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STATE OF THE NATION

ARMENIA AND THE WEST A NEW VISION FOR THE CAUCASUS



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Contents

I	Introduction and Motivation	3
II	Deficiencies of the Current Status Quo	7
III	Overview of Armenia's Bilateral Relations: Looking Beyond the Status Quo	11
a	Armenia-Russia	11
b	Armenia-Turkey	15
c	Armenia-Azerbaijan and the Resolution of NK Conflict	19
d	Armenia-Iran	23
e	Armenia-Georgia	24
IV	Summary and Conclusions	26
 Box 1: Armenia-NATO Relations		9
Box 2: Ethnic Minorities in Azerbaijan		20
 References		28
 Appendix		31

I. Introduction and Motivation

This report is intended for policymakers that have an interest in strengthening Armenia and its ties with the West. It offers some out-of-the-box thinking that challenges prevailing views about Western involvement in Armenia and the Caucasus. The report essentially sets aside a critical handicapping factor—Armenia’s leadership and governance—and lays out a vision for the country’s role in the region under a leadership that would: (1) enjoy widespread support among its people; (2) understand and stay current with global trends; and (3) maintain a reasonable degree of independence from foreign interference. If implemented in practical terms, a leadership change of this nature will unleash the country’s developmental potential and lead to a foreign policy reorientation that is discussed throughout the report.

BACKGROUND

A recent roundtable on Armenia’s engagement with the West revealed a broad spectrum of views among the participating experts that ranged from the *normative* (i.e., how it should be) to the *positive* (i.e., how it is).¹ What occurred on September 3, 2013, when Serge Sargsyan announced a commitment to bring Armenia into the Russia-led Customs Union, further complicated matters for those hoping that Armenia would have a more balanced foreign policy and take a leadership role in the region. The mood among Armenia’s friends in the West—those who saw the country’s international standing rise as a result of the reforms of the early 1990s and the gains made in Nagorno-Karabakh (NK) in 1994, against all odds—is very somber. The question, “What’s next for Armenia?” generates a grim response these days.

Serge Sargsyan’s change of course away from the EU was not very surprising. While the West’s *modus operandi* vis-à-vis Armenia prior to September 3 was to discuss what perks Sargsyan would receive (including the benefit of the doubt in fraudulent electoral victories) if he cooperated, the Russians did not waste time in impressing upon him what perks he would lose, should he decline to cooperate. The latter strategy proved more effective—it was an offer Sargsyan could not refuse.² While the decision may have been an outcome of Russia’s unconcealed threats—aimed at undermining Armenia’s position in NK—it clearly underscored the need for Armenia to hedge its security bets, to be able to fend off future Russian threats and call its bluffs, if/when necessary, and to minimize, if not eliminate, the need for having externally provided security arrangements.

In the meantime, conditions in Armenia could hardly be worse. A mere shadow of what was known as the “silicon valley of the Soviet Union,” its economy, held hostage by the Republican Party leadership and connected oligarchs, is doing very poorly. This is a *crony capitalist* system, par excellence, where a select few benefit from disproportionate access to power and influence over economic decision-making at the expense of the many.³ Law enforcement agencies and the judiciary are put in the service of the oligarchs, and act as guarantors of the regime’s safety, blocking any challenges that could be launched by the opposition or civil society activists. The media too are largely controlled by the state, which suppresses television stations that do not tow the party line. The latest cabinet appointments, of officials formerly implicated in corrupt dealings, and who lack requisite technical competencies to

¹ The expert-level roundtable discussion took place at the US-based Atlantic Council on May 7, 2013 and was co-organized by the Atlantic Council and Policy Forum Armenia. While some of the ideas and suggestions generated at the roundtable are used in this report, no attribution is made to individual speakers due to the format of the discussion.

² “An Offer Sargsyan Could Not Refuse,” Thomas de Waal, Eurasia Outlook, Carnegie Moscow Center, September 4, 2013.

³ Economic policy choices made by the regime clearly reflect this *modus operandi*. Public policy—with its fiscal, monetary, social, and structural components—is implemented with a single objective in mind: to enrich the ruling elite (see PFA (2012a) for a detailed discussion of this issue).

⁴ And this is while the US State Department's Human Rights Report (2012) mentioned the right of citizens to change their government as the most significant human rights problem in Armenia (in addition to corruption).

⁵ PFA (2013) summarizes the findings on this. The [statement](#) by Dermot Ahern, a former Foreign Minister of Ireland and an OSCE observer, and [statistical analysis](#) conducted by Dr. Fredrik Sjoberg, a researcher at Columbia University, provide key supporting evidence. Furthermore, detailed research contained in PFA (2008), (2009), and (2012b) reports describes the well-oiled election fraud machine employed by the country's political elite. Election fraud in Armenia has taken new forms and reached new heights in recent years, and the growing sophistication of electoral mechanisms makes it difficult for international observers to notice it. Interestingly, Whitmore (2012) alleges that the West/OSCE-ODIHR may have succumbed to Russian pressure on issues including election monitoring and related assessments in Armenia and other countries of the Commonwealth of Independent States.

serve in high office, are emblematic of the regime's steady march toward mediocrity and irrelevance.

While Armenia owns its current problems, miscalculations by its friends in the West have played a considerable role in exacerbating the situation. It is not the intention of this report to dwell upon the past, but some of the mistakes that have been made bear close scrutiny, if for no other reason than to avoid repetition.

LOST OPPORTUNITIES TO STEER ARMENIA IN THE RIGHT DIRECTION

With minor exceptions, most Western observers monitoring Armenia's elections since 2008 have failed to raise awareness about the systematic evidence of fraud and manipulation of election outcomes by the regime in Yerevan. Such failure has *de facto* assisted Serge Sargsyan in his illegal take-over of power in Armenia and guaranteed that no change is in the offing in the near future. The signals from Washington have been mixed. In contrast to President Bush's refusal to congratulate Sargsyan following the February 2008 presidential election, both President Obama and Secretary Kerry extended good wishes to him in 2013, even as the Constitutional Court of Armenia was reviewing the opposition's appeal to invalidate the election result.⁴ There was ample evidence that the opposition frontrunner, US-born and -trained lawyer Raffi Hovannisian, came out ahead of Sargsyan and that at the very least (given a lower burden of proof needed to argue for this) the second round of elections was in order.⁵

European bureaucrats found themselves easily manipulated by Serge Sargsyan and his regular promises of reform within the framework of the

European Neighborhood Policy and beyond (JSWD, 2013). Very few of the policy initiatives actually implemented by the regime had any tangible value for strengthening democracy or eliminating election fraud. It is fair to ask if such consistent under-delivery was encouraged by Europe turning a "blind eye" to the failure of democracy in Armenia, perhaps looking the other way in pursuit of more self-interested objectives.

The West's economic assistance—while sizable, especially in the early years of Armenia's independence—was not sufficiently targeted and/or effective. Developmental assistance provided by USAID as well as bilateral and multilateral European agencies was channeled largely to projects with weak economic rationale and often resulted in questionable *ex post* benefits. It generated little, if any, professional capacity on the ground and—with minor exceptions—missed an opportunity to help strengthen the institutions of civil society. Perhaps most importantly, this assistance failed to contribute to the establishment of a Western-oriented constituency of any significance.

Mediation efforts by policymakers from Brussels and Washington, while extensive, were often viewed unfavorably in Armenia. By and large, they implicitly or explicitly delinked foreign policy objectives from domestic political and economic developments, especially issues related to the regime's legitimacy and corruption record, ultimately manifested in its low popularity. Much has been written on these Western diplomatic efforts to normalize relations between Armenia and Turkey as well as Armenia and Azerbaijan.⁶ Not without reason they were dubbed "perfect failures," achieving no tangible results or changes in the status quo.

THE NAGORNO-KARABAKH PEACE PROCESS

While most analysts sensibly argue that peace is better than war, the more vexing questions are whether regimes can absorb the short-run costs of establishing peace; whether an imposed outcome will lead to sustainable solutions; and if a blueprint for the sequencing of a peace process is meaningful from the perspective of the affected parties. Answers to such questions undoubtedly depend on the types of solutions being proposed, but also on who is spearheading the process and under what circumstances. It can be reasonably argued that these questions were inadequately considered by external actors, intent on imposing solutions on the conflicting parties in Nagorno-Karabakh.

Specifically, the following questionable assumptions have formed the basis for the NK negotiations process in recent years:

- (1) The set of negotiable solutions is not empty (i.e., there exists at least one solution to which the parties could agree voluntarily);
- (2) Solutions can be forced upon the heads of states, irrespective of public opinion;
- (3) The promise of economic development will force the sides to go along with an imposed solution.

If properly qualified, and under very favorable conditions, these premises would perhaps work. However, having been used unconditionally they have stalled the negotiations process and have so far led the two conflicting parties down a dead end. It is, therefore, important to understand the conditions under which the prevailing assumptions may actually work.

Discussing the situation in the Caucasus, Mankoff (2012) notes:

Economic incentives are unlikely to overcome the region's entrenched political fragmentation. Nevertheless, economic benefits can be held out as carrots for the authorities in all the region's political entities to play more constructive roles. At the end of the day, however, politics must take precedence. Only a political decision by elites in Armenia, Azerbaijan, Georgia, and the various disputed regions to focus on the benefits of integration with the larger world can break the destructive cycles that have kept the Big Caucasus fragmented and under the shadow of renewed war.

Indeed, the lack of political stability remains the biggest challenge for economic integration in the Caucasus. Unless the region offers credible guarantees of long-lasting peace, any economic development (beyond perhaps oil and gas exploration) will be seriously constrained.⁷ This understanding, however, is not sufficient to get the parties closer since there are other (objective and subjective) factors at play that need to be taken into account.

BARRIERS TO REGIONAL STABILITY IN THE CAUCASUS

Stability will never be achieved as long as at least one of the parties to the conflict believes it can gain more by military means. And if the expected net gains⁸ from a military solution outweigh the

⁶ Shougarian (2012) provides a good overview of effort at normalization of relations between Armenia and Turkey, while de Waal (2013) is a good reference for the mediation effort between Armenia and Azerbaijan.

⁷ Of course, Russia's influence over Armenia (and de facto annexation of Abkhazia and Ossetia) essentially put an end to regional integration of the Caucasus in the short run, but events in Ukraine may open opportunities in the medium to long-run.

⁸ This is defined as a combination of (territorial) gains/losses and (human and economic) costs.

⁹ In principal, peace can also be enforced by a multilateral arrangement, where foreign powers guarantee a status quo. However, events in Ukraine (with an unexpected bilateral action from Russia and so far a lack-luster Western response) have come to dismiss this as a practical/reliable tool for the conflicting parties. Neither Armenia nor Azerbaijan is likely to agree to that.

¹⁰ The term liberated territories refer to territories that have remained under Armenian control following the signing of the cease fire.

economic benefits of cooperation, security and regional stability will remain elusive. Peace will be sought if the expected net gains from war are sufficiently low. One way to achieve this would be to make the potential costs associated with war prohibitively high. As elaborated below, this could be done by giving one of the sides a clear advantage over the other, which will force the weak side to agree to a compromise to avoid facing a defeat in war.⁹ The nature of the compromise solution will depend on which side is allowed to dominate.

An important factor in this regard, which may have been overlooked by the mediators, is the expected time in power of the leaders of Armenia and Azerbaijan. Following Mancur Olson's seminal findings on the role played by the rulers' horizon—their expected time in power—later in the report

we discuss the differences in the expectations of Sargsyan and Aliyev, and how this influences their decision-making.

Moving forward, a possible Armenian-Azerbaijani settlement is likely to follow three scenarios:

Scenario I: Armenia fears the rise of Azerbaijan and surrenders liberated territories and subsequently NK under pressure.¹⁰

Scenario II: The status quo persists indefinitely, with both sides suffering an enervating slow drip.

Scenario III: Under a new leadership, Armenia retains control of NK and forms a partnership with Azerbaijan to prevent its territory from disintegrating further.

These scenarios and conditions leading to them are discussed in the final section of the report.



II. Deficiencies in the Status Quo

Armenia's foreign policy since the ceasefire in NK in May 1994 has been largely a failure. The main reasons behind this can be summarized as follows: (1) it has not reflected the aspirations of the majority of the citizenry; (2) it has been based on a flawed understanding of what the world is willing to tolerate (having never tested the limits of that); and (3) it has relied too much on an urge to secure *external* legitimacy more often than not at the expense of *internal* legitimacy. Foreign policy also has been underpinned by a weak domestic economy, high poverty rates, disastrous demographic trends, and a series of fraudulent elections.

As a result of policy blunders of recent years, Armenia remains economically weak and politically isolated. It perhaps constitutes a threat to Azerbaijan but cannot pose a threat to Turkey, its historical foe. It lacks a national security doctrine; its foreign policy heavily influenced by its relationship with Russia and the absence of a relationship with Turkey. The prospects for Armenia's military modernization in an environment in which development is constrained by corruption and large-scale mismanagement remain bleak.

IMPACT OF ARMENIA'S DEPENDENCE ON RUSSIA

Armenia is located at the crossroads of geopolitical interest to a number of global and regional powers with often conflicting objectives. Aligning itself exclusively with any one of them risks alienating others and is a sure path to further isolation. Unfortunately, this is exactly the path the ruling regime has set on. Being a *de facto* satellite of Russia, Armenia has lost its ability to engage the international community independently and garner

the benefits of such cooperation. Moreover, because of its ever-increasing dependence on Russia, Armenia's advances might be perceived by the West as strengthening Russia's geopolitical positions, something that may create distrust and be eventually blocked by the West.

The biggest foreign policy undertaking of the past few years facilitated by foreign powers—the Armenian-Turkish protocols—did not go very far. While the initiative had the blessing of all Western powers and Russia and was mediated by Switzerland (no stranger to international mediation), they were hastily prepared and poorly executed, leading to an even more complicated relationship between the sides after they were signed but not ratified.¹¹ Armenian-Turkish relations have remained stymied since.

While negotiations are stalled for the time being, the situation in NK has gone from bad to worse for Armenia and NK due to recent events in Ukraine. By annexing Crimea on the pretext of protecting the local Russian-speaking community, Mr. Putin closed the door to international recognition of any nation/territory that would aspire to become independent for legitimate reasons. His actions also created a precedent for the use of Russian troops (stationed in some CIS countries) for non-contractual purposes. This effectively hinders the independence of CIS countries and poses a challenge to the West's ability to have a meaningful role in the region.

However, the current status quo is unlikely to remain in place for much longer. The new generation of Armenians refuses to live in an Armenia that resembles Russia's south-most Krasnodar region

¹¹Inability to predict Baku's reaction to the protocols speaks volumes about how poorly prepared the process was, despite the fact—as some observers noted (see Göksel, 2012)—it may have been assumed that the signing and ratification of protocols would proceed simultaneously with the progress in talks between Baku and Yerevan.

¹²A return to the 1990s policy of “complementarity”—where Armenia’s close relations with Russia do not come at the expense of maintaining good relations with the West—will help to achieve such an equilibrium.

¹³“Armenia Keeps Up Cooperation with NATO,” RFE/RL, April 28, 2014.

and prefers independence. Russia might over-play its hand if it continues to try to pressure countries like Armenia to bend to its will. If Russia wants to maintain Armenia in its sphere in the medium term, it should move to a relationship in which Armenia is a partner and not a voiceless satellite. This will most likely require allowing Armenia to gain a more prominent regional role, propelled by economic

growth, a consolidation between Armenia and the Diaspora, and the forging of new relationships with countries such as India and China, as well as strengthening of existing partnerships with Iran and the Arab world.¹² As for transatlantic relations, Box 1 below summarizes the current status of Armenia’s relations.

BOX 1: ARMENIA-NATO RELATIONS

Despite taking various forms, and within different fora, Armenia’s relations with the West—both bilaterally and via European and Transatlantic multilateral structures—have remained shallow and, as such, developed below their potential.

Armenia’s relations with NATO within the framework of the Partnership for Peace (PfP) program have progressed out of pragmatic considerations, as Armenia simply did not want to lose in the competition with Azerbaijan for status vis-à-vis NATO. There is a perception among NATO officials that the partnership with Armenian defense forces has been successful. Active cooperation (which so far has led to some tangible results, including the establishment of the center for rapid response) has turned out to be possible despite Armenia’s close relations with Russia.

Going forward, the relationship between Armenia and NATO will require a strategic re-set on both sides. This will require NATO to define its interest in, and approach to, the region, which so far have not been very clear and have undoubtedly been influenced by events in Georgia (2008) and Ukraine (2014). However, in the world of shrinking resources (requiring prioritization), it will be difficult to expect that Armenia will get NATO’s attention to engage unless a case for a much stronger and more beneficial relationship can be made. Developments in Ukraine (and challenges they pose for the transatlantic community) may offer that window. Further serious thinking regarding this matter is necessary.

Recently, in a rare show of defiance to the Russian policy line, the Armenian side declared that it has no plans for suspension of cooperation with NATO, contrary to what was announced by the Russian-led Collective Security Treaty Organization, of which Armenia is a member. Armenia’s Defense Minister, Seyran Ohanian, stated: “Our relations with NATO are continuous. We remain committed to cooperation in the agreed areas. We will take those measures in full.”¹³ While it is not inconceivable that this position could be reversed under further Russian pressure, it speaks of Armenia’s understanding of the need to maintain (if not deepen) relations with the transatlantic community. Despite the ongoing geopolitical polarization, this is encouraging.

The current dispensation is also unsustainable in the region as a whole. The smaller regional players appear to have been assigned specific roles by the West, which can hardly be viewed as optimal for the region and the individual players. Specifically, Georgia is given a role of a transit country with a function of containing Russia; Armenia is given a role of a regional buffer, among other things against Turkey's ambitions; Azerbaijan is given the role of a logistical base and staging ground for intelligence gathering against Iran; and NK, Abkhazia, and South Ossetia are given the role of keeping the three large Caucasus countries as well as Turkey and Russia in check.

One key issue, which is consistently downplayed by mediators in the context of negotiations both on NK and Turkish fronts, is sequencing. Similar to the argument that opening the border will lead to benefits irrespective of underlying conditions, the argument that geopolitical concessions could be beneficial for Armenia irrespective of domestic conditions is seriously flawed. This is because more often than not, peace and regional integration are likely to require compromises. As such, in the short run they are more (politically) costly than the alternative. Given these costs, prudent and risk averse policymakers should opt for normalization of relations when and if they exhaust all opportunities for development and progress domestically (which typically come at little, if any, cost). The reason is that the benefits of integration may never be attained if the quality of the country's governance remains unchanged or actually worsens (as a result of territorial concessions and/or a defeatist peace deal). Regardless of the intensity of the mediation efforts, there will be public buy-in for a long-lasting regional integration effort only when the societies

and their elites have exhausted all *internal* sources of progress. In the Armenian context this involves strengthening governance by reducing systemic corruption and improving the quality of economic/developmental policies.

This said, the potential benefits from regional cooperation appear significant. While presently the intra-regional trade and financial sector interlinkages remain low (IMF, 2014), all three countries stand to benefit from the common Transcaucasian economic market and the potential for benefits of scale. Moving towards increased specialization at the regional level and away from subsistence model at individual country level will offer opportunities for more trade with the rest of the world. Moreover, it will come without the loss of import substituting industries and corresponding social/employment implications. This will also provide the necessary scale and the scope for regional infrastructure projects.

The most promising of these projects is the railway link between Iran and Georgia's Black Sea port of Batumi (via Meghri, Nakhichevan, and Yerevan) and subsequently to Europe via sea, which will address Armenia's transportation blockade and contribute to revitalizing the region's economy. Opening of the Abkhaz railway will have similar implications for Armenia, but will remain under Russian control. Both projects will reduce overdependence in the region on Turkey and (from Armenia's point of view) mitigate the impact of a Turkish-Azeri alliance.

While small, Armenia possesses certain tactical and strategic advantages, which—if used properly—may allow it to tip the balance of power from one to another large player in the region. Chief among

¹⁴Unfortunately, while the case for closer and more meaningful relations between Armenia and the Diaspora is strong, until now they have not acted in such a way as to capitalize on the potential synergies. PFA (2010) discusses these issues in detail.

¹⁵Armenians comprise well in excess of 90 percent of the country's population.

them is its geographic location and historic ties with some of its neighbors. It can be a key stepping stone to better relations between the West, on the one hand, and countries, such as Iran and those in the Arab world and Central Asia, on the other.

Armenia's location guarantees its role as a spoiler: while *having* it as a member of a geopolitical block may not bring much value to the table, *not having* it could cause problems.

Second, the Armenian Diaspora, with an 8-million-strong network of people scattered globally, offers a unique opportunity for Armenia's progress and integration with the rest of the world. The Armenian Diaspora is one of the most resilient and best organized in the world. Properly mobilized, its resources could pull Armenia's tiny (\$10 billion) economy out of the doldrums and help it grow at very high rates in a short period of time.¹⁴

Finally, due to a high level of ethnic homogeneity,¹⁵ Armenia enjoys the luxury of remarkable internal stability, which compares quite favorably with the

situation in neighboring countries. This, coupled with a strong ability to unify against external threats (as shown by the history of the NK conflict), makes Armenia a unique entity in the region.

Ukraine looms large in considerations of matters such as these. In a **recent editorial** entitled "Ukraine the Birth Place of Strategic Europe?", Carnegie Europe's Jan Techau notes:

Ukraine is the first real strategic test of EU foreign policy. Never before has the EU been forced to operate on the high seas of crisis management, on a potentially existential question, and without a process to guide it or the United States to cajole it.

Could the events in Ukraine also change the way Europe looks at other CIS countries and make its invisible hand more effective? Can a regime change in Armenia lead to a change in the way Armenia acts in the region and globally? What could be the role of the West in that change?

III. Overview of Armenia's Bilateral Relations: Looking Beyond the Current State of Affairs

This section reviews the current state of Armenia's bilateral relations with its neighbors and highlights the potential for Armenia to play a much more active role in the region.

A. Armenia-Russia

The demonstrations against the visit of President Putin to Armenia in December 2013 revealed a high degree of discontent with Russia's policies towards Armenia. This, in many ways, is seen by Armenia's civil society as helping solidify Serge Sargsyan's corrupt authoritarian rule in Armenia. It is important to put these demonstrations in the context of wider regional developments in recent years.

Relations between Armenia and Russia are very much a function of Armenia's challenging geopolitical location. They feature some interesting twists and turns. On the one hand, Russia claims to be a reliable partner for Armenia that provides a security umbrella (albeit untested and perhaps less than fully credible) and is Armenia's largest foreign investor, having gained full control over large chunks of the Armenian economy through such investments. On the other hand, Russia maintains cordial relations with Azerbaijan (due to its volatile border and oil interests)¹⁶ and on occasion gives a green light to anti-Armenian rhetoric by Russian nationalists, which cannot go unnoticed in Yerevan. Despite the friendly official rhetoric, Moscow's actions have sometimes run contrary to Armenia's interests and undermined her position. This is especially true in the case of large-scale weapons sales to Azerbaijan and programs that provide Russian citizenship and wide-ranging relocation benefits to Armenian families willing to move to Russia. Overall, Russia effectively has Armenia

on the hook while flirting with Azerbaijan. This situation is unlikely to change without a major political shake-up either in Russia or in Armenia.¹⁷

After Yerevan officially announced its commitment to join the Customs Union, Armenian-Russian relations entered a new phase. Key characteristics of the entente are a de facto transfer to Russia of the main functions of an independent Armenian state, both in the political and economic arenas, and submission/subordination of Armenian national interests to those of Russia. Serge Sargsyan's support of Crimea's annexation by Russia is perhaps the loudest manifestation of this. Given the reality on the ground, it is possible that Armenian businesses involved in Ukraine will face sanctions in the near future, adding economic costs to political ones coming from the Ukraine fallout.

All in all, one would be hard-pressed to find an area of Russian involvement in Armenia that has led to a qualitative change on the ground. Russia's involvement since the break-up of the Soviet Union has rarely resulted in any serious technology transfer to Armenia and much of the infrastructure investment has been made to secure the sale of Russia's gas and other products and services. The takeover of the energy sector—including the management contract of the Metsamor nuclear plant—has made Armenia energy dependent almost exclusively on Russia. Yet this has hardly improved efficiency and service provision. By creating a difficult business environment and erecting direct and indirect barriers to entry, successive administrations in Yerevan have made certain that Russian companies are the only ones doing business in Armenia. This outcome has an economic as well as a political dimension, as taking

¹⁶ For the Azeri leadership, Russia remains a more comfortable partner than the West, due to its power succession and human rights issues.

¹⁷ Presence in Russia of sizeable personal investments of top members of the Armenian ruling elite (presumably mostly laundered money), makes it easy for Russia to control actions of those individuals in Armenia and pull the strings.

¹⁸The debt-for-assets swap was the first episode of an explicit Russian take-over of Armenian assets, orchestrated by Robert Kocharyan and his advisers in Yerevan. A swap of this nature was unprecedented for a developing economy and was particularly difficult to explain given that the creditor presented itself as the debtor's "strategic partner". This was the start of the Russian economic take-over of Armenia, a process which continues to this day.

¹⁹Russia's attempts to play a third party role in Armenian-Azeri negotiations proved unsuccessful, since the sides gained no new ground as a result. One of the factors behind this failure may have been a fundamental mistrust of Russian intentions by both sides. There is suspicion among many in the region that Russia has an interest in keeping matters at a slow boil in order to gain greater leverage.

²⁰Interestingly, the role of the 5th column in the take-over of Crimea was played by the Russian military stationed there (per post-Soviet bilateral agreements). There are striking similarities between the status of Russian troops in Armenia, and the status of Russian troops in Ukraine prior to the events in Crimea.

²¹Unless Yanukovich's demise was part of a plan, Russia just saw a friendly neighbor turn into a bitter enemy. Similarly, by carving out Ossetia and Abkhazia, Russia lost Georgia, making it undoubtedly a net loss for Russian interests. Loss of Armenia will first and foremost undermine access to the Middle East, both directly and indirectly.

kick-backs from Russian companies is easier than extorting them from their Western competitors.¹⁸

The situation is similar on the defense and security fronts. The credibility of the Russian security umbrella provided to Armenia against an external threat comes with an implicit condition that NK does not fall under the guarantee. This leaves the public increasingly skeptical of the credibility of the Russian shield, because the main threat to Armenia is likely to come from the East, where NK is the crux of the matter.¹⁹ It also strains credulity to expect a "strategic partner" that undermines Armenia's development prospects and the balance of power vis-à-vis its archrival will come to Armenia's aid in a time of need. Finally, with Armenia finding itself on the wrong side of the barricade, formed as a result of the recent global repositioning over events in Ukraine, Russia is turning from a guarantor of Armenia's security into a potential security threat to Armenia.²⁰

Perhaps the most worrisome element of Russian-Armenian relations is the aspiration of powerful elements in Moscow for a greater Russia in the form of the Eurasian Union. There is fear these elements are willing to take hard measures—including military action—to advance such objectives. Armenia has already paid a high price for Russia's global and regional ambitions and therefore should take steps to avoid repetition of this unhappy experience. It should be noted that when the independent Republic of Armenia (1918-20) opted for Sovietization in the midst of Kemalist Turkey's military offensive against the Republic, the Soviet Russian authorities reneged on their promises to compel Turkey to return occupied territories (the Mt. Ararat region and the Kars

province) to Armenia. In this regard, Russia's role in the mid-1992 surrender by Armenian forces of the (northern) Shahumyan region of the NK is seen as fitting a disturbing pattern.

GOING FORWARD

The recent annexation of Crimea by Russia will have implications for Russian treatment of Armenia in the foreseeable future. The West's response to these events is likely to eventually contain Russia's imperial appetite by triggering a decline, both economic and geopolitical. This decline, however, is likely to leave Armenia facing serious consequences and will take a long time to recover from, if the country is not adequately prepared to absorb the attending shocks. Therefore, a pursuit of viable solutions should begin without delay.

Russia should understand that both countries will benefit from Armenia's economic development and greater independence. Russia would suffer were it to lose Armenia as a close ally.²¹ As such, Russia needs to re-think its policy towards Armenia and proceed more softly. A depopulated Armenia that cannot defend itself against aggression is hardly an ideal partner. At the same time, with an estimated 2 million Armenians living in Russia, there is a natural tendency for Armenia to be close to Russia. However, forcing Armenia to do what would be tantamount to a relinquishing of sovereignty will lead to demographic and economic disaster that will undoubtedly backfire.

This may require action on the economic front that will take time. Disembarkation from a sinking Russian economic ship poses many challenges; not least is Russian ownership of notable

Armenian industrial assets. To encourage non-Russian entry and promote competition, barriers for new businesses should be dramatically reduced.²² Armenia's future prosperity lies in stronger integration into the world economy and better relations with the West. Putting all eggs in the Russian basket will be detrimental for Armenia in the long run. However, under the current circumstances, it is too optimistic to expect that Armenia alone can overcome its dependence on Russia—a more vigorous engagement by the West will be required. Delaying this engagement may result in events in Armenia going in the same (chaotic) direction as the events in Maidan (and what followed) and will cost much more to fix than the near-term, proactive policy initiatives advocated in this report.

The current regime in Yerevan has failed to advance the country's domestic and external interests, and as such, exhausted any legitimate claim to power. Moscow's support of the regime is stoking anti-Russian sentiment. The sooner Russia realizes this, the sooner it has a chance to mend ties with the people of Armenia. The alternative is a likely alienation of Armenia and a yet more tenuous foothold for Russia in the Caucasus. Fortunately, Russia needs Armenia at least as much as Armenia needs Russia. While the ultimate price to be paid by Armenia to make Russia understand this could be the loss of NK, Russia stands to lose potentially much more, especially now that it does not have many friends left. Both sides need to understand/internalize this and ensure that this unpleasant equilibrium does not materialize.

Key message: *Russia's control of Armenia is working against the long-run interests of both*

countries; this state of affairs is not sustainable. The challenge is to convince Russia to step back and allow Armenia to build bridges with other countries/blocks, as dictated by its own strategic interests, while still maintaining an exclusive relationship with Russia.

B. Armenia-Turkey

Much has been written in recent years about the Armenian-Turkish protocols, a key development in bilateral relations at least since 2009, and the “football diplomacy” that led to it. While it is not the intention of this report to revisit the issue in depth, a few points are worth noting to help better understand the geopolitical underpinnings of the process.

Turkey views its need to maintain an (active) foreign policy as necessary for advancing its regional standing as well as for national security. With the aim of strengthening its influence over Turkic-speaking states and nations, Turkey has developed and tried to implement a doctrine of neo-Ottomanism. Its objective is to build/maintain influence in countries that were formally part of the Ottoman Empire in the Middle East, the Caucasus, the Balkans, and Central Asia.

This “axis shift” has not gone unnoticed by the U.S., NATO, and the leading European and Middle Eastern countries, and has encountered various forms of resistance. Where Turkey has tried to extend its influence, it has hit serious stumbling blocks, some of which have drawn it into military and political conflicts. First, the recent revolutions in the Arab countries have, on the balance, contributed to Turkey's isolation in the Middle East,

²² Some of the priority areas could be service and IT sectors, in particular ones that attract foreign demand and do not necessarily require high volumes of cargo shipments. This will in turn lead to the utilization of an energetic and relatively well-educated Armenian workforce.

²³ The escalation of the Kurdish issue, in particular, may have important implications for Turkey. As Barkey (2009; p. 39) notes, in the long run, Turkey's membership in the European Union is contingent on how Turkey addresses its domestic Kurdish problem.

²⁴ In the 7 to 8 years preceding the Civil War in Syria, relations between Syria and Turkey had been developing successfully, which elicited worry in the U.S. and among Arab states. However, since the beginning of the war, Syria has effectively prevented the expansion of Turkey in the Middle East, much to the satisfaction of regional and global powers, such as Saudi Arabia, Egypt, and the United States. It is difficult to predict the long-term consequences of such developments for Turkish foreign policy, but the trend would appear to be in the direction of greater isolation in the region.

²⁵ Other observers see the triggers behind the process somewhat differently. Cornell (2011) writes: “Of course, another factor behind the initiative was not stated overtly. Obama, more than any other presidential candidate in recent history, had committed to recognizing as genocide the 1915 massacres of Armenians in the Ottoman Empire. But once Obama became president, he could not offer such recognition without infuriating Turkey, a country that was to be a major focus of the administration's outreach to the Muslim world. For Obama, the only honorable way to back out of his commitment was to work toward progress on the ground—progress that could be endangered

if the US president were to comment on historical events.”

²⁶This US strategy should be perceived positively. Although it could have created growing tensions in the region, including an uptick in threats and risks for Armenia, it is so far the most important condition for a more independent of Armenian foreign policy. As a result of this initiative—perhaps its only upside—Armenia emerged from a “reserve status” to a potential player in international politics. Such gains were wiped out, however, on September 3, 2013.

²⁷Turkey has also acted as Russia’s partner in blocking Armenia’s relations with NATO and the EU.

²⁸This is even without assuming any “strategic behavior” (e.g., dumping, etc.) on the side of Turkish business conglomerates, which could devastate Armenia’s tiny production base.

²⁹Astourian (2011) has this to say in connection with both issues: “A particular clause became the mantra of the Armenian government: this significant Armenian-Turkish settlement was being signed on equal terms and “without preconditions.” He (Serge Sargsyan) insisted, in particular, that the Mountainous Karabakh issue was not part of the protocols. Yet, Turkish Prime Minister Erdogan had already been linking the application of the protocols with significant progress in the settlement of the Karabakh issue months before the Zürich official signing ceremony. In the West and in Lebanon, President Sargsyan was greeted by Armenian demonstrations and rather tense formal meetings. In the United States, at least, he was able to split the Diaspora by co-opting the support of the New York archbishop of the Holy See of Echmiadzin, the leadership of the Armenian General Benevolent Union, the Armenian Assembly, and the semi-Masonic Knights of Vartan. None of these organizations or indi-

where Ankara held much hope for the advancement of neo-Ottomanism. Second, attempts to improve relations with the Kurdish political elite, including in Iraqi Kurdistan, has led to violent conflict with the Kurdish community in Turkey.²³ Finally, shifts in Turkish-Iranian relations have been accompanied by the rise of an even stronger “Shiite belt” standing in the path of the Turkish expansion, and witnessing a deterioration of relations with Iran and Syria.²⁴

Normalizing of Armenian-Turkish relations was one element in the regional power dynamics described above. Suffice it to say that prior to 2009 (the beginning of the active phase of negotiations between the leaders of Turkey and Armenia), the “Armenian issue” was not very much in play. From the outset, the process was tied to the US strategy of containment of Turkey’s regional ambitions, and it was largely dusted off for use in the context of shifting geopolitical realities.²⁵ Armenia thus became linked to a whole complex of regional challenges that assumed greater prominence in U.S. efforts to contain Turkey.²⁶

It should be noted that the Russian-Turkish rapprochement of the time also helped advance “football diplomacy”.²⁷ Initially, the protocols benefited from Russia’s support, perhaps motivated by a wish to diminish the role of Georgia in the region. However, events subsequently took a different turn: Russia became increasingly unhappy with Turkey’s regional thrust, with Syria acting as a serious spoiler in Russian-Turkish relations. Another problem was a growing Islamic/Sunni movement in Russia itself and Turkey’s alleged clandestine support of radical Islamic elements in Russia.

From the outset, the process promised very little by way of tangible results for Armenia. Given the

condition of Armenia’s economy and competitiveness problems in most sectors, the impact of an abrupt opening of the border would have been potentially devastating for import substituting sectors and the segment of the population depending on them.²⁸ A concerted (albeit concealed) effort was made to bury the Genocide recognition effort (and by extension the issue of related territorial and financial claims), which first and foremost are national security issues for today’s Armenia. Wishing such problems away or trying to cement a status quo unfavorable to Armenia—which is what the protocols would lead to after all—does not address Yerevan’s fundamental security concerns. Not only did the protocols not address these concerns, but they resulted in conditions between the two countries becoming tenser than they were before the start of the “football diplomacy”.

The signing of the protocols would have allowed Turkey to get a foothold in the discussion on NK and would have most likely resulted in a major rift between Armenia and the Diaspora.²⁹ The process leading to the signing of the protocols may have also undermined pro-Armenian resolutions in the US Congress, under preparation at the time.³⁰ Ultimately, the protocols failed due to the inability of the parties involved to predict/manage Azerbaijan’s response.

GOING FORWARD

At present, Turkey is entangled in a series of Middle East conflicts, slowing down its aspirations in the South Caucasus, the Balkans, and especially in Central Asia. The internal political turmoil of the past few months has forced the Turkish leadership to look more inward and may—at least temporarily—limit its appetite for greater regional influence.³²

Turkey quickly realized that it would not achieve its main objective in relation to Armenia, assisted by the United States and Europe, because Armenia continues to be an important lever in the policy of the West (and now Russia) toward Turkey. To the extent that the Armenian question remains alive, Turkey needs the normalization of relations with Armenia to counter the damage to its image abroad. In response, Armenia should seek to normalize its relations with Turkey without preconditions and with the understanding that the short-term economic benefits of normalization will be limited, if any.³³

It is not inconceivable for Turkey to be willing to acknowledge the Genocide during the centennial anniversary in 2015, but again only in a fashion that closes the door to any future Armenian claims. The Genocide Centennial should be used as an opportunity for the Armenian side to remind Turkey that the Armenian grievances remain unaddressed and that Armenia and the Diaspora are united in their demands from Turkey, which—apart from serving historical justice—have much more pragmatic objectives of securing Armenia's economic viability and security.

Key message: Armenia needs a relationship with Turkey, but not at any cost. Turkey is now busy elsewhere on its borders and domestically and this may not be the best time to expect Armenia to be high on its agenda. This is not the time for Armenia to make concessions and expect meaningful gestures in return. Instead, it should focus on enhancing the competitiveness of its economy (to better prepare for the border opening in the future) and use the upcoming Genocide Centennial for advancing its security and geopolitical objectives.

C. Armenia-Azerbaijan and the Resolution of the NK Conflict

The relations between Armenia and Azerbaijan since the May 1994 Bishkek Treaty can best be described as no war, no peace. While the negotiating process began almost immediately after the signing of the Treaty, it has practically exhausted itself and hardly anyone now pins any hopes on a negotiated settlement of the NK conflict.³⁴ Some have argued that the confidential nature of negotiations (where only a few people know the details) is not helping: it results in asymmetry between the true content of the talks and what is shared with the public, and creates room for manipulations. Finally, NK is excluded from the negotiations, making acceptability and sustainability of any solution uncertain at best. Appendix to this report provides a detailed account of the negotiation efforts since the signing of the Bishkek Treaty.

Azerbaijan presently maintains a fairly aggressive foreign policy stance aimed largely at undermining Armenia's reputation and position abroad and seeking assistance to modernize its army. Large-scale arms purchases from Russia and technology transfer from Israel are just some manifestations of Azerbaijan's (aggressive) strategy to that end. It has managed to make progress in its standing in some international organizations, largely due to the incompetence of the Armenian side to counter strong Azeri propaganda.

However, the Azerbaijani position on NK has serious weaknesses. Azerbaijan has declared itself a successor of the 1918-20 republic, which did not include NK and Nakhichevan. Moreover, the USSR's Constitution allowed the autonomous republics

viduals was supposed to meddle in the international politics of Armenia."

³⁰ Remarks by Gregory Aftandilian, a former senior foreign policy staffer at the US Senate, made during a conference organized by PFA at the George Washington University School of Law ("Expert: Armenia-Turkey Protocols Undermine Congressional Resolutions", the Armenian Reporter).

³¹ Shougarian (2012) notes: "[S]ince the unexpected military success of the Armenian side in the Karabagh war crowned by the ceasefire of 1994, Turkey has become prone to the pressures from Azerbaijan, its closest ally. It is difficult to assess how much of this susceptibility was real and whether yielding to pressures from a newly independent republic was in the long run a deliberate tactical move by Ankara."

³² However, recent development in Ukraine may strengthen their hand and offer a boost in this regard.

³³ Benefits of trade are conditioned on the country's competitiveness, which is a function of a range of economic factors, among which ability to access another country's markets is only one factor. Ill-timed massive trade liberalization could easily hurt the country's import substitution industries—as they have time and time again in other developing countries—and will have social implications for the sectors engaged in import substitution and those downstream from them. Finally, a border can be closed as quickly as it is opened, potentially rendering benefits quite tenuous.

³⁴ The recent announcement by Ambassador Warlick may have been an attempt to revive the process.

³⁵ “The US Ambassador Richard Morningstar: ‘Who Will Stand Up For Azerbaijan’s Independence?’” Azeri English Edition, May 19, 2014.

to seek higher status (including independence), which NK has utilized. While the counterfactuals are difficult to judge, it is safe to say that had the Armenian side lost the war in 1994, there would have been little to no international pressure on Azerbaijan to allow for the return of the Armenian refugees or to make any territorial concessions. Armenia had an upper hand in the months and weeks coming to the Bishkek Treaty but stopped its advance under pressure from the mediators, in hopes that this would create good will and establish the preconditions for a lasting peace. Unfortunately, there appears to be collective amnesia in Baku about such matters.

Even within its current *de facto* borders (i.e., without the territories under Armenian control), Azerbaijan is structurally unstable and faces both internal (see Box 2 below) as well as external threats (from Iran and possibly Russia). It holds itself together only with the help of outside assistance, where oil plays a key role.³⁵ Once oil runs out, securing Azerbaijan within its current *de facto* borders will be challenging at best, given the existence of the centrifugal forces (which could potentially be aided by Armenia acting strategically as a spoiler). However, in pursuit of its own interests, Armenia could help secure Azerbaijan from further disintegrating (assuming the latter commits not to cause problems for Armenia and Iran in the future) by forming a security alliance with Baku.

For all practical purposes, Aliyev rules Azerbaijan like a king (with a longer horizon for family control of the franchise) and arguably has a much stronger interest in his country’s success than Sargsyan (whose expected tenure in power is short and who is under constant fire from his people). It could be

argued that Sargsyan has an incentive to curtail progress in Armenia, fearing that the rise of civil society and stronger institutions will either lead to his demise or pose a challenge for his life and his family, once he steps down.

Time might be on Baku’s side, as Armenia is weakened by large-scale emigration and deteriorating economic and social conditions. However, waiting for Armenia to “come crawling” might be a risky strategy for the Azeri leadership to follow, since upon the ouster of the Sargsyan regime, Armenia has the potential to substantially improve its position in a very short time, crushing official Baku’s hopes of overtaking NK by force. In addition, as mentioned above, Armenia can act as a spoiler and assist secessionist movements of minorities in Azerbaijan, thus weakening the country further. Finally, there is a chance that Azerbaijan too might face difficult economic and social conditions, once it runs out of oil and/or is destabilized internally by Azeri fighters returning from Syria or through external pressure from Iran and/or Russia.

In the meantime, war over NK remains unlikely in the short run if the current balance of power is maintained. However, triggers for a new (including for a proxy) war could come from outside (e.g., as part of adverse developments between Iran and Israel). This is not unlikely, given how close the wider region is to a bifurcation point. And for as long as this no peace, no war situation remains in place, the Armenian side should not rush to make irreversible concessions and instead should remind itself that no political solution of conflicts in modern history has ever changed the prevailing military outcome.

BOX 2: ETHNIC MINORITIES IN AZERBAIJAN

Talish: The Talish are an Iranian people living in the south-east of Azerbaijan, particularly in Masal, Lerik, Yardymli, Lenkoran, and Mughan townships. They are the natives of the region with an estimated 2-2.5 million living in Azerbaijan.³⁶ The Talish have their own language, one of the northwestern Iranian languages, and ancient literary traditions, but have no schools and cultural organizations due to the policies of the Azerbaijan government. In 1918-20, they declared territorial autonomy as the Russian Talish-Mughan Republic, which was eventually absorbed into Azerbaijan. In 1993, they proclaimed an autonomous republic called Talysh-Mughan Autonomous Republic (governed by Alikram Hummatov), which lasted for three months. Presently the Talish national movement is active in Azerbaijan, with affiliations in Russia, Belarus, and the Netherlands.³⁷ Its current aim is to establish Talishistan as a sovereign state of the Talish people. Alikram Hammatov, who remains the leader of the Talish national movement, maintains that the solution to the issue of national minorities in Azerbaijan is to create a confederation of independent republics.³⁸

Tats: The Tats too are of Iranian origin, living compactly in Azerbaijan, Russia (particularly, Dagestan), and Ukraine (Crimea). They are mainly Shia Muslims, but there are also Jewish Tats in Azerbaijan. Different sources put the number of Tats in Azerbaijan from 135,000 to 1.5 million. Beside their Turkic exonym Tati or Tat, they have some local self-designations: the Tats of Apsheron are called Parsi, and their language is called Zuvan Parsi. The Tats of Lahij are called Lohijon, and the Tats of Khizi, Devechi, and Siyazan districts are called Daghlji. The Tats have their own language, although there are no schools or cultural programs on Tati language, due, again, to the policies of the Azerbaijan government. At present, the Tat national movement is in its infancy.³⁹

Lezgins: The Lezgins are a predominantly Muslim Sunni ethnic group that live in Azerbaijan and south-western parts of Dagestan. Their language is part of the Caucasian family of languages. According to the 2009 census, there are 180,000 Lezgins in Azerbaijan.^{40,41} However, Lezgin non-governmental organizations report their numbers in Azerbaijan at 1 million, with the Institute for Ethnology and Anthropology of the Russian Academy of Sciences putting the population of Lezgins between 250 and 260 thousand.⁴² In 1990, the Lezgin Democratic Movement Sadval ('Unity') was created with the goal of redrawing the borders between Dagestan and Azerbaijan to unite the Lezgin people in one territory.

³⁶ The official 2009 Azeri census gives the number of Talish as 112,000 (or less than 1 percent of the country's total population), compared with 76,800 in 1999. Other Talish sources maintain that the true figure is 500,000, with an additional 600,000 Talishes living in Iran.

³⁷ Hakobyan, A., 2005. "The Prospective of Talishian National Movement," Noravank Foundation.

³⁸ "Талышы Азербайджана подумывают о конфедерации – Алакрам Гумбатов," Regnum. September 24, 2013.

³⁹ Акопян, А., 2009. "Таты Азербайджана," Noev Kovcheg.

⁴⁰ "Доклад ОНН: Лезгины в Азербайджане лишены прав и подвергаются ассимиляции," Panorama, October 7, 2013.

⁴¹ Lezgin sources maintain that their population is between 600 and 800 thousand (see Panorama).

⁴² "Лезгинский вопрос, как фактор нестабильности," Caucasus Times, January 7, 2013.

⁴³ Kotecha, H., 2006. "Islamic and Ethnic Identities in Azerbaijan: Emerging Trends and Tensions," OSCE Office in Baku.

⁴⁴ "Revival of Lezgin Ethnic Group Seen as Ruining "Human" Ties with Azeris," BBC Monitoring Trans Caucasus Unit, October 23, 2013.

⁴⁵ The Economist Intelligence Unit projects that in 2014-18 oil output in Azerbaijan is projected to fall slightly (at around 1 percent per year) and that oil prices will fall by around 11 percent over the same period.

⁴⁶ Broers (2014) discusses various small-scale economic initiatives in NKR that may be applied within the status quo to spur activity and bring the sides together.

⁴⁷The seeds of mutual distrust between the Azeri and Turkish leaderships have already been sown. It is unlikely that politicians in Baku will ever forget that Turkey "went behind their backs" to negotiate with Armenia on border opening.

However, in 1998, Sadval divided into two camps, one that sought the creation of an autonomous republic of Lezgistan within the Russian Federation, and one that advocated for establishing cultural rights of the Lezgin in Azerbaijan, having an open border between Azerbaijan and Dagestan and creating a Lezgin autonomy in Dagestan. As part of this movement, the Federal Lezgin National Cultural Autonomy was created to advocate for Lezgin cultural rights.⁴³ The Sadval movement has been recently revived in Dagestan, maintaining the same goal of uniting the Lezgins on the two sides of the border.⁴⁴

GOING FORWARD

Azerbaijan's international leverage will most likely decline in step with its hydrocarbon production and international prices for gas and crude oil. There will be a tipping point when its foreign partners will no longer find it beneficial to honor their side of the deal (of providing implicit guarantees for Azerbaijan's sovereignty and internal stability). At that juncture Azerbaijan might be amenable to a solution that allows for more peaceful and predictable co-existence with Armenia. Turkey's current economic and international problems too might reduce Azerbaijan's ambitions.

A finish point could in principle be reached if one of the sides gains overwhelming military or economic superiority. It will either lead to a war that would unequivocally seal the final deal or effectively prevent the conflict from restarting, by preserving the status quo for a long time. The former is likely to take place if Azerbaijan gains the superiority, while the latter is likely to be the case if instead Armenia gains the upper hand.

Offering Mr. Aliyev credible insurance against Russia and Iran—a major problem for Azerbaijan—may make him more amenable to a deal that involves Armenia retaining control over NK. To help him save face, the solution should allow a return of refugees and implementation of other confidence-building measures, to include the engagement of the international community.⁴⁶

In the medium term, the peaceful co-existence of Armenia and Azerbaijan depends on: (1) the global geopolitical balance of forces (where the events in Ukraine and the ongoing US-Iran rapprochement will be the critical ones to watch); and (2) the balance of power between Armenia and Azerbaijan. One way or another, Armenia's main objective will have to be to maintain an unequivocal militarily superiority (emphasizing quality over quantity, which implies efficient use of available fiscal resources and access to modern technology, and training) and to try to distance Azerbaijan from Turkey. This could be possible if it follows a more diverse foreign policy and puts a greater weight on its relations with the West.⁴⁷

Key message: Azerbaijan might be gaining an upper hand, but this is likely to be temporary. In the medium term, it remains extremely vulnerable to both internal and external threats and may require security guarantees to remain within its current borders (without NK). The country's leadership has an interest in keeping the country stable and in the long-term development of the region, making it amenable to a peace deal with Armenia, if the latter gains an upper hand (via a leadership change and external assistance).

D. Armenia-Iran

A country of 75 million people (approximately the population of Germany), twice the size of Turkey, and with the second largest energy (combined gas and crude oil) reserves in the world (second only to Russia), Iran holds great potential. The lifting of the Western sanctions that have crippled the Iranian economy will likely lead to a major economic boom. The expiration of the eased terms will send Iran back to the negotiation table. If successful, the current round of negotiations could lead to substantial easing of Iran's economic isolation.

Iran is an important neighbor for Armenia, one that Armenia has no territorial disputes with or related claims. It also shares, if covertly, some common geopolitical interests with Armenia. Although Tehran officially maintained a neutral position vis-à-vis NK during the 1991-94 war, it has been accused by Baku of having helped Armenia by providing fuel and other supplies during the period of heavy fighting. Iran's relations with Azerbaijan remain strained, also due to alleged Iranian efforts to export fundamentalist Islam to Azerbaijan and disagreements over energy development in the

Caspian Sea. And while Azerbaijan might offer a socially liberal atmosphere for its citizens and visitors alike, Iran appears to be ahead, as far as the political atmosphere is concerned, with every recent presidential election in the country having resulted in unexpected outcomes.⁴⁸

The current trade turnover between the two countries is in excess of \$380 million, 90 percent of which is the import of Iranian products to Armenia. Gas and electricity take up a lion's share of that. However, the current degree of economic cooperation can be considered a failure of policy on both sides. A landlocked country, Armenia can use the opportunities offered by Iranian ports and roads for the export of products. On the other hand, for Iran the shortest way for the export of products to Europe passes through Armenia, which is not fully used because of poor roads. As the region's most populous country, Iran offers many avenues for development in Armenia and for the export of its products.⁴⁹ It is in this context that if Iran and the P5+1 countries reach an agreement on the Iranian nuclear issue, building a railroad linking Iran to Armenia will be in the interest of both countries and beyond.

GOING FORWARD

Should the ongoing dialogue between Iran and the West lead to positive results, it is very likely to have a significant impact on dynamics in the region, making Armenia a potential beneficiary of the upside. Closer relations with Iran following the lifting of the sanctions could offer Armenia a meaningful alternative to its reliance on Russia and help balance its geopolitical position. Given the significant difference in the structure of their

⁴⁸ "Azerbaijan and Iran: A Soft-Power Struggle?" by Eldar Mamedov, Eurasianet.org, April 10, 2013.

⁴⁹ Agri-processing, livestock production and tourism (in a form that would bundle the travel maps of Armenia and Iran together) are just two of the areas where opportunities are ample, and that require no major investments to yield significant benefits.

⁵⁰ Most of the products imported from Iran are petrochemicals. As a result of European and American sanctions applied against Iran during the last years, imports from Iran have declined, giving way to Russian and Iraqi products. Armenia exports electricity, minerals, tobacco products, and scrap metals to Iran.

⁵¹ “Why Is Russia Silent on Iran’s Gas Courtship of Armenia?” by Marianna Grigoryan, Eurasianet.org, April 2, 2014.

⁵² There are also some unresolved border demarcation issues.

⁵³ The numbers of Armenians in the region grew from 44 percent in 1939 to 65 percent in 1989, but then fell to 54 percent by 2002 due to massive migration of Armenians to Armenia proper and Russia in the early years of the independence. See Minasian (2005) and National Statistical Office of Georgia (2002). Overall, Armenians represented the largest ethnic minority in Georgia (437.2 thousand or 8 percent of total population) in 1989 (See *Demoskop Weekly*, 539-40).

economies, the potential for trade and closer economic integration between Armenia and Iran would also appear to be sizable.⁵⁰ There might be indirect benefits as well: lifting of the sanctions may make the Nabucco gas pipeline both politically and commercially more feasible (due to Iranian gas), making the region as a whole a beneficiary of significant new financial resources.

In a surprising development, the Iranian Ambassador to Armenia, Mohammad Rajesi, declared at a conference held on December 6, 2013 that his country is ready to enter into negotiations with Armenia over the supply of natural gas on terms more favorable than that Armenia has with Russia. This announcement came days after Armenia signed a humiliating agreement with Russia’s Gazprom and has so far not received any reaction from Moscow. While it remains to be seen whether the deal will be allowed to go through, on March 19, official Yerevan announced its intention to increase imports of gas from Iran to 2 billion cubic meters per year, a nearly 75 percent jump over the current levels, in exchange for export of electricity to Iran.⁵¹ The possibility of re-exporting some of this gas westwards (infrastructure permitting) will be another avenue to bring Iran and Armenia closer to Europe and reduce Armenia’s reliance on Russia and Azerbaijan for energy supplies.

Key message: *The ongoing negotiations leading to a possible rapprochement between Iran and the West offer the strongest upside for Armenia. The already warm political relations between Armenia and Iran, underpinned by a lack of territorial claims and common views on regional issues, could receive a boost from more meaningful economic cooperation, where Armenia could play a role*

as a transit route of Iranian goods and energy to Western markets.

E. Armenia-Georgia

Armenians and Georgians are bound together by roots in ancient history. A turbulent past plays a critical role in shaping their present interactions and relations with the world as a whole. Current relations are on a generally friendly path with insignificant bumps along the way due mainly to a bilateral issue and a “third party” factor.⁵² The first point is related to the Armenian minority living in the Samtskhe-Javakheti region (hereafter, SJR) of Georgia, an enclave bordering Armenia and populated by an ethnic Armenian majority.⁵³ The second point is related to Russia. With the exception of skirmishes in 1918-20, Armenians and Georgians—the only Christian nations of the Caucasus—lived peacefully together, with a high rate of intermarriages among the representatives of both ethnic groups.

The SJR has from time to time hit the headlines of the Georgian media artificially drawing tension to the attention of the public as well as the local political establishment. In a clear case of a perceived intra-state security dilemma, Armenians of SJR (and their relations with Armenia proper) are viewed with suspicion in Georgia. On the reverse side, the Armenians in SJR and across Georgia feel their identities threatened. The quintessential Realpolitik “enemy of my enemy is my friend” principle further tarnishes Georgian-Armenian relations. The existence of a common problem—secessionist conflicts on their territories (NK for Azerbaijan and South Ossetia and Abkhazia for Georgia)—emotionally unites Azerbaijan and

Georgia. Both sides have lost wars—Georgians to Russia (in 1993-94 and in 2008) and Azerbaijan to Armenia (in 1991-94)—which also contributes to bringing them closer.

The international environment and distribution of power play an important role in relations between Armenia and Georgia. Georgia is an ally of the West whose territory serves to supply energy from the Caspian Sea to Western markets. However, this does not make the country immune to actions from its northern neighbor, such as the one that took place in August 2008. Georgia remains vulnerable to potential Russian actions (beyond the de facto annexation of Abkhazia and South Ossetia) and SJR appears to be an area where Russia's (neo-Soviet) planners may choose to hit. The biggest destabilizing factor in the bilateral relations between Georgia and Armenia has been Armenia's relationship with Russia. Armenia's membership in the Collective Security Treaty and intention to join the Russia-led Customs Union cannot but put officials in Tbilisi on edge.

Another factor that has so far produced limited mutual gain is the quality of economic relations. Business ties between the two countries are rudimentary: large joint-venture projects remain limited to the import of electricity from Armenia to Georgia and the transit of Armenian cargo through the Georgian Black Sea ports. Cooperation on transport and infrastructure development is virtually non-existent. This said, there is no shortage of anecdotal evidence of Armenian business relocating to Georgia to benefit from a friendly business environment and to avoid takeovers by Russian oligarchs with ties to the regime in Yerevan.

GOING FORWARD

The future (and stability) of Armenian-Georgian relations hinges by and large upon the conditions in SJR. Worsening of the inter-ethnic situation there may complicate diplomatic relations and even develop into a full-blown conflict. However, this appears to be unlikely at the moment, barring an external intervention. Given the unresolved status of NK, Armenia cannot afford a worsening of the situation in SJR, which may endanger the Armenian population in wider Georgia.

In addition to destabilizing Georgia, Russia's possible action in SJR, such as stirring inter-ethnic conflict, could make Armenia even more dependent on Russia and further drain it both economically and demographically. Official Yerevan should be aware of such possibilities and should reach out to Tbilisi with an offer to work together to improve social conditions of the Armenian population in the region to help reduce the potential for unrest. These efforts should also be supported by Armenia's western partners. In addition, possible introduction of a more restrictive visa regime and higher custom tariffs—both as a result of closer Georgia-EU ties and Armenia's upcoming membership in the CU—too may hinder the relations between the two neighbors. However, efforts should be made to avoid adverse policy changes and limit the restrictions to the cross-border movements of people and goods/services.

If the downside of the bilateral relations between Armenia and Georgia is contained, the upside promises to be sizable. This will largely take the form of economic integration for both countries to benefit from economies of scale in the production

of goods and services, and from foreign direct investment. Some of this is happening already, with capital flowing from Armenia to Georgia, and more will take place given strong political will and economic policies on both sides designed to bring the economies closer. Bilateral economic relations between Armenia and Georgia are also likely to benefit from rapprochement between the US and Iran. If the West moves decisively and offers a credible alternative for Armenia's security, Armenia and Georgia could form a security block (joined perhaps by Azerbaijan, as discussed above) that would benefit from enhanced scale and comparative advantages.

Key message: Relations between Armenia and Georgia remain cordial but are far from their full potential. The active conflicts in the region are largely responsible for the limited degree of cooperation and joint action. Economic integration holds promise if policymakers on both sides can develop a vision of a common market with integrated infrastructure. While Russia still holds the key to stability in Georgia, more active cooperation between Armenia and Georgia aimed, *inter alia*, at improving conditions of ethnic Armenians in Georgia will reduce threats of Russian action.



IV. Summary and Conclusions

We return to the topology of the solutions for the NK conflict and the resulting role for Armenia in the region outlined in Chapter I. The table below

presents a summary of the risks and payoffs associated with these scenarios based on the discussion above.

Payoff Matrix for Alternative Scenarios	Probability	Impact	Timing
Scenario I: Armenia fears the rise of Azerbaijan and surrenders liberated territories, and subsequently NK, under pressure	Medium	High (negative)	Short term
Scenario II: The status quo persists indefinitely, with both sides suffering an enervating slow drip	High	Medium (negative)	Long term
Scenario III: Under a new leadership, Armenia retains control of NK and forms a partnership with Azerbaijan to prevent the latter from disintegrating further	Low	High (positive)	Medium term

Scenario I is fairly likely to materialize. Fearing a loss in the next war, Armenia's *de facto* leadership may preemptively surrender liberated territories and sign a peace deal mediated by the Minsk group. This, however, will not lead to a permanent solution. Armenian concessions on the eastern front are unlikely to contain the Azeri appetite to regain NK in its entirety, making a peace arrangement temporary. Having weakened NK and Armenia—both militarily and in terms of the population's morale (as a result of concessions), Azerbaijan will attack once it feels it has the capacity to retake NK by force. A weaker Armenia or a stronger Azerbaijan will continue to remain dependent on the major powers in a new no war, no peace state of affairs that will ensue, since neither one will be allowed to win the war. The ongoing standoff will require constant foreign mediation to remain in check.

The consequences of this for Armenia as well as Iran and the West—Washington, in particular—will

be wholly negative. With Armenia almost certainly brought to its knees, there will be little, if anything, in the way of Turkish expansion eastwards, its virtual consolidation with Azerbaijan and almost certainly further plans for regional domination.

Scenario II is the likeliest one of all three to take place. While it will preserve the *de facto* sovereignty of Armenia perhaps together with most, if not all, liberated territories, the implications of this scenario are easy to predict: one can simply project forward the economic and demographic trends of the past 5-7 years to see what the future may bring to Armenia in such a case. Declining living standards, growing poverty, rampant corruption, and absence of the rule of law will further reduce Armenia's population (perhaps below 1.5 million within the next 3-5 years) and bury the dreams of economic recovery and progress. In terms of the distribution of geopolitical influence under this scenario, Russia will continue to call the shots in

⁵⁴ Needless to say, the West could go the other way too, by helping Azerbaijan establish superiority over Armenia, bringing this back a whole circle to Scenario I. Unfortunately, this will not take much effort—the current economic trends are likely to change the power balance in favor of Azerbaijan in a few years.

⁵⁵ An often overlooked but very critical issue in this context is one of capacity and human capital. The regime's governance record and its poor standing among its citizens and the Diaspora are likely to dramatically reduce the circle of professionals—historians, international relations experts, economists, developmental/trade experts, etc.—who would be willing to collaborate to help find solutions that are beneficial for Armenia.

the region. It will use its influence with Armenia and Azerbaijan to limit the joint US-Iran advances and Turkey's regional aspirations. Given how predictable this scenario and its consequences are, we skip the discussion and move to the next scenario.

While appearing to be the least likely, **Scenario III** offers the most promise for all sides. A stronger Armenia that can consolidate its domestic economic and international position and offer security guarantees to Azerbaijan against more imminent threats from Russia, Iran, and its own minorities via a security arrangement (that has integrated markets as an added bonus) offers a positive direction to all. If Armenia maintains a sufficient degree of independence from Russia and builds strong relations with the West, Georgia may join this Armenian-Azerbaijan alliance by expanding both its economic market and security arrangements.

Armenia has an interest in strengthening its position in the region. Russia's continued meddling in the Caucasus is not in the best interest of Armenia in the long run as this relationship unavoidably assumes a subordination of the interests of Armenia to those of Russia. An ability to replace the reliance on Russia with an arrangement that has a stronger Armenia flanked by Georgia and Azerbaijan might be more beneficial for Armenia in the long run.

If **Scenario I** can be credibly eliminated (by helping Armenia regain its potential strength), the Azerbaijani leadership too might be interested in **Scenario III**. This is because Aliyev—with a long expected tenure and virtually unchallenged ability to transfer his power to someone from his family or a close clan member—is likely to be tempted

by the promise of future economic development in his country and the region. The likelihood of this outcome is considerably higher for Aliyev than Sargsyan, whose decision-making must be influenced by the expectation of a much shorter tenure in politics and a lack of ability to pass power in an unchallenged fashion to hand-picked successors.

In conclusion, we see the solution based on the scenarios above as follows. It is in the West's best interest to wrestle Armenia from under the Russian sphere of influence and assist it with creating an unambiguous superiority over (or at a minimum parity with) Azerbaijan. This will allow Armenia to maintain the current status quo as the basis for the NK solution, which could include its commitment to allowing a gradual return of Azerbaijani refugees to NK and the creation of a joint security umbrella in the Caucasus.⁵⁴ This will pave the way for the creation of a common Transcaucasian economic market, with major possibilities for building truly competitive sectors/economies and—in the case of a successful US-Iran rapprochement—energy transit and Europe-Asia infrastructure projects.

A meaningful regime change in Armenia is a prerequisite for the country to regain the upper hand in the conflict to provide what is likely to amount to the most credible guarantee against the restarting of the war and for long-lasting peace in the region.⁵⁵ To unlock the potential of regional integration, the process has to be led by a leadership in Yerevan that is clean and enjoys the support of its people, but also understands the risks and pitfalls involved. To prevent Scenario I from materializing and to jumpstart Scenario III, the change in regime needs to take place before the start of a new war.

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Appendix¹

The Timeline of the NK Peace Process (1993-2014)

Four **UN Security Council Resolutions** on NK: **822** (April 1993), **853** (July 1993), **874** (October 1993), and **884** (November 1993).

May 4-5, 1994: Bishkek Treaty signed in Bishkek, Kyrgyzstan

In attendance: Chairmen of the Supreme Soviets of Azerbaijan (Jalilov), Armenia (Ararktsyan), NKR (Babourian), and Kyrgyzstan (Sherimkulov); Chairman of the Council of Federation of Russia (Shumeyko); Plenipotentiary Representative of the President of the Russian Federation (Kazimirov); and the Head of the Secretariat of the Council of Inter-Parliamentary Assembly of CIS Member States (Krotov).

Main outcome: A cease-fire agreement was signed and all sides agreed to continue negotiations.

May 12, 1994: The Bishkek Treaty came into effect.

December 6, 1994: Budapest Declaration “Towards a Genuine Partnership in a New Era”

In attendance: Organization for Security and Co-operation in Europe (OSCE) delegations.

Main outcome: The declaration mandated the co-chairmanship of the Minsk Conference to continue working with the parties to the conflict towards the furthering of confidence-building initiatives, especially in the humanitarian field. Commitment to the deployment of OSCE peacekeeping forces was made.

March 23, 1995: OSCE Conference on NK in Vienna, Austria

Main outcome: The mandate of the “Minsk Conference” was adopted. The document outlined the responsibilities of the co-chairs, which included furthering confidence-building measures, implementing peace-keeping operations, and maintaining contact with the parties to the conflict as well as relevant external organizations.

December 3, 1996: OSCE Summit in Lisbon, Portugal

Main Outcome: Three principles for the settlement of the NK conflict were proposed: (1) the territorial integrity of Armenia and Azerbaijan, (2) NK's self-rule within Azerbaijan; and (3) guarantee of security for NK. The principles were supported by all member states of the Minsk Group (MG) except Armenia, which objected to the predetermination of the status of NK.

January 1, 1997: The format of the MG was changed to include three co-chairs: the US, Russia, and France.

April 22, 1997: Parliamentary Assembly of the Council of Europe (PACE) Resolution No. 1119

Main outcome: The Assembly maintained that the inviolability of borders, security of all populations in the region, extensive autonomy status for NK and Abkhazia, and the right of return of refugees and displaced persons are principles that should be drawn upon in the process of negotiations of the conflicts in Transcaucasia.

June 1, 1997: The MG “Package” Proposal

In attendance: Leaderships of Armenia, Azerbaijan, and NK, and the MG representatives.

Main Outcome: The MG presented a proposal on the cessation of hostilities and inclusion of NK as an autonomous entity within the territory of Azerbaijan. The proposal was accepted by Azerbaijan but rejected by Armenia and NK.

September 19, 1997: The MG “Step-by-step” Proposal

In attendance: Leaders of Armenia, Azerbaijan, and NK, and the MG representatives.

Main Outcome: The MG presented a proposal to commence the negotiations through an incremental process. The first

matter of negotiations included confidence building measures and the lifting of blockade. The second part dealt with the issue of the status of NK. Armenia and Azerbaijan supported the proposal, but NK rejected it due to security concerns.

October 10, 1997: Joint Statement of the Presidents of Armenia and Azerbaijan on supporting the plan for “step-by-step” settlement of the conflict in Strasbourg, France

Main Outcome: Presidents L. Ter-Petrosian and H. Aliyev expressed support for the step-by-step plan. Armenia’s support was subsequently revoked after the resignation of Ter-Petrosian.

November 9, 1998: The MG “Common State” Proposal

In attendance: Presidents of Armenia (Kocharyan), Azerbaijan (H. Aliyev), and NK (Ghukasyan); and the MG representatives.

Main Outcome: The MG presented a proposal that envisioned NK and Azerbaijan as two self-governing entities within a common state in the internationally-recognized boundaries of Azerbaijan. The proposal was accepted by Armenia and NK but rejected by Azerbaijan.

April 2, 1999: Meeting on the Sidelines of the CIS Summit in Moscow, Russia

In attendance: Presidents of Armenia (Kocharyan) and Azerbaijan (H. Aliyev).

Main Outcome: Parties agreed to continue bilateral negotiations.

January 26-27 and March 4-5, 2001: Meeting in Paris, France

In attendance: Presidents of Armenia (Kocharyan), Azerbaijan (H. Aliyev), and France (Chirac).

March 8, 2001: The MG co-chairs proposed the appointment of Special Representatives of presidents of Azerbaijan and Armenia for negotiations on the NK conflict. The Special Representatives subsequently met in Prague (May and July) and Vienna (November).

April 3, 2001: Meeting in Key West, Florida, United States

In attendance: Presidents of Armenia (Kocharyan) and Azerbaijan (H. Aliyev); the US Secretary of State (Powell), and the MG envoys from the US (Cavanaugh), Russia (Gribkov), and France (Gaillarde).

Main Outcome: The parties reported “narrowing of differences” in the positions and agreed to schedule more negotiations to be held in Geneva in June. However, the proposals discussed during the meeting faced opposition in Azerbaijan and received a lukewarm reception in Armenia.

May 13-15, 2002: Meeting in Prague, Czech Republic

In attendance: Deputy Foreign Ministers of Armenia (Markarian) and Azerbaijan (Azimov); and the representatives of the MG Co-chairs.

July 12, 2002: The EU statement reiterating the territorial integrity of Azerbaijan as the basis for a peaceful solution to the conflict in NK.

January 23 2002: An Enlarged Bureau of the Council of Europe Committee of Ministers Session in Strasburg, France

Main outcome: The Committee held a special session on the progress achieved in meeting the obligations to peacefully settle the NK conflict.

June 17 2002: Meeting in St. Petersburg, Russia

In attendance: President of Armenia (Sargsyan), Azerbaijan (I. Aliyev), and Russia (Medvedev); Co-chairs of the MG from the US (Bradtko), France (Fassier); and Russia (Popov); and Personal Representative of the OSCE Chairman-in-Office

(Kasprzyk).

December 11, 2003: Meeting in Geneva, Switzerland

In attendance: President of Armenia (Kocharyan) and Azerbaijan (I. Aliyev).

Main outcome: The parties reiterated their commitment to continuing the dialogue.

April 16, 2004: Meeting in Prague, Czech Republic

In attendance: Foreign Ministers of Armenia (Oskanyan) and Azerbaijan (Mammadyarov); and the representatives of the MG Co-chairs.

April 28-30, 2004: Meeting in Warsaw, Poland

In attendance: Presidents Armenia (Kocharyan) and Azerbaijan (I. Aliyev)

May 12-13, 2004: Meeting in Strasbourg, France

In attendance: Ministers of Foreign Affairs of Armenia (Oskanian) and Azerbaijan (Mammadyarov); and the MG Co-chairs.

June 21, 2004: Meeting in Prague, Czech Republic

In attendance: Ministers of Foreign Affairs of Armenia (Oskanian) and Azerbaijan (Mammadyarov); and the MG Co-chairs.

June 28-29, 2004: Meeting in Istanbul, Turkey

In attendance: Ministers of Foreign Affairs of Armenia (Oskanian), Azerbaijan (Mammadyarov), and Turkey (Gul).

August 30, 2004: Meeting in Prague, Czech Republic

In attendance: Ministers of Foreign Affairs of Armenia (Oskanian) and Azerbaijan (Mammadyarov); and the MG Co-chairs.

September 15, 2004: The Meeting on the Sidelines of the CIS Summit in Astana, Kazakhstan

In attendance: President of Armenia (Kocharyan) and Azerbaijan (I. Aliyev).

October 29, 2004: UN General Assembly, New York, United States

Main outcome: At the request of Turkey and Azerbaijan, “the situation in the occupied territories of Azerbaijan” was included as an additional item in the agenda of the 59th session of the General Assembly. Subsequently, on November 23, 2004, it was voted to defer the consideration of “the situation in the occupied territories of Azerbaijan”, including it in the draft agenda of the 60th session of the General Assembly.

November 19, 2004: Meeting in Berlin, Germany

In attendance: Foreign Ministers of Armenia (Oskanian) and Azerbaijan (Mammadyarov).

December 5, 2004: Meeting in Sofia, Bulgaria

In attendance: Ministers of Foreign Affairs of Armenia (Oskanian) and Azerbaijan (Mammadyarov); and the MG Co-chairs.

December 6-7, 2004: Meeting of the 12th OSCE Ministerial Council in Sofia, Bulgaria

Main Outcome: The Ministerial Council released a statement commending the advances in the settlement of the NK conflict, which enabled “the methodical re-examination of all the parameters for a future settlement”.

December 9 2004: Meeting within the framework of NATO EAPC in Brussels, Belgium

In attendance: Ministers of Foreign Affairs of Armenia (Oskanian) and Azerbaijan (Mammadyarov).

January 11, 2005: Meeting in Prague, Czech Republic

In attendance: Ministers of Foreign Affairs of Armenia (Oskanian) and Azerbaijan (Mammadyarov), and the MG Co-chairs.

January 25 2005: PACE Resolution No. 1416

Main Outcome: The Assembly maintained that a territory may only secede and gain independence from a state through “a lawful and peaceful process based on the democratic support by the inhabitants of such territory and not in the wake of an armed conflict leading to ethnic expulsion and the de facto annexation of such territory to another state.” The Assembly also urged Armenia and Azerbaijan to foster reconciliation between their respective populations through the use of media and educational institutions.

January 31-February 6, 2005: A Fact Finding Mission (FFM) to examine the Armenian settlements in the “occupied regions” around NK.

In attendance: The Personal Representative of the OSCE Chairman-in-Office (Kasprzyk), representative of the OSCE Secretariat, and representatives from Russia, USA, France, Finland, Germany, Italy, and Sweden. The Mission was headed by Emily Haber, Head of the OSCE Department at the German Ministry of Foreign Affairs.

Main Outcome: The FFM’s Report (issued on March 17, 2005) found “evidence of the presence of settlers in the territories examined”. The report further maintained that “the overwhelming majority of settlers are displaced persons from various parts of Azerbaijan”. While finding “no evidence of direct involvement by the authorities of Armenia in the territories”, the Co-chairs stated that more settlements in the region must be discouraged and allowing the situation to remain as it is in the long run will hinder the peace process.

April 15, 2005: “Prague Process” Continuation in London, United Kingdom

In attendance: Foreign Ministers of Armenia and Azerbaijan, and Co-chairs of the MG.

Main Outcome: The mediators asserted that the process of negotiations is at a sensitive stage where “an agreement could be at hand in the framework of the discussions between the parties.” They further stressed that the ceasefire must be reinforced, that renewed hostilities would have a detrimental effect on both countries, and that populations on both sides need to be prepared for a solution “that will require compromise on both sides”.

May 15, 2005: Meeting in Warsaw, Poland

In attendance: Presidents of Armenia (Kocharyan) and Azerbaijan (I. Aliyev); the MG Co-chairs; and Foreign Ministers of Russia (Lavrov) and France (Barnier).

July 5, 2005: The OSCE Parliamentary Assembly

Main outcome: The Assembly deliberated on a report on the NK conflict created by the Assembly’s Special Envoy to the conflict, Goran Lennmarker. The report raised concern about the casualties from both sides along the line-of-contact that persist despite the ceasefire, asserting that the only solution to the conflict is through peace. The Special Envoy proposed that the solution to the conflict can be modeled after Europe’s experience of establishing a lasting peace through democracy and integration, maintaining the need to end occupation, arranging the return of refugees and internally displaced persons, as well as securing democracy and minority rights.

July 10-12, 2005: The MG Co-chairs’ visit to Azerbaijan and Armenia

In attendance: Co-chairs from the US (Mann), Russia (Merzlyakov), and France (France).

August 26-27, 2005: Meeting on the Sidelines of the CIS Summit in Kazan, Russia

In attendance: Presidents of Armenia (Kocharyan) and Azerbaijan (I. Aliyev).

September 12, 2005: 60th session of the UN General Assembly

Main Outcome: The situation on the “occupied territories of the Republic of Azerbaijan” was included as an item in the agenda of the General Assembly session. The Assembly asked the OSCE Chairman-in-Office to prepare a report on the fires in the affected areas.

September 12, 2005: PACE Assembly in Paris, France

Main Outcome: The Assembly held discussions on the NK conflict and upheld the January 2005 PACE resolution.

September 14, 2005: International Crisis Group (ICG) Report

Main Outcome: ICG reported on the current living conditions of Armenians and Azeris from NK and nearby regions and how they perceive the settlement of the conflict, raising concern about the rising military expenses and violations of the ceasefire. The report concluded that “the basis for any settlement of the conflict must include mutual security and tolerance”, as well as the rule of law and democracy.

December 5-6, 2005: OSCE Ministerial Meeting in Ljubljana, Slovenia

Main Outcome: The statement commended the progress of the “Prague Process” and expressed hope that the process can move from negotiations to decision-making to create benefits for all sides. It encouraged the sides to make significant steps toward conflict resolution in the coming year.

January 9, 2006: Discussions of the PACE Sub-committee on NK conflict in Paris, France

Main Outcome: The sub-committee reviewed a report prepared by Chairman of the committee, Lord Russell-Johnston, on the NK conflict. The report upheld the provisions of the January 2005 PACE resolution, including the issue of refugees and internally displaced persons, occupation of territories, ethnic cleansing, and the option of settling the conflict based on the European models of autonomy.

February 10-11, 2006: Meeting in Rambouillet, France

In attendance: Presidents of Armenia (Kocharyan) and Azerbaijan (I. Aliyev).

June 5, 2006: Meeting on the Sidelines of the Black Sea Forum for Partnership and Dialogue in Bucharest, Romania

In attendance: Presidents of Armenia (Kocharyan) and Azerbaijan (I. Aliyev).

September 7, 2006: The UN General Assembly in New York, United States

Main Outcome: The Assembly adopted Resolution 60/285 stressing the urgent need for the assessment of the impact of wild fires on the environment of the region in and around the NK. The resolution focused on addressing the incidences of fires in the territories surrounding NK and rehabilitating the affected areas, calling on the sides to cooperate in the matter.

November 29, 2006: Meeting of the Sidelines of the CIS Summit in Minsk, Belarus

In attendance: Presidents of Armenia (Kocharyan) and Azerbaijan (I. Aliyev).

July 2007: Visit by a delegation of Armenian and Azerbaijani scientists, artists, and musicians to both countries and the NK. The purpose of the visit was to build trust and foster dialogue between the populations of the two countries.

November 29, 2007: Meeting in Madrid, Spain

In attendance: Presidents of Armenia (Kocharyan) and Azerbaijan (I. Aliyev); Ministers of Foreign Affairs of the US, France, and Russia.

Main Outcome: The preliminary version of the Basic Principles for a peaceful settlement in NK, presented to Armenia and Azerbaijan by the US, France, and Russia, called for the Azerbaijani control of the territories surrounding NK; a corridor

linking Armenia to NK; the determination of the NK's status through the will of the population; and the right of return for refugees and internally displaced persons. The Principles were not finalized.

March 14, 2008: UN General Assembly in New York, United States

Main Outcome: The Assembly adopted a resolution recognizing the NK as part of Azerbaijan and calling for the Armenian withdrawal. The vote was passed with 39 members in favor, 7 against, and 100 abstentions. Among those opposed were Armenia, France, Russia, and the US. The assembly also upheld the right of displaced Azerbaijanis to return to the region, while recognizing the need to provide security and equal living conditions for the Armenian and Azerbaijani populations in NK.

June 6, 2008: Meeting in St. Petersburg, Russia

In attendance: Presidents of Armenia (Sargsyan) and Azerbaijan (I. Aliyev), and the MG Co-chairs.

November 2, 2008: Meeting in Moscow, Russia

In attendance: Presidents of Armenia (Kocharyan), Azerbaijan (I. Aliyev), and Russia (Medvedev).

Main Outcome: The sides signed a declaration for the observance of international law and restated their commitment to abstain from using force in the conflict. They also stated their intention to "intensify further steps in the negotiating process."

December 3, 2008: Continuation of Talks on the Basic Principles in Helsinki, Finland

In attendance: Foreign Ministers of Armenia (Nalbandyan) and Azerbaijan (Mammadyarov)

Main Outcome: Parties discussed the Basic Principles. On the next day, Russia's Foreign Minister (Lavrov), France's Foreign Minister (Kouchner), and the US Assistant Secretary of State (Fried) issued a statement urging for the finalization of the Principles in the months to come.

January 28, 2009: Meeting in Davos, Switzerland

In attendance: Presidents of Armenia (Sargsyan) and Azerbaijan (I. Aliyev).

Main outcome: The parties agreed to intensify the negotiations over the NK conflict.

May 7, 2009: Meeting in Prague, Czech Republic

In attendance: Presidents of Armenia (Sargsyan) and Azerbaijan (I. Aliyev); Ministers of Foreign Affairs of Armenia (Nalbandyan) and Azerbaijan (Mammadyarov), the MG Co-chairs, and the personal representative of the OSCE Chairman-in-Office.

June 4-5, 2009: Meeting in St. Petersburg, Russia

In attendance: Presidents of Armenia (Sargsyan) and Azerbaijan (I. Aliyev); Ministers of Foreign Affairs of Armenia (Nalbandyan) and Azerbaijan (Mammadyarov), the MG Co-chairs.

July 10, 2009: Summit of the Eight in L'Aquila, Italy

Main outcomes: Presidents of the US (Obama), Russia (Medvedev), and France (Sarkozy) directed their mediators to present the updated version of the 2007 Madrid Document to the leadership of Armenia and Azerbaijan urging them to come to a final agreement on the Basic Principles.

July 18, 2009: Meeting in Moscow, Russia

In attendance: Presidents of Armenia (Sargsyan), Azerbaijan (I. Aliyev), and Russia (Medvedev).

October 9, 2009: Meeting in Chisinau, Moldova

In attendance: President of Armenia (Sargsyan) and Azerbaijan (I. Aliyev)

November 22, 2009: Meeting in Munich, Germany

In attendance: Presidents of Armenia (Sargsyan) and Azerbaijan (I. Aliyev)

Main outcome: In a statement following the meeting, the MG Co-chairs reported some progress during the talks while noting that some aspects of the negotiations remained unaddressed.

December 1, 2009: 17th meeting of the OSCE Ministerial Council in Athens, Greece

In attendance: Foreign Minister of Armenia (Nalbandyan), Azerbaijan (Mammadyarov), Russia (Lavrov), France (Kouchner), the US Deputy Secretary of State (Steinberg), and the MG Co-chairs.

January 25, 2009: Meeting in Sochi, Russia

In attendance: Presidents of Armenia (Sargsyan) and Azerbaijan (I. Aliyev); and Foreign Ministers of Armenia (Nalbandyan), Azerbaijan (Mammadyarov), and Russia (Lavrov).

Main outcome: The parties reached a common understanding on the preamble of the document on the Basic Principles for the Peaceful Settlement.

May 20, 2010: European Parliament's Resolution on "The Need for an EU Strategy for the South Caucasus"

Main outcome: The resolution touched upon the situation with refugees and internally displaced persons as a result of the NK conflict and recognized their right to return. It also proposed that "an interim status for Nagorno-Karabakh could offer a solution until the final status is determined."

June 17, 2010: Meeting in St. Petersburg, Russia

In attendance: President of Armenia (Sargsyan) and Azerbaijan (I. Aliyev); the MG Co-chairs from the United States (Bradtke), France (Fassier), and Russia (Popov); and Personal Representative of the OSCE Chairman-in-Office (Kasprzyk).

June 26, 2010: Meeting in Muskoka, Canada

In attendance: Presidents of the U.S. (Obama), Russia (Medvedev), and France (Sarkozy)

Main Outcome: The sides called on the leadership of Armenia and Azerbaijan to come to an agreement on the Basic Principles for the settlement of the NK conflict and instructed their Ministers and Co-chairs to help the parties to the conflict reach a common ground prior to the meeting in Almaty.

July 16-17, 2010: OSCE Foreign Ministers' Meeting in Almaty, Kazakhstan

In attendance: Foreign Ministers of Armenia (Nalbandyan), Azerbaijan (Mammadyarov), France (Kouchner), Russia (Lavrov), and the U.S. Deputy Secretary of State (Steinberg).

Main Outcome: The MG Co-chair country representatives issued a joint statement asserting that the main responsibility for putting an end to the conflict rests in the hands of the leadership of the two countries. They called for a "greater spirit of compromise" and further action in line with the cease-fire agreement of 1994.

October 27, 2010: Meeting in Astrakhan, Russia

In attendance: Presidents of Armenia (Sargsyan), Azerbaijan (I. Aliyev), and Russia (Medvedev).

Main Outcome: Parties agreed that ceasefire and confidence-building measures need to be enhanced in order to further the political and diplomatic process of settling the NK conflict. In addition, Sargsyan and Aliyev agreed to a prisoner exchange and repatriation of the remains of the soldiers that perished in the fighting.

December 1-2, 2010: OSCE Summit in Astana, Kazakhstan

In attendance: Presidents of Armenia (Sargsyan), Azerbaijan (I. Aliyev), and Russia (Medvedev); Prime Minister of France

(Fillon); and the US Secretary of State (Clinton).

Main Outcome: Parties agreed that efforts to resolve the NK conflict need to be boosted and that the only way to foster reconciliation is through a peaceful, negotiated settlement.

March 5, 2011: Meeting in Sochi, Russia

In attendance: Presidents of Armenia (Sargsyan), Azerbaijan (I. Aliyev), and Russia (Medvedev).

Main Outcomes: The sides agreed to conclude the prisoner exchange as soon as possible. A commitment was also made to address all disputes peacefully as well as conduct investigations into incidents that occur along the ceasefire line.

May 26, 2011: Summit of the Eight in Deauville, France

In attendance: Presidents of the US (Obama), Russia (Medvedev), and France (Sarkozy).

Main Outcomes: The parties stated their support for the latest draft of the Basic Principles for settlement and urged the leadership of Azerbaijan and Armenia to finalize them during the June Summit meeting.

June 24, 2011: Meeting in Kazan, Russia

In attendance: Presidents of Armenia (Sargsyan), Azerbaijan (I. Aliyev), and Russia (Medvedev).

Main Outcome: The sides pointed to progress achieved toward finalizing the Basic Principles.

December 6, 2011: OSCE Ministerial Council Meeting in Vilnius, Lithuania

In attendance: Foreign Ministers of Armenia (Nalbandyan), Azerbaijan (Mammadyarov), and Russia (Lavrov); Minister for European Affairs of France (Leonetti), and the US Secretary of State (Clinton).

Main Outcome: The parties agreed to put more effort into creating a system for investigating breaches of the ceasefire agreement. In addition, the Heads of Delegation of the MG countries regretted that the Azerbaijani and Armenian leaderships have been unable to take a decisive step towards finalizing the Basic Principles for the settlement.

January 23, 2012: Meeting in Sochi, Russia

In attendance: Presidents of Armenia (Sargsyan), Azerbaijan (I. Aliyev), and Russia (Medvedev).

Main Outcome: Presidents of Armenia and Azerbaijan stated their support for speeding up the process of reaching an agreement on the Basic Principles. They also took note of the draft mechanism for investigating incidents along the ceasefire line and affirmed their support for enabling dialogue between their populations.

June 18, 2012: G20 Summit in Los Cabos, Mexico

In attendance: Presidents of the U.S. (Obama), Russia (Putin), and France (Hollande).

Main outcome: The sides issued a statement affirming their commitment to the peaceful settlement of the NK conflict, urging the parties to take significant steps toward its settlement.

August 31, 2012: The 16th Summit of the Non-aligned Movement in Tehran, Iran

Main outcome: The Final Document (Article No. 391) maintained that the solution to the NK conflict should be based on the territorial integrity of Azerbaijan within its internationally recognized borders.

October 27, 2012: Meeting in Paris, France

In attendance: Foreign Ministers of Armenia (Nalbandyan) and Azerbaijan (Mammadyarov); the MG Co-chairs from the U.S. (Bradtke), France (Faure), and Russia (Popov); and the Personal Representative of the OSCE Chairperson-in-Office (Kasprzyk).

December 6, 2012: OSCE Ministerial Council in Dublin, Ireland

In attendance: Foreign Minister of Russia (Lavrov), Minister Delegate for European Affairs of France (Cazeneuve), and the Secretary of State of the U.S. (Clinton).

Main outcome: Ministers urged the sides to the NK conflict to intensify efforts for the peaceful conflict settlement.

November 19, 2013: Meeting in Vienna, Austria

In attendance: Presidents of Armenia (Sargsyan) and Azerbaijan (I. Aliyev); delegations from the MG countries.

Main Outcome: The sides agreed to advance the negotiations for a peaceful settlement and expressed their commitment to meet again in the near future.

January 28, 2014: Meeting in Paris, France

In attendance: Foreign Ministers of Armenia (Nalbandyan) and Azerbaijan (Mammadyarov); and delegations from the MG Co-chair countries.

Main Outcome: Foreign Ministers reconfirmed their support for a peaceful settlement of the conflict in NK.

August 9, 2014: Meeting in Sochi, Russia

In attendance: Presidents of Armenia (Sargsyan), Azerbaijan (I. Aliyev), and Russia (Putin).

Testimonials

“The report Armenia and the West: A New Vision for the Caucasus that followed the multifaceted discussion at the Atlantic Council on July 2, 2014 is both a gratifying result of a comprehensive insight into Armenia’s foreign and security policy and a creative after-thought to the discussion itself. It is also a rare attempt to put Armenia’s future into strategic perspective, which helps it to graduate beyond one-dimensional dependence on Russia and opens the door for alternative political thinking. Foreign policy problems and challenges are rightfully linked to better governance and democracy building.”

Rouben Shougarian

Armenia’s First Ambassador to the US.

“I have been following the activities of Policy Forum Armenia for some time, and find the work of this small but outstanding group of professionals truly impressive. PFA’s ability to think outside the established norms and clichés, its perseverance and its well researched and thorough reports on difficult and hard-hitting subjects have always met the highest professional standards. Their latest report on Armenia and the West is no exception. One may or may not agree with all its conclusions, but the report stands as one of the most thoughtful and possibly consequential works on the subject of Armenia’s foreign relations.”

Vahan Zanoyan

Author and Retired Chairman of PFC Energy International.

“Policy Armenia Forum has rendered an invaluable service to scholars and the general public in issuing the report “Armenia and the West,” a detailed exploration of the foreign and domestic policies of the newly-independent Caucasian republic. These are evaluated in the context of all of Armenia’s neighboring states, with special attention to Russia – a vital inclusion in the light of the recent Ukrainian confrontation. The report pulls no punches in its examination of Armenia’s faltering economy and governance in general, and displays total objectivity in its dissection of Armenia’s problems. It is a unique document and mandatory reading for anyone preoccupied with Armenian affairs.”

Edward Alexander

Author of “A Crime of Vengeance: An Armenian Struggle for Justice” and Retired US Diplomat.

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