly criticise the suppression of Islamic traditions by the government, as well as a small group of believers who are in favour of a Sharia state model and public life. These groups publicly reject violence and act in accordance with the Constitution and Azeri legislation.

regime will be able to suppress the political ambitions of all forces, including Islamists.

It is possible to assume with confidence that in the near future we should not expect any serious changes in the political system of Azerbaijan. The regime of personal authority will become stronger while preserving purely decorative democratic institutions. At the same time, large revenues from gas and petroleum production flowing into the country, even in spite of their "unfair distribution", will indirectly sustain the relative well-being of the population and prevent any social explosions.

In its external policy, Azerbaijan will keep pursuing its so-called "balanced course", taking into account the interests of the global power centres – the USA, Europe and Russia, – as well as the regional players, Iran and Turkey.

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Territorial Conflicts and Resolution Strategies

Conflict Settlement for Abkhazia and South Ossetia: Lessons and prospects

Dieter Boden

20 years of Georgia's independence – this also means 20 years of ethno-political conflicts surrounding the secession territories of Abkhazia and South Ossetia. This is the worst legacy that Georgia has inherited from the Soviet era. The consequences are to be felt to the present day as a festering wound. The political, economic, social and cultural development of independent Georgia cannot be understood without them. As long as these conflicts are not settled by mutual agreement, the country will remain in a condition of latent instability.

The causes of the conflicts reach far back into Soviet times, in which Abkhazia had the status of an autonomous republic, South Ossetia that of an autonomous region within the Soviet Republic of Georgia. There were tensions time and again already then, especially between the Abkhaz and Georgians, which were reflected in several public protest rallies. However, the Soviet state, with its centrally organized unity party, was able to present the then more or less completely sealed off Caucasus as a place of harmony between the various ethnicities. This version was not so far off the mark in the case of Ossetians. In the past, the Georgians in fact had managed to get along with them without much tension. Among the minorities living in Georgia, the Ossetians were one of the most integrated groups. This is proven also by dynastic connections between Ossetian feudal lords and the royal

family of Georgia, which had come into being already in the epoch before Russian colonization.¹

So the news of the outbreak of armed conflict came all the more as a surprise between the Ossetians and Georgians in the region of Tskhinvali, which had started to flare up already during the last days of Soviet rule in late 1989. At the beginning of 1991, it entered into an acute stage. It was provoked by the Georgian government that had just taken office under President Gamsakhurdia, which resorted to military force in its attempts at amending the South Ossetian status of autonomy. A ceasefire agreement, brokered by Russia and signed in Sochi in June 1992, more or less withdrew jurisdiction over South Ossetia from the Georgian central state. As a result, this armed conflict left some 2,500 people dead, including many civilians, as well as about 60,000 internally displaced persons, many of whom took flight across the border to North Ossetia.

Under Gamsakhurdia's successor Shevardnadze, Georgian military units invaded Abkhazia shortly afterwards, in August 1992, following several constitutional disputes between Tbilisi and Sukhumi over the preceding months. A bloody war followed, which ended with the withdrawal of Georgia from Abkhazia and the latter's factual independence, forced to a large degree by Russian arms aid. Again, the balance was shocking: Abkhazia, which used to be one of the most prosperous parts of the country during Soviet times, was left devastated. This time, there were about 8,000 fatalities and some 250,000 internally displaced persons and refugees were driven away, the great majority among them Georgians.

Despite manifold political efforts, these two conflicts remained "frozen" over the years to come. The August War of 2008 brought a further dramatic aggravation, which was decided through the armed intervention by Russia on

¹ Cp. Sotieva, Larisa (2009) Reflexions on post-war South-Ossetia. International Alert March 2009, p. 3.

behalf of South Ossetia and Abkhazia. This cemented a situation that had existed since the beginning of the 1990s of a secession of the two territories from Georgia. With the recognition of Abkhazia and South Ossetia as independent countries by Russia and three further states thus far, the secession took on a new quality under international law. Due to the August War, all previous efforts undertaken to settle the conflicts were rendered futile.

The re-legitimization of military violence as a means of solving conflicts had a psychologically disastrous effect, as the renunciation of the use of force had been one of the few positions that all parties to the conflicts had shared. A further consequence of the August War was the collapse of the conflict settlement mechanisms agreed among the conflicting parties thus far, including the Joint Control Commission for Georgian-Ossetian Conflict Resolution (JCC) and the Joint Consultative Group (JCG) for the Abkhaz conflict. Furthermore, existing mandates for conflict settlement were either terminated or not extended for the Organization for Security and Co-operation in Europe (OSCE) and the United Nations (UN). The principle of territorial integrity was also shattered, which had been advocated as a legal foundation for any settlement by all the mediators, including Russia, before.

International efforts at conflict settlement

Right from the outset, many hopes and expectations in resolving the Georgia's inner conflicts had been pinned on the work of international organizations. Even though Georgia had signed ceasefire agreements for both wars of secession with Russia shortly after gaining independence, the country still tried to protect itself against its almighty neighbor and its inscrutable interests in the region by involving the international community. As a result, the OSCE obtained a mandate for conflict settlement in South Ossetia in 1992 and the UN in Abkhazia in 1994. Both of them remained in force, with minor amendments and additions only, until the August War in 2008.

With the European Union (EU), a third international institution finally became involved in the mediation efforts. After years of restraint this happened only in December 2003 with the new security doctrine proclaimed by the EU, in which it was stated that the South Caucasus, as a newly perceived neighbouring region, would be afforded "stronger and more active interest" in the future.

Ever since, the EU has undertaken efforts to implement this newly formulated security policy paradigm by appointing a special representative for the South Caucasus as well as with various aid programs, such as the "New Neighborhood Policy" of 2004 and the subsequent "Eastern Partnership" in 2009.

If one attempts to strike a balance with regard to the meanwhile more than 15 years of efforts undertaken by international players for a peace settlement in Georgia, then the results are mixed. What one can say, however, is that the new type of ethno-territorial conflict, which had emerged with the collapse of the Soviet Union on its former territory, and especially in the Caucasus, gave rise to hitherto unknown problems. Up to the present day, it has not been possible to find lasting solutions for them. The resurgence of armed fighting in August 2008 represents a bitter setback, which has not been overcome yet. However, it would not be right to assess the performance of the international organizations only in the light of the war disaster of 2008. After all, they were successful in preventing a rekindling of "hot" conflicts in Georgia for 15 years in many aggravated situations of crisis. This was accomplished, first and foremost, with unarmed military observer missions, which had helped to secure the ceasefire lines. Furthermore, the OSCE and the UN, in collaboration with the EU, made a substantial contribution towards introducing a broad-based peace process, by initiating cooperation across the ceasefire lines as well as confidence-building at official as well as civil societal levels.

That does not mean turning a blind eye on some flaws and shortcomings of these international efforts. They were not always of a sustained nature, some initiatives were foiled right from the beginning. In addition, often enough there were problems of coordination in the work of the three international organizations concerned. Moreover, there was a certain reserve against exposing oneself in the foremost political level. Both the OSCE and the UN made major contributions towards drawing up concepts for the solution of the most difficult aspect of the conflicts – the issue of the future status of the secession territories. With regard to the Georgian-South Ossetian conflict, the OSCE introduced the so-called "Baden" document in the year 2000; the UN followed suit in 2001 with a framework concept for the "Distribution of Competences between Tbilisi and Sukhumi", aimed at a resolution of the Abkhaz conflict. In both cases, however, a decisive breakthrough could not be achieved, as these initiatives lacked sustained political support of the high political level.

The role of Russia

There have been numerous attempts at demonizing the role of Russia in the settlement of the conflicts in Georgia. Indeed, its role is determined by some contradictions and special interests. It is an undisputed fact that Russia lent effective armed help to Abkhazia and Ossetia during the wars of secession at the beginning of the 1990s, which led to the defeat of Georgia in both cases. In the following peace process, the position of Russia was ambiguous often enough. On the one hand, official representatives of Russia were on the whole cooperating constructively within the framework of the conflict settlement mechanisms, on the other hand, at crucial moments, they refused consensus with the other parties involved. Their pledge to preserving the territorial integrity of Georgia often ended at verbal statements. But they lent their support to the attempt undertaken at settling the South Ossetia conflict with the "Baden" document – it failed finally due to additional

demands posed by Georgia¹ – as well as, at least initially, to the initiative undertaken by the UN to settle the Abkhaz conflict in the years of 2001/2002.

The August War of 2008 created a totally new situation, also in this respect. Russia gave up the mediating position, hitherto claimed at least verbally, and acted as a clear supporter of the independence proclaimed by the secession territories. By breaking off diplomatic relations, any chance for a direct dialogue with Georgia was thwarted for the time being. Meanwhile, Russia seems to regard it as the main objective to consolidate the sovereignty of the secession states. It is for this purpose that it is building a strong military power along the administrative borders of South Ossetia and Abkhazia with Georgia, fitted out with offensive weapons, including missiles. Today, Abkhazia and even more so the thinly populated South Ossetia in many ways represent protectorates, whose security is guaranteed by the presence of Russia.

The statement that solutions in South Caucasus will not be feasible without Russia, let alone against Russia, still holds true today. At the same time, it is clear that Russia is trying to enforce such interests in Georgia, which are very difficult to reconcile with the other parties involved. This includes the exploitation of inter-ethnic conflicts for a power policy projection in the South Caucasus, which is still regarded as a kind of backyard by the Russian military.

The task ahead now is to get Russia re-involved in a peace process, which is targeted at long-term stability in the Caucasus region. This is hardly imaginable without compromise, as the interests of Russia and the other players will not fully coincide in the future either.

In other words, Russia will remain a difficult partner in the region. However, there are also indications that there

¹ Cp. Eiff, Hansjorg (2008) Die OSZE-Mission für Georgien und der Status Sudossetiens, in: OSZE Jahrbuch 2008, p. 44.

is a substantial interest in a stable South Caucasus as a neighbor, which may play a growing role. This suggests itself especially with regard to the unfolding crisis in the North Caucasus region belonging to the Russian Federation. Furthermore, the growing cost borne by Russia due to its military commitment along the borders of Georgia may take its toll. To date, there has not been a public debate in Russia about this issue. In any case, the current political confrontation between Russia and Georgia cannot be regarded as the final word on this subject. The interests on both sides call for the re-establishment of the severed diplomatic relations. Even though the mutual relationship is burdened by deep-running emotions and the Georgian experience from the epoch of colonial dependence on Russia this must not stand in the way of a rational dialogue.

Challenges for Georgia

There cannot be any doubt that the main effort for a settlement of the Georgian conflicts has to come from Georgia itself. International partners may always only play a complementary role in this respect. This role play has changed several times over the years. In the mid-1990s, the focus was on conflict settlement negotiations, which Georgia conducted mainly bilaterally with Russia. With the growing political distance from Russia, Georgia sought to strengthen the mediating efforts of international organizations. As a consequence, the OSCE and the UN took over the chairmanship of both the so-called Geneva Process on Abkhazia as well as of the conflict mechanisms set up at working level, such as the Joint Control Commission and the Joint Consultative Group.

Due to the severing of diplomatic relations with Russia, Georgia has to rely on such mediating services rendered by its international partners today more than ever before. The challenge for Georgia itself to make its own substantial contribution has thus not become any smaller. This applies especially to the inner-Georgian aspects of the conflict. In this context, the introduction of a reconciliation process with the ethnic groups living in the secession areas needs

to take top priority. The wars have left behind traumatic experiences among the population of both sides, which have a continued effect to the present day. The mere evocation of an allegedly historically unbroken ethnic harmony will not be sufficient for a renewed start of living together in one state. To re-establish human, economic and cultural contacts across the ceasefire lines requires the building of confidence.

This factor has been neglected obviously in the peace process so far-another reason for the August War of 2008 to have become possible. It was the rapid loss of confidence on both sides which led to a policy of confrontation and menacing rhetoric in the advent of the August War. The lessons learnt from the past were disregarded also in this instance.

As of 1997 the initiators of the Geneva Process had expressly declared confidence-building as a priority objective. It was to this end that three successive conferences were held in Athens, Istanbul and, finally, in March 2001 in Yalta, at which catalogues of confidence-building measures were agreed. Unfortunately, they were put into practice only to a minimal extent afterwards. The reason is to be seen in an obvious disregard on behalf of the conflict sides, including also Russia, for confidence-building measures. These are considered as having a certain tactical function at most but no value in and of themselves. There is more or less no insight regarding the fact that confidence-building measures do not only form the basis for political compromise but may also be immeasurably relevant for preventing further inter-ethnic alienation.

The Georgian government seems to have recognized this challenge at long last and is attempting to live up to it with a policy made public in January 2010 and called "Strategy on Occupied Territories". This strategy comprises a broad-ranging program of measures geared towards confidence-building and reconciliation. Practice has to show whether it is really able to fulfill its purpose or whether it is only, as alleged also by critics in Georgia, an attempt at placing

under the state's guardianship initiatives of independent players, above all from civil society.

Lessons and prospects

What are the prospects for conflict settlement in Georgia given these prerequisites? As regards Abkhazia, one does not want to share the opinion held among circles of civil society there that the signs are spelling out a deepening of the conflict with Georgia.¹ However, one may assume that following the break of the August War of 2008, a settlement of the fundamental issues of the conflicts, especially those relating to the future status of the secession territories, has been postponed to an undetermined point in the future. The declarations of independence of Abkhazia and South Ossetia, combined with the lasting political confrontation between Georgia and Russia, have created obstacles that seem more or less insurmountable within a short period of time. Georgia now needs to come to terms with a situation in which the secession of Abkhazia and South Ossetia will continue for a long while.

However, this is not to say that the conflicts are resolved. Not only on a national level for Georgia but also internationally, they continue to present a potential flashpoint, which may erupt again at any moment. The war of August 2008 has made this much clear. It was for too long that one had got used to regard the conflicts as "frozen" and at the same time on route towards a settlement. Today, the development seems to be heading towards a "freezing" once more – with all the resulting risks.

It has to be a lesson drawn from the past that such risks need to be pre-empted effectively. This will require a well-considered and long-term strategy. In its beginning, this strategy needs to focus on securing the ceasefire lines as well as on a renewed mutual understanding between the

¹ Cp. Akaba, Natella / Khintba, Irakli (2010) Transformation of the Georgian-Abkhaz Conflict: Rethinking the Paradigm. London, p. 41.

conflicting sides to exclude categorically force as a means of solving the conflicts. The August War of 2008 has set an example in this respect, which should be remembered as a warning by all parties involved in the conflict.

A further insight is quite obvious: Russia needs to be involved in any sustained solution of the conflicts, regardless of how one may regard its role thus far in this context. Furthermore, the August War of 2008 marks a new stage of internationalization of the Georgian secessionist conflicts, even if the mandates for the OSCE and the UN were terminated as a result. A strong commitment of the international community of states in the settlement of the conflicts in Georgia suggests itself. In this context it is the EU which is called upon more than ever before. It has already assumed a central task in dispatching a military mission to the administrative borders with South Ossetia and Abkhazia following the August War. Nowadays, the EU has become the most important international player in resolving the conflicts in Georgia. For this, it has at its disposal a unique variety of tools, which should be put into practice consistently.

What should a strategy look like that is to lead to the resolution of the Georgian conflicts of secession in the long-term? Here, too, experience from the past should be taken into account. What will be necessary also in the future is a high-ranking negotiating forum, involving all the conflicting parties and intermediaries, at which core political issues are negotiated, including those relating to a future status of the secession territories. With the "Geneva Talks" set up after the August War, such a forum has been established. Today, after more than two years of conference and 15 rounds of negotiations, its balance of success is, unfortunately, somewhat meager. An agreement on an agenda including the status issue still seems some way off. Equally fruitless were discussions on how to conclude a legally binding agreement on the renunciation of the use of force. However, as long as there is no alternative

in sight, the efforts need to continue on developing the Geneva Forum into a fully functional instrument of action.

These political negotiations should be accompanied at all times by a process of conflict transformation, in which civil society must play a decisive role. Again, at its heart must be the reduction of tension, first of all along the ceasefire lines. At the same time, however, it should deal with those tensions that still exist in the heads of the people following the traumatic experience of war. This requires a well thought-out program geared towards the re-establishment of human contacts, the resurrection of regional ties of businesses, transport and culture, and the gradual forging of contacts across the ceasefire lines between the administrations of the two sides. Here, too, it is about confidence-building, which remains an indispensable prerequisite for a comprehensive conflict settlement.

Further development of democracy in Georgia as a prerequisite for a solution

Following the August War of 2008, the Georgian conflicts have lost their topicality considerably in the news coverage of the international media. They have taken a backseat to new crisis flashpoints of world politics: the events in North Africa, the Middle East, Afghanistan and Pakistan or Sudan. In the public awareness, the South Caucasian conflicts are regarded as more or less "pacified". Sometimes, farsighted observers deal with the question of the impact they might have on the Olympic Winter Games, to be held in Sochi in 2014. After all, Sochi is only a few kilometers away from the unresolved conflict in Abkhazia.

Should this consideration not be another reason to attach the necessary attention to the settlement of the conflicts in Georgia? Georgia is facing the task of using the remaining time to catch up on what has been left undone, particularly in the area of lost trust. This seems to be the only way of how Georgia can convince the population of the secession territories of its cause. The following is required, above all:

- An energetic continuation of the democratization process in the own country, which aims at modernizing society. This is, primarily, about reforms of the constitution of the country, which have been initiated but not yet implemented; it is about the legal system, which still represents an arm of the state executive; it is about election legislation, which should offer the opposition forces a fairer chance; and it is about a greater degree of plurality of opinions expressed in the media;
- A minority policy that sets standards for tolerance towards all ethnic groups and their full participation in public life. In those territories of the South and South East of Georgia, in which the population is mainly made up of Azeris and Armenians, there are still untapped reserves for putting into practice such a policy. With regard to the secession territories, the issue is how to communicate with sensitivity that the Abkhaz and Ossetians can survive as ethnic groups in an environment determined by a majority of other ethnic groups.

All of these activities require one trait at which the Georgian governments have not excelled in the recent past and that is the readiness to enter into compromise—including the insight that maximum positions need to be revised where long-term interests suggest such action. A consistent, sustained policy, geared towards reconciliation and mutual engagement, would not miss its mark. In the case of Abkhaz and Ossetians, the insight could be promoted that independence under the bridle of Russia is not in their very own interests at the end of the day. In particular, the Abkhaz have indicated that they are not especially attracted by the societal model of Putin's Russia. Such a policy conducted by Georgia is sure to meet with support by friends and allies, especially the EU.

In the past, the question has often been asked for who time works in the solution of the Georgian conflicts. It will work for Georgia if the country manages to make itself

attractive, not only economically but also as a state of democratic qualities. This is the field in which the Georgian conflicts could be resolved finally.

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The Conflict of Sisyphus – The elusive search for resolution of the Nagorno- Karabakh dispute

Thomas de Waal

The conflict between Armenians and Azerbaijanis over the highland region in the South Caucasus known as Nagorno-Karabakh is the longest-running ethno-territorial dispute in the post-Communist world. It erupted in its present form in February 1988, when there were no signs of trouble in the Baltic States, Georgia, Kosovo, Croatia or Bosnia. Other conflicts have come and gone, but Karabakh has remained unresolved. In 1994, the Armenian side won a military victory on the ground, gaining control of not only almost all of the disputed territory of Nagorno-Karabakh itself, but, wholly or partially, seven Azerbaijani regions around it. But the dispute carries on, as Azerbaijan does not renounce its claim to a land that is recognized internationally as being *de jure* part of its territory and uses all levers it can to try and reverse the status quo.

Since March 1992, when the fighting was at its height, the conflict has been mediated by the so-called Minsk Group of the Organization for Security and Cooperation in Europe (OSCE, up until December 1994 the CSCE). Many negotiators have come and gone and several have said they were close to declaring success. The continuing pattern of non-resolution and failed mediation over more than 20 years makes the efforts to solve the Karabakh conflict resemble the myth of Sisyphus: many times the heavy stone of peace has been rolled up near to the top of the hill but it has always rolled down again.

June 2011 saw the latest international effort to push the stone over the hill, with Russia's President Dmitry Medvedev convening a meeting of President Ilham Aliyev and Serzh Sargsyan in Kazan to persuade them to agree to the so-called Document on Basic Principles, a short framework agreement of 14 points whose first written draft dated back to 2007. Even an agreement on that document would only be the beginning of a more comprehensive peace process, with many more episodes in it. But, despite a substantial personal investment by President Medvedev and his foreign minister, Sergei Lavrov, the Kazan meeting failed to produce a breakthrough and the stone rolled down the hill again.

In this article I outline reasons why the Karabakh conflict has so far eluded resolution and a brief summary of more positive factors which are cause for hope that it can still be resolved.

A Soviet Legacy

The Nagorno-Karabakh conflict was not created by the Soviet Union and indeed the region enjoyed inter-ethnic peace and stability for most of the Soviet period. But the Soviet experience has defined the modern contours of the problem.

Geography underlies the conflict: a region with a large Armenian population and a long Armenian history lies geographically within the territory of Azerbaijan and also contains a city, Shusha, with a strong Azerbaijani heritage. Following the collapse of the tsarist empire in 1917-1918, the region was the location for a bloody Armenian-Azerbaijani conflict, which ended when the Bolshevik Eleventh Army conquered the region in the summer of 1920. In 1921 the Bolshevik Caucasus Bureau, meeting in Georgia, declared a compromise that pleased neither side: a new autonomous province of Nagorno-Karabakh, with an overwhelming Armenian majority, was to be established inside the territory of new Soviet Azerbaijan. In 1923, the Nagorno-Karabakh Autonomous Region (NKAOR in the

Russian acronym) was created with Armenians constituting 94% of the population.

The Bolsheviks congratulated themselves for ending a civil war and declared that socialist brotherhood would erase ethnic distinctions. But NKAO was an unstable arrangement which caused occasional rumblings of discontent in Soviet times. It was one of only two instances within the Soviet system in which a province with a strong ethnic affiliation to one Union Republic (Armenia) was located within the borders of another Union Republic, (Azerbaijan) (The other example, Crimea after 1954, also caused tensions, but has remained peaceful primarily because Russians and Ukrainians are closer and much more inter-mixed than are Armenians and Azerbaijanis). After the 1920s, the concept of autonomy became increasingly devalued in the Soviet system, with power being exercised mainly from Moscow and from the capitals of the Union Republic. In the case of Nagorno-Karabakh, that meant that local Armenians said they felt like second-class citizens inside Azerbaijan and in the post-war period, Baku worked to "Azerbaijanify" its Armenian province. In the last Soviet census of 1989, the Armenian proportion of the population of NKAO had fallen to three quarters of the total.

The Soviet Union's rigid political system made its ethno-federal structures strong but brittle. The vertical power relationships of the Soviet system meant that there were almost no mechanisms for mediating problems between the Karabakh Armenians and Baku. Instead, each side petitioned its patrons in Moscow for support. In 1988, the Karabakh Armenians directed their appeal to leave Soviet Azerbaijan and join Soviet Armenia to Moscow, while Baku in turn asked Moscow to rule in its favour-which it did. However, the central Soviet arbiter grew weaker and increasingly unable to control the situation on the ground. Low-level violence gradually escalated into full-scale war.

The Soviet legacy persists in a number of ways. Leaders operate in an authoritative secretive manner, not seeking to

build consent or take advice from people below them. Many ordinary people accept the passive role they are given: they still expect a higher arbiter to rule in their favour, rather than seeking to engage in dialogue with people on the other side of their conflict. This in turn shapes a negotiating process which is very closed, monopolized by the elites and has almost no public dimension. Both leaderships, especially the Azerbaijani side, discourage Track II activities that do not directly support their own positions.

An Issue of Identity

In 1991 Armenia and Azerbaijan were both forged as new independent states in the crucible of the Karabakh conflict. The conflict is memorialized as a symbol of victory and survival on the Armenian side and of martyrdom and loss on the Azerbaijani side.

Leaders rose and fell as a result of the conflict. The first leaders of post-Communist Armenia, with Levon Ter-Petrosyan at their head, rose to prominence in 1988 as members of the so-called Karabakh Committee, who defied the Communist Party authorities on this issue. The Popular Front opposition in Azerbaijan came to power in 1992 on a wave of dissent triggered by the way the post-Communist elite in the newly independent country handled the conflict.

The national discourse of both countries sees the state as being incomplete without Nagorno-Karabakh. Armenian and Azerbaijani historians, writers and journalists are deployed to legitimize the claims of one side and delegitimize the claims of the other. For Armenians, Nagorno-Karabakh is a historic eastern outpost of Armenian self-rule, symbolized by numerous churches and the legacy of the melik princes who ruled the region in medieval times. In this narrative the unrecognized Nagorno-Karabakh Republic continues an unbroken tradition of Armenian rule here. For Azerbaijanis it is the seat of the old city of Shusha, capital of a khanate founded in the 18th century

and an essential part of the Azerbaijani state. Azerbaijani coins bear on their reverse a complete map of Azerbaijan and the nightly weather forecast on television informs viewers of the weather in the province.

These narratives are so powerful that appeals to rational self-interest or the promise of economic prosperity are not successful. Indeed, the main attempt to resolve the conflict through economic incentives failed. This was the special administration, run by an envoy from Moscow Arkady Volsky, which was put in charge of Nagorno-Karabakh in 1989-1990 and which was given a large budget to effect an economic "renaissance" there. Volsky's attempts to tie Armenians and Azerbaijanis together with economic projects could not compete with two nationalist movements intent on cutting those ties. Theoretical scholarship on conflict increasingly confirms this thesis in reference to other disputes. In his recent groundbreaking study on successful historic normalization processes, "When Enemies Become Friends", Charles Kupchan writes of the 20 cases he studies that it is "striking" to observe "the causal insignificance of economic integration during the early phases of stable peace". In only one case out of 20 (German unification in the mid-19th century), Kupchan notes, has economic integration been a factor driving a peace process.¹

In Armenia and Azerbaijan in the past five years two new narratives have embellished the nationalist discourses. Azerbaijan now calls itself a successful and prosperous oil and gas power, which has an indispensable role in the future of European energy security.

In a speech in Baku in May 2011 President Ilham Aliyev said, The rate of Azerbaijan's economic development in the last seven years has been unparalleled in the world. Our economy has grown almost three times. Industrial production has increased threefold and poverty

¹ Kupchan, Charles (2010) *When Enemies Become Friends*. Princeton University Press, p. 399.

reduced five times. We already have extensive financial opportunities. Our economy is already diversified. At the same time, our energy policy rests on the oil strategy determined by Heydar Aliyev. This strategy has been aligned with modern requirements and enriched.

Today Azerbaijan is playing an important part in energy security not only in the region but also on the continent. Our initiatives, the proposals we are making and the projects we are implementing are not only strengthening our country, but also creating wonderful conditions for regional cooperation.¹

On the Armenian side, there is now a strong narrative that Nagorno-Karabakh has emerged as a self-sufficient state, whether it is recognized or not, and that secession is a fact in modern Europe, following the widespread recognition of Kosovo by other states. In the same month as Aliyev made his speech, Armenian president Serzh Sargsyan said in an interview to a Russian newspaper.

As a precedent, yes, creation of new states does have a positive impact on the world's perception regarding the right of the NK people. And it's not about our recognition of the state sovereignty of Kosovo, Southern Sudan, Abkhazia or South Ossetia; it's about the fact that the international community in different combinations accepts that in this or that particular case separation is a legal form for the realization of the right for self-determination.²

Possession of territory on the ground has also led many Armenians down a slippery slope from talk of self-determination towards irredentism. Territories which

¹ Ilham Aliyev attended the solemn ceremony, marking the 88th anniversary of national leader Heydar Aliyev. May 10, 2011. Accessed at: <http://en.president.az/articles/2140>.

² Serzh Sargsyan: "Printsip territorialnoi tselostnosti ne oznachaet nezyblemost" granits" [Serzh Sargsyan: "The Principle of territorial integrity does not mean the inviolability of borders"] Sukhov, Ivan (2011) Moskovskie Novosti. May 16, 2011. Accessed at: http://mn.ru/blog_20_years_ussr/20110516/301913855.html.

were called a "security zone" or "buffer zone" are now commonly referred to as "liberated". In November 2010 it was reported that the authorities in Nagorno-Karabakh had re-named the Azerbaijani town of Aghdam "Akna".

The issue of how to define the people at the centre of the conflict, the Karabakh Armenians, cuts to the heart of this clash of identities. In the Armenian narrative they are one party in the conflict who fought Azerbaijan to gain their freedom, supported by the Republic of Armenia. For Azerbaijanis, the conflict is an irredentist land-grab by the Republic of Armenia, with the Karabakh Armenians playing a mere supporting role.

Both narratives have elements of truth. On the one hand, the Karabakh Armenians are clearly distinct actors, who have a different history and outlook from Armenians from the Republic of Armenia, along with a dialect that is reportedly barely intelligible to fellow Armenians. At certain times, Karabakh Armenians have acted to defy the will of Yerevan. In May 1992, for example, they captured the city of Shusha right in the middle of Armenian-Azerbaijani negotiations in Teheran, sending a direct message of disapproval to the peace plan on offer. In 1993-1994 Karabakh Armenian military commanders negotiated directly with Azerbaijani counterparts. In 1997, Karabakh Armenians moved to veto President Levon Ter-Petrosian's draft peace plan, leading to his eventual resignation.

On the other hand, Nagorno-Karabakh is a small place whose current population is around 100,000. The only route in and out of the province is currently through Armenia. Karabakh Armenians travel abroad on Armenian passports. It could not survive economically or militarily without Yerevan. Only a small proportion of the 20,000 or so troops serving on the Armenian side of the Line of Contact come from Karabakh itself, the rest coming from the Republic of Armenia. Since 1998, two Karabakh Armenians, first Robert Kocharyan and then (from 2008) Serzh Sargsyan have been presidents of Armenia, leading to jokes about how "Karabakh has occupied Armenia". This

means that in many ways-although not all – Armenia and Karabakh are now one and the same.

Disputes about the status of the Karabakh Armenians have made the peace process extremely complex. Baku seeks to exclude Karabakh Armenians from all negotiations (something that has occurred at the political level) and stop all international contacts with Nagorno-Karabakh. Yerevan tries to give the Karabakh Armenians maximum legitimacy and calls them a "third side" in the conflict (while also minimizing the role of the smaller Karabakh Azerbaijani community). It is hard to forge a peace when it is not even clear who the peace is between. A conceptual disentanglement is needed alongside political compromise.

A Political Instrument

The Karabakh issue consumes both domestic and foreign politics. It is probably the one issue in each country which is bigger than the leaders. It can make and break presidents. Azerbaijan's first president, Ayaz Mutalibov, lost power in large part because of the Khojali massacre of February 1992 during the early part of the conflict. Subsequently, following the 1994 ceasefire, presidents on both sides tried and failed to persuade their inner circles to approve peace plans. In 1997, Armenian president Levon Ter-Petrosian approved a phased peace plan for Nagorno-Karabakh in which the resolution of its status would be postponed to a future date. Key members of his cabinet joined with the Karabakh Armenian leaders to block the plan and to overthrow Ter-Petrosian, who was forced to resign as president in February 1998.

On the Azerbaijani side, Heydar Aliyev dominated the country for three decades and wielded unrivalled power. However, he twice had to beat a retreat after trying to endorse a peace agreement. In October 1999, three of his top advisers – foreign policy aide Vafa Guluzade, foreign minister Tofik Zulfugarov and the Head of the presidential administration Eldar Namazov – all resigned because of

their objections to the peace plan under discussion. In 2001, Aliyev travelled to the U.S.-organized peace talks in Key West, Florida, having negotiated the bulk of a new deal with his Armenian counterpart, Robert Kocharyan, in intense secrecy. Only when he arrived at Key West did Aliyev give details of what he had been discussing – in effect the yielding of Karabakh to Armenia in exchange for a corridor across Armenian territory to the exclave of Nakhichevan. His inner circle was opposed and Aliyev began to retreat from the plan as soon as he returned to Baku.

The leaders use Karabakh as an instrument in domestic politics to assert their patriotic credentials, and to rally youth and the armed forces. Opposition parties use the conflict to burnish their own brand. This plays out in different ways on each side of the conflict. On the Azerbaijani side, the mainstream political opposition is increasingly marginalized. The Musavat and Popular Front parties who form the core of that opposition held power in the 1992-1993 period during the hot phase of the conflict and are associated with a more radical position than that of the governing elite, whose father-figure, former president Heydar Aliyev, agreed to a ceasefire in 1994 and negotiated seriously with the Armenians up until his death in 2003.

On the Armenian side, differences have narrowed between the governing elite, now led by President Serzh Sargsyan, and the main opposition, led by former president Levon Ter-Petrosian. Despite their many differences on domestic policies, the two movements hold almost identical positions on the Karabakh issue. The current Basic Principles document under discussion is basically an updated version of the peace plan Ter-Petrosian supported in 1997.

Armenian opposition comes from political forces, some of which have greater support in the Diaspora than in Armenia itself. The Heritage Party, led by U.S.-born former foreign minister Raffi Hovannisian, has called on the Armenian government to recognize the Nagorno-Karabakh Republic as

an independent state. The old nationalist Dashnaktsutyun party, founded in 1890, is stronger outside Armenia than inside it and also has a strong representation inside Nagorno-Karabakh. It strongly opposed the Armenia-Turkey normalization process of 2008-2010 and opposes compromises with Azerbaijan. Both these parties will bring Diaspora influence to bear to oppose the current peace process.

The overall result of these domestic political disputes is that the governing elites in both countries, and especially in Azerbaijan, face criticism for being too soft on the other side in the conflict and little criticism for being too harsh. This encourages them to use nationalist rhetoric which then entraps them and limits their room for compromise in the peace negotiations.

Nobody's Backyard, Everybody's Problem

The South Caucasus can be characterized as "nobody's backyard". It is an area of strategic interest to Russia, Turkey, Iran, the European Union, and the United States but not a first-order priority for any of them. Compare this situation to the Balkans, in which, eventually, conflict could not be ignored by the European Union and the United States, leading to military missions comprising tens of thousands of men and reconstruction work costing billions of dollars.

As a consequence of this, the South Caucasus continues to be a region of competing interests of bigger powers and of political lobbies operating within those powers. None of the latter-day "Great Powers" have a unified strategic vision for the region as a whole. The EU does not hold out the prospect of membership. A series of agendas jostle for the attention of policy-makers. They range from the campaign of the grandchildren of Anatolian Armenians to have the killings of 1915 recognized as genocide to energy security, transit routes to Afghanistan or sanctions against Iran. The result is that the "tail wags the dog" and determined lobbying by actors in the region shapes

policy. The local political elites are skilled at playing off the international actors and defending their own interests. To break this unhealthy dynamic there needs to be either grassroots democratization, which seems a fairly distant prospect, or else stronger and more concerted diplomacy by the bigger powers.

In the case of the Karabakh dispute, this fractured international agenda enables the presidents of both countries to resist international efforts to re-shape or broaden the Karabakh peace process. The two presidents do not want to lose control of the process. They have been the main conductors of the negotiations, setting its tempo and ensuring it is a slow and closed process.

The years 1992-1997 saw intense competition between Russia, which was the most active mediator, and Western negotiators, such that local actors complained that they were being forced to mediate between the mediators. Following the establishment of a tri-partite co-chairmanship in 1997, the three mediators, which have been the co-chairs of the OSCE Minsk Group since then, France, Russia and the United States, have managed to forge a shared agenda on the Karabakh conflict. But inevitably all of them, including Russia, are not prepared to re-deploy resources away from other issues, which are first-order priorities for them, onto a difficult and intractable conflict in the South Caucasus.

Discussing the Minsk Group co-chair format is a popular sport in both Armenia and Azerbaijan. It could probably benefit from a re-design, but this is almost certainly the wrong priority. The main problem with the peace process is not form, but content. If there was sufficient political will and energy from the conflict parties, then any format would be capable of yielding positive results. As it is, the current format has certain advantages. It deploys experienced diplomats from three powerful countries, all of them permanent members of the UN Security Council, all of them capable of helping underwrite a successful

peace settlement on the ground. It keeps Russia, which as the former colonial power has many continuing interests in the region, on the inside of the process, not outside it.

The negative sides of the current format are mainly technical and operational ones. The current process is not conducive to nimble diplomacy. It is a cumbersome practice to coordinate meetings between three mediators and representatives of two conflict parties. That is why progress was possible when one country took the lead, as happened with Russia's Vladimir Kazimirov negotiating the 1994 ceasefire, French president Jacques Chirac convening meetings between the two presidents in 2000 and Russian president Dmitry Medvedev personally bringing the two leaders together in 2010-2011.

There is a problem also in the fact that the negotiations are run by the Organization for Security and Cooperation in Europe. The advantage of the OSCE is that it is an inclusive organization with a broad mandate that includes Russia. However, it is poorly resourced and has very limited operational capacity. A High-Level Planning Group in Vienna was established at the Budapest summit of 1994 to plan for the OSCE's first-ever peace-keeping operation for Nagorno-Karabakh, but few expect the organization actually to be able to lead operations on the ground when and if a peace deal is ever signed. Likewise there is a widespread assumption that, as in the Balkans, the EU will play the leading role in the post-conflict settlement on the ground. But the EU has up until now been a marginal player in the Karabakh peace process and its expertise has not been exploited. More broadly, the closed nature of the peace process has meant that the OSCE has not sufficiently coordinated its work on the Karabakh conflict with many other actors with expertise and resources to offer.

Some Reasons still to Hope

The negative dynamics of the Nagorno-Karabakh conflict make for a dark picture. In 2011, 20 years after the end of the Soviet Union and 23 years after the beginning of the modern phase of the conflict, societies are still unprepared for the idea of compromise with the other, and belligerent tendencies are still strong. At the same time, there is a more coordinated international push for peace, led by Russian president Dmitry Medvedev, and it is harder for the leaders of Armenia and Azerbaijan to hide in a process that has not delivered results.

It would also be a mistake to miss the points of light which may help the peace process if it does eventually make progress. Behind the aggressive rhetoric, there are alternative narratives that tell a different story and which can help bridge the gap between the two sides if the peace process begins to work. Armenians and Azerbaijanis have fought on several occasions over the past two centuries. Just as importantly, they have also cooperated, fought on the same side under Russian command, traded and intermarried. On the territory of Georgia, outside the political context of the Karabakh conflict, there are Armenian-Azerbaijani mixed marriages and mixed villages.

Obviously, the longer things remain broken, the more people grow apart. A new post-Soviet generation is growing up which does not know members of the ethnic group from Soviet times, often does not have a shared language (Russian) and only hears about Armenians or Azerbaijanis as the enemy. The modern ties that bind these young people in a globalized world—for example the fact that they are members of a "Facebook generation" – are weaker than the ties that bound their parents together. However, there is a foundation that can be built on, which is stronger than the relationships between, for example, Israelis and Palestinians.

In a paradoxical way the darker aspects of this conflict can also serve to help the peace process. By this I mean

that the Karabakh dispute is a combustible conflict in a strategically sensitive neighbourhood. A potential outbreak of fighting in the future would set alight a region containing Iran, Russia, Turkey, Georgia and international oil and gas pipelines. This is not a cheerful prospect for the international community, which cannot simply ignore the issue. In this sense Karabakh is "luckier" than the disputes over Cyprus or Transnistria which are easier to resolve, but also command less urgent attention internationally.

As in every conflict, there are strong forces which resist resolution and prefer an entrenched status quo. For progress eventually to be made over Karabakh, there is a need for a "perfect storm" of domestic and international interests to come into alignment: both a coordinated push by international actors who make resolution of the conflict a priority, despite their manifold other interests in this region; and a domestic leadership on each side which decides that it must seek change because of its long-term interests or calculates that it must yield to international pressure to do so.

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Armenian-Turkish relations under the new geopolitics

Stepan Grigoryan

Political processes in Armenia and Turkey over the past 20 years: implications for Armenian-Turkish international relations

From the date of its independence in 1991 the re-establishment of normal Armenian-Turkish relations became a key topic of political discussions in Armenia. As early as August 1990 the Declaration of Independence adopted by the Supreme Council of the Republic of Armenia included a separate paragraph devoted to the issue of Western Armenia (now eastern (or "Ottoman") Turkey) and the problem of the recognition of the 1915 Armenian Genocide.

Nonetheless, government policy in the newly independent Armenia (fully supported by Levon Ter-Petrosyan, its first president) was directed at re-establishing international relations with Turkey. Inevitably, many political elements in early 1990s Armenia perceived this as ambiguous, but the Armenian government remained consistent in its desire to re-establish normal relations.

Turkey, in its turn, was one of the first countries in the world to recognise Armenia's independence (which it did on December 16, 1991), although its response to a formal proposal from Yerevan on the re-establishment of relations was not without preconditions. These subsequently changed, over time, but the key preconditions were as follows.

- That Armenia recognises the border between Turkey and the Republic of Armenia, consistent with 1921 Treaty of Kars.
- That Armenia desists from referring to the events of 1915 in Ottoman Turkey as "genocide" and cease attempts to secure worldwide recognition of the "Armenian Genocide".
- That armed forces be withdrawn from territory surrounding Nagorno-Karabakh, and that Armenia recognise the territorial integrity of Azerbaijan.

Since 1993 Turkey has maintained an overland blockade of Armenia, which has resulted in the country becoming increasingly isolated within the region. It is clear that the opportunity for the re-establishment of relations was lost as a result of Turkey failing to respond to these initiatives by Armenia.

Following the change of government in Armenia in 1998, and the election of Robert Kocharyan and his supporting forces (chief among which was the Armenian Revolutionary Federation or "Dashnaktsutyun" party), Armenia's position on the Nagorno-Karabakh issue and on Armenian-Turkish relations changed substantially. The new government in Armenia began to regard the conflict with Azerbaijan from the perspective of the "Hay Dat" (literally, "Armenian Cause", a division of the Armenian Revolutionary Party committed to securing recognition of the Genocide), according to which Nagorno-Karabakh is an integral part of Armenian territory, and its annexation to Armenia a matter of restorative justice. Concurrently with this, Yerevan's position on Armenian-Turkish relations also began to harden. The Armenian government was prepared to agree to the re-establishment of relations with Turkey only on condition that Turkey recognises the 1915 Armenian Genocide as fact. Indeed, from 1998 recognition of the 1915 Armenian Genocide became a cornerstone of Armenian foreign policy.

Strange as it may seem, it was actually during Robert Kocharyan's presidency (1998-2008) that Turkey reduced the number of preconditions necessary for the re-establishment of relations with Armenia, requiring only the withdrawal of Armenian armed forces from territories surrounding Nagorno-Karabakh. Moreover, the Prime Minister of Turkey, in 2005, proposed the establishment of a "historical commission" to investigate all circumstances relating to the deaths of the hundreds of thousands of Armenians in Ottoman Turkey in 1915.¹ On this occasion too, however, the opportunity for re-establishing relations was once again lost, this time, admittedly, at the fault of the Armenian side. Yerevan did not agree to this proposal on the grounds that the mere establishment of a "historical commission" would cast doubt on the very fact of the Armenian Genocide in 1915 – a situation unacceptable to Armenia.²

It should be remembered that the Armenian Genocide has been discussed and recognised by more than two dozen states and international organisations, at various levels of government. Unfortunately, this has led to some irritation on the part of government in Ankara, making the prospect of normal Armenian-Turkish relations ever more remote.

Armenian-Turkish relations moved to a new stage on Serzh Sargsyan's election as President of Armenia (inaugurated on 9 April 2008), with the publication of an article in the Wall Street Journal on 8 July of that year entitled "We

¹ Prime Minister Erdogan's proposals included the suggestion that any such "historical commission" comprise expert historians from both Turkey and Armenia. See, for example:
[http://armnet.narod.ru/Karabakh/armenian-genocide/;](http://armnet.narod.ru/Karabakh/armenian-genocide/)
[http://forum.hayastan.com/index.php?s=16e1a33952870798ca cfd647b7e9e9bc&showtopic=15164&mode=threaded&pid=326844.](http://forum.hayastan.com/index.php?s=16e1a33952870798ca cfd647b7e9e9bc&showtopic=15164&mode=threaded&pid=326844)

² In response to Prime Minister Erdogan's proposals, President Kocharyan proposed the re-establishment of diplomatic relations, the opening of the Armenian-Turkish border, and the commencement of dialogue between both sides, to include the establishment of an intergovernmental commission. See, for example:
[http://forum.hayastan.com/lofiversion/index.php/t15713.html.](http://forum.hayastan.com/lofiversion/index.php/t15713.html)

are Ready to Talk to Turkey"¹, followed by an invitation to President of Turkey Abdullah Gül to watch an Armenia-Turkey football match on 6 September, and a further proposal to establish a "historical commission" – in effect reprising the proposals Turkey had, in its time, previously made to the government in Yerevan.

Concurrently with this, serious and significant changes were also taking place within Turkey itself, with the result that Turkey's foreign policy began to change in 2002, with the election of the Islamist "Justice and Development Party". The new government in Turkey was already of the opinion that the country's interests should not necessarily align with those of the United States on certain issues of international policy and, Turkey's continuing desire to become a member of the EU notwithstanding, it began to gravitate towards the Middle East, while also indicating a willingness to consider the regional interests of Russia and Iran. Indeed, Ankara gave Russia its consent to the construction of the "South Stream" gas pipeline, signed major gas contracts with Iran, initiated dialogue with Syria, recognised the independence of Kosovo and, in the autumn of 2009, despatched its Deputy Minister for Foreign Affairs to Abkhazia. Even prior to this, in 2003, the Turkish parliament had denied the United States consent for a land-based military operation against Saddam Hussein from Turkish territory. Turkey's actions in voting against the adoption of new sanctions against Iran in the United Nations Security Council on 9 June 2010 gave rise to further disappointment in Washington. A direct consequence of Turkey's new foreign policy can also be seen in the Prime Minister of Turkey's flight to Moscow on 12 August 2008 during the August war in Georgia. Ankara also took the initiative in creating, together with the Russian Federation, the "Caucasus Stability and Cooperation Platform", which the countries of the Southern Caucasus are eligible to join.

¹ Wall Street Journal (2008), "We Are Ready to Talk to Turkey", July 9. Available at: http://www.armeniaforeignministry.com/news/inthenews/20080709_wallstreet.html.

It is obvious that, in terms of the re-establishment of Armenian-Turkish relations, Turkey's new position on foreign policy has serious implications. Indeed, it will not be possible for Turkey to balance Russian and Iranian interests in the Southern Caucasus, recognise Kosovan independence, help Abkhazia, and attempt to enhance its own role in the regional context while simultaneously keeping the border with Armenia in lock-down and maintaining a rigidly pro-Azeri policy on the issue of Nagorno-Karabakh.

Subsequently, it now appears to be no accident that, following the election of Serzh Sargsyan as President of Armenia, his Turkish colleague should be among the first to send congratulations. Armenia, on its part, having "felt out" the situation, has engaged in a reciprocal initiative, inviting the President of Turkey to Yerevan and, as outlined above, to an Armenia-Turkey football match on 6 September 2008.

What are the reasons behind the Armenian President's attempts to achieve this abrupt change in foreign policy towards Turkey?

Many crucial factors can be identified here, as follows.

1. The past 10 years have seen a clear increase in the role of the Southern Caucasus in international affairs. Various factors have contributed to this: the construction of major oil and gas pipelines providing alternative oil and gas delivery routes westward from the Caspian Basin; active engagement in anti-terrorist activities (peacekeepers from Southern Caucasus countries are currently active in Afghanistan); engagement by Southern Caucasus countries in major new programmes under the EU and NATO; Georgia's unambiguous commitment to joining NATO; and Iran's various energy programmes with countries in the region. Such strengthening of the role of the countries of the Southern Caucasus has brought into sharp focus the need for a resolution of those problems

(determined on traditional "West-East" dividing lines) hindering integration processes throughout the region – the reason the United States and the European Union are both making concerted efforts towards the re-establishment of normal Armenian-Turkish relations. Of course, resistance to such regional and global trends had the potential, under these new conditions, to create serious problems for the new Armenian government and having assessed the situation it therefore took the initiative in improving relations with Turkey.

2. As a result of the difficult domestic situation in which Armenia found itself politically following the presidential elections of 2008, Serzh Sargsyan was forced to take action. Indeed, the presidential elections of 19 February 2008 were marked by widespread fraud, violence against the opposition, the use of shooting to disband a meeting in Yerevan on 1 March, and the arrest of hundreds of opposition activists. The opposition refused to recognise the results of the presidential elections, and observers from the OSCE and the Council of Europe referred, in their respective reports, to significant violations throughout. The political crisis led to a situation in which Armenia was at risk of losing its vote in the Parliamentary Assembly of the Council of Europe, under Resolutions 1609 and 1620.¹ Clearly the Armenian government felt the need to compensate for such a low level of governmental legitimacy, through active foreign policy engagement, chiefly through improving Armenian-Turkish relations and by extending cooperation with NATO.

¹ Parliamentary Assembly of the Council of Europe (2008), Resolution 1609; Parliamentary Assembly of the Council of Europe (2008), Resolution 1620 "Implementation by Armenia of Assembly Resolution 1609 (2008)". Available at:
<http://www.regnum.ru/news/989346.html>;
<http://95.140.203.42/ru/politics/2009/01/28/exxv/?sw>;
<http://www.armtown.com/news/ru/prm/20090128/55359/>;
<http://www.ypc.am/bulletin/t/41795/ln/ru>;
<http://www.ypc.am/bulletin/t/41803/ln/ru>.

3. The Turkish government has restored the Armenian church of Surb Khach on Akhtamar Island – the first liturgy in 90 years having been read at the church on 19 September 2010 – and the restoration of an Armenian church in the city of Diyarbakir is now in progress. Work on preserving the Armenian cathedral of Surb Prkich in the city of Ani was also begun in early May 2011. The Istanbul-Yerevan air route has been open since the late 1990s, and the Yerevan-Antalya charter route has also recently re-opened. In 2010 Armenia and Georgia were removed from the "Red Book" (listing those states deemed to constitute a threat to security) at the behest of Turkish National Security Council. All of these very positive changes have, of course, provided the Armenian leadership with the basis for new initiatives towards Turkey.
4. Ankara's aspirations regarding accession to the European Union have also been influential, since good international relations with neighbouring states constitute a prerequisite of EU membership.
5. Recent years have seen greater cooperation between Armenia and Turkey in terms of wider civil society: visits by journalists, scientists, political scientists and public figures are having a quite significant effect on social attitudes in both countries.
6. Russia's current foreign policy has been an important factor, insofar as Russian engagement with neighbouring countries has forced the Armenian government to alter its policy in an attempt to mitigate its regional isolation. Recent years have seen Russian-Georgian relations deteriorate into confrontation, culminating in the conflict of August 2008, as a result of which Armenia lost any hope of a rail link to Russia being opened through Georgia. Russia is currently fast-tracking the implementation of the "North-South" rail project, with no regard for any Armenian involvement in this. Furthermore, Yerevan could hardly fail to be

concerned by the improvement in relations between Baku and Moscow following Russian President Dmitry Medvedev's official visit to Azerbaijan in July 2008. All of which has compelled Armenia to seek new ways out of its regional isolation.

7. A further problem concerns Armenia's difficulties regarding the Karabakh issue. Various international organisations have, in recent years, adopted resolutions on Nagorno-Karabakh which would appear to favour the Azerbaijani version of that conflict – something which would suggest a weakening of Armenia's position in the international arena. Thus the Resolution on Nagorno-Karabakh adopted by the UN General Assembly on 14 March 2008 contains a demand for the immediate withdrawal of Armenian forces "from all occupied territories of the Republic of Azerbaijan"¹, while the later Resolution 1614 (adopted during the spring session of the Parliamentary Assembly of the Council of Europe, 23-27 June 2008) includes similar stipulations in those sections dealing with Nagorno-Karabakh.²

All of the factors outlined above point to the clear necessity of Armenia taking urgent action, and together prompted

¹ General Assembly of the United Nations Resolution 62/243 (2008), on "The Situation in the Occupied Territories of Azerbaijan", adopted 14 March. This Resolution states, in particular:

- the UN General Assembly respects the sovereignty of Azerbaijan and recognises its territorial integrity within its internationally recognised borders;
- the General Assembly demands the immediate, complete and unconditional withdrawal of all Armenian forces from all the occupied territories of the Republic of Azerbaijan;
- the General Assembly welcomes the work of the OSCE Minsk Group in accordance with the norms of international law and calls for intensifying efforts to achieve peace.

A detailed analysis of the text of this Resolution is available at: http://karabah88.ru/conflict/uregulir/27_azerbaydzhan_i_organizaciia_obedinennyh_naciy.html.

² Parliamentary Assembly of the Council of Europe (2008), Resolution 1614: The functioning of democratic institutions in Azerbaijan, adopted 24 June. Available at: <http://assembly.coe.int/Mainf.asp?link=/Documents/AdoptedText/ta08/ERES1614.htm>.

the process of re-establishing normal Armenian-Turkish relations.

How have Armenian society and the Armenian Diaspora responded to these initiatives from Yerevan?

The parties of the pro-government coalition (the "Republican Party" and "Prosperous Armenia") have expressed a positive response to initiatives by the President of Armenia, although it is also the case that both parties have subsequently made clear that his statement on the possibility of the establishment of an Armenian-Turkish "historical commission" specifically stipulates that this can be undertaken only after the re-opening of the Armenian-Turkish border.

All three of the traditional Armenian parties represented among the Armenian Diaspora ("Dashnaktsutyun", "Ramkavar-Azatakan" (liberals) and "Gnchakyan" (social democrats)) have stated that they do not agree to the creation of an Armenian-Turkish "historical commission" because, in their opinion, this casts doubt on the mere fact of the 1915 Armenian Genocide. The opposition parties of the Armenian National Congress (an association of 18 parties) have also registered their disagreement with President Sargsyan's policy on this issue, making clear that the creation of a joint Armenian-Turkish "historical commission" could not, in their view, be tolerated.

Serzh Sargsyan's initiatives would appear to be both highly appropriate, and timely. It has long been necessary for Armenia to declare its readiness to establish official relations with Turkey without preconditions, and to demonstrate consistency and tenacity in the implementation of its foreign policy. The Armenian government has no need either to justify its initiative on the creation of a joint "historical commission": without such compromises and mutual concessions the deadlock on Armenian-Turkish relations would never have been broken.

How have Turkey and the wider international community responded to official initiatives from Yerevan?

President Sargsyan's invitation to the President of Turkey to visit Yerevan met with a positive response in Turkey, among both governmental personnel and organizations, as well as among specialist advisors (the country's parliamentary opposition being alone in expressing its disagreement). President Abdullah Gül accepted Serzh Sargsyan's invitation and attended an Armenia-Turkey football match in Yerevan on 6 September 2008. This was, without doubt, a historical event in the recent history of both nations, after which events developed at a considerable pace. Subsequently, 23 April 2009 saw an announcement by the Ministries of Foreign Affairs of both Turkey and Armenia on the completion of a "Road Map" governing the re-establishment of diplomatic relations, and as early as 1 September two Armenian-Turkish Protocols, on the establishment of diplomatic relations and the development of Armenian-Turkish cooperation, were published. Both Protocols having been previously submitted for public discussion in Turkey and Armenia, they were signed by the Ministers for Foreign Affairs of both countries on 10 October 2009¹.

The re-establishment of Armenian-Turkish relations met with a positive response in the United States and France, and among NATO members and European Union Member States. The Ministry for Foreign Affairs of the Russian Federation also announced its positive response to the establishment of Armenian-Turkish dialogue, on 24 July

¹ Ministry for Foreign Affairs of the Republic of Armenia (2009), "Protocol on the Establishment of Diplomatic Relations Between the Republic of Armenia and the Republic of Turkey", adopted 10 October; Ministry for Foreign Affairs of the Republic of Armenia (2009), "Protocol on Development of Relations Between the Republic of Armenia and the Republic of Turkey", adopted 10 October. Available at http://www.mfa.am/u_files/file/20091013_protocol.pdf; http://www.mfa.am/u_files/file/20091013_protocol1.pdf; http://analitika.at.ua/news/polnye_versii_armjano_tureckikh_protokolov/2009-09-01-13241.

2008. Azerbaijan has traditionally viewed any development in Armenian-Turkish with scepticism and hostility, and in that country the attitude to recent initiatives was, at virtually all levels, entirely negative – the view being that Turkey should not seek to improve relations with Armenia prior to any resolution of the Karabakh conflict. It is interesting that Iran also expressed its readiness to act as an intermediary between Turkey and Armenia.

However, the August 2008 crisis in Georgia would appear to have demonstrated just how vulnerable the countries of this region are to external challenges and threats, with this incident proving to be the "last straw" for Turkey in terms of Armenian-Turkish relations. Indeed this conflict, which resulted in the Georgian ports of Poti and Batumi being destroyed by bombing, in some parts of the Tbilisi-Batumi railway being rendered inoperable, and in many Georgian power installations and businesses suffering considerable damage, saw the break-up of economic relations throughout the Southern Caucasus. Thus, not only did the economy of Armenia suffer considerably but, of still greater concern, the conflict also gave rise to problems throughout Azerbaijan, Turkey and Georgia. Indeed, the conflict resulted in virtually all of the energy and transport projects connecting these three countries being brought to a standstill.

It was therefore crucial that the Turkish leadership demonstrate a full appreciation of the seriousness of this situation and in this context its subsequent initiatives (including with regard to the Southern Caucasus), as well as its partial rejection of the policy of putting preconditions to Armenia, would appear to be quite logical.

What is the outlook for the two Armenian-Turkish Protocols?

Both Protocols (the "Protocol on the Establishment of Diplomatic Relations Between the Republic of Armenia and the Republic of Turkey", and the "Protocol on Development of Relations Between the Republic of Armenia and the

Republic of Turkey") are currently pending ratification by the Armenian and Turkish parliaments.¹ On this issue both parties have been playing a waiting game, each waiting for the other to make the first move. Of course there is a genuine risk that the intractability of the Karabakh issue will result in ratification being subject to lengthy delays in the Turkish parliament, but no such problems are anticipated in Armenia since the pro-government coalition controls approximately 75 percent of votes in the Armenian National Assembly, making ratification a fairly simple matter. Moreover, on 12 January 2010 the Armenian Constitutional Court, while qualifying its decision, nonetheless recognised both Armenian-Turkish Protocols as being in compliance with the country's Constitution.

As is well known, Ankara and Yerevan had agreed on the re-establishment of normal relations without preconditions, evidenced by the content of the Armenian-Turkish Protocols, neither of which contains any reference to the Karabakh issue. As had been anticipated, Armenian-Turkish relations are kept quite distinct and separate from Armenian-Azerbaijani relations; the establishment of a "historical commission" is addressed; and the current Armenian-Turkish border is recognised. These latter two points demonstrate the substantial concessions made by Armenia in return for Turkey's agreement not to raise the issue of Karabakh in either Protocol.

Things have proved far more complex in practice, however. As indicated above, while the "Road Map" on the re-establishment of Armenian-Turkish relations had been signed on 22 April 2009, as early as two days thereafter the Prime Minister of Turkey made statements to the effect that there could be no re-opening of the Armenian-Turkish frontier without concessions by Armenia on the Karabakh issue. A similar situation arose in November 2009, during an official visit by the Turkish Prime Minister to the United States, at which he again announced, at a meeting with

¹ Op.cit.

President Obama, that Ankara would proceed with the re-establishment of normal Armenian-Turkish relations only once genuine progress had been achieved in settling the Karabakh issue. All of which would suggest that, despite significant developments in Turkish foreign policy, the Nagorno-Karabakh issue cannot, as yet, be easily separated from the wider question of Armenian-Turkish relations.

Of course, bearing in mind the pressure Azerbaijan has brought to bear on the Turkish authorities, as well as the fact that the Turkish parliamentary opposition remains opposed to the re-opening of the Armenian-Turkish frontier, and given the scheduling of parliamentary elections for June 2011, the government in Ankara has, from time to time, been forced to allude to the issue of Nagorno-Karabakh and, occasionally, to make tough statements regarding the situation. Such a situation does not, of course, help to promote an atmosphere of trust between the two nations, and occasionally gives rise to doubt as to the sincerity of the Turkish authorities; significantly, this situation weakens the position of those individuals within Armenia itself that support the re-establishment of normal Armenian-Turkish relations.

What factors might obstruct the implementation of Armenian-Turkish initiatives?

It should be noted that, even in view of the significant progress outlined above, many obstacles remain to the re-establishment of normal relations between Armenia and Turkey, including the following.

- A lack of interest on the part of a number of external "players" with regard to the re-opening of the Armenian-Turkish frontier. It would appear that Russia has no interest in improving Armenian-Turkish relations since this might lead to the reorientation of Armenia towards the West; in which context Russia's positive response to the signing of the two Armenian-Turkish Protocols would appear to be merely opportunistic.

- Azerbaijan's defensiveness in response to any positive shifts in Armenian-Turkish relations. Sustained pressure from Azerbaijan is leading to a situation in which the Turkish leadership is apparently returning to a policy of linking Armenian-Turkish and Armenian-Azerbaijani problems – a situation which is in clear breach of the spirit of the two Armenian-Turkish Protocols.
- Turkey's continued lesser interest in re-establishing normal relations with Armenia. It would appear that Turkey remains less interested in re-establishing normal relations than Armenia and Ankara, realising the strength of its position, continues to attempt to secure the greatest possible concessions from Yerevan. Hence the constant fluctuations in the behaviour of the Turkish government, whereby it returns, from time to time, to its policy of setting preconditions for Armenia.
- The psychological factor. The point here being that, over the course of the last two centuries, any disputed issues in Armenian-Turkish relations have been settled in Turkey's favour (despite Turkey supporting the losing side in the First World War).¹ For this reason it is difficult, even today, for the Turkish political elite to cross this psychological barrier and commence negotiations with Armenia on an equal footing.

Yerevan, in turn, continually repeats its willingness to re-establish diplomatic relations with Ankara without preconditions. The current times, and the realities that have arisen around the Southern Caucasus, call for decisive action from the leaders of both countries, despite current

¹ After the First World War the government of Mustafa Kemal Atatürk, in negotiations with the Bolshevik government in Russia, secured the province of Kars and the Surmalinsk region (together with Mount Ararat, which had never been previously formed part of the Ottoman Empire). Under the terms of the Treaty of Moscow (the Russo-Turkish Treaty of Moscow, adopted 16 March 1921), disputes relating to Nakhichevan and Nagorno-Karabakh were also settled, in favour of Azerbaijan. More detail on this issue is available at: <http://ru.wikipedia.org/>.

inertia regarding the ratification of the Turkish-Armenian Protocols.

What is currently driving developments on the Karabakh issue; has there been any progress in that direction?

It should be noted that the negotiation process on Nagorno-Karabakh has become increasingly active since 2009, as evidenced by the numerous meetings (of various kinds) between the Presidents of Armenia and Azerbaijan over the past two years. Major international powers, as well as the wider international community, also demonstrate considerable interest in the Southern Caucasus and in the resolution of the Nagorno-Karabakh conflict in particular – as evidenced by the adoption of Declarations by the Chairs of the two most recent G8 Summits (in L'Aquila, 10 July 2009 and Muskoka, 26 June 2010). The Declaration by the Presidents of the United States, Russia and France on 26 June 2010 merits particular attention here since it stipulates the basic principles for the settlement of the Nagorno-Karabakh conflict, as well as defining the six steps both parties should take in resolving it, as follows.¹

1. The return of territories surrounding Nagorno-Karabakh.
2. The establishment of an "intermediate" status for Nagorno-Karabakh, guaranteeing the security and self-government of Armenians in Nagorno-Karabakh.
3. The establishment of a corridor linking Armenia to Nagorno-Karabakh.

¹ These conditions are detailed under the "Madrid Principles" (originally adopted at the OSCE Ministerial Conference of 2007, Madrid) governing the resolution of the Nagorno-Karabakh conflict, and cover the principle of the territorial integrity of sovereign states; the right of self-determination; and the settlement of conflicts by peaceful means.

4. The definition of the future final legal status of Nagorno-Karabakh in accordance with the self-determination of its population.
5. The recognition of the right of all internally displaced persons and refugees to return to their former places of residence.
6. The recognition of international security guarantees, including peacekeeping operations.

The Joint Declaration adopted under the auspices of the OSCE Summit of December 2010 (Astana, Kazakhstan) by the delegation leaders, the Co-Chairs of the OSCE Minsk Group, and the Presidents of Azerbaijan and Armenia, refers to both parties' commitment to the Madrid Principles and their agreement to the future adoption of the six definitive points outlined above.

This is, undoubtedly, a major advance in the negotiating process, centred around a fundamental compromise that stipulates, on the one hand, that Nagorno-Karabakh will not revert to Azerbaijani control once the Madrid Principles have been implemented (having received a guarantee of "intermediate" status under international agreement, current governmental structures are thus legitimised in terms of the international diplomatic community); and, on the other, that the issue of Armenia's secession from Azerbaijan is not predetermined (because a potential referendum in Nagorno-Karabakh is deferred for some time). In response, Armenia and Azerbaijan are starting to cooperate with each other, including over the issue of Nagorno-Karabakh – something which will give rise to the opportunity for the restoration of trust between both parties to the conflict, and for the adoption of binding resolutions in a new and more constructive atmosphere.

This does not, of course, represent the ultimate settlement of the Nagorno-Karabakh conflict and considerable time will be needed before a peace agreement can be reached, if only because of the lack of trust between both parties

to the conflict. It would appear, however, that sufficient progress has occurred to allow the ratification of the Armenian-Turkish Protocols in the Turkish parliament and the re-opening of the Armenian-Turkish border. As outlined above, Turkey continues to relate the re-establishment of normal relations with Turkey to negotiations with Armenia on Nagorno-Karabakh.

The best way forward would therefore be to utilise current progress in Armenian-Azerbaijani negotiations on Nagorno-Karabakh while simultaneously re-establishing normal relations between Armenia and Turkey, thus creating an entirely new situation in the Southern Caucasus. It is obvious that re-opening the Armenian-Turkish border will stimulate trilateral Armenian-Azerbaijani-Georgian regional economic cooperation and energy security which will, in turn, create an atmosphere more conducive to the implementation of agreements on Nagorno-Karabakh.

What are the strategic interests of both countries in establishing bilateral relations?

Attention should be drawn to the following aspect of Armenian-Turkish dialogue: as indicated above, it is thought that re-opening the border and re-establishing normal Armenian-Turkish relations might, in the near future, lead to the creation of conditions conducive to trilateral regional cooperation in the Southern Caucasus. The simultaneous integration of Armenia, Azerbaijan and Georgia into wider European and Euro-Atlantic geo-politics might result in the significance of sovereign-state frontiers being substantially reduced, making compromises in the resolution of regional conflicts far easier to achieve. To all intents and purposes it could be argued that progress in Armenian-Turkish relations might ultimately lead to the creation of new geo-political realities in the region.

Current geo-political realities in the Southern Caucasus fall somewhat short of this scenario, however, and delays in the re-establishment of Armenian-Turkish relations (i.e., Turkey's current reluctance to ratify the Armenian-Turkish

Protocols) together with the intractability of the Karabakh issue are creating another, much less favourable, situation. The appearance of a bi-polar system with clear dividing lines has recently become quite obvious. In fact, a newly competitive system has begun to emerge in the Southern Caucasus, the main protagonists of which comprise Azerbaijan and Turkey on one side and Armenia and Russia on the other: indeed, Baku and Ankara signed a Strategic Partnership and Mutual Aid Agreement during President Abdullah Gül's visit to Azerbaijan on 16 August 2010, under which Ankara undertakes to guarantee Azerbaijan's security and territorial integrity. However Moscow, in turn, exploiting statements by Baku on the possibility of settling the Nagorno-Karabakh conflict by force, has increased its military and political presence in Armenia, with a bilateral agreement subsequently being reached during the course of President of Russia Dmitry Medvedev's visit to Armenia on 20 August 2010, in accordance with which the term of the Russian military base in Armenia was extended to 49 years, and its functions also expanded.

What should the Armenian leadership do under these circumstances?

Under these new circumstances the priority for the Armenian leadership would appear to be to demonstrate to the international community that it is a reliable and consistent partner – all the more so since leading world players, notably the United States and the European Union, have shown considerable interest in the re-establishment of normal Armenian-Turkish relations. In this context, and as its first priority, government in Yerevan should continue its policy of re-establishing normal relations with Turkey without preconditions (i.e., the immediate recognition of the 1915 Armenian Genocide should not be called for), while simultaneously endeavouring to disengage Armenian-Turkish and Armenian-Azerbaijani relations. On this latter issue, Armenia should require the re-establishment of normal relations with Turkey without that country making any connection to the Nagorno-Karabakh conflict. It is also

vital to recognise here that there is currently a consensus (between the United States, the European Union and the Russian Federation) that Armenian-Turkish relations and the Nagorno-Karabakh conflict are entirely different issues and must be settled independently.

Furthermore, Armenia must resolve any issues with Turkey through direct dialogue, without the involvement of third countries or outside organisations, and must not, either, allow third parties to obstruct Turkey's accession to the European Union by playing the 1915 Armenian Genocide card – i.e., any EU Member States opposed to Turkey's accession should be required to make clear their genuine reasons for this, and should not be allowed to resort to or make reference to Turkey's denial of the occurrence of the 1915 Armenian Genocide as a basis for such opposition.

New opportunities for the re-establishment of normal relations between Armenia and Turkey are likely to open up following parliamentary elections in both countries – at which point Armenia will be able to bring into play new strategies and approaches in the re-establishment of normal Armenian-Turkish relations. It will be essential to use the potential of both the European Union and NATO to that end. In fact, certain articles under the Armenia-NATO and Armenia-EU Individual Partnership Action Plans do touch on the issue of Armenian-Turkish relations. It is also vital to guide the European Union Eastern Partnership Programme to stimulate cooperation throughout the Southern Caucasus and the re-establishment of normal Armenian-Turkish relations. The development of inter-parliamentary links between the two countries might also form a vital component in mending Armenian-Turkish relations.

It is now particularly important that active bilateral contacts are established between the leaders of civil society in both countries – i.e., public figures, cultural leaders, strategic thinkers, scientists and students, because there is, unfortunately, still a real danger of a backsliding in relations. Indeed, despite major changes in the way Turks see Armenians, and vice versa, the fact that the Turkish

parliamentary elections of June 2011 included not a single candidate of Armenian origin demonstrates that certain prejudices towards Armenians do still exist. Furthermore, the results of a Turkish opinion poll published in May 2011 indicated a fairly high percentage of people revealing a negative attitude towards Armenians. It is therefore essential to strive towards the development of "people's diplomacy", irrespective of the state of affairs between Armenia and Turkey at the official level.

It is also vital that both parties should not come out with strong statements against each other during the current chill in Armenian-Turkish relations (which may continue for some time). For example, it is important that Yerevan and Ankara refrain from accusing each other of being reluctant to ratify the Armenian-Turkish Protocols, if the broader process of re-establishing normal Armenian-Turkish relations is not to be put at risk of breaking down.

What should be the Turkish leadership's approach to current circumstances?

It would appear to be far simpler to make recommendations with regard to the Turkish authorities, particularly since the Armenian-Turkish border has been closed to Armenia since 1993: Turkey must therefore re-open the border without delay, and then proceed to resolve the problems associated with the ratification of the two Armenian-Turkish Protocols. In this way Turkey could create a fundamentally new situation in the Southern Caucasus region. The fact is that re-opening the border and involving Armenia in regional economic and energy projects will lead to greater Turkish influence in the Southern Caucasus and Central Asia (something Turkey clearly desires) and, most importantly, will accelerate the process of finding a final solution to the Nagorno-Karabakh conflict (another crucial issue for Ankara) as a result of the greater atmosphere of cooperation and mutual trust that will result.

In conclusion, it should be noted that the re-establishment of normal Armenian-Turkish relations has its origins outside of Turkey: the result of both to changes in the country's foreign policy in recent years as well as leading world powers' altered interests. It is therefore very likely that the Armenian-Turkish Protocols will ultimately be ratified, current delays notwithstanding. However, even if it should become necessary to revise the current content of the Protocols there can be no doubt that the June 2011 parliamentary elections in Turkey are likely to mark a new stage in the revitalisation of Armenian-Turkish relations. There can be no doubt that developments around the Southern Caucasus will, in the near future, lead to a situation in which Yerevan and Ankara will both be equally interested in improving this.

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Economic Transformation

In search of Georgia's economic model

Kakha Gogolashvili

Introduction

It is hard to find any country that follows strictly one economic model based on a scientific theory over a substantial period of time. The theories change and develop just as the practice and the environment as well. New challenges, tastes, social preferences and political sympathies influence governments heavily and usually lead them towards an adaptation of their economic views to the actual public demand. It cannot be said that the economic policy in Georgia was "demand driven" at any given moment in time. As Francis Fukuyama stated "insufficient domestic demand for institutions or institutional reform is the single most important obstacle for the institutional development in poor countries".¹ We were able to observe quite frequently also a "supply driven" approach in shaping the public policy in Georgia. Since the early days of independence, the economic policy and social model in Georgia used to be adjusted to the interest of the rent-seeking part of society. On other occasions, the policy appeared to be a panic response to a crisis. There was a period when the Georgian government demonstrated a certain ambition for a deep structural reform, under constant supervision of international institutions, but progress was interrupted due to particularistic, oligopolistic and bureaucratic interests.

¹ Fukuyama, Francis (2004) State-building: governance and world order in the 21st century. New York.

The last two to three years displayed an inconsistency in Georgia's economic and social policy. It has become difficult to establish whether the country is still following a neo-classical liberal model. On the one hand, there is a reduced regulatory burden on businesses, lowered tax rates, large scale privatization of enterprises, almost no barriers to trade, etc. On the other side, roughly a third of the state budget goes to fund social programs. The government spends large sums of money on "Keynesian-type" interventions to finance public works and promote general demand.

This eclectic approach may be caused by a complex environment, which is undergoing the process of deep restructuring with regard to the mindset of the citizens, political culture, state institutions, microeconomic measures and traditions, social-peace building, ideological self-identification and so on. In such an environment, short-term goals of achieving social stability and relative civil peace prevail over long-term considerations and inhibit the government in electing and following any kind of strictly determined policy. Naturally, there is no clearly defined political target. We can observe a continuous promotion of certain politico-economic ideas by the governing structures in an attempt to make the public believe there is a long-term vision. In reality, the implementation tends to appear quite eclectic and adaptive to short-term difficulties.

Exodus

Modern Georgia comes from the Soviet Union. The break-up of the Soviet Union, not only as of a country but as a system, led to a complete reconsideration of the established "inter-republican" structures. The biggest part of the artificially sustained trade and corporative relations between economic agents throughout the USSR collapsed. On the one hand, this left large and small enterprises without any resources and spare parts, which had been supplied usually from the different corners of the huge union. On the other hand, there were the difficulties on the

micro level – a fall in the demand (loss of markets), the lack of finance, the drain of human capital, etc. experienced by almost all the important factories, plants or farms in Georgia. The negative effect was compounded because of the swift dismantling of the administrative systems within the newly independent countries, followed by a drastic recession, a rise in unemployment, financial difficulties, inflation and so on. The cumulative output decline in Georgia in 1994 (base 1989) amounted to 74.6% – the worst figure among all post-communist countries¹.

The macroeconomic environment in 1990-1991 in Georgia may be characterized as totally unbalanced and chaotic. When the first independent national power started executing state functions in 1991, Georgia neither had its own currency nor any really independent financial and monetary institutions. Then existing Soviet laws and regulations were to remain in force for several years to come. The absence of any constitutional legal system created severe disorder in economic life. There were no clear objectives and visions regarding the future of the country developed by the first national government of President Gamsakhurdia. Any action was populist and reactive to immediate needs. Still strongly attached to the Russian economic space, including the money supply, as the ruble still remained a main means of exchange in Georgia – both governments in power, before and after the January 1992 coup d'état, practically copied the reforms initiated in Russia.

The well-known "Shock Therapy", based on the systemic elements of neo-classical and neo-liberal economic theories was initiated by the Georgian government in 1992. This reform agenda (plan) was implemented by the post-communist states in Central and Eastern Europe. It was first developed in Poland by Leszek Balcerowicz.² The

¹ IMF Working Paper. WP/96/31:
<http://mpr.ub.uni-muenchen.de/20631/1/JEP-IMF-WP.pdf>, ph. 9.

² Prime Minister of Poland in 1989-1993.

plan consisted of 11 famous points (government actions), which envisaged adopting acts to ensure the possibility for state-owned businesses to declare bankruptcy, forbidding national banks to finance the budget deficit and issuing new currency, abolishing credit preferences for state-owned enterprises and tying interest rates to inflation. The agenda also restricted excessive wage rises, allowed free movement of capital "into and out of" the country. The above mentioned measures were designed to contribute to financial stability. Abolishing the state monopoly on external trade and introducing convertibility of the national currency, adopting uniform customs laws and rates for all companies were all aimed at improving the balance of payment and at creating favorable conditions for foreign economic relations. The adoption of the Act on Employment and the Act on Special Circumstances for the Dismissal of Employees was designed to guarantee relative social stability in an environment of tough financial and monetary restrictions. In addition, the Plan also envisaged large-scale privatization of state-owned assets¹. The implementation of a similar plan in Georgia was carried out by the end of 1993; and according to V. Papava, former Minister of Economy, was never fully executed. Indeed, some results were achieved – liberalization of prices, indexation of the wages, tax system reform². Based on Neo-liberal views, the model was less oriented towards social protection. Targeting a wider macroeconomic equilibrium, the policy tended to be less distributive. Intervention using social security measures was prescribed for a limited number of highly vulnerable groups, but even this task was not fulfilled effectively in Georgia, as there was no clear classification of the population on the basis of social security needs. The creation of jobs was considered to be an important objective. Again, neither was an employment agency set

¹ See: Balcerowicz, Leszek (1994) Poland, 1989-92, in: Political Economy of Economic Reform. Institute of International Economics, Washington, D.C.

² Papava, Vladimer (1999) Georgian Economy: Main Directions and Initial Results of Reforms from "Shock Therapy" to "Social Promotion". Macmillan Press, London.

up nor were there any employment statistics available until 1995. The introduction of the coupon – a provisional equivalent of cash – in 1993, was not successful either. Very soon, because of the unrestricted fiscal and monetary policy as well as the huge loans issued to companies by the national bank, hyperinflation and depreciation reached high levels. One USD cost more than 2 million coupons in the middle of 1994. The external shocks – first and foremost, the war in Abkhazia – prevented the implementation of the reform plan. The government had no other option than to cover the huge deficits by means of monetary emission and international assistance. The tax collection rate at that time was not any higher than 3% of Gross Domestic Product (GDP). Around "80% of businesses underpaid their taxes in 1992"¹.

The Plan, if implemented in a comprehensive and the prescribed way, was expected to have the same effect as in Chile in the 1980s.² But Georgia was not Poland, and, in addition to the communist legacy, it suffered from the lack of independent institutions able to carry out basic state functions. The civil war and the power deficit were probably further reasons for delays and inconsistencies in the reforms.

The attempts to conduct the above-mentioned policy continued until the end of 1993, when the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) started pushing Georgia towards a rapid transition to a market economy, promising considerable financial support in exchange for consolidated reforms.

¹ Curtis, Glenn E. (ed.) (1994) Georgia: A Country Study. Washington: GPO for the Library of Congress.

² Market reforms under neoliberal ideas carried out in Chile since 1975 are considered a first successful demonstration of the effect of the Shock Therapy on a transition country.

Evolution

The transition of Georgia during the first decade of independence was not aimed at introducing any kind of sophisticated economic or social model. There were much simpler objectives to be achieved: to start building main state and market institutions, to introduce a national currency, to achieve macroeconomic stabilization and to further improve the business environment. The transition from a planned economy to a market economy was a common objective for any post-communist country. According to the numerous analyses and theoretical observations, Georgia, advised and monitored by the IMF, committed full engagement in all six necessary areas of reform: "macroeconomic stabilization, price liberalization, trade liberalization and current account convertibility, enterprise reform (especially privatization), the creation of a social safety net, and the development of the institutional and legal framework for a market economy (including the creation of a market-based financial system)"¹.

Country Assistance Evaluation produced in 2009 by the Independent Evaluation Group (IEG) emphasized three distinct sub-periods in Georgia's economic development², guided by International Financial Institutions (IFIs):

- 1994–1997 Macroeconomic stabilization and resumption of growth;
- 1998–2003 Widespread corruption, a poor business climate, and a weak capacity of implementation;
- 2004–2007 Reforms resulted in faster economic growth, better living conditions, and an improved business climate.

¹ Curtis, Glenn E. (ed.) (1994) Georgia: A Country Study. Washington: GPO for the Library of Congress.

² The World Bank in Georgia 1994-2007: Country Assistance Evaluation; IEG, IVX, WB, Washington D.C., 2009.

The period of 1994-1997 marked a step forward with regard to state building. The defeat in the war in Abkhazia seemingly pushed the Georgian government towards a more comprehensive approach in the reform. This also raised credibility and hope in the West in general. The US and the European Community became main political "advisers" of Georgia. The International Monetary Fund (IMF) and the World Bank (WB) were understood as economic and financial policy "extensions" of the West. Since Georgia made an open choice to orient its foreign policy towards the West, the advice and support of IFIs became an all important part of the overall political process in the country.

In 1994, the IMF started its operations in Georgia. Dominated by monetarist economists, it was first of all, concerned with the monetary stabilization and structural reforms in order to guarantee sustainability of stability. Tough monetary and restrictive fiscal policies, with the control of wage increase, minimized public expenditure, privatization and in-depth tax reform, emphasis on anticorruption measures were all strongly advised by the IMF. The new team of pro-reformist individuals had been appointed to key positions by the then President Shevardnadze. The team developed and was charged with implementing the "Anti-crisis Program of the Republic of Georgia", which according to some authors "implied considerable changes in the country's growth strategy"¹. This made it possible to follow the IFIs recommendations in an effective way. With the release of the first Stabilization Facility (STF), the government started to prepare for the introduction of a national currency, which took place in October 1995. Over a very short period of time, Georgia made real progress: the country reached relative macroeconomic stability, still at a low-income level, consolidated basic institutions – such as the national bank

¹ Milnikov, Alexander et. al. (2008) Economic Growth in Georgia: Historical Perspectives and Prognosis. IBSU International Refereed Multi-disciplinary Scientific Journal, №1 (2), 2008.

and the treasury, defined strictly functions and sources of the combined state budget, restructured and partially privatized a big number of state-owned enterprises and other assets. Furthermore, there was a comprehensive tax reform to align value added tax (VAT) and excise taxes with international standards, export duties were eliminated and the foreign trade regime was aligned with the World Trade Organization (WTO) standards. Following a permanent decline in economic output since 1989, a positive growth in the amount of an annual 3.3% was achieved in 1995. Over two consecutive years, the Georgian economy grew with outstanding rates of 11.2 and 10.5% respectively.¹

The four years mentioned created the foundation for the future Georgian economic system. However, they were not sufficient to solve the problems that the country faced with 300,000 Internally Displaced Persons (IDP) and more than 25% unemployment and half of the population living under the absolute poverty line. In our view, three dramatic developments demonstrated the vulnerability of the country: the 1997-1998 drought, the Russian ruble crisis² and the new wave of violence in Abkhazia, which resulted in an additional 30,000 refugees in Georgia proper. The economic system suffered a severe shock that reduced annual GDP growth by two percent on average in three consecutive years.

It is difficult to explain the mechanism that changed the government's attitude towards the reform process completely since the shocks mentioned. International organizations call the period from 1998-2003 that of decadence due to widespread corruption. To our understanding, the gains that the period of rapid reforms brought to society, created a strong negative motivation within the government linked to corruptive groups. Privatization, liberalization of

¹ Human Development Report: Georgia 1998, UNDP.

² Devaluation of the Russian ruble by 60% in 1998 had a spill-over effect on Georgia's economy. The Georgian national currency fell at almost the same rate over a short period of time, causing severe balance-of-payment difficulties.

prices and foreign trade, reducing the state ownership of businesses opened up huge "possibilities" to those who were able to employ their official positions for their own business interests. The rise of the numerous formally free business structures, but in fact controlled by high-level government officials through corruptive practices caused moral degradation of state institutions, including the police. State capture and favoritism, disregarding the "conflict of interests", became normal practice. A failure of the state seemed inevitable. International institutions were advising the president and government intensively to adopt strong anticorruption measures and to reestablish the rule of law.¹ Indeed, in 2001 it became evident already that without a power change it was impossible to dismantle the corrupt system and follow up with reforms.

This period of time coincides with the European Union-Georgia Partnership and Cooperation Agreement (PCA) entering into force. The agreement, signed on 22 April 1996, and in force since July 1999, was to play a strong anchoring role in Georgia's social-economic choice and development. The main provisions of the Agreement concerned democratic development and were aimed at establishing a format for an institutionalized political dialogue, at putting into place the WTO rules based on the Most Favored Nation (MFN) regime in trade, at treating investments favorably and at facilitating mutually the establishment and operation of companies. The PCA promoted cooperation in various fields of the economy, finance, education, science, transport, energy, etc. between the European Union (EU) and Georgia; and it institutionalized the EU obligation to lend the country technical support. Under one of the most important provisions, article 43, Georgia assumed a "soft obligation" for the approximation of its laws with the *Acquis Communautaire*. The obligation did not extend to all 35 chapters of the EU *Acquis* existing

¹ The author of this paper witnessed how a very high-level EC official advised a key Georgian government official to denounce the most corrupt officials to the courts and put them into prison.

then, but still it represented an important objective for the country to gradually approach the EU regulatory system. The full implementation of the provisions mentioned would most certainly have pushed the country towards one of the socio-economic models present in EU member states. Unfortunately, the Agreement entered into force only in July 1999, when Georgia's stance on reform started to decline sharply and the obligations taken under PCA were not implemented effectively. WTO membership, granted to the country in 2000, was mainly the result of the good work done in the previous three years and the assistance rendered by the EU.

In early 2001, the Government of Georgia (GoG) started working on the National Program for Legal Harmonization (NPLH)¹, which was concluded and approved of in 2002. NPLH set a very comprehensive and ambitious agenda with the detailed reform plan for every governmental agency. The outcome of the multiyear program was aimed at the approximation of Georgia's legal base to the *Acquis Communautaire* to the extent set by article 43 of the PCA. Unfortunately, the work was never clearly linked to the IMF and World Bank led reforms. The so-called Economic Development and Poverty Reduction Program (EDPRP) developed by the GoG in 2002 with the assistance and advice of the WB and United Nations Development Program (UNDP), the European Commission (EC) and other donors did not match up with the NPLH at all, just referring to it in passing.² The ambitious developmental program elaborated by Shevardnadze's declining government was a first comprehensive attempt at formulating a vision of the model that the country should have followed over the next 12 years. It was geared towards rapid economic growth and a gradual alleviation of poverty throughout the country. Consequently, the wide range of actions envisaged by the

¹ Kereselidze, David (2002) *The National Programme of the Harmonisation of the Georgian Legislation with that of the European Union*. *Georgian Law Review*, Vol. 5. No. 1, Tbilisi, 2002.

² ეკონომიკური განვითარებისა და სიღარიბის დაძლევის პროგრამა, თბილისი, 2003.

150-page document (a reduced version of the 300-page original) encompassed radical changes and development of institutions providing good governance, full privatization of assets and liberalization of the market, financial stability, effective social policy through pension and insurance reform, comprehensive health care and education reform. Financing for a considerable part of the program was not guaranteed at that time but Georgia expected an international donor conference to make important pledges. The economic policy was based supposedly on minimal state intervention, but suggested protectionism by introducing "transitional market defensive measures". It can be stated openly that an immense effort was made to formulate a well-defined vision of the country's future in a single document. The Program was thought to increase the government's internal and external credibility. Indeed the EDPRP could not convince the population while all positions in the country were still occupied by corrupt groups, the state budget could not finance basic needs, and important power structures as police and army were permanently underfunded. The accumulated arrears for the pensions, social security transfers and salaries for civil servants exceeded the annual state budget revenues, while the reported revenue collection rate was less than 14% of GDP (with a tax base of 35%). This meant that the "shadow economy" was generating at least half of GDP in the country. At the same time, tax evasion was not the only problem; the business environment was overburdened by checks and controls by more than 20 controlling bodies, the number of which increased sharply over the last few years of Shevardnadze's rule. In such a situation, public anger and demand for a power change was growing. A new power would need to demonstrate a stronger will to implement reforms and to achieve justice, dedication and consistency.

Revolution

The Rose Revolution¹ opened up new perspectives and inspired new hopes. A new president and a new legislative brought new people to the government. The style, enthusiasm and rhetoric with which Saakashvili started his first term in 2004 promised very speedy and drastic reforms in all spheres of the social life. His primary goal was overall consolidation of the state in all its functions. His first moves in the economic sphere were attempts at strengthening the fiscal discipline, at improving the work of the tax authorities and at raising the tax collection rates, at creating a really transparent and corruption-free customs system, at reducing burdens on businesses, and at heightening accountability for tax-evasion and unregistered business operations. By taking a very tough stance on the existing clans and mafia structures, by reforming and cleaning up the police force from corruption and ties with criminal groups, by putting into jail part of the former government officials, the new government was able to achieve a considerable "legalization" of economic activities in the country. As a result, Georgia witnessed a very sharp increase in budgetary revenues and the establishment of a friendly business environment. The state started to execute its traditional functions. Soon, the repayment of the arrears began, big infrastructural reconstruction works were financed and the permanent problems with electricity and gas supplies were resolved. Macroeconomic and financial stabilization had reached such a point that in 2006 Russia's embargo on Georgian products and the consecutive loss of the biggest market could not produce a big shock anymore; and GDP growth dropped by only one percentage point in 2007.

European integration was initially announced as of highest priority and it was expected that intensive steps would

¹ November 2003, falsified parliamentary election results led to strong public unrest and consecutive resignation of President Shevardnadze. The events were called the "Rose Revolution".

follow in this direction. Furthermore, it was predicted that the government would chose a European type model for further development.

During the first year in power, Saakashvili's government was busy "fixing" the problems inherited from previous rule, there were no signs of any defined vision for the future. At the beginning of 2005, it became apparent that the Georgian government was inclined to take an ultra-liberal approach, fully emphasizing the economic growth-driven policy. The vision of the economic targets was rather positivist than normative, as some basic economic liberties were ignored. The most radical negative behavior took place when property rights were violated in numerous cases, in particular the demolition and seizure of private buildings in Tbilisi and further regions.¹ The refusal to continue with EDPRP was also a demonstration of a new economic policy. In 2005, the government produced a so-called Poverty Reduction Strategy Paper (PRSP) progress report² but as just a "reverence" to the IFIs. Later, the reduction of poverty, as a special policy, was abandoned. The then Minister of Reform Coordination declared openly that they did not consider any redistributive approach toward alleviating poverty. In his judgment, economic growth-generating jobs represented the best poverty reduction policy.

High-level officials said frequently that "the best strategy was the absence of a strategy". That was a demonstration of the negative attitude towards any kind of intervention, priority sectors of economy or stimulation of industries. Even such cross-cutting policy as support for small and medium-sized enterprises was considered a violation of the free market rules.

¹ See Transparency International report: <http://www.transparency.ge/en/content/property-rights-post-revolutionary-georgia>

² Georgia: Poverty Reduction Strategy Paper Progress Report (March 2005). IMF Country Report; No. 05/113.

Since the first two years were required for recovering from institutional crisis and from the deficiencies caused by the previous regime, there were not substantial debates concerning the economic and social model that Georgia should adopt. In 2006, the start of the negotiations on the European Neighborhood Policy (ENP) Action Plan¹ revealed the conceptual differences between the frames that the EU proposed and the choice that the Georgian government had made. From the beginning, the discussions concerned provisions related to regulatory issues such as food safety, competition, labor policy. Indeed in most cases, the EC insisted on provisions to be formulated in their way. During that time, there was no indication neither by the IMF nor the WB for the Georgian government to reconcile their views with EU demands. Consequently, the Georgian government decided to postpone the implementation of the trade-related regulatory provisions of the ENP AP.

The model that the GoG intended to adopt at the beginning resembled the Estonian right-wing leading party's vision of the beginning of 1990². Among the options discussed, there was even the reduction of the national bank's functions to a minimum. A very liberal labor code was introduced in 2006. Georgia copied some early 1990s Estonian reforms but in a larger scope. Tensions between the institutions responsible for European integration, on the one hand, and the economic policy, on the other hand, became permanent, as the implementation of the ENP AP was under the responsibility of the former and the rapid economic development under that of the latter. Consequently, the 2007 ENP AP implementation program developed by the State Minister's Office for European Integration was not officially approved of by the government as a result of resistance on behalf of the State Minister for Reform Coordination.

¹ See: http://ec.europa.eu/world/enp/pdf/action_plans/georgia_enp_ap_final_en.pdf

² The Estonian ultra-liberal government abolished import duties, the majority of licenses and permits and the number of regulatory institutions.

Georgia's economic success with an annual GDP growth of 9-12%¹ during three consecutive years in 2005-2007, following the Rose Revolution, could be attributed in large part to the anticorruption measures, but also to the large-scale privatization, the easing of the tax and other burdens on businesses. This stimulated direct investment inflow, which stood at an annual level of 20% of GDP during the four and a half prewar years. As the investments originated mainly from the Gulf States, Central Asia and Russia, the government was hesitant to introduce European market access rules and product safety regulations. The introduction and implementation of the competition law was also considered as one of important obstacles for investments. The ultra-liberal approach was not extended to economic policy fields only but also to migration policy, education and even the civil service. The riots and social unrest of November 2007² forced the introduction of some corrections in the policies. As a consequence, the next state budget (2008) involved a very high rate (over 30%) of social spending. Refusing any protectionism, preferential treatment of the priority areas, promotion of export or any other government intervention, the main accent was put on the creation of a fully liberalized environment. With a sharply growing current account deficit, all hopes focused on the expected sustained capital inflow. That is why the efforts were directed rather at improving the position on the Economic Freedom Index than at reaching any other type of benchmark indicator.

Gradually in 2007 and 2008, the term libertarianism started to be more openly articulated by the government as a leading ideology. New Zealand and Singapore, and

¹ National statistics Office of Georgia:
http://www.geostat.ge/index.php?action=page&p_id=119&lang=eng

² Various reasons, including political demands and social discontent, caused antigovernment protests in November 2007. The government used force to meet these protests. The use of force against largely peaceful protesters on 7 November was widely criticized in the country and abroad, which resulted in the resignation of President Saakashvili and early new parliamentary and presidential elections.

sometimes the United Arab Emirates, were presented as a point of reference for Georgia's future model. Following the request of the international financial institutions, the Georgian government developed a comprehensive programming document – Basic Data and Directions (BDD)¹ – including the Medium Term Expenditures Framework (MTEF) for 2008-2012. The 2008-2012 BDD was not implemented finally because of the war with Russia. The document approved of in 2009 is considerably different. BDD – 2008, as a priority, emphasizes the "small government" concept. It states that "protection or privileges will not be granted to anybody". The document exposes a vision that is libertarian to a great extent, but addresses social policy only in the narrow context of the "assistance to those who need it". The 2009 (after war) revised BDD attributes first priority to the "Public welfare – Georgia without poverty"², followed by territorial integrity. The mixed model that is offered in this last version of BDD is highly socially oriented (first part of the preamble), on the one hand, and still puts ultraliberal values and strategies at the basis of the country's development, on the other hand.

The officials said candidly that the obligations adopted under the PCA did not correspond with Georgia's interests and that they did not feel any moral duty for their implementation. It was indicated openly that Georgia would make real steps towards Europeanization of the institutional framework only if an EU accession perspective was offered. At that time, it became evident that a continuation embracing such an extreme approach would damage Georgia's approximation to the EU.

¹ See: <http://www.pmcg.ge/docum/BDD%20document%20-%202009-2012.pdf>

² Ibid, p. 3.

Post - War reshaping

The short war with Russia (August 2008) had a very harsh impact on Georgia's economy. First of all, the fragile political and security context of the region exploded, leaving behind deep traces on the credibility of the country. The economic damage estimated by the UN and the WB Joint Needs Assessment¹ (JNA) amounted to USD 4.5 billion. To support the country in the reconstruction of the damaged infrastructure, the reintegration of internally displaced people and in accelerating Georgia's recovery from the impact of the August 2008 conflict on its economy², the EU initiated a Donor Conference that took place in Brussels on 22 October 2008. The international pledges aimed to a) support the rapid restoration of confidence; b) support social needs; c) support critical investments, which amounted to USD 3.25 billion. The EU increased its engagement also in other ways, for instance, by placing over 200 civilian monitors on the border between Russia and the Georgian regions. Furthermore, the EU undertook other important political actions by offering Georgia negotiations on Visa Facilitation and Deep and Comprehensive Free Trade agreements, as stated in the Conclusions of 1 September 2008 European Council.³ The increased political engagement of the EU, on the one hand, and the optimism lost regarding the country's unlimited attractiveness for foreign investments, on the other hand, stimulated the reconsideration of the radical policy context. The prospect of the Free Trade Agreement with the EU was understood as a new possibility for regaining international credibility and attractiveness for investments. Soon, early in 2009, the European Commission provided the Georgian government with a set of recommendations more frequently

¹ For JNA look at: <http://siteresources.worldbank.org/INTGEORGIA/Resources/301645-1224598099977/GEJNA2008.pdf>

² See EEAS: http://www.eeas.europa.eu/georgia/conference/index_en.htm

³ Presidency Conclusions (2008) Extraordinary European Council. Brussels, 1 September, 2008: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/102545.pdf

called conditions for starting Deep and Comprehensive Free Trade Area (DCFTA) negotiations. The "conditions" requested the development of EU-compatible trade-related regulatory institutions. These were considered by the economic team of the government as a threat to the libertarian choice, a burial of the "Singaporean dream"¹, even if "Singapore and Hong Kong never came anywhere near the deregulation and state abstinence exercised by the Georgian government".² Long lasting attempts to soften the EC conditions or to interpret them in a different way, to find a "hole" for reconciliation etc. all only resulted in delays in the starting date of negotiations.

Soon, the Eastern Partnership policy provided all eastern partner countries with a perspective of Association Agreements (AA).³ AA negotiations between Georgia and EU were opened in July 2010. The question of DCFTA remained frozen. More than two and a half years passed since the Extraordinary European Council before the Georgian government fulfilled the main part of the conditions by developing comprehensive strategies in the fields of concern.

Georgia is still one of the most liberal economies and occupies a high position in the economic freedom related ratings. The country resisted and did not collapse after the war of August 2008. It stayed stable during the most severe years of the world economic crisis as well. The economy started to recover from the recession with an annual growth rate of 6%. Considerable success in the energy field, road infrastructure and urban development was noted and praised. Still, the country is vulnerable

¹ Perception of the Singaporean model in Georgia is very far from reality. Singapore has a food safety agency and a competition authority. The government, in its Corporatist stance owns around 60 per cent of enterprises. Evidently it is not an absolutely Libertarian case.

² Jobelius, Matthias (2011) Economic Liberalism in Georgia: A Challenge for EU Convergence and Trade Unions. Friedrich Ebert Stiftung, Tbilisi, April 2011.

³ See more about EaP at: http://www.eeas.europa.eu/eastern/index_en.htm

to external shocks and changes that affect international markets. The reason is to be seen in a weak performance of industry, low competitiveness, low productivity, a lack of know-how and an existing technological gap. The IMF staff report of April 2011 highlights that "in the absence of any productivity improvement, agricultural GDP has contracted by nearly 20% since 2005 and the supply response to higher agricultural commodity prices appears low"¹. High credit rates and difficult access to financing is also a problem. No a single branch of the economy is developed in such a way as to compete internationally or domestically. Agriculture, employing almost 50% of population, is not able to satisfy the needs of the domestic market. Promises to increase spending in the agricultural sector were announced by the highest level several times, but the 2011 state budget still did not reflect these intensions adequately.

Despite strong libertarian sentiments still prevailing in the government, it seems that President Saakashvili, assuming full responsibility for the country, tends to move away gradually from the earlier decisions of an extreme nature and to agree on sectorial interventions in order to stimulate the economy. It was also noted that the "Liberty Act,"² initiated in 2009, was reconsidered and softened, under the applause of the IMF, with regard to taxation policy. The fact that the "Liberty Act" did not work immediately after its initiation proved the necessity for the president and parliament to be cautious with such extreme ideas in the future.

¹ April 2011 IMF Country Report No. 11/87.

² See: http://www.georgia.gov.ge/pdf/2009_10_12_21_49_41_1.pdf and also http://georgiamediacentre.com/content/imf_praise_decision_introduce_escape_clause_economic_liberty_act_they_approve_another_153_mi

Crossroad

"Time does nothing". This wise saying reminds us that we cannot wait for the time when Georgia will be ready to start implementing "European reforms". Civilization has to be built by undertaking an effort; it will not evolve naturally, by itself. The EU, as a normative power, offers an opportunity of economic integration to Georgia in order to benefit the country. The extent of integration will depend on the ambition of Georgia. At this moment, Georgia has three choices hypothetically:

- Continue with the libertarianism, with maximum deregulation. Do not ally with any trade or economic partner, but fully open the borders to any business and commodity, immigration and services. Attempt to maintain low taxes and no regulatory restrictions. Try to attract investments and private financial institutions, with a "small government" and no interventions, a highly commoditized labor force and with a low level of social protection.
- Ally with EU policies and use fully the opportunities offered by bilateral and multilateral cooperation frameworks. Gradually gain a share in the EU internal market and transform the economic and social environment into an "EU-compatible" one. Engage effectively in cooperation not only with the EU but with all other countries involved in the wider European integration process. Become part of a bigger economic space.
- Reconciliation with Russia, accepting the political conditions and her influence over the country. Go back to the Commonwealth of Independent States (CIS) and join the Russia-Byelorussia-Kazakh customs union. With this choice, many believe that the resource-rich Russia will share its wealth with the country, providing gas and oil at low prices. Georgia will regain the lost Russian market for its wine and other agro-products.

Making a choice is not only a matter of taste but of rational reasoning as well. I believe that all attempts at turning

Georgia into the "first ever" example of a libertarian country have failed. To be a "lone rider" country or have an unregulated free market seems impossible in such a complicated political and security regional context.

Reconciliation with Russia at the "Russian conditions" would bring the country back into the Soviet era, but with fewer economic advantages than before. Russian corruption-based and rent-seeking type of corporatism extended to Georgia would kill any achievement that the country gained after the Rose Revolution.

European Integration is a way for Georgia to reach political, economic and social stability and prosperity. This is the way in which Georgia will probably stay loyal to a more liberal choice, with low taxes and minimal interventions for some time. Social dialogue will be conducted mainly at the corporate level and social security schemes assisted somewhat by the government.

The possibility may not be ruled out either that social pressure may push future governments to move left and focus more on distribution. This deviation may last a few years, depending on the rate of development.

* * *

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Armenia: 20 years of integration into capitalism – consequences and challenges

Ara Nranayan

Following independence, Armenia has been living with neo-liberal reforms, exposed to a continued blockade and an explosive situation in the region for 20 years now. We can see clearly three stages of economic development: demolition of the old system, period of reconstruction and the time of crisis. Today, the country is at the crossroads as to whether to hold on to the familiar, albeit disputable course or to try to undertake real reforms that might be painful but necessary.

Twenty years and three stages of development

20 years of independence can be divided up into three economic periods of development: demolition of the old system – disintegration, period of reconstruction and time of crisis. These three periods more or less coincide with the respective rule of the three presidents of the country.

The first stage – disintegration: The shock doctrine, as implemented at the beginning of the 1990s, led to the complete collapse of the old economic system. Not only were the previous economic ties severed but also the whole logic of the country's development was replaced. Transport and energy blockades were conducive to a speedy demolition of the old system. Economic collapse and breakdown was aggravated by domestic and foreign

factors that caused the economy to pitch into deep recession.

The second stage – period of reconstruction: As usual in such a case, a fast pace of development was recorded in the service industry, infrastructure, communication, power economy, construction and other areas. This period was greatly determined not only by financial contributions from abroad but also by favorable international market trends. However, this favorable time period was not used for restructuring the Armenian economy and for transforming it into a really competitive and stable system.

The third stage – time of crisis: Even back in the period of reconstruction, the systemic deformations of the Armenian economy were visible. It was obvious that the sources of growth were not infinite and the Armenian economy required major structural changes. Following the second stage of development, after reconstruction, a transition to the third stage was necessary – the stage of economic development. In this case, there was an emphasis on the real economy, on export incentives, on industrial policy with elements of partial and permissible favoring of national economic interests as well as on the protection of economic interests outside the country and so on. The crisis made all the defects of the Armenian economy surface. Meanwhile, this has been acknowledged even by those who had hoped to be able to return to the former policies after a recovery from the crisis.

Break with the system

After independence in 1991, Armenia witnessed a hasty privatization of public assets, a deindustrialization, an aggressive agrarian reform, including the privatization of land, as well as reforms in the social security system and in education.

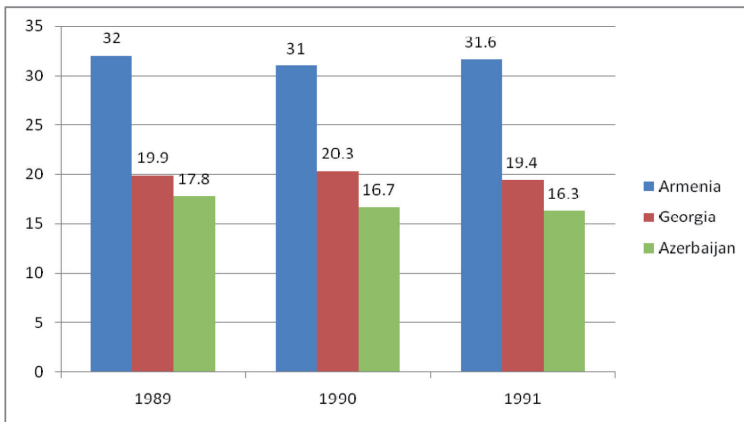
At the same time, the country embarked on the road towards establishing an independent state and to making the transition to market economy, including the integration

into the global system. Armenia became independent at the time of the most severe systemic crisis of the Soviet economy, which was compounded by such developments as regional conflict, transit blockade on the part of Turkey and Azerbaijan, presence of several thousands of refugees from Azerbaijan as well as by the fact that one third of the country had been destroyed by the disastrous 1988 Spitak earthquake.

As of 1990, Armenia was a developed industrial country with a high level of urbanization. About one third of all occupied population was employed in the production sector, while in Georgia this rate amounted to about 20% and in Azerbaijan to 17%.¹

¹ Though the text features some comparisons among South Caucasian countries, it has to be mentioned that such a clustering of countries and comparative analysis, specifically among Armenia, Georgia and Azerbaijan, are more intrinsic to a European view of the region. From a domestic position, from a strategic perspective, such a methodology is a dead end and harmful to the South Caucasian countries themselves.

Chart 1. Relative density of employment in the production sector as compared to general employment (%)¹



The level of urbanization in Armenia also exceeded the rates of neighbouring republics. In 1990-1991, 68% of the population lived in cities. In Azerbaijan, this rate amounted to 54% and in Georgia to 56%.²

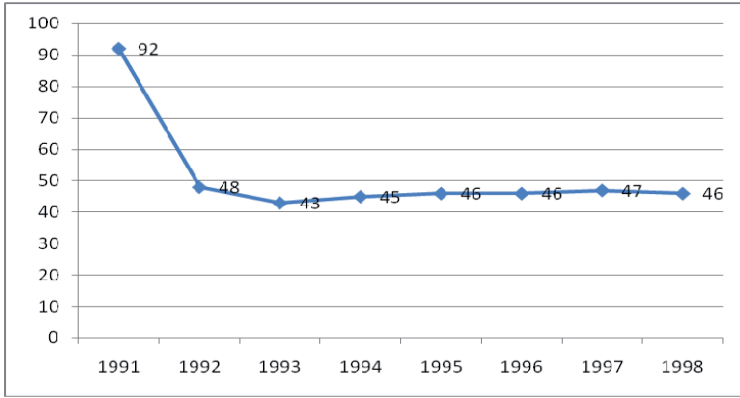
However, during the first years of independence, industry was virtually destroyed. Before 1992, the level of industrial production fell by half. Public documents, in particular, of the National Statistical Service of the Republic of Armenia describe reasons for this phenomenon – the railway blockade, the breakdown of economic ties with former USSR Republics as well as a deep energy crisis.³

¹ The table has been composed based on International Monetary Fund data Washington (1993). http://books.google.ru/books?id=B2W1YOG3N10C&pg=PA231&lpg=PA231&dq=Armenia,+statistics+on+1988,+1989,+1990,+1991,+1992&source=bl&ots=8Bm_ZpJ3J&sig=jdojDmWvcHJH_h42o8sjVlFrAzw&hl=ru&ei=uJD3Te7sJMKG-waIzo2YCw&sa=X&oi=book_result&ct=result&resnum=7&ved=0CEkQ6AEwBg#v=onepage&q&f=false

² See idem, as well as: http://www.who.int/substance_abuse/publications/en/GlobalAlcoholEuro.pdf

³ Source: National Statistical Service of the Republic of Armenia http://armstat.am/file/article/tntbar_91_98a_3.pdf

Chart 2. Aggregate industrial output index (1990 = 100)



In fact, this collapse of industry was assumed to be the consequence of the new liberal economic policy of transition to market relations. Although general recession hit the entire post-Soviet region, the magnitude of the production slump in Armenia was six times as high as throughout the Commonwealth of Independent States (CIS).¹

It was characteristic for the post-communist society, not only for Armenia but for the entire former Soviet Union, to develop a culture of building at least some kind of political system. In the former republics of the USSR, following the failure to build communism, it was decided to build capitalism. Despite a high level of development in the sciences and culture as well as a high level of education and information², society was not very enlightened regarding many ideological aspects. Such terms as "freedom",

¹ Source: National Statistical Service of the Republic of Armenia http://armstat.am/file/article/tntbar_91_98a_1.pdf

² Human Development Report (1995). http://undp.am/docs/publications/publicationsarchive/nhdr95/part_1.htm#p1.1/. Considering the absolute rate of literacy among the population, the number of people who received higher education at the end of 1980s amounted to about 15%. Today this number exceeds 20%. <http://undp.am/docs/publications/publicationsarchive/epcas/main02.htm>

"liberalism", "market economy", "free market", etc. were understood quite loosely, one-sidedly and were regarded to mean more or less the same thing.

That is precisely why, in the absence of alternative theories of development, the methodology undertaken for "building capitalism" was considered as simple, stemming from a single-source and generally accepted. Society made a step into the new era unawares, into the new doctrine – neo-liberalism, firmly convinced that this was exactly what real capitalism looks like.

The collapse of the Soviet Union, along with other turbulences, developed into the crisis, that fertile ground which allowed shock therapy to be carried out in Armenia and other post-Soviet states – representing the second major global neo-liberal experiment after Latin America.

The economic development model as chosen in Armenia may be called the periphery model of the world economic system. If, before independence, Armenia had been a small industrial country with major scientific and industrial potential, then, according to the policy chosen, Armenia was prescribed a completely different role. As for the periphery of the world economic system, such countries as Armenia are prescribed the role of developing their primary industry and providing a "supply" of labor (including highly educated) for the developed countries, and – following the implementation of the pension reform in the years to come – they will also supply financial resources for the leading countries of the world.¹ Development of technologies, industry, science and engineering was ascribed to the world economic centers.

It has to be stated that any reform in Armenia has its own political or economic "foundation". For example, total and mass privatization of public property by the leading political force, as conducted during the first years of

¹ This viewpoint refers to virtually all post-Soviet countries.

independence, was justified by the necessity of creating a class society, forming proprietary classes who would "defend independence" (in reality – defend authorities). As a result of the hasty privatization, the advocates of the authorities became the owners of former public property.

The development of industrial enterprises was pitted against the development of the service and primary industries. Following the collapse of the USSR, it was the general belief that developing industries making "easy money" would mean a much better standard of living. In the epoch of "romantic capitalism", people believed that the sale of mineral water and molybdenum alone would suffice to keep the country afloat. A similar policy was pursued in the air transport sector, where the strategic plan of developing a strong and quite competitive national airline was countered by the promotion of the airport services sector (airport services as well as air traffic on behalf of foreign carriers as a source of income).

In the first years of independence, Armenia lost the major part of its economic, industrial, scientific and human¹ potential. Enterprises privatized and practically plundered were doomed to failure.

Price of recovery

In the mid-1990s, the recession came to an end and the revival of the economy started. Naturally, the economic infrastructure was restored first of all – energy, transport, and communications. The construction sector started to develop at a swift rate. It was greatly supported by a favorable world economic situation and increasing money transfers into Armenia.

¹ According to data of the General Department of Civil Aviation of Armenia, in early 1990s, the number of outbound passengers (air transport was more or less the sole means of connecting with the outside world) surpassed the number of inbound passengers by several hundred thousand people.

In 2003, Armenia undertook obligations in the World Trade organization (WTO) without any deep understanding of the same, which hampered the development of its national economy. According to the advocates of WTO partnership, the small country, suffering from a state of blockade, had to open up more to the world economy, at any cost.

The economic situation in the country at the end of the 1990s and beginning of the 2000s may be characterized by the following key factors: growth of private transfers; import stimulating a strong national currency policy; lack of mechanisms of local manufacturer protection and export stimulation; growth based on construction¹ and export of primary resources. The interests of ordinary people were not one of the government's priorities. The system of protecting workers' rights was destroyed on the grounds of protecting the interests of entrepreneurs instead in order to inspire economic development. The policy implemented of low-income, low salaries and a low standard of living was then regarded as a factor for providing a competitive advantage for the economy.²

Trade unions were almost absent in the country while the reform of the Labor Code and other laws put the employer and employee in unequal positions. Under conditions of unemployment and a black market, the working people were actually deprived of the opportunity to protect their rights at the legislative level.

¹ For instance, in 2002, construction growth amounted to 45%, in 2003 – 41%, in 2004 – 15%, in 2005 – 41%, in 2006 – 38%, in 2007 – 20%. Source: National Statistical Service of the Republic of Armenia: Building industry in Armenia in 2001 – 2005. <http://armstat.am/en/?module=publications&mid=6&id=29>, Building industry in Armenia in 2006 <http://armstat.am/en/?module=publications&mid=8&id=227>, Building industry in Armenia in 2007 <http://armstat.am/en/?module=publications&mid=8&id=664>

² According to the "Sustainable Development Program" accepted by the Government of the Republic of Armenia, the priority of the government is to provide for an increase in the country's competitiveness through the promotion of output growth and ensuring competitive levels of unit labor force values. <http://www.gov.am/files/docs/165.pdf>, p. 80.

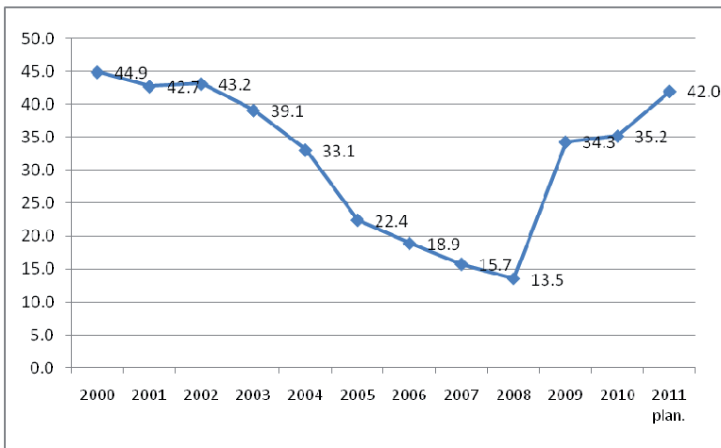
The privatization and sale (at times free of charge) to foreigners of natural monopolies and major strategic enterprises were the logical continuation of the policy of a decreasing role of the state in the economy. Strategic enterprises of energy and gas supply, communications, water supply, transport etc. were either privatized or operated on a concession basis. This policy was justified by the statement that the "state is a bad manager". However, immediately after privatization, practically all natural monopolies of the country raised tariff rates and prices for services several times over.¹

Today, they are profitable enterprises. However, the reasons for them to break even has little to do with private ownership, given such tariff rates and non-competitive conditions, the companies could have been operated profitably under any form of ownership.²

Undoubtedly, the development of the economy from the mid-1990s had its own virtues. The results of pre-crisis economic development of the country was economic growth from 1994 to 2008 (two-digit growth in 2002-2007), macroeconomic stability with reasonable inflation, a practically deficit-free budget, a stable banking sector, a decrease in the debt burden of 13.5% of Gross Domestic Product (GDP), a reduction in the poverty level, welfare gain as well as a slowdown in human migration rates and a positive balance between departing and visiting passengers were recorded.

¹ Before the transfer into private operation, the losses of water in the water supply systems amounted to about 40%. Today, the water tariff is several times higher and losses amount to about 80%. For example, in 2010 losses of the company "Yerevan Jur" amounted to 83.5%, losses of "Armvodokanal" amounted to 85.1%. Source: Public Service Regulatory Commission of the Republic of Armenia <http://www.psrc.am/download.php?fid=17236>

² In 2004, the World Bank presented research results of activity of 1.3 thousand enterprises in Russia. According to the results of the research, the success of major oligarchs was determined not by their good management but by their monopoly power. Moreover, from the viewpoint of efficiency of resource use, these enterprises less efficient than the smaller companies. <http://www.rg.ru/2004/04/08/Ryul.html>.

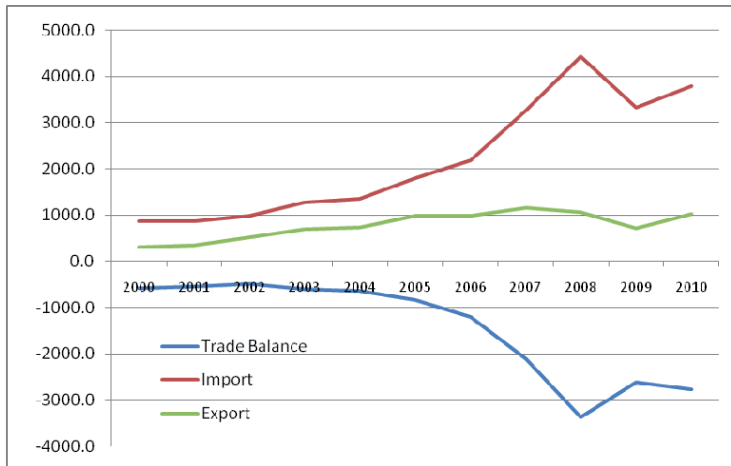
Chart 3. Armenia's foreign debt (in % of GDP)¹

However, a considerable price was paid for such economic development. The dependence upon imports increased – imports exceeded export four times. The actual promotion of imports and the absence of any industrial policy led to non-competitiveness of the Armenian economy and its dependence upon imports. It is sufficient to note that more than 40% of GDP is imported and only 10% of GDP is exported.²

¹ Source: Ministry of Finance of the Republic of Armenia <http://minfin.am/main.php?lang=1&mode=macroind&iseng=1&isarm=1>

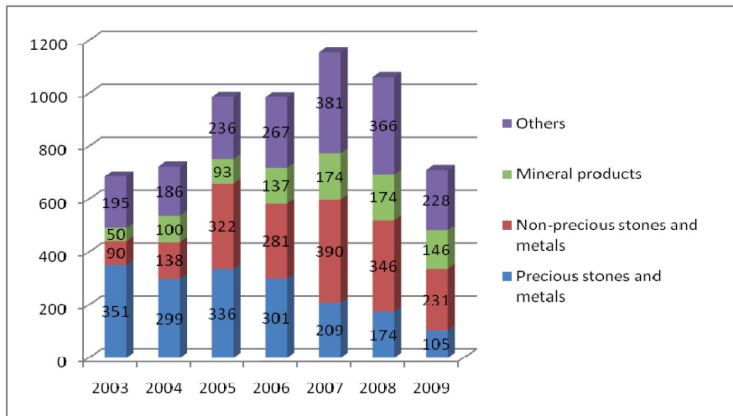
² Source: Ministry of Finance of the Republic of Armenia <http://minfin.am/main.php?lang=1&mode=macroind&iseng=1&isarm=1>

Chart 4. Trade turnover (m of USD)



Exports from Armenia consisted mainly of raw materials and labor. About 70% of exports were accounted for by raw materials, ore, precious and basic metals and precious stones.

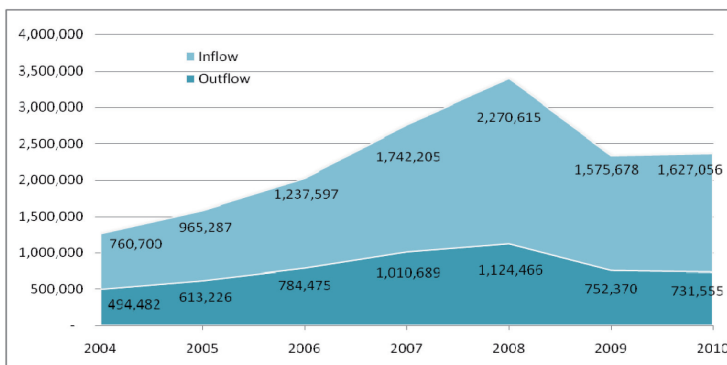
Chart 5. Structure of exports (m of USD)¹



¹ Source: National Statistical Service of the Republic of Armenia http://armstat.am/file/article/ft_2nish_09_8.pdf

Whereas workforce export was set off by private money transfers into the country, the state of the economy has become influenced by the volume of these transfers. A massive deficit in the balance of trade was more or less evened out by private money transfers exceeding USD 2 b per year. Taking into account the cash flow bypassing the banking system, this number will be much bigger.

Chart 6. Bank money transfers from and into Armenia (ths. of USD)¹



In the country, there was a high level of black-market economy and commodity market monopolization. According to research by specialists, the share of the black market accounted for 40%. A high level of monopolization could be observed in almost all commodity and service markets, especially as regards imports. The state of competition was influenced also by unofficial permits for carrying out any business.

The share of banking in the economy remained unusually low. Enjoying privileges, the banks, in reality, depended little on economic processes. The percentage of loans handed out by banks to businesses stood at the lowest level ever, at 14% of GDP.

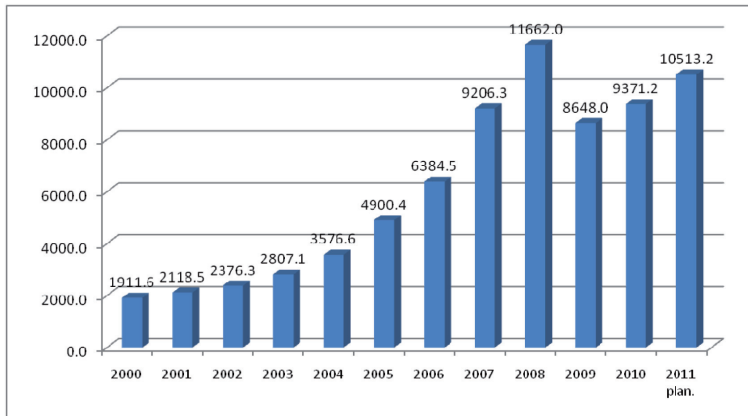
¹ Source: Central Bank of Armenia
<http://www.cba.am/am/SitePages/statexternalsector.aspx>

During these years, the national currency became stronger – the strong dram hit local producers and the competitiveness of the Armenian economy painfully hard.

From the global to the domestic economic crisis

The global financial and economic crisis has affected Armenia in an extremely bad way. There was a reduction in the growth rate in 2008 and a further slump in 2009. In the year 2009, recession amounted to 14.1% – the greatest rate in the region. Using USD, the equivalent of the slump was even lower – around 26%.¹

Chart 7. Gross Domestic Product (m of USD)



Construction, the driving force of the economy, caved in almost completely. A fall in money transfers of more than 30% caused a deficit of the foreign currency and an exceptional depreciation of national currency of more than 20% in March 2009.

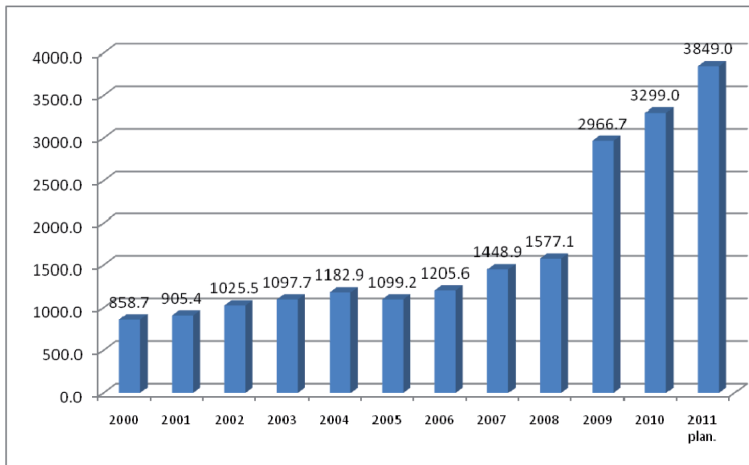
The crisis led to the emergence of systematic deformations both in the economic structure and in the economic

¹ Source: Ministry of Finance of the Republic of Armenia <http://minfin.am/main.php?lang=1&mode=macroind&iseng=1&isarm=1>

policy. A rapid drop in money transfers, a recession in the construction industry, the foreign-exchange deficit, a low level of diversification in the economy as well as a lack of new sources of growth have all led to serious problems for the country.

In 2009, the government resorted to a sharp increase in foreign debt – for a short time, the foreign debt of 13% increased several times over, exceeding 40% of GDP. (See also Chart 3).

Chart 8. Foreign debt (m of USD)



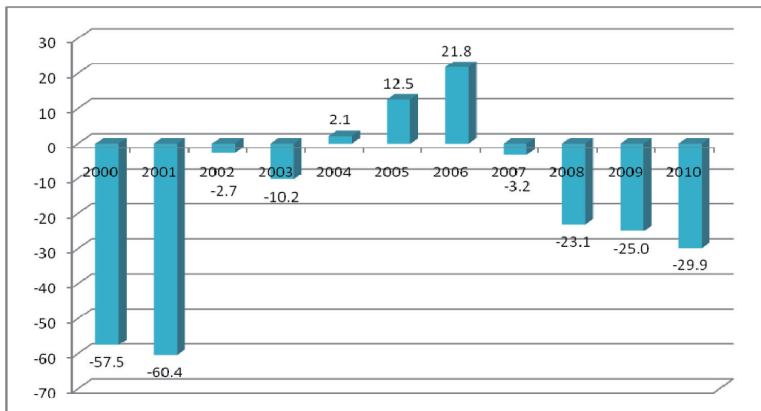
The poverty level remained high in the country. According to official figures, before the crisis, the poverty level had been reduced and amounted to 23.5%. According to the latest figures, the number of poor people accounts for more than 34%, i.e. more than one million live below the poverty line. Considering that the calculating methods applied by the government are quite controversial, it is safe to say that the real number of poor exceeds 60%. As of the beginning of 2011, the cost of the consumer goods basket of 2,412 kcal, based on a daily allowance per capita, amounted to AMD 62.4 ths. per month¹, which

¹ Source: National Statistical Service of the Republic of Armenia
http://armstat.am/file/article/sv_03_11r_6300.pdf

is twice as high as the poverty line of AMD 30.9 ths., as approved in 2009. The minimum wage amounts to AMD 32.5 ths.

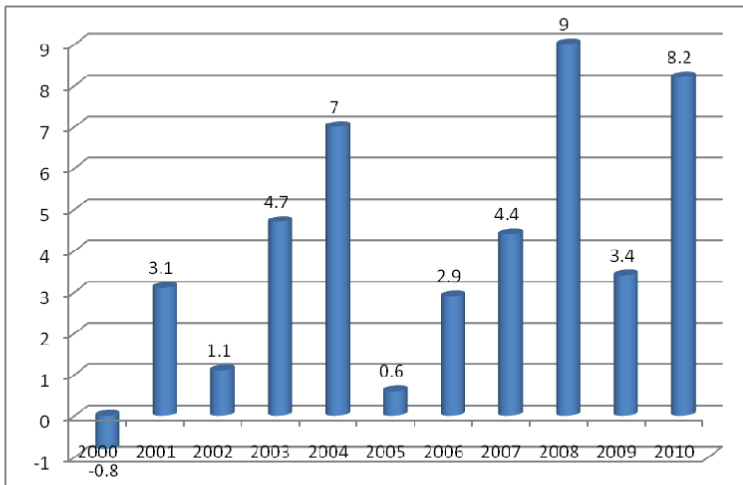
A low-income policy and a lack of jobs have led to a drain of the population. For the past 20 years, the country has been abandoned by about 1 million people, while each year about 100,000 persons leave for migrant labor. One of the advantages of the recovery period – a slight positive development of migration in 2004-2006 has been cancelled. The crisis has led to an increase in the rate of migration.

Chart 9. Balance of outbound and inbound people in Armenia (ths. of persons)¹



In recent years, the government has encountered a new challenge – inflation and price hikes primarily for food (in reality the prices for most food produce have increased several times) in the current year (2011), the inflation rate has not been encouraging.

¹ Source: The Migration Agency of the RA Ministry of Territorial Administration
<http://www.backtoarmenia.am/?hcat=85&scat=87&l=rus>

Chart 10. Average annual inflation (%)¹

Today, despite allegations of a recovery from the crisis, the economy is still in stagnation – no sources of economic growth can be seen, while GDP in USD equivalent will be lower than in the 2008 pre-crisis time. Even so, instead of structural reforms a wait-and-see policy has been adopted with the hope of gaining time until the recovery of the world economy.

Is Europe near?

Integration into the world economic and political system, in particular, Euro-integration, has been declared the policy of all successive governments of the Republic of Armenia. However, the question of how close Armenia is to Europe is still undecided. As it has been outlined above, the active introduction of the principles of a free market economy as well as deregulation of the economy was considered the required condition for integration. Armenia with a several times lower standard of living than Central Europe (let alone in the developed European countries) has not

¹ Source: Ministry of Finance of the Republic of Armenia
<http://minfin.am/main.php?lang=1&mode=macroind&iseng=1&isarm=1>

only conducted the policy of stimulating freedom of trade and import but has subsequently more or less refrained completely from any protection of local manufacturers.

As a country with an open economy, Armenia rejected almost all the levers of state intervention and stimulation of development.¹ At the same time, an economic policy was pursued to secure a low budget deficit and inflation. Monetary rules of market control and inflation have more or less maintained the average income per capita at a low level while cooling down the economy.

As a result, in the case of Armenia, we have a state adherent to principles of Euro-integration that embraces the legislative principles of free trade and a refusal of protection and discrimination in the economy. However, it has had far from competitive growth of the national economy let alone ensuring a European standard of living.

The results achieved so far represent a highly interesting dilemma – the closer towards integration and globalization by means of legislative action, the further from the economic level of Europe. In other words, the freedom of international trade, refusal of protection for local manufacturers, the stimulation of imports, the acceptance of free market principles have not led to the creation of jobs, to more competitiveness of the economy, to the stimulation of exports. As a result, the standard of living of the citizens of Armenia cannot be raised to the average level in the European Union. Undoubtedly, such policies would be helpful where there is a developed economy and common borders with other EU countries.

As a result of reforms aimed at reducing the level of corruption and ensuring competition in the economy, corruption and the black market have risen. The Comprador middle class has been strengthened, whose activity of

¹ For instance, for entering the markets of Europe and other developed countries, Armenia has undertaken the obligation of pursuing non-discriminate public procurement even though the domestic companies are not competitive themselves.

exporting raw materials and importing all kinds of things to Armenia has been legitimized by their integration into the world economic system.

Certainly, there is an alternative path as elected by some other developing countries going toward Europe, such as Turkey. This is a construction of the national economy, conducting an industrial policy, ensuring a proper level of development, establishing the country as a leading economic force and only then, is there the gradual liberalization of foreign economic activity, which is based on a sounder national economic basis

Therefore, the question of how an active and fair application of liberal requirements and standards in the circumstances of an underdeveloped economy may lead to real Euro-integration and a European standard of living and development may still be considered open.

Two bourgeoisies

20 years of authoritarian rule have had an impact on the business environment and economic competitiveness in the country. The political elite have also been the business elite of the country. That is to say, that at the political level, there has been an informal redistribution of property, areas of business influence and profits. It has been said frequently, including by representatives of international organizations, that there is a monopolistic structure in the economy of Armenia and that the major companies abuse their dominant position in the market. This is reflected also by official figures on the state of the commodity markets.¹ However, such monopolization does not mean that, formally, there has to be only one economic entity in many areas.² There might be several

¹ State Commission for the Protection of Economic Competition of the Republic of Armenia <http://www.competition.am/>

² For instance, if, before, one company used to operate in the field of importing automobile fuel, then there are several of them now, however, this has not reduced the market concentration level nor has it led to free access to the market.

economic entities but they are interlinked or the decision on their activities in the market is taken at a centralized level. If one takes into account that companies controlled by one person or group of entrepreneurs operate also on several commodity markets, then we can conclude that the level of monopolization, in reality, is much higher than it appears.

The major part of entrepreneurs has never welcomed the conducted policy. First of all, it cannot be perceived positively by representatives of small and medium-sized businesses who can hardly bear the hardships of the government's economic policy. Secondly, it cannot be perceived positively by those entrepreneurs of big business who are seeking a different economic policy due to their business interests. The situation has been aggravated by public officers (some of high standing) who have their own business interests. As a result of serious resentment against the government's activity, a new ideological opposition has been formed in the person of entrepreneurs concerned about the change in the economic course of the country.

This brings up the question of why these contradictions did not emerge before. In the days of economic growth, in the period of making easy money, the profits were sufficient for everybody. The crisis led to a reduction in the size of the pie.

Considering the character of the political system and the methods of the struggle for power, businessmen prefer not to take up the struggle overtly. They are either on the sideline of the political system, endeavoring to survive under the current conditions, whenever this is possible, or they enter the political system themselves and seek to solve their issues from within the power structures in a vertical manner.

There is the controversial opinion that a seat in parliament or government is an indispensable guarantee of success in business. Actually, this is not the case. Surely, there

are major entrepreneurs both in the National Assembly and the government. However, there are lot of highly successful and prospering entrepreneurs outside the walls of public offices as well. In fact, a lot of them have been more competitive and efficient than entrepreneurs with "documented" evidence of political backing.

In addition, the main wrong assumption existing in society consists in the allegation that the businessmen-deputies protect the interests of business in parliament. If the businessmen-public officials in the executive branch have every opportunity for similar activity, then the situation is reversed in parliament. In reality, deputy-businessmen have been quite inactive in lobbying for their business interests. To some extent, there is a tacit agreement according to which political loyalty in parliament leads to a more lenient attitude towards the business of this deputy on the part of the executive branch. That is precisely why businessmen-deputies have passed bills even most unfavorable for the business environment. Therefore, real lobbyism, real protection of interests of entrepreneurs, especially of small and medium-sized business would be more helpful – because more favorable economic laws would have to extend to all participants in economic relations.

Today, the business community of Armenia may be divided into two major camps, based on the outlook of its members. One side may be called "importers" (they are basically the major importers, representatives of the service sector, and business-public officials from the executive branch). The second group is composed of the so-called "manufacturers" (producers owning factories and enterprises). The first group operates the levers of the executive branch, influencing the economic policy of the government and, indirectly, the international financial organizations. They are also the major taxpayers. The second group is numerous, provides many jobs and is more connected with citizens but the state policy conducted by it is not only unfavorable but inflicts tangible damage on their activity. The result of such informal opposition between the "comprador" and "national" bourgeoisies, of

course, could have an impact on the economic policy, but, considering the condition of the local bourgeoisie itself, the change of the present way of things without serious political changes is unlikely. In other words, the collision of economic interests of different groups is unlikely to lead to political changes though it may impact them partially.

Is the new stage coming?

The basic issue being faced by the Armenia economy is the problem of the vitality of the present model of development. Can the present economic configuration ensure long-term – for decades – growth and stability as well as the functioning of a socially balanced economy?

Only one thing is clear – the present model of the economy is very vulnerable to possible shocks, and the level of economic independence and safety is far from satisfactory. The problem of food, transport and energy security is still on the state's agenda.

The absence of state control over vital spheres of life, excessive openness of the economy as well as the absence of any protection does not represent sufficient opportunities to influence economic development. A high poverty level, unemployment, massive labor rights violations, migration, wide differences between the rich and the poor, corruption and a weak development of democratic institutions have a negative influence on the moral and psychological atmosphere in society.

In the present conditions, the following paths of development may be recognized clearly:

- 1. Preservation of the present model of development until the restoration of a favorable world business environment.** This is the approach followed by the government today. For the salvation of the present system, they have borrowed funds from various external sources. Foreign debt of the country has more than tripled. These funds have been

channeled into backing of the budget deficit and the provision of a stabilization fund in order to maintain an artificially overvalued national currency exchange rate. Concomitantly, the government has been busy resolving operative tasks as well as actually patching holes in the budget and its own economic policy. As a result, the government has failed all program indexes and goals. In the economic policy, a curious mixture of Neo-liberalism and Bolshevism has formed – rude and often unreasonable intervention in some branches and enterprises as well as taking over a number of legislative tasks and rights to be able to avail of special privileges arbitrarily.

The "wait-and-see" policy may lead to positive results temporarily until the shock of the next crisis, subject to an improvement in the overall world business environment. In case of a recovery from the crisis on a world scale, Armenia may return to the former pre-crisis situation – growth of private money transfers, favorable situation for metals value on the world market and a balanced and reasonable cost of sources of energy. In such conditions, Armenia will probably resort to additional borrowing of finances from abroad but it will possibly be able to repay its foreign debt by pulling its belt tighter.

- 2. Delaying action without achieving a favorable economic atmosphere in the world.** In such a case, with the passage of a certain period of time, the country will be forced to resort to the aid of international financial organizations and maybe the assistance of friendly states. The question of state foreign debt restructuring and the application of surgical methods that will impact the country's economy may come up. Such a scenario is possible if a new wave of crisis sweeps through the country before Armenia is able to recover.

3. Third way – rethinking and a slow departure from the present model of development, implementation of democratic, social and economic reforms. The important components of such reforms must be to ensure economic competition, to carry out a fair policy of a re-distribution of profits, a gradual augmentation of the share of responsibility and obligations of the state, a reasonable and moderate policy of protecting local manufacturers etc. Such a development can be called the construction of a national economy in an enhanced moral and psychological atmosphere of the society.

With the preservation of the present political regime or its replacement by the sympathetic elite, the present ideologized conservative-liberal system will be most likely preserved with attempts at improving the economic position along with preserving the present dogmatic orientation.

A second option of development is a serious slump in the economy, a crash of the economic and probably the political system, too. In a less dangerous (without the crash of political bases) version, it may appear in the form of a collapse that could be seen by the present generation in the early 1990s. Considering the unpredictability of the further development in this scenario, the unlikelihood of the worst version of outcome should be mentioned at about the same time.

The third option is extremely painful for the present establishment. It must be accompanied by such phenomena as a change in the way of thinking, the ideology, life priorities and eventually a voluntary (and probably forced) departure from the political arena of people embracing the old conservative ideology.

The third scenario is most feasible in case of the implementation of serious and fundamental political, economic, social, cultural and ideological reforms as well as the replacement of the ideologized and dogmatically disposed elite or at least of its major part.

How far the present-day political and economic elite of Armenia is prepared to conduct the changes necessary for the future development of the country, which will be painful for them, will be seen in the not-too-distant future.

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Azerbaijan's Economic Model and its Development since Independence

Anar Valiyev

Azerbaijan had a broad and diversified economic base until the collapse of the Soviet Union in 1991. Nevertheless, a significant part of its industry was dependent on imports from other Soviet republics, and the bulk of its exports were specifically produced for consumers inside the USSR. The disintegration of the Soviet Union and the beginning of the Karabakh conflict worsened Azerbaijan's economic ties with the other republics. The country's industrial sector and other sectors of the economy collapsed subsequently. Azerbaijan's economic transformation after independence could be divided into three phases. The first phase covers the period from 1991 to 1995 and is characterized by political instability, military activities, the emergence of hundreds of thousands of refugees and deep economic crisis. The exchange rate of the country weakened because of a triple digit inflation from 1992-1994 that led to a massive exchange rate depreciation of the Azerbaijani manat (AZN). The Gross Domestic Product (GDP) also dropped significantly. In 1995, Azerbaijan's real GDP only totaled 37% of the 1989 level, while the average Commonwealth of Independent States (CIS) level amounted to 58%. On average, Azerbaijan's real GDP decreased by 15% per annum from 1992 to 1996 (World Bank, 2009a). The precipitous decline of the economy had a disastrous effect on employment, too. Many jobs became dispensable, and massive layoffs took place due to de-industrialization. At the same time, the collapse of the social protection system impoverished a large group of the population. During

the communist period, many social assistance programs including free kindergartens, sanatorium putyevkas (vouchers that allows the person to rest or get treatment in a resort area – ed.) were provided by state industries and enterprises. The families of people working in these places were eligible for free medical treatment, houses and discounted cars. The closure of many enterprises, industrial transformation, economic restructuring and the changing character of employment left employees without social protection and deprived them of usual benefits. At the same time, the changing nature of poverty and the new criteria for defining poor families did not allow the social protection system to properly define categories of vulnerable people. Poverty had been homogeneous before the collapse of the Soviet system. The overwhelming majority of the poor were families with a large number of dependents, pensioners and single mothers.¹ This allowed the government to provide social protection through easily definable categories (e.g., number of children, age and marital status). In addition, verification of the income of those who might need social protection was not difficult due to the nature of a centrally planned economy in which the government provided all employment. However, since independence, poverty has become more heterogeneous throughout the country, and demographic characteristics have become weak determinants of poverty.² The situation has also exacerbated by the presence of internally displaced persons (IDPs), who are scattered across the country. The divergence of poverty types as well as the significant size of the unregistered economy made the identification of the needy difficult. In addition, the collapse of the industrial factories in the country forced many people to take jobs in

¹ Braithwaite, J. (1995) The old and new poor in Russia: trends in poverty. In: J. Klugman (Ed.), *Poverty in Russia: Public policy and private responses*. Washington, DC: World Bank. Manning, N. / Tikhonova, N. (Eds.) (2004) *Poverty and social exclusion in the new Russia*. Aldershot: Ashgate.

² Government of Azerbaijan (2004) *Annual report – 2003: State program on poverty reduction and economic development*. Baku, Azerbaijan.

different spheres of economy or to become self-employed. This phenomenon eventually led to the disappearance of trade unions. The emerging service sector, in which most unemployed people found jobs, did not offer any social benefits. Thus, by early 2000 the level of poverty in the country reached a dangerous level of 49%.¹

The second phase of Azerbaijan's economic transformation is defined by the period from 1995 until 2003, in which Azerbaijan made substantial progress towards stabilizing its economy. The government launched a wide-ranging reform program in the late 1990s, and later on, it directed its resources to achieving sustainable growth and development. With the increasing flow of oil revenues, state authorities began to strengthen governance in financial markets, reform the tax code, fight corruption and ensure transparent budget execution and accounting. With greater political stability, the government launched a program to stabilize the economy and introduced structural reforms. A further component of the reforms was a process of privatization. During privatization, the government sold or privatized all small firms and enterprises. This was almost complete by 2000-2001. Then, the government distributed privatization vouchers among the general public and launched voucher auctions, in which people were allowed to exchange their vouchers for stocks in plants and factories. Most of the state-owned companies were transformed into open joint-stock companies. The shares of state enterprises were sold or distributed through voucher or cash auctions as well as tenders. These and other reforms allowed the Azerbaijani GDP to increase by 1.3% in 1996, while inflation sharply declined from 1.788% in 1994 to 50% in 1995 and to 20% in 1996.² One important factor significantly contributed to

¹ The State Statistical Committee of Republic of Azerbaijan (2006). Estimation of Poverty Statistics in Azerbaijan Republic. <http://www.nscb.gov.ph/poverty/conference/papers/11azerbaijan.pdf>

² The State Statistical Committee of Republic of Azerbaijan (2009) Retrieved from <http://www.azstat.org>

sustained growth in the country. In September 1994, the government signed a Production Sharing Agreement [PSA] with foreign oil companies to exploit oil and gas deposits in the Caspian Sea. The agreement, often referred to by the government as Contract of the Century, envisioned that foreign companies would invest in the development of three oilfields and after the recovering of all costs, 80% of all profits would remain with Azerbaijan, while 20% would be divided up among the members of the consortium of oil companies. Furthermore, oil companies promised to construct the Baku-Tbilisi-Ceyhan (BTC) pipeline and the South Caucasus Gas pipeline to transport oil and gas to Turkey through Georgia. The contract permitted Azerbaijan to attract necessary investments into the oil industry and obtain modern technologies. Moreover, the contract spurred development in other industries associated with oil including the construction business, pipeline production, the tourist industry as well as services.

It is worth mentioning that the first two phases of economic transformation fell into the presidency of Heydar Aliyev, the patriarch of Azerbaijani and Soviet politics. The last phase of economic transformation comprises the period from 2003 until today and represents the presidency of Ilham Aliyev. The power succession of governments in Azerbaijan did not lead to radical changes in policies. In contrast, the policy for deepening reforms continued. However, if during the first two phases of development, Azerbaijan was more dependent on foreign assistance, Azerbaijan had huge financial resources to invest into economy in the last phase. For this latter phase, thanks to the oil development, FDI into the country increased from EUR 825 million in 2001 to EUR 5.890 billion in 2010.¹ The State Oil Fund of Azerbaijan was created in December 1999 "to ensure intergenerational equality of benefit with regard to the country's oil wealth, whilst improving the economic well-being of the population today and safeguarding economic security for future

¹ The State Statistical Committee of Republic of Azerbaijan (2010) Retrieved from <http://www.azstat.org>

generations"¹. The fund's activities include the preservation of macroeconomic stability, the safeguarding of fiscal tax discipline, a decreasing dependence on oil revenues and the stimulation of development in the non-oil sector.² By mid-2011, the assets of the Fund reached around USD 30 bn.³

For the thirteen year period from 1997 to 2009, Azerbaijan's GDP grew by 14% per year on average.⁴ However, much of the growth was generated by industrial output – mostly in the oil and gas industry that grew by 18.8% on average between 2003 and 2009.⁵

Much of Azerbaijan's economic success and prosperity is explained by the oil factor. Oil prices have increased during the presidency of Ilham Aliyev. Oil and gas production has boomed. As a result, the GDP per capita also grew to EUR

¹ State Oil Fund of Azerbaijan Republic (2009) History and philosophy. Retrieved from <http://www.oilfund.az/en/content/2>

² State Oil Fund of Azerbaijan Republic is the body that accumulates assets and funds coming from the exploitation of oil fields. Its activities are overseen by a Supervisory Board. The Board is to review the Fund's draft annual budget, annual report and financial statements along with auditor's opinion and provide its comments. Members of the Supervisory Board are appointed by the President of Azerbaijan and shall represent both state bodies and civil society. But in fact all the members of the Board are members of the government. SOFAZ's management is vested with the Executive Director, appointed by and accountable to the President of the Republic of Azerbaijan. SOFAZ's Executive Director as a chief executive officer is vested with the powers to be a legal representative of the Fund, organize and conduct business of the Fund including appointment and dismissal of employees, management and disbursement of the assets of the Fund in conformity with the rules and regulations approved by the President of Azerbaijan. The Executive Director is responsible for the preparation of the annual budget of SOFAZ, incorporating an annual program of the Fund's asset utilization, and its submission for the approval of the President of Azerbaijan. For the period of its activity, the Fund has had several external audits and some parliament hearings. However, no effective public control mechanism exist to oversee the management of the fund.

³ State Oil Fund of Azerbaijan Republic (2011). Statistics. <http://www.oilfund.az/en/account/97>

⁴ The State Statistical Committee of Republic of Azerbaijan (2009) Retrieved from <http://www.azstat.org>

⁵ European Bank for Reconstruction and Development, in the following EBRD, 2009, World Bank, 2009.

3,411 in 2009.¹ High oil revenues allowed Azerbaijan's GDP per capita to reach 54.3% of the average of 10 EU countries (Latvia, Lithuania, Estonia, Czech Republic, Poland, Hungary, Slovenia, Slovakia, Romania and Bulgaria).² Windfall of oil revenue spurred the Azerbaijani government's initiative to spend a large amount of revenue on infrastructure projects such as roads, bridges and city beautification. The total government expenditure increased by a cumulative 160% in nominal terms from 2005 to 2007.³ Significant changes were observed in the structure of GDP. Over the last decade, increased income from oil and related sectors altered the structure of GDP. The share of agriculture in GDP dropped from 15.9% in 2000 to 6.4% in 2009. The share of crude oil and natural gas extraction as well as services related to oil and gas extraction increased from 27.6% in 2000 to 44.8% in 2009. Meanwhile the share of manufacturing (including industries and production of oil refineries) dropped from 5.3% to 4.1% in 2009. All sectors grew in nominal values. However, the bulk of the country's income has been generated by the oil and growth sectors. The increase in the oil GDP out-paced the non-oil GDP, while the share of other sectors was marginalized.⁴ Due to these factors, Azerbaijan's economy has become almost completely dependent on oil and the oil price.

Azerbaijan's rapid economic development and significant improvement across several indicators allowed the

¹ It was actually slightly less in 2009 than in 2008, i.e. EUR 3,922. Following the sharp decline in the oil prices in 2009, the nominal GDP of Azerbaijan significantly decreased, while the real GDP increased by 9.3%.

² Comparing the same index with the CIS average, the GDP per capita in Azerbaijan rose from 42.3% from 1997-2000 to 155% in 2009.

³ The State Statistical Committee of Republic of Azerbaijan (2009) Retrieved from <http://www.azstat.org>

⁴ Meanwhile, the transport and communication sector shrank from 12% to 8.6%. Social service delivery, education, social protection, welfare and health dropped from 16.4% to 11.7% of GDP. Gas, electric and water supply sectors also decreased in GDP share from 3.1% to 1.1%, while trade and non-taxes sector rose to 8% and 7.6%, respectively.

country to be placed on the list of countries with a high human development. For example, Azerbaijan's ranking in the Human Development Index (HDI) has improved significantly. In 2010, it reached the highest score at 0.713, and the country was ranked 67th among 169 countries. Thus, for the first time in its history, Azerbaijan left the ranks of countries with "medium human development" and joined the "high human development" cohort. Since 1995, Azerbaijan's life expectancy (one of the indicators of HDI) has increased by 5 years, the expected years of schooling has increased by 3 years, and Gross National Income per capita has soared by 338%.¹

Availability of oil income allowed the government to spend some money on the development of the regions of Azerbaijan. Immediately following the election of President Ilham Aliyev in 2004, the government adopted the "State Program on Regional Socioeconomic Development" for 2004-2008. The main objectives of that program were to develop local entrepreneurship, increase employment and improve the living standards of the population. In April 2009, the government adopted a new "State Program on Regional Socioeconomic Development" for 2009-2013. The second program was merely a continuation of the first one with more attention on the development of the non-oil sectors, the stimulation of export-oriented goods, the improvement of public services and the decline in poverty. Within the framework of that plan, the State Investment Fund was established and accumulated more than EUR 1.77 billion by the end of 2008. Just as with the Oil Fund, the Management Board of this agency is comprised of governmental officials, and no public control exists to oversee the activities of this body. According to the governmental figures, about EUR 5.3 billion of investments were spent to implement this program, including EUR 1.77 billion which was spent in 2008. By the government's

¹ United Nations Development Program (UNDP) (2010). Worldwide trends in the Human Development Index 1970-2010. Retrieved from <http://hdr.undp.org/en/data/trends/>

estimates, about 26,641 companies have been set up within the last five years, and 839,800 new jobs have been created, including 602,088 permanent jobs.

The second half of 2008 began with a global and financial crisis that hit many countries in the region. Despite the statements of governmental officials, Azerbaijan felt the impact of the crisis that led to a significant drop in FDI from 2008-2009. Among many sectors, it was mostly agriculture, manufacturing and construction that declined. These drops were compensated by increasingly large inflows in the sectors of production and in the distribution of electricity, gas and water. FDI in manufacturing, assembly and services was extremely weak, and most FDI in the country went to infrastructure and extractive industries. According to EBRD data, the net FDI dropped from EUR 1.6 billion to negative EUR 607.6 million in 2009.¹ The government, which uses a different method of counting FDI, claimed that this index dropped by 21% and reached EUR 4.2 billion.² The impact of the crisis on Azerbaijan comprised lower oil revenues. Nevertheless, the country still managed to end 2008 with a double-digit growth rate and held 9.3% growth in 2009. The Azerbaijani government took serious steps to mitigate the impact of the financial crisis. In order to revive the property market and the construction industry, which had been hit hardest, the government allocated EUR 134.6 million to revive these sectors. By the end of 2009, over 3,000 mortgage loans had been given to people for buying apartments.³ Despite these measures, the property market nevertheless lost 20% of its value in 2009 alone and over 30% over the entire period of the crisis. Meanwhile, the government

¹ European Bank for Reconstruction and Development (EBRD) (2009) Financial sector analysis for South Caucasus. London, UK. Retrieved from <http://www.ebrd.com/country/sector/etc/finsec.pdf>

² The State Statistical Committee of Republic of Azerbaijan (2009) Retrieved from <http://www.azstat.org>

³ Azerbaijan Mortgage Fund (2010) AMF statistics 2010. Retrieved from <http://www.amf.az/?/en/news/view/33/> (Azerbaijan Mortgage Fund, 2010)

increased state investments in an attempt to compensate for the loss of FDI due to the crisis. Since the crisis hit the country, the government invested around EUR 3.72 billion into the local economy, mostly in infrastructure projects (60%) and in social projects (20%).¹

The composition of the state budget changed significantly as well. For the last seven years, expenditure of the state budget increased nominally more than 10 times from EUR 887.76 million in 2003 to EUR 9.2 billion in 2010. Due to the high oil revenues, the budget heavily relied on income from the oil sector. The share of direct oil revenues in the state budget income reached 65.4% in 2010, while the non-oil trade balance deteriorated and dropped to 3.2% of total exports.² Meanwhile, State Oil Fund transfers to the budget have reached a record 40.4% of all budget income. Due to the financial crisis, the Azerbaijani government took some steps that were reflected in the new budget for 2010. However, the new budget demonstrates the extreme dependence of the country on oil revenues.³ It is notable that the bulk of taxes also comes from the oil sector. It was expected in 2010 that, out of EUR 4.32 billion tax revenues, EUR 2.74 billion would be paid by the oil sector. In total, around 80% of all revenues to the state budget in 2010 came from the oil sector.⁴ In comparison with the budget of

¹ The State Statistical Committee of Republic of Azerbaijan (2009) Retrieved from <http://www.azstat.org>

² The State Statistical Committee of Republic of Azerbaijan (2010) Retrieved from <http://www.azstat.org>

³ Budget expenses comprised EUR 9.90 billion, while revenue was at EUR 8.93 billion. EUR 4.33 billion out of EUR 9.90 billion of revenue was taken from the Oil Fund, while EUR 4.32 billion was generated by taxes. The rest of the funds of EUR 186.56 million came from other sources.

⁴ The National Budget Group (2009) Review on budgetary policy for 2008, 2009. Baku, Azerbaijan. Retrieved from http://www.nbg.az/news_index.php?lang=en&news_id=410. The State Statistical Committee of Republic of Azerbaijan (2009) Retrieved from <http://www.azstat.org>. Zermeño, M. (2008) Current and proposed non-oil tax system in Azerbaijan. IMF Working Paper, Middle East and Central Asia Department. IMF Working Paper, WP/08/225, 2008. Retrieved on August 2, 2010 from <http://www.imf.org/external/pubs/ft/wp/2008/wp08225.pdf>

the previous year, the 2010 budget shows a significant drop of allocations in funds for construction, as well as a modest increase in those for social protection, education and health care. The government declared the development of agriculture to be one of its priority fields due to the impact of the global food crisis. This is reflected in the 2009 and 2010 budgets. Agricultural expenses increased by 65% in 2009. This increase included subsidies to agricultural producers and implementation of the "State Program on Reliable Food Provision for the Population" that had been adopted in August 2008.¹ The budgets for the last five years indicate that increasing public expenditure was not directed toward human development (e.g., health care, education, science), but rather to infrastructure projects, defense and expenses for general government services that include cost for keeping the bureaucratic apparatus, police and other state agencies. Despite the absolute increase, the share of social expenses in the state budget has been decreasing for the past few years. In 2003, for example, the expenses for social security represented 18.2% of the overall expenses, while in 2009 they were at a level of 9.7%. Educational expenses decreased from 23.7% of overall expenditures to 11.6% in 2009; health expenses dropped from 5% to 4.3%. In absolute terms, corresponding to rising oil prices and budget expansion, social expenses increased. However, in relative terms, their overall share decreased in the inflated budget.²

The budgets of 2009, 2010 and 2011 indicate that the government began to decrease expenditure on infrastructure projects and to divert funds into health care, education and social protection as a result of the financial crisis. However, the increase in educational and health expenditure, above all, represents the salary growth of

¹ The National Budget Group (2009) Review on budgetary policy for 2008, 2009. Baku, Azerbaijan. Retrieved from http://www.nbg.az/news_index.php?lang=en&news_id=410.

² Until 2009, the share of these expenditures in percent of GDP also dropped. However, in 2009 the share of these expenditures increased slightly due to a decrease of GDP in nominal values.

the employees of these sectors, as well as operational expenses. Nevertheless, the average monthly nominal wages of people working in education and the health services remain low compared to those paid in other economic sectors. In 2009, the average salary of people employed in education was about EUR 230, while average salary in the country was at EUR 259. Providers of health and social services even earned around half of the national average (EUR 139.8). Only people working in agriculture received lower wages than health workers and people working in the education field. In the health care system, around 95.5% of people received salaries between EUR 43.5 and EUR 130.5. Of this total, 68.4% of all people involved in healthcare received salaries between EUR 43.5 and EUR 65.2, below or at the minimum wage level.

Meanwhile, the revenue side of the state budget has experienced serious challenges. Tax collection and its composition in budget revenues shows a sharp decrease in taxes paid on profits. The share of the profit tax in all budgetary revenues was 41% in 2007, and it declined to 12% in 2009. This can be explained by the financial crisis that led to lower profits of companies and forced many of them to shut down. Meanwhile, a significant jump was observed in non-oil tax revenues, which grew from 19.5% in 2007 to 56.7% in 2009. It was the first time that most revenues in the budget were non-tax revenues. The bulk of those non-tax revenues were transfers from the State Oil Fund. This reinforces the arguments that the state budget is becoming increasingly more dependent on oil revenues. By taking into consideration that a significant share of profit taxes also comes from oil-related industries, it becomes obvious that the slightest price change in oil products will affect budget performance significantly.

Azerbaijan has shown a marked improvement in governance indicators during the past few years. The introduction of "a one-stop shop" system decreased the time and cost, and eased a number of procedural hurdles that had to be taken to set up a business. The registration of new businesses rose by 40% in the first 6 months of

2008, following the introduction of this system. Azerbaijan also eliminated the minimum loan cutoff at EUR 780.29, more than doubling the number of borrowers covered by the credit registry. Significant changes were adopted to introduce e-governance in Azerbaijan. For example, the Ministry of Taxes introduced an online tax system allowing businesses to report and pay electronically.¹ As the Global Competitiveness Report for 2009-2010 describes the situation:

Measurable improvements across many aspects characterized by strong and improving macroeconomic stability, high national savings, a large budget surplus, and low and shrinking government debt, although high inflation does raise some concerns. Within the goods markets it has become much easier and less expensive to start a business: the number of procedures required more than halved from 13 to 6, and the time required has been reduced from 30 to 16 days.²

However, corruption remains one of the country's endemic problems. For the last decade, Azerbaijan has occupied the 143rd place out of 180 on Transparency International's Corruption Perception Index.³ Corruption is prevalent in almost every sphere of social life and considered one of the country's challenges in its transition to a market-based economy. Azerbaijan has not shown much improvement

¹ World Bank (2009) Azerbaijan country economic memorandum. Poverty Reduction and Economic Management Unit Europe and Central Asia Region. Report No. 44365-AZ. Retrieved from http://www-wds.worldbank.org/external/default/WDSContentServer/WDS/IB/2010/01/07/000333037_20100107230943/Rendered/PDF/443650ESW0AZ0P1IC0Disclosed01161101.pdf; World Bank (2009) Doing business in Azerbaijan. World Bank Group Publication. Retrieved from <http://www.doingbusiness.org/ExploreEconomies/?economyid=14>

² World Economic Forum (2010) Global competitiveness report (2009-2010). Geneva, Switzerland. Retrieved from <http://www.weforum.org/documents/GCR09/index.htm>

³ Transparency International. (2009). Corruption perception index 2009. Retrieved from http://www.transparency.org/policy_research/surveys_indices/cpi/2009

for the last 6-7 years. Its position remained unchanged in almost all indexes, such as large scale privatization, small scale privatization enterprise restructuring, price liberalization, competition policy and others.¹ Another feature of Azerbaijani economy is the close linkage between business and politics. As in many countries of the former Soviet Union, the small business in the country is not very well developed, since the country pays more attention to development of large corporations and companies, usually belonging to some of the public officials. Thus, the decisions of the government, very often taken and implemented for the benefit of large businesses, make it impossible for other companies to compete. Another hindrance to business in Azerbaijan is the presence of monopolies. Certain areas of the Azerbaijani economy are controlled by a company under the patronage of one of the public officials. Thus, no other company could import or produce a given product because custom offices or tax agencies would not allow other businessmen to become involved in a monopolized business. So monopolists are able to increase prices in order to take additional profit without any repercussion.

Thus, the average prices for products or commodities in Azerbaijan are much higher than in neighbouring countries. The government of Azerbaijan has undertaken serious steps to mitigate social problems and decrease the level of poverty. In 2006, they launched the "Program on Reduction of Poverty" (2006-2015) addressed at poverty reduction, diversification of the economy, as well as to regional, social and economic development. Three strategies for job creation were established: developing active labor market programs, such as public works and wage subsidies, exploiting revenues from the oil sector to finance public infrastructure projects with employment-intensive technologies, and creating an environment conducive to the development of small and medium-sized enterprises. In the previous year, the president of Azerbaijan signed

¹ European Bank for Reconstruction and Development (EBRD) (2009) Transition report series: Transition in crisis? London, UK: EBRD.

the "Employment Strategy of the Republic of Azerbaijan" for 2006-2015, which was operationalized through the "National Action Plan" (NAP). The strategy gave priority to several areas such as reforming labor market institutions and policies, strengthening the National Employment Service and modernizing the vocational education and training system. The priority areas also included an introduction to life-long learning, improvement of social protection for job seekers and unemployed citizens, and the promotion of employment among youth, women, and people living with disabilities.

The economic progress over the following years demonstrated that the Azerbaijani government could stimulate the economy and partially implement the intended goals such as macroeconomic stability, attraction of foreign direct investments and development of oil sector. However, there are several serious challenges Azerbaijan is facing today that could affect the country's economic condition detrimentally in the future. One of these challenges is the fight against poverty and sustainability of the social protection system. For example, rough estimates say that about 1.3 million people out of 4 m working population do not pay taxes for a variety of reasons. Most of these people are involved in subsistence farming and produce agriculture goods mainly for family consumption. Only a marginal share of their production is sold at a market. Thus, there is not much income to declare that may be taxed. Second, employers prefer not to register their employees and do not pay social security taxes, since taxes add an additional cost to labor. This situation creates problems since such a large share of people (1.3 million) is outside of the social security system. These factors foster undeclared employment in the agricultural sector. In addition to losses of fiscal revenues, there is a dangerous situation when almost one-sixth of the country's population is not covered by social insurance. All of these people will be left without social and health protection once they retire. Another alarming trend is that the State Social Protection Fund of Azerbaijan, which is the primary agency for collecting social taxes and payments of social

benefits and pensions, is heavily dependent on budget transfers. In 2008, budget transfers comprised 27% of all SSPF revenues, and transfers reached 31% in 2010. Non-sustainability of the social protection system would definitely lead to the failure of anti-poverty measures, since pensions and some social assistance programs are the major elements in decreasing the poverty level in the country. The Azerbaijani government has been able to address poverty issues and develop social policy reforms because of the influx of oil income and the resulting budget surplus. The actual reforms of the system began in 2003, even though the legislative base for the social protection system had been developed and adopted long before. In 1997, Azerbaijan adopted a "Law on Social Insurance" (defining the state's responsibilities for mandatory state social insurance) and in 2001, a "Law on Individual Accounting" as part of the state social insurance. In 2005, Azerbaijan adopted a new "Law on Labor Pensions" and since 2006, the government has been applying the system of individual registration of contributors. Azerbaijan's social protection system is very important in the fight against poverty. Poverty would increase by more than 11%, from 10.8% to 21.0%, if no social transfer program were implemented.¹ Major problems in the system of social protection and inclusion stem from the absence of clear objectives for the programs. Although the government announced poverty reduction programs in 2000, its social protection programs were not tailored for this purpose. In fact, the government distributed resources sparsely to a larger part of the population, providing minimal benefits to as many as possible, thus overall failing to change the status of poor people significantly. With the increasing flow of oil money government continues to spend large sums of money to reduce the poverty level but fails to address the core problems leading to such situations as unemployment. Despite governmental interventions to decrease unemployment, the low intensity of inflows and

¹ World Bank (2009) Doing business in Azerbaijan. World Bank Group Publication. Retrieved from <http://www.doingbusiness.org/ExploreEconomies/?economyid=14>

outflows from the pool of registered unemployed persons remains a major challenge. Azerbaijan has a stagnant pool of registered unemployed people, in which monthly inflows and outflows account for less than 4% of the total number of unemployed people every month. For example, only 2% of the registered unemployed were placed in a job in 2008. This is explained by a lack of demand for labor, but primarily by a passiveness among both the public employment service [PES] and job seekers themselves in finding job opportunities.¹ The composition of the unemployed has not changed much throughout the years. From 2000 to 2008, the ratio of youth in the overall unemployed population was between 35-40%. These figures have decreased recently; however, they are still high (around 32%). Likewise, the youth unemployment rate is higher than the adult one. In 2007, the youth unemployment rate stood at around 14% (18% for male and 11% for female young people). Analyses of public expenditures of the last three years show increased allocations for employment programs such as the Active Labor Market Programs (ALMP).² For example, Azerbaijan spent EUR 5.6 million on labor market programs in 2008. In 2009, this funding increased to EUR 8.78 million, and these programs were projected to receive EUR 9.2 million in 2010. However, at least 40% of these financial resources are allocated to cover administrative and maintenance expenses. Only EUR 944,000 in 2008, EUR 1.19 million in 2009 and EUR 1.25 million in 2010 (about 10-15% of allocations for labor employment programs) were allotted to the organization of job fairs, trainings and services to assist unemployed people or job seekers. Meanwhile, the remainder of the budget allocations (40-45%) were directed to an

¹ Kuddo, A. (2009) Employment services and active labor market programs in Eastern European and Central Asian countries. Social Protection and Labour Unit: World Bank. Retrieved from <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0918.pdf>

² It is worth mentioning that the government does not define ALMP spending as such. The following calculations are solely the author's estimation based on budget expenditures of the Ministry of Social Protection and Social Protection Fund.

unemployment benefit program. Overall, no more than .01-.02% of Azerbaijani GDP was spent on employment programs in the country during these years. Expenses on the ALMP were even less. In comparison, these figures were at the .6%-1% level in Central European countries (e.g., Hungary, Slovakia and Poland).¹

It should be mentioned that the government experiences a problem in the delivery of social services, too. Most social services are delivered by the local representative office or ministry. In some Central and Eastern European countries, the governments have decentralized social service delivery and have involved the NGO sector or local governments. This could be useful for Azerbaijan; the government could outsource some of these services, such as disability care and care for the elderly to NGOs or to local municipalities, depending on their quality. The government could also give block grants to local governments, who could in turn distribute aid or direct finance based on the needs of the region. For example, rural local governments could concentrate their financial resources more on social care, while urban municipalities could spend more money on improving the situation of the unemployed. This would ease the pressure on the government, decentralize social services and make social service delivery more effective.

The situation on Azerbaijan's labor market is similar to many other countries of the post-Soviet region. Sectors that employ most people are not those that generate the most added value per person. The mining industry employs only 1.1% of all people in employment while generating most of Azerbaijan's GDP. At the moment, 38.3% of the people employed in agriculture generate only 7.1% of GDP. The highest salaries are also observed in the mining industry; they are 12 times higher than in agriculture and

¹ Kuddo, A. (2009) Employment services and active labour market programs in Eastern European and Central Asian countries. Social Protection and Labour Unit: World Bank. Retrieved from <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0918.pdf>

almost 8 times higher than in education. In general, 44,000 workers have access to high-productive, high-wage jobs in the oil industry.¹ The rest of the labor force is located in low-productive and low-wage sectors. The situation has been exacerbated by an increasing labor force. From 2000 to 2010, the number of economically active people grew by 14%, or by 1.4% per annum on average. The government's major policy focused on increasing employment in the oil and attendant industries and on the removal of bureaucratic and legislative barriers to entrepreneurial activity. In the state sector, it was intended to reform the civil service and to reduce it in size, and to privatize state properties in order to "free up" capital for productivity improvements. The pension system is another sphere that requires serious reformation. Currently, most of the indexes of the pension system sustainability are favorable to Azerbaijan. The average replacement rate, defined as the ratio of the average pension benefit to the average wage, does not exceed 38%. At the same time, the demographic dependency ratio, defined as the ratio of people 60 years and older to people aged between 15 and 59 years old, constantly decreased, reaching 12.7 - 12.8% in 2008-2009, the lowest figures since independence. These figures indicate that the pension system is not going to be affected by demographic pressure within the near future. The system will be able (with proper tax collection) to collect enough funding to sustain the pensions of the elderly. Meanwhile, recent trends suggest that the burden will be lightened because of the increase in the retirement age and the willingness and eligibility to retire later. However, despite the low demographic dependency ratio, the sustainability of the system could be called into question within the next few decades. With the decrease in the birth

¹ World Bank. (2009a). Azerbaijan country economic memorandum. Poverty Reduction and Economic Management Unit Europe and Central Asia Region. Report No. 44365-AZ. Retrieved from http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/01/07/000333037_20100107230943/Rendered/PDF/443650ESW0AZ0P11C0Disclosed01161101.pdf.
The State Statistical Committee of Republic of Azerbaijan (2009) Retrieved from <http://www.azstat.org>

rate since independence, the part of the population in the 0-14 age cohort has decreased steadily, reaching 25% of the total population in 2008. With the constant increase of the population in the age cohort of 65 and over and increasing life expectancy, the pension system will face serious problems in one or two decades. The demographic statistics also indicate that within the next decade, people born in the Azerbaijani "baby boom" years 1948-1958 will retire. Large numbers of retired elderly people would put additional pressure on the social security system that already covers a large deficit using funds from a state budget buoyed by high oil prices. However, it is expected that the income from oil will gradually decrease as well as the payments to the state budget. Thus, the government could have a serious problem in the payment of pensions.

The continued migration of Azerbaijanis and the dependence of large parts of population on remittances are other important problems that need to be addressed by the government. Migration from Azerbaijan intensified following the disintegration of the Soviet Union. Russia was the first destination for most migrants. During the early stages of independence, primarily Russian-speaking minorities emigrated. However, mostly ethnic Azerbaijanis from rural areas began to emigrate to Russia for work beginning in 1993. By 2002, official Russian statistics documented 621,500 ethnic Azerbaijanis living in 55 administrative entities in the Russian Federation, making them the thirteenth-largest ethnic minority in the country. Russian law enforcement bodies and the Azerbaijani embassy in Moscow believe that the actual number of ethnic Azerbaijanis in Russia is much higher; some modest estimates place the number between 1.3 million to 1.8 million. These estimates also include Azerbaijani seasonal workers or those who live in Russia temporarily.¹ According to a World Bank report, the remittances coming to Azerbaijan from all countries started at USD 6 million in

¹ Valiyev, A. (2009) Victim of a "war of ideologies": Azerbaijan after the Russian-Georgia War. *Demokratizatsiya*: 17(3).

1998 and peaked at over EUR 1.06 billion in 2008.¹ 57% of these remittances came from Russia. Approximately 9% of the Azerbaijani population receives remittances. The income of 61% of these recipients is lower than EUR 80 per month. A majority of remittance recipients in Azerbaijan are female (52%) and not employed (61%). A majority of these remittances (around 60%) are sent to rural areas.² A study implemented by the Asian Development Bank found that in 2006, 77% of remittances sent to Azerbaijan were used for basic household expenses. Less than half of the remittances were used for business investment. The greatest parts of the 77% were used by households to compensate for low incomes. The families receiving remittances became dependent on such income. It should be noted that the proportion of remittances in the total income of the receiving households was very high (about 46%).³ Reliance on remittances is dangerous, because many respective labor migrants are employed in low-income and low-qualification jobs, which are extremely sensitive to economic recession. Losing jobs would immediately affect remittances and upset the Azerbaijani situation by aggravating poverty.

Speaking about the possible scenarios of development for the Azerbaijani economy for the next 10 years, we can outline a pessimistic, an optimistic and a status-quo scenario. The pessimistic scenario predicts that the Azerbaijani economy continues to depend heavily on oil

- ¹ The International Fund for Agricultural Development IFAD estimated the remittances to Azerbaijan in 2006 at EUR 1.3 billion, which is 9.3% of GDP. World Bank (2009) Migration and remittances trends. World Bank Migration and Development Brief. Retrieved from <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationAndDevelopmentBrief11.pdf>
- ² European Bank for Reconstruction and Development (EBRD). (2009). Financial sector analysis for South Caucasus. London, UK. Retrieved from <http://www.ebrd.com/country/sector/etc/finsec.pdf>
- ³ Asian Development Bank (2007) A study on international migrant's remittances in Central and South Caucasus: Country report on remittances in international migrants and poverty in Azerbaijan. Baku, Azerbaijan. Retrieved from <http://www.adb.org/Documents/Reports/Consultant/40038-REG/40038-REG-TACR.pdf>

and gas income in the foreseeable future. The country's economy continues to spend the income on expensive infrastructure projects and less on sustainable projects. Furthermore, the sharp decline in oil prices and decrease in production that will start in 2012 limits Azerbaijan's options on investments in the economy. As the budget depends on massive injections from the Oil Fund, it will get less money and decrease spending on social programs. That in turn would affect negatively the socio-economic situation in the country, possibly leading to unrest and protest. The optimistic scenario predicts the deepening of reforms in the country and the diversion of the oil income to the development of the non-oil economy. The oil money gets invested in high-tech areas such as telecommunication, agriculture (especially organic food), education and many others. In this case, Azerbaijani GDP becomes less dependent on oil money, and the transformation of Azerbaijan from an oil-producing country to a non-oil country will be conducted without a major shock therapy. The most realistic scenario, i.e. status quo, envisions that the oil money continues to flow into the country at the same pace. The government continues to spend money on various projects including social ones. However, that scenario can hardly be called sustainable. If there is no price change of oil and gas commodity within the next 10 years, no significant changes in economy or politics should be expected. Nevertheless, the government of Azerbaijan should start to think more about the transformation from an oil to a non-oil economy. Otherwise, the further the economy develops, the more its dependence on only one or two commodities will become obvious, the cost of which will have to be accounted for.

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Role and Interests of Global and Regional Players

US National Interests and Engagement Strategies in the South Caucasus

Richard Giragosian

Background

In terms of assessing US engagement in the South Caucasus, there are three main factors that have driven and defined policy. First, there has been a notable lack of coherent and consistent US, and Western, policy for the region. One of the more revealing recent examples of this has been NATO expansion into the South Caucasus, and more critically, the limited planning, inadequate preparation, and general lack of sustained political will and concrete support for the Georgian bid for membership in the NATO alliance.

A second defining aspect of US engagement in the South Caucasus is the fact that within broader Western policy, it has been largely constrained and limited by competing interests among, and within, various Western actors.¹ This has also been evident in terms of an inherent competition of national interests between EU member states and the United States, for example, as well as among different EU states themselves. Although such a competition of national interests is natural, reflecting the often contradictory policy priorities of the various Western actors, this has generally

¹ In this context, the term "Western" actors include the United States (US) and the European Union (EU), but also include individual EU member states that often act according to their own national interest, rather than conforming to the EU's more uniform collective policies, as seen in the cases of France, Germany, and the United Kingdom.

limited the efficacy of Western, and US, engagement and has impeded any real, longer-term consistency in Western policies on a strategic level.

More specifically, the third and most recent factor in US engagement has been the emergence of a much more dynamic and active commitment by the West as a bloc. For the South Caucasus, much of this new level of dynamic activism is reflected in the wake of the 2008 war in Georgia with the launch of the EU's Eastern Partnership initiative.¹ At the same time, this greater EU engagement has also been spurred by a new US preference for greater European involvement, investment and activism, especially as the US has more recently begun to withdrawal from a direct role in the region, scaling back its engagement and seeking more of a multilateral, cooperative multilateral approach toward the South Caucasus.

The Framework for US Policy

In terms of applying a more thorough assessment of US policy, it is helpful to analyze the broader framework of the US strategic view of the region, with a focus on the specific set of interests that have driven US policy in the region. More specifically, during the initial period of independence in the 1990s, several broader trends provided an underlying framework for US engagement in each of the three countries of the South Caucasus, most notably in four specific areas:

- support for democratization and political reform, despite serious setbacks in the conduct of elections in each country;
- pronounced support and assistance for market economic reform and privatization;

¹ The EU's Eastern Partnership includes six target countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine.

- an increasing emphasis on security and counter-terrorism;
- an overarching effort at conflict management and mediation.

Interestingly, these underlying four interests also reflect a wide range of diverse and even contradictory policy goals among and between the Western actors. Yet at the same time, US policy has also reflected a degree of converging interests as well.

Converging Concerns

Since the recognition of the independence of the three states of the South Caucasus – Armenia, Azerbaijan, Georgia – during the collapse of the Soviet Union in late 1991, Western policies of engagement have generally reflected three objectives, or converging concerns, mainly focused on the common interests of the US and the EU in terms of policy, process, and geopolitics. Throughout much of the early – to mid-1990s, this first shared objective tended to reflect a generally unified policy that encompassed support for democratization, political reform, and market-based economic reforms pursued in tandem by the US and the EU.

A second converging concern during this early period of transition was one of process, whereby the US pursued policies aimed at strengthening sovereignty and bolstering statehood, with an added element of conflict management and diplomatic mediation. In this early period, a broader emphasis on the geopolitical context of the South Caucasus also emerged as the third shared objective. This geopolitical agenda was rooted in the strategic goal of providing and promoting alternative transit routes for the exports of oil and gas from the region in order to bypass and isolate Iran and to also overcome the region's inherent reliance or dependence on the Russian networks of pipelines and energy infrastructure. Thus, in a general sense, the overall scale and scope of Western engagement in the South Caucasus has been driven by an American-led policy

imperative of strengthening the sovereignty and bolstering the independence of these "infant states" in transition, while seeking to curb their dependence on Russia and help them to overcome the legacy of Soviet rule.

Diverging Interests

At the same time, however, Western policy and engagement has also been largely marked by a divergence of interests between the US and the EU, most evident in American policies for the three countries. Within this context, Western engagement has also been defined by a set of diverging dividends for each of the Western actors, especially the US, which in turn followed a very different trajectory for each of the three countries. In a broader context, US policy regarding Armenia has been largely driven by the powerful influence of sizable and well-organized diaspora communities in the United States and, to a lesser degree, within Europe. During the early period of independence in the 1990s, the focus of US policies toward Armenia have centered on three basic areas: (1) humanitarian aid, notably in terms of earthquake recovery; (2) assistance for democratization and political reform, as well as poverty reduction and economic reform; and (3) efforts to manage, mediate, and possibly resolve the Nagorno Karabakh conflict.

Interestingly, both the earthquake¹ and the outbreak of the Karabakh conflict² predated the onset of Armenian

¹ Armenia suffered a devastating earthquake on 7 December 1988, which killed at least 25,000 people and injured many more. The 6.9 magnitude earthquake, centered in the northern Armenian town of Spitak, inflicted significant damage and destruction largely attributed to inferior and inadequate housing construction. Although Armenia received substantial international assistance and humanitarian aid, Armenia has still failed to fully complete its recovery and reconstruction efforts in the earthquake zone.

² The Nagorno-Karabakh conflict, which resulted in approximately 15,000 casualties and hundreds of thousands of refugees and displaced persons in both Armenia and Azerbaijan, first erupted well within the Soviet system and, as early as 1988, within the context of the Gorbachev reform period, self-determination for Nagorno Karabakh emerged as the core element of a revived Armenian

independence, thereby posing two important challenges to US engagement from the outset. Combined with the influence of the diaspora communities, the legacy of dealing with the aftermath of the earthquake and the escalation of any already violent conflict over Nagorno-Karabakh tended to impede the formulation of distinct policies based on US national interests.

Further reflecting the divergence of interests in the region, US policies regarding Azerbaijan were also based on a different set of policy priorities, mainly reflecting the strategic significance of Azerbaijan's energy reserves. This also reflected the US recognition of the strategic necessity of developing Azerbaijan's extensive energy reserves, through a policy of "energy seduction" that came to serve as an underlying priority for developing relations with Baku. Azerbaijan also served as the main element of both the US and the larger Western attempt to bypass both Russia and Iran in developing the regional energy sector and in building new export pipelines.

In contrast, US policies regarding Georgia have generally been dominated by Washington's seeming preference for "personality politics". This was based on support for Georgian leaders, stemming in large part from the US's previous relationship with former Soviet Foreign Minister Eduard Shevardnadze, widely heralded in Washington as a capable and welcome partner after the internal conflicts of the Gamsakhurdia government and the subsequent civil wars that came to define post-Soviet Georgia as a virtual "failed state".

Based on this personal relationship, the US led and dominated the overall course of broader Western

nationalism. Following the outbreak of pogroms (campaigns of targeted ethnic violence) against Armenians in several Azerbaijani cities, the Karabakh issue rapidly descended into open hostilities between Armenia and Azerbaijan. As a result, the Karabakh conflict came to symbolize Armenian unification and mobilization, and had important implications for the political, economic and military development of independent Armenia.

engagement and several areas, but most notably in terms of seeking to restore Georgian state authority in the medium- to long-term, while also aiming to regain Georgian territorial integrity (regarding the conflicts over Abkhazia and South Ossetia) over the longer term. As part of this policy framework, Washington also elevated Georgia's position within broader counter-terror operations. The US established a new innovative "train and equip" program for the Georgian armed forces in 2002, the purpose of which was to devolve state power and central authority, and to address the country's "failing-state" status.

Course Correction: A Policy Shift from Bush to Obama

There was a notable shift in US policy toward the South Caucasus under US President George W. Bush. For much of the 1990s, the core focus of US policies was largely driven by the strategic objective to develop the energy reserves of the Caspian Sea and to secure key export routes amid the competing interests of the regional powers: in other words by excluding and bypassing both Russia and Iran. Under the Bush administration, however, this long-standing energy focus was superseded by a pursuit of security and stability within the framework of the global fight against terrorism.

New security environments in Central Asia and the Southern Caucasus have also driven this shift in US security policy, though in the two regions in different ways. Both regions offer the US an important role as a platform for power projection, from Central Asia into Afghanistan and, at least potentially, from the Caucasus into the northern Middle East (most notably into Iran). But it was Central Asia that benefited most, and first, from the shift in US security. Uzbekistan, and to a lesser degree Kyrgyzstan, Tajikistan, and Kazakhstan abruptly emerged as key frontline partners in the US war on terrorism and served as crucial platforms for the combat operations targeting the Taliban and the Al Qaeda network in Afghanistan. Nevertheless, the air corridor through the South Caucasus, running through

both Georgian and Azerbaijani airspace closely connected the strategic significance of both theaters.

As clearly evident today, the US war on terrorism also resulted in a number of modifications in US security policy toward a number of nations. These modifications in policy affected a wide-ranging set of diverse and often disparate nations, including traditional foes, such as China and Russia, traditional allies like Turkey and Saudi Arabia, and new partners, such as Pakistan and Poland. And following the emergence of its new partners in Central Asia, the US also broadened its role on the other side of the Caspian Sea. Although generally engaged in the region since its emergence since the fall of the Soviet Union, the three nations of the Southern Caucasus acquired a new and enhanced geostrategic importance in the new realm of post-September-11 security. Although there was, and continues to be, a significant role for the smaller Southern Caucasus states in the US "war on terrorism", their active contribution to the effort is far less important than the Central Asian states and consists primarily of limited counter-terrorism training, through "train and equip" missions in Georgia, and greater military assistance for border security and counter-proliferation in Azerbaijan. Armenia was virtually excluded from any significant role by virtue of its continued reliance on its strategic security relationship with Russia. Armenia's reliance on Russia borders on dependence, however, and has contributed to upsetting the traditional balance of Armenia's "complementarity" policy of balancing a pro-Western orientation with its security ties to Russia.

With the shifts in US security policies, there was also a dramatic change in the US relationship with Azerbaijan. Although the US extended some three million US dollars in funding for nonproliferation, anti-terrorism, demining, and related programs starting in 2001, the US was long precluded from official military assistance by US legislation that prohibited any American aid to Azerbaijan (with the exception of funds for disarmament programs) until it demonstrated real steps to end its blockades of Armenia and the Armenian Nagorno-Karabakh enclave and the use

of force against Nagorno-Karabakh. This legislation, more commonly known as Section 907 of the Freedom Support Act, was amended after September 11 to allow for a presidential waiver. After this weakening of the restrictions on aid, the Bush administration quickly upgraded its military ties to Azerbaijan, and increased the level of military and security assistance.

The Georgian Train and Equip Program (GTEP)

The US announced a new, \$64 million program of military assistance in the Southern Caucasus in March 2002 with the Georgian "train and equip" program, providing specialized counter-terrorism training for 2,000 elite Georgian troops. The GTEP was actually an expansion of an already active US role in bolstering security in this conflict-prone country. This effort followed earlier involvement but represents a much more public and symbolic program, timed with continuing instability and vulnerability in Georgia. It was further designed to counter an escalation of Russian pressure at the time, mainly articulated through Moscow's threats to intervene militarily in Georgia in pursuit of Chechen rebel forces reportedly enjoying refuge in Georgia's Pankisi Gorge.

The core mission of the GTEP was capacity building, with specialized assistance and tactical training to enhance the counter-terrorism capabilities of the best of Georgia's armed forces. Theoretically, the program has two aspects: counter-terrorism, comprising offensive measures, and anti-terrorism, with defensive measures. The GTEP served as a component in the other US counter-terrorism efforts underway in a number of countries and aims to bolster stability in the Southern Caucasus.

Designed as a flexible, time-phased training initiative, the GTEP supplemented the bilateral military-to-military relationship already well developed over the past 14 years. The program was not designed to provide the Georgian military with offensive capabilities that would upset the region's delicate balance of power, however, and

is much more inwardly focused. Moreover, the training and equipment provided by the US was much less a broad effort to endow Georgia with a combat-ready fighting force, but was much more a rather limited and symbolically important demonstration of the US commitment and support for Georgian sovereignty, independence, and territorial integrity.

Thus, throughout the eight years of the Bush administration, the course of the US engagement in the South Caucasus deepened, and the stability and security of the region and their component states largely became dependent on the durability of the US commitment. But with the election of Barack Obama there was a pronounced effort to correct the policies of the Bush years, moving away from assertive unilateral policies to a more concerted multilateral approach. Against the wider backdrop of a staged withdrawal from Iraq, this shift in interests and strategies under Obama also resulted in a change in US policy in the South Caucasus.

Recent Trends in US Policy and Engagement

More recently, US engagement in the South Caucasus has been modified to reflect four broader trends:

- a greater and more sustained level of direct support for deeper democratization and political reform, especially in the wake of the Rose Revolution in Georgia, despite seriously flawed elections in each of the other countries;
- a more assertive policy to contain Russian influence in the region, while also seeking some areas for cooperation when and where possible, such as within the OSCE Minsk Group (co-chaired by France, Russia, and the United States) as the sole mediator of the Nagorno-Karabakh conflict;
- a more pronounced emphasis on security and counter-terrorism, whereby the earlier priority of energy and

transit pipelines were superseded by the need for "air corridors" and military over-flight access, as well as the emergence of a set of newly expanded bilateral security partnerships as Western strategic priorities; and, an attempt to "build bridges" and exploit new opportunities in the region, most notably in bolstering a bold new initiative in Armenian-Turkish diplomatic engagement.

Against this backdrop of shifting US priorities, the region also continued to receive assistance for market economic reform and privatization, and remained central to broader conflict management and mediation efforts. But by 2010, broader Western policy and engagement adopted a more sophisticated agenda, in three main directions.

First, the EU adopted a more nuanced policy to supplement its "Eastern partnership" process of direct engagement. This policy of identifying key strategic partners within the former Soviet space was eventually modified to an even more nuanced and sophisticated policy approach defined as "more for more and less for less", which sought to craft a new set of incentives to foster and encourage greater improvements and results in economic and political reform in the three countries of the South Caucasus. For the EU, this engagement in the region was also driven by a strategic recognition of the need to stabilize and secure the European periphery. This was also a welcome development in Washington, as the US sought much more of a direct EU role in the region, as well as a greater EU contribution to a geopolitical "burden sharing" for the South Caucasus.

Another new direction was rooted in the renewed focus on conflict prevention. It represented a "back to basics" approach to the Nagorno-Karabakh conflict aimed at preventing an outbreak of war or renewed hostilities in the face of mounting threats by Azerbaijan to resort to war or a "military solution" to the Karabakh issue. In this way, the US welcomed a new Russian initiative for the Karabakh conflict, rooted in Moscow's desire to not

only take the diplomatic lead as a regional power but also to demonstrate that, in the wake of the August 2008 war in Georgia, Russia could also play a positive role in contributing to regional security and stability. At the same time, for the US, such greater Russian cooperation within the OSCE Minsk Group could only strengthen the US effort to "reset" relations with Russia.

And finally, a third new direction in Western policy stemmed from a modified US policy priority seeking to more directly challenge the leaders in the region to deliver more progress in terms of democratization and economic reform. This more confrontational policy approach has already been seen in each of the three capitals, with the US ambassadors in both Tbilisi and Baku adopting a more assertive challenge to the Georgian and Azerbaijani authorities. For Armenia, while the US ambassador was recently promoted and is to be replaced by a new diplomat in September or October 2011, such a new, more assertive pursuit of holding the Armenian government to a higher standard is also expected. And with a new cycle of elections set to commence in Armenia, with parliamentary and presidential elections scheduled for 2012 and 2013 respectively, the incoming US ambassador is expected to press the Armenian authorities to ensure significant improvement over previous, tainted elections.

At the same time, however, the US was increasingly encouraging and even demanding greater European activism in the region, while also seeking to apply a less confrontational approach to Russian interests and influence as part of the broader reset in US relations with Russia. But this also reflected a position of American weakness rather than simply a prudent policy correction. More specifically, the current regional situation lacks a clear, coherent US policy framework. The South Caucasus region is thus generally viewed as a secondary consideration and distant priority.

This inherent weakness of the "over-extended" American presence in the region stems from several sources. First,

the US remains distracted and consumed by other priorities, mainly dealing with a domestic economic downturn and the aftermath of the global financial crisis. In addition, many officials responsible for the region continue to be distracted by other concerns and priorities, including a view of the region as a subset of US-Russian relations, and the need to manage Iraq and Afghanistan.

Assessing the Results of US Involvement: The Role of Domestic Actors in Driving US Policy

In terms of assessing the impact and results of US involvement in the region, there are several notable conclusions. First, the domestic aspects of US policy in the region, including the role of the Armenian-American lobby in shaping US policy, have been a driving factor in the formulation and efficacy of US policy. For example, while a significant element of US policy stemmed from the blockade of Armenia and Karabakh imposed by Azerbaijan since 1989, under pressure from the Armenian-American lobbies, the US Congress enacted legislation, Section 907 of the Freedom Support Act (P.L. 102-511), which prohibits all US government assistance to Azerbaijan, except for non-proliferation and disarmament activities, until the president determines that Azerbaijan has made "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno Karabakh". US aid was thereby limited to only that allocated by private and non-governmental organizations, and through international agencies. A subsequent amendment to Section 907, however, afforded the president the ability to waive restrictions on direct "government-to-government" humanitarian aid to Azerbaijan.

Another important legislative element in US policy, once again coming from the Congress rather than the executive, reflecting the powerful influence of the Armenian-American lobbying groups, was adopted and signed into law in November 1997. This legislation contained significant provisions of aid specifically for Karabakh, including

some US\$12 million in reconstruction and remediation aid. The legislation restated a ban on most assistance to the Azerbaijani government but contained new language allowing for humanitarian aid and providing US government-backed guarantees and risk insurance for US firms investing in Azerbaijan (mainly through the US Overseas Private Investment Corporation). The legislation further called for aid to be provided to refugees, other displaced persons, and the most vulnerable of the population affected by the conflicts in Abkhazia and Karabakh. In a fairly realistic reflection of the core of US policy, the legislation went on to cite the region's "substantial oil and gas reserves" and called on the administration to "target US aid and policy" to support conflict resolution, US business and investment, as well as the usual support for democracy and free markets.

Armenia-Turkey: Strategic Opportunities for All

One of the more significant new developments in the region has been the normalization process between Turkey and Armenia. On many levels, this new diplomatic engagement offers several strategic opportunities: for the region as a whole, in terms of the promise of reintegration; for Armenia and Turkey themselves, to move beyond a troubled and tainted history marked by genocide; and for the US in particular, as a powerful way to reshape the geopolitical map of the South Caucasus, with repercussions reaching far beyond the region to impact Russia, and even Iran.

Moreover, the strategic opportunities inherent in Armenian-Turkish diplomacy offer several specific benefits. First, it enhances regional stability by seeking to resolve disputes by diplomacy rather than force, in contrast to the deadly lesson from the Georgian war. A second opportunity stems from the possibility of leveraging Turkish-Armenian diplomacy to renew focus on the unresolved Nagorno-Karabakh conflict, which now stands as the last remaining "frozen" conflict in the South Caucasus.¹

¹ I refer to Karabakh as the sole "frozen" conflict in the South Caucasus because, unlike the other two "frozen" conflicts in the region, Abkhazia

And a third opportunity centers on the broader impact of normalizing relations with Turkey as an important mechanism to deepen democracy and bolster reform in each country, while also offering a new path toward regional reintegration and broader development once borders are opened and trade restored. And finally, in a larger sense, Turkey's diplomatic engagement of Armenia may also help to advance Turkey's quest for eventual EU membership, especially in light of Turkey's recent launch of a new "Kurdish initiative".

Despite the poor record of past initiatives at normalization, the potential benefits from even the most basic and rudimentary form of engagement are clearly mutual for both countries. For Turkey, opening its closed border with Armenia would constitute a new strategic opportunity for galvanizing economic activity in the impoverished eastern regions of the country. This could play a key role in the economic stabilization of the already restive Kurdish-populated eastern regions and thus meet a significant national security imperative of countering the root causes of Kurdish terrorism and separatism with economic opportunity.

Likewise, an open border with Turkey would offer Armenia not only a way to overcome its regional isolation and marginalization, but also a bridge to larger markets crucial for economic growth and development. In addition, the commercial and economic activity resulting from opening the Armenian-Turkish border would foster subsequent trade ties between the two countries that, in turn, would lead to more formal cooperation in the key areas of customs and border security. And with such a deepening

and South Ossetia, which were "recognized" by Russia and a few other states, the Karabakh conflict remains locked within the traditional confines of a "frozen" conflict whereby no party to the conflict seems capable of changing the parameters of the conflict. More specifically, the August 2008 war between Georgia and Russia effectively thawed Georgia's two frozen conflicts, raising new considerations over the question of sovereignty-versus-secession and posing fresh concerns over the future of Georgia itself.

of bilateral trade ties and cross-border cooperation, the establishment of diplomatic relations would undoubtedly follow. Thus, the opening of the closed Armenian-Turkish border could not only bring about a crucial breakthrough in fostering trade links and economic relations, but may also serve as an impetus to bolster broader stability and security throughout the conflict-prone South Caucasus.

Forecasting US Policy Priorities

Looking back at the broader trends in US policy and engagement in the South Caucasus, it seems clear that recent developments reveal several looming challenges. The first of these is the obvious danger of the frozen Nagorno-Karabakh conflict becoming an open "hot" conflict, as Azerbaijan seems increasingly intent on escalating tension and leveraging the use of limited military attacks to pressure the international community. It is frustrated at the lack of any real progress in the peace process and for what it sees as a betrayal by Turkey in the wake of Armenian-Turkish diplomatic engagement. Another looming challenge consists of the approaching cycle of elections and political change in the region, as both Armenia and Georgia are preparing elections for parliament and president in 2012 and 2013. This political transition is compounded by both lingering questions of legitimacy and continued economic instability. Thus, given these trends, the US will clearly face more, not less challenges in the South Caucasus in the near future.

Another broader shift in the regional geopolitical landscape can be seen in the changing nature of Western engagement. More specifically, both the US and the EU have instituted significant modifications to their strategic view of the South Caucasus, with a corresponding change in the scope of their engagement in the region. For the US, the South Caucasus returned to its more traditional role as a strategic subset of broader US-Russian relations, mainly for two reasons. First, the Georgian war and its subsequent tension between Washington and Moscow tended to reinforce the view that the South Caucasus

could not be treated as a region separate from the US relationship with Russia.

This view inherently downgraded the region in terms of strategic significance and implied recognition of the more important calculus of a tradeoff between accommodating a re-assertive Russia with the geopolitical necessity of securing Russian cooperation over US needs in Afghanistan and Iran. In terms of Washington's "reset" of its bilateral relationship with Russia, this meant a veiled acceptance of Russian interests in the "near abroad", thereby reinforcing Moscow's view of the region as a "sphere of interest". This also translated into a US approach that sidelined Georgia as an issue that Washington and Moscow would "agree to disagree", but that allowed both sides to move beyond the Georgia issue as an obstacle to broader and more strategic interests.

A second main factor tending to promote a higher priority for Russia over the region in US policy was the elevation of security-driven concerns and a preference for stability over prior efforts at democracy promotion and of bolstering sovereignty in the face of the region's vulnerability to Russian pressure or threats. For the US, these new security priorities stemmed from the need for airspace access through the region, and through Russia, to facilitate operations in Afghanistan. Interestingly, this resulted in a shift from the previous decade, as the priority for secure energy pipelines and transit routes were replaced by a new need for transit routes and access through air corridors. The overall result of this shift in US policy was more of a strategic withdrawal from the region, however, with much less of a lead role for Washington in terms of being actively engaged in more local interests while focusing on broader strategic imperatives.

At the same time as this shift in US policy triggered a pullback from active and direct regional engagement, the EU was faced with both a new opportunity and a pressing demand for greater, not less engagement in the South Caucasus. After a difficult and trying test of its capabilities,

it was, after all, European engagement in the Georgian war that resulted in a ceasefire. Although much of the diplomatic initiative was led by France, rather than the EU institutionally, the perception of effective European mediation marked an important test for the EU.

In order to sustain the success of greater engagement in the region, however, the EU needs to overcome the seemingly contradictory nature of EU strategy, as several leading EU member states have each tended to follow their own competing and, at times, diverging national policies. Such divergence is most clearly evident in relations with Russia and over energy policy. Yet the EU holds an inherent advantage from both its EU Action Plans and from its Eastern Partnership, which have each contributed to a steady accumulation of political capital in the region.

Nevertheless, the future of EU engagement in the region largely depends on the EU itself, which has already reached a crossroads with a choice between the comfort of competing national policies and the challenge of forging a common policy for strategic engagement. And there is still a sense of optimism that the EU will live up to its expectations for deeper engagement in the region, as it is no longer possible to ignore or downplay the imperative for the EU to assume a lead role in fostering greater security and stability in the South Caucasus, which remains very much a "region at risk".

Thus, for the US and the South Caucasus, there are four main conclusions:

- Elections in these regions have been driven by power not politics, with leadership determined more by selection than election;
- Legitimacy is the key determinant of durable security and stability;

- Strategic stability of these regions is defined less by geopolitics, and more by politics and economics, and local issues and concerns are dominant;
- Institutions matter, individuals are helpful but not enough for real democratization; do not look for another outwardly pro-Western reformist figure to promote (the Saakashvili model in Georgia, for example).

Consequently, it is the regimes themselves that hold the key to their future. And while there is a need to preempt and prevent regional isolation, with engagement an obvious imperative, real stability and security depends on legitimacy, and on local economics and politics, and much less on grand geopolitics.

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Russian interests and strategies in the South Caucasus

Andrey Ryabov

The need for an inclusive analysis

Russian policy toward the countries of the South Caucasus has undergone a complex evolution over the course of their 20 years of political independence. This transformation has to a large extent reflected both various stages in the process of establishing post-communist Russia as a new state, as well as changes in how Russia's ruling class perceives Russia's role in the world and the region. This policy has been influenced by a wide range of ideological, military, strategic, and economic factors. It has also been affected by the different views held by the various groups and government departments that make up Russia's ruling elite, and by changes in Russian foreign policy priorities, on both a global and regional level.

These differences primarily became apparent in the early 1990s, when the Yeltsin administration's proposed policy of democratisation was sharply at odds with the policy of the communist opposition. The communists held a negative view of the ruling democratic regimes in Armenia and Georgia, suspecting that they had contributed greatly to the collapse of the Union of Soviet Socialist Republics (USSR). The Yeltsin administration had originally placed a priority on supporting democracy in neighbouring states, but it began to gradually drift toward a more pragmatic approach, as the government's understanding of the new Russia's national interests evolved. As a result, that

administration's position began to more closely resemble the stance held by the opposition. This could be seen in the government's attitude toward Abkhazia and South Ossetia. In the 1990s, Russian policy in the South Caucasus was influenced by the differing approaches taken by the Foreign Ministry and the Ministry of Defense. The Foreign Ministry fully endorsed President Yeltsin's support of the newly independent states in the South Caucasus and his backing of their sovereignty and territorial integrity. However, the Ministry of Defense focused its attention on border security, which the agency often felt to be in conflict with the Russian support of these new nations. Russian policy was never influenced by private business in the 1990s or in the first decade of the new century, but there was a consolidation of power elite in the early 2000s, which affected the country's foreign policy, particularly regarding the South Caucasus. The various approaches taken by different political groups and government departments also began to converge. The decision-makers in Russia began to reconsider the country's strategic interests in the world and in that region.

In the 1990s the Russian Federation was eager to join the Western world and placed a high priority on democratic reforms and supporting those reforms in neighbouring republics. But by the next decade, it had positioned itself as a state with its own sphere of influence in the world, and Russia began to try to maintain its hegemony in the territories of the former Soviet Union. There was a noticeable increase in anti-Western ideology in Russian foreign policy, especially in regard to the South Caucasus.

These factors, as well as the overall state of the country, affected the various ways in which Russia's strategies toward the countries of the South Caucasus were developing. At the beginning of this period, the effort to defend itself from the threat of political instability from Russia's southern border took precedence. Later, priorities were placed on Moscow's desire to establish a system of security and international relations in the region, enabling the Russian Federation to retain its long-term hegemony.

Therefore, in order to examine the results of this policy evolution and assess its effectiveness, one must examine the historical development of the subject at hand, paying particular attention to the interaction of those factors that were crucial at each stage. This is the author's intention for this article.

Between attempts to escape the "burden of the South" and support for the promotion of democracy

It is no secret that the numerous ethno-political conflicts in the southern regions of the USSR – in the Central Asian republics and in Transcaucasia (as the South Caucasus was then called) – were instrumental in accelerating the collapse of the Soviet Union. This strife had a powerful affect on foreign-policy decisions made by the leaders of post-communist Russia during the early years of its existence. The government's attempt to discard its imperial legacy, hoping to preserve the country's stability and protect its territorial integrity from potential threats from the South, became an important focus of Russia's international policy and a means of ensuring its national security. Thus, from the very beginning, Moscow's stance toward the new nations of the South Caucasus was dominated by security concerns. In this sense, the new Russia immediately found itself in a situation that was strongly reminiscent of the Russian empire's position on the Transcaucasian region in the 19th and the early 20th centuries.¹ As Malashenko and Trenin correctly observed, in their eagerness to draw lessons from the collapse of the USSR, the Kremlin and the Foreign Ministry were trying to resolve "the security concerns regarding Russia's 'southern flank'" by simply avoiding "hot spots"². However,

¹ Rumer, E. / Simon, J. (2006) Toward a Euro-Atlantic Strategy for the Black Sea Region. Institute for National Strategic Studies, Occasional paper 3, Washington, D.C., p. 13.

² Malashenko, A. / Trenin, D. (2002) The burden of the South. Russia in Chechnya and Chechnya in Russia. Moscow, Gendalf, p. 182.

in practice they were unable to implement a strategy of withdrawing from areas of conflict. First, Russia bore witness to a "parade of sovereignties" by former areas of national autonomy, including the republics of the North Caucasus that directly bordered Georgia and Azerbaijan. This increased the probability that instability would spread throughout southern Russia. Second, the military was insistent that preventive measures be taken to protect the country's unity and territorial integrity, which included steps to contain the forces of aggressive nationalistic and religious extremism in Russia's new neighbours. The Russian Foreign Ministry was only beginning to establish a presence in the new nations of the former Soviet Union, and therefore the professional diplomats were in no position to stand up to the military.

The Russian presence in the South Caucasus and its political influence on the situation in the region was at first used to support certain contenders in ethnic and interstate conflicts, if it was thought that that side's victory would be more favourable to Russia's long-term interests, both in the world as a whole, as well as in that region. The increasingly ideological component of Russian foreign policy at the time contributed significantly to this approach. The Kremlin and the Foreign Ministry believed in the early 1990s that it was necessary to support those post-communist countries and political regimes that were ready to transition along with Russia to a democratic future and make a definitive break with their Soviet past. In this context, and because the conflict in Georgia between the country's central government and Abkhazia was escalating, it seemed quite natural for Moscow to side with the government in Tbilisi after Eduard Shevardnadze came to power. The Russian leadership at the time associated Shevardnadze's name with both the hope for democracy in Georgia as well as with close, bilateral cooperation for the benefit of the peoples of both nations. This Georgian strategy was in stark contrast to Moscow's decision to reverse the old Soviet policy toward the conflict between Armenia and Azerbaijan. Since the beginning of this upheaval in 1988, the Soviet leadership had tacitly supported Azerbaijan, because

Moscow assumed that that republic would take a more conservative line in regard to preserving the Soviet Union. Azerbaijan's approach would be more acceptable to Russia than the burgeoning liberal-democratic forces in Armenia, whose views and actions were threatening the political cohesion of the USSR. Initially the default position of support for Azerbaijan continued, even in post-Communist Russia, but the second half of decade saw a radical change in Russian policy. President Yeltsin's government decided that supporting a democratic Armenia should be a priority, particularly because the Russian leadership was growing concerned about the expanding cooperation between Azerbaijan and Turkey and the possible increase in Ankara's influence, not only in the countries of the South Caucasus but also in the Russian North Caucasus regions. Due to the powerful role played by the Turkish military in that country's political life, Moscow did not consider Turkish influence to be a force for democratic progress in the South Caucasus.

After the unrest between Georgia and Abkhazia escalated into a military conflict in August, 1992, the Russian stance toward this problem also changed radically. Ethnic movements were gaining strength in the republics of the North Caucasus and garnering the support of the local elite, which mainly consisted of the former Communist nomenklatura in the region. Thus, the threat posed to Russia's geographic integrity from growing ethno-separatism, primarily in republics with large populations of Circassian descent, was seen as extremely high, especially by the Russian military. The outbreak of hostilities between Georgia and Abkhazia offered a unique opportunity to channel the destructive energy of the Circassian ethnic movement in the direction of a neighbouring state. For this reason Moscow did nothing to prevent the stream of volunteers from the North Caucasus, particularly from the Circassian republics, from going to the aid of the Abkhazians, to whom they were closely ethnically related. These volunteers also included residents of other Russian regions and Cossacks. Russia's pro-Abkhazia position later strengthened as the dispute intensified, despite Moscow's

official neutrality in this conflict. The Ministry of Defense played a decisive role in this. And although the Foreign Ministry was trying to support Georgia's territorial integrity through sheer inertia, Russia's political leaders gradually shifted in favor of the Russian military's position and in favor of Vladislav Ardzinba's government in Abkhazia.

Retaining a leadership position through peacekeeping and supporting the post-conflict status quo

Later, however, as interethnic clashes unfolded in the countries of the South Caucasus, Russia substantially modified its position. The country's political leaders came to the conclusion that peacekeeping would be the most effective way of retaining Russian influence and presence in regions where there was ongoing conflict. The international situation at the time also contributed to this decision. The United States (US) and the countries of the European Community (EU) actively supported President Yeltsin's domestic policies promoting the development of democracy and a market economy in Russia. Therefore, the West was generally in favor of Russia assuming much of the responsibility for the stability of the territories of the former Soviet Union. Since the West played a dominant role in global politics at that time, its stance was also supported by international institutions, such as the United Nations (UN) and the Organization for Security and Cooperation in Europe (OSCE). A Joint Control Commission (JCC) to promote peace in the regions of the Georgian-Ossetian conflict had been established as early as the summer of 1992. After Georgia and Abkhazia signed an agreement in Moscow in May, 1994 on a ceasefire and separation of forces, Russian troops, under the guise of Commonwealth of Independent States (CIS) peacekeepers, took up positions on either side of the conflict zone. This peacekeeping operation was sanctioned by the UN, which renewed the status of the Russian peacekeepers every five years. Russia joined the OSCE's Minsk Group, which was created in 1992 to settle the conflict in Nagorno-Karabakh.

Several factors contributed to Moscow's new strategic view of its foreign policy objectives in the South Caucasus. First, the Kremlin and the government departments responsible for developing and implementing foreign policy were well aware that there was no chance that the parties involved in the regional upheaval would agree to resolve their conflicts in the near future through compromise and mutual agreement. At the same time, no single power or military-political alliance existed, either inside or outside the South Caucasus region that could force the hostile parties to come to an agreement based on the suggestions of outside players. Therefore, Russian foreign policy began to focus on enforcing the ceasefire and retaining Russia's key role in preserving the post-war status quo, which in no way conflicted with the general aim of the foreign policy Moscow had been pursuing in international affairs in the 1990s. Russia was facing enormous difficulties and stress as the country carried out its domestic political reforms and began to gradually turn away from its orientation toward the West, and thus, by 1993, Moscow could not lay claim to any significant role in shaping a new, post-Yalta world, even within the limited area of the former USSR. Moscow had only the power to safeguard what was left after the collapse of the Soviet Union, preserving the results of that breakup by halting and stabilizing the disintegration at the stage it had reached between 1992 and 1994. Of course Moscow retained its role of guarantor of the stability of this "temporary" order. In this manner Russia was becoming a force for preserving the status quo in global politics.

The "paradoxes" and contradictions of peacekeeping

Peacekeeping, which required the Russian Federation to remain impartial and to maintain an equal distance from the warring parties, continued to be combined with Moscow's policy of retaining an exclusive relationship with one of the partners. Russian policy was able to split itself in two in this odd way thanks only to the Kremlin's "craftiness" or diplomatic skills. The countries of the South Caucasus in the 1990s could not depend on other

international players taking the initiative to return the situation to what it had been at the time of the collapse of the USSR. They were therefore forced to agree to Russia retaining a dominant position. Thus, soon after Georgia's military defeat in Abkhazia, the Georgian leader Eduard Shevardnadze insisted on his country joining the CIS, under the assumption that Georgia could only restore its territorial integrity through its membership in that international organization, which was dominated by the Russian Federation.

There is a very widespread belief that Russia's peacekeeping policy has never been consistent, that Moscow has always sought to use its peacekeeping mandate to support one of the parties to the hostilities and to gradually redraw the internationally recognized borders of those states to better suit its own interests. However, the claim that Russia is committed to unilateral action is only partly true. That belief predominantly reflects Moscow's policy in relation to Georgia, and only during the period when Georgia had embarked on a quest to join NATO and relations between Russia and the US, as well as between Russia and NATO, had become confrontational. But that change in direction came later. The events of August, 2004, when Georgian forces attempted to regain control over Tskhinvali, the capital of South Ossetia, finally put an end to the Russian and Georgian governments' attempts to work together constructively, although previously the parties in the conflict had made significant progress toward resolving their issues. Moscow then decided that the Georgian president, Mikheil Saakashvili, was unreliable, and Tbilisi finally understood that there was no hope that Russia would help Georgia restore its territorial integrity. Up to this point, however, Moscow had for the most part tried to remain equally distant from both sides of the conflict, and had even occasionally taken steps to help resolve it.

Russia also retained its position of supporting both regional stability and the cautious rapprochement of both parties in the Armenian-Azerbaijani crisis, although it would seem that the very logic of bilateral relations with these countries

should have nudged Moscow towards a definite choice in favor of one of them. Thus, Armenia became Russia's only official military ally in the South Caucasus. Back in 1995, during the administration of Armenian President Levon Ter-Petrosyan, who was seen as pro-Western, a Russian military base was established on Armenian territory, in Gyumri. The two countries signed a Treaty of Friendship, Cooperation and Mutual Aid in August, 1997, based on which Russia assumed the role of the guarantor of Armenia's security. In Moscow, an ally such as Armenia was considered vital in order to safeguard the balance of power in the South Caucasus and to restrain Turkey's desire to extend its reach in the region. But Armenia found itself semi-isolated after its victories in the war, which included establishing Armenian control over part of the Azerbaijani border zone (the Nagorno-Karabakh "security belt"). Relations with Turkey had not been normalized, and the new situation in Nagorno-Karabakh had damaged the prospects of that relationship being normalized. In this setting, and with Yerevan taking such a hard line on Nagorno-Karabakh, only Russia was in a position to guarantee Armenia's security and to protect the inviolability of Armenia's borders. Thus it was a pragmatic step for both Russia and Armenia to enter into an alliance.

On the other hand, however, Azerbaijan's importance to Russia as a vital exporter of oil and gas and a transit country for petroleum supplies increased significantly as energy concerns became a central theme in world politics. This required Moscow to take a more flexible approach in the Armenian-Azerbaijani conflict. Russia was forced into a balancing act in order to maintain these two vital foreign policy positions in the South Caucasus – Armenia as its sole military ally and Azerbaijan as a key economic partner. Moscow was well aware that a new outbreak of armed hostilities in Nagorno-Karabakh could ruin Moscow's positions in both Yerevan and Baku. That is why the Russian government has been very active over the past two years in its attempts to support a dialogue at the highest level between Armenia and Azerbaijan,

which is aimed at preventing the turmoil in Nagorno-Karabakh from escalating into a military conflict. During Dmitry Medvedev's presidency alone, there have been five meetings between the leader of Armenia, Serzh Sargsyan, and the president of Azerbaijan, Ilham Aliyev, mediated by the Russian president (in Moscow in November 2008 and July 2009, in Astrakhan in September 2010, in Sochi in March and in Kazan in June 2011). Particularly notable was the "Moscow Declaration" on Nagorno-Karabakh, signed by the three presidents on November 2, 2008, at Dmitry Medvedev's official Mayendorf residence and at his initiative; in which the government in Baku pledged to settle the Nagorno-Karabakh conflict only through peaceful means. In July, 2009, a Russian representative, along with representatives of the governments of the US and France, acting as co-chairs of the Minsk Group, were actively involved in preparing the "new version" of the "Madrid principles", designed to encourage negotiations between Armenia and Azerbaijan and calling for a peaceful solution to the unrest in Nagorno-Karabakh.

The struggle for dominance over energy-transit routes

In the first decade of the 21st century, the Caspian-Black Sea region began to assume a new role in global politics. It is gradually becoming a transit zone for oil and gas shipments from Central Asia and Azerbaijan to Europe. This has added a new item to Moscow's foreign policy agenda in the South Caucasus: to ensure that Russia remains a key oil-transit country. Despite Russia's fierce opposition, the governments of Turkey, Georgia, and Azerbaijan signed an agreement in 1999 to build the Baku-Tbilisi-Ceyhan pipeline. From the very start this project was seen by Moscow as a political stunt, without a serious economic basis and intended solely to reroute oil bound for Europe from the Caspian region, bypassing Russia. As Gazprom has become a leading player in the European gas market in the 21st century, the gas-transit routes to Europe have become more important to Russia and its domination over

them has increased. In this new international landscape, both Azerbaijan, a gas producer, and Georgia, a potential transit country, assumed new international roles, which strengthened the standing of these states in regional politics and reinforced the position of groups advocating for reduced dependence on Russia and curtailing Russian influence in the region. Russian diplomats went to great lengths to convince states in the European Union and the South Caucasus to reject the NABUCCO gas-pipeline project in favor of the Russian "South Stream". This issue has still not been definitively settled, and it continues to be at the heart of many international political intrigues and diplomatic negotiations. Some politicians and experts believe that Russia actively tried to interfere in the building of oil and gas pipelines through Azerbaijan and Georgia to Turkey, and even used its influence in the region to provoke tension in areas of conflict in order to thwart those construction plans. As noted above, it is true that the Kremlin reacted negatively to projects to establish alternative routes to ship petroleum to Europe, seeing this as a threat to Russia's role as a vital transit country for energy resources. And in fact, increased competition over energy-transit routes effectively forced greater flexibility in the Russian policy toward the nations of the South Caucasus. This can most clearly be seen in Russia's relationship with Azerbaijan. And although the issue of where to locate energy transit routes is still acute and urgent for the South Caucasus, it does not seem that it can seriously influence the regional reconfiguration of international relations or the existing balance of power. In addition, an increasing number of politicians and experts in the South Caucasus believe that in the near future, the new realities in the region will force global and regional powers to adopt a policy of ensuring that the pipelines now in existence or that are under construction are all complementary.

Because the South Caucasus became one of the most conflict-prone regions in the world after the collapse of the Soviet Union, Moscow has never placed a high priority on

economic cooperation in order to speed the development of the states and territories in the region. Although in 1992 Russia was one of the founders and the biggest sponsor of the Black Sea Economic Cooperation (BSEC), the Kremlin and the Foreign Ministry were cool toward many of the BSEC's projects to develop the region's transportation and infrastructure. It seems that Moscow's position effectively reflects the complex realities of the region, which is clearly not yet ready for the development of multilateral cooperation. Moscow saw bilateral ties as the most effective way to support the status quo. Moreover, Russian capital played a substantial role in the economies of Armenia and Georgia. Although in Armenia it was used as an additional tool to strengthen Russia's political influence over a partner country, a different situation developed in Georgia. Despite Russia's difficult relations with Georgia, and even after the hostilities of August, 2008, Russian capital, especially in Georgia's energy, banking, and telecommunications sectors, was very influential. Global political policies did not affect this influence, but Russian capital was also unable to help warm the two countries' bilateral relations. At the same time it should be noted that Russian capital in the economies of Armenia and Georgia holds no strategic value for Russia. But cooperation with Azerbaijan to produce and transport oil and gas is strategically important for Russia's foreign trade.

A hard line in response to an altered situation

There was a noticeable shift in the situation in the South Caucasus in the first decade of the 21st century. Due to the increasing significance of this region in the production and transportation of oil and gas, there has been a sudden increase in interest there from other world players, such as the US and EU. When the US began a large-scale military offensive in Afghanistan, the region's military and political significance grew, since it is immediately adjacent to the area of military operations. In particular, decisions were made to establish NATO and US military bases in Bulgaria and Romania. And when these two countries entered the

EU in 2007, European diplomacy became much more active in countries in the Black Sea basin. Unlike the US and EU, Russia had no attractive social projects to offer the countries of the South Caucasus, and Moscow considered the increased interest from the West in the region to be a major factor weakening its influence there. With the expansion of the US and EU presence in the South Caucasus, the nations there began to hope that these global players would help to finally resolve their suspended conflicts. This rise in expectations in the countries of the South Caucasus also worried Moscow, fearing that it would eventually lose its monopoly on peacekeeping. On the whole, Western activity in the South Caucasus began to be perceived by the Kremlin as an attempt to restrict Russia's influence in this part of the former Soviet Union so crucial to Russia.

As noted above, Russian policy in the region began to change after 2004 as a reaction to the events in South Ossetia.

However, the real reasons for the change in Russian policy in the South Caucasus were more profound. Apart from the overall change in the balance of power in the Black Sea that was to Russia's disadvantage, the increased activity in that region by the US and the EU, as well as other factors, also played a significant role. First, there was a gradual deterioration in the relations between Russia and the US and Russia and NATO after the American invasion of Iraq. The decision makers in Moscow felt that for many reasons the South Caucasus was becoming one of the most important lines of defense for the interests of the Russian Federation. Second, the support of the Bush administration for the "flower revolution", first in Georgia (November 2003) and then in Ukraine (November 2004-January 2005), which formed the basis for the policy of "promoting democracy in the East", was already regarded in Moscow as a threat to Russia's domestic political system. Third, the American administration's new policy of "unfreezing" conflicts throughout the world, including those in the territories of the former Soviet Union, was met with incomprehension

and exasperation in the Russian capital. The Kremlin felt that conditions were not yet ripe for this and that the Russian policy of maintaining the status quo was still the best of the available options. But Moscow did not stand in the way of attempts to use the "Prague Process", which American diplomats played a major role in launching in April, 2004 in Prague, to resolve the conflict in Nagorno-Karabakh. Fourth, in the face of increasing confrontation with the US, the proclamation by the Georgian government of their new policy to integrate the country into NATO and of Georgia's intention to use the support of the EU and NATO to restore its territorial integrity was poorly received in Moscow. The government in Tbilisi continued to demand both the withdrawal of Russian peacekeepers from the areas of the Georgian-Abkhazian and Georgian-Ossetian conflict and their replacement by an international police force. At Georgia's request, Russia withdrew its forces from that country in 2007. Fifth, after Tbilisi had regained control of the upper part of the Kodorsk gorge in September, 2006 and declared that the government of autonomous Abkhazia, previously seated in the Georgian capital, would relocate there, Russia began to seriously fear that Georgia would attempt to restore its territorial integrity through military action.

Headed for a direct clash with Georgia

The process of developing a new policy toward Georgia and the conflicts there sparked serious, time-consuming discussions in Russian political circles. However, these discussions, which took place in the atmosphere of secrecy characteristic of decision-making in today's Russia, never reached the level of public debate. In the end, a new Russian policy was defined in relation to Georgia's former autonomous areas, which was unofficially called "rapprochement without recognition". By August, 2006 Moscow had already abandoned its ban on trade and economic or financial ties to Abkhazia. On April 16, 2008, Russian President Vladimir Putin instructed the government to develop measures to provide substantive assistance to

Abkhazia and South Ossetia. The issuance of these orders actually recognized the legal standing of not only the governments of the former Georgian autonomous area, but also of the legal entities registered there, including industrial, commercial, and financial businesses. Politicians and experts saw this as an important step by Moscow toward the economic absorption of Georgia's former autonomous areas and their gradual integration into the Russian political sphere. However, the Kremlin refused to officially recognize the independence of Abkhazia and South Ossetia, realizing that an international backlash could have serious repercussions for Russian foreign policy. At the same time, Moscow allowed and even encouraged Russian passports to be issued to citizens of Abkhazia and South Ossetia, citing the Citizenship Act of 2002 that made it possible for any former citizens of the USSR to apply for Russian citizenship. The Russian government saw this as a way to guarantee a Russian presence in Georgia's former autonomous areas.

Tension between Russia and Georgia was steadily rising. After Russian troops were accused of spying for Moscow and were expelled from Georgia, the Russian Federation responded by introducing a visa system in 2006 that was punitive to Georgian citizens and by expelling them from the country en masse on various pretexts.

Nevertheless, the August, 2008 war between Russia and Georgia was not the only inevitable outcome of this situation. Several factors contributed to the strained bilateral relations that escalated into armed conflict. On the eve of the war, seemingly ambiguous signals were received from the Bush administration, which Mikheil Saakashvili's government took to be a guarantee of American support in the event of a military confrontation with Russia. It seems that neither the US nor the EU were able or anxious to convince Moscow that they were ready to consider Russian interests when resolving conflicts in the vicinity of Georgia's former autonomous areas, provided that the process of resolution would become multilateral. On the contrary, Georgian politicians felt that statements

and actions by certain American and European diplomats helped to downplay the significance of Russian interests in the region. Moscow perceived this as an alarming sign that once again the West intended to ignore Russian interests. Moscow also feared that if Russia did not take active steps to protect the Abkhazian and Ossetian populations of the former Georgian autonomous area from attempts by Tbilisi to force their territorial reintegration into Georgia, this could lead to the marked exacerbation of the political situation in the Northern Caucasus, primarily in republics with a Circassian (Adygei) ethnic component and in North Ossetia. Therefore the Russian leadership came to the conclusion that military force could be used against Georgia to secure the status quo in the regions of the Georgian-Abkhazian and Georgian-Ossetian conflicts, especially because this tactic could be officially justified as essential to the protection of Russian citizens living in Abkhazia and South Ossetia. As early as July, 2008, the influential *Nezavisimaya gazeta* published a reference to a certain analytical report compiled for the Russian government, which recommended that "all necessary measures with all the ensuing developments"¹ be taken to defend Abkhazia and South Ossetia.

Not only Russia but also Georgia was preparing for war. However, as happens so often, both parties were surprised by how quickly armed hostilities broke out. It seems that the events leading to the August, 2008 war will be the subject of special historical investigation for a long time to come. So far, the most objective explanation of the immediate causes of the war has been found in a report written by the Independent International Mission to Establish the Facts Behind the War in Georgia (the "Tagliavini Mission"), which was established at an EU summit in December, 2008. Although the findings of this report, which was first submitted in September, 2009, were unavoidably affected by certain political and diplomatic

¹ *Nezavisimaya gazeta* (Independent Newspaper), 14 July 2008.

limitations¹ resulting from the status and nature of the Mission, it nevertheless demonstrates that the war was the result of the convergence of several dramatic events, and both sides played their part in the outbreak of hostilities. Many independent analysts from many countries agree that both sides were responsible for the conflict, but it is also widely accepted within the international analytical community that Russia, as a superpower, bears the greater responsibility for the events.

An important question that is still being discussed and interpreted is what prompted Russian leaders to recognize the independence of Abkhazia and South Ossetia, despite the policy previously adopted by Moscow for "rapprochement without recognition". Apparently the Russian decision to a certain extent stemmed from the fact that there was no way for Russia to avoid losing its status as peacekeeper after the post-war settlement, and its military would have been forced to abandon Abkhazia and South Ossetia. But once Russia recognized those territories as independent states, this gave Moscow the opportunity to consolidate the results of the war and secure its presence, including its military presence, in Georgia's former autonomous areas. Moscow was well able to imagine the negative repercussions that recognizing these countries would bring for Russia in the international political arena. However, it later became clear that the Kremlin and Foreign Ministry only miscalculated the reaction of countries in the Collective Security Treaty Organization (CSTO) and the Shanghai Cooperation Organization (SCO) to Russian recognition of the independence of Abkhazia and South Ossetia. Not one of the countries in these international organizations, including Belarus, Kazakhstan, and China, was willing to support the Russian position. However, it was some solace for Moscow that the member states of the CSTO and SCO

¹ In greater detail: Alla Yazkova / Ivlian Khaindrava (2010) Report by the Tagliavini Mission: to each his own? Russia and Georgia. Ways of emerging from the crisis. Collected articles edited by Georgiy Khutsishvili and Tina Goreliani. Tbilisi, International Centre on Conflicts and Negotiations.

did recognize that Russia had a special role in maintaining stability and order in the Caucasus. Only a few countries in Latin America and Oceania recognized the independence of Abkhazia and South Ossetia, but this was enough for Moscow to assign Abkhazia and South Ossetia the status of partially recognized states. In terms of Russia's relations with the West, the Kremlin assumed that the discussion of Georgia's territorial integrity would eventually devolve into a routine exchange of opinions and accusations.

Toward a new status quo

The August war was undoubtedly a turning point in Russian policy in the South Caucasus. After the war it seemed for a time that Russia had completely altered its role in the region, becoming a revisionist power instead of a country dedicated to maintaining the status quo. However, it soon became clear that Moscow had neither the ideas nor the resources to create either a new international order in the region or a new regional security structure. At the same time, the global financial and economic crisis that began soon after the war in September, 2008 was responsible for many changes in global politics. For a variety of reasons, the US and the EU were forced to sharply curtail their activities in the territories of the former Soviet Union, including in the South Caucasus. Thus they lost the chance to be global players that could offer the region a new model of development and international relations. Moscow, however, believed that the conflict had helped Russia achieve its basic objectives. The question of Georgia's joining NATO was put off indefinitely. Russia's military presence in Abkhazia and South Ossetia was reinforced and supported by bilateral agreements better securing its legal position and long-term outlook in those countries. And although President Saakashvili remained in power (many analysts in the West think that his overthrow was one of the goals of the Russian troops entering Georgia), from the Russian leadership's point of view, Georgia's military potential to start a new conflict had been neutralized. Nevertheless, Moscow had no objection to normalizing relations with

Georgia, provided that the "territorial issue" remains off limits in the negotiations. It was accepted that if Tbilisi managed to eventually establish direct dialogue with the former autonomous areas, Moscow would not oppose Georgia entering into a confederation with Abkhazia and South Ossetia.¹

But this approach was unacceptable to Tbilisi. They believed that the process of normalizing bilateral relations should begin with Russia's refusal to recognize the independence of the former autonomous regions and with confirmation of Georgia's territorial integrity. Afterward, Tbilisi pleaded the fact that it had not even partial control over those areas, or even customs control, as its grounds for refusing to consent to Russia's joining the World Trade Organization (WTO). In other words, bilateral relations were deadlocked in the post-war period. And if one sums up the main characteristics of the post-war environment, it could for the most part be described as a new status quo. In this environment, no single global or regional player has sufficient resources to provide the countries in the region with any kind of new momentum, acceptable to all the nations there and making it possible to create a new system of international relations in the South Caucasus. So it is no mere accident that Moscow quickly grasped the new reality in the region and undertook to preserve the fragile status quo in the Armenian-Azerbaijani conflict and in Nagorno-Karabakh.

An about-face in EU policy toward Abkhazia could induce Russia to make certain changes in its position. In the spring of 2011, the EU made a sober assessment of the reality that Abkhazia was already a de facto state, and so adopted a new policy of conduct toward the territory, which became known as "engagement without recognition". Moscow sees this as the EU's attempt to weaken Russia's influence in Abkhazia by using the EU to expand Abkhazia's unofficial

¹ Artem Malygin (2008), A confederation Caucasian style. *Nezavisimaya gazeta* (Independent Newspaper), 11 November 2008.

contacts with the outside world. However, executing this strategy clashes with Georgia's position, which is designed to prevent, or at least limit, contact between its former autonomous areas and the outside world that is not channeled through Tbilisi. This is the approach spelled out in two documents laying the foundation for Georgia's post-war foreign policy toward its former autonomous areas – the Strategy for the Occupied Territories and the Document on Modalities. But the EU does not want to operate in Abkhazia without Tbilisi. This creates a situation where there is no momentum, which in the present environment is acceptable to Russia, a country focused on consolidating the post-war status quo. Abkhazia's and South Ossetia's current degree of economic dependence on Russia means that their "attachment" to the Russian Federation can only increase, which will deepen their integration into the Russian military, political, economic, and legal sphere.

Instead of a conclusion

It is highly unlikely that the Russian policy in the South Caucasus, which is aimed at preserving the new status quo that emerged after the August, 2008 war, will change substantially in the next few years. Moreover, it is highly probable that the deteriorating situation in the Russian North Caucasus will nudge Moscow toward increased support for Abkhazia and South Ossetia. In the more distant future, if global players such as the US and EU (or possibly a new player on the world stage – China) resume their active policies in the South Caucasus, this will significantly alter the situation in the region. There will be more room for foreign-policy maneuvering by the nations of the region, and new opportunities for international cooperation will arise. In this setting, it will be increasingly difficult for the Russian Federation, with its limited economic resources and its unattractive socio-political model, to rise to the position of the South Caucasus' principal partner or to defend its leadership role there. It appears that there will be a noticeable reduction in the Russian Federation's role and level of participation in resolving the issue of Nagorno-

Karabakh. However, recognition of the new realities can hardly force Russia to reexamine its policy in the region in terms of multilateral cooperation. It appears that Moscow will focus on retaining its influence within the framework of the new lines of demarcation, keeping its sights on the retention of control over Abkhazia and South Ossetia.

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Turkey's Interest and Strategies in the South Caucasus

Burcu Gültekin Punsmann

In the early 1990s, the days of Turkey sharing a land border with the USSR ended and it discovered its Caucasian neighbours. For the first time in several centuries (with the exception of 1918-1920), Turkey and Russia have no land frontier. Turkey was highly cautious not to provoke Moscow in its first contacts with the former Soviet countries putting forward an all-encompassing approach. The newly rediscovered Caucasian borderlands transformed the Turkish-Soviet border in an area of instability and brought the risk of a direct confrontation with Russia, reminding of the recurrent Turkish-Russian wars of the past centuries. The development of the perception of the former Soviet geography as a Turkic world is being strengthened by the American regional strategy prone to see Turkey as the Western bulwark against Russia. Turkey; wary to lose its strategic asset within NATO, accomodates well during the 1990's with its function of flank and frontline state within the Alliance. In the 1990's the ambiguous idea of Turkishness¹ becomes an important thread in the conduct of the Turkish policy in the region leading to a confrontational stance with Russia and pro-Azerbaijani bias in regional conflicts.

The Baku-Tbilisi-Ceyhan (BTC) pipeline project is the cornerstone of Turkey's policy towards South Caucasus.

¹ Turkishness is a vague ethno-religious notion which intends to define the very essence of being Turkish. The notion existed in the Turkish Penal Code until 2008.

Turkish regional policy will remain locked in the framework of the BTC pipeline: this narrow approach is limiting Turkey's engagement and the shaping of strategic thinking. The strengthening of the bilateral Turkish-Russian links will help to overcome the remaining tensions in the 2000's. Turkey will progressively overcome the legacy of the Cold War in its relationships with Russia, which has a direct impact on Turkey's strategy in South Caucasus.

The rediscovery of the South Caucasian neighbours

Turkey's renewed concern for the future of South Caucasus began in January, 1990, when Soviet forces entered Baku following attacks on the Armenian minority and several hundred Azeri demonstrators were killed. At the popular level, there was widespread sympathy for the Azeri in Turkey. However, the government adopted a very cautious approach, insisting that the events in Azerbaijan were purely an internal Soviet affair and refusing to recognize Azerbaijan's abortive declaration of independence, issued on January, 20th.

In March, 1991, President Turgut Ozal visited Ukraine, Azerbaijan and Kazakhstan as well as Moscow, and regular flights started between Istanbul and Baku. The following month saw the first visit ever by a senior Turkish official to Armenia, when the Turkish ambassador in Moscow, Volkan Vural came to Yerevan to discuss the improvement of bilateral relations. The Yilmaz government decided to take the risk of recognizing the independence of all the ex-Soviet states before the US and other western powers made the same decision: one of its last acts, before leaving office, was to recognize Azerbaijan on 9 November, 1991. The incoming Demirel government followed this lead, by recognizing all the other states of the ex-USSR on 19 December.

The post-Cold War context radically altered the scheme of border exchanges. With the dissolution of the Soviet Union and the independence of the Caucasian states, Turkey had to deal with new neighbours. The closure of its only border

crossing with Armenia in 1993 and the opening of new border posts with Georgia and Nakhichevan are the most significant events in the early 1990s. Turkey "discovered" her new neighbour, Georgia, with the opening of Sarpi border gate in 1989, the opening of a second gate at Türkgözü and a 1994 measure that granted Ardahan the status of border city. The opening of Dilucu crossing in 1993 created links between Iğdır and the Autonomous Republic of Nakhichevan. The opening of the frontier at Sarp was warmly anticipated by officials and business people on the Black Sea coast and the Trabzon Chamber of Commerce, in particular, had lobbied hard over the issue. Sarp will become the gateway to the other South Caucasian republics. In the meantime, Kars – historically known as Serhat Kars – had lost its status as a border city. On 3 April, 1991 after Armenian forces attacked Kelbajar, the Turkish government retaliated by halting the supply of wheat across Turkish territory to Armenia. After the official closure of Doğu Kapı/Akhourian in 1993, direct land communications with Armenia were severed and the proposal to open a second gate at Alican/Makara, near Iğdır, was postponed. The opening of Dilucu border post between Iğdır and Nakhichevan in May 1992 was of vital importance to the isolated Azerbaijani enclave, but it ran into a cul-de-sac.

The energy based bipolar security approach: factor for polarization

However despite increasing interaction on the Turkey-South Caucasus borderland, Turkey had to accommodate during the 1990's with not only its old function of flank state but also with that of the new frontline country within NATO. In the early 1990's, Turkey emerges as the new front line state within NATO. It was assumed that a new Cold War with Moscow would likely take the form of friction on Russia's southern periphery rather than a more direct confrontation in Europe. The security challenges were perceived as being harder, more direct and more likely to involve the use of force in the Eastern Mediterranean,

especially on Turkey's borders. American energy politics elaborated in a logic of confrontation with Russia, fostered Turkey's regional stance.

The BTC project is the cornerstone of Turkey's policy towards South Caucasus. Turkey has been an important actor in the conception of the project, its finalization proves to be a real success for Turkish diplomacy, which required a constant effort and the disentanglement of a complex web of problems. The Caspian-Mediterranean pipeline through Turkey matters mainly because of its regional political implications rather than for economic considerations. In a traditional bipolar scheme, Turkey pursues a political and strategic gain by positioning itself in the US-Russian relationship.

The BTC pipeline was officially inaugurated on July, 13th, 2006 at a ceremony held in Ceyhan with extensive press coverage. The day was depicted as an historical one. Oil from BTC, excepted on the long run to reach 2 million barrels a day, is viewed as enhancing the diversity of non-OPEC supply sources. The transit and exploitation revenues of the pipeline will depend on the volume of oil that will be transported. Between the 1st and 16th year, revenues will range between 140-200 million USD, between 17th and 40th year between 200-300 million USD. The revenues are not expected to be higher than those of the Turkish-Iraqi oil pipeline before the BTC reaches its maximum capacity of 1 million b/d.

At the same time that Turkey was gaining support among regional countries for her preferred pipeline choice, she has also been increasing her security ties. Azerbaijan and Georgia launched a major campaign to expand their military and security relationships with NATO. Azerbaijan has invited US, NATO or Turkey to establish a military base, membership for its role as a bulwark against Russian expansionism. Both Azerbaijan and Georgia have expanded military contacts, training and exercises with Turkey and have proposed cooperation with NATO in protecting oil pipelines. The three partner countries attempted to

enshrine their willingness to cooperate in a BTC related official document. This process led to the signature of the "Protocol among the Republic of Azerbaijan, Georgia and the Republic of Turkey relating to the provision of security for the East-West energy corridor", on July, 23, 2003.

The regional security framework set under the aegis of Turkey aims at ensuring the status quo. The nascent regional security system, concentrated on the "pipeline protection", contribute to deep-freeze the conflicts and accentuates the polarization by further promoting a bipolar regional order that has the potential to aggravate regional tensions and introduce additional security concerns into the unstable region.

Turkish regional policy locked in the framework of the BTC pipeline project contributed strongly to freeze the Azerbaijani-Armenian conflict. Turkish diplomatic capabilities in the region had been severely curtailed by the security versus economy trade-off set up between Azerbaijan and Turkey. Turkish policy toward the region had become hostage to security relations with Azerbaijan; furthermore an openly pro-Azerbaijani stance on regional issues had become the cost of the realization of the BTC pipeline.

Turkey-Azerbaijan-Armenia triangle and the Nagorno-Karabakh Conflict

Between autumn 1991 and the spring 1992, it appeared likely that Turkey might be able to develop good relations with both Armenia and Azerbaijan. Following ambassador Vural's visit to Yerevan, a high level delegation from Armenia was received by Ekrem Pakdemirli, deputy premier in the outgoing Yilmaz administration. There was much discussion of the development of trade between the two countries, in particular the expansion of the port of Trabzon to serve the transit trade with Armenia, which was proposed by an American-Armenian-Turkish consortium in February, 1992. Apparently, Turkey was urging Azerbaijan to reconsider the revocation of Nagorno-Karabakh's autonomy in a bid to diffuse the dispute.

Turkey established diplomatic relations with Azerbaijan and Georgia in 1992. Armenia hasn't met the Turkish demand to state officially its recognition of the Treaty of Kars of 1921.¹ Armenia considers that its accession to OSCE in 1992 proves its alignment with the principle of the immutability of international borders. However, it was not this dispute, but the exacerbation of the Nagorno-Karabakh conflict that ultimately led to the closure of the Turkish-Armenian border.

The closure of the border at the height of the war in Karabakh is the Turkish retaliation to Armenia's occupation of the Azerbaijani territories. Consequently, the issue of the opening of the border is perceived as an issue of the lifting of the decade-old Turkish blockade on Armenia, and had been linked to the question of the political settlement of Nagorno-Karabakh conflict and the liberation of Azerbaijani occupied lands. Any potential shift from this traditional stance raises concerns in Azerbaijan, which fears it could weaken its position in the search for a political settlement of the Karabakh dispute. The fear that should the border be reopened, Azerbaijan would lose its main leverage on Armenia is widespread. Consequently, Azerbaijan is pressing Turkey to maintain the status quo because the blockade can be effective only if Armenia is isolated from both sides. A decision to open the border in the current context would be tantamount to the renunciation of a symbolical but powerful gesture of support. In this respect, it is believed that opening the border would jeopardise

¹ The Treaty of Kars (Turkish: Kars Antlaşması, Russian: Карсский договор / Karskiy dogovor) was a "friendship" treaty signed (treaties are entered into by states, and not by a handful of politicians sitting in parliament/government) between the Grand National Assembly of Turkey, which in 1923 would declare the Republic of Turkey, and representatives of Soviet Armenia, Soviet Azerbaijan and Soviet Georgia (all of which formed part of the Soviet Union after the December 1922 Union Treaty) with participation of Bolshevik {maybe neutral in English, but pejorative and judgmental in Russian} Russia. It was a successor treaty to the earlier Treaty of Moscow of March 1921 and the Treaty of Brest-Litovsk marking Russia's exit from World War I, established contemporary borders between Turkey and the South Caucasus states.

Turkish-Azerbaijani relations, give economic and moral support to Armenia, and affect negatively the settlement of the Nagorno-Karabakh conflict.

This line of argumentation fails to question the efficiency of Turkish support to keeping the border closed and has taken for granted that the economic blockade provided leverage on Armenia within the peace talks. The main issue should then be to assess whether Turkey's boycott of Armenia has brought about a solution; how has it helped Azerbaijan on the negotiation table; and whether Azerbaijan is today close to bring the Armenian side to a major concession. It might be time for Turkey to renounce a policy that have not produced any positive result and to start normalising relations with Armenia in order to be able to contribute more actively to the resolution of the Karabakh issue and to help Azerbaijan's interests more effectively.

As a matter of fact the Turkish support to Azerbaijan expressed by keeping the border closed proved nothing more than a symbolical gesture. For the last seventeen years, Turkey's boycott of Armenia hasn't brought about a solution. It seems hardly difficult to argue that the insistence to keep the border with Armenia closed had any positive impact on the resolution of the Karabakh problem. Moreover, Turkey's policy has limited Ankara's potential influence on Armenia. While being a permanent member of the Minsk group and supporting its work, poor Turkish-Armenian relations have hindered Turkey's prospects of playing an active mediating role in the Karabakh conflict. Hence the status quo has not been helpful to Turkey in terms of achieving her policy objectives. The status quo is also hardly beneficial for Azerbaijan.

The signing of the Turkish-Armenian protocols in Zurich on 10 October 2009 opened a historical window of opportunity for the normalization of the relations. Both sides have poured in months of effort to work out the extremely careful of the texts, which set the ground of the bilateral inter-governmental consensus. The protocols incorporate a detailed outline for establishing diplomatic ties, opening

the common border and improving bilateral and human to human relations according to a set of principles and a timetable.

Today, the normalisation process between Turkey and Armenia seems to have come to a vacuum. The prospect that the protocols would be brought back on the agenda appears quite slim after the decision of the President of Armenia Serzhe Sargsyan to halt their ratification by the parliament on 22 April 2010. The common understanding is that the process is on standby. The process would have required speed and clarity. But the pace proved to be slow and paved with ambiguity. Besides, talks became captive of domestic politics on both sides. The linkage between the normalisation of Turkish-Armenian relations and the settlement of the Nagorno-Karabakh conflict, which re-emerged as a condition put forward by Turkey, has spoiled the process. At this stage, the continuing interruption of the Turkish-Armenian bilateral relations is more likely to dissipate the international attention focused on the region and decrease the chances to reach, in a foreseeable future, any settlement of the Nagorno-Karabakh conflict.

Turkish interest in strengthening Georgian independence: however a neighbour before being a pipeline route

The importance of Georgia for Turkey can by no means be underestimated. Developing its relations with Turkey has helped Georgia strengthen its independence. On the other hand, with the closure of the Turkish – Armenian border, Georgia became Turkey's gateway to the South Caucasus and Central Asia. The BTC pipeline best symbolises this connection. Georgia first perceived as a pipeline route, becomes a neighbour. The return of the war to the region in 2008 demonstrated major risks associated with the functioning of the East-West transit and transportation corridor via Georgia. However from a Turkish perspective, the instability and unpredictability caused by war in the area immediately beyond Turkey's northeastern border is

a much higher source of concern than the disruption of the pipeline supply.

Turkish-Georgian borderland is fully open to human and trade interactions. Batumi airport built and managed by the Turkish company TAV is being used for domestic THY flight connections. The Sarpi village once divided by the security fence of the Cold War is being reunified through intense cross-border cooperation. Adjara is integrating with the Turkish Black Sea coast. The closed village of Gogno is hosting dinners between Turkish and Georgian business partners. Inspired by the European experience, Turkish and Georgian authorities have been working at making meaningless the border dividing them. In this context, the state of Russian-Turkish relations has become a major source of concern for the Turkish government.

Overcoming the legacy of the Cold War: Turkish-Russian rapprochement and South Caucasus

The strengthening of the bilateral Turkish-Russian links will help to overcome the remaining tensions in the 2000's. Turkey will progressively overcome the legacy of the Cold War in its relationships with Russia, which has a direct impact on Turkey's strategy in South Caucasus. Russia becomes progressively the main partner among former Soviet space. In addition the unease with the American regional ambitions in the Black Sea region and the willingness to conduct of a more confident and autonomous foreign policy helps Turkey to get emancipated from the logic of the Cold War.

In 2003-2004 in the aftermaths of the invasion of Iraq, both Turkey and Russia become wary that the Bush administration's activism in the Black Sea-South Caucasus region could be a major factor of instability. First, that there was no need for NATO to enter the region because existing regional structures were adequate and already in concert with NATO operations. Second, any regional initiative must

include Russia, as well. Ankara believed that antagonizing Moscow would destabilize the region. Russia was a key party to the resolution of the frozen conflicts in the region.

The historical reconciliation process between Turkey and Russia should generate the same degree of enthusiasm as did the French – German reconciliation process. The two traditional foes found a political common ground. Economics and private sector actors have been the driving force in this rapprochement. These two countries that waged war against each other sixteen times in history, realised that they have no reason to fight. In the 1990's the scene appeared to be set for a revival of the 400-year-old Turkish-Russian competition. The post Cold War regional context provided the ground for arguments about the "inborn" hostility allegedly existing between the two peoples. Turkey and Russia always had regions over which their interests and claims clashed. Before becoming the frontier between the Republic of Turkey and the USSR in 1921, the Transcaucasus had been the contact zone between the Ottoman and the Russian empires. This contact was all the more violent because for many decades, the two empires had fought rather than traded. The Transcaucasus, standing out as a grey area between two rival political entities and serving as a buffer zone, had been an area of confrontation.

The advanced many-faceted partnership that was promoted by the Russian and Turkish governments is based on the good mutual understanding that progressively helped overcome a long history of continuous conflict between the two countries, full of negative images that amalgamated into a knot of suspicion, resentment, fear of each other, and a legacy of haunting minds. The Turkish-Russian reconciliation process is all the more exciting since it involves civilian actors, business communities, and tourism.

Russia has become Turkey's first supplier in natural gas and the main partner in regional energy projects. Though still interested in east-west energy projects, energy has

stopped being a factor of polarization in the South Caucasus from the Turkish perspective. According to IMF 2010 data, Turkey is the third fastest growing energy market coming just behind China and India and ahead of Brasil. Developing a global and pragmatic energy strategy based on market principles becomes in this respect a necessity. The gas dispute between Azerbaijan and Turkey is as a matter of fact merely a commercial one over gas prices even if the momentum in the Turkish-Armenian relations might have pushed Azerbaijan to become more assertive out of irritation. In June 2010, Turkey and Azerbaijan have signed a long-awaited memorandum of understanding for the shipment of 11 billion cubic meters of natural gas from Azerbaijani's Shah Deniz field to Turkey. The Shah Deniz II will decide of the viable option for the Southern gas corridor by making a selection among Nabucco, the Interconnector Turkey-Greece-Italy (ITGI) and the Trans-Adriatic Pipeline (TAP).

The August 2008 war between Georgia and Russia put under strain Turkish-Russian bilateral relation and shed light to the cost of the return of the Cold War. Turkey was concerned with a potential escalation of tensions between the former Cold War rivals. In the aftermaths of the war, Russia, despite the fact that it disliked encroachments into its spheres of influence, recognised the existence of commonality of interests with Turkey and welcomed the Caucasus Stability and Cooperation Platform proposed by Turkey within her mediation efforts in the context of increasing polarization and harsh rhetoric.

The sense that stability is tantamount to the preservation of the status quo developed in the Turkish and Russian regional discourses. This perception of a common understanding between the two countries on the need to shut down South Caucasus to extra-regional intervention gave rise to speculation by third parties that whether there would be an eventual establishment of a Turkish-Russian condominium therein. Turkey seems still concerned with the preservation of the status quo in the South Caucasus

as a means for maintaining regional stability, despite all the divides, blockades and trade restrictions that characterised the area.

Linkage with the EU's action in the region

The neighbourhoods of the EU and Turkey are increasingly overlapping. This is particularly true for the Black Sea region, where countries are full-fledged partners in the ENP. The new European neighbours are indeed the old neighbours of Turkey. This fact will not be altered, whether Turkey is included in the Union in the future or not. The Black Sea region can be defined as the overlapping Turkey/EU neighbourhood. The EU-Turkey accession process can enhance Turkey's capacity to contribute to stability, security and prosperity in her region, and at the same time help the EU to become a full fledged foreign policy player. Only the linkage between Turkey's EU accession process and the ENP would transform the latter into a sound strategy, thereby contribute to the development of more coherent and effective European external relations, and make it an efficient tool supporting sub-regional integration. From this stems the need to analyze the possibilities and ways of linking Turkey-EU relations with the further development of the European Neighbourhood Policy (ENP) and the Common Foreign and Security Policy (CFSP) of the European Union.

Regardless of its definitive status within the EU, a close and sustainable integration and inclusion of Turkey into the EU is a major priority as a geostrategic project within international governance of the south eastern border of the EU.

The emancipation of Turkey from the logic of the Cold War which has prevailed in the 1990's brings a new room for manoeuvre in South Caucasus. Turkey had traditionally kept a low profile in the region, her discourse and actions echoing American policy objectives. Furthermore, the strategic alignment with Azerbaijan has curtailed Turkey's involvement in regional conflict settlement efforts. Turkey was concerned with the preservation of the status

quo in the South Caucasus as a means for maintaining regional stability, despite all the divides, blockades and trade restrictions that characterised the area. The 2008 war in Georgia showed that status quo is unsustainable. The Caucasus Stability and Cooperation Platform (CSCP) announced in the context of the 2008 war by Turkey is an innovative in the sense that it links for the first time explicitly regional stability and conflict resolution. The Caucasus Platform aims at developing a functional method of finding solutions to the problems within the region, and is based on the acknowledgment that tensions stem from a profound lack of confidence among states of the region. It brings also about a new development: for the first time, good Turkish – Russian understanding is used to resolve problems in the common geographic neighbourhood. Turkish-Russian relations steadily developed throughout the 1990's while, on a parallel track, Moscow and Ankara have been extremely cautious to prevent a spill over of tension emanating from the Caucasus into their bilateral relations. There is a pressing need to transfer the unique economic cooperation between Russia and Turkey – a cooperation that verges on interdependence – to the South Caucasus. The analysis of the new pattern of the Turkish-Russian relations reveals the positive impact on bilateral political relations of a pragmatic approach based on business initiative. The Caucasus region had historically suffered from being a grey area of confrontation in the managed rivalry between Turkey and Russia. The current Turkish-Russian rapprochement could affect positively the region, and is looking therefore to willingness and ways to transfer the model of economic cooperation between Russia and Turkey that verges on interdependence to South Caucasus.

The Turkish-Armenian normalization process has been the major source of legitimization for the CSCP. Today three years after its announcement, the principles, decision-making mechanisms and structure of the CSCP still remain to be worked out. Innovative and pragmatic confidence-building mechanisms should help to address the disputes between Russia and Georgia, and Armenia and Azerbaijan,

Turkey and Armenia. Abkhazia and South Ossetia may also be included. The EU could, on the one hand, take the lead and include the CSCP in the context of ENP, possibly in the framework of the Black Sea Economic Cooperation (BSEC)-EU interaction and in coordination with the EU-Russia dialogue.

Domestic actors and the Caucasus

Given the size of Turkey and the complexity of the regional geopolitical context, issues related to the Caucasus are not ranking high in the set of priorities in Turkish politics.

Today the region matters mainly because of the geographical proximity: Turkey as a major neighbour country can't stay aloof to the internal dynamics in the region. Instability across the border will necessarily affect Turkey.

The economic significance of the region is rather negligible. The strategic thinking developed in the 1990's, which essentially focuses on the transit potential of the region, is still up to date. South Caucasus and more precisely Georgia is Turkey's gateway to the Caspian Sea and Central Asia. In the 1990's BTC focused energy politics pushed on the forefront advocates in the energy and business circles, well connected in the Demirel administration, for closer relations with Azerbaijan. Today the main focus of the business and energy circles interested in Eurasia is on Russia. The Southern gas corridor doesn't gather the same degree of enthusiasm as the BTC did in the 1990s.

Therefore we can hardly talk of a push for a business driven political activism in South Caucasus. In the political discourse, economically speaking, Azerbaijan doesn't matter more than Russia since Russia has become the major partner in the former Soviet space. However it matters more than Armenia: the fear to jeopardize business relations with Azerbaijan has been hindering efforts at normalizing relations with Armenia.

Pan-Turkism enjoyed a brief spell of popularity among Turkish politicians in the first half of 1990's but afterwards

withdrew to its traditional social niche, the Turkish nationalist milieu. The activism of extreme-right pan-Turkic circles is the main driving force behind the pro-Azeri lobby. Neither the size of the Azeri origin population, rather small, nor the strength of business links between Turkey and Azerbaijan can be enough to explain the efficiency of this pro-Azeri lobby. The capacity of organization and mobilization together with close linkages with the Azerbaijani official structures prove rather essential. The motto "two states, one nation" which has been dictating official relations between Turkey and Azerbaijan bears features of a pan-Turkic logic in presenting Turkishness as the natural link. This expression was first pronounced by the Azerbaijani President Elchibey referring to the bond between Turkey and the Turkic Republics of the former Soviet space, during the first visit to Baku of Arparslan Türkeş, the leader of the Turkish Nationalist Movement. Turks and Azeris are depicted as one same nation divided by history into two separate states. This leads to the understanding that Azerbaijani and Turkish national interests are identical. The notion of solidarity is the main reason behind the pro-Azerbaijani stance of Turkey in the standoff over Nagorno-Karabakh between Azerbaijan and Armenia.

In numerical terms Northern Caucasian diaspora is much more significant than ethnic Azeri groups. First Abkhazian immigrants in Anatolia settled in 150-160 villages. Today their grandchildren are thought to be numbering between 700.000-1.000.000 whereas the figures for the wider North Caucasian Diaspora range between 2 to 7 million. It is not possible to obtain official data because official census studies do not collect ethnic data in Turkey. The census until 1965 included a question on the native language. The estimations of today are a projection based on the census of 1965 and the size of the population forced to emigration from Northern Caucasus in 1864. In some occasions, Turkish officials use the figures of some 600.000 or 700.000 Abkhazians and 7 million North Caucasians in their press comments and speeches. Even with these figures, there are more Abkhazians in Turkey than in Abkhazia and more North

West Caucasians than in the North West Caucasus. The Georgian-Abkhazian War (14 August 1992 - 30 September 1993) boosted the solidarity feelings and worries of many Abkhazians in Turkey towards their homeland Abkhazia. Caucasian-Abkhazian Solidarity Committee (CASC) gained a significant importance soon after this date. It evolved into a pro-Abkhazian lobbying organization recognized by both Abkhazian and Turkish authorities. The representative of Abkhazia in Turkey was also hosted by the CASC. During the war, the CASC worked to publicize the Abkhazian cause in Turkey and provide humanitarian aid to Abkhazia through contacts with the president, government, the Turkish National Assembly and the media. It organized Turkey-wide aid campaigns and public meetings in Istanbul, Ankara and Adapazari in 1992. Other North Caucasian associations like Kaf-Der (Caucasian Association – Kafkas Derneği; later Kaf-Fed, Caucasian Federation – Kafkas Federasyonu) actively supported the CASC in its activities. Participation of thousands in these street meetings surprised not only Turkish officials but also Abkhazians and other Circassians themselves. The war in Abkhazia helped to transform the diaspora into a political factor in the context of relations between Turkey and Abkhazia. In addition to the mainstream humanitarian solidarity and political activism, even a number of young people including some girls went to Abkhazia to fight on the Abkhazian side as volunteers. The activities of the Diaspora during the Georgian-Abkhazian war were relatively successful to publicize the Abkhazian cause in Turkey but it never developed into a full political impact on Turkish authorities to influence Turkish foreign policy on Georgia. Turkish official policy line maintained to consider the Abkhazian issue as an internal problem of Georgia to the dismay of Diaspora.

Turkey and South Caucasus in the near future

Turkey is an important soft power for the South Caucasus. With the economic growth and liberal visa policy, Turkey's force of attraction has been increasing tremendously: Turkey has become a major destination for work, tourism and shopping. In terms of human and geographical

proximity, Turkey is the only factor which can compete with Russia in South Caucasian societies.

Because of its proximity and its critical size, Turkey's support for the reform process in the region can have a high efficiency. Turkey has an interest in projecting stability across the border: the progressive integration process between Ajdaria region and the Turkish Black Sea coast is a good example of how Turkish actors can positively impact on dynamics on the other side of the border.

The neighbourhoods of the European Union (EU) and Turkey are increasingly overlapping. This is particularly true for the Black Sea region, where countries are full-fledged partners in the European Neighbourhood Policy (ENP). The new European neighbours are indeed the old neighbours of Turkey. This fact will not be altered, whether Turkey is included in the EU in the future or not. The Black Sea region can be defined as the overlapping Turkey/EU neighbourhood. The EU-Turkey accession process can enhance Turkey's capacity to contribute to stability, security and prosperity in her region, and at the same time help the EU to become a full fledged foreign policy player. Only the linkage between Turkey's EU accession process and the ENP would transform the latter into a sound strategy, thereby contribute to the development of more coherent and effective European external relations, and make it an efficient tool supporting sub-regional integration. From this stems the need to analyze the possibilities and ways of linking Turkey-EU relations with the further development of the ENP and the Common Foreign and Security Policy (CFSP) of the European Union. Regardless of its definitive status within the EU, a close and sustainable integration and inclusion of Turkey into the EU is a major priority as a geostrategic project within international governance of the south eastern border of the EU.

Political engagement and strategic planification is needed if Turkey wants to transform its soft power and force of attraction into a vector for influence. The emancipation

of Turkey from the logic of the Cold War which prevailed in the 1990's brings a new room for manoeuvre in South Caucasus. Turkey had traditionally kept a low profile in the region her discourse and actions echoing American policy objectives. Furthermore, the strategic alignment with Azerbaijan, has curtailed Turkey's involvement in regional conflict settlement efforts. Turkey was concerned with the preservation of the status quo in the South Caucasus as a means for maintaining regional stability, despite all the divides, blockades and trade restrictions that characterised the area. The Caucasus Stability and Cooperation Platform (CSCP) announced in the context of the 2008 war in Georgia came as an innovation in the sense that the Turkish diplomatic discourse linked for the first time explicitly regional stability and conflict resolution. The Turkish-Armenian normalization process has been the major source of legitimization for the CSCP. Today three years after its announcement, the principles, decision-making mechanisms and structure of the CSCP still couldn't be worked out.

The Nagorno-Karabakh conflict has a high cost for Turkey. As the failure of the last attempt of normalizing relations with Armenia has shown, it is curtailing Turkey's capacity to conduct a sovereign policy in the region. However Turkey can't impact much on the settlement of the conflict between Armenia and Azerbaijan, as long as it doesn't have bilateral political relations with Armenia. As a matter of fact, the efficiency of any Turkish policy in South Caucasus is conditionalized by the prospect of the settlement of a conflict totally external to Turkey.

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Europe and European Perspectives



The European Union in the South Caucasus: Story of a hesitant approximation

Uwe Halbach

During the first post-Soviet decade, the European Union (EU) was more or less not perceived at all in the Caucasian and Caspian region, not as a geo-political player anyway. And it was, above all, geo-politics that determined the perception of the developments in the post-Soviet region, such as the South Caucasus and Central Asia. The regions of either side of the Caspian Sea emerged as new production and transport zones for energy raw materials after the collapse of the Soviet Union. Disputes about the routing of future pipelines focused the view on hitherto unknown regions. Whereas the Caucasus and Central Asia had more or less not been included in the "mental mapping" of Europe before the collapse of the Soviet Union, the two regions were now regarded as part of the "New Great Game". What is more, Caucasia, with its two halves of the region – the South Caucasus with its three newly independent states Georgia, Armenia and Azerbaijan and North Caucasus, belonging to the Russian Federation – proved an especially complicated and conflict-prone part of the post-Soviet space. This is where ethnic and territorial conflicts from the Soviet heritage occurred most frequently. Europe adopted a distanced stance in the new "Great Game" and the security policy challenges posed by this region. At western research institutions, Caucasia and Central Asia were put together into a larger Caspian region for a long time yet. With the differentiation of economic, political and cultural developments in the CIS region and with the inclusion of the three South Caucasian states into the Eastern Neighborhood

of the European Union, the South Caucasus slowly emerged as an individual addressee of European foreign policy and a subject of research in its own right.

Hesitant approximation

Even in 2004, Vladimir Socor still described the EU as "the great absentee from the economic, political and security affairs of this region"¹. This statement was questionable already at that point in time, as the EU had become the greatest sponsor of development projects in the South Caucasus. Between 1991 and 2000, the EU had invested well over one billion euro in the development of these three states. As regards the "security affairs of this region", the statement on the European absence fit the most appropriately and still does – at least in comparison with players such as Russia and the USA.

Where are the reasons to be seen for this hesitant approximation of Europe to the Caucasus and for the intensification of relations in the second post-Soviet decade?

Unclear security policy interests

Since the escalation of the conflict surrounding Nagorno-Karabakh in February 1988, the South Caucasus emerged as an especially complicated and conflict-prone region in the space of the failing Soviet Union. Still, it remained unclear for a long time just how close or how distant this conflict region was for Europe with regard to security policy². It was close enough for Europe not to leave it out of its consideration in the interest of stability in its neighborhood. But the region was also distant enough

¹ Socor, Vladimir (2004) Nato Prospects in the South Caucasus (2), in: IASPS (Institute for Advanced Strategic & Political Studies) Policy Briefings, 61, 26.4.2004.

² On this term "proximity/distance paradox" see: Lynch, Dov (2003) The EU: towards a strategy, in: The South Caucasus: a challenge for the EU, Chaillot Papers No.65, ISS (Institute for Security Studies), Paris, December 2003, pp. 171-196, especially pp. 178-179.

that the problems emanating from it were not regarded as immediate risks for the own security, even during the warlike conflict periods in the fight over Nagorno-Karabakh, South Ossetia and Abkhazia between 1991 and 1994. This is the point in which the conflicts in the South Caucasus differed from those on the Balkans. The consequences of migration forced by armed conflict were different in both regions of Europe. Whereas the streams of refugees from the war zones of the former Yugoslavia were headed for Central and Western Europe, the refugees and displaced persons of the South Caucasian wars of secession sought refuge primarily within the CIS space.

This perception changed during the second post-Soviet decade, especially following 9/11 2001. Now the issues of "fragile statehood", "unresolved regional conflicts" and "porous borders" played a greater role and the South Caucasus provided an abundance of examples for these subject areas. Already in drawing up the Partnership and Cooperation Agreements (PCA) with the three South Caucasian states in 1996-1999, the unresolved regional conflicts were identified as the "root causes" for most political, economic and humanitarian problems of the region. In the perception of the Commission in Brussels, EU aid for the South Caucasus could only be effective given two prerequisites: in case of a peaceful conflict settlement and a better regional cooperation between the three states.¹ Despite this insight, the peace policy commitment of the EU remained limited in the South Caucasus. Whereas the EU undertook ten missions in Africa and six in the Western Balkans within the framework of their "Common Foreign and Security Policy", their involvement in the South Caucasus remained limited to two missions in Georgia.² One of these missions – EU JUST Themis – with some legal advisors and a term of just one year focused on the legal sector of the country. The other mission was more significant

¹ Ibid, p. 181.

² See: Huff, Ariella (2011) The role of EU defense policy in the Eastern neighbourhood, ISS (Institute for Security Studies) Occasional Paper 91, May 2011, pp. 17-23.

with regard to security policy: the EU monitoring mission (EUMM) along the administrative borders of Georgia with its breakaway territories of Abkhazia and South Ossetia. Following the Russian-Georgian Five-Day War of August 2008, it contributed to preventing a renewed outbreak of war along this ceasefire line.

South Caucasus: one region?

The developments in the South Caucasus were frustrating for European players, in some areas they placed special emphasis on in their cooperation with partners in the post-Soviet space. This is true, for instance, for regional cooperation between the partner countries, which was accentuated by a Caucasus initiative of the German Federal Ministry for Economic Cooperation in the year 2001, just as by various EU statements. European programs supported new transport routes and transit corridors in Eurasia, with historical reference to the silk trails. In this context, Caucasus worked as a land bridge between Europe and Central Asia and between the Caspian Sea and the Black Sea region. However, for the time being, unresolved regional conflicts and the connected border blockades curtailed this much quoted bridge function considerably. Before the inauguration of the first major new pipeline project, the oil pipeline from Baku via Tiflis to the Turkish Mediterranean port of Ceyhan (BTC), nothing much was transported using the Caucasian land bridge. A southern transit corridor, promoted by the EU emerged between Azerbaijan, Georgia and Turkey, bypassing Armenia, however, which is due to the unresolved Nagorno-Karabakh conflict. Secessionist structures, such as Abkhazia, South Ossetia and Nagorno-Karabakh, remain isolated along the Caucasian land bridge. The inter-state relations in the region and between the region and Russia remain precarious also following the Five-Day War of August 2008. Those between Armenia and Azerbaijan are currently provoking the call for urgent conflict prevention once more.¹

¹ Cp. International Crisis Group Policy Briefing (2011) Armenia and Azerbaijan: Preventing War. Europe Briefing No.60, 8.2.2011.

The first approximation of the EU to the South Caucasus was determined by the ideas of regional commonality, which ran counter to reality already in those days. From 1996, Brussels negotiated Partnership and Cooperation Agreements (PCA) with the three states, which came into force in 1999 and formed the first legal basis for European-Caucasian relations. These agreements, however, did not display much differentiation as to the respective individual countries. Greater differentiation in the European perception of the South Caucasus was triggered by the events of the fall 2003 with the peaceful change-over of power in Georgia, the "Rose Revolution", and the dynastic hand-over of rule within the Aliyev family in Azerbaijan. These events made clear the differences in the political developments within the region. The EU intensified especially its relations with Georgia, a country that acknowledged European political norms the most and aligned its foreign and security policy the clearest towards the Euro-Atlantic partners. The differentiation grew, finally, with the Eastern Partnership (EaP) initiative since 2009, which was addressed at the six states in the Eastern neighborhood of the EU. It combines bilateral and multilateral policy with various partners and puts up "joint ownership, differentiation, conditionality" as guiding principles. New contractual relations were able to develop at a bilateral level, which were tailored more than before to the political, social and economic individuality of the partners.

But it is also in the trans-regional direction that the South Caucasus is called into question as an independent region. Can the conflict structures of this "region" be separated consistently from the Russian-"governed" North Caucasus, which displays excesses of violence on a weekly basis? Currently, Georgia is practicing a North Caucasus policy that begs exactly this question.¹ Is it not the case that

¹ Cp. Friedrich Ebert Stiftung (2010) *The North Caucasus as a Factor in Georgian-Russian Relations*. Tbilisi 2010; see also: *Caucasus Analytical Digest* (2011) *Relations between the North and South Caucasus*, No. 27/2011.

Russia, Turkey and Iran protrude into a "Greater Caucasus", of which Georgia, Armenia and Azerbaijan only form a section?

Profile of economic interests

With a view to the Caspian energy resources and their transport routes, the South Caucasus emerged in the geo-political perception, already mentioned, with the Contract of the Century between Azerbaijan and international oil consortia in the year 1994, still its economic significance remained relatively unclear all in all. As stated above, there was precious little moved along the Caucasian transit corridor, before the BTC started operation at long last in summer 2006. The economic exchange between the three states of the region remained at a minimum. The EU was an important trading partner for the individual countries but the South Caucasus remained insignificant as a regional market for European producers. Generally, this "region" represented only a small section of the post-Soviet space geographically and even more so demographically. Taking the population of all three states together, they just about reach the population number of the Netherlands.

The economic interest grew during the second post-Soviet decade with a continuous economic growth in all three states. Azerbaijan displayed exorbitant raw-material-driven growth rates before the worldwide financial and economic crisis of 2008/2009, the highest in the post-Soviet space. With its economic and administrative reforms since 2004, Georgia achieved a dramatic increase in the level of foreign investments. In the World Bank Report Doing Business, the country was able to rise from rank 112 to the 11th position. Despite massive punitive economic measures, which Russia imposed on Georgia since 2006, the GDP growth rate still remained at a level of about 9% before 2008. With the Five-Day-War of August 2008 and the worldwide financial crisis, this development suffered a setback. Furthermore, the ultra-liberal economic reforms had not contributed much to a reduction of the poverty rate. The largest part of the Georgian population was not

actually bedded on roses by the Rose Revolution. The government did not really pursue a pro-poor policy.

Even if the range of economic development was expanded, the interest of foreign players in the South Caucasus still focuses mainly in the region as an energy resource production and transit area. Meanwhile, Europe is also pursuing more pronounced energy policy interests than during the first post-Soviet decade, during which it was the USA, above all, who supported new pipeline routes politically, whereas the EU appeared to be the "great absentee" as Socor said. The strategic interests in this field have shifted, however, from oil to focusing on natural gas and pipeline projects such as Nabucco. This entails an increased economic significance of Azerbaijan for the EU, the energy producer in this region, after the political attention of Europe being grabbed so far especially by Georgia. The country on the Caspian Sea is treated as a strategic energy partner in various EU initiatives, programs and documents, last in a joint declaration of 13 January 2011, which was crowned by a high-ranking EU state visit to Baku. Sometimes, the impression is conveyed that the European energy supply and overcoming the dependence on the main supplier Russia were connected fatefully with the Caspian and Caucasian region. The strong emphasis on the energy issue has led Azerbaijan to assuming a giving role vis-à-vis its European partners and thus to be forearmed against criticism in its balance of reforms. Meanwhile, Azerbaijani politicians stress that their country will overcome the high dependence of their growth on the energy sector in the near future and that they have to diversify their economy, especially in view of the fact that oil production will have passed its zenith soon. It is legitimate to emphasize energy partnership as an important aspect in the pursuit of European interest in the South Caucasus. However, a single focus on this field of cooperation neither lives up to a country such as Azerbaijan nor the entire "region" and its relations with Europe. Critics have said that in statements put forward by Brussels issues of conflict settlement in the South Caucasus take second place behind

the subject of energy. An unresolved regional conflict, such as the one of Nagorno-Karabakh, touches upon all other fields of politics and development perspectives – the prospect of a liberalization of the political systems of the South Caucasus as well as the functioning of the southern transit corridor desired by Europe.¹

Relations with Russia

More so than in other post-Soviet regions, such as Central Asia, Europe relates to Russia with more or less any activities it undertakes in the South Caucasus, especially those in the field of energy and security policy. Russia felt linked closely, historically, strategically and psychologically with Caucasia in the post-Soviet times, into which it protrudes with its state territory. The Caucasus represented a special projection screen for Russian fears of being pushed out and of their conspiracy theories, the obsession that foreign powers in an interplay with local forces would throw Russia out of a zone in which it had ruled for two centuries. In contrast, a country such as Georgia feels itself to be an object of Russian power politics and presented its relations with Western partners as an emancipation from Russian predominance in the South Caucasus. During the second post-Soviet decade, the Russia-Georgian relations escalated to mutual hostility and led to a short war in August 2008 that shook world politics. The focus of this development was on the unresolved secession conflicts of Georgia with Abkhazia and South Ossetia, into which Russia intervened more and more massively and with a growing partisanship for Georgia's opponents in the conflicts. The geo-political framework in which the bilateral relations were aggravated was formed by the strict Euro-Atlantic alignment of Georgian foreign and security policy, especially its request for a speedy membership of NATO and the efforts undertaken by Russia to counteract this move.

¹ Cp. Halbach, Uwe / Kamran, Musayev (2011) EU-Aserbaidshjan: Nicht nur Energiepartner. SWP-Aktuell 11, February 2011.

Europe was rather helpless vis-à-vis this development. Furthermore, the lines of differentiation in the Russia policy adopted by individual member states were deepened within the EU with the enlargement of 2004 and the acceptance of Central European countries. Some of the "old Europeans", such as Germany, wanted to avoid a confrontation with Russia in the intensification of the neighborhood policy towards Eastern Europe and the South Caucasus. Some "new Europeans", such as Poland and the Baltic republics, supported strongly the emancipation from Russian dominance in these regions of the post-Soviet space. Russia interpreted the developments following the Rose Revolution in Georgia, including new EU projects for Eastern neighborhood, as attempts undertaken by the West to expand into the post-Soviet space under the guise of "defending democracy". Meanwhile Europe was also perceived more in the role of a geo-political competitor. Russian commentators conjured up the memory of the role of European powers in the Caucasus during the historic "Great Game" in the 19th and early 20th century. For instance, historian Vladimir Degoev, Director of the Caucasus Department at the Moscow State Institute for International Relations (MGIMO), in a review of the competition for influence in the Caucasus in the 19th century said warningly that the European presence in the region, which had once been part of the Soviet Union, would provoke a reaction in Moscow inevitably.¹ The Deputy Director of the Institute, Andrej Zagorski, pointed out that activities of European foreign and security policy could lead to a conflict with Russia if the EU were to decide to increase its profile in the common neighborhood through a more active interference in the regional conflicts. That would touch upon the status quo.²

¹ Cp. Degoyev, Vladimir (2005) Wider Europe's Horizon in the Caucasus, in: *Russia in Global Affairs*, 4/2005, p. 2-4.

² Cp. Zagorski, Andrej (2005) *Russia and the Shared Neighbourhood*, in: Lynch, Dov (Ed.), *What Russia Sees*. Institute for Security Studies, European Union, Paris, January 2005 (Chaillot Paper No.74), pp. 61-77 (72).

Intensification of European Caucasus policy since 2003

A stronger shift of European attention towards the South Caucasus was accompanied by regional developments such as the "Rose Revolution", even more so with the enlargement of the EU into spaces that once belonged to the Eastern bloc. With the acceptance of Bulgaria and Romania in 2007, the EU now also had maritime borders with Georgia and the South Caucasus. The Black Sea region became more and more a subject of European foreign policy.

The year 2003 represented a turning point in the European-Caucasian relations. In March 2003, the Commission in Brussels published considerations on a "Wider Europe-Neighborhood", as a concept for the relations with the Eastern and Southern neighbours. At that time, the South Caucasus was not mentioned yet, whereas the Arab states at the Southern Mediterranean coast already represented EU neighbours. Three months later, however, the South Caucasus was weighted more strongly in a new EU security strategy paper penned by Javier Solana. He writes, "We should take a stronger interest in the problems of the South Caucasus, which in due course will also be a neighbouring region".¹ This increased attention attached to the region was reflected also at an institutional level with the appointment of an EU Special Representative for the South Caucasus.

In the ensuing time, the EU increased its activities in their neighborhood spaces through initiatives such as the European Neighborhood Policy (ENP) of 2004 and the Eastern Partnership (EaP), initiated in 2009, with six states in the shared neighborhood space with Russia. Bilateral contacts with the Eastern neighbours were increased, multilateral institutions for cooperation introduced and new financial tools created. This is what another contribution in

¹ Lynch, Dov (2003) *The EU: towards a strategy*, op.cit. p. 171.

this volume is going to deal with. The eastern neighborhood, reaching from Belarus in the North West to Azerbaijan in the South East, comprises 72 million inhabitants, including just under 16 million in the South Caucasus. The six states differ in several ways, not least in their intention to join the EU. Whereas Ukraine, Moldova and Georgia are seeking such membership, Azerbaijan, Armenia and Belarus have not issued many statements on this issue. Whereas Georgia and Moldova express their closeness to European political values, the political power elites of Belarus and Azerbaijan will not accept foreign criticism of their reforming and democratization deficits. This space forms the poorest part of a "Greater Europe" (including Eastern Europe and the South Caucasus). The prosperity gap between the EU and the EaP space is greater than it was with the Central European states in the 1990s and the Western Balkans in the following decade. Trade between the EU and the six Eastern partners was still minimal in 2009 and only comprised some 2.1% of EU exports.¹ The energy sector formed a core area of the economic relations, which is stressed especially by Azerbaijan now, the geographically most distant and, following Belarus, also the most remote partner politically.²

2008: New challenges on the EU Caucasus policy

The Georgian-Russian August War 2008 formed another turning point. During this world political crisis, in which buzzwords such as the "new cold war" were heard, the EU was the most visible international player. Under French presidency, the organization mediated a ceasefire

¹ Cp. Pełczyńska-Nalecz, Katarzyna (2011) *Integration or Imitation? EU policy towards its Eastern Neighbours*. OSW, Warsaw, April 2011, p.20.

² On the political and economic range of the EaP, see: Pełczyńska-Nalecz, Katarzyna (2011). On the security policy challenges, see: Huff, Ariella (2011) *The role of EU defence policy in the Eastern neighbourhood*. ISS (Institute for Security Studies) Occasional Paper 91, May 2011.

agreement between the warring parties, set up the already mentioned mission for monitoring the ceasefire lines astonishingly swiftly, including more or less all member states, and appointed an international commission to investigate the causes of the war. Initially, the tone used towards Russia was aggravated, accusing them of employing disproportionate means with their military action against Georgia in response to the Georgian offensive in South Ossetia and their activities in Abkhazia and South Ossetia up to the present day that violates the stipulations of the ceasefire agreement of August and September 2008. Soon it became clear, however, that both the EU as well as the North Atlantic Treaty Organization (NATO) wanted to avoid confrontation with Russia over Georgia. The USA, too, introduced a rather conciliatory policy of "Reset" towards Russia following the August War of 2008.

The relations between Georgia and the secessionist parts will sway between two contrary status claims that will both collide with the reality on the ground for a long time: On the one hand, there is the international confirmation of Georgia's territorial integrity, which will remain violated de facto for a long period of time and, on the other hand, there is the Russian claim that Abkhazia and South Ossetia are independent states and not at all objects for annexation by the Russian Federation. In the meantime, Russia has more or less absorbed the two territories already – by military presence, considerable budget allocations (South Ossetia depends on the Russian budget by 98%)¹, Russian citizenship, Russian administrative cadres in South Ossetia and the penetration of the local economies with Russian capital. This development demands for the EU to maneuver between the recognition of the territorial integrity of Georgia and the efforts not to deliver a de-facto state, such as Abkhazia, which has the resources for self-determination in contrast to South Ossetia, to international isolation and exclusive dependence on Russia. Brussels

¹ Cp. Caucasus Report (2010) Russia Intensifies Focus on Misuse of Funds in South Ossetia. Radio Free Europe/Radio Liberty. 2 September 2010.

supported a Georgian strategy for the re-integration of its secessionist parts adopted in 2010 "Engagement through cooperation", mediating humanitarian contacts across the ceasefire lines, but also aiming to circumvent the local power structures on the opposing side; and at the same time the EU is pursuing its own strategy of "Engagement without Recognition" by forging contacts with Abkhazia below the threshold of diplomatic recognition.

The more pressing challenge, however, emanates from the other unresolved regional conflict, the Armenian-Azerbaijani dispute about Nagorno-Karabakh. In this oldest regional conflict of the South Caucasus, the EU is more or less completely absent in the management of affairs. In this case, the EU leaves the mediation to the Organization for Security and Co-operation in Europe (OSCE), which has been striving for a peaceful settlement within the format of the Minsk Group since 1992, without being able to achieve a real breakthrough yet. Since 2010, concern has been growing in Europe that the conflict could blow up into a regular war once more. One reason for this is the high level of militarization of the conflict environment. Under President Ilham Aliyev, Azerbaijan has increased twentyfold its military spending since 2003. Meanwhile, its military finance makes up 20% of the republic's budget and has overtaken the total budget of Armenia. Time and again there are threats to be heard from Baku to solve the conflict with military means if there is no diplomatic breakthrough soon and the Armenian troops are not withdrawn from the seven occupied provinces surrounding Nagorno-Karabakh. Nagorno-Karabakh is countering this with the "highest level of defense readiness", and Armenia is threatening the recognition of the de-facto state in case of renewed hostile action and claims to be ready for war. Violent incidents have become alarmingly more frequent during the last 12 months along the ceasefire line, which is only occasionally inspected by a tiny OSCE team, and along which thousands of soldiers and snipers are facing one another like in the trenches of the First World War.

There is a blistering field of tension in the area of conflict management. Stagnation is meeting urgency there. The tasks of conflict transformation, trust-building and overcoming deeply rooted perceptions of the enemy require a lot of patience and time. Patience, however, is running out and the events along the ceasefire line are becoming more frequent, putting time tolerance to a hard test.

Outlook

At present, the Southern neighborhood of the EU is grabbing international attention with the "Arab Revolution" from Morocco to Syria. The question was raised already whether Maghreb and Mashreq were not blocking off the view on a region such as the Caucasus and whether the Eastern neighborhood of the EU would not fade away behind the Southern one. At the same time, the aggravating debt crisis of the euro zone leaves little room for neighborly feelings and for an interest in a relatively remote neighbouring region such as the South Caucasus.

Turning away from the eastern neighborhood, however, would come at an unfavorable point in time, as the implementation of the Eastern Partnership (EaP) with the negotiation of association agreements and the Deep and Comprehensive Free Trade Areas (DCFTA) are only just beginning. The South Caucasus and its unresolved regional conflicts still represent a security policy challenge for the European neighborhood policy. Furthermore, the reactions to the "Arab Spring" are to be seen here most readily within the post-Soviet space and not necessarily in Central Asia, where the similarities with the disputed political cultures of the Arab world is the most pronounced. Opposition forces and Twitter communities from Baku, Yerevan and Tiflis called for "Days of Wrath" and organized demonstrations. Protest actions like the ones in Tiflis in May 2011 did not take on the magnitude of the ones in Tahrir Square in Cairo and were limited largely to marginalized opposition forces. They are not really an indication of an imminent switch in power. They show, however, that overcoming

fragile statehood through democratic transformation is still waiting to be accomplished.

Concerns about pushing the Eastern behind the Southern neighborhood are not confirmed by the renewed distribution of resources by the EU. But there are critical questions about the attractiveness and effectiveness of European policy towards Eastern Europe and the South Caucasus that remain to be answered. The financial means available to the EaP seems to be extremely modest, especially on the backdrop of the gigantic expenses in support of over-indebted euro states. The cooperation between member states and between the institutions of the EU leaves a lot to be desired in the area of neighborhood policies. There are differences here in the Eastern neighborhood especially with regard to the "old" and the "new Europeans" with Russia and in the assessment of the priority of interests towards a region such as the South Caucasus. What should the emphasis be on: energy partnership, security cooperation, conflict management or democratization? In the European Parliament, a clearer Caucasus strategy was called for in 2010, especially with regard to conflict management. It was a more coherent policy that was expected with the new foreign policy institutions within the Lisbon EU Treaty under the leadership of the External Action Service (EAS). Instead, Brussels caused irritation and doubt about the relevance of this region for Europe by considering to abolish the post of EU Special Representative for the South Caucasus, only created in 2003. One needs to avoid such confusing signals and communicate more clearly incentives for the increased efforts at integration with Europe below the accession threshold, as for instance, the offer of deep and comprehensive free trade areas.

* * *

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ENP and EaP: relevant for the South Caucasus?

Nicu Popescu

The states of the South Caucasus have had a turbulent history, not least throughout the last two decades. Ravaged by secessionist conflicts, civil and inter-state wars, political instability, economic crises, and geopolitical rivalries between outside powers, they managed to break with the past, but seem less able to overcome the present. They have moved beyond command economies and rigid dictatorships, but have not become full-fledged democracies and free market economies. Despite gradually improving economic performance in the last decade and a gradual modernisation of societies, the countries of the region are still stuck in an unenviable present – under strong external security threats, with hybrid political systems that blend economic and political power.

Despite ambitious, the European Union (EU) has left a rather small imprint on region's development. The EU has neither managed to be a decisive force for good, nor to prevent negative regional trends. The developments of Georgia, Armenia and Azerbaijan have been largely driven by domestic political processes – from the turbo-fuelled dynamics of nationalist mobilisation and war, the developments of energy resources, the Rose Revolution in Georgia or the suppression of decent throughout the region. The EU has been a secondary actor at best. It has managed perhaps to alter the development trajectory of the countries of the South Caucasus on the margins, but not in a systematic nor decisive manner. And definitely much less than other external actors be it Russia, the US or Turkey.

Twenty years since independence, the development of Georgia, Armenia and Azerbaijan, as well as that of EU policies in the region lack a clear sense of direction. So far the general trend among these countries has been state capture and centralisation of power rather than transition towards free politics and economies. The elites of Armenia and Azerbaijan prefer "stabilisation" to transition: they would rather freeze the status quo of partial reform, in particular by blending oligarchic networks with corrupt bureaucracies, rather than strengthen state institutions. Georgia has much freer markets and politics, but still it has not had a single ordered transition of power through elections since its independence and its politics remain hugely divisive.

This chapter looks at EU policies in the region for the last two decades which went through three phases: strategic neglect in the 1990s, expectations of growing involvement between 2002 and 2008, and fall back towards stagnation bordering on neglect again.

EU policies in the 1990s: neglect and hesitation

Throughout the 1990s little really happened in EU's relations with the South Caucasus. The EU was concentrated on its own transformation, enlargement to Central and Eastern Europe and attempts to stabilise the Balkans. At that time the EU was not ready to offer anything meaningful to Georgia, Armenia and Azerbaijan – be it substantial economic assistance or leadership in the international efforts to contribute to conflict settlement in Abkhazia, South Ossetia and Nagorno-Karabakh. Certainly, the EU deployed a plethora of projects, offered economic assistance to the countries of the region, but EU policies were technical, low-visibility and avoided hardcore political issues that were of primary concern to the states of the region – the existence of ethnic conflicts, shaky relations with Russia or domestic political crises.

EU policies towards the South Caucasus in general and Georgia in particular have been marked by a 'Russia-first'

approach. A 1995 European Commission Communication on the South Caucasus openly recognised that "a key element in an eventual resolution of the conflicts will be the attitude of Russia"¹. Even if the same document claimed that "given Russia's drive to dominate the region militarily, many look at the EU as the only other actor capable of playing a major political role", it did not undertake such a role.

The reasons for EU's neglect of the region in the 1990s were manifold. Firstly, the region was geographically too far from the EU and its problems seemed too grave for the EU to make a real impact. Second, the EU was too consumed by internal developments: reforming itself through three new treaties in less than a decade – Maastricht in 1993, Amsterdam in 1997 and Nice in 2000 – and preparing for enlargement. Third, the EU did not have a proper framework for foreign policy action. Until the appointment of the EU High Representative for Common Foreign and Security Policy (CFSP) in 1999, the EU did not have a more or less clear and coherent institutional set-up to play a more active EU foreign policy role. In the words of Dov Lynch, "the EU retained a low overall profile, with little presence in the negotiating mechanisms, no direct involvement in mediation, and an undefined strategy to lead policy"².

¹ Communication from the Commission (1995) Towards a European Union Strategy for Relations with the Transcaucasian Republics. Brussels, 31.05.1995, COM(95) 205 final, p. 10. The document refers to South Caucasus as 'Transcaucasia', i.e. across the Caucasus Mountains, which is a translation from the Russian 'Zakavkazie'. The three countries are certainly not 'across the Caucasus' from the EU's standpoint. Thus, even symbolically at a discursive level the South Caucasus did not exist yet for the EU but as a Russian 'province' across the Caucasus Mountains.

² Lynch, Dov (2006) Why Georgia Matters. Chaillot Paper No. 86. EU Institute for Security Studies, Paris, February 2006, p. 61.

South Caucasus in the EU neighbourhood: 2003-2008

The neglect of the South Caucasus started to come to an end around 2003. The process was gradual, but nonetheless unmistakable. Already in 1995 the European Commission's Communication on South Caucasus clearly outlined that the EU interests in the region are related to supporting democracy, promoting regional stability, lessening humanitarian suffering, having access to energy supplies in the Caspian and protecting the environment. What changed after 2003 was a new momentum for the EU to start engaging with the region.

By 2003-04, the EU enlargement to the east was almost accomplished, the institutional set-up for CFSP had been developed and the EU had acquired the minimum toolbox of capabilities for security policy action under European Security and Defence Policy (ESDP). This meant that the EU had for the first time the potential to play a role in the region.

Second, the result of the above internal developments in the EU resulted in the launch of the European Neighbourhood Policy (ENP) and the adoption of a European Security Strategy. Both served the role of focusing the EU's attention on the South Caucasus. Despite the fact that initially the South Caucasus was not included in the ENP in 2003, the European Security Strategy of 12 December 2003, clearly stated that the EU "should now take a stronger and more active interest in the problems of the Southern Caucasus, which will in due course also be a neighbouring region." The South Caucasus was included into the ENP in 2004, as it could not be de-linked from the challenges that the EU faced in its neighbourhood.

Third, it became clear that the EU could not credibly pretend to develop policies in the region without touching upon issues of conflict resolution. The 2003 EU country strategy paper on Georgia claimed that "the EU wants Georgia to develop in the context of a politically stable

and economically prosperous Southern Caucasus. In this respect, the conflicts in Abkhazia (Georgia) and Tskhinvali region/South Ossetia remain a major impediment" and "the resolution of internal conflicts also appears as a major condition for sustainable economic and social development"¹. This necessitated a greater involvement of the EU in the conflict settlement process if the overall success of EU policy towards the region was to be attained.

Fourth, the Rose Revolution encouraged the EU respond to it through greater engagement. The revolution undeniably attracted international attention and challenged the assumption that these states were irreversibly stalled in the slough of post-Soviet fake democracy, corruption or outright authoritarianism. In the new context, Georgia had to be helped to succeed in its post-revolutionary "re-transition"², which was in line with the EU's foreign policy of supporting democracy in Europe and beyond.

Fifth, one of the consequences of the post-Rose Revolution environment was a new Georgian activism on the conflict resolution path. For the Saakashvili administration, the status quo around South Ossetia and Abkhazia was no longer acceptable. In addition, the success in reintegrating Ajaria, a semi-uncontrolled region, into Georgia in May 2004, has encouraged the Georgian pro-active policy on the conflicts.³ This also challenged the EU into playing a

¹ European Commission (2003) Country Strategy Paper 2003-2006: Georgia, September 2003.

² The term is used by Kristi Raik in: Promoting Democracy through Civil Society: How to Step up the EU's Policy towards the Eastern Neighbourhood. CEPS Working Document No. 237 Centre for European Policy Studies, Brussels, February 2006.

³ Ajaria was an autonomous region of Georgia that until 2004 formally recognized Georgian sovereignty, but de facto partly outside Georgian state control as it was ruled by a local strongman, Aslan Abashidze, who controlled the local economy, administration, law-enforcement authorities, and even had something akin to a private army. In May 2004 a few months after Saakashvili came to power Abashidze was forced out of power through a combination of street protests and pressures from Tbilisi. This led to Ajaria's de facto reintegration into Georgia.

more pro-active role on conflict settlement in Abkhazia and South Ossetia, could not stand aside.

Sixth, the EU also has energy interests in the region, and Georgia is a key country for any transit routes of gas and oil from Central Asia and the Caspian to Europe. EU TRACECA program (Transport Corridor Europe-Caucasus-Asia) was an early indication of that status, and developments in 2005-06 made the hands-off approach of the 1990s unsustainable. A Commission Communication on energy policy for the enlarged EU and its neighbours stated that "secure and safe export routes for Caspian oil and gas will be important for the EU's security of energy supply as well as crucial for the development (economic, but also social and political) of the Caspian region"¹.

Given these specific reasons, the EU started to engage with the South Caucasus through a plethora of policy instruments. An EU special representative (EUSR) for the South Caucasus was appointed in the summer of 2003. The EUSR was supposed to increase EU's role in the conflict settlement processes in Abkhazia, South Ossetia and Nagorno-Karabakh.

A year later, in the summer of 2004, the states of the South Caucasus were included in the newly created ENP that aimed to stabilise and democratise EU's Southern and Eastern neighbourhood through greater economic integration and cooperation with the EU. The EU boldly declared that its objective was to share with its neighbours "everything but institutions"². To achieve that vision, the EU offered its neighbours, including Armenia, Azerbaijan and Georgia to sign Action Plans, which consisted of a long list of measures as to how the neighbouring states would

¹ European Commission (2003) Communication on the Development of Energy Policy for The Enlarged European Union, its Neighbours and Partner Countries. Brussels, 13.5.2003, COM (2003) 262 Final.

² EU's Southern neighbours include Morocco, Algeria, Tunisia, Libya, Egypt, Jordan, the Palestinian Authority, Israel, Lebanon and Syria. EU's Eastern neighbours include Belarus, Ukraine, Moldova, Georgia, Armenia and Azerbaijan.

proceed with implementing EU norms across various sectors – ranging from respect for human rights and electoral processes to phyto-sanitary standards.

Other policy steps followed, particularly on Georgia, which was most interested in expanding cooperation with the EU. In 2004-05 the EU deployed Themis Rule of Law mission (EUJUST) supposed to "assist the new government in its efforts to bring local standards with regard to rule of law closer to international and EU standards", as well as to "embed stability in the region", in which instability could seriously endanger regional and European security.¹ On the technical level, the mission had to help Georgia to address problems in the criminal-justice sector and to advise on future criminal-justice reform.

Since 2005 the EU also deployed a team of advisors helping Georgia to reform its border management (the so called EUSR Border Support Team). Parts of the team was co-located in Georgian institutions, including the National Security Council of Georgia and the Border Guard Service of Georgia, while other parts of the team worked with Georgian border crossings to identify the needs and problems on the ground as well as to mentor Georgian border guards. One EU official summarised the rationale for the politics of dosage in the following way: "The politics of little action has two objectives. It creates precedents for EU action in the region. It also prepares the ground for more substantive policy measures. Once the EU is engaged, we can build on that engagement, and the threshold of new actions becomes lower"².

EU relations with Armenia and Azerbaijan developed at a slower pace. The EU became slightly more active in its dialogue with Armenia and Azerbaijan – primarily by negotiating and then monitoring the implementation of

¹ Cp. Council Joint Action 2004/523/CFSP of 28 June 2004 on the European Union Rule of Law Mission in Georgia. EUJUST Themis, Official Journal of the European Union, 29 June 2004.

² Author's interview with EU official, Brussels, 23 May 2008.

ENP Action Plans, and opening EU delegations in Baku and Yerevan, yet the relationship remained pretty shallow. The EU also declared its readiness to send peacekeepers to Nagorno-Karabakh should Armenia and Azerbaijan arrive to a settlement of the conflict. Peter Semneby, the EUSR South Caucasus stated in May 2006 that the EU "will be expected to make a major contribution when a solution is found, and we are looking into the possibilities we have, both in terms of post-conflict rehabilitation and also – if the parties should so desire – in terms of contributing peacekeepers. And possibly even leading a peacekeeping operation"¹. The lack of any substantial progress in the talks between Armenia and Azerbaijan meant that the EU did not consider any other further serious involvement in Nagorno-Karabakh.

Though Armenia and Azerbaijan were included in the EU – EU presence and involvement did not grow as rapidly as in the case of EU-Georgia relations. This was due to the fact that Georgia was much more active diplomatically and was much more willing to engage with the EU, whereas Armenia and Azerbaijan were both less interested and less interesting for the way the ENP objectives were designed. Certainly, EU's interest in Azerbaijan's energy resources was an important factor affecting the relationship, but the ENP had little role in the way EU member states and companies invested or imported Azerbaijani oil.

Overall the countries of the region expected a growing role of the EU in the region and largely welcomed it. EU was an attractive development model for the societies of Georgia, Armenia and Azerbaijan. Many hoped there could also be a potential EU accession perspective for the South Caucasus in the long-run, particularly if Turkey joined the EU. In addition, the EU as a foreign policy actor was perceived as a benign partner that could help the countries of the region in the solution of their problems, not least in the

¹ de Waal, Thomas (2006) EU could assume peacekeeping role. Institute for War and Peace Reporting, 25 May 2006, www.iwpr.net.

resolution of their secessionist conflicts.¹ All of them expected cooperation with the EU and a successful ENP could increase their prosperity, stability and integration into Europe. However, the EU still face formidable limitations on its ability to achieve its policy goals.

The limits of EU engagement

Despite the multitude of EU policy instruments, the EU failed to play the necessary backup role to implementing EU's vision. Despite grand rhetoric on the neighbourhood, EU member states were not fully committed to implementing this vision. The limits of EU policies started to be visible pretty soon.

To begin with, the appointment of the EUSR South Caucasus in 2003 was not that groundbreaking for EU's role in conflict resolution. Throughout the years the EUSRs (there were two of them) found themselves struggling to increase EU's relevance in conflict settlement efforts without significant backing from a number of key EU member states. On Abkhazia and South Ossetia the EU was so divided between a group of EU member states that were unconditionally supportive of Georgia and 'hawkish' on Russia, and another group that sought to avoid tensions with Russia over Georgia that the EUSR did not have sufficient backing to pursue meaningful conflict resolution strategies. Instead, the EU institutions were relegated to technical assistance projects in the conflict zones and small scale initiatives that, as the 2008 war showed, had a very limited impact in the end.

And even on Nagorno-Karabakh, where Russia was not as clearly an adversary as in the case of Georgia, the EU managed to do even less than over the conflicts in Abkhazia and South Ossetia. France, which is part of the OSCE Minsk Group mediating between Armenia and Azerbaijan

¹ Cp. Gegeshidze, Archil (2006) Georgia in the Wider Europe Context. International Policy Fellowship, Policy Paper, http://www.policy.hu/gegeshidze/Wider_Europe.pdf.

kept the EU at an arm's length from the conflict settlement process. The conflict in Nagorno-Karabakh could easily qualify as a first candidate for priority EU involvement in conflict resolution in the South Caucasus. Russia is less involved than in Abkhazia and South Ossetia, and less likely to oppose a greater EU role. Moreover, Azerbaijan has an energy partnership with the EU, it is an oil and gas producing country and is the only transit route for Caspian energy resources circumventing Russia or Iran. It is also main source of oil for the Baku-Tbilisi-Ceyhan oil pipeline and so the only guaranteed supplier of gas for the Nabucco gas pipeline, a priority energy project of the EU. Despite this, the EU largely stayed away from the conflict.

The EU tried to play a policy of equidistance between Armenia and Azerbaijan, but this meant that the EU ended up having virtually no policy at all. At the same time, neither Armenia nor Azerbaijan have been vocally demanding for a greater EU role, as Georgia did. Armenia and Azerbaijan have faced different dilemmas regarding a possible EU involvement in the conflict resolution efforts. Azerbaijan disliked the status quo around the conflict and the existing conflict-settlement format called the OSCE Minsk Group (with the US, Russia and France as co-mediators). Theoretically this should have made Azerbaijan more supportive of an assertive EU policy seeking to offset the status quo through involvement in the OSCE Minsk Group and more projects in the conflict area. However, Azerbaijan feared that greater involvement of the EU in the conflict area could legitimize the secessionist authorities and erode the blockade around Armenia and Nagorno-Karabakh. Armenia's ambiguity about the EU stemmed from an inverse dilemma. Armenia would have liked the EU to play a bigger role in the conflict resolution efforts if that helped erode the blockade and conferred greater legitimacy to the authorities in Nagorno-Karabakh. But on the other hand it was quite contempt with the OSCE Minsk Group and the status quo around the conflict, so it was very careful not to offset it. Such ambivalence on the part of the conflict parties has drastically limited the scope for possible EU involvement in the rehabilitation of the

conflict areas as it did in Georgia. One EU diplomat in Baku explained: "The EU is more enthusiastic with playing a role in Transnistria. But Nagorno-Karabakh is too difficult. And unlike Georgia or Moldova, Armenia and Azerbaijan did not force the issue on the agenda"¹.

Despite a lot of diplomatic activity around Georgia due to the country's tensions with Russia and the secessionist regions in the run up to the 2008 war, the EU was quite paralysed by divisions between EU member states to take any significant actions to prevent the conflict. After 2005 when the OSCE Border Monitoring Mission in Georgia was vetoed by Russia, the EU refused to step in to monitor the Georgian-Russian border which could have had a stabilising effect on the security situation and could perhaps have prevented the 2008 war. The EU also adamantly refused to even seriously consider pushing for a change in the Russian-dominated peacekeeping format in Abkhazia and South Ossetia, which again would have had a stabilising effect.

The eruption of the 2008 war between Georgia and Russia exposed more than ever the instabilities in the region, as well as the limits of EU power. Certainly, the way out of the war was mediated by the French president Nicolas Sarkozy, holder of the EU presidency at the time. It was also the EU that deployed a monitoring mission of unarmed observers who have played a good role in stabilising the conflict zones. The EU also played a crucial role in the post-war donor's conference on Georgia aimed at helping the country rebuild and overcome the effects of the war. These were successes, but of a minor and tactical nature. EU's diplomatic activity during and after the war contrasted with its reluctance to get involved in conflict-mediation before the war. And even after August 2008 war EU policies were important in stabilising the conflict zones as well as the rest of Georgia, but they largely failed to be part of a political strategy. The aim of most of these

¹ Author's interview with an EU Member State diplomat. Baku, 3 April 2008.

measures was to refreeze the conflicts and roll back some of the negative effects of the war, rather than explore and consistently promote a conflict resolution.

Obviously all these developments affected the way Georgia, but also Armenia and Azerbaijan viewed the EU. The fact that the EU failed to play a forceful role in preventing the growing tensions between Russia and Georgia before the war undermined the notion that Brussels was a committed or potentially effective power in the region, particularly when it came to secessionist conflicts¹. The EU might have been a rich and economically attractive partner, but it could hardly be considered an effective actor in conflict resolution – which topped the list of priorities of all the countries in the region.

The Eastern Partnership: 2008 onwards

The international shock of the 2008 war dissipated relatively quickly under the pressures of the economic crisis, and a sense that the EU can do little in the South Caucasus except for trying to refreeze the status quo – preventing further destabilisation but without solving the problems per se. Still one of the effects of the war, was the launch of the Eastern Partnership (EaP) – at attempt repackage and re-energise the ENP. The EaP offers a very wide platform for EU-South Caucasus cooperation and in its vision it is both strategic and comprehensive: it aims to foster stability through EU contribution to conflict settlement, it aims to foster prosperity through deep and comprehensive free trade areas (DCFTA) and financial assistance, it aims to facilitate people to people contacts through visa-facilitation and education programs.

With the launch of the EaP in May 2009 the EU gave new momentum to negotiating Association Agreements, visa-facilitation and DCFTA with the South Caucasus,

¹ Cp. Rinnert, David (2011) The Eastern Partnership in Georgia. Working Paper SWP Berlin, March 2011, p.15.

which presupposed not just free trade but significant institutional changes and the taking over of large chunks of the *acquis*. The hope is that DCFTA would help modernise the economies and the states in the region (as of mid-2011 Georgia and Armenia were only preparing for negotiations over DCFTAs). None of these policies were new. By 2009, when EaP was launched, Moldova and Ukraine benefited already from visa-facilitation arrangements, whereas Ukraine was negotiating DCFTA and an Association Agreement. What the EaP did was to accelerate the extension of the same policies to the South Caucasus. Yet this was not unproblematic. Georgia has serious reservations over DCFTA since the fear was that taking over the EU *acquis* would reverse Georgia's (ultra-) liberal approach to the economy, would impose red-tape on business and thereby reduce foreign investment flows, economic competitiveness and economic growth.¹ This delayed the launch of negotiations. The preparation for talks with Armenia has also been slow since the EU was already in a more advanced state of DCFTA negotiations with Ukraine, Georgia and Moldova, and Armenia still had to meet more conditions for the start of the talks. With Azerbaijan the process is likely to be even slower since Azerbaijan is not still part of the WTO, and is less interested in free trade since the bulk of its exports are oil and gas. Even some European officials are having second thoughts about the DCFTA. "It brings no short-term benefits and incurs a lot of costs," says one. "It is far from being a carrot"².

Overall, despite the multitude of EU-South Caucasus cooperation instruments and frameworks, the EU is still far away from its declared objectives of achieving a zone of stability, democracy and prosperity in its neighbourhood, not least in the South Caucasus. The countries of the

¹ Cp. Messerlin, Patrick, P. / Emerson, M. et al. (2011) *An Appraisal of the EU's Trade Policy towards its Eastern Neighbors: The Case of Georgia*. Centre for European Policy Studies. Brussels, 2011.

² Author's interview with EU official, Brussels, 3 February 2011.

South Caucasus have been making progress towards state-building and greater prosperity, yet the EU impact on these dynamics has been rather limited, to say the least. The EU-South Caucasus relationship may be widely spread across nearly all key areas of politics, economy, security and governance (as outlined in the ENP Action Plans), yet remains very shallow.

Several factors contributed to this situation. Some of them are related to the EU, and others to the region. Despite ambitious stated goals in the neighbourhood, most EU member states are not fully committed to dedicating the necessary political, financial or security resources of achieve their declared objectives in the South Caucasus. There has also been a consistent mismatch between the priorities of the states of South Caucasus and those of the EU. They have often spoke past each other. Whereas highly political issues of security, conflicts, defence of sovereignty and economic survival preoccupied the states of the region as nearly life-and death priorities, EU's neighbourhood policy was offering them technical, poorly-financed low politics engagement such as the implementation of the EU acquis in this or that sector or a few advisors for various public institutions.

In addition, EU financial assistance has been often insufficient and not very effective. Even the EU Council of Ministers and the EU Court of Auditors noted that "the lengthy programming and design process did not suit the fast changing and conflict-affected environment of the Southern Caucasus, endangering the relevance of the assistance, and that the achievements were overall mixed".¹ The European Court of Auditors also concluded

¹ Cp. Council conclusions on Special Report 13/2010 by the European Court of Auditors concerning the results of the European Neighbourhood and Partnership Instrument (ENPI) in the Southern Caucasus 3086th FOREIGN AFFAIRS/TRADE Council meeting Brussels, 13 May 2011, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/121979.pdf; European Court of Auditors, Special Report 13/2010. Is the new European Neighbourhood and Partnership Instrument successfully launched and achieving results

that EU's financial assistance to the region under the European Neighbourhood and Partnership Instrument was not effective because of "insufficient clarity and prioritisation" and that "in the conflict region of Abkhazia, the ENPI has not yet proved to be an appropriate instrument for economic rehabilitation and confidence building"¹.

It is something of a conventional wisdom to explain EU's lacklustre performance with the ENP by the fact that EU for not offering enough to its neighbours – no accession perspective, not enough assistance or not enough peacekeepers. There is a lot truth in it, but internal developments in the countries of the region more often than not have greatly constrained the potential for EU-South Caucasus relations as well.

Throughout most of the last two decades the domestic politics of Georgia, Armenia and Azerbaijan have been too divisive, centralised, and corrupt to be able to engage in meaningful cooperation with the EU. In the 1990s these states were too weak, and in the 2000s Armenia, Azerbaijan, and Georgia (much less so) became too centralised, which limited the potential of transitions and cooperation with the EU. When it comes to promoting democracy, the EU has not been able to nudge its South Caucasus neighbours towards more democracy and reforms and greater support for EU interests and values in the region. The quality of democracy in Armenia and Azerbaijan has worsened in recent years. Azerbaijan has switched to a lifetime presidency; Armenia arranged a Putin-style succession triggering post-election protests on 1 March 2008 that left at least 10 people dead.² Georgia is much more pluralistic,

in the Southern Caucasus (Armenia, Azerbaijan and Georgia)?
<http://eca.europa.eu/portal/pls/portal/docs/1/6996726.PDF>.

¹ European Court of Auditors, Special Report 13/2010. Is the new European Neighbourhood and Partnership Instrument successfully launched and achieving results in the Southern Caucasus (Armenia, Azerbaijan and Georgia)? <http://eca.europa.eu/portal/pls/portal/docs/1/6996726.PDF>.

² Cp. Khachatryan, Haroutun (2010) Armenia: landlocked, deadlocked. 7 May 2010, OpenDemocracy.net <http://www.opendemocracy.net/haroutun-khachatryan/armenia-deadlocked-landlocked>.

but its politics remains hugely divisive which remains a problem for the potential of further improvement of the quality of its democracy. Moreover, where will its political system be heading after Mikheil Saakashvili's final term as president expires in early 2013 is also far from clear.

On economic integration with the EU, the objectives of DCFTA also clashed with the political economies of the three countries of the South Caucasus. It clashed with the strongly-liberal approach to the economy adopted by the Georgian government under Saakashvili, but also with the oligarchic systems of Armenia and Azerbaijan, that thrive on murky business practices, corruption and lack of transparent state institutions.

The second trend that has significantly undermined the EU's usual foreign policy *modus operandi* is the multi-polar environment in which the eastern neighbours operate. Whereas the EU had a quasi-monopoly of influence in Central Europe and the Balkans in the 1990s, in the eastern neighbourhood it finds itself unwillingly competing with Russian, Turkish, Iranian and even Chinese policy objectives. This allowed states like Armenia and Azerbaijan (as well as Georgia under Shevardnadze) to balance between external players to win resources and strengthen local elites, and it also provided an excuse for a lack of reform. Such balancing undermined the traditional EU strategy of conditional engagement, reducing the potential effectiveness of its policies.

The launch of the EaP improved the delivery of EU policies in the South Caucasus as it accelerated preparations for DCFTA, visa-facilitation and partly increased EU visibility through an EU-EaP Summit and regular meetings at ministerial level. However, this hardly changed the predominant view of the EU as a largely economic that shies away from many political or security issues. Despite the launch of EaP, the EU did not play a bigger role in conflict resolution in Nagorno-Karabakh, and EU's goals in Abkhazia and South Ossetia are largely defensive. Developments in the EU, unrelated directly to the South Caucasus also

influenced how the EU is perceived. The impact of the economic crisis on the Euro, as well as the unfolding of the economic crisis in Greece, Portugal and Ireland all reduced from the shine of the EU's economic development model.¹ The near-standstill in the Turkish accession to the EU also decreased the perceived chances for the South Caucasus to come closer to an EU membership perspective.² The result of this confluence of factors is that EU is seen as a good partner, but not as a growing power or a key to most urgent problems facing the South Caucasus.

Conclusions

In the two decades since the independence of the states of the South Caucasus, the EU managed to develop a plethora of policies, agreements and initiatives towards the South Caucasus. Yet the effectiveness of these has been questionable. The 1990s was a lost decade for EU-South Caucasus relations. The states of the South Caucasus were too busy with their survival issues and too weak to benefit from economic cooperation with the EU – they were not part of WTO and could not credibly implement the acquis. The EU at its turn was distant politically and geographically and too self absorbed with its own institutional reforms and conflicts in the Balkans to be able to have a strategic approach to the South Caucasus.

After the launch of the ENP in 2003 the EU has deployed an increasingly wide array of foreign policy instruments in the region – from the appointment of EU Special Representatives, opening EU delegations in the region and engaging more with the governments. But the growing list of EU foreign policy actions was balanced by a similar list of potential EU actions that were considered but failed to materialize. The EU could not do virtually anything in the

¹ Cp. Klau, Thomas / Godement, Francois et al. (2010) Beyond Maastricht: a New Deal for the Eurozone. ECFR Policy Brief, December 2010.

² Cp. Alieva, Leila (2006) EU and South Caucasus. Bertelsmann Group for Policy Research, Discussion Paper, December 2006.

diplomatic, security, or economic realm to contribute to conflict resolution in Nagorno-Karabakh. Despite a fast-growing ESDP and high-level declaratory commitment to a strong EU engagement in the neighbourhood, the level of EU engagement in conflict resolution in the South Caucasus did not stand out, and sometimes even paled compared to EU commitment to conflict resolution elsewhere. The EU offered economic assistance but it was puny compared to the oil revenues Azerbaijan had, the tax-revenues and investments Georgia could attract under Saakashvili or Armenia got from Russia. Attempts to liberalise trade and move towards DCFTA were not easy. Irrespective of visa-facilitation agreements, the EU continued its highly restrictive visa policies limiting not just potentially illegal migration, but also student and cultural exchanges or business opportunities.

The future of EU-South Caucasus relations will naturally depend more on the domestic developments in each of the partners, rather than what each of them does in relation to each other. For the EU the main challenge will be to mobilise EU public opinion and the EU member states behind collective EU foreign policy action through the ENP. And for the South Caucasus the main challenge will be to avoid regional security complications and focus on political, economic and social relations with the EU.

On security the EU will have to focus on strong diplomatic efforts to prevent any potential escalation over Nagorno-Karabakh. On Georgia's conflicts in Abkhazia and South Ossetia the EU should pursue its policy of 'engagement without recognition' with the secessionist regions, while also supporting Georgia's territorial integrity, not least by reacting strongly against any Russian pressures on Georgia. The EU should also stay engaged in the long term through its EU monitoring mission which plays a key stabilising in the region. Beyond that, there is little the EU or any other international actor can do to change the situation for the better around Abkhazia and South Ossetia. The policies of all actors involved are too entrenched and rigid to allow any breakthrough.

The EU should also make sure the visa-facilitation agreement with the South Caucasus is implemented properly by the EU member states. Long-term visas for regular travellers should be the norm and the prospect of visa-free regimes is on offer, provided the states of the region engage in wide-ranging reforms like border management and law-enforcement.

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Southern Gas Corridor and South Caucasus

Stefan Meister and Marcel Viëtor*

The energy policy of the EU and the Southern Gas Corridor

Over the decades to come, the European Union (EU) will most probably need to import an increased amount of natural gas.¹ First and foremost, the reason for the heightening import demand is to be seen in the dwindling domestic production of natural gas, as the conventional natural gas reserves of the EU are being exhausted. Furthermore, it is to be expected that natural gas will take on a greater significance in the energy mix, as it is able to support the development of renewable energy sources in

* The authors would like to thank Elina Brutschin of the Institute for Advanced Studies in Vienna for her support in compiling this article.

¹ There is a certain degree of insecurity about the future gas consumption and the development of the gas market in the EU: Whereas the EU-27 used some 500 billion cubic meters per year (bcma) in 2005, estimates for the year 2020 differ by up to 300 bcma. Moreover, there are also different notions on how fast domestic production will decrease over the next decades. However, most estimates say that the amount that needs to be covered by imports will rise. Hafner, Manfred (2011) International and European natural gas markets and geopolitics, in: Florence School of Regulation dated 21 March 2011; http://www.florence-school.eu/portal/page/portal/FSR_HOME/ENERGY/Training/Specialized_training/Presentations/110321_Hafner_Manfred.pdf, p. 14f. The department of the European Commission in charge of the development of the Southern Gas Corridor expects that the import demand will rise by 24% from 285 in the year 2005 to 353 bcma in 2030. Devlin, Brendan / Heer, Katrin (2010) The Southern Corridor: Strategic Aspects for the EU, in: Linke, Kristin / Viëtor, Marcel (eds.) Beyond Turkey: The EU's Energy Policy and the Southern Corridor (International Policy Analysis). Berlin, Friedrich-Ebert-Stiftung, p. 5; <http://library.fes.de/pdf-files/id/07553.pdf>.

the EU as a suitable "bridging technology"¹. This process is being accelerated by the fact that, due to the nuclear catastrophe of Fukushima, it has become even less probable that the alternative option of nuclear power is going to be used more as a "bridging technology". Besides, the accelerated phasing out of nuclear power in Germany could lead to a necessary compensation, in part, by new natural gas power plants. The unconventional natural gas production, e.g. shale gas, as well as the production of bio-methane or renewable methane, may also contribute to satisfying the rising gas demand in the EU.² However, it is to be expected that their contribution will remain on a small scale for the foreseeable future. In order to meet the increasing demand, the EU will need to look into additional options of natural gas imports.

The EU only receives a small part of its natural gas imports from remote areas as liquefied natural gas (LNG) by tanker. Due to lower cost and greater capacity, the largest part is imported into the EU, above all, by pipeline from the neighborhood through three large import corridors at the moment: from Russia (Eastern Gas Corridor), Norway (Northern Gas Corridor) and North Africa (Western Gas Corridor).³ Furthermore, the EU is planning to set up a fourth, a Southern Gas Corridor. This is to carry natural gas from the Caspian region and the Middle East to South East Europe and into the EU, above all, to Southern Germany, Austria and Italy. Firstly, setting up such a Southern Gas Corridor has the advantage that the EU will be able to

¹ Viëtor, Marcel (2011) *Energiesicherheit für Europa: Kernenergie und Erdgas als Brückentechnologien* (DGAP-Schriften zur Internationalen Politik). Baden-Baden, Nomos 2011, p. xxiv + 110; p. 15-47.

² Viëtor, Marcel (2011) *Gas industry, it's time to cross the bridge*, in: *European Energy Review* (18.04.2011); under: <http://www.europeanenergyreview.eu/site/pagina.php?id=2915>

³ In 2009, 33.2% of the EU-27 natural gas imports came from Russia, 28.8% from Norway, 14.7% from Algeria, 5.0% from Qatar, 3.0% from Libya, 2.4% from Trinidad and Tobago, 2.1% from Nigeria, 2.0% from Egypt and 8.8% from other third countries. Jiménez, Ana (2010) *Statistical aspects of the natural gas economy in 2009* (Eurostat Data in focus 20/2010); under: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-10-020/EN/KS-QA-10-020-EN.PDF, p. 1.

diversify its supply sources. Thus, potential damage caused by technical failure or by politically motivated interruption from one supply source may be reduced and competition improved. This aspect is important to the entire EU but especially relevant for the states of South East Europe, as they are currently receiving a large part of their natural gas from a single supplier (Gazprom) and via a single transit route (Ukraine). Furthermore, natural gas plays an important role in the energy mix of these countries. Secondly, the EU does not have direct access to the natural gas reserves of the Caspian Region and the Middle East at the moment.¹ Imports from these regions are a good option as they represent nearly 50% of the worldwide natural gas reserves², have free export potential, and are situated in immediate vicinity and within pipeline distance to the EU.³

Whereas individual pipeline projects of the Southern Gas Corridor were already developed by the respective companies at the beginning of the 2000s, the Southern

¹ The only exception is the minor amount of 0.5 bcma of natural gas that was transported from Azerbaijan in 2009, using the Baku-Tbilisi-Erzurum (BTE)- and Turkey-Greece-Italy (TGI)-pipelines through Turkey to Greece. BP (2010) BP Statistical Review of World Energy: June 2010, London: BP; under: http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/2010_downloads/statistical_review_of_world_energy_full_report_2010.pdf, p. 30.

² Iran and Qatar have 29.6 and 25.3 trillion cubic meters (tcm) respectively and thus the second and third largest reserves after Russia. Furthermore, there are large reserves in Turkmenistan (8.0 tcm), Saudi-Arabia (8.0 tcm), the United Arab Emirates (6.0 tcm), Iraq (3.2 tcm), Egypt (2.2 tcm), Kazakhstan (1.8 tcm), Kuwait (1.8 tcm), Uzbekistan (1.6 tcm) and Azerbaijan (1.3 tcm). BP (2011) BP Statistical Review of World Energy: June 2011. London: BP; under: http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2011.pdf, p. 20 and own calculations.

³ Müller, Friedemann (2010) A European Energy Policy: Challenges and Perspectives, in: Linke, Kristin / Viëtor, Marcel (eds.) *Prospects of a Triangular Relationship? Energy Relations between the EU, Russia and Turkey* (International Policy Analysis), Berlin: Friedrich-Ebert-Stiftung, p. 5-11; under: <http://library.fes.de/pdf-files/id/07150.pdf>, p. 7.

Gas Corridor, as an overarching concept, only emerged later. It was first described as a "project of European interest", connecting the countries of the Caspian Sea and the Middle East by long-distant natural gas pipelines with the European Union, in a decision of the European Parliament and the Council of September 2006, coded as "NG3"¹. Finally, in a second review of the energy strategy, the European Commission categorized the – meanwhile also called – "Southern Gas Corridor" as a Community priority.² It was especially through the Russian-Georgian war of August 2008 and the Ukrainian-Russian gas crisis of January 2009 that the Southern Gas Corridor and its key project, the Nabucco Pipeline, became a central component of a European debate about diversification especially from the dependence on gas deliveries from Russia.

The projects of the Southern Gas Corridor

From the point of view of the European Commission, the Southern Gas Corridor comprises all those projects that originate in the Caspian region or the Middle East, regardless of the fact whether the gas transit is conducted to a great extent on Turkish territory (Nabucco, Trans-Adriatic Pipeline (TAP), Interconnector Turkey-Greece-Italy (ITGI)) or via the Black Sea (Azerbaijan-Georgia-Romania Interconnector (AGRI), White Stream).³

¹ EU (2006) Decision No. 1364/2006/EG of the European Parliament and of the Council of 6 September 2006 laying down guidelines for trans-European energy networks, Brussels: EU; under: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:262:0001:0001:EN:PDF>, p. 10.

² EU (2008) Communication from the Commission COM(2008) 781 dated 13 November 2008: Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan. Brussels: EU; under: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF>, p. 4f.

³ The South Stream Pipeline, which is to deliver natural gas through the Black Sea from Russia to South East Europe, does not belong to the Southern Gas Corridor. Due to its origin in Russia, it is regarded as part of the Eastern Gas Corridor. Gazprom is developing it as a competitor project to Nabucco.

Project	Trans-Adriatic Pipeline (TAP)	Interconnector Turkey-Greece-Italy (ITGI) + Interconnector Greece-Bulgaria (IGB)
Start of project	2003	2007
Companies	EGL (CH) 42.5%, Statoil (NO) 42.5%, E.ON Ruhrgas (DE) 15%	DEPA (GR), DESFA (GR), Edison (IT), BEH (BG), Botas (TR)
Route/ Length/ Capacity/ Cost	<ul style="list-style-type: none"> • Azerbaijan – Georgia – Turkey (BTE (built already)) • Turkish and Greek gas network (built already)) • Greece – Albania – Italy: 520 km / 10-20 bcma / 1.6 billion EUR 	<ul style="list-style-type: none"> • Azerbaijan – Georgia – Turkey (BTE (built already)) • Turkish gas network (built already)) • Turkey – Greece (ITG (built already)) • Greece – Italy (IGI): 807 km / 9 bcma / 500 million EUR • Greece – Bulgaria (IGB): 170 km / 3-5 bcma / 140 million EUR
Start of delivery	2016 (first stage)	2015

Project	Azerbaijan-Georgia-Romania Interconnector (AGRI)	White Stream
Start of project	2010	2005
Companies	SOCAR (AZ), GOGC (GE), ROMGAZ (RO), MVM (HU) at 25% each	GUEU-White Stream Pipeline Company (composition unknown; Seat: London)
Route	Azerbaijan – Georgia – Romania – Hungary; Transport Georgia – Romania to be conducted with LNG tankers	<ul style="list-style-type: none"> • Option 1: Azerbaijan – Georgia – Romania • Option 2: Azerbaijan – Georgia – Ukraine
Length	n/a	onshore: 650 km; offshore to Romania: 1,100km; offshore to Ukraine: 630 km
Capacity	7 bcma	8-32 bcma
Cost	Natig Aliyev: 2-5 billion EUR, earlier estimates: 4-6 billion EUR	2-4 billion EUR (first stage)
Start of delivery	2016	2016 (first stage)

Project	Nabucco	South Stream
Start of project	2004	2007
Companies	OMV (AT), MOL (HU), Transgaz (RO), BEH (BG), Botas (TR) and RWE (DE) at 16.67% each	<ul style="list-style-type: none"> offshore: Gazprom (RU) 50%, Eni (IT) 25%, Wintershall (DE) 15%, EDF (FR) 10% onshore: Gazprom (RU) + BEH (BG), Srbijagas (RS), MFB (HU), OMV (AT), Geoplina Plinovodi (SI), Plinacro (HR), DESFA (GR)
Route	Turkey – Bulgaria – Romania – Hungary – Austria	<ul style="list-style-type: none"> Option 1: Russia – Bulgaria – Serbia – Hungary – Austria Option 2: Russia – Bulgaria – Serbia – Hungary – Slovenia Option 3: Russia – Bulgaria – Serbia – Hungary – Austria and Bulgaria – Greece – Italy Option 4: Russia – Romania – Serbia – continued as in options 1-3 Sideline: Serbia – Croatia
Length	3,893 km	offshore: 923 km; onshore: 1,600-2,540 km depending on the route

Capacity	31 bcma	offshore: 63 bcma; 20-22 bcma at the endpoint depending on the route
Cost	7.9 billion EUR; Günther Oettinger: 12-15 billion EUR	15.5 billion EUR; earlier estimates: 19-24 billion EUR
Start of delivery	2017	2015

The EU officially supports all projects that are part of the Southern Gas Corridor and help to diversify the gas supply of the EU. Financial contributions of the EU (e.g. for feasibility studies) have gone to Nabucco, ITGI/IGB, TAP and White Stream. All in all, the EU has made available more than 20 million EUR for the various projects through its program for Trans-European Energy Networks (TEN-E); and another 200 and 145 million EUR respectively are set aside for Nabucco and ITGI/IGB by the European Energy Program for Recovery (EEPR).¹ Despite the general support for all projects, the EU, especially the European Commission, is attaching political priority to the Nabucco pipeline.²

There is no agreement among the EU member states on priority or joint projects in the area of energy policy. There is no common foreign energy policy as energy policy is still determined very much by the national states themselves. As a tendency, the states will promote those projects in which companies from their own country are involved. However, there are often several companies of one country partnering in different projects. Thus, the support of

¹ Devlin, Brendan / Heer, Katrin (2010) The Southern Corridor: Strategic Aspects for the EU, in: Linke, Kristin / Viëtor, Marcel (eds.) Beyond Turkey: The EU's Energy Policy and the Southern Corridor (International Policy Analysis), Berlin, Friedrich-Ebert-Stiftung, p. 5-9; <http://library.fes.de/pdf-files/id/07553.pdf>, p. 9.

² "Accordingly, the European Commission has a generally neutral attitude towards all projects, but it prefers a strategic option which provides most political benefits to the Community as well as the upstream and midstream countries involved. This refers, among other things, to whether a transport option can be scaled up and is, in the long term, able to bring large volumes of gas into the EU. At the moment, only Nabucco provides for such an option. (...) Nabucco is, furthermore, the only project that provides for strong diversification and a continuous trunk line from Eastern Turkey to Austria. (...) Additionally, Nabucco can build upon a strong legal basis with guaranteed third party access and transmission fees fixed for a period of at least 50 years. Recognizing the importance of all of the Southern Corridor projects and without excluding the possibility of a cooperative system, if made to work, the EU has thus decided to give political priority to Nabucco". Devlin, Brendan / Heer, Katrin (2010) The Southern Corridor: Strategic Aspects for the EU, in: Linke, Kristin / Viëtor, Marcel (eds.) Beyond Turkey: The EU's Energy Policy and the Southern Corridor (International Policy Analysis), Berlin, Friedrich-Ebert-Stiftung, p. 5-9; <http://library.fes.de/pdf-files/id/07553.pdf>, p. 7f.

Bulgaria, Romania, Hungary and Austria is very large for the Nabucco pipeline; however, this support has waned since these states have also signed agreements with the competing South Stream project, which is to be routed across their territories, too. The German position on Nabucco has evolved in the direction of support. For instance, the German federal government did not want to grant Nabucco any financial support initially at the negotiations for the European Energy Program for Recovery at the beginning of 2009, but advocates the project in the meantime. This is also a consequence of the intensive lobbying and information work conducted by RWE, who is involved in Nabucco. Yet, the German federal government cannot lend exclusive support to Nabucco, as other German companies are partners of TAP and South Stream. Italian companies are part of South Stream and ITGI, Hungarian enterprises of Nabucco, South Stream and AGRI, Greek companies of ITGI and South Stream, etc. This situation is hampering the implementation of large infrastructural projects, such as Nabucco, since long-term investments and agreements in the energy sector in politically and economically unstable regions, such as the Caspian and the Middle East, require special support and security rendered by the political decision-makers. In order to avoid similar problems of implementation, as they are to be observed with Nabucco, the EU member states should develop together energy infrastructure projects that are sensible for securing and diversifying the energy supply.

Feasibility of the projects and significance of the South Caucasian countries

Nearly everyone involved on the side of the companies and the governments have started to stress that the individual projects would supplement one another. This is usually justified with the fact that the EU will need to import so much more natural gas in the future that there is room for all the pipeline projects; whereby the assumptions concerning the future import demands are sometimes much higher than established by the European Commission. However, the individual projects are not

competing so much for the European markets than in their quest for sources of gas.¹

In view of the immense natural gas reserves in the Caspian region and the Middle East quoted earlier, this might come as a surprise. However, large parts of the reserves will not be available to the Southern Gas Corridor for the foreseeable future. Without lifting the sanctions against Iran in the dispute about the Iranian nuclear program, no natural gas will be delivered by Iran. Thus, the Nabucco operators who counted on gas deliveries from Iran earlier announced in August 2010 that they would not build an access line to Iran at the moment due to the current political situation. Qatar exports a large part of its natural gas by means of LNG tankers to East Asia and in part to the EU. In order to transport natural gas from Qatar by pipeline via the Southern Gas Corridor, however, the Iranian pipeline network would need to be used or a new pipeline be built through Iraq, which at the moment seems unrealistic both for political as well as security reasons.

Gas deliveries from Turkmenistan, Northern Iraq and Azerbaijan seem more likely at the present point in time. OMV from Austria, MOL from Hungary and RWE from Germany, companies who are partners in Nabucco, are involved in exploration projects in Northern Iraq and Turkmenistan. However, there are obstacles that should not be underestimated here, too, before Turkmen or Northern Iraqi natural gas is available to Nabucco. In Iraq, the distribution of profits first needs to be settled between the Kurdish North and the central government in Bagdad. Furthermore, differences on the sovereignty rights of Northern Iraq between Northern Iraq and the central government, on the one hand, and Northern Iraq and Turkey, on the other hand, are inhibiting gas exports. In the case of Turkmen natural gas, it has not been settled

¹ Nabucco and South Stream are the exceptions here, as they want to supply more or less the same markets in South East Europe. As projects from the Southern and the Eastern Gas Corridor, they do not compete for the same sources of natural gas.

yet how it is to be transported to the West. Pipelines across Russian or Iranian territory are politically undesired, the construction of a pipeline along the bottom of the Caspian Sea cannot be conducted for as long as the countries bordering on the Caspian Sea have not agreed on the legal status of the sea. Moreover, the transportation of large amounts of natural gas by ship across the Caspian Sea seems to be economically unattractive at the moment.

What remains are gas deliveries from Azerbaijan as the most obvious option. Within the target area of the Southern Gas Corridor, Azerbaijan has relatively small gas reserves of 1.3 tcm or 0.7% of the worldwide natural gas reserves.¹ These are the most accessible, however. Thus, the gas field of Shah Deniz is to produce an additional 16 bcma of natural gas in a second development stage as of 2017. However, less than 10 bcma will be available for export to the EU or to South East Europe; the remainder of the gas is to be delivered to Turkey.² In addition, there are various projects of the Southern Gas Corridor competing for this natural gas. The available amount would be sufficient for TAP, ITGI, AGRI and White Stream; though, only for one of these projects. Nabucco, on the other hand, could only be filled to about one third with the natural gas from Shah Deniz 2. That is the reason why Nabucco would not only have to win this natural gas from Azerbaijan but at the same time gain access to Turkmen and Northern Iraqi natural gas. TAP and White Stream, on the other hand, could be developed further if, at some later point in time, additional amounts of natural gas were made available from Turkmenistan or Northern Iraq, for instance. At the

¹ BP (2011) BP Statistical Review of World Energy: June 2011, London: BP; under: http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2011.pdf, p. 20.

² Sayan, Ömer Fatih (2010) Turkey's Energy Policy between East and West, in: Linke, Kristin / Viëtor, Marcel (eds.): Beyond Turkey: The EU's Energy Policy and the Southern Corridor (International Policy Analysis). Berlin: Friedrich-Ebert-Stiftung, p. 10-14; under: <http://library.fes.de/pdf-files/id/07553.pdf>, p. 12.

end of the day, it all depends on which project manages to convince the operating consortium¹ of Shah Deniz. Negotiations have been delayed, as the Azerbaijani side aims to negotiate a better price and Turkey wants to act not only as a transit country but also as a seller. After postponing the decision several times, it is now expected for the end of 2011.

Thus, Azerbaijan plays a key role in the Southern Gas Corridor, as the decisive first gas deliveries will come from that country. Furthermore, Azerbaijan is important as a future transit country for gas deliveries from Turkmenistan. Georgia, on the other hand, is also relevant as a transit country on route to the West, be it to Turkey or via the Black Sea. Only Armenia does not play a direct role in the Southern Gas Corridor.

From an economic and energy policy point of view, the states of the South Caucasus are closely interconnected. Georgia is the most important transit country to Europe for Azerbaijan. At the same time, Georgia represents the main supply route for Russian natural gas to Armenia. Azerbaijan has been supplying Georgia with natural gas since 2006 and that at a lower price than Gazprom did initially. It is the aim of Azerbaijan to reduce its transit dependency for oil and natural gas on Russia. One important step towards an improvement of its negotiating position with Russia was the construction of the Baku-Tbilisi-Ceyhan oil pipeline (BTC), supported already by the USA, and the Baku-Tbilisi-Erzurum gas pipeline (BTE). A further involvement of Azerbaijan in the Southern Gas Corridor would improve its negotiating position even more. Finally, the economic prospects opened up by the development of the Southern Gas Corridor should not be underestimated either. Azerbaijan generates more than 60% of its Gross Domestic Product (GDP) with the export of oil and natural gas. In addition, the transit of raw materials from the

¹ The Shah Deniz consortium consists of BP (GB) 25.5%, Statoil (NO) 25.5%, SOCAR (AZ) 10%, Lukoil (RU) 10%, NIOC (IR) 10%, Total (FR) 10% and TPAO (TR) 9%.

Caspian Sea to Turkey also plays an important role for the Georgian budget.¹

The EU in South Caucasus

The South Caucasus is part of various political initiatives of the EU. Apart from the Southern Energy Corridor, this is the European Neighborhood Policy (ENP), the Eastern Partnership and the Black Sea Synergy. The region itself is characterized by ethnic conflicts. Due to its geopolitical location, external players have a great interest in influencing the development in this region. Apart from Russia, the USA and the EU, these are regional powers, such as Turkey and Iran.²

The EU started only very late to integrate the South Caucasus into its neighborhood policy. The region was awarded a mere footnote in the first concept of the ENP, but this changed with the Rose Revolution of Georgia: in spring 2004, the three South Caucasian countries became an official part of the ENP. Before the Russian-Georgian war of August 2008, all EU activities were conducted through the Partnership and Cooperation Agreements (PCA), the action plans within the ENP as well as the EU special representative for the South Caucasus. The EU strategy for the region was to develop relations with all three states at the same time, for which PCAs were concluded with all three of them in 1999. These were supplemented in a next step with action plans of the ENP, which were to support reforms of democracy and the market economy in the countries and intensify cooperation with the EU. All action plans concentrated on the economic reconstruction following the ethnic conflicts in Georgia and Nagorno-Karabakh as well as on trust building. In this context,

¹ U.S. Department of State (2011) Background Note: Azerbaijan, last update 17.06.2011; under: <http://www.state.gov/r/pa/ei/bgn/2909.htm>.

² Meister, Stefan (2011) A new EU approach towards the South Caucasus, in: aussenpolitik.net (first published 04.03.2011), http://aussenpolitik.net/themen/eurasien/kaukasus/a_new_eu_approach_towards_the_south_caucasus/; p. 4f.

Georgia was to become a stable and prosperous democracy, which could integrate the two separatist regions of South Ossetia and Abkhazia by its attractiveness.¹

Energy plays a key role in the relations of the EU with Azerbaijan and, in part, Georgia. For instance, Brussels and Baku signed a memorandum of understanding on a strategic partnership in the energy sector in 2006. In the progress report of the Commission of 2009, the good cooperation with Azerbaijan is stressed as well as the significance of this country for the energy supply of the EU. This positive assessment of the development of relations makes clear the great interest of the EU in Azerbaijan as a supply and transit country for the Southern Gas Corridor. The ENP action plan for Georgia attached greater attention to the protection of the transport infrastructure with a view to the BTC and BTE pipelines.²

However, a successful EU South Caucasus policy should not focus solely on the role of the region for the delivery and the transit of oil and natural gas but should embrace a broader approach also dealing with the development of democracy, good governance and conflict management. The Russian-Georgian war has shown how vulnerable the pipelines are, and the long-winded negotiations with Azerbaijan and its participation in the Southern Gas Corridor, especially Nabucco, make clear the limited scope of action the EU has in this region. The relatively stable and autocratically led Azerbaijan has a weak and fragmented opposition. Clan structures and symbiotic relations between business and politics lead to corruption (Position 134 on the Corruption Index of Transparency

¹ Fischer, Sabine (2008) European Policy towards the South Caucasus after the Georgian Crisis, in: *Caucasus Analytical Digest* 1/2008, p. 2-6; under: http://kms2.isn.ethz.ch/serviceengine/Files/RESSpecNet/94387/ipublicationdocument_singledocument/7b6a0263-1f71-4f1c-a3c3-70ab7725dc62/en/01+CaucasusAnalyticalDigest.pdf. p. 3.

² Fischer, Severin / Barbara Lippert (2009) Mehr Gleise: EU-Energieaußenpolitik und ENP, in: *Osteuropa* 11/2009, p. 53-70; p. 60f.

International)¹, there are deficiencies in the rule of law as well as a lack of economic and political competition. These conditions are hampering a sustainable development of the country independent of the raw materials industry, and the rejection of alternative solutions by the political leadership of the country reduces the readiness to compromise on the Nagorno-Karabakh conflict. Thus, the region remains unstable, and economic decisions are inscrutable and dependent on the respective current political regime also in the energy sector.

Even though the EU has made democratization and good governance a main point of its Eastern Partnership and in its documents on the South Caucasus², the situation has been worsening in these areas for some years. Even the democratic role model of the region, Georgia, is moving away from the European values following the Russian-Georgian war. After the Rose Revolution, President Saakashvili was able to consolidate state institutions effectively and achieve success in fighting corruption (Position 68 on the Corruption Index of Transparency International)³. However, for some years now, media, Non-Governmental Organizations (NGOs) and the opposition are being put under pressure more and more. The limited commitment of the EU to resolving the conflicts and a lack of vision for the region are hampering EU policies and renders it to some extent implausible.⁴ Conflict resolution is no part of the Eastern Partnership but the main prerequisite for the development of the region. If the EU wants to support

¹ TI (2010) Corruption Perceptions Index 2010; under: http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results.

² EU (2008) Communication from the Commission COM(2008) 823 dated 3 December 2008: Eastern Partnership. Brussels: EU; under: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0823:FIN:EN:PDF>, p. 2f.

³ TI (2010) Corruption Perceptions Index 2010; under: http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results.

⁴ Meister, Stefan (2010) Tangle up in Blue and Gold, in *Internationale Politik*, Global-Edition, 10/11/2010. <http://www.ip-global.org/2010/09/01/tangled-up-in-blue-and-gold/>.

good governance in the South Caucasus successfully, then it has to connect the areas of conflict resolution, economic cooperation and support of the civil society better. Only if the EU commits itself more strongly in the region beyond the development of energy relations it may support successfully the principles of democracy, transparency and a market economy.

Options for EU action

With regard to its energy policy in the South Caucasus, there is the central challenge for the EU to develop a common domestic and foreign energy policy. The Southern Gas Corridor exists on paper but in reality, the interests of the member states and their energy companies determine European policies also against EU principles, such as diversification, transparency and solidarity. There is the principal question of whether the energy policy should be left to the laws of the market, following the belief that if it is economically sensible then European companies will build the respective pipelines. Or, alternatively, whether there should be a stronger debate among the EU member states of what a (financially affordable) strategic energy supply of the Union should look like in the future. Natural gas is to play an important role in the energy mix of the member states in the short- or medium-term, and the South Caucasus is the key to the large reserves of the Caspian region and the Middle East. At the moment, Russia and China are more ready to and successful in taking decisions in the competition for the Caspian resources. The EU, on the other hand, will play no role in the region without a strategic decision in favor of, for instance, the Nabucco pipeline and without a relevant access to the region.

Energy policy towards the South Caucasus, however, is not only economic policy but represents also a strategic decision to bind the region closer to Europe and to exert a more comprehensive influence on conflict resolution and a democratic development of the region. This issue is decisive as to whether the EU may become a relevant player in this neighborhood or not, and whether it wants to

combine its economic attractiveness with the export of its political and economic model. The EU member states also have to answer the question whether they are ready to collaborate more actively in the resolution of the region's conflicts besides the development of a common foreign energy policy. The reactive approach becoming active only in crisis situations, as for instance the Georgian-Russian war of 2008, is preventing a sustained development and conflict resolution in the neighborhood and leads to frustration among the states of the region. This is true for the South Caucasus as well as for North Africa.¹

Therefore, the EU should support strategic projects within the framework of the Southern Gas Corridor more strongly politically and financially and prepare a medium-term strategy on the development of a Trans-Caspian transport system (by either pipeline or tanker). The unequal treatment of economically more attractive countries (Azerbaijan) and less attractive countries (Armenia) will lead to short-term gains economically. In the long-term, however, the focus should be on establishing transparency, the rule of law and open markets in all partner countries, as only these conditions will enable sustained investments and stability. That is why a greater commitment in the area of energy development should at the same time comprise more investments into the civil society and the rule of law, and – in the South Caucasus in particular – in conflict resolution, too. All of these areas are closely interlinked: safe transit routes for energy raw materials require a long-term solution to the conflicts in the region. Only through a vibrant civil society and free media can the states change the discourse on the conflicts; therefore, they represent a major step towards their resolution. If the EU continues to limit its activities in the region to the containment of hot conflicts and the selective development of energy relations, it will not achieve a successful policy in any of the areas.

¹ Gnad, Oliver / Marcel Viëtor (2011) Desert Powered Progress: A pilot project for integrated EU and trans-Mediterranean energy policy, in: IP Global 4/2011, pp. 40-46.

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Closing remarks

Matthias Jobelius

One will hardly find another region in the world, particularly not in the immediate neighbourhood of the European Union (EU), in which such multilayered challenges come together on such small geographical space as the South Caucasus. This has become clear from the contributions in this volume.

The authors have addressed these challenges in detail and with firm convictions. Depending on their backgrounds or political viewpoints, the authors have arrived at both similar as well as diverging assessments. Some similarities in the assessments of the authors are to be highlighted and commented in these closing remarks.

Territorial conflicts: failure of national elites and international hesitancy

The analyses presented in this publication on the territorial conflicts around Karabakh, Abkhazia and South Ossetia during the past 20 years are alarming and disillusioning at the same time. It is disillusioning how little progress has been achieved in solving the territorial conflicts and it is alarming how unstable the region is even at the beginning of the third decade of its independence. Following more than 20 years of enduring, development-impeding and costly conflicts, there is still no identifiable willingness among the political decision-makers to enter into compromise. Neither is there a result-oriented dialogue between the conflicting parties nor are there confidence-building measures between the societies. At best, concessions are regarded as weakness but often as betrayal of the own country; more or less never are they seen as what they really are: a

strategic instrument for achieving a negotiated agreement of which all sides may benefit. Both Thomas de Waal as well as Dieter Boden in their contributions have pointed out this failure to compromise and the missed chances resulting thereof. What can be regarded as the lack of political will to resolve a conflict in the respective situation turns into a failure of the political decision-makers in the overall view. Thus, an enduring failure of the political elite can be seen as the decisive factor for the continued existence of the conflicts in the South Caucasus to the present day.

This failure of the political elite is aggravated by the passiveness of global and regional players. The South Caucasus, as de Waal rightly points out, remains "no-one's backyard", not unimportant for many but not a priority for anyone. The USA, Russia, the EU and Turkey are all involved in the region but no-one invests enough political capital in order to resolve the conflicts as the decisive barrier to development in the region. With the failure so far of the Armenian-Turkish rapprochement process in 2010, Turkey has once more missed the historic chance of pursuing a more independent foreign policy in the South Caucasus, less determined by the traditional alliance with Azerbaijan, and of establishing itself as a constructively acting regional power. Europe's security policy interest also remains hazy, and conflict resolution is still excluded from the cooperation programs between the EU and the South Caucasus. Instead, the EU points to its support for the efforts of bodies such as the Organization for Security and Co-operation in Europe (OSCE) and the United Nations and thus does in this case not live up to its claim of being a decisive player in its immediate neighborhood.

Whereas the actors involved fall back into their old roles and well-used reflexes, the danger of a renewed escalation of the Karabakh conflict is growing. Rising military expenditure, rhetoric of war and more and more casualties along the "line of contact" are clear indicators for the fact that this is not a "frozen conflict" at all. The international community followed this legend of frozen conflicts in the South Caucasus already in the case of Abkhazia and South

Ossetia and was subsequently surprised by the events of August 2008.

Authoritarianism is advancing

Many contributions in this volume dealt with the question of whether political systems in the South Caucasus have become more democratic over the past years. The answers do not give rise to euphoria. The authors were not able to identify a sustained process of democratization for any of the three countries. Armenia, it seems, will remain a country in which the common good will have to take second place behind the vested interests of influential patronage networks; and informal and corrupt practices continue to undermine democratic decision-making processes. Fights for power within the ruling elite still provide for changes in personnel and for new alliances time and again, however, there is no change in the authoritarian and informal type of governance. As the political functionaries are faced with the task of constantly securing the support of powerful clans and oligarchs, the political system of Armenia will remain as it is today also in the future, always in motion but barely any change.

In the case of Azerbaijan, authors in this book have argued that the human and civil rights have been curtailed more and more over the past years. While there is, like in Georgia, a modernization process in parts of the public and private sector, a democratization of the political system seems unlikely. In contrast to Armenia, the most important clans of the country meanwhile are united in their backing for the president of the country. Another difference to Armenia is that the Western countries, due to their interest in Azerbaijani oil and gas, neither have the wish nor the means to risk a serious conflict with the government on the basis of democracy deficits.

Also in the assessment of Georgia, which was often made out to be the star pupil of the region between 2004 and 2007, more realism has meanwhile prevailed again. Modernization progress since the Rose Revolution is still

clearly visible and serves as a source of legitimacy for the government to the present day. However, in parallel with the selective modernization following the Rose Revolution, there have also been cutbacks on the political and social rights of the country. Even if the citizens still enjoy a greater degree of political freedom than in the neighbouring countries, the contributors to this volume identified growing authoritarian tendencies also in Georgia.

Europe's commitment in the South Caucasus: more and better

The developments highlighted in its neighbouring region and in its partner countries represent a challenge for the European Union that it tries to address through its cooperation instruments. However, the authors of this volume agree that the European Union was more or less not visible at all over the first ten years of independence in the South Caucasus. Only around the turn of the millennium, the cooperation between the EU and the South Caucasus gained momentum. With the help of the Black Sea Synergy, the European Neighbourhood Policy (ENP), the Eastern Partnership (EaP), by opening delegations in Tbilisi, Yerevan and Baku, by appointing a Special Representative for the South Caucasus and a multitude of further measures, the EU has turned from an observer into a player. Still, as Nicu Popescu clearly shows in his contribution, the European Union has not been able to help shape the region in a substantial way. Also 20 years after independence, the EU does not find a circle of stable, democratic and friendly states in its Eastern neighborhood, as it was envisaged in the ENP. The authors of this volume provide many reasons for this: unclear security interests, diverging priorities and strategies of the member states, too few incentives for the partner countries, deficits in the design of the cooperation instruments, just to name a few.

Accepting all justified criticism, one must not forget: the key to eliminating the greatest barriers to integration, the territorial conflicts and the deficits of democracy is in

the hands of the governments of the countries involved themselves. Authoritarian governance and a lack of compromise in managing the territorial conflicts may still be regarded as the main reason for why the relations between the EU and the South Caucasus has fallen short of their potential.

In future, in its cooperation with the South Caucasus, the EU will be called upon to consider more strongly the political peculiarities of the individual countries as well as the ability and willingness to cooperate of the respective governments. Georgia, for instance, is the only country to have declared EU membership a long-term goal and has pursued the approximation with the EU in the most determined manner. A rapprochement with Europe is an important if not the most important political reference point in the Georgian debate about socio-political reform. The contradictions between an economic policy hostile to regulation and an increasingly authoritarian style of governance, on the one hand, and the demand for further steps of EU approximation, on the other hand, have become more distinct over the past four years. The negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA), the treatment of political and social rights as well as the handling of the parliamentary and presidential elections in 2012 and 2013 will be an indicator at the start of the third decade of Georgia's independence for whether the country is moving towards an EU-compatible economic and social model or not.

It is predictable that with the objective of Brussels to develop the Southern Energy Corridor, Azerbaijan will become more of a focus of EU policy on the South Caucasus. Despite the fact that there is not yet a common energy foreign policy of the EU, and EU member states continue to pursue diverging energy interests in part, it is still to be expected that the EU will further develop its energy partnership with Azerbaijan in the years to come. This also increases the probability that the EU will give up its long pursued policy of "equidistance" between Armenia

and Azerbaijan. However, the EU has not yet found a way to contribute critically as well as formatively to the internal political development of the country, despite the energy interests.

In the overall view of the past two decades, the consistency of the political challenges is astonishing. At the beginning of the third decade of independence, the region is still characterized by problems that – albeit in a changed guise – also determined the first two decades: territorial conflicts, instability, geopolitical rivalry, authoritarianism and deficits of democracy. However, in contrast to the 1990s, the region has moved closer to the EU both spatially as well as politically through the EU enlargement. For Germany and the EU, this also means additional responsibility. This region cannot be met with the passiveness of the first decade and the hesitancy of the second decade. The democratic, peaceful and sustainable development of the region in the third decade of its independence has also become the task of the European Union and its member states. A greater involvement of Europe in this region, as demanded by many authors in their contributions, represents a prerequisite in order to live up to this task.

