

EMERGENCE OF NEW POLITICAL IDENTITY IN THE SOUTH CAUCASUS

ENERGY, SECURITY, STRATEGIC LOCATION AND
PRAGMATISM

Master of Arts in Law and Diplomacy Thesis

Submitted by Elin Suleymanov

May 2004

Under the advisement of Professor Andrew Hess

© 2004 Elin Suleymanov

<http://fletcher.tufts.edu>



THE FLETCHER SCHOOL

Table of Contents:

Abstract	3
An Imperial Backyard or Neighborhood of the Future?	4
Mountains Not the Only Thing in Common	7
Nationalist Ideology: Popular and Dangerous	10
Old Faces; New Policies. The Rise of Caucasian Pragmatism:	18
Managing Equilibriums	21
Perceptions of Regional Security:	29
Russia: the Over-bearing Neighbor	30
Armenia- Azerbaijan Conflict: the Caucasian Sword of Damocles	41
Iran: the Insecure South	47
Social and Economic Fundamentals of Caucasian Nations	53
Caspian Energy as the Engine for the Region's Integration:	57
AIOC: Tangible Results of Pragmatism	57
Linking the Seas. The Pipelines	65
New Identity for the Ancient Land	68
Appendix 1. Azerbaijan and Occupied Territories. Map	71
Appendix 2. Chronology of AIOC Oil Contract	72
Appendix 3. Caspian Pipelines. Map	73
Appendix 4. Baku Declaration of the Silk Road Summit. September 8, 1998	74

ABSTRACT

The South Caucasus is a boiling pot of various faiths, ethnicities, historical memories and political orientations, has traditionally been subject to strong, often overwhelming external pressures. The example of strong regional partnership between Azerbaijan and Georgia, two nations with very different dominant ethnic and religious groups, shows that not only a cooperative arrangement within the South Caucasus is possible, but also that it is, clearly, in the interest of its participants.

Following the wave of strong nationalism, Azerbaijan and Georgia, unlike Armenia have opted for more pragmatic politics. Pragmatism became a trademark policy for Baku and Tbilisi establishing foundation of strong bilateral partnership. The Azerbaijan-Georgia partnership forced the world to look at the Caucasus in a new, different way. Much of this new pragmatism has been built on the ability to balance various pressures in a dynamic regional equilibrium.

This includes careful consideration of perceptions of national security in the region, which are focused on potential negative influences of Russia and Iran; the unresolved state of the Armenia-Azerbaijan and other regional conflicts; and the challenge of strengthening state institutions. At the same time, Caspian energy projects play a key role in bringing about positive changes in the South Caucasus and promoting cooperative model of regional integration.

An Imperial Backyard or Neighborhood of the Future?

Following collapse of the USSR, the South Caucasus reemerged with new force as a vital global crossroads. As has been the case throughout the Caucasus' turbulent history and, perhaps, predictably for a crossroads region, it presented both an outstanding promise and a formidable challenge of an uncertain future. Soviet legacies, armed insurgencies, tensions among the region's diverse peoples, the vast and yet landlocked Caspian resources, Moscow's post-imperial and often violent hangover, Iran's meddling and the Western interests all contributed to ensuring that this uncertainty has not disappeared. Today, few would doubt the strategic significance of the South Caucasus, and this rising international profile of the region calls for a more in-depth understanding of its complex social and political processes.

The fundamental challenge still valid today has been the search for identity by those living in the Caucasus. In reality this challenge extends beyond any specific region of the world, as identity transformations take place in every social system. However, in a place, where empires clashed for centuries, where Europe meets Asia, where the Turkic world meets Iran and different Islamic groups meet different Christian and Jewish ones, the challenge is ought to be more complex¹. A boiling pot of various faiths, ethnicities, historical memories and political orientations, the Caucasus has traditionally been subject to strong, often overwhelming external pressures. Should the nations of the Caucasus fail to find a framework, which would constructively accommodate its diversity and conflicting pressures, the region could turn into a backwater dead-end rather than a vibrant

¹“*Central Asia and the South Caucasus: Reorientations, Internal Transitions, and Strategic Dynamics*,” Conference Report, National Intelligence Council; October 2000; accessed at http://www.cia.gov/nic/confreports_asiacaucasus.html on 4/13/04

international crossroads for social and economic exchanges. Although the enormous responsibilities lie with the region's more powerful neighbors and external, mostly Western, partners, the ultimate responsibility for a prosperous future belongs to the nations of the South Caucasus. This is why the Caucasian² identity and self-perceptions are crucial for development and cohesion of the region.

Contrary to widespread initial assumptions, rediscovering earlier, pre-Soviet identities has not been as helpful as it was hoped. In some cases, it has caused additional problems rather than solved existing ones. Identity is a developing phenomenon and direct extrapolation of a fixed form of it from years ago is often a simplistic recipe for a disaster. Because of the Caucasus' diverse cultures, and varied ethnic and religious composition, identity here can only be inclusive and flexible. Such inclusive and flexible nature should make Caucasian identity open for transitions and influences, rather than being dangerously fixed on ethnicity or religion, and yet does not alter its core. This is true not only for communities, but also for every individual citizen of the Caucasus. The 1930s, Kurban Said brilliantly describes the search for identity, which has always been and still is deeply personal, in his quintessential novel about the Caucasus "Ali and Nino."³ Perhaps symbolically, Said's own true identity is yet to be proven conclusively⁴.

Much of the analysis is based on the Azerbaijani case both because it is the author's area of expertise and because, in close partnership with its neighbor Georgia, Azerbaijan has become the engine for region's development and the very symbol of its search for identity. Moreover, Azerbaijan, the largest of the three South Caucasus nations, with its majority

² The term "Caucasian" here, of course, describes' a relation to the Caucasus, not a racial designation

³ See Kurban Said, Jenia Graman (translator), "*Ali and Nino*," Overlook Press; Reissue edition; September 1999

⁴ Tom Reiss, "*The Man From the East*," The New Yorker; October 4, 1999, page 68

Muslim and Turkic population, access to the Caspian resources and link to Central Asia is pivotal for much of Caucasian future and, arguably, has strong impact on Central Asia as well. Conversely, Azerbaijan's own success is impossible without transformation of the entire region⁵.

The region's current political systems and practices emerged in the turmoil of a collapsing superpower and have been deeply affected by this. Furthermore, if in the Baltics, home to another troika of former Soviet republics, the history, proximity to friendly neighbor nations and generally accepted notion of European identity helped to mitigate the negative consequences of the post-Soviet transition to sustainable independence⁶, in the Caucasus the externalities acted to make the transition significantly harder.

This paper takes a closer look at some of the abovementioned systems and practices. To recognize the patterns of emerging regional political identity, one has to consider a wide array of factors ranging from culture to economic development to security affairs, among others. Some aspects are highlighted intentionally to underscore a pattern and because of their importance. For instance, the Caspian energy projects play a paramount role in the region's history and the future, as do relations with the immediate neighbors Iran, Russia and Turkey.

The focus of the paper is on emerging political identity in the Caucasus and whether such identity is regional or individual for each country. In fact, a question worth asking is

⁵ K.Gajendra Singh, "AZERBAIJAN : keystone in energy rich Caspian Basin," Paper no. 687, South Asia Analysis Group; May 16, 2003, <http://www.saag.org/papers7/paper687.html> accessed on 4/13/04

⁶ Gra_ina Miniotait_, "the Baltic States in Search of Security and Identity," Lithuanian Institute of Philosophy and Sociology ; accessed at <http://www.copri.dk/publications/WP/WP%202001/14-2001.doc> on 4/13/04

whether the South Caucasus is a region in more than simply geographic terms. The Caucasus is frequently seen as a geographic and a cultural bridge, an area of so many transitions that the easiest way to describe it is often through these transitions. To fulfill its promise and potential and to be a full-fledged member of international processes, the South Caucasus needs to grow into a distinct integrated region rather than a proxy playground for more powerful participants of the never-ending, tiresome “Great Game.”⁷

Mountains Not the Only Thing in Common

Although the three nations of the South Caucasus, Armenia, Azerbaijan and Georgia, naturally, have much in common, differences among their paths are rather significant for parts of the same, small geographic neighborhood. In part, this is due to variations in historic experiences; however, no less important are choices made by each since achieving formal independence in 1991 and the immediately preceding years. Therefore, while history is important, the situation in the region today is a product of contemporary decision-making in the three regional capitals as well as a result of projections of power and influence by the relevant external actors. Possibly a worrisome sign, the typical use of history as an excuse for unfulfilled potential is frequently recalled in Caucasian politics.

Contrary to some existing stereotypes, there seems to be little that inherently divides the peoples of the South Caucasus⁸. Even if most historically recent examples of integration were enforced by Moscow, either in form of the Russian Empire or the Soviet Union, the short-lived “Trans-Caucasian Federation” of 1917-18 is, at least, a symbolic recognition of

⁷ See Svante Cornell, “*Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*,” Curzon Press; January 2001

⁸ Thomas A. Dine, “*Coping with the Caucasus Conundrum*,” speech at Columbia University, New York; February 19, 1998; accessed at <http://www.rferl.org/about/speeches/190298.asp> on 4/13/04

the regional identity and an attempt to establish and maintain a separate regional political entity.⁹

The contemporary example of strong regional partnership between Azerbaijan and Georgia, two nations with very different dominant ethnic and religious groups, shows that not only a cooperative arrangement within the South Caucasus is possible, but also that it is, clearly, in the interest of its participants¹⁰. Moreover, the Azerbaijani-Georgian cooperation has had a strong impact on the wider region, among other things, by establishing the basis for the Baku-Tbilisi-Ceyhan (BTC) pipeline, the largest infrastructure project in the areas to date, and by having served as the core for the GUUAM group, which includes Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova.¹¹

Such cooperation is not based on history, but rather on the ability of both Baku and Tbilisi to overcome existing obstacles and on a vision for the common future of the Caucasus¹². For the South Caucasus' common future to realize fully, however, Armenia must be a part of it. Presently, Armenia stands largely separate from its two Caucasian neighbors and, unable to develop relations with Turkey, generally, acts more as an observer rather a participant in emerging partnerships in the region. One reason is obviously Armenia's devastating war with neighboring Azerbaijan, which resulted in chunks of the latter's territory still being under occupation. Although the war was recent with hostilities halted by a cease-fire in 1994 and, in fact, with occupation and displacement of hundreds of

⁹ "Natsionalnoye sobranie Respubliki Armenia, Istoricheskiy obzor," (*the National Congress of Republic of Armenia, Overview of History*), in Russian; <http://www.parliament.am/Ru/OurParliament/indexContent.htm> accessed on 4/13/04

¹⁰ Vladimir Socor, "A Tale of Two Post-Post-Soviet Countries," *The Wall Street Journal Europe*; December 19, 2003

¹¹ "The GUUAM Group: History and Principles," Briefing paper; November 2000; www.guuam.org accessed on 4/14/04

¹² Archil Gegeshidze, "the New Silk Road: a Georgian Perspective," *Perceptions, Journal of International Affairs*, Ministry of Foreign Affairs, Ankara, Turkey; March-May 2000; <http://www.mfa.gov.tr/grupa/percept/default.htm> accessed on 4/14/04

thousands of the Azerbaijani IDP's still ongoing, Yerevan often refers' to history as a justification of Armenia's stance and policies.¹³ It seems that if Azerbaijan and Georgia are fixated on the regional future, the Armenian thinking is still preoccupied by its past. Thus, not much room is left for thinking about the present; perhaps, a common trend for transitional periods.

As the regional projects expand and develop further, the Armenian non-participation increasingly turns into a limitation for integration in the South Caucasus as a whole and a destructive isolation for Armenia itself. Should the current tendency of entrenching positions both in Baku and Yerevan continue,¹⁴ with time it might be even more difficult to bridge the differences and help Armenia to become a fully integrated member of the South Caucasus region. Comprehensive integration in the South Caucasus, thus, can be achieved through formulation and acceptance of a common political identity based on the interests of the Caucasian states and their citizens.

However imperfect, the Azerbaijani-Georgian relations provide evidence for the feasibility of such integration and a model of recognition through accommodation of both interests of individual states and of the entire region. Another important element of the partnership between Baku and Tbilisi is the ability to overcome mutual historic and more recent emotional grievances as well as an understanding that all unresolved issues could be addressed through bilateral negotiations. Arguably, only such accommodation can serve as the basis for sustainable regional identity. One psychological factor that seems to

¹³ See Gerard Libaridian, *"The Challenge of Statehood: Armenian Political Thinking Since Independence,"* Blue Crane Books; May 1999

¹⁴ Fariz Ismailzade, *"Tensions Between Armenia, Azerbaijan Rising over Nagorno –Karabakh,"* Eurasia Insight; July 29, 2003; www.eurasianet.org accessed on 4/14/04

underpin any such identity is appreciation of the Caucasus being a common neighborhood for all of its citizens¹⁵. Without appreciation of this commonality, a regional cooperative arrangement is not likely to be effective.

Nationalist Ideology: Popular and Dangerous

In late 1980s and early 1990s, the Caucasus saw an explosion of extreme forms of nationalism similar to the pattern elsewhere in the former Soviet Union, which included the needs for new historical perspectives, symbols, establishment of new legitimacy and identification of new mobilizing factors for the society. Arguably, it was the unraveling of the Caucasus and the armed insurgencies there that brought about the final collapse of the decaying USSR. One thing is certain: for Gorbachev's Politburo the rising tide of emerging conflicts, especially the ones in the Caucasus, prove to be the greatest challenge¹⁶.

Soon nationalist movements turned so radical that they produced conflicts comparable in intensity to those taking place in the Balkans. Although, just like in the Balkans¹⁷, confrontation between Armenians and Azerbaijanis and ethnic fighting in Georgia involved significant use of military hardware, instances of ethnic cleansing and war crimes directed at civilian populations, unlike in the Balkans, little was known about these conflicts outside the region.¹⁸

The conflicts in the Caucasus, as illustrated most vividly by the Armenia-Azerbaijan war, had another strong similarity to the Balkans. All of them seem to be violent products of

¹⁵ Essad Bey, *Twelve Secrets of the Caucasus*, Viking, New York; 1931

¹⁶ Bruno Coppieters, *Contested Borders in the Caucasus*, Paul & Co Pub Consortium; July 1996

¹⁷ Roy Gutman, *A Witness to Genocide: The 1993 Pulitzer Prize-Winning Dispatches on the "Ethnic Cleansing" of Bosnia*, Lisa Drew Books; September 1993

¹⁸ See Thomas Goltz, *Azerbaijan Diary: A Rogue Reporter's Adventures in an Oil-rich, War-torn Post-Soviet Republic*, M.E.Sharpe; Revised edition May 1998

earlier nationalist developments, which were abruptly interrupted by the Soviets in 1920 in the Caucasus and in 1940s by Tito in the Balkans. Participants in conflicts throughout former Yugoslavia frequently stated this link with past violence, with some constructing all of their politics on the notion of historic revenge¹⁹. In the Caucasus, the dynamic has been so eerily reminiscent of the conflicts in the early 1900s that previous descriptions seem to have acquired a prophetic element to them²⁰.

This is a widespread problem many societies face in their transitions as they attempt to reject effects of decades of either colonial and/or ideological domination. The easy option of rejecting anything related to the time of domination makes the “frozen past” a basis for nation – building. The popular appeal of nationalist ideology was natural – both because such sentiments were oppressed under the Soviets and because it filled the ideological vacuum left once the USSR began to decline. At the same time, as mentioned earlier, thinking of nationalist forces mostly conditioned by ideas of nationalism was dominant in the early 1900s. The Soviets did not only destroy the independence of the Caucasian states in 1920s, they also interrupted the natural maturing and transformation of nationalism essentially freezing its discourse at a given level of development.

Conceptually, a simplistic perception of “nation-state” being an ethnic notion rather than a civic one was underlying the ideology of many post-Soviet nationalists in 1990s; thus, many democratic movements were generally weak on tolerance²¹. Additionally, in Russian language, the *lingua franca* of the USSR, the word “nation” carries clearly an ethnic

¹⁹ Vamik D. Volkan, *Bloodlines: From Ethnic Pride to Ethnic Terrorism*, Westview Press; Sept 1999

²⁰ Essad Bey, *Blood And Oil In The Orient*, Simon & Schuster, NY; 1932

²¹ David Hayhurst, *Democratic Governance in the Caucasus. Building Castles on Shifting Sands*, Local Government Brief, the Open Society Institute, January 2001; <http://lgi.osi.hu/publications/2001/35/1.PDF> accessed on 4/15/04

connotation. Once again, this seems to reflect the views dominant in Europe in early 1900s. The early ethnocentric “nation-state” model, which has matured to much more inclusive forms in Europe, not least because of the lessons learned from horrifying consequences of radical approaches, was unlikely to be helpful in multicultural areas of the former Soviet Union.

In addition, in spite of the official Soviet condemnations of nationalism, Moscow’s policy of manipulating ethnic politics, among other things, through establishing autonomous entities, also contributed to making state institutions ethnicity-oriented²². Kremlin used ethnic autonomies as a band-aid for accommodating the politics of nationalism. Once declared a “solution to the nationalities question,”²³ this combination of ethnic autonomies with territorial units and, subsequently, administrative institutions created an explosive mix, which could be only maintained by the Soviet-type repression. Whether Stalin’s satanic plan or the only option at the time, the ethno-territorial mixture dramatically amplified the preexisting divisions and reinforced the politics of ethnic entitlement to territory.

Arguably, this lies at the core of most post-Soviet conflicts. By establishing ethno-centric territorial institutions in the multiethnic areas such as Caucasus and Central Asia, Moscow may have been responding to the trend at the time. Yet, in addition to the declared objective of promoting equality among diverse groups, these institutions by their very nature became the over-emphasized focal points of identity politics and served to maintain the snapshot of the Russian Empire’s messy aftermath. Naturally, the ethno-territorial administrative system has also provided ample opportunities for “ethnic

²² Svante Cornell, “*Autonomy as a Source of Conflict. Caucasian Conflicts in Theoretical Perspective,*” The Johns Hopkins University Press, 2002

²³ Thomas A. Dine, op-cit.,

entrepreneurship,”²⁴ a concern echoed today as an ethnicity-based federation is being discussed as a possible model for Iraq’s future²⁵.

Imposition of ethno-territorial models also reflected the vision of the revolutionaries, who came to power in Moscow and felt more comfortable with the notion of collective rather than individual rights of citizens. Often, to fit the model, new territorial units were established and subtle divisions between various groups reinforced²⁶. Initially, the primary beneficiary of nationalist sentiments coupled with revolutionary fervor, the Soviet regime completed the circle by ultimately falling to this very combination.

The dangers of over-emphasizing ethno-territorial politics are evidenced extensively in the Caucasus, where the presence of the Soviet-established autonomies has been as a crucial factor for enabling escalation of conflicts by serving as administrative and resource base for ethnic movements²⁷. Although Russia is yet to resolve the problem of dealing with its numerous autonomies itself, Moscow has used ethno-territorial structures within the post-Soviet states as the main tool of pressuring and undermining them. Russia’s open involvement on the Armenian side in Nagorno-Karabakh region of Azerbaijan and support for separatists in South Ossetia and Abkhazia regions of Georgia underscores that the emerging Caucasian nations face the challenge of addressing the needs of their diverse populace while at the same time ensuring the necessary degree of sustainable integrity. Not surprisingly, most recently, the first serious challenge to Georgia’s new president

²⁴ Cornell, *Autonomies*, op-cit.,

²⁵ Adeed I. Dawisha and Karen Dawisha, “How to Build a Democratic Iraq,” *Foreign Affairs*, May/June 2003

²⁶ Bruno Coppieters, *op-cit.*,

²⁷ Cornell, *Autonomies*, op-cit.,

Mikheil Saakashvili came from Moscow-backed ruler of the Ajarian autonomy Aslan Abashidze²⁸.

Nationalist ideology, an effective rallying point successful in undermining the Soviet regime left a strong impact on nation-building in the region. In Armenia, the “Karabakh Committee” with its ethnic-driven program grew into the dominant political force when leader of the All Armenian National Movement, Levon Ter-Petrosyan was elected president in 1991; in the same year, Georgia elected a charismatic, but erratic and radically nationalist, leader of the Society of Saint Ilia the Righteous, Zviad Gamsakhurdia, to be its president; and, in Azerbaijan, the nationalists of the Popular Front became the ruling party with the election of president Abulfaz Elchibey in 1992²⁹.

Gamsakhurdia’s extreme nationalism soon proved destructive to the already unstable Georgia³⁰. In Baku, Elchibey strong Turkist views, including his decision to constitutionally rename the official language from ‘Azerbaijani’ to ‘Turkish’ did not contribute to stability. The Popular Front politicians saw Azerbaijan’s nation- building as simply restoring the Azerbaijan Democratic Republic (ADR) of 1918-20, which was among the world’s first Muslim republics. This was not limited to adopting its symbols officially. Pro-Western “Turkism” dominated thinking of the ADR founders, who had to leave their country following Azerbaijan’s return to Russia’s control. The same thinking dominated the main political

²⁸ “*Ajaria Creates Conundrum for Georgia’s New Leaders*,” Eurasia Insight, December 4, 2003; www.eurasianet.org

²⁹ See Cornell, “*Small Nations and Great Powers*”, op-cit.,

³⁰ Ghia Nodia, “*Loyal or Dangerous?*”, Institute for War and Peace Reporting; February 1997;

http://www.iwpr.net/archive/war/war_48_199701-02_04.txt accessed on 4/15/04

groups opposed to the Soviet authorities in the last years of the USSR, when such sentiments could again be openly expressed³¹.

Both Gamsakhurdia and Elchibey turned out to be too abrasive for their more powerful neighbors and too divisive and ideological for their own populations. The rapid collapse of both governments indicated more than external meddling as often stated³², but also a significant loss of public support due to radicalism and inept leadership. That the nationalism phase was dominant in political thinking in most of the former Soviet Union in the early 1990s seem to suggest that this was an inevitable wave, a necessary “outlet” for suppressed nationalist sentiments. The fall of Gamsakhurdia and Elchibey coincided with decline in the popular attractiveness of ideological politics in general. One can argue that this indicated increasing pragmatist thinking in Azerbaijan and Georgia.

In the meantime, Armenia’s Levon Ter-Petrosyan, caught in the web of the very nationalist politics, which brought him to power, was making a transition to a more pragmatic approach to leadership. Yerevan’s policy with its heavily ethnocentric ideological basis had resulted in military conflict with Azerbaijan, tensions with Turkey and cooling of relations with neighboring Georgia³³. Although, Armenia had developed and maintained close alliance with Russia and strong relations with Iran, such ‘survival’³⁴ tactics could hardly substitute for a more natural closer integration with the other two Caucasian neighbors and Turkey. While Ter-Petrosyan’s saw pragmatism as a necessity, he was also growing weaker domestically because of a variety of reasons. In contrast with neighboring

³¹ Audrey L. Altstadt, *“The Azerbaijani Turks: Power and Identity Under Russian Rule,”* Hoover Institute Press; May 1992

³² Abulfaz Elchibey, *“Independence: Second Attempt”*; December 1993, available at www.azerbaijan.com

³³ Voitsekh Guretski, *“The Question of Javakh,”* Caucasian Regional Studies, Vol. 3, Issue 1, 1998

³⁴ Suren Karapetian, *“Armenia: The Economics of Isolation,”* Institute for War and Peace Reporting; 1997

Azerbaijan and Georgia, Ter-Petrosyan's forced resignation in early 1998, brought to power a radical nationalist and the former leader of Armenian separatists in Nagorno-Karabakh region of Azerbaijan – Robert Kocharian - hardly a hopeful turn for pragmatists³⁵.

The lesser public appeal of nationalism does not mean that it cannot re-emerge as a powerful driving force in politics once again. In this context, announcing the “end of nationalist thinking” in the region seems premature.³⁶ There are some indications that nationalist sentiments might be strengthening in Azerbaijan and Georgia, while they have seemed to continuously dominate Armenia's political discourse. In Azerbaijan, they are now re-emerging in a different shape among the young generation due to the frustration over still unresolved conflict with Armenia. Some of this frustration finds its way into the youth culture, for instance, the newly popular Azeri rap music³⁷. Furthermore, the residual nationalism supplanted by a degree of sectarian fanaticism can ensure that ideological radicalism continues to be a serious threat in the Caucasus³⁸.

The picture of nationalist ideology in the Caucasus is certainly not limited to Armenia, Azerbaijan and Georgia, the latter being home to a number of restive minorities. North Caucasus, formally a part of the Russian Federation, produced a host of movements based on nationalism, most notably in Chechnya. The Chechen movement, while nationalist, has also been uniquely Caucasus –focused, combining elements of the Vainakh (Chechen)

³⁵ “*Militia Group That Forces Resignation Of Armenian President Has Record Of Human Rights Abuses*,” The Human Rights Watch, New York; February 3, 1998; <http://hrw.org/press98/feb/armenia.htm> accessed on 4/15/04

³⁶ An opinion about the “end of nationalism” was voiced by discussants at a panel on the Caucasus during the Central Eurasia Studies Society's annual conference at Harvard University in October 2003.

³⁷ Narmina Rustamova, “*DAYIRMAN: COMBINING RAP, TRADITION, AND FRUSTRATION IN AZERBAIJAN*,” Central Asia Caucasus Analyst, Johns Hopkins University; www.cacianalyst.org accessed on 3/15/04

³⁸ See Kenneth Yalowitiz and Svante E. Cornell, “*The Critical but Perilous Caucasus*,” *Orbis*, Philadelphia, Pa. 48 no1; Winter 2004

nationalism and Islamism with strong sense of Caucasian identity³⁹. Chechnya's first president Jokhar Dudayev was an eccentric, controversial and charismatic leader⁴⁰, who, albeit more radical, in many ways was remarkably similar to his friend Zviad Gamsakhurdia of Georgia as well as to Abulfaz Elchibey of Azerbaijan. Indeed, it is hard to imagine a regional identity, which would exclude Chechnya or the North Caucasus as a whole. Both because developments in the North Caucasus have been having a profound elsewhere and because it is in the highlands on the Greater Caucasus range, where the Caucasian identity is most evident⁴¹. Not surprisingly, therefore, Chechnya's Dudayev was among the author's and promoters of the notion of the "Caucasus –wide common home."⁴²

The war in Chechnya has been so brutally destructive, however, that once a vibrant, if chaotic and not always peaceful, Chechen political dynamic is reduced to a never-ending cycle of violence, daily war crimes and overall complete lack of normality⁴³. Today, the extreme brutality of Chechnya's tragedy makes it stand out in the general picture of the Caucasus and, hopefully, is an unfortunate exception in the region. Nevertheless, it is a deadly warning of dangers posed by unrestrained militant imperialism with racist undertones, weakness of state institutions, and by ideology –driven non-compromising policies.

³⁹ Moshe Ganner, "Nationalism and History: Rewriting the Chechen National Past," *Secession. History and the Social Sciences*. Edited by Bruno Coppieters and Michel Huysseune. *Brussels University Press*, 2002

⁴⁰ See Carlotta Gall and Thomas De Waal, "Chechnya: A Small Victorious War," Pan Books, 1997

⁴¹ Thomas Goltz, "Chechnya Diary: A War Correspondent's Story of Surviving the War in Chechnya," Thomas Dunne Books; October 2003

⁴² Lema Turpalov, "Sredstva massovoi informacii Chechenskoi Respubliki v usloviyah rossiysko-chechenskogo protivostoyaniya" (*Media of the Chechen Republic during the Russian-Chechen confrontation*) in Russian, "Chechnya and Russia: Societies and States," edited by Dimitri Furman, the Sakharov Foundation, 1999.

⁴³ Anne Nivat, "Chienne De Guerre," PublicAffairs, New York, 2001

Old Faces; New Policies. The Rise of Caucasian Pragmatism

Many at the time saw the return of Soviet time leaders of Azerbaijan and Georgia, Heydar Aliyev and Eduard Shevardnadze, to power in 1993 and 1992, respectively, as Moscow's comeback. If this was Kremlin's calculation as well, it was wrong. Experienced former apparatchiks were replacing anti-Communist regimes led by inexperienced populists. While certainly encouraged by Moscow and reflective of the power of the old elite, this "Nomenklatura renaissance" also reflected the fact that populist and nationalist regimes, as successful as they were in undermining the Soviet rule, failed miserably to address basic social and economic needs of their populations. Among the populations, used to a welfare state, this inevitably produced nostalgia for the past Soviet days.

Yet, arguably, nowhere throughout the post-Soviet space have the comebacks of former Communist leaders been historically as important as in Azerbaijan and Georgia. Having come to power following forced departures of their increasingly unpopular nationalist predecessors, both Aliyev and Shevardnadze embarked on urgent policies aimed at securing their states and their own power. At least for some time, they did both with enviable skill.⁴⁴

Pragmatism became a trademark policy for Baku and Tbilisi establishing foundation of strong bilateral partnership. The Azerbaijan-Georgia partnership forced the world to look at the Caucasus in a new, different way. In spite of all challenges, no longer was this solely an area known for bloody conflicts and incompetent leaders and for its resources being too problematic to develop. Regional cooperation was now at least feasible.

⁴⁴ See Cornell, "*Small Nations and Great Powers*", op-cit.,

Turn to pragmatic politics was, arguably, a turning and defining point for the Caucasus. It seems that, just as such pragmatism allowed Azerbaijan and Georgia to move ahead with rebuilding the Caucasus, the failure of pragmatist forces in Armenia kept the country self-contained and relatively isolated in the region. The difference is stark. In Azerbaijan and Georgia, while not exactly welcomed by everyone, Aliyev and Shevardnadze, nevertheless, received some overall public acceptance. In Armenia, in October of 1999, after the forced resignation of Levon Ter-Petrosyan, the charismatic former Communist leader and the parliamentary speaker at the time Karen Demicrchian, a moderate, was assassinated, along with another popular politician Prime Minister Vazgen Sarkisian and a group of others⁴⁵. As Azerbaijan and Georgia inaugurated the Baku-Supsa oil pipeline delivering Caspian oil to the latter's Black Sea coast, political pragmatism in Yerevan already badly injured by Ter-Petrosyan's resignation, was now in a comatose state.

With Armenia's isolation from regional developments and the predominant ethnicity-based ideology reinforcing one another, Yerevan's approach to practical issues of national security is more reflective of ideological vision than of a realistic assessment of the regional situation. As a result, Armenia has significantly exaggerated the threat posed by neighboring Turkey and has become excessively dependent on Russia. Although, perhaps rather predictable, such dynamic could have been improved, had Yerevan employed a more realistic attitude to Armenia's own needs and the realities faced by an emerging state in a complex and interdependent region.

⁴⁵ "Armenia: Annual Report 1999. Country Files," Transitions Online; www.tol.cz accessed on 4/20/04

Armenia's Fletcher-educated top diplomat Vardan Oskanian frequently uses the term "complimentarity" to describe Yerevan's approach to foreign policy⁴⁶. Such a description seems to echo more a difference in perceptions among the capitals in the region rather than an actual policy. Presence of large numbers of Russian forces, including border-guard units (incidentally, Armenia itself has no immediate border with the Russian Federation) and nearly complete dependence of vital infrastructure on Russia⁴⁷; absence of relations with two major neighbors – Azerbaijan and Turkey; relationship with the United States mainly through the ethnic diaspora, and hesitant contacts with Euro-Atlantic structures, all of these can hardly be seen as elements of complimentarity. In fact, if complimentarity would, presumably, imply interests-based pragmatism, in the case of Armenia this seems to refer to explaining an ideology-driven policy.

For Armenia's Caucasian neighbors- Azerbaijan and Georgia- pragmatic policies focused on a careful act of balancing among powerful neighbors, domestic politics and strong external influences. Although Baku, especially in recent years, has been somewhat more successful in this than Tbilisi, where the lack of resources added to desperate moves and sharp turns by the government, this balancing has been very much enabled by Azerbaijan and Georgia acting mostly in concert⁴⁸. While Azerbaijan-Georgia cooperation has not mitigated all of the negative consequences of external interference, it has certainly expanded the room for maneuver for both and allowed for withstanding greater pressures than each could have afforded individually. There is little doubt thus that should Yerevan choose to join the regional cooperative framework promoted by its two neighbors, it too

⁴⁶ "Threat to Armenia as Russia and West vie for position in Caucasus," Irvunk, Yerevan (in Armenian) 10/7/01, as reported by BBC Monitoring Service - United Kingdom;

⁴⁷ Richard Giragosian, "Armenian-Russian Relations: 'Strategic Partnership' or Too Close for Comfort?" www.eurasianet.org July 31, 2002

⁴⁸ Socor,, "A Tale of Two Post-Post-Soviet Countries," *op-cit.*,

could benefit from greater independence. A crucial, although almost a counter-intuitive, question remains whether this is a major priority for Armenian politicians, who have so far seem to have measured their policies predominantly against ethnic and ideological objectives⁴⁹.

Managing Equilibriums

Given the location and the competing influences in the region, a sustainable policy for the Caucasian nations can be only based on an equilibrium incorporating four of the following broad categories: domestic, sub-national interests; national interests of each state; regional interests; and interests of relevant external players. Of course, these categories are outlined only roughly and include a wide spectrum of sub-divisions specific to every case. Still, ignoring any of the four may undermine a state on one of the levels opening possibility for a long-time vulnerability.

The three South Caucasian states are far from achieving a long-term sustainable equilibrium on all four levels. Yet Azerbaijan and Georgia appear to have incorporated a range of competing influences more fully than Armenia. In this, perhaps paradoxically, the multiethnic nature of the two may have been a positive contributor. If in virtually homogeneous Armenia ethnicity and statehood practically coincide and national interest reflects Armenian ethnic interests, in Azerbaijan and Georgia interests of the predominant ethnic groups constitute a significant, yet by far not the only factor of overall national interests. As described earlier, overplaying ethnic politics was already recognized as detrimental to the wider national interests in Azerbaijan and Georgia.

⁴⁹ "Pro Armenia' International Conference in Paris Discusses Future of Armenian Cause," The Armenian Weekly Online; March 2003; <http://www.hairenik.com/armenianweekly> accessed on 4/15/04

The need to formulate national interests as inclusive as possible of the entirety of a country's population helps to prevent state policies falling hostage to pressures from one single group. In effect, this constitutes the dilemma between ethnic and civic national identities⁵⁰. It seems that the latter is a more preferable option for sustainable statehood in the Caucasus. Apparently, in Azerbaijan, partly for historic reasons, partly because of successfully countering potential separatist threats other than the one in Nagorno-Karabakh, and because Baku possessed sufficient resources to meet some needs of the population throughout the country, Aliyev has been more successful in promoting civic identity than his Georgian counterpart⁵¹. Simply having centralized, more efficient state structure with resources being distributed through institutional channels may have been a key factor producing the difference.

Nor are ethnic groups the only source of domestic pressures on Baku and Tbilisi. Regional groupings, various political and economic interests, and deep divisions between broadly defined opposition and pro-governmental forces continue to be a part of mosaic in Azerbaijan and Georgia⁵². Balancing and manipulating these pressures sustained Heydar Aliyev's strong hold on power and allowed for a planned succession of power. After years of balancing, Georgia's Eduard Shevardnadze depleted his reservoir of political support and was forced from power by his former political allies. Arguably, among other things, Shevardnadze's fall had been precipitated by his failure to address continuously and

⁵⁰ See Cornell, "*Small Nations and Great Powers*", op-cit

⁵¹ John L. Allen, Jr., "*In Azerbaijan, pope issues cry for peace; John Paul visits tiny Catholic community in religiously tolerant country*," National Catholic Reporter; May 31, 2002; www.natcath.com accessed on 2/3/2003

⁵² See Thomas Goltz, "*Azerbaijan Diary*," op-cit.,

carefully all four categories discussed above. Should this assumption be correct, it would be a lesson Georgia's new government might want to consider.

Maintaining the fragile equilibrium of domestic politics is not easy. None of the three countries enjoyed a fully democratic, orderly political discourse. Still, if in Armenia, it was the assassination of leading contenders to power that left no alternative to President Robert Kocharian, and in Georgia, President Eduard Shevardnadze's left his office before the end of his term and in disgrace, Azerbaijan's Heydar Aliyev, in spite of failing health, managed to serve his two terms and secured the desired succession of power without major excesses⁵³. This was partly due to his heavy-handed politics, but mainly a result of formidable political skill incomparable to that of any other Azerbaijani, and possibly regional, politician. Political systems in the Caucasus may aspire to adhere to democratic standards and the European norms propagated by Council of Europe, but for now they are dominated by politics of balancing rather than of established democratic processes. Turning his own personality into a major balancing factor in Azerbaijan's political discourse, Heydar Aliyev was able to manipulate the equilibrium and to consolidate power acting as an ultimate pragmatist⁵⁴.

One illustration of Aliyev's skill was the positioning himself in the Azerbaijani politics, after an earlier fall from grace, so that by mid-1993, his return, an anathema for some only a year ago, became almost a natural choice. Moreover, this became a preferred choice not only in terms of domestic politics, but also regionally⁵⁵. A year before his return to power,

⁵³ Fariz Ismailzade, "Azeri Politics: a New Reality After Elections?" Central Asia Caucasus Analyst, Johns Hopkins University; www.cacianalyst.org accessed on 3/15/04

⁵⁴ Thomas Goltz, "My Friend, the (Mostly) Benevolent Dictator," The Wall Street Journal; October 15, 2003

⁵⁵ See Thomas Goltz, "Azerbaijan Diary," op-cit.,

in summer of 1992 Heydar Aliyev helped the nationalist leader Abulfaz Elchibey come to power and thus opted for a situation, which could roughly be described as similar to the “Nash Equilibrium” in game theory.

In 1992, as nationalist opposition led by the Popular Front and Moscow-backed supporters of Azerbaijan’s last Communist leader Ayaz Mutalibov were struggling for power, Aliyev realized that, in spite of his vast network of supporters, an attempt to assume power would be met with considerable opposition, from both Elchibey’s and Mutalibov’s supporters as well as from external players such as Turkey, Russia and the U.S. Instead, he implicitly supported Elchibey, who, though not the best choice for Aliyev, was still preferable to Mutalibov. Moscow, too, having realized the impossibility of keeping the inept Mutalibov in power, seemed to have preferred Elchibey to Aliyev, with whom Yeltsin had rather difficult personal relationship⁵⁶. An ability to realistically assess the situation prevented the unnecessary confrontation; and, in one year, when Mutalibov’s political base was seriously diminished and Elchibey’s radicalism predictably caused a major political crisis, Heydar Aliyev suddenly became the acceptable or the least unacceptable option not only for his supporters, but, because the equilibrium had changed, also to many political rivals. It is, perhaps, symbolic that Elchibey himself invited him to the capital to prevent a takeover by the Moscow-backed rebellious colonel Suret Huseinov⁵⁷.

Whether familiar with the notion of the “Nash Equilibrium” or not, Aliyev masterfully utilized the principle by moving to a strategic position in the matrix of political forces and choices. For all the political skill, however, the obvious drawback of a heavily personalized politics is

⁵⁶ Gayaz Alimov, “*Geidar Aliyev Vernulsya*” (*Heydar Aliyev Has Returned*), in Russian; Izvestia, Moscow, 1/24/02 www.izvestia.ru accessed on 4/12/04

⁵⁷ See Thomas Goltz, “*Azerbaijan Diary*,” op-cit.,

that without the safety net of a developed efficient process and a certain degree of oversight, much depends on the personality of the key decision maker, a recurring uncertainty in Eurasia.⁵⁸ Therefore, establishing a sustainable system capable of maintaining the necessary balance and less dependent on individuals remains a crucial challenge in the Caucasus, where personalities have traditionally been dominant in politics.

Another important, and most relevant for this paper, distinction between Azerbaijan and Georgia on one hand and Armenia on the other is that while the regional, Caucasian, dimension is visibly present in Baku's and Tbilisi's policy-making process, it is virtually absent in Yerevan. In fact, regional dimension is clearly incorporated, for instance, in Azerbaijan's declared national interests⁵⁹. Naturally, the attention paid to the regional factor reflects a vision for a nation's role in the region as well as a vision for the region's future. The importance of regional dimension in the Azerbaijani and Georgian political thinking is most notably symbolized by their cooperation on projects related to Caspian energy resources that has allowed achieving a set of complex goals, from strengthening independence of both Azerbaijan and Georgia to laying groundwork for the East-West transportation corridor in Eurasia.

The extend of cooperation between Azerbaijan and Georgia in strategic areas, such as security and energy infrastructure, by far exceeds civic exchanges, mostly because of the limited resources in the hands of large numbers of private citizens coupled with a catastrophic economic collapse in early 1990s. The intensification of grassroots

⁵⁸Igor Torbakov, "*Aliyev's Illness Underscores Leadership Conundrum in Azerbaijan*," The Eurasia Insight, May 1, 2003, www.eurasianet.org

⁵⁹ Objectives of Azerbaijan's foreign and national security policies are repeatedly states in various official statements. Some of the statements are available at the President's official website www.president.az and at the website of the Embassy of Azerbaijan in Washington, DC www.azembassy.com. Another source is the state news agency AzerTaj www.azertag.com

cooperation is fundamental for cementing the regional partnership, which so far has been promoted from the top. If the European Community's integration "spilled over" from the coal and steel union⁶⁰ into such areas as defense and security, Azerbaijan and Georgia are working hard on both energy and security integration, while not paying sufficient attention to ensuring adequate linkages on societal issues. Some, "spillover" from energy and security cooperation is evident⁶¹, but it is yet to become a major regional integrative factor.

In a contrary example, in spite of the divergent political visions between Baku and Moscow, Azerbaijan and Russia maintain societal connections through economic exchanges by individual citizens, mainly Azerbaijanis working in Russian Federation. These economic links, perhaps in a more classic "spillover" fashion, served as a stabilizing factor in the Azerbaijani-Russian relations. Far from radical vision of his predecessor, Heydar Aliyev took this factor into account as an element necessary to maintain regional equilibrium⁶².

There seems to be an interesting contrast, between major external actors in the Caucasus, Russia on one hand and the U.S.A. and Turkey, on the other. Russia's erratic and post-imperial policies could hardly win hearts of the Azerbaijanis and the Georgians, and its economic weakness made major investments in the region unlikely. At the same time, a common language, which is maintained through numerous sources of electronic and print media, proximity and accessibility of the Russian market for Caucasians, educational ties, and resilience of cultural and individual relations provided for strong societal linkages. The U.S., the Europeans and Turkey have not yet managed to match a great degree of political

⁶⁰ Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces*, 1950-1957, Stanford: Stanford University Press, 1958

⁶¹ See "Azerbaijan Human Development Report 2003," UNDP – Azerbaijan; <http://www.un-az.org/undp/nhdr2003/34.html> accessed on 4/12/04

⁶² Gayaz Alimov, *op-cit.*,

goodwill and welcome in the region, unquestionable popular attraction of the West and cultural closeness of Turkey, as well as the growing security cooperation and major economic projects with an adequate social or cultural presence in the Caucasus⁶³.

In addition to the objective difficulty of competing with Moscow's advantage of residual influence of once single Soviet social, economic and political space, Washington, European capitals and, to a lesser degree, Ankara, apparently do not fully appreciate the need for more extensive anchoring of their current strategic advances in the Caucasus. For instance, Turkey, continuously pre-occupied with its desire to join EU, is often distracted from the region and seems confused about its own role there⁶⁴. The U.S. initially relegated most of Eurasia secondary by adopting Strobe Talbott's "Russia First" policy⁶⁵, and then, under pressure of the Armenian-American lobby, enacted the counter-productive Section 907 of the Freedom Support Act, which contradicted its own interests⁶⁶. Section 907 both prevented a greater U.S. presence and assistance with reforms in Azerbaijan and contributed to misleading estimates rather than to pragmatic thinking in Armenia. Thus, the nations in the region face not only influences coming from different directions, but also coming in different forms and rarely taking form of a comprehensive policy inclusive of the entire spectrum of relations.

In hindsight, one can see some areas, where opportunities were missed on the societal level to consolidate the presence of the United States. Examples include the belated

⁶³ Elin Suleymanov, "Short-term vs. Long-term Interests," Perspective, Volume XIII, Number 2 (Nov – Dec.2002), ISICIP, Boston University; <http://www.bu.edu/iscip/vol13/Suleymanov.html> accessed on 4/12/04

⁶⁴ Taleh Ziyadov and Elin Suleymanov, "Turkey and the Caucasus On the Edge of EU and NATO Enlargement," Turkish Policy Quarterly Vol.2, Num.4, Istanbul; Winter 2004,

⁶⁵ Michael Dobbs and Paul Blustein, "Lost Illusions About Russia. U.S. Backers of Ill-Fated Reforms Now Portrayed as Naive," The Washington Post; Sept 12, 1999

⁶⁶ John Maresca, "U.S. Ban on Aid to Azerbaijan (Section 907). How It Started in 1992 and Why It Should be Lifted," Azerbaijan International; Winter 1998

arrival, in 2003, of the Peace Corp to Azerbaijan⁶⁷ and failure to capitalize on the openness of the judicial system for significant changes following the collapse of pre-existing Soviet legal institutions. To elaborate on the latter point, speaking at a meeting in Washington, DC, former Chairman of Azerbaijan's Constitutional Court Khanlar Hajiyev responded to a question why was Azerbaijan following a European legal model by saying that this was because the Europeans were the main providers of assistance in judicial reform, while the U.S. was not actively engaged in the process because of congressional restrictions⁶⁸. He obviously downplayed the predominantly civil law tradition in the region in his response. Yet, Hajiyev's words indicate certain openness to new influences, in this case to the potential influence of the common law tradition. It should be only regretted that the U.S. failed to seize the window of opportunity in early 90.

⁶⁷ "Peace Corps Opens New Program in Azerbaijan," Press Release, Peace Corps; Oct.1, 2003; www.peacecorps.org accessed on 4/12/04

⁶⁸ Judge Hajiyev's visit to Washington, D.C. 1998

Perceptions of Regional Security

The regional security situation in the South Caucasus is best described as “security deficit,” a term used by authors of the recent report published by the Central Asia-Caucasus Institute at Johns Hopkins University⁶⁹. In the environment rife with challenges, the need for consistent, reliable security is evident⁷⁰. However, it seems that, although the presence of partners in providing security, mostly NATO and its regional arm Turkey, is growing, it is yet to become sufficient to counter-balance the threats and to decrease the “deficit.”

The EU hype, so pronounced in Central and Eastern Europe may ring hollow in the Caucasus. Vladimir Socor quite accurately described EU’s policy towards the South Caucasus as a “benign neglect.”⁷¹ Although the EU has been a major donor of technical assistance and humanitarian aid to the South Caucasus region, it is has not become politically relevant in the lives of the people there. So far, France, the EU co-chair the OSCE Minsk Group mediation between Armenia and Azerbaijan, has been the least active, lagging far behind the US and Russia. Also, the promising TRACECA-Silk Road project has been receiving less than adequate attention from Brussels.

For Turkey, the Caucasus is generally considered to be an area of high priority and Ankara views the region as “a natural link to the Central Asian countries”, with whose people it has historical, social and cultural ties.⁷² In reality, however, Turkish influence is limited to

⁶⁹ Svante E. Cornell, Roger N. McDermott, William D. O’Malley, Vladimir Socor, S. Frederick Starr, *Building Stability in the South Caucasus: The Role of NATO and Multilateral Security Organizations*, Central Asia-Caucasus Institute, The Johns Hopkins University; Apr.21, 2004

⁷⁰ *ibid.*,

⁷¹ Socor, “*A Tale of the Two Post-Soviet Countries*,” *op-cit.*,

⁷² “*Turkey’s Relations With The Southern Caucasian States*,” Ministry of Foreign Affairs of the Republic of Turkey website, available online at <http://www.mfa.gov.tr/grupa/ae/caucasian.htm>

several economic enterprises, moderate military cooperation and “Turkish Schools” run by non-governmental organizations. Turkey’s obsession with the EU has left the Turkish foreign policy makers undecided about what its foreign policy in the Caucasus and Central Asia should be. While other two regional powers, Russia and Iran, have constantly sought a greater role in the Caucasus, Turkey’s equivocal approach led to a relative decline of its influence.

Thus even with a dramatic boost to U.S. security cooperation with Azerbaijan and Georgia following the tragedy of September 11, 2001, the situation in the region is still defined by challenges rather than factors promoting security. Some of these challenges are roughly outlined below.

Russia: the Over-bearing Neighbor

Since the days of Peter the Great’s imperial expansion into the Caucasus in 1700s, Russia has played a paramount role in the region. In most simplified terms, the Russian role, both an overwhelming presence and an overwhelming threat has changed surprisingly little since its imperial days⁷³. As a result, the situation in the region reminds of perpetual replay of “the Great Game” with Russia as a constant and tireless player⁷⁴. Deeply rooted expansionist thinking in Kremlin’s decision-making circles allows newly independent states of the former Soviet Union little variance in dealing with Russia. Throughout the 1990’s the choices of policy towards Russia were rather simple: either submit to Moscow’s demands

⁷³ Tadeusz Swietochowski, “*Russia and a Divided Azerbaijan*,” Columbia University Press; October 15, 1995

⁷⁴ Essad Bey, “*Blood And Oil In The Orient*,” op-cit.,

effectively undermining own independent capacity or pursue an independent course at the risk of facing its wrath⁷⁵.

Interestingly, although Azerbaijan's Communist leadership in late 1980's was pursuing pro-Moscow policies, that did not help in preventing massive Russian support to Armenia against Azerbaijan. Moscow's strategic policy thinking was evidently still along the lines of imperial framework, according to which Azerbaijan's and Georgia's, and thus the entire region's, independent development were seen as threats *a priori*. This predetermined not only Russia approach on pressuring Baku and Tbilisi but also a response in both countries, making the decrease of Moscow's influence in the region the first priority for Azerbaijan and Georgia.⁷⁶ Russia's bullying was conducive to convincing the Azerbaijanis and Georgians that an independent course of development corresponds the best to the pursuit of the national interest. Debatably, the antagonism of the early 1990s was not inevitable, but reflected both inability of Kremlin's policy-makers to adjust to new global realities and to overcome the complex of "imperial hangover" and the knee-jerk, instinctive nature of Elchibey's and Gamskhurdia's response to Russia's pressures⁷⁷. Neither side seems to have analyzed the consequences of their policies and whether they correspond to own strategic objectives. For instance, if Russia's objective was to hold the South Caucasus within its sphere of influence, its excessive pressures only alienated Baku and Tbilisi. On the other hand, if the sustainability of Azerbaijan's independence was the paramount goal for Elchibey's government, then antagonizing Moscow did not only undermine it, but also led to the increased Russian support to Armenia and the collapse of the nationalist

⁷⁵ See Cornell, "Small Nations and Great Powers", op-cit

⁷⁶ Abulfaz Elchibey, op-cit.,

⁷⁷ See Thomas Goltz, "Azerbaijan Diary," op-cit

government after only one year in power. Similarly, over-antagonizing Russia turned out counter-productive for Gamsakhurdia's Georgia⁷⁸.

Moscow's initial objective of total domination in what Kremlin conveniently calls "the Near Abroad" was not sustainable in view of its own resource limitations, at least in terms of Azerbaijan, and left Baku and Tbilisi very little room for maneuver. Russia maintained its domination over Armenia, but, having been mostly achieved at the expense of the latter's relations with its neighbors rather than through a regional cooperative framework, this form of relationship may turn into a liability for both sides.

More specifically, the Azerbaijani-Russian relations fall in a number of subcategories, including but not limited to: Moscow's role in the Armenia-Azerbaijan conflict, insistence on presence of Russian military bases and border-guards in Azerbaijan while pressuring Baku not to develop security cooperation with Western partners, disagreement over the pipeline routes for export of the Caspian energy resources, and initial reluctance to accept presence on international energy companies, and, related to the last point, the issue of the Caspian Sea delimitation⁷⁹.

Over the last decade Azerbaijan seems to have handled most of its difficult relations with Russia in a balanced manner, most importantly, without undermining fundamental national and regional objectives. In this, Baku seems to have maneuvered better than the Russian-dependent Yerevan or Tbilisi, whose confrontational approach to Moscow has reflected some lack of realism in dealing with powerful neighbor. For Azerbaijan, Russia's

⁷⁸ See Cornell, "*Small Nations and Great Powers*", op-cit

⁷⁹ Elin Suleymanov, "*Azerbaijan in 1997*," *The Challenge of Integration, Annual Survey of Easter Europe and the Former Soviet Union*, East-West Institute, M.E. Sharpe; 1998

involvement in the Armenia –Azerbaijan conflict is the only area, where no meaningful progress has been seen⁸⁰. Perhaps, as discussed earlier, the costs for Russia’s neutrality/support would be too high.

Whereas Baku’s policy was more reflective of President Aliyev’s personal vision than of a systematic policy formulation process, the government’s approach to handling the challenge of relations with Russia has, albeit mostly implicitly, involved careful consideration of risks, uncertainties, as well as costs and alternatives⁸¹. Building on a conditions created as a result of the major achievement of Elchibey’s government – full departure of Russian troops from the Azerbaijani soil – Aliyev main policy objective was to decrease tensions with Moscow while maintaining an independent course and not to alienate Azerbaijani population, majority of which continued to see Russia a hostile power.⁸² In fact, Aliyev’s foreign and regional policies, more than the domestic ones, whether as a result of an ad hoc understanding or careful analytical consideration, in most cases tended to correspond to the views of the majority of Azerbaijanis, thus contributing to domestic consensus and long-term consistency.

Azerbaijan under Aliyev joined the Commonwealth of Independent States (CIS), a move long-demanded by Moscow and staunchly refused by Elchibey. Aliyev also sharply reduced anti-Russian and pro-Turkish rhetoric characteristic of the predecessor government; made a point of emphasizing “the new relations with Russia” and invited Russian companies to take an active part in development of the energy resources in the

⁸⁰See: Emin Alisayidov, “*The Wider Context of “Peacemaking” in the Caucasus,*” Central Asia- Caucasus Analyst, the Johns Hopkins University, August 1, 2001 and Emil Danielyan “*No War, No Peace in Nagorno-Karabakh,*” Transitions, Prague, August 1997

⁸¹ Lally Weymouth, “*Azerbaijan- Who Will Stop the Russians?*” The Washington Post, October 11, 1994

⁸² For an analysis of Russia’s withdrawal, see: Laura LeCornu, “*A Small State’s Struggle for Independence in the Post-Soviet Period: Azerbaijan-Russian Relations, 1991-99,*” PhD dissertation, Oxford University (UK), 2001

Azerbaijani sector of the Caspian. Although often accused of succumbing to Moscow's pressure, Aliyev acted to accommodate some Russian pressures, thus allowing for some breathing space. Eduard Shevardnadze employed a similar approach within the Georgian context. A possible alternative of continuing policies of Elchibey and Gamsakhurdia by making no concessions to Russia at all had already destabilized the region. Accepting all of Russia's demands would not, on the other hand, be conducive to the region's development and may not be sustainable in light of likely domestic discontent.

Therefore, Baku's approach towards Moscow has been based on recognition of Russia's significant, dominant presence in the Caucasus and making only those concessions, which would pose a relatively acceptable level of risk for national interests and decrease the intensity of Azerbaijan-Russia tension. For instance, it was acceptable and, perhaps inevitable, to join the CIS, a predictably inefficient post-Soviet talk shop⁸³. Allowing Russian bases back or agreeing to joint controls of Azerbaijan's borders was not. Basic analysis of this policy also shows that joining the CIS had an additional value of helping to somewhat ease Russia's pressures. Additionally, inviting Russian companies to join major oil deals in the Caspian gave at least some in Russia a stake in the projects fundamental for Azerbaijan's development and laid basis for future dialogue on delimitating the sea.

Georgia's challenge has been and remains somewhat different both because of a chronic weakness of the state and the actual presence of Russian military bases throughout the country⁸⁴. Moscow recognized Georgia as the bottleneck for the Caucasus and Central Asia and identified it as the weakest of crucial links on the Eurasian corridor. This led to

⁸³ "Baku Sees 'Beginning Of The End' Of CIS," RFERL, May 1, 2000

⁸⁴ "Bush Urges Russia To Withdraw Bases From Georgia," RFERL, 25 February 2004;

<http://www.rferl.org/featuresarticle/2004/02/8b2ff5c4-3dff-45e1-a217-f775b7bc29c8.html> accessed on 4/12/04

more directed pressures from Russia and, in response, greater support from the West, thus significantly increasing the importance of external dimensions of Tbilisi's policy equilibrium and, simultaneously, making such an equilibrium less stable.

Generally, addressing immediate Russian pressures was necessary but not enough to improve the situation in the region. Steps to ensure Western and wider international presence in the Caspian region, developing ties with Euro-Atlantic structures, specifically through Turkey, building strong partnership with other post-Soviet republics with pro-independence, pro-Western orientation were among the elements of policy aimed at multiplying factors facilitating sustainability of regional security⁸⁵.

Azerbaijan, obviously unable to match Russia militarily, has conducted a policy of avoiding any pretexts for open confrontation and, at the same time, keeping distance away from the CIS defense structures. Not surprisingly, Baku and Tbilisi have been refusing to participate in the Russia-led Collective Security Treaty, and in 1996, along with Ukraine and Moldova were among the last, literally hours before the deadline, to sign the revised Conventional Forces in Europe Treaty, which allowed Moscow greater flank quotas. For Azerbaijan and Georgia signing on to the revised flank quotas meant increased uncertainty endangering the key objectives of national and regional policies⁸⁶. Therefore, in Aliyev's case, the agreement came only after the U.S. Vice-President Al Gore gave certain guarantees, including implicit security ones⁸⁷. These guarantees helped to offset the uncertainty and decreased the threat posed by Russia's military buildup in the region. Reliance on tactical

⁸⁵ "Azerbaijan Seeks Western Protection, Offers Bases," The Jamestown Foundation, January 26, 1999

⁸⁶ "Foreign Policy: Talking Points on the Position of Azerbaijan," Embassy of Azerbaijan in Washington, DC, www.azembassy.com

⁸⁷ "US pushes Azerbaijan to ratify the CFE treaty," NIS Observed, *Volume II Number 10 (June 4, 1997)* ISICIP, Boston University; <http://www.bu.edu/iscip/digest/vol2/ed10.html> accessed on 4/12/04

and strategic alliances, predominantly with the U.S., Turkey and other Euro-Atlantic partners has been, and is likely to remain, Azerbaijan's and, in a more pronounced form, Georgia's main method of balancing the threats emanating from Russia's overbearing military presence in the Caucasus⁸⁸.

One important factor in Baku's relations with Moscow has been relatively early recognition of an exaggerated nature of some of the threats coming from Russia. Significantly more powerful than any other state in the region, Russia remains fundamentally a weak player for it still has little to offer other than destructive power of its unreformed military. Moscow's disastrous campaign in Chechnya only validated concerns with the lack of internal constraints on aggressive conduct of its erratic military and illustrated Russia's inability to manage neither an efficient military operation, nor its aftermath.⁸⁹ In 1990s, it took some foresight and long-term strategic vision to realize that, whatever the short-term benefits of alliance with Moscow might have been, the advantages of ensuring stability in the region, pioneering partnership with Western energy companies and offsetting Russia's presence in the Caucasus would be greater. In fact, today it is certain that the latter policy approach has been the only one consistent with the goal of sustainable independence for the Caucasian nations.

The joint efforts of a group of the post-Soviet states during the 1996 CFE negotiations laid a foundation for developing of an open alliance in order to resist Moscow's pressures in addition to working with Western partners. This intensification, which resulted in the creation of the GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) group,

⁸⁸ Fariz Ismailizade, "Azerbaijani President Reaffirms Intention to Join NATO," *Central Asia- Caucasus Analyst*, April 23, 2003

⁸⁹ See Gall and De Waal, *op-cit.*,

reflected the perception that the risks of openly annoying Moscow had decreased and that the objective of strengthening independent statehood required a more pro-active policy at that point⁹⁰.

Admittedly, Russia's debacle in Chechnya, while a frightening reminder of Kremlin's readiness to use force without considering consequences, achieved an opposite from the assumed intended result by discrediting Moscow, moving the center of its attention away from other targets and, in so doing, unwillingly, relieving direct pressure on Azerbaijan and Georgia, among others, at a strategically important period. Both used the opportunity to strengthen their partnership and integration into Euro-Atlantic institutions⁹¹. Baku also moved full speed on attracting more investment and partners into the Caspian energy projects. Undoubtedly, Moscow's preoccupation with Chechnya and an apparent inability to conduct a coherent policy in the region further diminished Russia's attractiveness as a partner and were included as factors in the policy formulation.

Personality factor played a role as well. Ironically, Aliyev's better personal interaction with President Vladimir Putin came against the background of Putin's disdain for the former Georgian leader Eduard Shevardnadze⁹², with whom Yeltsin was rather warm. Such personal relations certainly impact on policies but shouldn't be exaggerated. More important has been Aliyev's flexibility in adapting to changing circumstances, as well as his

⁹⁰ For more on GUUAM see the official website: www.guam.org

⁹¹ Vladimir Socor, "Russia's Near Abroad to Become NATO's and EU's Immediate Neighborhood," The Jamestown Foundation Monitor, May 9, 2002

⁹² Stephen Blank, "The Prospects of Russian-American Partnership: The Georgian Litmus Test," Central Asia-Caucasus Analyst, January 30, 2002

and Shevardnadze's utilization of certain standing of their personalities in Russia and familiarity with Kremlin's policy process⁹³.

Among the thorniest and regionally very significant issues for Azerbaijan in relations with Russia have been disagreements on the legal status and delimitation of the hydrocarbon-rich Caspian Sea. Azerbaijan since the first days of its independence pursued a policy of aggressively developing energy resources of its national sector of the Caspian. With Russia and Iran, Azerbaijan's much stronger neighbors, staunchly opposed to that, Baku was taking a serious risk. Yet, not taking such a risk was, paradoxically, much riskier as it would preclude establishment of a basis for sustainability of the nation's independence and regional development. Having secured international energy companies' – and by extension their governments' – commitment to large-scale projects in Azerbaijan, Baku made any possible aggressive action much costlier for Moscow.

Baku recognized the asymmetry of interests. For Russia, the Caspian area was one of important foreign policy directions, while for Azerbaijan the cost of delaying its Caspian projects would have been a problem of existential proportions. Moreover, it soon became clear to Moscow that Russia's uncompromising posturing on the Caspian was not sustainable and contrary to its own interests⁹⁴. Eventually, Russia dropped its initial resistance to division of the Caspian into national sectors and moved to conclude bilateral delimitation deals with Azerbaijan and Kazakhstan. The formula agreed does not fully correspond to Azerbaijan's interests as it divides the sea bottom but allows for common

⁹³ Miriam Lansky, "*The Merits of Creative Ambiguity*," *The NIS Observed: An Analytical Review*, ISCIIP, Boston University, January 17, 2001

⁹⁴ Robert M. Cutler, "*Russia Reactivates Its Caspian Policy With New Demarcation Approach*," *Central Asia-Caucasus Analyst*, June 21, 2000

use of water surface, clearly a concession to Moscow's desire to freely deploy its naval forces throughout the Caspian⁹⁵. Baku hailed the agreement as a success, in spite of the dangerous caveat, as it represented Kremlin's recognition of national sectors, including ownership of the hydrocarbon resources, and brought a general agreement on the Caspian closer. For Azerbaijan, progress on the Caspian division was worth the uncertainty implied in the provision on common use of the water surface. One additional factor increasing the urgency of an agreement had been Iran's aggressive behavior in the Caspian.

Since Vladimir Putin's rise to power, however, Azerbaijan and Georgia have been facing new challenges in dealing with Moscow. In early 2001 Putin paid first ever visit for any Russian leader to Baku giving a strong boost for improvement of the bilateral relations. Nonetheless, in spite of the talk on the "new era" in bilateral relations, President Putin's much more consistent, in comparison to his predecessor, approach based on reasserting Russian predominance in Eurasia, methodically brutal second campaign in Chechnya, including his readiness to discard previous agreements, as well as other elements of Kremlin's policy inevitably impact on analysis of risks and threats in the Caucasus. Putin seems to have realized, at least initially, that Russia is no longer a world superpower capable to compete with the United States globally and, as a result, re-focused his attention on systematic, determined and more sophisticated attempts to restore Moscow's control over the post-Soviet space, and on confronting U.S. interests indirectly rather than risking a direct collision course⁹⁶.

⁹⁵ Vladimir Socor, "Gunships in the Caspian, Herding Oil North?" The Wall Street Journal Europe, Aug.2, 2002

⁹⁶ Hooman Peimani, "American Military Presence In Central Asia Antagonizes Russia," Central Asia – Caucasus Analyst, October 23, 2002

Azerbaijan has done its share to accommodate Russia, most visibly by turning much less sympathetic to the Chechens, among other things, sentencing Azerbaijani citizens, who volunteered to join the Chechen resistance, and by finally agreeing on Russia leasing the Gabala Radar station⁹⁷, a major Soviet-time facility, thus effectively allowing, however watered-down and insignificant, Russian military presence on the Azerbaijani soil. This follows the understanding that concessions on the radar station with rather symbolic importance for Azerbaijan would allow for a greater maneuverability in other areas of the bilateral relations and can be offset by rapid intensification of security cooperation with the United States⁹⁸. Azerbaijan, clearly, has so far been more successful in handling new robust Russian policy than its like-minded neighbor Georgia, a favorite object of Kremlin's unrestrained harassment⁹⁹. At the same time, whether Baku, which, admittedly, had very little choice, considered all the uncertainties, potential risks and strategic threats of accommodating Russia is yet to be seen and, in turn, depends on a number of additional factors.

On a related note, Russia too, at least geographically, is partially a Caucasian nation. It is hard to imagine, however, that Moscow would be able to build on its presence in the region should it continue pressuring Azerbaijan and Georgia and conducting the genocidal campaign in Chechnya. While Chechnya has undergone political processes roughly of the same nature as the rest of the Caucasus, Russia continuously acts as an imperial power. Becoming a positive contributor to the regional dynamic in the Caucasus would require reconsidering the paradigm of post-imperial thinking still prevalent in Moscow. Only then

⁹⁷ Sinan Ogan, "Gabala Radar Station: Somebody is Watching Us," Turkish Daily News, Ankara, 13 March, 2002

⁹⁸ Jean-Christophe Peuch, "Radar Deal: Win-Win Situation Or Fool's Bargain," RFERL, 29 January 2002

⁹⁹ See Kenneth Yalowitz and Svante E. Cornell, *op-cit.*,

can Russia effectively integrate the North Caucasus and become a Caucasian regional partner it claims to be.

Armenia- Azerbaijan Conflict: the Caucasian Sword of Damocles

Since 1988, the conflict between Armenia and Azerbaijan over the mountainous region of Nagorno-Karabakh in Azerbaijan has been the most significant threat to peace and stability in the South Caucasus. The conflict preceded the independence of both nations, to a great extent shaping the thinking in Armenia and Azerbaijan and setting the agenda for the newly independent states.¹⁰⁰

The military phase of the confrontation ended in May of 1994 with the signing of a cease-fire agreement, following the occupation of just under 20% of Azerbaijan's territory and displacement of civilians on an unprecedented scale by the Armenian occupation forces, which brought the total numbers of refugees and IDP's to over 850 thousand in the 7 million-strong Azerbaijan¹⁰¹. The cease-fire indicated Armenia's exhaustion and the realization by the government in Baku that Azerbaijan's yet-to-be organized armed forces were not capable of successfully conducting a prolonged warfare against Armenia heavily backed by Russia.¹⁰² Though the Organization for Security and Cooperation in Europe's (OSCE) Minsk Group initiated international mediation between of the Armenia-Azerbaijan conflict already in 1992, it was by signing of the 1994 cease-fire that Baku reiterated its choice of non-military approach to deal with the conflict.¹⁰³

¹⁰⁰ Altstadt, *op-cit.*,

¹⁰¹ For a map of Azerbaijan and the occupied territories see Appendix 1

¹⁰² Thomas de Waal, "*Black Garden: Armenia and Azerbaijan Through Peace and War*," NYU Press; May 2003

¹⁰³ *Minsk Process. Mission Survey*. OSCE Publications, www.osce.org

Domestically, the Azerbaijani government is often criticized for not pursuing military option to end Armenia's aggression. The proponents of the dealing with Armenia militarily stress that, in light of Armenia's clear violation of basic principles of international law and the four UN Security Council resolutions calling for withdrawal of the occupation forces, Azerbaijan is fully justified under international legal norms to restore its sovereignty over the internationally recognized territory of the Republic of Azerbaijan¹⁰⁴. Moreover, preceding the cease-fire agreement in May of 1994, Azerbaijani forces had, actually, made some gains in liberating parts of the occupied territories¹⁰⁵. Additionally, it was unlikely that Armenia, with its forces stretched over the wide unsupported perimeter, would have been able to sustain continuation of a military campaign for much longer.

Another option mulled frequently was Russia's implicit offer to take a more neutral position in the conflict, thus dramatically changing the balance of power between Azerbaijan and Armenia in Baku's favor, or even assist Azerbaijan militarily. In exchange, it is widely assumed, Azerbaijan, which was then the first and the only former Soviet republic successful in ridding itself from the presence of Russia's military, would allow the Russian bases back and halt its cooperation with the Western partners in developing the Caspian energy resources¹⁰⁶.

Although restoring the territorial integrity and political sovereignty over the country's entire territory remains the key challenge to Azerbaijan, which legally, strategically and politically justifies a military action, continuation of military campaign in 1994 or conceding to

¹⁰⁴ Text of the UNSC Resolutions is available at <http://www.state.gov/p/eur/rls/or/13508.htm>

¹⁰⁵ See Thomas Goltz, "Azerbaijan Diary," *op-cit.*,

¹⁰⁶ See Cornell, "Small Nations and Great Powers", *op-cit.*

Russia's demands in exchange for its dubious military support would be contrary to the policy of strengthening independence and contributing to development of the region pursued by Baku. Under the conditions of 1994, both domestically and in the region, pursuing either of the two options alternative to negotiations would have undermined Azerbaijan's independent statehood to the point of being unsustainable and further destabilized the Caucasus.

A simple cost-benefit analysis shows that the risks of a military campaign, even if the Azerbaijani forces would have gotten an advantage, and the socio-economic on the region were too high. Similarly, allowing Russian forces back and *de facto* conceding own independence would have dramatically change the regional balance and make the entire Caucasus once again over-dependent on Moscow. Furthermore, international mediation, though an uncertainty, looked more promising than it turned out to be, thus making the option chosen even more attractive.

The non-military option, fundamentally, has helped to maintain the status quo while allowing the rest of the region, outside Armenia and the occupied areas of Azerbaijan, to pursue opportunities for development. With the territories still occupied, IDPs still in camps and the country still handicapped by the war, it is hard to assess the effectiveness of the policy of reliance on peaceful negotiations¹⁰⁷. The example of neighboring Armenia, however, may help in making the assessment. Having initially chosen a military option with reliance on Russia, Armenia today is increasingly dependent on Moscow and its military, unable to participate in regional developments and, arguably, is not a sustainable

¹⁰⁷ Tigran Martirosyan, "Nagorno-Karabakh: Toward Settlement or Stalemate?" Russia and Eurasia Review, The Jamestown Foundation, January 7, 2003

independent state¹⁰⁸. Azerbaijan's policy, while hardly fully effective, has so far been consistent with the objective of strengthening independent statehood and contributing to regional development. Interestingly, although most official pronouncements list the restoration of territorial integrity as number one priority of the state, the analysis of this policy reaffirms the assumption that the sustainability of independent statehood and regional stability are the cornerstone of the Azerbaijani national objectives.

Over the last decade the situation has changed, however. The OSCE –led peace talks produced no results, Azerbaijan has established itself as a relatively stable state with increasingly organized armed forces; the need to address the situation of the displaced communities and other consequences of Armenia's occupation is extremely urgent; and, rather importantly, frustrated population is pressuring the government to act. The "frozen" state of the conflict, similar to that in neighboring Georgia, poses a serious threat to the region even without an open confrontation. In fact, it is hard to maintain equilibrium of interests in Azerbaijan further without somehow addressing the fact of the Armenian occupation¹⁰⁹. The Azerbaijani government is facing a challenge of changing conditions, which may soon make continuous outright rejection of a military option politically unsustainable¹¹⁰. Azerbaijan's population has consistently ranked the ongoing occupation as the #1 problem; the nine years of the cease-fire have not reduced the urgency of the conflict for the Azerbaijani public, but, on the contrary, decreased hopes for a peaceful outcome¹¹¹.

¹⁰⁸ Richard Giragosian, *op-cit.*, and Janin Friend, "Forgotten Land," The Dallas Morning News, November 26, 2000

¹⁰⁹ "Azerbaijani President again slams OSCE Minsk Group," RFERL, April 16, 2003 and "Azeri paper slams OSCE mediators' statement on visit to region," www.eurasianet.org November 12, 2001

¹¹⁰ Fariz Ismailzade, "The OSCE Minsk Group and the Failure of Negotiations in the Nagorno-Karabakh Conflict," Caspian Brief #23, April 2002, Cornell Caspian www.cornellcaspian.com

¹¹¹ Christian Lowe, "Azerbaijan losing hope of Karabakh peace settlement: president," Agence France-Presse; Sept.28, 2002

The government's preferred option, apparently, is to avoid military confrontation and to emphasize the incentives of regional integration. One illustration came in 2001 when Azerbaijan offered to resume railways links with Armenia in exchange for the withdrawal from the five southernmost occupied regions. These regions lie outside the administrative borders of the Nagorno-Karabakh region and constitute only a part of the 7 regions of Azerbaijan outside Nagorno-Karabakh occupied by Armenia. Such an offer was certainly a very hard sell in Azerbaijan domestically, where the population overwhelmingly demands an unconditional return of all occupied regions, including Nagorno-Karabakh, and showed the government's readiness to take significant political risk¹¹². Apparently, the calculation was that repatriation of at least some of the IDP communities, movement towards normalization in the region and possible economic benefits of the proposed agreement would somewhat mitigate political costs. Another obvious calculation was that President Heydar Aliyev, whether correctly or not, thought that he could manage the political risks of the agreement, almost immediately widely criticized as defeatist in Azerbaijan.

That Armenia would reject a proposal, which was clearly in its interest, as many Armenian officials informally admit¹¹³, was, though not unexpected, but still illogical. Armenia has always described the occupied lands outside the Nagorno-Karabakh region of Azerbaijan as "bargaining chips." Clearly, Armenia did not want to "bargain," and by its rejection of this politically very risky for Azerbaijan proposal further undermined the feasibility of the negotiations. Perhaps, policy choices made in Baku and Yerevan should be seen not only

¹¹² Fariz Ismailzade, "*Latest Efforts to Solve Nagorno-Karabakh Dispute Fail, Killing Talk of Economic Cooperation*," Central Asia- Caucasus Analyst, the Johns Hopkins University, October 9, 2002

¹¹³ This was stated during author's personal exchanges with Armenian colleagues

though their different frameworks of national security thinking, but also through the difference in attitudes and values attached to regional dimension.

One of the assumptions has been that for Armenia a reasonable offer, from which it as an independent state can benefit, would be a sufficiently strong reason to proceed with a compromise. This was the paradigm of negotiations until 1997, when former President Levon Ter-Petrosyan, who indicated his agreement with a step-by-step approach, was ousted following a pressure from conservative nationalists. His successor, President Robert Kocharian, himself formerly the leader of Armenian separatists in NK, has been less open to any compromise. With the urgency of the problem increasing, continuation of dead-end negotiations may no longer be a preference. An implicit danger for Azerbaijan all along has been that there is a strong possibility that whatever territories would remain under Armenia's control after a military campaign may be lost to Azerbaijan altogether. This, however, works a deterrent when negotiations have a possibility of leading to an agreement. Since they don't seem to, a partial liberation with possible loss of the rest of the territories may, at some point, appear better to the Azerbaijani side than no liberation at all and dead-end negotiations.

Iran: the Insecure South

Iran, the largest neighbor of the Caucasus to the south and a one-time colonial ruler of the region, is an important external player. To date, Iran's role in the region has been somewhat limited, though its potential impact has always been in the center of policy-makers' attention. Among the South Caucasian nations, Iran has developed closest relationship with Armenia, ranging from economic to strategic ties. Yet, these relations are, to a great extent, a reactive response to Azerbaijan's independence and its pro-Western

orientation. Relationship between Tehran and Yerevan is significant not in absolute terms, but rather against the background of weaker relations they both have with the rest of the Caucasus. In fact, their reactive nature underscores certain confusion in Tehran's policy towards the region. Because of the presence of numerous Azeri population in Iran, sharing extensive land and maritime borders, latter being disputed by Tehran, it is Azerbaijani-Iranian relations that are bound to have the greatest influence of the regional developments as they affect such areas as security, Caspian delimitation and energy projects, and pipeline politics. Therefore, Iran's role here is viewed through the Azerbaijani-Iranian prism.

Relations with Iran, which some justifiably have called 'schizophrenic', have emerged as, perhaps, the most complicated external policy dimension for Azerbaijan. The first massive show of Azerbaijani nationalism was an event, which now a prominent Russian newspaper "Kommersant" aptly described in its first issue as "tearing down the Berlin Wall on the Araz river."¹¹⁴ This was a reference to December 31, 1989, when hundreds of Azerbaijanis destroyed the border installations between the USSR and Iran to meet with the Azeri inhabitants on the Iranian side, whose numbers are estimated somewhere between 18 to 25 million people¹¹⁵. Obviously, the problem of "Southern Azerbaijan," a term commonly used in Azerbaijan for the Azeri-populated areas in Iran, continued to be a strong mobilizing factor among the public and set off alarms in Tehran¹¹⁶. And there were precedents: not only many of Iran's reformist movements originated in the Azeri-populated areas and were led by ethnic Azeris, but also by 1946 all but independent short-lived

¹¹⁴ *Kommersan Monthly*, Moscow, January 1990

¹¹⁵ For more on the Azerbaijanis in Iran see: Brenda Shaffer, "Borders and Brethren: Iran and the Challenge of Azerbaijani Identity," MIT Press; July 1, 2002

¹¹⁶ Reza Breakstone, "Azeri Separatist Meets Policy Makers in Washington," the National Iranian-American Council Press Release; Apr.10, 2003, <http://www.niacouncil.org/pressreleases/press074.asp> accessed on 4/15/04

statelet of Southern Azerbaijan along with a Kurdish one were promoted, supported and then betrayed by Stalin, abandoning Iran's minority nationalist movements to ruthless destruction by Tehran¹¹⁷.

Iran's excessive concern with independent Azerbaijan's possible irredentist influence on its own minorities has been further strengthened by the pro-American mood in Baku as well as its strong ties with Turkey and Israel. For mullah's in Tehran Azerbaijan seemed to represent a conduit of hostile American and Turkish influence, a dangerous precedent of a secular, pro-western state, whose population consisted predominantly of fellow Shia Muslims¹¹⁸. Apparently this determined Iran's immediate, instinctive responses to emergence of the Azerbaijani state: joining Moscow's efforts to undermine the Republic's independence, implicitly supporting Armenia in the war, attempting to use the issue of the Caspian's legal status to forestall development of international energy projects, and propagating Islamist ideology among the population of Azerbaijan¹¹⁹.

On other hand, the Popular Front openly expressed its support for separatism in Iran. Calls for unification with brethren in the South and a very heavy dose of Turkic romanticism have been and remain an integral part of the Popular Front's ideological platform¹²⁰. Seemingly, just as in Tehran the very existence of independent and secular Azerbaijan was seen as a threat to be eliminated, radical nationalists in Baku saw the disintegration of the

¹¹⁷ Jamil Hasanli, "Soyug Muharibenin Baslandigi Yer: Guney Azerbaycan. 1945-1946" (*The Place Where the Cold War Began: South Azerbaijan. 1945-1946*), in Azerbaijani, Baku, 1999

¹¹⁸ Aygun Samadova, "Problemy Razdelennih Narodov. Socialno-Kulturniy I Filosofskiy Analiz," (*Problems of Divided Nations. Socio-Cultural and Philosophical Analysis*), in Russian, Candidate Dissertation, Baku State University, May 2002

¹¹⁹ Brenda Shaffer, "Partners in Need: The Strategic Relationship of Russia and Iran," Policy papers, Washington Institute For Near East Policy; June 2001

¹²⁰ Hikmet Haji-zade, "Death of A Romantic," Transitions Online, September 4, 2002 www.tol.cz

USSR as a pattern for Iran to follow. Arguably, such emotion- and stereotype-based policies sharply reduced chances for a possible dialogue and laid basis for rather confrontational relations between the neighbors. As was the case in Baku's relations with Russia, Aliyev immediately upon assuming power embarked on pragmatic policy alleviating the damage and attempting to minimize the threat from the South. This was based on a simple realization, which escaped his ideologically – driven predecessors, that Iran is Azerbaijan's major neighbor and a regional power, which was unlikely to disintegrate any time soon.

Tehran has turned out to be even more erratic and uncompromising counterpart than Moscow, however; and a very difficult part of the equilibrium for Baku to balance. In addition, Aliyev had less experience, status and connections with Iran's power structures than he did with Kremlin. On the positive side for Baku, Iran, though a regional power, is much weaker than Russia, has less influence and infiltration in Azerbaijan, and felt somewhat constrained by its own large Azeri population and self-proclaimed championing role in Muslim solidarity. Moreover, while Russia's claims for special status and protection of its national interests in the post-Soviet space, though clearly exaggerated, received some lenience in the West, any interference from Iran's Islamist regime would be seen as crossing the line, not only by Azerbaijan's Western partners, but, ironically, by Moscow as well.

Perhaps considering this, Baku continued to brush aside Tehran's ideological rhetoric, among other things, its calls to ensure that no external power interferes in the Caspian.¹²¹

¹²¹ Anne Nivat, "Oil is Our Destiny," interview with the Azerbaijani Foreign Minister Hasan Hasanov, *Transitions*, Sept. 1997

Under pressure from former US National Security Adviser Anthony Lake, Aliyev also transferred Iran's 5% share in the Caspian's most important oil project – the Azerbaijan International Oil Company – to Exxon, thus clearly stating his preferences and denying Tehran a stake in a major deal. If Robert Baer's account in his book "See No Evil" is accurate, Baku might have played very dangerously overestimating gains of such a move with Washington¹²² and not being sufficiently cognizant of further entrenching Iran's opposition to Caspian energy projects.

The dangerous nature of Baku's unstable relations with its southern neighbor manifested itself in July of 2001, when, Tehran, in an unprecedented move breaking the implicit pattern of confrontation, used the Navy to expel a BP-chartered Azerbaijani vessel from an area in the Azerbaijani sector of the Caspian, Iran claims as its own. The incident was shocking for the region as it seemed outside the usual rules of the game and has induced a number of important policy consequences,¹²³ adding new factors to balancing regional equilibrium.

Most importantly, Tehran over-played its hand by reaffirming its reputation of an erratic player and by opening the door for introducing force in the Caspian by other parties. The incident gave an impetus for Azerbaijan, Kazakhstan and Russia to close ranks in their approach to delimitation. In fact, counterproductively for itself, Tehran undermined the comfortable ambiguity in the Caspian, where it played a role of the second-strongest party among the five, and was now facing a more unified Azerbaijan-Kazakhstan-Russia group¹²⁴. Aliyev once again capitalized on contradictions among stronger players, this time

¹²² Robert Baer, "See No Evil: the True Story of a Ground Soldier in the CIA's War on Terrorism," Three Rivers Press; Jan, 2003

¹²³ Michael Lelyveld, "Caspian: Tempers Flare In Iran-Azerbaijan Border Incident," RFERL, July 25, 2001

¹²⁴ Ariel Cohen, "Iran's Claim Over Caspian Sea Resources Threaten Energy Security," Backgrounder #1582, The Heritage Foundation, September 5, 2002

moving closer, perhaps uncomfortably so, to Russia and becoming much more receptive to Moscow's increased naval presence in the Caspian. Shortly after the incident, in the best traditions of the Great Game, Turkey's top general Huseyn Kivrikoglu visited Baku and joined Aliyev in attending the first ever air show by an elite squadron of the Turkish air force over the Caspian. Thus Baku pursued more than simply a defense objective, indicating that more receptive attitude to Russia's position of the main power in the Caspian, was not the sole remedy in this situation¹²⁵. Continuation of Azerbaijan's balancing act and rejection of the re-surfaced Russian suggestions for joint patrols along the Azerbaijani – Iranian border indicated that, while the tactical need to minimize Iran's military threat was urgent, Baku remained committed to the strategic objective of sustainable, independent regional development and avoiding domination by a single power.

Another consequence of the July 2001 incident was that the Iranian dimension re-emerged as a security threat for Baku with a new urgency and that continuous reliance on Moscow as a counter-balance to Tehran in the Caspian may bring Azerbaijan dangerously close to undermining its fundamental national interests. Not surprisingly, Baku worked to intensify its security cooperation with the United States and NATO, a process accelerated by Washington's forceful response to the tragedy of 9/11. Strategically, for Azerbaijan, in partnership with Georgia, security cooperation with the Euro-Atlantic structures continued to be the main direction for strengthening its independence and resisting pressure from Moscow and growing threat from Iran¹²⁶.

¹²⁵ Vladimir Socor, "*Azerbaijan looks to Turkey and U.S. in wake of Caspian incidents*," The Jamestown Foundation Monitor, 9 August 2001

¹²⁶ Vladimir Socor, "*Caspian Insecurity: Who Benefits?*" The Jamestown Foundation Monitor, July 31, 2001

In dealing with Iran, Aliyev's government took a much softer line regarding the Azeris across the border, but domestically, it would run against his pragmatic approach, to entirely disregard a movement with strong popular support. Though Aliyev has consistently chosen improving relations with Tehran over the domestic populist benefits of espousing the ideological cause of unification, this may become increasingly difficult, not least as a result of the West's growing interest to the issue. Iran, on the other hand, stepping down from open confrontation, continued aggressively promoting Islamism in Azerbaijan, a dangerous show of which was the Shia-themed disturbances over social conditions in one of Baku's most conservative suburbs – Nardaran – in 2002¹²⁷. Whether a policy based on a mutual implicit agreement between Baku and Tehran not to back ethnic separatism in Iran and Islamic radicals in Azerbaijan, respectively, is sustainable and efficient is yet to be seen. Nevertheless, it is clear that this set of bilateral relations is crucial for the region's development and is likely to increase in importance as international attention to Iran is growing.

Social and Economic Fundamentals of Caucasian Nations

The example of Afghanistan shows that the lack of domestic social and political cohesion, spread of radical ideological thinking can be a threat not only in domestic terms, but also regionally and even globally. Externalities are, as discussed earlier, of paramount importance. Yet, developing viable society and civil institutions is at least as fundamental of a challenge for the region's sustainable development and, ultimately, its future. Having achieved some, even if vulnerable, domestic stability, all three Caucasian states are yet to address internal threats to the nation-building process in an efficient manner. The lack of

¹²⁷ "Azeri Islamic party's leaders arrested," Azerbaijan Daily Digest, www.eurasianet.org, June 12, 2002

institutional organization, corruption, weak social cohesion pose a direct threat to the nation's national security by undermining the society's ability to respond to emerging challenges¹²⁸.

Over the last decade, in Azerbaijan, the government has been successful in promoting national cohesion among Azerbaijan's diverse population, both by integrating various social groups into the political structure and conducting policy of non-discrimination causing some to accuse Aliyev of abandoning the interests of the majority Azeris. Having forcefully put down most radical and armed political groups, including the Special Police Force regiment, which turned into an uncontrolled paramilitary group, Baku showed its ability to use force¹²⁹. While certainly not an easy choice, this was inevitable at an early stage of independent development and, measured against almost suicidal indecisiveness of neighboring Georgia's government¹³⁰, appears as a necessary policy. In Armenia, in spite of the government's success in maintaining relative order in the society, the dominant role of the military in the political discourse and higher than elsewhere in the region occurrences of politically-motivated assassinations may pose a long-term problem¹³¹.

The process of building institutions of the new state and its legislative base has intensified with all three nations joining the Council of Europe. Importantly, at least in Baku and Tbilisi, economy has seen a classic multiplication effect from the energy projects. However, unless the governments intensify so far less than successful attempts to develop non-oil

¹²⁸ Teymur Huseyinov, "Towards Crafting a National Security Doctrine in Azerbaijan," Central Asia-Caucasus Analyst, March 26, 2003

¹²⁹ See Svante Cornell, "Small Nations and Great Powers," *op-cit*, for a detailed account

¹³⁰ "Georgia: Fighting Terrorism in Another Failed State," Terrorism Project, Center for Defense Information; March 22, 2002; <http://www.cdi.org/terrorism/georgia-pr.cfm> accessed on 4/15/04

¹³¹ Human Rights Watch, "Militias.." *op-cit.*, and Vladimir Socor, "Whose Terrorists Are These Anyway?" The Wall Street Journal Europe, May 25, 2001

sector outside the capitals, the development gap may become a major threat to the national cohesion in both Azerbaijan and Georgia.

Corruption is a challenge, which requires an aggressive approach. Without such, corruption will continue to undermine socio-political institutions, perhaps most significantly armed forces, law-enforcement, judiciary, education and healthcare. Slow to recognize the national security dimension of the problem, all three governments had until recently under-emphasized the threat.

Azerbaijan, the only Muslim nation among the three, also faces another specific challenge. Its staunchly secular government has so far managed to carefully deal with religious groups in the country, while at same time cracking down on radicals and anyone with suspected links to terrorism. With Islamist groups becoming more active and radicalized globally and the crackdown against them increasingly aggressive, Azerbaijan may face the challenge of the fragile balance between freedom of religion and secular nature of the Republic being threatened¹³². Incorporating Islamic political thinking in Azerbaijan without compromising the nature of the society is a challenge, which, if mishandled, could turn into a major national security threat. Gravity of such a threat might be amplified by social discontent, notably among the numerous displaced communities, and by influence of the Iranian regime.

¹³² Richard Allen Greene, “*Azerbaijan: Country Wrestles With Religious Freedom In Face Of Rising Islamic Influence,*” RFERL, 18 June 2002

The existing perception that the Bush Administration is engaged in a “crusade”¹³³ may also be a contributing factor, which adds to a wider appeal of America’s critics in the region. The Russian media, notably Moscow-based TV channels, continue to be a major source of news and information for Azerbaijan’s population and persistently propagate distinctly Moscovite perceptions on the world events from the tragedy of 9/11 to the “aggression against Iraq.” For a government that strongly backed Washington over Iraq, this influence is not a political asset.

Seemingly, neither the law-enforcement, nor the key decision-makers are well equipped to deal with religious extremism, a natural consequence of the Soviet legacy. The cases of addressing the problem in the wider region are not very encouraging either. In Central Asia, radical religious groups have increasingly evolved into the major threat to the existing states;¹³⁴ In Iran, the theological regime actually rules the nation after overthrowing the inept, repressive monarchy of the pro-Western Shah¹³⁵; and Turkey is still struggling to reconcile its Muslim identity with its European aspirations.¹³⁶ In the North Caucasus, Russian brutal repression contributed to rapid radicalization of large segments among Muslim population there and to spread of extremism throughout the region.

Religion and politics traditionally stayed separate in Azerbaijan. As the population reclaims an important, religious, aspect of the Azerbaijani identity, however, things are bound to

¹³³ Vladimir Kuzmin, "Krestoviy Pohod za Neftyu," (The Crusade for Oil), *Nezavisimaya Gazeta*, Moscow; Sept. 12, 2002; http://www.ng.ru/economics/2002-09-12/3_petroleum.html accessed on 4/14/04

¹³⁴ "Clashes with Islamists mount in Uzbekistan, Kyrgyzstan, Tajikistan," Agence France-Presse; Aug. 11, 2000

¹³⁵ Kevin Sheives, "Islamism as the Fruit of Poor Middle Eastern Governance," J.M. Dawson Institute of Church-State Studies, Baylor University; http://www3.baylor.edu/Church_State/Sheives.htm accessed on 4/11/04

¹³⁶ Roger Hardy, "Turkey's Testing Times," *BBC World*; Nov. 8, 2002; <http://news.bbc.co.uk/2/hi/europe/2424141.stm> accessed on 4/11/04

change, and there have been some signs of this already¹³⁷. And the government has not yet developed the framework for addressing the issue. A response would have to be developed domestically because neither the nations in the region, nor western states, and, certainly, not the Middle Eastern nations, have been overly successful in this. This is especially so, against the background of Turkey, a close ally, generally seen as a secular model for the region, undergoing a transition from exclusively Kemalist governance to the government led by the Islamist-leaning populist Prime Minister Erdogan¹³⁸. Azerbaijan's ability to balance the Islamist current within its political equilibrium will have important consequences in the Caucasus and, possibly, wider¹³⁹.

Finally, the decade-long humanitarian tragedy of Azerbaijan's displaced victims of the war with Armenia poses an enormous, almost an impossible challenge to any government in Baku. Unable to neither force mass integration and resettlement of IDPs, which would be tantamount to accepting the occupation of a significant parts of Azerbaijan and thus a political suicide, nor to repatriate at least some of the displaced as a result of Armenia's intransigence, the Government has been treating the displacement as a temporary problem. Emergence of an entire generation raised as refugees, social and political challenges of continuous displacement and conditions, which serve as fertile ground for radicalism, make this approach both unsustainable and threatening to national security¹⁴⁰.

¹³⁷ Fariz Ismailzade, "Political Motivation Behind Mosque Closure in Azerbaijan," www.eurasianet.org; March 2, 2004; accessed on Apr. 10, 2004 and Damir Ahmad, "Azeri Muslims Call For Hijab Photos," Islam Online, UK; Apr. 30, 2004

¹³⁸ "Turkey's charismatic pro-Islamic leader," BBC World; Nov. 4, 2002; <http://news.bbc.co.uk/2/hi/europe/2270642.stm> accessed on 4/11/04

¹³⁹ Narmina Rustamova, "Azerbaijan May Serve As a Model for the Middle East, Experts Say," Baku Today; May 19, 2003; <http://bakutoday.net/view.php?d=4523> accessed at 04/10/04

¹⁴⁰ Jolyon Naegele, "Azerbaijan: The Refugee Burden Looms Large," *RFERL*, 15 May 1998

Caspian Energy as the Engine for the Region's Integration

Just as the European integration owes its initial impetus to coal and steel, the tangible regional cooperation in the Caucasus is frequently linked to development and transportation of the Caspian's hydrocarbon resources. The Caspian oil exports have clearly strengthened the Azerbaijan-Georgia partnership and help to establish an infrastructure backbone for the reemerging Eurasian "Silk Road"¹⁴¹ At the same time, Armenia's confrontation with Azerbaijan, the only South Caucasian nation with a Caspian shoreline, has, essentially, amounted to a self-imposed abstention from the most promising aspect of region's present and future development.

AIOC: Tangible Results of Pragmatism

Along with the ongoing construction of the Baku-Tbilisi-Ceyhan pipeline, the establishment of the Azerbaijan International Oil Company – AIOC- provides a telling example of result –oriented pragmatism practiced by Heydar Aliyev.

On September 20, 1994 a consortium of Western-led energy companies and the Republic of Azerbaijan, represented by the State Oil Company (SOCAR), signed a 30 –year agreement ambitiously called "the Deal of the Century"¹⁴² to develop Azerbaijan's offshore Azeri, Chirag and deep water Gunashli fields, which are estimated to hold 5.4 billion barrels of proven oil reserves.¹⁴³ Thus, the Azerbaijan International Oil Company- AIOC – was established resulting in then the most significant single foreign investment project in the

¹⁴¹ Jeremy Bransten, "Central Asia/Caucasus: Silk Road Conference Agrees On Eurasian Corridor," RFE/RL- Prague; Sept 9, 1998; www.rferl.org accessed on 4/14/04

¹⁴² "An Energy Overview of the Republic of Azerbaijan," U.S. Dept. of Energy, Office of Fossil Energy, Washington, D.C. August 13, 2003

¹⁴³ "Azerbaijan. Country Analysis Brief," Energy Information Administration, U.S. Department of Energy, Washington, D.C. May 21, 2003. For more on AIOC see appendix 1.

former Soviet Union amounting to \$8 billion¹⁴⁴ and the re-emergence of Baku, once the world's oil capital, as an important regional energy center. Furthermore, Baku became the focal point of region's development and testing ground for new initiatives. Not surprisingly, it was Azerbaijan's capital that hosted in 1998 the "Silk Road" summit – a meeting of top-level representatives from over 30 states and multilateral organizations¹⁴⁵.

The "Deal of the Century" was as much about oil and profits as about other issues, such as politics, security, and independence. Landlocked location of the reserves and transportation, poverty of the population, weak states and armed conflicts posed major challenges to the implementation of the project. The AIOC deal paved the way for future negotiations resulting altogether in more than 20 contracts worth over \$55 billion in Azerbaijan¹⁴⁶ alone and subsequent increasingly complex negotiations over export-pipelines. With AIOC turning 10 this year, i.e. only 1/3 of its contractual lifetime, September 20, the day when the contract was formally signed, is celebrated as a national holiday in Azerbaijan.

With loosening of Moscow's centralized control, Azerbaijan tried to open its doors to Western companies even before it achieved formal independence in 1991. In 1992, the newly independent state, established SOCAR (State Oil Company) to conduct talks with international investors. Negotiation went somewhat predictably, with the international oil companies having stronger position than Azerbaijan's inexperienced nationalist and ideologically driven government, which failed to consider the entire complexity of the

¹⁴⁴ *ibid.*,

¹⁴⁵ See Appendix 4- the "*Baku Declaration*" of the Silk Road Summit

¹⁴⁶ "*Europe and the development of energy resources in the Caspian sea region*," Committee on Economic Affairs and Development, Parliamentary Assembly, Council of Europe, Strasbourg, France, December 12, 2002

regional political realities and exaggerated its own capabilities. While a favorable preliminary deal was agreed upon with a group of companies led by BP, AMOCO, Statoil, UNOCAL and others¹⁴⁷, the government in Azerbaijan underestimated the determination of its powerful neighbor Russia to undermine the agreement. Shortly before the agreement was reported to be finalized in mid- 1993, the nationalist government collapsed following the Moscow-inspired coup¹⁴⁸.

Under Aliyev, Baku re-negotiated some parts of the deal, which supporters of the previous government called “less favorable,” and extended the talks for one more year. Yet, even Aliyev’s opponents state that in September of 1994 “a marathon negotiating session ended with the signing of the oil contract –a historic event in the life of the Azeri people and all the regions affected by the oil contract.”¹⁴⁹ Interestingly, AIOC’s first president Terry Adams, using the *Oil and Gas Journal’s* worldwide survey of similar agreements argued that the contract was rather favorable to Azerbaijan.¹⁵⁰

Once again, Baku engaged in carefully crafting a dynamic equilibrium of various interests. Although, formally, the parties to the negotiation were the consortium of the international energy companies and the Republic of Azerbaijan, represented by SOCAR, the actual dynamic of the process was much more complex. In reality, the United States and Great Britain, the Russian Federation, Turkey, to lesser degree Iran and Armenia, Azerbaijan’s nemesis, all had played an important role in the process.

¹⁴⁷ Sabit Bagirov, “AZERBAIJANI OIL: Glimpses of a Long History”, *Perceptions*, Vol.1 #2, June-August, 1996, Ankara

¹⁴⁸ See Thomas Goltz, “*Azerbaijan Diary*,” M.E. Sharpe, New York, 1998

¹⁴⁹ *ibid*,

¹⁵⁰ Terry Adams, “*AIOC: Catalyst for Change*,” *Azerbaijan International*, 5.3., Autumn 1997

Azerbaijan, following military defeats by the Russian-backed Armenian forces, was trying to strengthen its newly acquired independence and take a leadership position in the region while also generating revenues for future development and growth. In fact, as Azerbaijan's government often stated, oil has been an instrument of securing the nation's independence and secure development rather than simply a commercial issue¹⁵¹.

The International oil companies (IOCs), on the other hand, were looking for new reserves and opportunities. The Caspian Sea promised a wealth of untapped resources in the area known for its long –standing oil production. The AIOC deal was especially lucrative as the contract area – the Azeri-Chirag and Gunashli offshore fields- had vast known reserves and posed no exploration risk. Importantly, in another area in Europe's immediate vicinity – the North Sea – production had begun to decline.

The United States, backed by other Western nations and Turkey, saw an opportunity to boost the independence and development of the pro-Western post-Soviet states and to expand Western presence in this vital geo-strategic area. At the same time, developing Caspian resources somewhat contributed to addressing the issue of alternative sources of hydrocarbons not linked with OPEC. Later, Washington even moved to establish the office of the Special Adviser to the President and Secretary of State on the Caspian Basin Energy Diplomacy underscoring the importance of the issue for the United States.

The Russian Federation, which continuously attempted to control the post-Soviet states and their vital infrastructure, among other things, by undermining their independent development. Using threats of military force, support for armed insurgencies, and acting

¹⁵¹ Anne Nivat, "*Oil is Our Destiny*," op-cit.,

through proxies in regional coups, Moscow aimed at preventing Western presence in the Caspian region and the emergence of viable, sovereign states that can serve as conduits of thereof¹⁵². This knee-jerk, zero-sum approach began to change in mid-1990s, as Kremlin was losing the war in Chechnya and many in Russia, especially in the oil industry, realized that Moscow was increasingly isolated on the Caspian.

Iran, gravely concerned with the possibility of Western presence on its northern border, was trying to preclude the potential strengthening of secular Azerbaijan, a majority Shia neighbor and, thus, a challenge to its theocratic government. Partly sidelined by the United States, partly caught in its own contradiction of policies, Iran remained largely excluded from the Caspian development.

Therefore, that the AIOC contract was reached groundbreaking not only because it reopened the Caspian for international investors and was followed by 20 more PSAs between the IOCs and SOCAR, but also because by bridging the interests of the parties and overcoming formidable obstacles, it was the proof that mutually beneficial cooperation in the region was possible and feasible.

Increasing realization of the Caspian's energy promise, including the proven reserves of the contract area, increasing U.S. engagement in the area, more flexible approach of the Azerbaijani authorities to negotiating with the IOCs, which included developing special legal, tax and import regimes for AIOC members¹⁵³ and Azerbaijan's efforts to diversify the

¹⁵² See Svante Cornell, "Small Nations and Great Powers," *op-cit.*,

¹⁵³ "Agreement on The Joint Development and Production Sharing For The Azeri and Chirag Fields and the Deep Water Portion of the Gunashli Field in the Azerbaijan Sector of the Caspian Sea," available at www.caspiandevlopmentandexport.com

consortium as much as possible, by including variety of interested sides, including Turkish, Saudi, European and, most importantly, Russian companies, all contributed to reaching the agreement. Other factors included the relative weakness of the main opponents of the agreement, Russia and Iran vis-à-vis its main supporters – the United States and the IOCs, and the most significant factor turned out to be the gradual strengthening of Azerbaijan’s statehood.

Aliyev’s shrewd negotiation techniques, such as publicly catering to Moscow’s interests, while at the same time working to solidify support among the Western partners for their commitment to Azerbaijan or bringing a major Russian oil company, LUKOIL, on board, thus creating both a strong constituency and weakening Russia’s opposition to the deal. His realization of a wider context and ability to see seemingly endless “linkages” made him not only the most interested party in negotiation, but also a facilitator of the agreement. A 1998 CBS “60 Minutes” special on Azerbaijan said that in Aliyev, the leading oil companies “found their match.” They now had a stable counterpart, who understood their, his own and regional interests.

In order to solicit external support, Aliyev had to show that he was a responsible negotiating partner in control of the situation in the country. Interestingly, the IOCs recognized the need to have a strong negotiating partner. Soon after Aliyev assumed power in Baku in June of 1993, the IOCs paid a bonus of \$81 million to Azerbaijan’s budget, strengthening the new government’s position. Being clearly in charge in Azerbaijan had its costs, however, as Russia, still in transition to more subtle pressure techniques,

expressed its displeasure with the agreement to be ratified shortly by sponsoring another coup in October 1994, ten days after the “Deal of the Century” was signed, and was later implicated in attempts on Aliyev’s life.¹⁵⁴

A crucial factor was the general public consensus welcoming the contracts with the IOCs. There was and still seems to be no political group with a significant following, which would openly oppose the agreements. In Azerbaijan the international oil companies are associated with the oil boom of the early 20th century and are seen as partners in developing the energy sector of the country heavily damaged by years of the Soviet exploitation and domination.

The Caspian oil development is often seen in the context of a regional “Great Game.”¹⁵⁵ And it requires playing accordingly. Not surprisingly, visitors to Azerbaijan on behalf of the Western energy companies included former Prime Minister Margaret Thatcher, former National Security Adviser Zbigniew Brzezinski and former Treasury Secretary Lloyd Bentsen among others. Aliyev understood that he was not negotiating with the companies only, but also with the governments of respective nations. Through this indirect link, he expanded the field for negotiations. Understanding this, Aliyev managed to meet most of the companies’ commercial demands as long as he got support for the Western governments¹⁵⁶. The importance of a major external support for projects of such scale is evident.

¹⁵⁴ See Svante Cornell, “*Small Nations and Great Powers*,” *op-cit.*..

¹⁵⁵ Rob Sobhani, “*The 'great game' in play in Azerbaijan*”, The Washington Times, February 25, 1997

¹⁵⁶ See Thomas Goltz, “*Azerbaijan Diary*,” *op-cit.*,

It seems that the Azerbaijani side exaggerated the direct link between the companies and their governments, partly because, no such distinction in practice existed in the former Soviet Union. Ironically, this misunderstanding allowed for greater flexibility and focus on interests, thus at the end serving the purpose. In addition, since both Russia and Iran saw Western companies as conduits of Washington's policy, again based on their own domestic practice, Azerbaijan achieved its objective of at least creating an impression of Western protection. This, too, created an impression of inevitability of the success around the contracts, which induced some in Russia to join the deal rather than to stay outside.¹⁵⁷

The chaotic nature of transition from the Soviet system allowed and, actually, required a significant change of political and economic framework in the country. Aliyev used this to make a major step in meeting the companies' demands – making every PSA signed with Azerbaijan a domestic law enacted by the Parliament. This rather revolutionary approach showed the importance of energy contracts for Azerbaijan, but also flexibility of thinking in Baku. The parliamentary ratified PSAs still stand as main factor differentiating Azerbaijan from other Caspian nations.

As the country has been undergoing the transition, Aliyev also involved the energy companies into the process of rebuilding the nation's infrastructure, developing legal and economic reform. For instance, the AIOC contract specified that the percentage of the Azerbaijani citizens among the professionals working on the project was to increase from 30-50% to 90% over a specified time period¹⁵⁸. Establishing such partnership, Aliyev

¹⁵⁷ See Svante Cornell, "Small Nations and Great Powers," *op-cit.*,

¹⁵⁸ "Agreement on The Joint Development and Production Sharing For The Azeri and Chirag Fields and the Deep Water Portion of the Gunashli Field in the Azerbaijan Sector of the Caspian Sea," *op-cit.*

managed to get companies deeply rooted in Azerbaijan and gave them a stake in the region's future. It is yet to be seen whether such commitment can be sustained.

Baku used realistic assessment of the existing realities and managed to work out a relatively sustainable balance of interests. Arguably, this has had a profound impact of shaping regional developments and perceptions. Moreover, this was a major evidence of pragmatic, interest-based approach inclusive of wider regional dimension being the most productive, if not the only possible policy. The complex nature of regional affairs, which looked as major obstacle initially, was instead used to facilitate the agreement. By demonstrating the success of constructive negotiation process, Baku helped to establish the new rules or behavior in the region making coups and assassination attempts less feasible and effective, though not entirely phased out, techniques.

Linking the Seas. The Pipelines

Oil exploration alone, even while generating significant income, is not sufficient for sustainable regional development without an adequate transportation infrastructure. Building pipeline network infrastructure both requires and encourages regional cooperation. In fact, in mid-90s there was even a discussion on possibly routing a major pipeline from Baku via Armenia reflecting an effort to reach peace through energy –based regional cooperation¹⁵⁹. Soon, however, the infrastructure routes was determined in accordance with the regional priorities and patterns of cooperation, as well as commercial and security considerations¹⁶⁰. As the Caucasus is internationalizing and assuming a more visible

¹⁵⁹ John Maresca, "A 'Peace Pipeline' to end the Nagorno-Karabakh Conflict," The Caspian Crossroads Magazine, Num.1, Winter 1995

¹⁶⁰ Remarks by Jan H. Kalicki, Counselor to the Department of Commerce, "Toward an East-West Energy Transportation Corridor," Office of Public Affairs, International Trade Administration; Nov. 18, 1998; <http://www.ita.doc.gov/media/Speeches/1210kal.htm> accessed on 04/12/04

global role, one lesson for the region's leaders should be that timing matters and that pragmatic leadership, among other things, involves capitalizing on time's value¹⁶¹.

Among the region's infrastructure projects, the Baku-Tbilisi-Ceyhan oil pipeline is currently the most significant and has been the focus of much publicity, both positive and negative. The alignments for and against the project, various contradictions over it, reflect dominant attitudes and perceptions, predominantly geopolitical ones, in the region. Interestingly, Aliyev, over numerous domestic objections, made an unprecedented move of transferring Azerbaijan's future transit revenues to neighboring Georgia in order to resolve a disagreement over its fees from transportation and to finalize the pipeline deal¹⁶². Recognition of long-term regional benefits and opting for strategic objectives rather than pursuing narrow short-term goals, thus, emerges an important consideration behind policy choices.

The pipeline seems to move ahead successfully¹⁶³ adding a physical element to the Azerbaijani-Georgian-Turkish cooperation and linking the Caspian and Mediterranean seas. If the earlier Baku-Supsa early oil pipeline completed in 1999 helped to integrate the Black Sea and Caspian regions, the BTC is expected to expand the Caucasus' increasingly international identity and to contribute to development in eastern Turkey. Moreover, the Greek government has been mulling plans to join the Baku-Tbilisi-Erzurum natural gas pipeline project making Greece a transit country and a recipient of Caspian gas from

¹⁶¹ For more a map of Caspian pipelines see appendix 2.

¹⁶² "Azerbaijan to give its share of oil transit tariff to Georgia - President Aliyev," Georgian Television, Tbilisi 22 March 2000 as cited by www.eurasianet.org on March 23, 2000

¹⁶³ "BTC pipeline reaches half-way milestone in Azerbaijan," Agence France Presse; Apr.8, 2004

Azerbaijan's Shah-Deniz field¹⁶⁴. Should these plans materialize, the Caucasus, in addition to being the gateway for Central Asia, may become a positive contributor to development in the Mediterranean region.

¹⁶⁴ "Greece to import Azeri gas by 2006; DEPA and BOTAS continue to work on export plans to Italy and Balkan countries," April 23, 2003; WWW.IBSRESEARCH.COM accessed on 4/15/04

New Identity for the Ancient Land

Neither the resources of the Caspian, nor the infrastructure can bring about stability and development to the Caucasus unless the Caucasian nations recognize that they represent a distinct community. Yet, the regional projects provide a much-needed basis for development and help to generate an external interest in achieving peaceful and prosperous future. Incorporating these into a policy aimed at ensuring sustainable development and stability in the region is the key characteristic of Caucasian pragmatism pursued for most of the last decade by Azerbaijan and Georgia.

Recent changes brought new leaders in Baku and Tbilisi, both are young and seem to be reform-minded. In Azerbaijan, President Ilham Aliyev, who inherited much of his father's advantages and challenges, is proceeding carefully, mindful of potential destabilization. In Georgia, President Mikheil Saakashvili, a beneficiary of much stronger Western backing, has assumed a more revolutionary approach to addressing Georgia's domestic problems. The new leaders, apparently, recognize the need to strengthen regional cooperation with Baku and Tbilisi sharing common vision for the region's future.¹⁶⁵

External support for sustaining this partnership is as important as the Caspian development has been for establishing it. Tbilisi's aspirations for European integration received a major boost with the rise of Georgia's new leadership. The confidence Georgia's new president enjoys' in the Western capitals can and should be used for raising the Caucasus' international profile further and for adding new positive dimensions to the region's equilibrium. Such equilibrium must continue to include all aspects of the complex

¹⁶⁵ "Georgia, Azerbaijan Bond Reinforced," Agence France Presse; March 4, 2004

Caucasian identity and to acknowledge its transitional nature. The new leaders of Azerbaijan and Georgia should be supported in their effort to solidify the existing partnership and must capitalize on commonalities of interests rather than natural differences. When a more pragmatic and regional approach is adopted in Yerevan, Armenia too can be more active in working with its neighbors to build a peaceful, prosperous environment for Armenian people.

Fundamentally, although the nations of the South Caucasus are bound to rely on help of stronger parties to balance external pressures, that alone is certainly not sufficient. Over-reliance on external factors may undermine the long-term objective on sustainability and eventually would lead to limiting room for maneuver. Certainly inferior to Russian and Iran militarily, Azerbaijan and Georgia shouldn't exclude regional defense planning as a factor altogether. In fact, Azerbaijan's and Georgia's border-guards have been successful in suppressing some Russian-backed provocations along their borders as well as, in case of Azerbaijan, some of Iran's infiltrations in the south. Strengthening border –guard forces is especially important as an instrument of preventing small-scale cross-border infiltrations, smuggling and possible penetration by members of various radical movements.

The implicit nature of policy-formulation with strong influence of key decision-maker's personal vision has been relatively efficient and beneficial in short-term allowing for the much-needed flexibility in a very unstable environment. This is a pattern throughout most of the post-Soviet space, reflecting its apparent inevitability for vulnerable emerging states. In the long-term, however, the absence of a systematic, coherent policy–formulation process remains a serious handicap in the region.

As the Caucasian nations mature, less personalized, more formalized and transparent policy approach is becoming an urgent necessity. This by itself can become a factor contributing to enhancing sustainability of policies by giving a greater spectrum of political forces a stake in policy-formulation thus also curtailing the influence of external powers on political process. Moreover, giving various political forces stake in policy formulation guarantees consistency and continuation of political thinking.

Pragmatic leadership based on balancing complex pressures and civic identity cognizant of the rich diversity in the Caucasus has evolved over the last decade into the most productive pattern of regional politics. It has also laid basis for the region's political identity. Diverse and multicultural, the Caucasus cannot exclusively highlight one side of its identity, it can only have an inclusive identity. Still emerging and threatened by multiple factors, this identity seems to have taken root in at least two of the three South Caucasian nations. Whether the identity is sustained, develops farther and ultimately fully involves Armenia, the third Caucasian neighbor, will determine the region's succeeds or fails to live up to its promise.

The Republic of Azerbaijan and the Occupied Territories

Source: Embassy of Azerbaijan, Washington, DC.
<http://www.azembassy.com/policy/conflict/mapref.html>



Appendix 2.

Chronology of AIOC Oil Contract

May 1989	Steve Remp of Ramco Energy makes first visit to Soviet Azerbaijan as first Western Oil Company representative to visit country for many decades
Aug 1990	Ramco agrees to find investment partners for Azerbaijan's offshore oil company (Kaspmorneftegas)
June 1991	Amoco selected to operate Azeri offshore field
Sept 1991	Amoco signs Area of Mutual Interest (AMI) with BP / Statoil / Ramco, Unocal and McDermott to work jointly on Azeri field project
Oct 18, 1991	Azerbaijan formally declares independence
March 1992	Widely unpopular Moscow-backed President Ayaz Mutalibov flees as a result of mass protests
June 1992	Leader of the nationalist Popular Front movement, Abulfaz Elchibey, elected President
Nov 9, 1992 –	<i>Five memoranda of Understanding are signed by SOCAR and International Oil Companies (IOCs). Working groups are established to study and plan development and coordination of joint infrastructure (export pipeline, offshore pipeline, on-shore processing facilities, offshore marine fleet and onshore supply base for Chirag, Gunashli, and Azeri fields)</i>
June 1993	SOCAR announces Declaration of Utilization which consolidates Guneshli, Chirag and Azeri fields. FOCs agree--Amoco, BP, Statoil, Pennzoil, McDermott, Ramco, Turkish Petroleum and Unocal
June 10, 1993	<i>Rebel forces of the rogue colonel Suret Husseinov initiate a coup against President Abulfaz Elchibey</i>
June 14, 1993	Heydar Aliyev, a veteran politician and vice –Speaker of the Parliament, invited by Elchibey as compromise figure, assumes leadership of the country
June 21, 1993	Preliminary signature bonus of \$81M made to SOCAR by IOCs
June 25, 1993	Negotiations temporarily frozen
Aug 1993	New Government and SOCAR select new negotiating team headed by Dr. Manafov to negotiate new terms with IOCs
Oct 3, 1993	Heydar Aliyev formally elected President
Oct 1993	Russia's Lukoil gains part of SOCAR's share
Dec 1993	Government renounces negotiations and dismisses negotiators
Feb 4, 1994	President Aliyev signs Presidential Decree assigning negotiations to SOCAR
March-Sept, 1994	-Four major negotiating sessions take place with the IOCs in Baku, Istanbul (twice) and Houston. Delta-Nimir enters Consortium after buying 15% of Unocal's share
Sept 20, 1994	Oil Contract signed by IOCs and heads of six countries sign contract-US, UK, Norway, Saudi Arabia, Turkey and Russia-for Azeri, Chirag and Guneshli Fields. Contract covers all legal, technical and commercial aspects including production sharing, taxation and project management. Investment of \$7.14B to be made over span of 30 years. Boards of IOCs sign Contract
Oct 1, 1994	Unsuccessful coup attempt against Aliyev
Nov 15, 1994	Contract ratified by Azerbaijan's Parliament

Caspian Pipelines



Source: Energy Information Agency

Appendix 4.

BAKU DECLARATION*

Baku 8th September 1998

Heads of States, Governments and heads of delegations-participants at the International Conference on Restoration of the Historic Silk Route, hereinafter referred to as the Parties,

Expressing their aspiration for fruitful and mutually beneficial economic and trade cooperation,

Acknowledging the importance of the development of interlinked national and regional transport infrastructures for expansion of cooperation in the regions of Europe, the Black Sea, the Caucasus, the Caspian Sea and Asia,

Stressing their common interest in the development of the Europe-the Caucasus-Asia transport corridor including transport routes of the Black Sea region on the basis of revival of the ancient transport route of human civilization the Great Silk Route,

Noting the importance of the principles and objectives of the Brussels Declaration of May 7, 1993 (Brussels Declaration) as well as the adherence to the generally recognized principles and norms of international law,

Emphasizing the importance of the implementation of the TRACECA programme to provide sustainable access to Trans-European and Trans-Asian transport networks for the land-locked Caucasian and Central Asian countries,

Noting the positive role of the regional and sub-regional interaction and cooperation in establishing international peace and security, and growth of confidence and stability,

Declare as follows:

1. The Parties support the initiatives and efforts undertaken in the interests of developing the Europe-the Caucasus-Asia transport corridor and express their satisfaction with the implementation process of the main objectives of the Brussels Declaration.
2. Noting the contribution of the European Union made to the implementation of the TRACECA programme, the Parties welcome the European Union's resolution to take further coordinated actions to promote the above mentioned programme and to develop the Europe-the Caucasus-Asia corridor.
3. The Parties particularly emphasize the importance of safeguarding peace, security, stability and confidence, settlement of regional conflicts on the basis of the relevant resolutions of the United Nations Security Council, the principles and decisions of the Organization for Security and Cooperation in Europe for the successful implementation of projects within the framework of the TRACECA programme and the sustainable functioning of the Europe- the Caucasus-Asia transport corridor.
4. The Parties underline the significance of the Europe-the Caucasus-Asia transport corridor in the context of international cooperation for development of the Caspian Sea and Central Asia region countries and express their readiness to provide to these countries free access to sea-ports. Noting the particular role and place of the region in the architecture of Eurasian integration being formed, the Parties express their support for the efforts of the countries of the region directed to closer integration with international trade and transport systems and for the expansion of cooperation in the field of rehabilitation and optimization of the existing and, initiation and assistance in establishing new environmentally secure and cost effective transport infrastructures for transporting goods, including energy to world markets.

5. The Parties note with satisfaction the growing interest in the revival of the Great Silk Route in particular through implementation of the TRACECA programme and invite all interested States to pool their material and human resources to encourage mutually beneficial cooperation for achievement of this objective.

6. The Parties express their intention to pursue cooperation for developing the Europe-the Caucasus-Asia transport corridor with the Economic Commissions of the UN for Europe and for Asia and the Pacific, other relevant UN system agencies, the Organization of the Black Sea Economic Cooperation, the Economic Cooperation Organization and other international organizations and financial institutions.

7. The Parties agree that strengthening of the institutional and legal framework of cooperation for developing the Europe-the Caucasus-Asia transport corridor will promote increasing efficiency of interaction between participating States. In this respect the Parties welcome the signing of the Basic Multilateral Agreement on International Transport for Development of the Europe-the Caucasus-Asia Corridor (The Basic Agreement) as an important institutional mechanism to help develop and regulate international transport of goods and passengers, including transport in transit, coordination and harmonization of transport policies and legal frameworks in the field of transport. The Parties also express the hope that setting up of an Inter-Governmental Commission and its Permanent Secretariat as well as setting up of permanent representations of the Permanent Secretariat in each of the States-participants of the Basic Agreement will promote efficient implementation of the provisions of the Basic Agreement.

8. The Parties note the importance of the coordinating mechanisms for participation in implementation of the TRACECA programme established at national level as well as in the framework of the European Union.

9. The Parties confirm their intention to use the dynamics and potential of the private entrepreneurship to increase the effectiveness of cooperation, initiation and implementation of investment projects meeting the objectives of development of the Europe-the Caucasus-Asia transport corridor.

10. The Parties express their satisfaction with the results of the Baku International Conference on Restoration of the Historic Silk Route as an important milestone in institutional strengthening and enhancement of cooperation for further developing the Europe-the Caucasus-Asia transport corridor in the interests of economic progress of the participating States.

11. The Parties highly appreciate the initiative of the President of the Republic of Azerbaijan H.E. Mr. Heydar Aliyev and the President of Georgia H.E. Mr. Eduard Shevardnadze and the European Union's support for the idea of holding an International Conference on Restoration of the Historic Silk Route.

12. The Parties express appreciation to the President of the Republic of Azerbaijan for hosting in Baku this International Conference and for the excellent organizational arrangements, and for the cordiality and hospitality extended to them by the Government and people of Azerbaijan .

For the Republic of Armenia

For the Republic of Azerbaijan

For the Republic of Bulgaria

For Georgia

For the Republic of Kazakhstan

For the Kyrgyz Republic

For the Republic of Moldova

For Mongolia

For the Republic of Poland

For Romania

For the Republic of Tajikistan

For the Republic of Turkey

For Ukraine

For the Republic of Uzbekistan

Source: Embassy of the Republic of Azerbaijan. Washington, DC

<http://www.azembassy.com/economy/traceca/browse.htm>