

The Nagorno-Karabakh Conflict between Azerbaijan and Armenia: Security Issues in the Caucasus

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Abstract

The unresolved dispute between Azerbaijan and Armenia over Nagorno-Karabakh is one of the most worrying unresolved conflicts in the Caucasus region, both because it involves two sovereign states and because the three principal regional powers—Russia, Turkey and Iran—all have a differing stance towards the issue. The ongoing conflict undermines security across the Caucasus and wider Black Sea region: it has polarized countries and their allies, and has also created a security vacuum that encourages the proliferation of trans-national security challenges. This paper assesses the impact of the conflict on security across the Caucasus region. It examines the current defense postures of Azerbaijan and Armenia, as well as the influence that the ongoing conflict has on their relations with other states throughout the region, demonstrating that the lack of a resolution not only undermines the security of those directly involved and of their neighbors, but also undermines the potential for regional co-operation, as well as economic development and stability, deterring vital investment.

Introduction

The unresolved dispute between Azerbaijan and Armenia over the enclave of Nagorno-Karabakh is one of the most worrying unresolved conflicts in the Caucasus region, both because it involves two sovereign states and because the three principal regional powers—Russia, Turkey and Iran—all have a differing stance towards the issue. This raises fears that, if there was a renewal of fighting, it could rapidly become internationalized, particularly with Russian military bases in Armenia and Turkish support for Azerbaijan. The 2008 conflict between Russia and Georgia demonstrated Moscow's willingness to resort to military force in support of its allies and enabled it to develop a considerable military presence in the South Caucasus, reinforcing its diplomatic and economic levers. Consequently, Armenia feels its position *vis-à-vis* oil-rich Azerbaijan to be strengthened in the knowledge that Moscow will not shy away from using force to protect its interests and allies, whilst Azerbaijan may be less likely to resort to military force to regain control of Nagorno-Karabakh, unwilling to risk a full-scale military confrontation with Russia and the possible loss of further territory.

While a renewed offensive appears an unlikely prospect, if Azerbaijan was to decide that the military is in a position to avenge its defeat by Armenia, the ensuing conflict could spell disaster for the volatile South Caucasus and may necessitate the deployment of international peacekeepers or peacemakers, together with a substantial humanitarian aid package and forces to protect energy infrastructure in the region. Despite a substantial increase in defense expenditure in recent years, Azerbaijan's armed forces are unlikely to be in a position to conduct a "surgical" strike to retake Nagorno-Karabakh and the

resumption of large-scale conflict would herald a war of attrition, with the civilian population bearing the brunt of the fighting. There needs to be greater effort put into persuading the parties involved to resolve the dispute peacefully in order to avert the threat of a complex emergency that would destabilize the entire region.

The ongoing conflict undermines security across the Caucasus and the wider Black Sea region: it has polarized countries and their allies, and has also created a security vacuum that encourages the proliferation of trans-national security threats such as organized crime and illegal trafficking, as well as challenges such as high levels of migration, both internally and externally. This paper will assess the impact of the conflict on security across the Caucasus region. It will examine the current defense postures of Armenia and Azerbaijan, as well as the influence that the ongoing conflict has on their relations with other states throughout the region, demonstrating that the lack of a resolution not only undermines the security of those directly involved and their neighbors, but also undermines the potential for regional co-operation, as well as economic development and stability, thus deterring vital investment.

Rising Tensions

Whilst the 2008 military conflict between Russia and Georgia sent a warning signal about Moscow's willingness to utilize military force, it also contributed to growing instability in the Caucasus region. There are fears that tensions between Armenia and Azerbaijan are actually increasing, rather than being reduced over time. There has been an escalation of violence around Nagorno-Karabakh with regular exchanges of fire along the Line of Contact between Armenians and Azerbaijanis: in 2010, 25 soldiers were killed, up from 19 in 2009.¹ Azerbaijan's political rhetoric on the subject of the conflict has also become increasingly belligerent. Baku has undoubtedly engaged in considerable saber-rattling over recent years, even as it continues to push ahead with the tentative peace process. It is suffering from considerable socio-economic disruption as a result of over 500,000 refugees from Nagorno-Karabakh who are still living in temporary accommodation within Azerbaijan, as well as the loss of around 14% of its territory, and the majority of the population remains staunchly opposed to any compromise with Yerevan. Thus, the government needs to be perceived to be taking a strong position against Armenia's "annexation" of the enclave. Since taking office in 2003, President Ilham Aliyev has made it clear that he intends to pursue his father, former President Heyder Aliyev's objectives of transforming the country into a regional power, restoring its territorial integrity and uniting the population. At the end of 2010, he announced that Baku was in a position "at any moment to resolve the Karabakh problem by military means". Speaking at a funeral for soldiers killed in military operations, Aliyev said "Negotiations will continue whilst we have hope that territorial integrity will be restored... If we consider this to be impossible, then the state of Azerbaijan will restore its territorial integrity, using the military option... We can at any time restore its territorial integrity through military means".² In June 2011, at the largest military parade to be held in Baku since the Soviet era, Aliyev spoke of the country being "in a state of war... [that] has not finished" and declared that the occupation of Nagorno-Karabakh "cannot last long".³ This increasing belligerence has heightened tension in the Caucasus, contributing to instability in a volatile region.

Benita Ferrero-Waldner, the Commissioner for External Relations at the EU, has criticized the leaders of both countries for their "inflammatory rhetoric" and noted that "defence expenditure in the region is going through the roof".⁴ Both Armenia and

Azerbaijan are spending a significant proportion of their national income on defense expenditure (see Table 1), raising fears of an arms race in the region, together with an escalation in violence over Nagorno-Karabakh. There are concerns that the “wall of money” that Azerbaijan is receiving from its hydrocarbon reserves could significantly alter the current status quo, shifting the balance of power towards Baku and making it less inclined to seek a peaceful resolution. Armenia is worried that, in the short term, oil-rich Azerbaijan will be in an economic and financial position to settle the conflict by force, possibly enabling it to win any future war against Armenia over Nagorno-Karabakh.

Armenia is totally cut off from the oil windfall that neighboring Azerbaijan (and Georgia to some extent) receives and it perceives Baku’s growing economic strength to be a threat. These fears appear to be well-founded: there has been a dramatic rise in Azerbaijan’s defense spending from US\$175 million in 2004 to an estimated US\$3.1 billion in 2011, a 45% raise in 2010 expenditure.⁵ This increase means Azerbaijan’s spending on defense in 2011 will exceed Armenia’s entire national budget. Nevertheless, in spite of its relative lack of economic advantage, defense spending in Armenia currently constitutes around 4% of GDP, one of the highest levels amongst the post-Soviet states. Thus, both Armenia and Azerbaijan are spending a significant amount of their national income on defense expenditure and have strengthened their armed forces in recent years (see Table 2). However, although Azerbaijan’s armed forces are already almost double the size of Armenia’s, Armenia benefits from Russian support, receiving weaponry that give it “superiority over any adversary in some specific areas”.⁶ It was announced at the end of 2010 that an anti-missile defense command center had been opened in Armenia, the result of co-operation between the Armenian air force and Russia’s 102nd military base in the country. According to the Armenian Ministry of Defence, the center is capable of rapidly identifying airborne threats and coordinating and managing the destruction of such threats.⁷

Armenia’s national security is assured by the presence of a large Russian military base at Gyumri, with around 3,000 military personnel stationed there, while Russian and Armenian border guards jointly guard the country’s borders.⁸ Relations between Moscow and Yerevan were significantly strengthened in 2010, with the signing of an extension of their 1995 agreement on Russia’s 102nd Military Base at Gyumri, extending the operation of the base until 2044. Of concern for Armenia’s neighbors was the announcement that the new agreement had not only extended the timeframe for Russian use of the base, it had also expanded the scope of its “geographic and strategic responsibilities”. According to Armenian President Sargasyan, “the base’s operation

TABLE 1. Military Expenditure of Post-Soviet States 2010–2011^a

	2010 US\$M	Percent of GDP	2011 US\$M (forecast)	Percent of GDP
Armenia	347	4.07	387	4.1
Azerbaijan	1,585	3.95	3,100	6.2
Georgia	519	4.56	390	2.9
Kazakhstan	1,066	0.9	1,297	0.9
Moldova	29	0.56	29	0.55
Russia	41,800	2.9	50,570	3.02
Uzbekistan	1,422	3.5	1,568	3.2

Source: *Nezavisimaya Gazeta*, 22 February 2011, available online at: http://www.ng.ru/cis/2011-02-22/1_neoglobalizm.html, accessed 23 June 2011.

TABLE 2. Armenia and Azerbaijan—Comparison of the Armed Forces

	Armenia	Azerbaijan
Population	3,090,379	8,933,928
Armed Forces ^a	48,570	66,940
Army	19,542	56,840
	110 tanks (T-54/55, T-72)	339 tanks (95 T-55, 244 T-72)
	240 armored combat vehicles (104 AIFVs, 136 APCs)	468 armored combat vehicles (111 AIFVs, 357 APCs)
	239 artillery, Tochka missiles	425 artillery
Border Guards	70 armored combat vehicles (approx.)	187 armored combat vehicles (168 AIFVs, 19 APCs)
Air Force	1 MiG-25 and 15 Su-25 aircraft, 30+ helicopters inc. 8 Mi-24 P and 10 Mi-H17	41 aircraft, inc. 14 MiG-29, 4 MiG-21, 10 Su-25 and 5 Su-24 35 helicopters inc. 15 Mi-24, 13 Mi-8 and 7 Mi-2.

^aArmenia also has around 3,200 Russian service personnel stationed on its territory, as well as a significant amount of military equipment. AIFV, armored infantry fighting vehicle; APC, armored personnel carrier. Source: The Military Balance 2011, *The International Institute of Strategic Studies*, Oxford: Oxford University Press, 2011.

was limited by the former Soviet Union’s external borders, but this restriction has now been removed from the text of the agreement”.⁹ The base in Armenia is intended both to serve the interests of the Russian Federation and provide security for Armenia. Commenting on the agreement, Sargasyan stated his belief that effective sovereignty is beneficial for any state, but in the South Caucasus region sovereignty includes participation in effective international and regional security systems: “I believe that today military bases are not symbols of hegemony, but effective co-operation”.¹⁰

However, the relatively high levels of defense spending undermine the security of the two South Caucasus states by diverting money away from other key areas, such as health and education. The lack of a resolution to the conflict has had a serious impact on the Armenian economy and there is considerable resentment at the price, both diplomatic and economic, that the country pays for the continuing conflict.¹¹ Isolated within the South Caucasus, having no direct trade or diplomatic links with two of its neighbors (Turkey and Azerbaijan), Armenia’s economic development has suffered. The country’s National Security Strategy identifies isolation from regional projects as a significant threat to security, stating that “Armenian participation in regional infrastructure projects is of a great significance... Armenia also sees Azerbaijan’s effort to isolate Armenia from such regional development programs as a direct threat”.¹² The National Security Strategy also draws attention to the diaspora, which is central to the Armenian state: the country has one of the largest diasporas in the world, thought to number approximately seven million, compared to a population of just over three million, meaning that only one-third of the total Armenian population lives within the country’s borders. A recent poll by Gallup concluded that around 40% of Armenia’s population of three million would move abroad if they could, unhappy with the lack of opportunity and development within the country, a direct result of the continuing animosities between Armenia and its neighbours.¹³ High levels of emigration stifle the country’s development and increase its reliance on external actors, such as Russia.

Implications for Foreign Policies

As well as playing a key role in their internal policies, the Nagorno-Karabakh conflict dominates the foreign policies of both Armenia and Azerbaijan, with each seeking allies to strengthen their position, reinforcing fears that a renewed conflict could quickly acquire an international dimension. Despite being landlocked, Armenia is the most isolated state in the Caucasus as a result of the conflict, having no direct links with two of its powerful neighbors, Azerbaijan and Turkey.¹⁴ The conflict, identified as a fundamental concern of national security, plays a key role in Armenian foreign policy, which is thus inextricably linked with the country's external security strategy. These policies are based on two key principles, complementarity¹⁵ and engagement, which are driven to a large extent by the ongoing conflict: they are policies born of necessity rather than choice.

Surrounded by states deemed to be hostile towards it, Armenia needs allies and economic investment, as well as protection against the perceived threat from Azerbaijan. Thus, it is forced to rely on other regional states for its security, particularly Russia and Iran, whilst simultaneously maintaining the interest of Western organizations, such as the EU. Principal external threats to Armenian security noted by the National Security Strategy highlight the country's reliance on its strategic alliance with Russia, the vital necessity of secure transit routes for a landlocked country dependent on others for trade, energy supplies and arms, and an acknowledgement that it is surrounded by hostile states who can make life very uncomfortable for Armenia if they so choose. Armenia's relations with Iran are a prime example of its foreign policy being driven by strategic necessity: the two countries share borders and one of Armenia's principal transit routes passes through Iran, whose southern transit routes are vital to Armenia given the closure of its border with Turkey. Speaking in 2011, President Sargasyan stated that Iran was a very important country for Armenia, not just because the two are neighbors, but because Iran "is one of two countries through which we communicate with the outside world". According to the Armenian president, problems between the two would "further narrow the tube, through which Armenia is breathing".¹⁶

Russia is Armenia's staunchest ally and Yerevan has sought a close relationship with Moscow to counterbalance what it perceives to be its vulnerable position between two countries that are antagonistic towards it: a militarily powerful Turkey and increasingly strong Azerbaijan. It is content to rely heavily on Moscow, both economically and for military security, as discussed earlier, partly because it has no choice and partly because it does not feel directly threatened by Russia, not having a mutual border.¹⁷ The strategic partnership with Moscow, and in particular the Russian military presence, is viewed as a key component of the country's national security, as emphasized in the National Security Strategy:

Although Russia includes a part of the Caucasus, Armenian-Russian relations go far beyond the regional level. The importance of Russia's role for the security of Armenia, the traditional friendly links between the two nations, the level of trade and economic relations, Russia's role in the Nagorno-Karabakh mediation effort, as well as the presence of a significant Armenian community in Russia, all contribute to a strategic partnership.¹⁸

Russia is its key trading partner, providing vital supplies of energy, as well as its principal source of security, providing much-needed military equipment and support. Speaking in 2006, former president Robert Kocharyan stated emphatically that Armenia would not

join either the EU or NATO, as “membership of the Collective Security Organisation and the high level of military-technical co-operation with Russia solve the task of ensuring the country’s security”.¹⁹ There are concerns that Russian support for Armenia means that it could be dragged into fighting, particularly as Armenia is a member of the Collective Security Treaty Organisation (CSTO), which guarantees mutual military assistance if a member is attacked.²⁰ The CSTO is particularly important for Armenia, which perceives itself to be in a vulnerable position in the South Caucasus, surrounded by hostile powers. As mentioned above, Yerevan believes that a combination of Russian support and membership of the CSTO will maintain the country’s security. However, despite Armenian confidence that the organization would come to its assistance if necessary, doubts have been raised that it would assist in the event of renewed conflict with Azerbaijan over Nagorno-Karabakh. Speaking in 2011, a Kazakh analyst argued that CSTO involvement would depend upon whether any new conflict involves just Karabakh or also Armenia:

If a military conflict began in Nagorno-Karabakh, this would not be an attack by Azerbaijan on Armenia. This issue is Azerbaijan’s internal affair, because Nagorno-Karabakh is a part of Azerbaijan’s administrative territory.²¹

Azerbaijan’s foreign policy is similarly dominated by the continuing conflict over Nagorno-Karabakh: settlement of the conflict and “the restoration of Azerbaijan’s territorial integrity” are the country’s primary foreign policy priority. Foreign Affairs Minister Elmar Mammadyarov has stressed the importance of resolving this and other protracted conflicts in the South Caucasus, stating that “their status undermines regional security and stability, hinders economic and political development and prevents genuine regional cooperation”.²² The unresolved conflict has consistently influenced Azerbaijan’s foreign policy since independence, impacting upon the country’s relations with its neighbors and the direction of its domestic policy. Its military doctrine, finally adopted in 2010, affirms that “any political, military, economic or other support provided to the Republic of Armenia and to the separatist regime... on Azerbaijani territory with the aim of [securing] official recognition of the results of occupation will be interpreted as an act directed against Azerbaijan”.²³ This statement is particularly pertinent when viewed through the prism of Russian support for Armenia and, during a visit to Azerbaijan in September 2010, Russian President Medvedev sought to reassure Baku that Moscow’s renewed strategic accord with Armenia was not directed against Azerbaijan.

As part of its balanced foreign policy, Azerbaijan has sought to avoid antagonizing Russia, whilst maintaining an independent stance on both regional and global issues, a diplomatic approach that is believed to prevent Russia from taking “openly aggressive steps towards Azerbaijan, even if it does not promote resolution of the Nagorno-Karabakh conflict, domestic stability, or regional security”.²⁴ The 2008 conflict between Russia and Georgia highlighted to Baku the importance of maintaining good relations with its northern neighbor and Azerbaijani Foreign Minister Mammadyarov announced that one of the country’s foreign policy priorities during 2011 would be to strengthen relations with neighboring countries, particularly Russia.²⁵

The Turkish Connection

Azerbaijan has a close relationship with Turkey, a relationship based to a large extent on ethnic and linguistic commonalities. Mustafa Kemal Atatürk proclaimed that “Azerbaijan’s happiness is our happiness and its sorrow is our sorrow”, a quote frequently paraphrased by Turkish and Azerbaijani leaders since, whilst the former Azerbaijani

President Heydar Aliyev described the two countries as “two states, one nation”. Turkey has always prioritized its relations with Azerbaijan over those with the other countries in the South Caucasus, demonstrated by the fact that it was the first state to recognize Azerbaijan’s independence in 1991, a full month before it recognized the independence of other former Soviet states. In addition to strong diplomatic and economic ties, Azerbaijan also receives a considerable amount of military support from Turkey, which has been assisting the development of the Azeri Armed Forces since the country became independent in 1991. Ankara provides professional military training and resources to help bring the Azeri military up to NATO standards.²⁶ In August 2010 Azerbaijan concluded a strategic partnership and mutual assistance agreement with Turkey, a document that cements their already strong bilateral relationship. The agreement was perceived to be a direct response to the Russian–Armenian agreement that includes the presence of the Russian military on Armenian territory. Turkish President Abdullah Gül reiterated his country’s solidarity with Azerbaijan, stating that the Caucasus “must be turned into a region of stability and cooperation” with the resolution of the Nagorno-Karabakh dispute and the preservation of Azerbaijan’s territorial integrity.²⁷

This agreement was followed by a second one in September 2010, when Turkish Prime Minister Recep Tayyip Erdoğan and Azerbaijani President İlham Aliyev signed an accord on the establishment of a Turkish–Azerbaijani high-level Strategic Cooperation Council, designed to boost co-operation between the two countries.²⁸ The agreement between Azerbaijan and Turkey provided for mutual military assistance if either side was attacked, as well as strengthening military-technical co-operation, arms supply and the establishment of infrastructure for possible joint operations in the future. However, this close alliance, like the Russian–Armenian partnership, reinforces mutual mistrust and suspicion over Nagorno-Karabakh, hindering the prospect of a negotiated settlement to the conflict. These agreements also increase fears that the conflict could become internationalized, with Russia or Turkey being obliged to assist their strategic ally in the event of a resumption of violence.

Forging Alliances, Seeking Security

The increasing militarization of the South Caucasus and ongoing dispute over Nagorno-Karabakh polarizes the regional powers, with Russian support for Armenia and Turkey’s strategic partnership with Azerbaijan dividing the wider Caucasus region into two opposing blocs. These close alliances may provide security for the two South Caucasus states, but they ultimately undermine security across the region as they hamper resolution of the conflict, often exacerbating existing tensions and mistrust rather than boosting the security of either the states involved or actors across the wider region. It has been argued that Turkish military support merely serves to prolong the dispute with Armenia over Nagorno-Karabakh, as it allows Yerevan to perceive a military threat from Turkey and thus increase its reliance on Russia, fuelling further instability. Both Russia and Turkey would suffer if there is a return to conflict in the South Caucasus, particularly if the dispute over Nagorno-Karabakh turned into all-out war again. Unfortunately, until Turkish–Armenian relations are normalized, there will be no lasting solution to the conflict, which is the most pressing obstacle to stability and co-operation in the South Caucasus. The normalization process, which began in the wake of the 2008 Russia–Georgia conflict, has stalled, threatening to undermine Turkey’s policy of “zero-problems with neighbours”.²⁹

The ongoing dispute also undermines efforts to establish broad regional co-operation that includes all three South Caucasus states, which is hindered by the absence of diplomatic relations between Armenia and Azerbaijan and, whilst the Nagorno-Karabakh conflict remains unresolved, progress towards trilateral co-operation and integration at state level will remain limited. As a result of the ongoing conflict and Armenia's lack of diplomatic relations with either Azerbaijan or Turkey, Georgia tends to play a centralizing role in the region. Georgia views itself as a "connecting bridge" between Armenia and Azerbaijan and seeks to facilitate "constructive dialogue" between the two states, cognisant of the fact that the ongoing conflict is the principal impediment to deepening regional co-operation and thus stability.³⁰ Economic co-operation and large-scale regional projects are seen as key to the development of a stable, secure region and Georgia points to the success of infrastructure projects such as the Baku-Tbilisi-Ceyhan (BTC) pipeline. However, it is important to note that whilst Georgia has emphasized the importance of a resolution to the Nagorno-Karabakh conflict between Armenia and Azerbaijan, it has indirectly benefited from the continuing dispute: large-scale transportation and infrastructure projects such as the BTC oil export pipeline and planned Baku-Tbilisi-Kars (BTK) rail link bring much-needed transit tariffs that would go to Armenia (the shortest, most direct route from east to west) if it was not in dispute with both Azerbaijan and Turkey.

Thus, Armenia has been most excluded from the benefits of the limited regional co-operation that has occurred (for example, the BTC and Baku-Tbilisi-Erzurum [BTE] pipelines) and needs to reduce its isolation in order to develop its economy. The National Security Strategy has identified exclusion from regional infrastructure projects (such as the transnational pipeline and railroad projects) as a significant threat to its security,³¹ and Armenia is a keen advocate of increased regional co-operation in the South Caucasus, aware of the benefits such co-operation would bring. Yerevan's commitment to the development of regional co-operation was emphasized by Armenian Foreign Minister Eduard Nalbandyan in a statement to the UN General Assembly in September 2010:

The record of the last 20 years clearly demonstrates what Armenia has been stating all along: there is no possibility of comprehensive development of any of the countries [of the] South Caucasus at the expense of others, and the creation of dividing lines will be devastating for the region, increasing the risks [of] instability. Regional cooperation is the only viable path to pursue, and we have been advocating... strong regional cooperation schemes. In this regard, open borders, criss-crossing lines of communication and interrelated economic systems are crucial.³²

Trans-national Challenges

Unresolved conflicts are the principal reason for the lack of well-developed, effective co-operation between the three South Caucasus states, and with the regional powers. A complex set of conflicting dynamics means that the region is divided into opposing alliances that have few shared objectives. Not only do these unresolved conflicts complicate relations between the three South Caucasus states, they also facilitate the involvement of the regional powers, Russia, Turkey and Iran, who all have different agendas.

The Nagorno-Karabakh conflict undermines regional stability, not just because of the threat of a renewal of fighting and potential internationalization of the conflict, it also undermines efforts to boost regional co-operation, hampering economic development and further destabilizing the area. It has also created a security vacuum that provides

ideal conditions for trans-national security challenges such as organized crime and illegal trafficking to flourish. Consequently, the continuing dispute has implications not only for stability in the Caucasus region, but also for Europe and the wider international community. The Caucasus region constitutes a vital land bridge between Asia and Europe, physically linking the Caspian Sea region and Central Asia with the Black Sea and Western Europe. Its role as a critical link between East and West is demonstrated most vividly by its increasing importance as a transport and communications corridor, and particularly as a transit route for hydrocarbons from the landlocked Caspian Sea region to international markets. However, its location, together with poor law enforcement and corruption, means it is also a key transit route for the trafficking of weapons, drugs and people from Central Asia to Europe. According to the US State Department's 2011 *International Narcotics Control Strategy Report*, although none of the states in the South Caucasus is a major drugs producer, the region has increased in significance as transit corridors, as it is situated along major drug trafficking routes from Afghanistan and Iran to Europe and Russia.³³ The EU has also acknowledged the region's role as a smuggling and trafficking route, with a report on the European Neighbourhood Policy in 2010 noting that "[a]s many countries of the region are located on the heroin route between Afghanistan and the EU, drug trafficking and its spill-over effects are an important challenge".³⁴

Nagorno-Karabakh has close ties to both Armenia and Iran, controlling over 110 kilometers of what is officially the border between Azerbaijan and Iran, marked by the Arax river. Speaking in 2004, Azerbaijan President Ilham Aliyev described the area as an uncontrolled and unmonitored "grey zone" that had become a haven for criminal activity and represented a threat to peace and security in the entire Caucasus region.³⁵ A report written in 2007 concluded that "[s]muggled materials are easily transferred from Nagorno-Karabakh to southern Armenia" and that this "'black-hole' represents a serious security threat in the Caucasus".³⁶ Whilst these claims risk being viewed as little more than "black propaganda" designed to undermine the position of its opponents, the USA has also concluded that there is a risk of the region becoming a "potentially significant" drug trafficking route.³⁷ Whilst Armenia denies claims that the Nagorno-Karabakh area is used to cultivate drugs, citing a recent field mission report by the OSCE Minsk Group,³⁸ there is little doubt that in an area that lies on a key transit route between Asia and Europe the lack of a stable law enforcement regime, combined with porous borders, could facilitate the development of criminal activities such as drugs smuggling from Central Asia to the markets of Europe. Azerbaijan's State Border Service reported that it seized 235 kilograms of narcotics, together with 11 tones of "wild plants containing narcotics", during 2010.³⁹ Azerbaijan has signed an agreement with Russia, boosting their co-operation in the fight against drug trafficking, particularly the challenge posed by the trafficking of drugs through Nagorno-Karabakh.

The Pipelines and European Energy Security

The protracted Nagorno-Karabakh dispute also has significant implications for Europe and the West as the renewal of hostilities could threaten the security of energy infrastructure and supplies. Access to hydrocarbon resources has consistently been a principal driver of Western policy in the region, although there was a relative lack of interest in the South Caucasus region during the initial post-Soviet era. The area only began to grow in importance to the USA and Europe during the mid-1990s, identified as both a source of and key transit route for hydrocarbons from the Caspian Sea. Speaking before the US House of Representatives' Armed Services Committee in 2008, the US

commanding officer of the Allied Command Operations (ACO) in Europe, General Bantz John Craddock, clearly enunciated the significance of the wider Caucasus region for the Euro-Atlantic community:

The Caucasus' geostrategic location makes the region an important area for the US and its Allies. Caucasus nations actively support [Operation] IRAQI FREEDOM and ISAF. They provide alternative hydrocarbon sources from the Caspian Sea and alternative routes of access to Central Asian hydrocarbon reserves. It is an important region for European energy diversification.⁴⁰

As discussed earlier, its position at a crossroads between Europe and Asia means that the South Caucasus has consistently been an important transport corridor,⁴¹ particularly in energy terms, enabling hydrocarbons to be shipped from the landlocked Caspian Sea region to international markets without the need to transit Russian territory. There is a perception that Moscow already has too much influence over both European energy supply and former Soviet hydrocarbon exporters, undermining the autonomy of both suppliers and consumers. The development of pipeline infrastructure across the South Caucasus region enables European states to intensify their energy security by diversifying away from Russian-controlled lines. Consequently, there has been considerable investment in new international export pipelines over the past decade, which has led to the development of a southern oil and gas corridor between the Caspian and Mediterranean seas and brought significant economic and security benefits. The ambitious BTC oil export pipeline, which came into operation in 2006, is a vital element in expanding oil production in the Caspian basin. The commercialization of the BTC (and BTE/South Caucasus, SCP, gas) pipeline has created substantial revenues for the transit countries, and has strengthened economic and political links between Azerbaijan, Georgia, Turkey and the West.⁴² However, the BTC runs just 15 kilometers to the north of Nagorno-Karabakh and, although it runs underground, any renewal of conflict in the region would still impact on global crude prices and could threaten security of supply.

The possibility of a renewal of conflict over Nagorno-Karabakh could derail plans to construct new pipelines in the region. In its second Strategic Energy Review, released at the end of 2008, the European Commission (EC) called for the development of a Southern Gas Corridor to be recognized as an energy security priority for the EU.⁴³ This corridor would encompass planned infrastructure projects to transport natural gas from the Caspian and Middle East to European markets, including the multi-billion-dollar (US\$11.4 billion), 3,900 kilometers Nabucco pipeline that would run from Erzurum in Turkey—where it would connect with the SCP—to Austria, transiting Bulgaria, Romania and Hungary. However, the 2008 military conflict between Russia and Georgia has reaffirmed fears in some quarters that it is far too risky to consider constructing new pipelines in the volatile Caucasus region. Certainly, in the absence of any resolution of the dispute over Nagorno-Karabakh (or Georgia's separatist regions), raising the necessary finance and international support for new pipelines in the region has been greatly complicated by the growing political risk, undermining European energy security.

Conclusion

The rising political tensions between Armenia and Azerbaijan over Nagorno-Karabakh, combined with escalating defense expenditure, threaten to undermine security in its broadest sense across the volatile Caucasus region. The economic development of states throughout the region is hindered by the lack of true multilateral co-operation

and Armenia's isolation from the region's growing importance as an energy transit corridor is particularly damaging. Furthermore, the existence of a security vacuum provides ideal conditions for transnational security challenges such as organized crime and illegal trafficking to flourish, as noted in recent reports by both the EU and USA, discussed earlier. The ongoing dispute over Nagorno-Karabakh also undermines any efforts to establish pan-regional co-operation initiatives, not least because two of the three states have no diplomatic relations and their mutual borders remain closed. The tense situation also polarizes the regional powers, with Russian support for Armenia and Turkey's strategic partnership with Azerbaijan dividing the wider Caucasus region into two opposing blocs. These close alliances may provide security for the two South Caucasus states, but they ultimately undermine security across the region as they hamper resolution of the conflict, often exacerbating existing tensions and mistrust rather than boosting the security of either the states involved or actors across the wider region. It has been argued that Turkish military support merely serves to prolong the dispute with Armenia over Nagorno-Karabakh, as it allows Yerevan to perceive a military threat from Turkey and thus increase its reliance on Russia, fuelling further instability. Certainly, the indirect involvement of external actors has impeded efforts to a negotiated settlement to the conflict.

Peaceful settlement of the Nagorno-Karabakh conflict would undoubtedly boost stability in the Caucasus and strengthen regional security and co-operation. After years of stalemate, there is a need for greater international involvement, but there is a lack of resolve in the international community to sort out the problem. One reason for this is the fear of setting a precedent and the need to balance the seemingly contradictory principles of territorial integrity and self-determination. However, the international community must make a commitment to stability and democracy in countries in the region, and efforts to sort out unresolved conflicts in the region need to be stepped up by international and regional actors. As organizations such as the EU seek to expand their borders and Western interest in the South Caucasus grows with its importance as a transit route for Caspian hydrocarbons, it is becoming more important to focus on conflict resolution.

Greater attention needs to be paid to security on the periphery, where the presence of weak or unstable states poses a threat to the stability of member states. Thus, actors such as the EU, as well as individual states, need to redouble their involvement in the search for acceptable solutions to the Nagorno-Karabakh dispute. Russia's role as a mediator must be also fostered, within the OSCE Minsk Group framework and as one of the principal regional actors. In addition to being a co-chair of the OSCE Minsk Group, Russia is the principal economic and military power in the South Caucasus, exerting huge leverage and, despite a track record of persistent interference in the region, Moscow has a very positive role to play. However, it needs to move away from its traditional geopolitical view of the region towards a more co-operative and consensual approach.

Nevertheless, and as discussed earlier, the role of external actors in conflict resolution efforts in Nagorno-Karabakh can be very problematic and often serves to inflame existing tensions, rather than encouraging reconciliation to resolve the dispute peacefully in order to avert the threat of a complex emergency that would destabilize the entire region. A renewed conflict could spell disaster for the volatile South Caucasus: the resumption of large-scale conflict would herald a war of attrition, with the civilian population bearing the brunt of the fighting. Of great concern is the prospect of a renewal of fighting over the enclave rapidly becoming internationalized, particularly with Russian military bases in Armenia and Turkish support for Azerbaijan. Baku needs to be persuaded that it stands to lose far more than it would gain from any attempt to impose a military

solution on the Nagorno-Karabakh dispute. Its hydrocarbon resources could play a key moderating role, preventing further conflict. Although there is concern that the huge financial rewards Azerbaijan is set to reap over the coming decade from its hydrocarbon reserves may well mean that it is less inclined to seek a negotiated resolution, these oil revenues also provide a very good reason why Baku may decide against military action. The Azeri economy is highly dependent on the revenues from its hydrocarbon reserves, the development of which requires considerable foreign investment, and a renewal of the war with Armenia would damage Azerbaijan's prospects of attracting further investment. There is no military solution to this latent conflict—it can only be solved by political means.

NOTES

1. Figures quoted in *Armenia and Azerbaijan: Preventing War*, Europe Briefing No 60, *International Crisis Group*, 8 February 2011, p. 3.
2. Quoted in *Nezavisimaya Gazeta*, 10 November 2010, available online at: http://www.ng.ru/cis/2010-11-10/1_karabah.html, accessed 15 June 2011.
3. BBC Monitoring (online), 26.6.11, *AzTV Baku*, 0630GMT, 26.6.11. Furthermore, in May 2011 plans to restart civilian flights between the city of Stepanakert in Nagorno-Karabakh and Yerevan were postponed indefinitely after Baku threatened to shoot down aircraft entering Karabakh without its permission. Flights have been suspended since the war in 1991 and all transit between Armenia and the enclave takes place overland. See www.rferl.org/content/nagorno_karabakh_flights_hold_airport_reconstruction/24116168.html
4. Benita Ferrero-Waldner, *Political Reform and Sustainable Development in the South Caucasus: The EU's Approach*. Speech delivered at "Caspian Outlook 2008" Bled Strategic Forum, 28 August 2006, Speech/06/477, available online at: http://ec.europa.eu/commission_barroso/ferrero-waldner/index_en.htm
5. Figures quoted in *Armenia and Azerbaijan: Preventing War*, Europe Briefing No 60, *International Crisis Group*, 8 February 2011, p. 1.
6. Former defence minister Serzh Sargasyan (current president) quoted in "Russia and Armenia Cement Military Alliance", *Jane's Foreign Report*, 8 March 2007, No. 2919, pp. 6–7. Armenia marked 20 years of independence in September 2011 with its largest military parade since the Soviet era, showing off Russian-made S-300 air defence systems.
7. BBC Monitoring (online version), 20.12.10, *Mediamax News Agency, Yerevan*, 1257GMT, 20.12.10.
8. According to opinion polls, over 70% of Armenians believe that the presence of Russian military bases preserves their security. *Krasnaya Zvezda*, available online at: www.kz.ru, accessed 19.8.10.
9. "Joint news conference following Russian-Armenian talks", 20 August 2010, 13:30, Yerevan, *Official site of the President of Russia*, available online at: <http://eng.news.kremlin.ru/transcripts/810/print>
10. *Krasnaya Zvezda*, available online at: www.kz.ru, accessed 19.8.10.
11. The export markets of Azerbaijan and Turkey are closed to Armenian goods and services, there are high transportation costs because of these blockades and the country has a very high level of defence spending, which impinges on other sectors of public spending such as health and education.
12. *Republic of Armenia National Security Strategy*, Appendix of RA President Decree NH-37-N, 7 February 2007. See, Foreign Ministry of the Republic of Armenia, available online at: www.armeniaforeignministry.com
13. Armenia topped the 12 CIS countries in terms of the percentage of its population that want to move abroad. BBC Monitoring (online version), 5.8.10, *Arminfo*, Yerevan, 1348GMT, 5.8.10.
14. Armenia obviously also lacks any trade with Azerbaijan and has been isolated from the economic windfall brought to the South Caucasus by the development of oil and gas export pipelines. Furthermore, it has no direct links with Turkey (the borders between the two countries have been closed since 1993) and no Turkish investment in its economy. Nevertheless, in spite of an official trade embargo, Armenia conducts nearly 5% of its total trade with Turkey via third countries, particularly Georgia: goods are transported by Turkish-owned trucks from Turkey to Armenia across Georgian territory.
15. Complementarity is a partnership approach that seeks to "simultaneously develop relations with all states in the region and with states with interests in the region", with the aim of maintaining an overall balance in the region. This strategy has become more significant as the West began to take a

- more direct interest in the South Caucasus region at the beginning of the twenty-first century: Yerevan's relations with European organisations must now be balanced against its strategic partnership with Russia. *Republic of Armenia National Security Strategy*, Appendix of RA President Decree NH-37-N, 7 February 2007. See Foreign Ministry of the Republic of Armenia, available online at: www.armeniaforeignministry.com. Although the term originated in the late 1990s, the principle of complementarity has defined Armenian foreign policy since independence. For more details see Mikayel Zolyan, "My Friend's Enemy is my Friend: Armenian Foreign Policy between Russia, Iran and the United States" *Caucasus Analytical Digest*, No. 13, 15 February 2010, pp. 2–5.
16. "Armenian president: Iran is very important country for Armenia", Trend news agency, available online at: <http://en.trend.az/regions/iran/1818689.html>, accessed 27.01.2011.
 17. Alexander Iskandaryan, "Nato and Armenia: a Long Game of Complementarity" *Caucasus Analytical Digest*, No. 5, 16 April 2009, p. 17. Armenia is in a difficult position. Whilst apparently keen to develop closer economic ties with the West, particularly Europe, it is aware of its reliance on Russia, in political, economic and military terms. Thus, Yerevan must constantly seek to balance relations with the two through its policy of complementarity, which can be a challenge at times.
 18. *Ibid.*
 19. "Armenia not to join Nato, EU: president", available online at: http://news.xinhuanet.com/english/2006-04/24/content_4468385.htm. Public opinion in Armenia is divided on the issue of Nato membership. A poll conducted in 2007 found that 40% of Armenians think the country should "definitely" or "probably" join the military alliance, whilst 45% said it "definitely" or "probably" should not. The same poll found that 80% were in favor of EU membership. "Armenia says not aiming for Nato, EU membership", available online at: www.rferl.org/content/article/1077640.html
 20. The Collective Security Treaty Organisation (CSTO) was established in 2002, when seven CIS members (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan) enhanced their military co-operation by deciding to maintain their security on a collective basis. According to the Charter on Collective Security, adopted in 1992, an attack on one member-state will be considered to be an attack on all, and to this end the CSTO conducts annual large-scale military exercises. *Treaty on Collective Security*, available online at: http://www.dkb.gov.ru/start/index_aengl.htm
 21. Quoted in "Armenia, the CSTO and Collective Security", *Eurasianet*, 23 May 2011, available online at: www.eurasianet.org/node/63541
 22. Dr Elmar Mammadyarov, "The Foreign Policy of Azerbaijan: Affecting Factors and Strategic Priorities", in *Azerbaijan in Global Politics: Crafting Foreign Policy*, eds Alexandros Petersen & Fariz Ismailzade, Baku: Azerbaijan Diplomatic Academy, 2009, p. 16.
 23. For the full text, available online at: <http://www.meclis.gov.az/?/az/law/183/1>
 24. Anar Valiyev, "Finlandization of Strategy of Keeping the Balance? Azerbaijan's Foreign Policy since the Russian-Georgian War", *PONARS Eurasia Policy Memo No. 112*, p. 1.
 25. This followed the conclusion of an agreement on border delimitation between the two states at the end of 2010. The agreement on the delimitation of borders between Azerbaijan and Russia was signed on Nov. 18, 2010. It was particularly important as it covered the Samur River, which supplies most of Baku's fresh water. The agreement saw Azerbaijan retain control over the Samur-Apsheron hydropower plant. "FM: Azerbaijan's foreign policy priority is strengthening relations with neighbors, primarily Russia", available online at: <http://en.trend.az/news/politics/1818758.html>, accessed 27.01.2011.
 26. "Turkish Armed Forces will continue to assist Azerbaijani Armed Forces in conforming to Nato standards", *Today. Az*, 23 May 2007, available online at: <http://today.az/print/news/politics/41245.html>
 27. BBC Monitoring (online version), 16.8.10, *Anatolia news agency*, Ankara, 1700GMT, 16.8.10.
 28. BBC Monitoring (online version), 15.9.10, *Anatolia news agency*, Ankara, 1656GMT, 15.9.10.
 29. This policy seeks to resolve conflict through engagement and dialogue, driven both by Turkey's historical ties to adjacent states and an understanding of the negative impact an unstable neighborhood has on its economic development. Stability in neighboring states is vital if Turkey is to maintain its path of economic growth and democratic consolidation.
 30. *Foreign Policy Strategy, 2006–2009*, Ministry of Foreign Affairs, available online at: http://www.mfa.gov.ge/files/35_9440_673620_11.pdf
 31. *Republic of Armenia National Security Strategy*, Appendix of RA President Decree NH-37-N, 7 February 2007. See Foreign Ministry of the Republic of Armenia, available online at: www.armeniaforeignministry.com
 32. Statement by HE MR Edward Nalbandyan, Minister of Foreign Affairs of the Republic of Armenia at the High-Level Plenary Meeting of the 65th Session of the UN General Assembly on the Millennium Development Goals, 21 September 2010, New York.

33. According to the report, the importance of Azerbaijan as a transit route is thought to have grown partly due to the strengthening of border regimes in Turkey and Georgia. The State Department. Bureau for International Narcotics and Law Enforcement Affairs. *International Narcotics Control Strategy Report*, Vol. 1, 3 March 2011, available online at: <http://www.state.gov/p/inl/rls/nrcrpt/2011/vol1/index.htm>
34. *European Neighbourhood and Partnership Instrument: ENPI Regional East Programme, Strategy Paper 2010–2013 & Indicative Programme 2010–2013*, p. 10.
35. Statement by Ilham Aliyev, President of the Republic of Azerbaijan, at the General Debate of the 59th session of the General Assembly, 24 September 2004, p. 2.
36. Jahangir Arasli, “The Rising Wind: is the Caucasus Emerging as a Hub for Terrorism, Smuggling and Trafficking?” *Connections*, Vol. VI, No. 1, 2007, pp. 5–26.
37. For further details see Jim Nichol, “Armenia, Azerbaijan, and Georgia: Security Issues and Implications for U.S. Interests” *Congressional Research Service Report*, RL30679, 11 March 2010.
38. BBC Monitoring (online version), 25.3.11, *Novosti Armenia*, Yerevan, in Russian, 0947GMT, 25.3.11.
39. BBC Monitoring (online version), 22.12.10, *ANS TV*, Baku, 1400GMT, 22.12.10.
40. *Statement of General Bantz J Craddock, USA Commander, United States European Command before the House Armed Services Committee*, 13 March 2008, p. 7.
41. In the nineteenth century, Azerbaijan (then part of the Russian Empire) was home to the development of the world’s first commercial oil industry and the territory of Georgia played a key transit role when the Rothschilds financed the construction of a Transcaucasian railway to carry oil from Baku to Georgia’s Black Sea port of Batum. Completed in 1883, this rail link opened up the landlocked Caspian region and triggered a rush of investment. For further details see Daniel Yergin, *The Prize: the Epic Quest for Oil, Money & Power*, New York: Simon & Schuster, 1991, pp. 43–45.
42. In addition to providing the region with access to world energy markets, bypassing Russia, they provide economic benefits in the form of transit revenues. According to a study published in 2005, oil transportation tariffs will rise from US\$0.89 to US\$1.86 per ton, adding US\$62.5 million per year to Georgia’s national budget. See, S. Frederick Starr and Svante E. Cornell, *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, Washington, DC: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005, p. 87. The study also estimates that the pipeline will lower the level of unemployment by over 30% and contribute to a rise in GDP. Georgia has the right to take up to 5% of the annual gas flow through the SCP in lieu of a tariff. If it does not take this it will be obligated to pay a fee. In monetary terms, this quantity is equivalent to around US\$17 million per year. It can also purchase a further 0.5 billion cubic meters of gas a year at a discounted price. Conversely, the events of August 2008 are estimated to have caused over US\$1 billion in economic losses for Georgia, although this figure does not take into account any indirect losses stemming from a loss of confidence in the country as an investment destination. See, *Nezavisimaya Gazeta*, available online at: www.ng.ru/courier/2008-10-27/12_georgia.html, accessed 27.10.08.
43. *EU Energy Security and Solidarity Action Plan: Second Strategic Energy Review*, European Commission, Directorate-General for Energy and Transport, Brussels, 2008, available online at: http://ec.europa.eu/energy/strategies/2008/2008_11_ser2_en.htm. The Southern Corridor was once again identified as a priority within the natural gas sector at the end of 2010, when the EC outlined its energy infrastructure priorities for the next two decades, defining a small number of EU “priority corridors” for the gas and electricity sectors, which are urgently needed to enable the EU to deliver energy security for its member states. *Energy Infrastructure: Commission proposes EU Priority Corridors for Power Grids and Gas Pipelines*. Press release, Brussels, 17 November 2010, IP/10/1512.

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