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South Caucasus: What Prospects after Twenty Years of “Managed Instability”?

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Keypoints

- Twenty years after the end of the Cold War and the independence of Georgia, Armenia, and Azerbaijan, the “managed instability” in the South Caucasus continues to prevail in the absence of solutions to the conflicts between Armenia and Azerbaijan – over the territory of Nagorno-Karabakh – and between Georgia and Russia – over territorial issues and political differences.
- Against a background of stalled peace negotiations, the possible use of force is becoming a growing threat in light of the regional military build-up and the aspirations of Azerbaijan to restore its sovereignty over Nagorno-Karabakh. A resumption of the conflict would have a devastating effect in the region and pose a direct security threat to Europe and Russia (Northern Caucasus).
- The regional actors have no interest in a broad settlement since normalization in the South Caucasus would pave the way towards fundamental changes in the geopolitics of the region. These circumstances further the conditions for the perpetuation of the prevailing status quo.
- The negotiation mechanisms must recover from successive failures and find new life, since they are the prevailing deterrent to the resumption of war. Russia, which has regained its position as the major regional actor, has a leading role and responsibility in this regard, as well as in securing the “managed instability”.

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Twenty years after the fall of the Soviet Union and the independence of the three Caucasian Republics of Georgia, Armenia, and Azerbaijan, the region remains characterized by a state of “managed instability” due to the absence of solutions to the conflicts between Armenia and Azerbaijan (over the territory of Nagorno-Karabakh) and between Georgia and Russia (over territorial issues and political differences). Negotiation mechanisms aimed at solving these issues exist (since 1992 for Nagorno-Karabakh, and since 1991 for Georgia), but they do not appear to produce meaningful results, raising questions on the purpose of these mechanisms and the future of the region beyond the lasting status quo. A movement toward deeper instability in the region, which cannot be excluded, would pose a direct security threat to Europe, as well as to Russia.

Many analyses have been produced on the failures of the negotiation processes and the resulting responsibilities, but few have focused on the motivations of the parties involved. This paper will examine the interests that the major actors may or may not have in the status quo prevailing since 1994. It will also evaluate the possible alternatives to the current peace processes.

Russia as Dominant Player

Russia is a key player, as it has been the dominant power in the Southern Caucasus since the 19th century and remains, to some degree, the major actor in the region. Nevertheless, its position in the region has greatly fluctuated since the 1990s. At the time, the Russian Federation was in an economic depression and its interests were mainly internal, largely monopolized by the Chechen wars, whereas Azerbaijan was preparing the build-up of the first pipeline exporting crude oil from the Caspian Basin towards the world markets under the geopolitical guidance of the United States. In the following decade, Russia, thanks to high oil revenues and new regional ambitions, as well as the relative regional retreat of the United States, lack of regional European influence, and the modesty of the European Union (EU) neighbourhood policy, began to reassert its influence over the Southern Caucasus and the Commonwealth of Independent States (CIS).

Over the last two decades, Russia’s posture in the Southern Caucasus moved from mainly securing its positions with its Armenian ally in the 1990s, towards increasingly containing Georgia and its active and provocative “freedom policy” under President Saakashvili. This development culminated in the Russian-Georgian war in August 2008, the occupation/liberation of the two Georgian provinces of Abkhazia and South Ossetia, an increased Russian pressure over Azerbaijan, and consequently, an increasing Russian influence over the Southern Caucasus in general. Since 2008, the strategy of the Russian Federation in the region has primarily focused on avoiding the resurgence of a regional conflict – with Georgia and between Azerbaijan and Armenia – and consolidating its influence over Armenia and Azerbaijan.

Indeed, preventing new conflicts in the region together with promoting its own position as a peace facilitator are now the prime objectives of Russian diplomacy. Russia has been increasingly active after the war with Georgia in the promotion of the negotiation process over Nagorno-Karabakh, and in particular, in preventing the Parties from taking part in military actions/provocations that could ignite a new conflict in the region.¹ Pressures exercised by the co-chairs of the Minsk Group that monitors the peace process (Russia, United States, and France) have significantly increased in proportion to the growing difficulties encountered in the course of the negotiation and the concomitant increased tension on the front lines.

The Perils of the Worst Case Scenario

This Russian activism is well-motivated. A resumption of the war between Azerbaijan and Armenia over Nagorno-Karabakh is a threat taken increasingly seriously in the light of the military build-up in the region and the volatility of the situation on the front lines (see Table 1). A new conflict would have devastating effects for the region and beyond.² It would pose a direct security threat to Europe on its Eastern flank and to Russia, particularly in its disrupted republics in the Northern Caucasus vulnerable to external influence. A new conflict would also undermine Russia’s policy of balancing both countries.³ Even initially limited to Nagorno-Karabakh, the hostilities would inevitably involve Armenian forces, both from within Nagorno-Karabakh and from Armenia proper, bringing a regional dimension to the conflict.

The Perils of the Worst Case Scenario

Table 1: Defence budgets: Armenia, Azerbaijan, Georgia (in million USD)

	2004	2008	2010
Armenia	98.5	395	434
Azerbaijan	183	1,258	1,590
Georgia	36.6	1,095	420

Source: IISS, *Military Balance*, 2005-06 (pp. 108, 110, 120), 2009 (pp. 165, 167, 176), 2011 (pp. 85, 87, 109)

Furthermore, the security agreement extended in August 2010 between Russia and Armenia – which provides the latter a security assurance up to 2044 with the extension of the term of Russian troop deployment in the military base of Gyumri – would force Russia to take a side.⁴ Indeed, Moscow’s credibility as security guarantor for the Collective Security Treaty Organization (CSTO) countries, to which Armenia is a member, would be seriously challenged if it would abstain. Additionally, Turkey, which shares a community of culture and history with Azerbaijan, could hardly refrain from taking part, as the well-established solidarity within both “Turkic” societies would likely force Ankara to act. Thus, Ankara could, directly or indirectly, be involved in the hostilities on the side of its Azerbaijani ally in a conflict that might trap the regional powers (Russia and Turkey) into a proxy war if not into direct confrontation.

In addition, the use of force would not bring a permanent settlement to the issue, as the unsuccessful party would hardly recognize the *fait accompli* but instead would continue to claim ownership over Nagorno-Karabakh, as has been the case even prior to 1991. Likely, Russia would be involved in ensuring the ceasefire in a post-war situation, making it the major, if not the only, peacekeeper on the ground, possibly with the support of CSTO. In such a scenario, even if Moscow might not be keen to take up a risky interface between Armenian and Azerbaijani positions, its presence

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in the Southern Caucasus would deeply alter the balance of power in the region. Furthermore, Russia would alienate a neighbour – Azerbaijan – that it has been courting since 2008, in order to ensure Baku's geopolitical neutrality and its non participation in a Western military alliance.⁵

Moscow is equally concerned with keeping its relations with Georgia at their current Cold War-like status and preventing any serious escalation at the border between Georgia and Russia, Abkhazia, and South Ossetia.⁶ In addition to the fact that renewed hostilities between the two countries would jeopardize the prospects of Olympic Games in Sochi in 2014, these hostilities would also question the role of Russia as a peace facilitator. Hostilities between Russia and Georgia would also likely revive the perception, widely spread after the 2008 war, of a revisionist Russian leadership keen to further redraw the borders in the Caucasus, a possibility considered with particular concern by the CIS states.

In brief, as the major regional player, Russia is extremely interested in preventing the resumption of war in the South Caucasus.

Status Quo or Regional Settlement?

In this context, the central question is whether the regional players have a keen interest in a broad settlement in the region. This question has been extensively discussed with contradictory arguments. For some, notably the EU and the United States, Russia would have a major interest in a pacified, stable, and cooperative South Caucasus, which would be less of a burden particularly for Moscow in terms of its economic and military assistance to Armenia and its political and military confrontation with Georgia.⁷

The fact is that no progress has been made since 2008 towards a peace settlement in the conflict between Russia and Georgia. The political environment in Moscow and Tbilisi makes this peace settlement improbable in the near future, at least until the 2012 presidential elections in Russia and the Parliamentary elections in Georgia the same year. The numerous efforts made toward enhancing the dialogue between Georgia and Russia as well as the *de facto* authorities of Abkhazia and South Ossetia in the framework of the Geneva Talks have borne no fruit in the absence of political will from the parties. As long as the relations remain in the current confrontational mood, there is little chance of a breakthrough. Thus, the interest of the parties in a settlement is certainly not given, and it seems unlikely that the new Russian President will change the situation.

Likewise, in the Nagorno-Karabakh conflict, the Achilles heel of the Southern Caucasus, it is far from clear whether a settlement would meet the interests of the actors in the region. At first, it could reasonably be argued that Russia would indeed have an interest in a stable South Caucasus. Moreover, a political agreement between Azerbaijan and Armenia would lift the obstacle to the full normalization of the relations between Armenia and Turkey. It was also argued – but not confirmed by the facts – that such normalization would facilitate a settlement between Armenia and Azerbaijan, since an Armenia relieved from its security concerns with Turkey could be more open to concessions

on the Nagorno-Karabakh issue. That said, normalization in the Southern Caucasus would transform the geopolitics of the region. It would pave the way to the integration of the Turkey-Armenia-Azerbaijan-Georgia complex. Armenia's unique relation of dependence to Russia would wane and Russian military presence in the country, at least, be questioned.

In this dilemma, it is far from given that Russia has made the choice of the economic benefits of change over what may still be considered, in a post-Cold War narrative, as the geopolitical merits of the status quo. Since the 17th century, the South Caucasus has been a privileged place of competition between Turkish and Russian ambitions. An active and business-oriented modern Turkey might, in the long run, marginalize Russia in the economic field in the South Caucasus and draw the entire region into its orbit of influence. In turn, this might raise the spectre of a renewed Turkey-Caucasus-Central Asia axis, which had dominated under the Ottoman Empire until the mid 19th century when tsarist Russia took pre-eminence over the Southern Caucasus. In other terms, Russia may still remain a status quo player rather than a progressive one that would favour a fundamental change from conflict-oriented societies to cooperatives ones.

The US posture is equally ambiguous, and has significantly shifted over the last two decades. Since the mid-1990s, the United States had been the major sponsor of the Southern Energy Corridor aimed at bringing oil and gas from the Caspian area to Europe and the world markets. The initiative was a success, as far as Azeri oil is concerned, since the output was first exported by rail and then connected in 2006 to the Mediterranean Sea via the Baku-Tbilissi-Ceyhan (BTC) pipeline. The United States still was, at the time, a most influential regional power, whereas Russia was absorbed by the post-Soviet transition.

The following decade showed a shift as the US interests became more oriented towards the promotion of democracy, in particular in Georgia, and the possible accession of the latter – and possibly Azerbaijan – to EU and NATO. This brought to an edge the competition between the United States and Russia over the Caucasus at a time when the Russian Federation, under Putin, boosted by large energy revenues, was eager to project its new policy of "sphere of interests" towards the CIS and the Caucasus.⁸ The apex was reached with the August 2008 war between Georgia and Russia that marked the limits of the US (and European) influence – the West was unwilling and unable to assist Georgia – and the resurgence of Russia's influence in the region.

These developments were taking place at a time when US diplomatic priorities were redefined by its military engagement in Iraq and Afghanistan, the Iranian nuclear crisis, and the Middle East, where Russia's cooperation was increasingly needed. The "reset" between Washington and Moscow which took place in this context under the Obama Administration leaves, according to many analysts, the Caucasus in the margins of US priorities, except for the transportation corridor towards Afghanistan.⁹ The issue of the transportation of gas to Europe – the strongest asset with oil in Azerbaijani hands – via the Southern Corridor is still open, but the United States has left the leadership in

the competition with Russia for this strategic asset to the Europeans.

The third major regional player is Turkey, whose economic influence has grown over the last ten years, to a point that it is already the top trade partner of both Azerbaijan and Georgia. Its ambitious foreign policy and regional aspirations, along with its cultural and societal proximity with Azerbaijan, make Turkey an increasingly influential player in the Southern Caucasus.¹⁰ However, Turkey is hampered by its disputes with Armenia over the genocide issue and the Nagorno-Karabakh conflict, which limits its capacity to influence the political developments in the region and to effectively engage in a change to the status quo. Turkey's efforts to normalize its relations with Erevan have stalled in the face of its commitments to Baku in the Nagorno-Karabakh issue and its proposal of a Security Pact for the

region is still lacking support.

As for Europe, although French President Sarkozy – then head of the EU presidency – sponsored the ceasefire deal between Russia and Georgia in 2008, the European influence over the region remains limited¹¹ – notwithstanding the presence of the European Monitoring Mission (EUMM) in Georgia. This is mainly due to a lack of political commitment and strategic vision, as well as the scarce resources brought by its modest Eastern Neighbourhood Policy – a trend reinforced by the new focus of the EU on the Middle East and North Africa.¹²

In conclusion, the United States, Turkey, and Europe all do not seem to be in a position to change the status quo in the region.



The Conflicting Interests of the Caucasians

Against this background, the three Caucasian states and the other entities share deeply conflicting interests. In Georgia, President Saakashvili shows little eagerness to take part in a dialogue with the *de facto* authorities of Abkhazia and South Ossetia and seems unwilling to build trust and restore dialogue with an unwilling Russia. The current status quo may be manageable for the time being, as neither state has the interest or capability to substantially increase insecurity at low cost, but it is still a risky game for both sides in terms of potential for escalation with the number of players (four) being an aggravating factor.

Armenia and Azerbaijan are both playing the time card. The former considers that the longer the situation of *de facto* independence of Nagorno-Karabakh, the better the chance to impose an irreversible *fait accompli*. On the other hand, Baku counts on its economic and military rise as the main tool to force Yerevan to concessions. These are nevertheless misguided assumptions, as on the one hand, time is no guarantee for international recognition of unilateral statements of independence, and on the other hand, Yerevan is not left alone when facing the Azerbaijani military forces. Yerevan is still in the position of force inherited from the 1991-1994 conflict, with full control over Nagorno-Karabakh as well as the surrounding occupied territories – which are not claimed as “Armenian”.

Comfortable with the situation, despite the high economic and political price of its isolation in Southern Caucasus, Armenia is a status quo player.

The sole Caucasian player that has an immediate interest in and claims to have the capacity of changing the status quo is Azerbaijan.¹³ Baku faces two intertwined domestic challenges: to recover sovereignty over Nagorno-Karabakh and over the occupied territories surrounding it. Assuming that a possible recovery of Azerbaijani sovereignty over Nagorno-Karabakh itself is likely to take much time, Baku's preliminary interest is focused on the recovery of the occupied territories, which serve as advance lines of defence for the Armenians. In the last couple of years, the stake was that some progress in the negotiation process would pave the way towards a progressive withdrawal of the Armenian forces from these territories. The current stalemate makes this hope increasingly less realistic for Baku, at least for the time being.

The Hazards of the Negotiation

Starting in 1996, the negotiation process over Nagorno-Karabakh has gone through several phases with no conclusion so far. The current phase has shown, with the active engagement of the co-chairs of the Minsk Group, an increasing dynamic since 2007; thanks to the hopes carried by the “Basic Principles” (or “Madrid principles”),

a set of principles aimed at paving the way towards a settlement of the conflict.¹⁴ Along the bumpy road of the negotiation, the apex was reached in 2009 when the normalization process between Turkey and Armenia initially boosted the negotiation over Nagorno-Karabakh. Expectations were raised by the prospect that normalization between Turkey and Armenia would indeed bring the necessary impetus to the negotiation between Armenia and Azerbaijan.

But by the beginning of 2010, it rapidly became clear that the normalization between Turkey and Armenia also carried a disruptive potential for the negotiation over Nagorno-Karabakh. The conditionality established by Turkey, under the pressure of Azerbaijan,¹⁵ between the advancement of the normalization with Armenia and a progress in the negotiation over Nagorno-Karabakh brought heavy pressure on a weak Armenian president, Serzh Sargsyan. Ankara refused to sign the Protocols of October 2009 setting the terms of the normalization until the beginning of a withdrawal of the Armenian forces from the occupied territories around Nagorno-Karabakh. The consequence of this move was a stalling of both the normalization process between Turkey and Armenia and the negotiation process over Nagorno-Karabakh. In this context, if the position of Moscow regarding the normalization was formally supportive, it is eventually less clear whether Russia contributed positively to this process.

Indeed, since the beginning of 2010, neither of the two processes has shown progress. The negotiation over Nagorno-Karabakh has shifted since 2009 from the supervision of the Minsk Group (co-chair) towards the Russian leadership. President Medvedev reshaped the negotiations into a model of "Summits' process", a formula by which the negotiation is run by the three presidents of Russia, Armenia, and Azerbaijan – with the support of the co-Chairs of the Minsk Group. President Medvedev chaired nine Summits with the leaders of both sides between 2009 and 2011. Having effectively taken over the leadership of the negotiation process on Nagorno-Karabakh, Russia shows its pre-eminence over the region and its position as guarantor of the "managed instability" in the Southern Caucasus, without providing a prospect for a settlement.

The Necessity of Negotiating

Despite the lack of progress in the negotiations and in the absence of a reasonable alternative, the pursuit of the negotiation process over Nagorno-Karabakh remains the sole option. Noting this, many factors can continue to challenge or derail the negotiations. Azerbaijan's military build-up raises the risk of overconfidence in the military capacity of the country, in particular, in the event that the Azerbaijani leadership would fall in domestic difficulties and have to divert attention towards Nagorno-Karabakh. Furthermore, the normalization process between Turkey and Armenia is not dead and could revive with a change in Turkey's approach on conditionality, with a potential of disrupting the unstable balance in the region.

Furthermore, any progress towards peace in the region will depend on the political and societal environment. In particular it will depend on the level of trust and the development of a meaningful dialogue between the ruling elites

and the societies in the two countries. Both are desperately lacking in the Southern Caucasus, where a culture of hatred and distrust has been kept alive for the last twenty years, in particular in Armenia and Azerbaijan. Furthermore, in addition to the conflicting interests of the various actors, the current stalemate in the negotiation is also the result of the absence of trust that keeps the parties from the necessary compromises that any settlement requires. As long as both parties will privilege the short term merits of the propagandist rhetoric over the long term advantages of a change in the political culture, there is little chance of any substantial progress towards peace.

The most immediate challenge to the "managed instability" is the negotiation process itself. For it to survive in the current circumstances, it will have to recover from its lost credibility as a result of successive failures in the negotiation. It will depend, in particular, on the capacity of its stakeholders to maintain a dynamic that combines political goodwill from the Parties and skills of the co-chairs in further shaping a reasonable roadmap for a peaceful solution. Whether the process will revert to its tracks along the lines of the "Basic Principles" or have to evolve towards a new model, is a question still open. But, it is at a turning point and has to find new life. An additional question will result in the change of leadership in Moscow. With Vladimir Putin as President in 2012, it is less than certain that the process will benefit from the same support as the one provided under the current President Medvedev.

The negotiation process, if by no means a guarantee for peace, is certainly today, as it has been the case for the last fifteen years, the most effective instrument to keep both sides in dialogue with one another and the regional powers – with the noticeable exception of Turkey – as well as to help the Minsk Group co-chairs to adjust their positions, at least when it comes to prevent last resort scenarios that would jeopardize the "managed instability".

Conclusion

With the receding influence of the United States in the region and in the absence of a clear European strategy for Eastern Europe and the Caucasus, Russia has regained its position as the major regional actor. It holds the primary responsibility in the maintenance of the "managed instability", which has been the prevailing pattern for the last twenty years. The core element of the "managed instability" and the prevention of war is the negotiation mechanisms established for the Nagorno-Karabakh conflict and the Georgia-Russia conflicts over Abkhazia and South Ossetia. These processes are currently stalled in the face of the lack of political will, mainly due to the fact that there is still more support for a status quo than for a regional normalization that could reshape the geopolitics. In this context, alternative options involving the use of force are becoming a growing threat, making the recovery of the negotiation all the more urgent, as it is the only tool to deter such scenarios. Thus, the "managed instability" will possibly continue to prevail as the least evil in the South Caucasus.

NB: The views expressed in this paper are entirely and solely those of the author and do not necessarily reflect the views of the GCSP or the Swiss authorities.

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Endnotes

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4. "Russia, Armenia committed to stable Caucasus region – Medvedev", *Rianovosti*, 20 August 2010.
5. The current status of Azerbaijan, as "neither NATO, nor CSTO" member or even aspirant, seems to be satisfactory to Moscow, at least for the time being.
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12. M. Leonard, "Europe's Multipolar Neighbourhood", European Council on Foreign Relations, Brussels, 4 October 2011.
13. See "Azerbaijani President Attends Military Parade to Mark 93rd Anniversary of Armed Forces", *Today AZ*, 27 June 2011.
14. According to the Statement by the OSCE Minsk Group Co-Chair made in l'Aquila on 10 July 2009 by the US, Russian and French Presidents, the core elements of the Basic Principles are: return of the territories surrounding Nagorno-Karabakh to Azerbaijani control; an interim status for Nagorno-Karabakh providing guarantees for security and self-governance; a corridor linking Armenia to Nagorno-Karabakh (Lachin); future determination of the legal status of Nagorno-Karabakh through a legally binding expression of will; the right of all internally displaced people and refugees to return to their former places of residence; and international security guarantees that would include a peacekeeping operation. These core elements have been extensively discussed and refined over the last four years, without final consensus so far.
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