



CONTEXTUALIZING THE SOUTHERN CAUCASUS: INTERNAL AND EXTERNAL DYNAMICS

The Southern Caucasus is a relatively small region, plagued with a web of political problems. To identify and resolve these issues however, it is important to see the region's place in global events. This paper looks at the region on three levels, each composed of three different countries, symbolized by triangles. This method contextualizes the Southern Caucasus with reference to the interests of regional and global actors. From this vantage point, the region's frozen conflicts are not only ethnic or religious differences within the Caucasus, but rather areas of contention for outside actors.¹

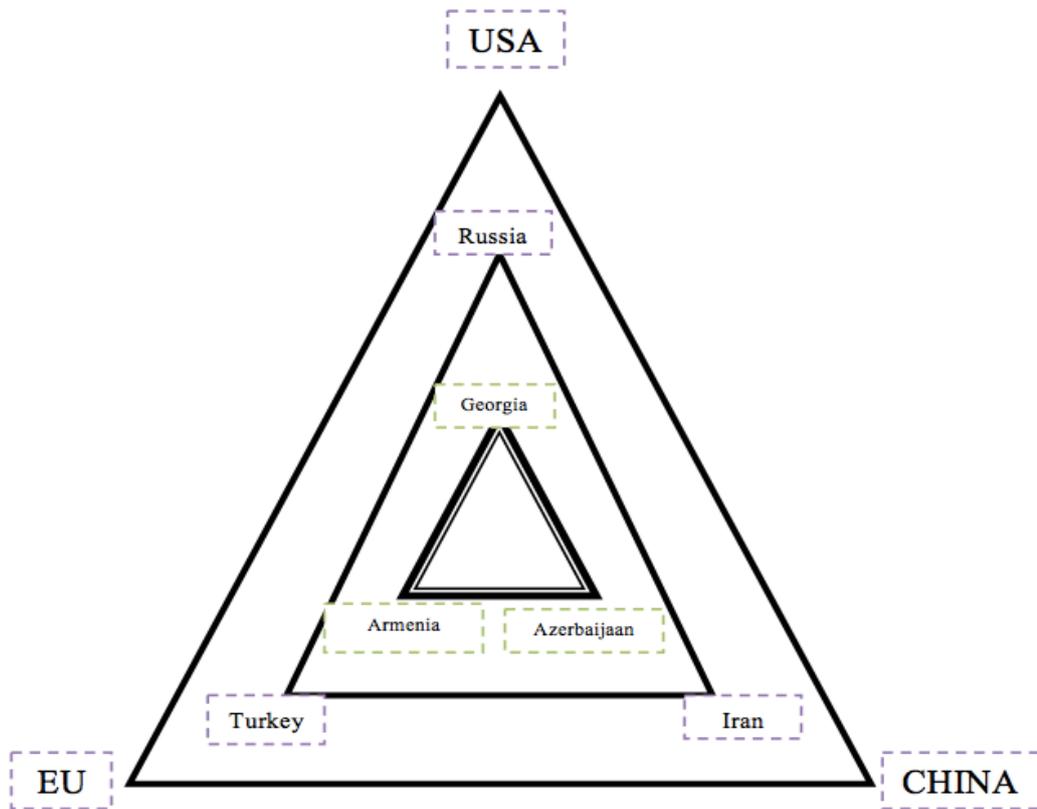
The first is the "Outer Triangle" of global powers that have a potentially transformative effect on the three Caucasus countries. At this level, the Southern Caucasus is important for its natural resources, as well as its logistical capacity between eastern energy sources and Western markets.

The "Inner Triangle" consists of Russia, Iran and Turkey, former empires that have a strategic grip on Southern Caucasus countries. These countries use their abilities to block or facilitate the transformation of the region as leverage against each other, as well as the Outer Triangle.

The "Core Triangle" is made up of the three Southern Caucasus countries themselves: Azerbaijan, Armenia and Georgia. At this level of analysis, the paper delves into the various pressures that these three countries have to balance in their foreign and domestic policies.

¹ This paper originated from a discussion at TEPAV, in November 2014, between TEPAV economists, Stepan Grigoryan, Director of the Yerevan-based Analytical Centre on Globalization and Regional Cooperation (ACGRC), Avaz Hasanov director of the Society for Humanitarian Research in Azerbaijan, Bülent Aliriza from the TEPAV USA Center and the Center for Strategic and International Studies (CSIS), Togrul Javarli, a journalist, scenarist and film editor from Azerbaijan. The German Marshall Fund (GMF) contributed with generous funding and guidance via Özgür Ünlühisarcıklı, its Ankara Office Director.

At the heart of this analysis lie the frozen conflicts in the region, and especially the Nagorno-Karabakh war, that reverberates across the political interaction of all three triangles. We hope that a systematic look at the global political and economic context of this conflict will help promote greater stability and openness in the region.



The Outer Triangle of Global Transformers

For global powers, the Southern Caucasus has only been a part in the greater puzzle of strategic planning. Yet their decisions have the power to transform the political and economic structure of the region. They initiated two such transformative points in recent history. One is the end of the Cold War and the subsequent liberalization brought to the region by the United States and the European Union. The other has been the rise of the developing world and the globalization of supply chains, which now brings China forward as a potentially transformative power in the Southern Caucasus, among other regions.

The United States: The Distracted Superpower

As the Cold War came to a close in the late 1980s, it seemed a matter of time before the former Soviet republics would come under the wing of liberal democracy. Eastern Europe was at the forefront of that transformation, and Central Asia and the Caucasus would follow in due time.

In this context, The Southern Caucasus was a small, but key area for American policymakers. Russia, Central Asia and the Caspian shores of Azerbaijan were known to be abundant in hydrocarbons, but were inaccessible to Western companies during the Cold War. That changed after 1989, when Western companies began to invest heavily across the post-Soviet republics. To transport oil and gas to European markets without having to use the existing Russian pipeline network, they began to set up an alternate route through the Caucasus. It became American policy to set up an effective East-West corridor to this end. This corridor would not allow the Caucasus to formally join the European project, but was meant to make it part of the transatlantic strategic, economic and political space.²

The policy met with limited success. The US pushed the idea of exporting Caspian oil to the Mediterranean to open channels of cooperation. In 2005, this yielded the Baku-Tbilisi-Ceyhan (BTC) pipeline, which takes Azeri oil through Georgia –circumventing Armenia – to Turkey’s Ceyhan port on the Mediterranean. But the BTC turned out to be the high-point of the East-West corridor, rather than its beginning. By the early 2000s, America’s interest in the region began to wane. In the wake of the 9/11 attacks, the Bush administration was focused on the Middle East and loosened its influence over former Soviet Republics. The planned Nabucco pipeline taking Azeri gas to Europe, or a trans-Caspian pipeline transporting Turkmen gas to Western markets both came to naught under Russian pressure.

The Obama administration set out to develop what it called the Modern Silk Road (MSR) under the stewardship of Secretary of State Hillary Clinton. The MSR aimed to link India to Western markets through the Caucasus. It was particularly geared to activate Afghanistan as a functional logistical link in the East-West corridor. But the Obama administration felt pressured to exit Afghanistan quickly and the MSR faded into irrelevance.

The US’ transformative influence on the Southern Caucasus mainly entails de-coupling it from Russian influence and bringing it into the transformative orbit of the EU. In this sense, it left the job half done in the mid-1990s. The fundamental political alignments of the region remained unchanged. The OSCE Minsk Group, set up to resolve the Nagorno-Karabakh conflict in 1992 under the co-chairmanship of the US, France and Russia, has been ineffective. The status quo remains, not least due to Russia’s continued influence.³

The US remains interested in the Southern Caucasus, especially in the wake of Russia’s increasing aggressive stance in the region, as well as in Eastern Europe. This interest however, has not so far translated into major strategic decisions.

² Daniel Yergin, *The Quest: Energy, Security and the Remaking of the Modern World*,(New York: Penguin Books, 2012),

³ Asmira Jafarova “OSCE Mediation of Nagorno-Karabakh Conflict”(The Washington Review of Turkish & Eurasian Affairs, March 2015) accessed May, 2015

The European Union: The Defective Magnet

The EU is perhaps the only truly transformative polity in the world. As the Cold War came to an end, the EU began a policy of enlargement that integrated Eastern Europe into its liberal democratic framework. The accession process was the vehicle of this transformation, engaging Poland, parts of the former Yugoslavia and the Balkans into a series of reforms that elevated their economic and social standards to those of Western Europe.

This transformative power comes from the appeal of the EU's model. Rather than exerting influence by force, the Union's success has been a magnet that has drawn other countries towards it. The EU has an orbit of NGOs, academic institutions and media networks that pull countries into its liberal internationalist core. This has been strikingly successful in Eastern Europe, but less so in the Middle East and North Africa. The Southern Caucasus countries lie somewhere between these two poles. Liberal values have found a home with a significant cluster of citizens across all three of its countries. These proto-European groups present the most flexible outlook on political deadlocks in the region.

Europe's outreach has mostly been felt loosely through NGOs, Universities and other liberal networks. As part of the EU's "magnet," the institutions not only reach out to EU candidate countries such as Turkey, but into its wider orbit, including North Africa and the Southern Caucasus. In the 1990s, it seemed that the Southern Caucasus countries were drawing towards the EU. They linked themselves to European markets, engaged in political dialogue and participated in cultural projects, such as the Eurovision Song Contest.

But the magnet has been defective for the past decade, with 2008 being a key breakoff year. With its economy descending into the great recession, the EU's attention turned inwards. Russia's invasion of Georgia during the same year reinforced the notion that Europe was becoming more distant.

In this setting, Azerbaijan and Armenia especially found little incentive in reforming their institutions according to the EU's principles. Armenia's politicians for example, subscribe to European values in principle, but in practice have edged closer to Russia in the past decades. The country has recently ramped up Russian military activity and joined the Eurasian Economic Union, which Russia hopes will grow into a regional union under its leadership. Azerbaijan is tied to Europe in its energy policy, but has done little to adopt democratic values. Georgia was the most eager reformer among the three, but felt abandoned by Europe during the 2008 invasion. It has since taken a more cautious pro-EU stance.

Turkey has also felt the wane of the European magnet. The country's accession process has stalled. Europe sees Turkey as too big and too unruly, causing a backlash in Turkish public opinion, and weighing down the momentum behind its reform process. The political rut is not helped by simmering disagreements, most notably the continuing division of Cyprus. The change is all too evident – while European accession seemed an attractive prospect in the early 2000s, Turkish politicians can now garner votes with anti-European rhetoric.

That however, does not mean that Europe's transformational pull has disappeared entirely from the region. NGOs are a particularly visible part of European influence that now influence

decision makers in the Southern Caucasus. Liberals punch above their weight by engaging with English-speaking international media and exerting pressure on their governments. One reason the EU seems unsuccessful now is that its influence is so pervasive that it is being taken for granted.

If the EU wants to continue the transformation of the Southern Caucasus it will need to devise a strategy to influence not only this small group of liberals, but societies of the Southern Caucasus as a whole. It will also need to devise a foreign policy built to counter Russian leverage and win back Turkey's support. Most importantly however, it will also need to find creative ways to chip away at the Nagorno-Karabakh conflict. The EU's limiting factor is not in expertise or financial resources, but rather its utter lack of political will to once again engage with its neighborhood. As long as the crisis in the Eurozone persists, it seems unlikely that the Union will be able to focus on the Southern Caucasus anytime soon.

China: The Third Way?

China is the emerging power with a potentially transformative effect on the Southern Caucasus. China's interest in the region springs from a logistical concern: the country has launched a massive shift into a new economic model that requires it to optimize its trade routes over land. The Southern Caucasus is an important part of that new strategy.

Since the end of the Cold War, the Chinese economy has been growing in the double digits. This has been possible through large-scale capital mobilization, moving people from the countryside to the cities and slashing production prices anywhere from toys to cars. That "Factory Asia" model however, is in sore need of an upgrade. China can no longer afford to compete on price alone – it needs to move up the value chain and producer higher end goods to export to the world. That will require it to collapse the space between itself and consumers in the West.

Up until now, China's manufacturers have relied on sea lanes because they are far cheaper than the land route. A train will carry a container from China to the European market for €3,500-5,500. Shipping the same container by sea costs €1,500. However, the cheaper route comes at a different cost. While the journey by ship can take around two months, the rail route will take about two weeks. With low-value added goods, the long route is more profitable. Plastic chairs are in no hurry to reach European markets. But as China transitions to iPads and solar panels, the cost of shipping time increases, and the land route becomes more attractive. Chinese manufacturers have already begun to move towards high value-added goods, such as consumer electronics, industrial technology, etc. The relative cost of rail transport will most likely decrease. These will also require China to respond more quickly to the demands of the market, putting a premium on fast logistical connections.⁴

⁴ Şahbaz, Ussal "The Modern Silk Road: One Way or Another?" (The German Marshall Fund of the United States 2014) Accessed April 20, 2015

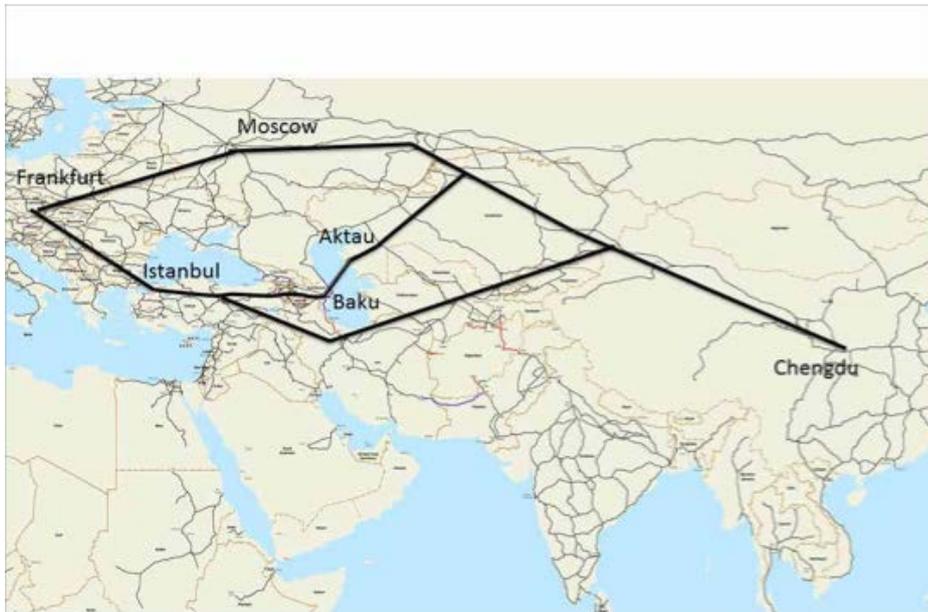
This is why it has launched a Silk Road program of its own, called the “One Belt One Road” policy. Under this strategic framework, China has been investing heavily into developing its Western railroad connections, which have historically been much weaker than the industrialized Eastern parts. This new Silk Road has three alternative corridors – one in the north, that goes from China to Kazakhstan, Russia and Europe, a second that goes through the Southern Caucasus, and a third that goes through Iran into Turkey and Europe.

| | Volume | Weight |
|------|-------------------------|--------|
| Sea | € 268 billion (%62) | %94.3 |
| Air | € 99,8 billion (%23) | %1.6 |
| Road | € 31 billion (%7) | %3.7 |
| Rail | € 31 billion (%7) | %0.4 |
| | €434 billion | %100 |

Source: Eurostat

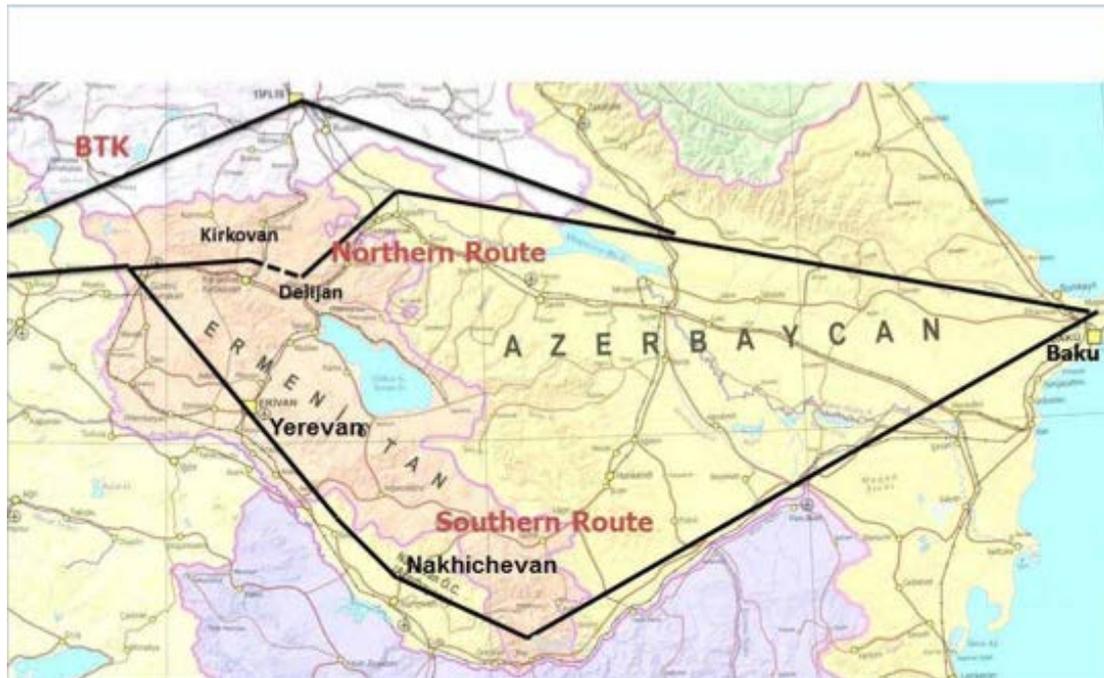
Map 1. Modern Silk Road: three east-west corridors ⁵

(Lines show the main routes and only approximate the locations of the railways)



⁵ ibid.

Map 2. Routes over the Southern Caucasus in the Middle Corridor⁶



The line through the Southern Caucasus is meant to go through the Baku-Tbilisi-Kars railway, which has long been out of commission. Azerbaijan’s Minister of Transport Ziya Mammadov announced in November 2013 that the Chinese Ministry of Railway Transport guaranteed transportation of 10 million tons of cargo annually via the BTK. The \$613 million project would be the first rail line in the area not dominated by Russia in the past two centuries. The Chinese are also making other investments in the three Southern Caucasus countries, most notably in the energy sector, as well as minerals, construction and low-scale manufacturing.⁷

What further Chinese investments under the “One Belt, One Road” policy are going to look like is unclear. It could be that large state-sponsored Chinese businesses build or modernize railways, but also, that they fund projects through international institutions such as the newly forming Asian Infrastructure Investment Bank (AIIB). Whatever shape of the new Silk Road takes, it will be spurred by China’s economic necessities, which will summon the political and financial assets capable of transforming the Southern Caucasus, along with many other regions of the world.

China will be a different transformer than the US and EU. In Africa and Latin America, where its influence is also rising, it has hitherto been unwilling to be involved in political disputes. There is no reason to think that its policy in the South Caucasus will be different. It is also unlikely to suggest alternative economic and political models, such as the liberal influence of the US and the EU. China’s influence on the region will most likely be to increase logistical connectivity as

⁶ *ibid.*

⁷ John C. K. Daly, “Waiting for the ‘Iron Silk Road’ Railway” (Silk Road Reporters, May 2014) accessed May, 2015

well as connectivity with the emerging markets of Asia, both of which could deeply affect social and economic life in the Southern Caucasus.

The Inner Triangle of Former Empires

The second level of analysis looks at the roles of Turkey, Iran and Russia. These countries are descendants of empires and the former transformers of the region. This gives them considerable influence over the three Southern Caucasus countries, which they use to act as gatekeepers to the global powers. The countries of the inner triangle can choose to channel the transformative force of the outer triangle, or inhibit it.

Russia: The Obstructive Bear

The Caucasus is clearly in Russia's sphere of influence. Having ruled the region for centuries, it has extensive cultural, political and economic roots in the region. While Russia's influence seemed to be fading in the 1990s, it has been flexing its muscles again during the past decade, mostly to block the transformative force of the US and EU.

Russia's military presence casts a long shadow over the Southern Caucasus. The country's 2008 invasion of Georgia and ongoing war in Ukraine have proven that it is ready to blatantly violate international norms to secure its interests. The Russian military has a base in Gyumri, Armenia, where it regularly holds military exercises in coordination with units in Georgia that have effectively broken away with Russian help in 2008. Russia is therefore ready to launch wide-ranging military operations in the region if it feels necessary.⁸ One point of entry for such an operation would be to reignite the Armenian-Azeri conflict in Nagorno-Karabakh. Azerbaijan would be unable to defend itself in this case, especially considering that Turkey, its closest ally, is highly dependent on Russian natural gas. This became evident in Russia's recent annexation of Crimea, where the Tatars, a Turkic minority, are located. Despite the Tatar's popular support in Turkey, Ankara refrained from speaking out against Russia's actions.

Russia's other main tool for blocking transformation in the Southern Caucasus is its hold on energy markets. The country is the biggest single supplier of natural gas to Europe, including Turkey. Its large landmass and powerful conventional military also give it wide power projection capabilities that have a significant effect on the energy markets. In the Southern Caucasus, this means that Russia holds effective veto power over energy projects. The NABUCCO pipeline for example, would have shipped Azeri natural gas through the Balkans, to Austria, weakening Russia's hold on the European market. TANAP, the project that took its place, is currently under construction, but the industry still sees Russia as a major threat.

⁸ Armen Grigoryan, "Russia Increases Military Capacity in the South Caucasus", Eurasia Daily Monitor (Volume:12,Issue:61) accessed May,2015

For all its might however, Moscow does not propose an alternative vision for the region. Since the collapse of the Soviet Union, Russia has not advanced a true alternative to its state-led economic model for its sphere of influence. The Eurasian Economic Union (EEU), whose other members in addition to Russia include Belarus and Kazakhstan and most recently Armenia, indicates that Moscow is aware of the problem. Having only come into force in January 1 of 2015 however, it is too early to judge whether the EEU will do for its region what the EU did in Europe. But judging from Russia's clunky, volatile economy and its rough relations with its neighbors, it is difficult to be optimistic.⁹

Iran: A Silky Touch

If Russia pressures the Caucasus from the north, Iran squeezes it from the south. Like Russia, it has the military and intelligence capabilities to make the lives of leaders in the Caucasus difficult. Unlike Russia however, it sees the Southern Caucasus as a secondary concern. Rather, it exerts influence by hinting at its capabilities without actually using them.

Iran has a significant cultural reach into Azerbaijan, where the majority belongs to the Shia Muslim sect. Although Soviet rule muted the religious class in Azerbaijan, there are pockets of political Islam in rural areas. Many Azeri clerics receive training in Iran and frequently travel there. This is made easier by the large Azeri population in northern Iran. While exact figures do not exist, it is estimated that out of the country's population of 77.4 million, between 12 and 22 million are ethnic Azeris, surpassing Azerbaijan's total population of 9.5 million.¹⁰ There are many prominent Azeri Turkish speakers in Iran, including Supreme Leader Ayatollah Khamenei. This ethnic and religious link makes for a complicated relationship – Azerbaijan fears that Iran could stoke religious sentiment against its secular government, while Tehran fears that Azeris will stoke nationalistic sentiment in its northern provinces. Being the larger and more capable of the two countries however, Iran is on the dominant side of the relationship.

Iran's policy often aligns with the one of Russia in the Southern Caucasus. Tehran has refrained from realizing the Russian fear of intervening on the side of Muslims in the region repeatedly in the Chechen Wars. Iran was consistently opposed to Georgia's ambitions to join NATO and remained neutral when Russia invaded the country in 2008. During the Nagorno-Karabakh conflict, Iran actively supported Armenia, sending food aid while Russia sent arms. It still maintains good relations with Armenia, not least as leverage over Azerbaijan. Iran's strategy aligns with Russia in the greater Middle East as well, such as in Syria and Egypt. This tacit

⁹ Joseph Dobbs, "The Eurasian Economic Union: A Bridge to Nowhere?", European Leadership Network(March 2015), accessed May, 2015

¹⁰ Emil Souleimanov, Kamil Pikal, Josef Kraus, "THE RISE OF NATIONALISM AMONG IRANIAN AZERBAIJANIS: A STEP TOWARD IRAN'S DISINTEGRATION?"(Rubin Center, March 2013), accessed May, 2015

cooperation increases the pressure on Turkey, Azerbaijan and Georgia, the West's allies in the region.¹¹

The ongoing nuclear negotiations between Iran and the P5+1 make the country's future role in the region hard to predict. If the negotiations succeed and the West lifts its sanctions, Iran will gradually rejoin the international system. It will be able to export its considerable hydrocarbon resources and its entrepreneurial economy will engage its neighbors more freely. Such an Iran might not feel the need to align itself with Russia. It could take on a role resembling that of Turkey, operating within the rules, rather than maintaining the precarious status quo. Even a slight shift in this direction could contribute significantly to regional connectivity and stability.

If negotiations should fail however, Iran will likely further distance itself from the international system. In this case, it would continue to block the globalization and transformation of the Southern Caucasus.

Turkey: Trading Influence

Russia and to a lesser extent Iran, have well-developed military and intelligence capabilities that allow them to operate best in areas of instability, such as the Caucasus. That is why neither power has felt an incentive to address the roots of instability between Azerbaijan and Armenia. Turkey however, does not rely on hard power tools in the region. Most of the influence it wields over the Caucasus is derived from its roles as trader, investor, and cultural hub, which make the country's foreign policy deeply uncomfortable with instability. This is why Turkey is the only one among the three countries that has made attempts, albeit weakly, to address the political problem between itself, Armenia and Azerbaijan.

Turkey's strength however is also its weakness. The country's democratic makeup, coupled with ill-developed institutions makes for an erratic and ill-defined foreign policy. The AK Party government for example, which has expressed an interest in mending fences with Armenia, is tied down by heavily anti-Armenian public opinion. The normalization agreement for example, signed in 2009 by foreign ministers Ahmet Davutoglu and Edward Nalbandian, was dead on arrival because it required ratification by the countries' parliaments. Turkish public opinion, coupled with strong support for Azerbaijan, made ratification impossible, even for a strong AK Party government.¹² On the Armenian side, the diaspora had a similar effect, and the Armenia withdrew the agreement from its parliament in February of 2015.¹³

What sets Turkey apart in the region is its dynamic economic profile. Turkey's market economy has been growing rapidly over the past years, a development strongly felt by its neighbors.

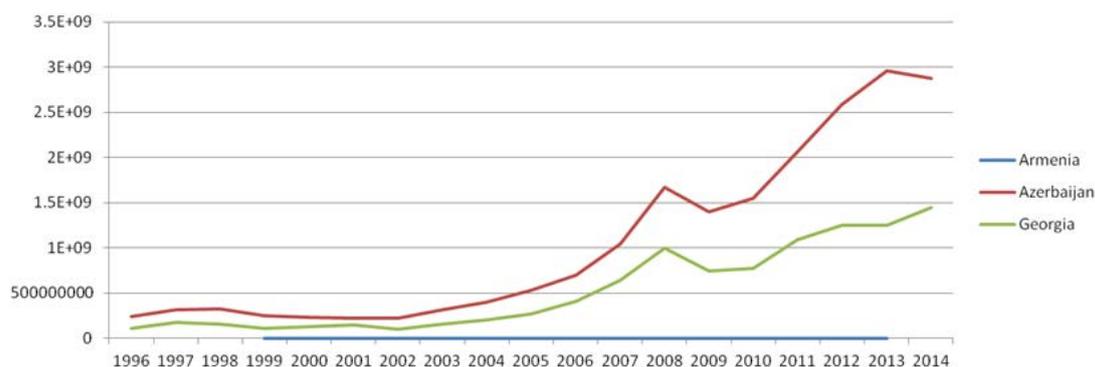
¹¹ Stephen J. Flanagan, "The Turkey–Russia–Iran Nexus: Eurasian Power Dynamics." (The Washington Quarterly, 2013), 163-78.

¹² Maxim Suchkova, "Warning for Moscow: The Armenian-Turkish Protocols" (Carnegie Moscow Center, March 2015) accessed May, 2015

¹³ Sasmik Mkrtchyan, "Armenia withdraws peace accords with Turkey from parliament" (Reuters, Feb 2015) accessed May, 2015

Trade with Azerbaijan has gone up more than 200 percent between 2006 and 2014. Turkish brands and restaurant chains now compete with international brands in the elite districts of Baku. Russia has become Turkey's biggest trading partner, with trade volume increasing by more than 48 percent since 2006.¹⁴ Economic relations with Iran have been stagnant, not least due to sanctions on the country, as well as Iran's protectionist approach towards Turkish firms.

Turkey's Exports to Southern Caucasus countries, in USD



Source: Comtrade, BACI, Tepav Calculations

But Turkey's economic activities at times exceed its political reach. Informal Turkish-Armenian trade has been growing in the past decade. The closed-border situation notwithstanding, Armenia receives 5.6 percent of its imports from Turkey, via Georgia, as well as a trickle from Azerbaijan via the same route. Since the Turkish-Armenian border is closed, Turkish goods reach Armenia via Georgian territory, driving up costs. Most of the Turkish companies involved are registered as local companies in Georgia, which makes trade needlessly complicated. With official support, there is every reason to believe that Turkish business could flourish in Armenia as it has done in other parts of the region.¹⁵

Economic ties can therefore help prepare the ground for reconciliation, but they cannot substitute for politics. Whether Turkish-Armenian trade will bring about better political relations remains unclear. Turkey's relations with Israel for example, shows that it can sustain strong trade flows even as political ties deteriorate.¹⁶ This has been possible because both are market economies where business enjoys the protection of the law independent of the political climate. The Southern Caucasus however, provides more treacherous political terrain for business. Once political progress is made here however, trade could be instrumental in maintaining it, as it interlocks the interests of communities across borders. This effect would be

¹⁴ UN COMTRADE Data, (Tepav Calculations) Accessed May, 2015

¹⁵ Report of TEPAV - "Business Synergies Between Turkey and Armenia: Towards a Roadmap for Confidence Building Through Economic Cooperation." (November 2014), Accessed May 20, 2015.

¹⁶ "Trade between Israel and Turkey Booming." Ynet. February 11, 2015. Accessed June 10, 2015.

felt more in Armenia, since it is a smaller market and – in case trade is legitimized between the countries – it would have more to lose by severing them again.¹⁷

For Turkey, Armenia could be an opportunity for small business in Eastern Turkey. There are two main sectors that could yield fruit in potential Armenian-Turkish cooperation – tourism and IT. Tourism is an important sector for the underdeveloped, but historically rich region of Eastern Turkey, as well as for Azerbaijan and Armenia. Armenia also has an especially high quality of IT engineers, who could be useful in coming up with Turkish-Armenian projects that target markets beyond the immediate region.¹⁸

At some point, Turkey's economic imperatives should steer its political decision making in the Southern Caucasus. China's "One Belt One Road" policy is perhaps one of the greatest opportunities for Turkish business in the coming decades. If handled well, Turkey could become China's logistical hub for Eurasia and Africa. With more investment, the policy would give Turkey an opportunity to climb up the global supply chain more rapidly through free trade and regional R&D zones. Turkey's decision makers should seek to overcome their differences in the Southern Caucasus with this prize in mind.

The Core Triangle of Southern Caucasus States

Highly porous and unstable, the countries of the inner triangle operate within very tight margins of action. The three countries contain the political fault lines that drive regional politics, including the Nagorno-Karabakh conflict between Azerbaijan and Armenia and ethnic separatism in Georgia. The former imperial powers of the Inner Triangle use these fault lines in their rivalry with each other, as well as to gain leverage over the outer triangle, particularly the US and the EU. These in turn, see the Southern Caucasus states as logistical hubs and alternative sources of energy. To them, the political conflicts are sub-optimal because they give Russia and Iran effective veto power over events in the region.

Armenia: In its Protector's Grasp

After gaining its independence in 1991, Armenia implemented a "complementarity" strategy to balance its foreign policy between Russia, the West, and Iran. That balance has now shifted strongly in favor of Russia. Armenian politics is characterized by the perceived threat of Azerbaijan and Turkey, which makes Russia's protection vital for Armenian strategy. The US and EU have less influence on the country, shaping social norms and expectations, not least

¹⁷ Ibid

¹⁸ Ibid

through an extensive diaspora. Political parties are torn between liberal values of the West, and their alliance with Russia, which is crucial for their defense and economic policies.¹⁹

Armenia's relationship with Turkey and Azerbaijan is a tangle of security and political issues. Its chief concern with Turkey is the country's rejection of the events of 1915 being labeled as genocide. The issue has become entrenched in the nationalist consciousness in both countries in recent decades. Nonetheless, Turkey was one of the first countries to recognize Armenia's independence in 1991, and even though the countries did not exchange ambassadors, their border was open.

With Azerbaijan on the other hand, Armenia fought a bloody ethnic war between 1988 and 1994. As Armenian forces gained ground in Nagorno-Karabakh, Turkey joined Azerbaijan in imposing an economic embargo in April 1993 and mobilized troops in August of the same year. The Turkish-Armenian border has been closed ever since, and relations between the two countries inextricably tied to the Nagorno-Karabakh conflict. In the Armenian consciousness, the issues of 1915 and Nagorno-Karabakh have since been intertwined, creating a feeling of isolation and threat from Turkish-speaking neighbors.

In this setting, Armenians see Moscow as their indispensable protector, a reality strongly reflected in Armenian politics. The governing Republican Party is closely allied with the Kremlin, and the main opposition Prosperous Armenia party is also pro-Russian. Support for Russia is therefore not only a government policy, but also enjoys strong public support.

The stance of the liberal opposition parties however, is the most telling. Five of the smaller parties, making up 9 percent of Armenia's National Assembly (as of March 2015) are liberals who favor greater cooperation with the European Union. Even they do not speak out against their country's alliance with Russia. Doing so would appear to give way to the Turkish-Azeri threat, which would push these fringe parties outside politics altogether.²⁰

Armenia's economic ties strongly reflect its foreign policy. The landlocked country's borders with Turkey and Azerbaijan have been sealed since the Nagorno-Karabakh conflict. The EU is Armenia's biggest trade partner, with about 35 percent of the country's trade volume as opposed to Russia's 27 percent, as of January 2015. Russia most notably has significant sway in the Armenian business community and has critical investments in the country's energy infrastructure, particularly in nuclear and hydroelectric fields.²¹

Despite the vital ties between Yerevan and Moscow however, Armenians are not entirely comfortable with the alliance. Russia is not eager to please its much smaller ally – Russia's

¹⁹ Vladimir Socor, "The End of 'Complementarity' in Armenia's Foreign Policy" Eurasia Daily Monitor (Volume:10,Issue:165) accessed May,2015

²⁰ The Economist "Stuck with each other A Russian ally rues its dependence upon Moscow"(March, 2015) accessed May, 2015

²¹ Vladimir Socor, "Armenia's Economic Dependence on Russia Insurmountable by the European Union" Eurasia Daily Monitor (Volume:10,Issue:221) accessed May,2015

biggest seller of arms to Azerbaijan and maintains a strong relationship with Turkey. Moscow is also not subtle in exerting its influence – when Armenia wanted to sign an association agreement with the EU, Russia strong-armed it into entering the EEU instead.²² This kind of behavior has built up some resentment in Armenian society. When a Russian soldier stationed in the Armenian city of Gyumri killed a family of six in January of 2015, thousands of Armenians took to the streets to protest. The soldier was sent to Russia to be tried there.²³ Despite these caveats, the Armenian-Russian relationship is likely to remain strong because it rests on Armenian fears of its Turkic neighbors and Russian fears of losing its grip on its sphere of influence, both of which far outweigh their problems with each other.

In addition to its traditional concerns over Russia and Europe, Armenia is perhaps the Southern Caucasus country where China is the most visible. Chinese companies have been acquiring a variety of Armenian businesses, including cognac and jewelry makers, as well as sources of precious stones. On the logistical front, The International Company of Communications and Construction of China (CCCC International) has recently expressed interest in the “Southern Railway of Armenia.” The North-South project is set to link Armenia’s railways with those of Iran, which would connect the Armenian economy to the Persian Gulf. The Chinese are unlikely to play a political role in Armenia’s affairs anytime soon, but their economic clout in the country appears to be growing rapidly.²⁴

This kind of investment could be a glimpse of what is to come if Armenia does its share to mend fences with Turkey and Azerbaijan. Without the region’s borders opened, investors would likely accelerate plans to develop an East-West railway through the region. Armenian policy makers should therefore think about their relationship with the neighbors not merely as a historical spat, but a piece of the larger puzzle of Eurasia’s Globalization.

Azerbaijan: Ambition and Vulnerabilities

Like the other two Southern Caucasus countries, Azerbaijan is highly susceptible to outside influence. Its politics are a constant balancing act between Russia to the north, which limits its energy exports, and Iran to the south, which has influence over its religious communities. Since the end of the Cold War, Europe has been Azerbaijan’s primary export destination and the United States its strategic ally.

The same hydrocarbon resources that make Azerbaijan the wealthiest of the three Caspian states also make it the most contested by outside powers. For a long time, Baku was the heart of the oil industry in Czarist Russia and later, the Soviet Union. After the Cold War, the US wanted

²² Aren Torikian, “Armenia and the EEU: A Social and Economic Assessment” (The Armenian Weekly, May 2015) accessed May, 2015

²³ Armen Karapetyan, “Armenia: Murder Case Strains Relations with Moscow”, (Institute War& Peace Reporting, Jan, 2015) May, 2015

²⁴ Asbarez, “Chinese Investors Show Interest in Armenia-Iran Railway”, Feb 2014, accessed May, 2015

to secure a pipeline to take Azeri oil into European markets. This would break the Russian monopoly on supply routes, keep Iran out of the loop and tie Azerbaijan to the West. The project came about as the Baku-Tbilisi-Ceyhan line, operational since 2006, and forms the backbone of Azerbaijan's foreign policy. After two centuries under Moscow's influence, it marked Azerbaijan's pivot towards an alliance with the West. This pivot is new however, and Azerbaijan's leadership still mainly consists of the old Russian-speaking elite. This group is betting on its ability to on the one hand, reassure Moscow that it is loyal to their historical bond, while on the other, wooing Western markets. It is unclear whether the new, English-speaking elite will tip the scales in this delicate balance.

Azerbaijan's foreign policy remains a high-wire balancing act between Russia, the West (include Turkey) and Iran. Azeris came to feel just how vulnerable they were during the Nagorno-Karabakh war, in which Russia and Iran provided aid to Armenia. Since then, Azeri leaders are all too aware that Russia has the potential to intervene militarily in its neighborhood, and that Iranian clerics have strong influence over its dormant Islamist masses. That is why Azerbaijan has sought to diversify its relationships, pursuing cooperation in the economic and security spheres with its immediate neighbors, as well as global powers. The BTC and other potential supply projects make it an important asset for global energy markets, and thereby the United States.

Leaving nothing to chance however, Baku has also ramped up its defense spending significantly. In November of 2014, the Azeri government announced that it would increase its defense budget by 27 percent to \$4.8 billion, exceeding Armenia's total budget of \$3.2 billion.²⁵ While Azerbaijan is unlikely to ignite the powder keg in the region itself, its increased spending contributes to uneasiness in Armenia, ramping up the takes in the region.

Among all of its neighbors, Ankara has been the only reliable ally to Baku, but that relationship has become more complicated under the AK party government. Azeris never cease to point out that they see Turkey as a "big brother," but the two brothers have been on different sides of the Cold War's fence. Azeris were brought up in the rigid Soviet system, while Turkey's leaders came up in a Western free-market economy. Though their World views remain similar, there are discrepancies. Turkey's attempt at normalization with Armenia in 2008-2009 for example, marks a sore point in relations. Azerbaijan did not hesitate to lobby nationalist Turks publicly during that time and signed weapons deals with Russia. The Azeri-Turkish relationship remains strong however, and trade and investment ties between the countries are growing.

Georgia: The Troubled Connector

Georgia is the most pro-Western state in the South Caucasus. This is partly due to its location, which allows it to host vital pipelines, land and sea routes along the East-West corridor. Another part of its pro-European stance stems from its recent history with Russia.

²⁵ "Azeris to Boost Defense Spending Amid Risk of Armenia War." Bloomberg.com. December 19, 2014. Accessed June 11, 2015.

Georgia's post-Soviet experiences put it on a narrow path of aligning with the West. As the Soviet Union was collapsing, the Kremlin launched a last-minute attempt to hold on to South Ossetia and Abkhazia in the 1990s. Tbilisi forces fought Russian troops, eventually agreeing in 1994, to host Russian forces on Georgian territory. Georgian leaders edged ever closer to the West in the following years, accepting military training and equipment, as well as becoming an invaluable transfer hub for Azeri hydrocarbons.

During this time, Georgia fashioned itself into a critical connector in the region. Given Azerbaijan and Turkey's disputes with Armenia, it became the pathway for the BTC, making it a strategic link on the East-West corridor. Georgia is a vital link along the Baku-Tbilisi-Erzurum (BTE) natural gas pipeline, as well as the Baku-Tbilisi-Kars (BTK) railroad. It has three ports that are vital for the region's trade with Western markets. All of this makes the country important, not just for its regional neighbors, but also to global actors interested in keeping trade routes open.

Georgia's overtures to Europe have, for better or worse, defined the country's politics for the past decade. The Rose Revolution in 2003 brought to power Mikheil Saakashvili, whose ferocious pro-European stand made Moscow feel more threatened. Saakashvili brazenly called for the removal of Russian troops from Georgian soil and campaigned for Georgia to acquire NATO membership. Moscow declared that a red line and invaded the country in August 2008. The event crystallized the attitudes of each of the actors above. Russia was seizing its long-awaited chance to proclaim to the world that it had "come back" from its Post-Soviet slump and would once again maintain rigid discipline in what it sees as its sphere of influence. The United States and the European Union condemned the violence, but failed to show the ability or willingness to do anything to prevent Russia's invasion. Turkey was weary of getting involved, deciding to upset the Euro-Atlantic alliance rather than to risk relations with its biggest and arguably most strategic trade partner.²⁶ The war stoked fears in Azerbaijan that it would be next, especially since it is planning to build a new gas pipeline to Europe. This in turn, gave Armenia greater confidence in its position on Nagorno-Karabakh.

Georgia still maintains relatively good relations with Armenia however. Armenia, being landlocked, relies on Georgia's ports and receives Turkish goods that pass through Georgian roads. The occasional political friction between the countries is seldom taken to serious levels, and Georgian and Armenian populations enjoy a great deal of cultural interaction.

Conclusion

Our analysis shows that cooperation in the Southern Caucasus does not align on the map, but rather cross each other. One group is the horizontal Russia-Armenia-Iran axis, the other Azerbaijan-Georgia-Turkey, which could be stretched out to Europe and the United States. Neither one of these axes has a coherent political, economic or cultural current running

²⁶ Flanagan, *Ibid*

through it. They are rather strands of interwoven interests, made up of all three of these elements.²⁷

The knot that holds these two axes apart is the Nagorno-Karabakh conflict. In a future where the conflict is no longer a prohibitive factor, the regional alliance structure would most likely not shift, but it would blur. Russia's influence would fade, and the region would be more open to the transformative effects of the outer triangle, namely the US, EU and China. A Turkey-Georgia-Azerbaijan axis would no longer bypass Armenia, but slowly incorporate it. The Turkic-Armenian enmity ranging back to WWI would begin to erode with greater economic cooperation.

There are a few external factors that could affect this process. First, if the Chinese Silk Road project should proceed as planned, it could accelerate a potential reconciliation process by oiling the wheels of regional economic interaction. The "One Belt One Road" initiative hinges on the region being a conductor of Chinese goods, and would by its nature, either directly or indirectly, facilitate Armenia's reconciliation with its two Turkic neighbors. In this sense, China's policy aligns with that of the US, which puts an emphasis on building regional trust. The Chinese project could complement the US' emphasis on energy transport with railway trade. The New Silk Road projects thereby have the potential to widen the area of discussion on the Nagorno-Karabakh conflict, rescuing it from there being merely another tension point between the West and Russia, as has been the case in the talks through the Minsk Group.

Second, depending on the direction of its financial crisis, the EU will either lose its transformative power on Turkey and the Southern Caucasus, or regain and develop it. If the EU's "magnet" gets back into the picture, it will likely strengthen the liberal wings in Turkey, Azerbaijan and Armenia, all of which have more conciliatory approaches to the Nagorno-Karabakh conflict. If the EU does not manage to craft a coherent foreign policy towards the Southern Caucasus, the liberal wings across all three countries could not only remain static, but recede in influence. One of the lessons of the late 2000s is that progressive political movements in these countries cannot be taken for granted.

Third is the role of Russia. The turbulent Putin years could mark the resurgence of a powerful Russia, or they could prove to be the dying gasps of a former superpower. Global oil prices and Russia's energy policy in Europe will likely be important factors in bringing about either scenario. If Europe begins to find alternative sources of gas and the oil price stays low, Russia's influence will diminish accordingly. This would also make it more likely that it loses its grip on the Southern Caucasus. But Russia could also well hold on to its position as indispensable gas supplier to Europe. Europe has been reluctant to join the shale gas revolution, which in any case is dampened by the sudden fall in oil prices. Russia could therefore well continue to block the transformation of the Southern Caucasus.

In a scenario without the Nagorno-Karabakh conflict, the liberal transformers of the region gain ground, while the blockers lose their leverage. That should be an incentive for leaders to overcome their nationalistic fears to come to a resolution. The alternative is a poverty-ridden and divided status quo.

²⁷ Flanagan, 163-78