



## Understanding the Nagorno-Karabakh conflict: domestic politics and twenty-five years of fruitless negotiations 1994–2018

Arsen Gasparyan 

Department of International Relations, M. V. Lomonosov Moscow State University, Yerevan Branch, Yerevan, Armenia

### ABSTRACT

The Nagorno-Karabakh conflict negotiations have been continuing for more than two decades now, but a settlement still remains elusive. This paper is an exploration of the reasons for that failure, and it argues that the real obstacle for the peaceful settlement in Nagorno-Karabakh was the domestic politics of the parties to the conflict. By clarifying and testing alternative perspectives, this paper seeks to resolve an important debate about the causes of the OSCE Minsk process failure.

### ARTICLE HISTORY

Received 6 April 2019  
Accepted 26 September 2019

### KEYWORDS

Nagorno-Karabakh; Armenia; Azerbaijan; OSCE Minsk Group; domestic politics

Blessed are the peacemakers ...

*Matthew 5:9, The New Testament*

But if they incline to peace, you also incline to it.

*Qur'an 8:61*

The May 1994 ceasefire agreement stopped major fighting in Nagorno-Karabakh and opened the door to peaceful negotiations and a prospect for a comprehensive political settlement. These negotiations have been continuing for more than two decades now, but a settlement still remains elusive. This paper is an exploration of the reasons for that failure. There are several hypotheses that immediately suggest themselves. One would be tempted to argue, for instance, that the status quo constitutes a stable equilibrium for both the Armenian and the Azerbaijani sides, which means none of them has incentives to deviate. According to this hypothesis, the situation in Nagorno-Karabakh is not different from that in Northern Cyprus, where the parties have been negotiating with no result for more than forty years, and where it is almost certainly true that neither the Turks, nor the Greeks have any serious incentive either to go to war or make the concessions necessary for a comprehensive solution. A version of this hypothesis suggests that the parties are rationally holding out for a solution very close to their maximal aspirations. Yet another possible hypothesis is that the parties, or more accurately, the Azerbaijani side has an unsolvable commitment problem. More specifically, any settlement is going to strengthen Azerbaijan while weakening Nagorno-Karabakh and Armenia and making them vulnerable to future Azerbaijani attack, since any

**CONTACT** Arsen Gasparyan  [arsengasparyan66@gmail.com](mailto:arsengasparyan66@gmail.com)

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comprehensive settlement envisions the return of the territories outside of Nagorno-Karabakh proper that have been under Armenian control since 1993. This logic is quite popular in Armenia and Nagorno-Karabakh with some commentators and officials arguing that Armenians may end up losing a lot more than the territories outside of Karabakh, if these territories are returned to Azerbaijan.

I argue in this paper that these hypotheses are, in fact, not convincing as explanations for the failure of the process of resolving the Nagorno-Karabakh conflict. The real obstacle was the domestic politics of the parties to the conflict.<sup>1</sup> This paper is based on my experience as a participant and analyst of the Nagorno-Karabakh peace process. In 1992–1996, I was a member of the Armenian official delegation to the Nagorno-Karabakh peace process, including both tracks – the meetings under the auspices of the Organization for Security and Co-operation in Europe (OSCE) Minsk Group and negotiations on the political agreement mediated by the Russian Federation. In fall 2017, I spent several days in Stepanakert, the capital of the Nagorno-Karabakh and held a special workshop on the current state of the peace process with the diplomatic staff of the Ministry of Foreign Affairs. A few “off the record” meetings with Armenian, Azerbaijani, and Russian officials also provided insights invaluable for this research. I have also drawn on the analysis of open source information, including Azerbaijani, Armenian, Russian, and Turkish materials, the official statements and reports by the political and military authorities of parties to the conflict as well as statements by the OSCE Minsk Group Co-chairs, including the individual statements by Russia, the United States, and France.

I unpack my claim in four parts. First, I will provide a brief narrative of the origins of the conflict and the history of the negotiating process. Second, I will explain why the hypotheses listed in this introduction are unpersuasive even if they are intuitively appealing. Third, I will explain why and how domestic politics of the parties to this conflict has been a problem. I will provide a summary and concluding remarks in the fourth and last section. This paper does not discuss the insufficient and incoherent involvement of the mediators which is a subject of a separate article. However, their motivations are briefly addressed in the conclusion.

## **The background of the Nagorno-Karabakh conflict and peace process**

The conflict in Nagorno-Karabakh – the most protracted one in the former Soviet Union – is in its thirty-first year. What began in 1988 as a demand for the transfer of the Nagorno-Karabakh Autonomous Oblast<sup>2</sup> from Azerbaijani to Armenian jurisdiction, escalated into a full-scale war in 1992, shortly after the collapse of the Soviet Union.

Nagorno-Karabakh was one of the several conflicts in the post-Soviet space where the OSCE (previously CSCE) became involved as a mediator in the peace negotiations. The eleven-member OSCE Minsk Group was formed in 1992 and was named after Belarus’s capital because a peace conference on the status of Nagorno-Karabakh was scheduled to be held there. Members of the Minsk Group included Armenia, Azerbaijan, Belarus, the Czech Republic (Czechoslovakia until 1993), France, Germany, Italy, Russia, Sweden, Turkey, the United States, and representatives of Nagorno-Karabakh. Russia acted as a mediator on a parallel track despite the objections of the OSCE Minsk Group other members.

In the initial phase of the war, Armenian forces succeeded in taking virtually all Azerbaijani-controlled areas in Nagorno-Karabakh proper, including the strategically

important town of Shushi, as well as the Lachin region outside of Karabakh, and established a land corridor between Armenia and Nagorno-Karabakh. In 1993, Armenian forces took control of six more Azerbaijani districts bordering Nagorno-Karabakh: Kelbajar, Agdam, Qubatlı, Jibrayıl, Fizulı, and Zangelan. In the same year, the United Nations Security Council adopted four resolutions (822, 853, 874, and 884) calling for a ceasefire, the withdrawal of occupying forces from the Azerbaijani provinces, the resumption of negotiations, the lifting of all economic blockades in the region, and also called on the Republic of Armenia to use its influence with the Nagorno-Karabakh authorities to ensure their compliance with the U.N. resolutions and the OSCE Minsk Group initiatives (UN Security Council Resolutions on Nagorno-Karabakh 1993). The Minsk Group has worked out various timetables of “urgent measures” to end the fighting, but both Azerbaijan and Nagorno-Karabakh have rejected the plans at various times.

Russian Defence and Foreign Ministries worked out a ceasefire agreement between the parties, agreed by Defence Ministers of Azerbaijan and Armenia as well as the commander of the Nagorno-Karabakh armed forces on 12 May 1994. Beginning August 1994, representatives of Armenia, Azerbaijan, and Nagorno-Karabakh started holding regular meetings in Moscow with the mediation of the Russian Federation to work on the draft political agreement. At the same time, the OSCE expressed readiness to dispatch a multinational peacekeeping force to Nagorno-Karabakh, but it was decided to postpone a deployment of peacekeepers until the May 1994 ceasefire turned into a permanent truce and political agreement was signed. The serious disagreements between the OSCE and Russia on the resolution of the Nagorno-Karabakh conflict, including Russia’s unilateral mediation and the composition of a peacekeeping force were temporarily settled when they agreed to coordinate their mediation efforts after the OSCE Budapest Summit in December 1994 and establish a co-chairmanship of the OSCE Minsk Group (Russia and Sweden). Following the Budapest Summit decision, on March 23, 1995, “the Chairman-in-Office mandated the Co-Chairs of the Minsk Group to provide an appropriate framework for conflict resolution in the way of assuring the negotiation process; to obtain conclusion by the parties of an agreement on the cessation of the armed conflict in order to permit the convening of the Minsk Conference; and to promote the peace process by deploying the OSCE multinational peacekeeping forces. The Minsk process can be considered to be successfully concluded if these objectives are fully met” (OSCE Minsk Group 1995).

Two years later, France, Russia, and the United States took over the OSCE Minsk Group co-chairmanship. The OSCE Minsk Group, the activities of which have become known as the Minsk process continued to spearhead the OSCE’s efforts to find a peaceful solution to the Nagorno-Karabakh conflict. In 1997, the Co-chairs presented to the parties a “package” and “phased” plans for the settlement. The “package” plan was rejected by Nagorno-Karabakh and Azerbaijan. Armenia decided to endorse the “phased” plan, and its President Levon Ter-Petrossian tried to initiate a public debate in order to accept this proposal and secure a lasting peace. In the article *War or Peace: Time for Thoughtfulness*, he claimed that “the opposition should not mislead the people by arguing that there is an alternative to the compromise: the alternative to compromise is war. Rejecting compromise and pursuing a strategy of maximalism is the shortest path to the ultimate destruction of Karabakh and the deterioration of the situation in Armenia” (Ter-Petrossian 2018, 37). Ter-Petrossian was forced to resign in February 1998 after advocating settlement to

the conflict which was opposed by then-Prime Minister Robert Kocharyan and key ministers. After the resignation of Ter-Petrossian, they preserved their power till May 2018.

In the periods of 1999–2001 and 2003–2004, Presidents Kocharyan and Heydar Aliyev started a direct dialogue without participation of the Nagorno-Karabakh authorities. Given the fact that Kocharyan previously was the leader of Nagorno-Karabakh, he decided to represent Nagorno-Karabakh in the negotiations which effectively nullified the status of Nagorno-Karabakh as a party to the peace process. This approach was a diplomatic miscalculation and overestimation of the abilities of the Armenian side not only by the President of Armenia, but also by the co-Chairs. The numerous meetings of the two Presidents yielded no result and ended in a deadlock. After these rounds of talks between the two Presidents, the co-Chairs had to revive the negotiation process and suggest that the negotiations should be resumed in the trilateral format. All concessions of co-Chairs to Azerbaijani demands that the format of talks should be bilateral will lead, in my view, to more impasse since the status of the Nagorno-Karabakh is the main reason and the most disputable problem of this conflict and without the representatives of the Nagorno-Karabakh mediators will not be able to achieve any positive results.<sup>3</sup>

With the exception of some minor skirmishing and flare-ups along the line of contact between Azerbaijan and Nagorno-Karabakh, the guns had been largely silent in the zone of conflict since the ceasefire agreement of 12 May 1994 up until the major escalation of April 2016. During this period, the co-Chairs submitted various peace proposals to the parties and arranged regular meetings between the presidents of Armenia and Azerbaijan. The most notable proposals included the above-mentioned “package” and “phased” plans of 1997, the “common state” proposal of 1998, and the Basic (“Madrid”) Principles of 2007. Yet, no document has been agreed upon and various proposals have been rejected by one or the other party at different times.

In April 2016, by launching military attacks, Azerbaijan, which has regularly stated that it does not rule out the use of force to return the territories it lost in the conflict in the 1990s, shook up the status quo and put the conflict back on the international agenda. Russia again played a major role in restoring the ceasefire after four days of fighting, where all parties suffered several hundred casualties, including civilians. The security situation on the line of contact that divides the Azerbaijani forces and the Nagorno-Karabakh Defence Army has remained unpredictable with both sides reporting some exchanges of fire and more casualties.

On 16 May 2016, the Russian minister of foreign affairs, American secretary-of-state and French minister for European affairs, representing the three co-Chair countries of the OSCE Minsk Group, met with the Presidents of Armenia and Azerbaijan in Vienna to advance a peaceful resolution of the Nagorno-Karabakh conflict. They reiterated that there can be no military solution to the conflict and insisted on the importance of respecting the 1994 ceasefire agreement (OSCE 2016). The Presidents agreed on a next round of talks which held on 20 June in Saint Petersburg with President Putin behind closed doors. The Presidents of Russia, Armenia, and Azerbaijan adopted a joint statement reaffirming their commitment to normalizing the situation on the line of contact and giving their approval to increase the number of the OSCE observers working in the conflict zone. They also expressed their commitment to create conditions required for a steady progress in negotiations on a political settlement to the conflict (Kremlin 2016).

Recently, the first President of Armenia, Levon Ter-Petrossian, argued that there is no significant difference between the 1997 “phased” approach plan and a current proposal of

Co-Chairs based on the Madrid Principles. He described the following main stages of the existing proposal:

Phase 1: Armenians of the Nagorno-Karabakh return to Azerbaijan five provinces, except Lachin and Kelbajar.

Phase 2: The peacekeeping force is deployed in the demilitarized zone along the new line of contact between the Nagorno-Karabakh and Azerbaijani armies.

Phase 3: Internationally recognized interim status of the Nagorno-Karabakh is declared.

Phase 4: The blockades of Armenia and Nagorno-Karabakh are lifted and all communications connecting Azerbaijan, Nagorno-Karabakh, and Armenia are restored (most probably, Armenia and Turkey roads as well).

Phase 5: The final status of the Nagorno-Karabakh is defined through a legally binding referendum.

Phase 6: Kelbajar and Lachin provinces are returned to Azerbaijan, except the corridor in Lachin connecting the Nagorno-Karabakh with Armenia (Ter-Petrosian 2016).

Although violence in the Nagorno-Karabakh conflict has been contained several times, the question is whether this proposal can lead to a resolution of the conflict. As noted, over the last 20 years, the co-Chairs of the OSCE Minsk Group and the separate Russian mediation mission presented various proposals to the parties to this conflict. However, the sharp discrepancy between what the heads of state of the conflicting parties say in their joint declarations supported by the OSCE Minsk Group, and what policymakers and military in Baku, Yerevan, and Stepanakert apparently believe, is another reason to identify what role domestic politics has played in the decision-making process on the settlement of the conflict.

## Two misconceptions versus reality

The question this paper seeks to answer is why the parties have been unable to convert the ceasefire into a permanent political solution. There are two perspectives that are popular in Armenia and Nagorno-Karabakh which suggest an answer to that question. According to the first perspective even if the current status quo entails certain costs, it is preferable to the costs of any solution which is going to require territorial concessions. The second perspective focuses on an ostensibly unsolvable commitment problem that a political solution will generate. Specifically, its proponents argue that territorial concessions will drastically change the balance of power between Azerbaijan and the Armenian sides making them more vulnerable, a situation which Azerbaijan will not hesitate to exploit.

The first perspective and bargaining position of the parties could be examined in the context of the prospect theory developed by Kahneman and Tversky (1979, 263–292). This theory provides a descriptive model of decision-making under risk and develops an alternative model to the utility theory. In prospect theory, value is assigned to gains and losses rather than to final assets and probabilities are replaced by decision weights. In the case of application of the prospect theory to international relations, Jack S. Levy argues that the status quo bias is reflected in the common observation that states appear to make greater efforts to preserve the status quo against a threatened loss, than to improve their position by a comparable amount (Levy 2003, 225–227). Therefore, in prospect theory losses loom larger than gains. By this account, the negotiations on the

Nagorno-Karabakh conflict are going nowhere because all sides find it difficult to make concessions, even when they can receive something substantial in return. Randall Schweller (1996, 106) suggests that, “rational states do not seek relative gains so much as avoid relative losses.” In the case of the Nagorno-Karabakh conflict, despite the suffering and costs imposed on the populations of all parties to the conflict for more than two decades, including harsh economic conditions, increasing corruption, ongoing migration, unemployment, poverty, and blockades – political leaders of the parties did not pay the costs.

Jack Snyder argues that democratization produces nationalism when powerful elites within a nation need to harness popular energies to the tasks of war and economic development, but they also want to avoid surrendering real political authority to the average citizen. For those elites, nationalism is a convenient doctrine that justifies a partial form of democracy: the elites rule in the name of the nation but are not fully accountable to its people (Snyder 2000, 45). This reasoning was completely accurate in explaining the situation in Armenia until May 2018. Thus, the status quo was more secure for the political leaders of Armenia than a peaceful settlement, which could fundamentally change the country and region. While the status quo in Karabakh entails considerable risks for the resumption of military activities, it was preferable for the governing groups in Armenia since the transition to peace with all the associated positive changes could derail their political and economic goals. According to the World Bank data, poverty in Armenia in 2014 totaled 30%, which means that every third person from ten lived in a household below the upper poverty line of 40,264 AMD/month (around 80 USD/month) (The World Bank 2015). Currently, the average pension in Armenia is around 32,000 AMD/month (66 USD/month).

Some of the same parallels may be drawn with the situation in Azerbaijan. As claimed by Anders Åslund, the country sits at an equilibrium that is highly lucrative for its rulers yet miserable for its citizens. Authoritarian stability is the order of the day, allowing the ruling elite to thrive on gross corruption at the expense of the people at large (Åslund 2017, 91). The current regime in Azerbaijan always connects the economic and social problems of the country with unsolved Karabakh dispute. The conflict is also used as a manipulative instrument to subdue voices that challenge the current authorities. Throughout this period, both Aliyevs have used the unresolved conflict to justify repressive measures. They invoked the need for stability arguing that Azerbaijan’s defeat had been due to the domestic turmoil that characterized the pre-war and wartime periods (Caspersen 2012). Azerbaijan, which is considerably larger geographically than Nagorno-Karabakh and Armenia and has three times the population of Armenia and tremendous military growth in the last decade, does not rule out a military solution to the conflict. The offensive in April 2016 was a clear indication of this game plan. Today, despite growth, Azerbaijan’s economy continues to sputter, energy prices remain volatile, and its currency fluctuates. In 2016, the country’s gross domestic product contracted by at least 3 percent (Cavanaugh 2017). Growing poverty makes further social unrest in 2020 likely. The monthly minimum wage in Azerbaijan is 155 manats (91 USD) which means many people survive on three dollars a day in Baku (RFE/RL 2017). In fact, while centers of both capitals, Yerevan and Baku enjoy more wealth than the regions, inequality and poverty still remain a huge problem for both countries. The population polarization in income distribution, poverty, struggle for healthcare, poor education, and severe economic disruptions in Armenia, Azerbaijan, and Nagorno-Karabakh was the genuine cost of the status quo suffered by citizens and soldiers. Domestic political variables and parochial interests of

governing groups of the parties clearly illustrated that their leaders had no incentives to deviate into a meaningful peace process.

The advocates of the second perspective claim that the return of territories around Nagorno-Karabakh envisioned by the peace proposal will make Nagorno-Karabakh more vulnerable, enabling Azerbaijan to launch an offensive to capture the entire territory of Karabakh. The major argument is that those provinces have been taken under control to establish a safe area to prevent shelling and create a security system to protect the population of Nagorno-Karabakh. Countering this view, the advantages of the peace proposal and invalidity of these claims has been argued by Arman Grigoryan (2017) in one of his recent articles published in Armenia. First, the troops of Azerbaijan and Nagorno-Karabakh will be moved back from the current Line of Contact and an international peacekeeping force will be deployed immediately upon entry into force of the peace agreement to monitor the demilitarization of this zone and evacuated areas. The composition of the force will be decided by mutual consent of the parties with a right to veto the other's choice. Second, a period of demilitarization could be negotiated and agreed for an extremely long time until the post-conflict reconciliation mechanisms start functioning and negative consequences of the conflict are eliminated. Third, the OSCE and co-Chair countries will ensure security guarantees to support the implementation of the peace agreement and overall security of the South Caucasus with the endorsement of the United Nations. One of Grigoryan's arguments is that in the case of Azerbaijani attack against the demilitarized zone or Nagorno-Karabakh, Armenia will have a right of military intervention, including the utilization of the framework of its bilateral military agreements with Russia. In October 2013, the commander of the Russian 102 Military base in Armenia, Colonel Andrey Ruzinsky (*Krasnaya Zvezda* 2013) discussing the mission of the base, made the following comments in an interview with the official newspaper of the Russian Ministry of Defense: "If Azerbaijan decides to restore jurisdiction over Nagorno-Karabakh by force, the Russian military base may join to the armed conflict in accordance with the Russian Federation's obligations within the framework of the Collective Security Treaty Organization."

And finally, the international legal status of Nagorno-Karabakh will be determined through a plebiscite allowing the expression of the free will of the population of Nagorno-Karabakh. The population of Nagorno-Karabakh is understood as the population of all ethnicities living there in 1988, in the same proportions as before the outbreak of the conflict. According to 1989 Soviet statistics the proportion of Armenians in Nagorno-Karabakh was just over 75 percent. Until the determination of the final status, the Nagorno-Karabakh authorities will also maintain corridors which provide secure and uninterrupted land communication with Armenia. The benefits of the peace proposal are self-evident and international mechanisms, including the mandates of the peacekeeping force and obligations of the parties and mediators will clearly ensure the irreversibility of the peace process in the region.

Another factor that should be taken into account in Armenia and Nagorno-Karabakh is a continuous shift of power towards Azerbaijan even without the return of territories. A comparison of macroeconomic indicators demonstrates that Armenia trails Azerbaijan in all areas of economic growth, and the distance is widening from year to year. Azerbaijan's military spending of \$4.8 billion in 2015 dwarfs the \$447 million outlays from Armenia. The operations of Baku-Tbilisi-Ceyhan and Baku-Novorossiysk pipelines and oil trade raised Azerbaijan's revenues and subsequently its military spending by more

than 10-fold over the last decade to as much as \$4.8 billion and military expenditures comprised 5.2% of GDP of 2015. The influx of arms into Azerbaijan has many sources, and currently Azerbaijan purchases weapons from Russia, Turkey, Iran, Israel, Belarus, and other countries, including T90 Russian tanks, anti-aircraft systems, drones, and missile systems.<sup>4</sup> According to Robert Powell (1999, 115), uneven rates of economic growth and development eventually manifest themselves in changes in the distribution of power, and these shifts may lead to disparities between the distribution of power and benefits. As a result, Azerbaijan may try via force to impose and revise the status quo in its favour. Shifts in the distribution of capabilities have long been viewed in the international system as a cause of war.

The drive to obtain the maximum rather than the possible in the peace process has already affected Armenia's politics. For instance, the concessions that were acceptable in 1992 became unsatisfactory in 1997, and this approach has a tendency to expand further. This drive also creates certain misconceptions that the preservation of the status quo in the Nagorno-Karabakh does not threaten Armenia.

### **Domestic politics and the failure of the peace process**

To examine how the variable of domestic politics influenced the peace process, it is also important to analyze the positions and views of the parties on the conflict's peaceful resolution. These views and political developments have already affected enough the electorates of all parties which became hostages to this "no war, no peace" status quo. The conflict has become "an increasingly fragile last prop for two regimes that have relentlessly stymied the development of their respective nation-states" (Clapp 2017, 53).

### **Azerbaijan**

The Nagorno-Karabakh conflict affected domestic politics of the parties from the very beginning. The first President of independent Azerbaijan, Ayaz Mutalibov, who served only several months, under pressure from the opposition party Azerbaijan Popular Front, was forced to submit his resignation in March of 1992 due to mismanagement of the Azerbaijani war effort in defence of the Khojaly village. The further speed and scale of Azerbaijani defeats in the Nagorno-Karabakh set off another political crisis in Baku, a prelude to the events leading to the ouster of the second President, Abulfaz Elchibey, from power by military force in June 1993.

After these events, Azerbaijan has been ruled and controlled by the Aliyev dynasty. Heydar Aliyev dominated the political life of Azerbaijan from 1993 till 2003. Then, his son Ilham Aliyev, inherited power from his late father and recently secured the fourth five-year term in the 2018 presidential elections. Over this period, Azerbaijan has viewed itself as the aggrieved party in the conflict whose lands are occupied and territorial integrity violated. The Azerbaijani government's position on the conflict is that the Nagorno-Karabakh can have cultural and economic autonomy, but not independence. It also demands unconditional withdrawal of Armenian forces from the Azerbaijani provinces and return of the Azeri refugees to these areas as a basic precondition for negotiations on the status of the Nagorno-Karabakh. Azerbaijan insists that it remains committed to a peaceful settlement of the conflict but it is completely opposed to changing



radically the status of Nagorno-Karabakh. Both government and opposition parties have used the same rhetoric of the need to retain Nagorno-Karabakh within Azerbaijan on the basis of the principal of territorial integrity of states. Any advocacy of other solution which might change the status of Nagorno-Karabakh is branded as renegade.

As claimed in the previous section, Azerbaijan reserves for itself the right to renew war. However, Audrey Altstadt argues that weapons purchased by Azerbaijan do not constitute “capability.” Baku may doubt that it has adequate capability for the type of war that this would be – very bloody, and likely to draw other countries (Russia, Iran or Turkey) into the fight, thereby destabilizing the entire region. The clash of early April 2016 was curtailed within four days but resulted in dozens of fatalities. Another disincentive for Azerbaijan to restart war is that the personal wealth of the Aliyev family and their inner circle depends on investments, construction, and globalization, which the oligarchs are not likely to jeopardize. To safeguard business interests and income, the Aliyev regime must retain power. It is more convenient to be merely in a nominal state of war, as Azerbaijan has been since 1994, in order to stave off demands for reforms and to focus popular anger and blame on the enemy (Sultanli 2011; Altstadt 2017, 44–45).

The Transparency International Corruption Perception Index consistently rates Azerbaijan among the world’s extremely corrupt regimes. Corruption in ruling circles is a taboo subject for investigators, but a few reporters have violated that taboo since 2010. These reports indicate stunning levels of theft, fraud, bribery, money laundering, and skimming from state coffers.<sup>5</sup> At the end of 2012, Ilham Aliyev was named “person of the year” by the Organized Crime and Corruption Reporting Project. This corruption and crime monitoring NGO attributed its choice to “extensive reports and well-documented evidence that the Aliyev family has been systematically grabbing shares of the most profitable businesses in Azerbaijan for many years.” The report recapped the Aliyev’s family’s secret ownership stakes in banks, construction firms, gold mines, and telecommunication firms. In 2014, Azerbaijan was placed by the Transparency International in a seven-way tie for 126th place (of 174 countries) with Gambia, Honduras, Nepal, Pakistan, and Togo (Transparency International 2014).

According to Fakri Hasanov, Azerbaijan also exhibits many symptoms of Dutch disease – expansion of the oil sector, shrinking of the “non-oil tradable” sector and growth of the “non-tradable” sector of construction, communications, and services that is “pulled” by oil sector development (Hasanov 2013, 463–480). In addition, President Aliyev and his cohort keep their hands in the oil sector. In such an environment, political life cannot be divorced from endemic corruption, especially when ruling circles are mired in it. When the government can buy cooperation and compliance, pay for votes and flattery, provide jobs and apartments for their supporters, and control information, there is no need to generate consensus on policies or be accountable to the people (Altstadt 2017, 99). The Nagorno-Karabakh conflict allows entrenched autocracy in Baku to divert all the outrage and energy of its population towards Armenia and Nagorno-Karabakh and away from the plundering, injustice, and repressions by the ruling elites.

## **Nagorno-Karabakh and Armenia**

Nagorno-Karabakh characterizes its struggle as of self-determination and claims that its secession from Azerbaijan and the 1991 referendum on the establishment of the

independent Nagorno-Karabakh Republic fully complies with letter and spirit of the U.S.S.R. laws of that time. The subsequent claim is that the collapse of the Soviet Union allowed the creation on the territory of Soviet Azerbaijan two equal state formations – the Republic of Azerbaijan and the Nagorno-Karabakh Republic.

Nagorno-Karabakh's ultimate goals remain unification with Armenia or complete independence. Karabakh Armenians believe that Armenia and international community should recognize their independence to prevent any possible military aggression by Azerbaijan (Mailyan 2016, 29). Nagorno-Karabakh is convinced that recognition is the most credible security guarantee that can bring peace and stability to the region. Consequently, the Nagorno-Karabakh leaders believe that Azerbaijan should negotiate directly with them, not with the Republic of Armenia, to bring an end to the conflict. Any decision related to the peaceful settlement of the conflict should be taken with the participation of the Nagorno-Karabakh in order to ensure a proper implementation of those decisions and agreements.

According to the authorities in Stepanakert, all areas surrounding Nagorno-Karabakh and controlled by its army created a security system to protect the population of the Nagorno-Karabakh. The Nagorno-Karabakh officials repeatedly claim that they do not intend to hold most of the territory outside of the borders of the Nagorno-Karabakh. Their intention is to be assured that the territory returned will not be used as a base to commence military action. As a result, they think that Lachin should be the subject of special agreement during the negotiations since it is the only connection linking Nagorno-Karabakh with the outside world. Kelbajar should also have a special status and its return should have distinct modalities. Therefore, a “land for status and peace” approach prevails in Nagorno-Karabakh. Anything less is viewed by political and military leaders in Stepanakert as defeatist and making the security of Nagorno-Karabakh more vulnerable.

Armenia has not recognized the independence of the Nagorno-Karabakh Republic despite very close ties that exist between Armenia and Karabakh. Armenia has always supported an international, negotiated settlement within the framework of the OSCE Minsk process. Nevertheless, due to disagreements pertaining to mutual concessions and accepting the 1997 OSCE peace plan followed by pressures from the Prime-Minister Kocharyan and several key ministers, the first President of Armenia, Ter-Petrosian resigned in 1998. His attempt to support the peaceful settlement was undermined by hardline domestic forces. The next two presidents of Armenia, Robert Kocharyan (1998–2008) and Serzh Sargsyan (2008–2018), were both leading politicians in Nagorno-Karabakh before they moved to Armenia. The OSCE Minsk Group co-Chairs saw a positive sign in these incumbencies, assuming that the decision-making on behalf of Armenia and Nagorno-Karabakh would be more efficient and productive. However, the evidence of the deadlocks in the peace process from 1998 till present time confirms that this was not the case.

Given the mix of repeated political instability, manipulation of elections, weak political and economic institutions, and intense corruption, it is not surprising that Armenia and Azerbaijan have not performed well economically. According to the World Bank data, in 2015 the GDP of Azerbaijan was \$53.05 billion, and the GDP of Armenia was \$10.53 billion. They cannot even stand comparison with various corporations from different parts of the world which exceed with their annual revenues the combined GDP of both countries. Åslund (2017, 89) argues that in the typical situation the big winners are

closed circles made up of public officials who have received large illicit payments, along with wealthy businessmen who gave them these payments in return for monopoly rights or other special state concessions. This flows from the calculated abuse of power and can be expected to evolve as the structure of power changes. The ruling groups had self-serving reasons to keep the status quo and delay as much as they can the establishment of peace in Nagorno-Karabakh. However, the supposed benefits of peace, namely economic growth and participatory governance will not necessarily flow from the conflict resolution. In the cases of the so called “Arab Spring” and Ukraine, even the replacement of elites did not result in improved economic and political condition for the population but actually produced the opposite result.

The settlement of the Nagorno-Karabakh conflict would not therefore automatically result in spreading of the benefits to the wider strata of society. Nevertheless, the peace and stability in Nagorno-Karabakh will attract the FDI since less developed countries are more likely to attract FDI, partly because of their lower local worker wages (Polachek, Seiglie, and Xiang 2012, 755). FDI works parallel to trade in influencing international relations. One of the most significant determinants of FDI is the host country’s political stability (Polachek, Seiglie, and Xiang 2012, 736). If regimes are unstable and countries war torn, why invest? (Rosecrance and Thompson 2003, 383). Tarzi (1991) claims that states need to provide multinational corporations with political stability. Perhaps Gartzke, Li, and Boehmer (2001, 402) summarize this best by stating, “to the degree that states rely on capital markets for prosperity, they also rely on political stability.” Multiple dimensions of economic effects of this conflict resolution have been analyzed by Berlin Economics, Independent Economic Policy Consultant group, including “benefits of peace” in public finances, trade in goods and services, the energy and water sectors as well as financial markets and investments (Berlin Economics 2018).

In addition, all peace proposals of the mediators for Karabakh anticipate the organization of a donors’ conference to raise funding for the economic reconstruction of the region and the possibility of establishing a free trade area for all parties involved. This process will include an innovation and engagement of a broader segment of society. Laurence Broers argues that emphasis on international diplomacy needs, in turn, to be balanced by a domestic focus on working with Armenian and Azerbaijani societies (Broers 2016, 32). The mobilization of these segments of society in Armenia, Azerbaijan, and Nagorno-Karabakh can bring a meaningful change to the region together with the reconciliation at the individual, communal, and national levels.

## Conclusion

This paper offers evidence suggesting that the real obstacle for the failure of the Nagorno-Karabakh peace process was the domestic politics of the parties to the conflict. By clarifying and testing two alternative perspectives popular in Armenia and Nagorno-Karabakh and analyzing domestic politics in Azerbaijan, I have sought to resolve an important debate about the causes of the OSCE Minsk process failure. The advocates of the first perspective claim that even if the current status quo entails certain costs, it is preferable to the costs of any solution which requires the withdrawal of Karabakh forces from Azerbaijani territories outside of Nagorno-Karabakh. The second perspective focuses on an unsolvable commitment problem, and its proponents argue that territorial concessions will drastically

change the balance of power between Azerbaijan and the Armenian sides, making the latter more vulnerable. The subsequent claim is that Azerbaijan will take advantage of this situation and Armenians may end up losing more than the provinces outside of Karabakh.

The rejection of these two perspectives and my analysis are based on the following arguments. First, despite the cost imposed on the populations of all parties for more than two decades, including severe economic disruption, increasing corruption, migration, unemployment, poverty, blockades, poor healthcare and education – the political and military leaders of the parties did not pay the costs. For Armenian authorities, nationalism was a convenient doctrine justifying a partial form of democracy: they ruled in the name of the nation but were not fully accountable to its people who were afflicted with the real cost of conflict. Therefore, the status quo was more favourable for the political leaders of Armenia than the peaceful settlement which could transform the country and region.

Second, the authoritarian regime in Azerbaijan also benefits from the current status quo while the population suffers the costs. Moreover, the rulers in Azerbaijan continue to connect the economic and social problems of the country with the unresolved Karabakh conflict. Every time any other issue is raised – corruption, human rights, and election fraud – officials conveniently hide behind the same lame excuses: “refugees,” “occupation,” “threat of war” ... (Altstadt 2017, 46). They claim that national prosperity will come only when Nagorno-Karabakh is under their country’s full control, and this assertion evidently includes a military solution.

Third, the Nagorno-Karabakh issue also determines the ever-changing nature of politicians’ fortunes. Until the summer of 1993, defeats in battle and political crises accompanying the struggle for Nagorno-Karabakh spelt the downfall for the Communist Party first secretaries of Soviet Azerbaijan and two of Azerbaijan’s presidents. Due to disagreements pertaining to concessions and the 1997 Nagorno-Karabakh peace plan, followed by pressure from Prime-Minister Kocharyan and several key ministers, the first President of Armenia, Ter-Petrossian, resigned in 1998. Local governing elites of all actors in this dispute have been trapped by their rhetoric and domestic politics. Therefore, the case of Nagorno-Karabakh suggests that the factor of domestic politics can claim empirical relevance for rationalist explanation for war. The fear to lose political capital and power is one of the reasons why leaders were unable to locate an alternative outcome and avoid the costs and risks of fighting. The conflict also enabled each government to use the state of war as an excuse to avoid domestic reform and quash internal critics.

This paper does not address the inconsistent policies of the OSCE Minsk Group Co-Chair countries (France, Russia, and the United States) in the peace process. The Nagorno-Karabakh conflict does not have the same importance for international agenda as for instance, the situations in Ukraine and Syria, or North Korea and Western powers are reluctant to invest more time and resources in the peace process. Moreover, even high-ranking diplomats involved in the resolution of this conflict claim that mediators have their contradictions and disagreements over the peace process (Maresca 1996; Kazimirov 2014). Basically, the great powers involved in the mediation are more motivated by the potential costs and benefits from the resolution of the conflict than in the potential peace deal itself. David Lake and Donald Rothchild argue that only a coalition of mediators seems likely to have the political and capacity to create the mix of non-coercive and coercive incentives necessary to overcome a stalemate

(Lake and Rothchild 1998, 322). The Russian-American potential peace deal can minimize the factor of domestic politics in the case of Nagorno-Karabakh and move the parties toward a negotiated settlement. However, as mentioned earlier, the motivations of the great powers in this conflict resolution is a subject for separate research.

Vladimir Kazimirov, former Representative of the President of Russia to the settlement of the Nagorno-Karabakh conflict (1992–1996) argues that the peace negotiations are currently at risk of closing a kind of vicious circle (Kazimirov 2014, 291). Managing this conflict, whether by concerned members of the international community or by local governments is a continuing and complicated process. At this point, the Nagorno-Karabakh conflict has again been contained, but the positions of the parties involved are still so far from each other that the likelihood of a resolution or even breakthrough in the negotiating process cannot be expected. The question is also whether current contradictions between Russia and the West will exacerbate hostilities in this region as well – a scenario in which everyone would keep losing.

Each of the parties to the conflict thinks that the other's concessions would be less painful, but they are wrong. The parties can make progress in the peace process if they would focus on their gains instead of losses. The objective of their policy must be to reduce human suffering and to deal with extreme poverty. Developing a robust and productive economic system by two nations who have shared this region for generations should be a priority over all else.

## Notes

1. It has been variously argued that the lack of progress in the Nagorno-Karabakh peace process is due to too little democratization in Armenia and Azerbaijan. In May 2018, Armenian people stood against the elite which monopolized the political and economic life of the country. Armenia underwent changes that are transforming its political and economic landscape. Caspersen (2012) argues that even if democratization does not necessarily lead to instability and continued radicalization, it is also not a panacea for conflict resolution either. Any move towards further democratization in Armenia and Azerbaijan would need to address popular attitudes, demilitarize and deradicalize regional societies, and broaden the peace process. This could be a by-product of democratization but it is not guaranteed. The relationship between regime types and conflict resolution is a lot more complex than is often argued in the literature. (See more in Caspersen 2012, 131–139; Özkan 2008, 572–599).
2. In the Soviet Union, an autonomous oblast was an administrative unit subordinated either to an autonomous republic or to one of the fifteen union republics. The Nagorno-Karabakh conflict dates back to 1988, but it has roots in the early twentieth century, even before the Sovietization of the region. In the beginning of 1920s, after the imposition of Soviet power in Caucasus, the Bolsheviks awarded Nagorno-Karabakh to Soviet Azerbaijan as an autonomous region with an Armenian population of 94 percent. This decision was contested by Armenians but without any result. According to the 1989 Soviet statistics, the number of Armenians in Nagorno-Karabakh was 75 percent.
3. The book by Plenipotentiary Representative of the President of Russia to the settlement of the Nagorno-Karabakh conflict (1992–1996), Vladimir Kazimirov, *Peace to Karabakh*, illustrates the full background and evidence of the participation of the Nagorno-Karabakh representatives in the peace process, including the negotiations on a political agreement (1994–1995), and their meetings with Azerbaijani officials. See Kazimirov (2014), 127–139; 370–378.
4. See more in President Aliyev's interview to Russian news agency RIA Novosti, October 18, 2016. Accessed at <https://ria.ru/interview/20161018/1479448628.html>; Central Intelligence

Agency. “The World Factbook.” Accessed at <https://www.cia.gov/library/publications/the-world-factbook/>; Seputyte and Ummelas, “Oil Riches Help Azerbaijan Outgun Armenia in Military Spending.” *Bloomberg*, April 6, 2016. Accessed at <https://www.bloomberg.com/news/articles/2016-04-06/oil-riches-help-azerbaijan-outgun-armenia-in-military-spending>

5. For example, the Radio Free Europe and Radio Liberty’s Khadija Ismayilova was harassed repeatedly for reporting on real estate and other assets of the ruling family. In 2015, she was sentenced to seven and a half years in prison on charges of tax evasion. See more in OCCRP (2017) and one of the descriptions of the activities of the Aliyev dynasty and accumulated wealth, property, and business interested around the world is also featured at the CNBC film (2012).

## Acknowledgements

Research for this article was funded by the Institute of the Armenian Studies of the University of Southern California. For comments on earlier drafts, the author thanks Bruce Bagley, Arman Gri-goryan, Roger Kanet, and the anonymous reviewers.

## Disclosure statement

No potential conflict of interest was reported by the author.

## Funding

This work was supported by Institute of the Armenian Studies, University of Southern California: [Grant Number N/A].

## ORCID

Arsen Gasparyan  <http://orcid.org/0000-0003-3337-9152>

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