**7th Workshop of the PfP Consortium Study Group**

**"Regional Stability in the South Caucasus":**

**BUILDING CONFIDENCE IN THE SOUTH CAUCASUS: STRENGTHENING THE EU AND NATO'S SOFT SECURITY INITIATIVES**

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**European Geopolitical Forum's Research on:**

**"A Pragmatic Review of Nagorno-Karabakh Conflict Resolution: Could Economic Incentives Help Break the Current Stalemate?"**

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**Mr. Chairman,**

**Ladies and gentlemen,**

A big thank you to organizers for inviting me to attend this workshop to share the findings of a piece of research which is relevant to the theme and the purpose of our meeting. Many thanks as well to the PfP Consortium of Defence Academies and Security Studies Institutes for enabling my briefing of today through kindly funding my travel and accommodation.

Following up to a seminar on “**The Unresolved Conflicts in the South Caucasus: Implications for European and Eurasian Integration**”, the European Geopolitical Forum-EGF researched, during the first half of 2012, the utility of economic incentives for Nagorno-Karabakh conflict resolution. A research paper on this topic was published, in October 2012, by Dr. Marat Terterov, Director of the EGF, and by myself on the EGF website (http://gpf-europe.com).

This research started from the assumption that **a ‘political settlement’**, in its own right, **will be hardly sufficient** to resolve this conflict. Economic, social and psychological elements will have to be factored into the equation of the final ‘Grand Bargain’. Of these, **economic incentives may be the most appealing** given the region’s state of development and the mutual desire of both the political and civil societies in all of the South Caucasus to see the region move forward.

There seems to **be little immediate “light at the end of the tunnel” in relation to a peaceful settlement of the conflict over Nagorno-Karabakh.** To the contrary, experts spoke of the risk of return to all out hostilities, citing factors such as failure of peace talks between the two countries hosted by the Russian Federation to achieve a breakthrough, Armenia’s continued reluctance to surrender land gains made at Azerbaijan’s expense during the war, and concerns that Azerbaijan may have little choice but to turn to force in order to regain territory lost to Armenia. Further, both the bilateral **Azerbaijani-Armenian negotiation process and the wider relationship** between the two countries **are now** **governed by** **a severe lack of trust**. In such an environment any mutually acceptable **confidence building measures and steps towards conflict resolution are extremely difficult to develop.**

Two **key questions** have been underlying the research concept on this topic:

1. In an article published in 2010, one Caucasus scholar spoke of **“a deep history of pragmatism in the Caucasus** which is there, just below the surface, if you care to look for it”[[1]](#footnote-1). **Could such pragmatism be brought to the forefront** if, for example, both the political elites and mainstream populations of both Armenia and Azerbaijan would be persuaded to believe that after a further 20 years they would achieve wide-scale economic development, experience significant wealth and prosperity at the expense of surrendering mutual plans of belligerence? **The answer** to this question is more likely to be **yes, since all parties to the Karabakh conflict often talk of peace as the precursor to a wealthy, economically integrated and dynamic South Caucasus region**. However, **today, the Karabakh conflict is essentially a political conflict**, where Armenians argue the right to self-determination and call for recognition of status, while Azerbaijanis would not accept anything less than the return of their territory.

 2. **Would there be added value** for Armenia, Azerbaijan and the international community **to** **start talking about “jumping over the fire”?** **That is about the vision of a prosperous, integrated South Caucasus region governed by free trade and open borders.** Europe, after all, has passed through a similar transformation in recent decades. Why should Armenia and Azerbaijan, as two states embracing European-style modernization and nation building, not share the experience and benefits of the European transformation in this day and age? Moreover, talking about "**jumping over the fire" is consistent with an EU Council decision adopted in early 2012**, which expressed: EU readiness "to provide enhanced support for confidence building measures, in support of and in full complementarity with the Minsk Group” and **which invited the High Representative and the (European) Commission “to develop, in close consultation with the OSCE, post-conflict scenarios for Nagorno-Karabakh** as a basis for future EU engagement”.[[2]](#footnote-2)

The EGF **research tested the idea of whether economic incentives could help break the current deadlock between Armenia and Azerbaijan over Nagorno-Karabakh**. More specifically, we submitted **a questionnaire** to a significant number of local and international experts **basically asking whether an approach towards conflict resolution where Armenia would return some land to Azerbaijan in return for the latter providing access to regional energy and infrastructure projects could contribute towards breaking the current stalemate**. I should be maybe specifying that by "some land" we didn't mean the Nagorno-Karabakh itself, but rather the seven districts of Azerbaijan which Armenian forces took during the Karabakh war in the 1990s, and over which Yerevan has maintained control since that time, referring them as a buffer, or security zone.

**The findings of the research highlighted that economic incentives**, particularly those which may facilitate access to regional (energy and infrastructure) projects **cannot, on their own, substitute a political settlement to the conflict**, **including its territorial dimensions**. **However, economic incentives have the potential to contribute** towards conflict resolution **as an element of a broader deal between the parties. They could play a key role in confidence building** by creating an atmosphere of tolerance and enabling mutual trust which could eventually move the sides towards political compromise.

Evidence supporting this position included comments of participating experts suggesting that **economic incentives:**

• **Could break the current economic isolation of Nagorno-Karabakh and Armenia.** They would create openings for shared economic benefits stemming from trilateral cooperation (Georgia-Armenia-Azerbaijan) which might forge trust and strengthen regional identity throughout the South Caucasus.

• **Could provide economic benefits for Azerbaijan by opening a more direct and therefore more economically efficient set of transport routes for Azerbaijani oil and gas bound for European markets**, while further diversifying Azerbaijan's energy export routes;

 • **Would offer the Nagorno-Karabakh enclave a broader range of economic options and opportunities,** which could help diminish the current "we are under siege" mentality of the Nagorno-Karabakh authorities and population;

 • **Would forge interdependencies in the field of energy and infrastructure among conflicting parties and local stakeholders**, which would make economic interests of all parties resonate, and would soften their current state of intransigence. In principle, economic incentives may help create common economic interests in joint infrastructure projects, which **could serve as ‘mutual security guarantees’** within the framework of the peace process;

 • **Would create a stronger basis for the economic and humanitarian rehabilitation of the seven Armenian-controlled districts around Nagorno-Karabakh**;

 • **Could turn the "zero-sum game" thinking** currently exhibited by the parties **into compromise-oriented, "win-win" solutions**.

On the other hand, the research also demonstrated that there are also **more cautious views about the role of economic incentives in Nagorno-Karabakh conflict resolution** to be considered:

 • **Economic incentives would not lessen Armenia’s position in calling on the international community to recognize the independence of Nagorno-Karabakh,** since economic gains would offer too little against major security losses;

 • **Armenian ‘hard liners’ would never accept a territorial compromise** as they would see any attempt at doing so as no less than "national treason", or as selling out the Armenian national interest/security to ‘business interests’ cultivated within (Caucasus) regional and international circles;

 • **"Lowland-Karabakh"** (which is the term reportedly used within Armenia to describe the seven districts around Nagorno-Karabakh), **is the only place where the 400,000 Armenian refugees from the territory of the former Soviet Azerbaijan could settle safely**;

 • We have “missed the bus” on **cross border oil and gas pipeline projects** which may have run across Armenian (and Karabakh) territory, transporting Caspian oil and gas to European markets. They **would simply not be justifiable from a financial perspective i**n the current supply-demand environment for hydrocarbons.

 • **Russia would also tacitly oppose such economic incentives**, as Moscow would perceive them as being against its regional economic and political interests, particularly in relation to its gas deliveries to Armenia, which could be supplanted by less expensive Azeri gas in the event of improved relations between Yerevan and Baku.

The EGF research showed **an interest from the Armenian side to engage in regional energy and infrastructure projects in the South Caucasus, including those with the participation of Azerbaijan**. It also showed, however, that Armenia remains nevertheless strongly reluctant to factor in any sense of participation in such projects if this were to be based on the conditionality of either returning land (to Azerbaijan) or any other form of compromise which would endanger Armenian and Nagorno-Karabakh security. Further, Azerbaijani and several international participants in the research also made it clear that **without having a strong agreement on peaceful resolution to the conflict in place, it is highly unlikely that Baku would ever consent to the inclusion of Armenia into any regional projects in which Azerbaijan participated**.

However, a number of experts supported **the idea of using economic incentives in the shape of Armenian participation in regional (energy and infrastructure) pilot projects as a confidence building measure,** **which should be well synchronized with – and thus mutually reinforcing – the current negotiations ongoing within the Minsk Group**. For example, it was suggested the **establishment of a Regional Development Agency (RDA),** which should be in charge of preparing and implementing such regional projects, including the reconstruction and development of energy and transport infrastructure, as well as telecommunications networks. The RDA could focus, as a first priority, on developing integrated regional transport corridor projects, including railways and highways covering Turkey, Azerbaijan, Armenia and Russia. The RDA could also involve, as appropriate, countries from beyond the region, as well as international organizations.

A number of **energy and communications infrastructure projects** originating in, or transiting through Azerbaijan, **could potentially become open to Armenian participation**. The main **examples of such projects** below as they were identified by our research are:

 • The Baku-Nakhitchevan-Yerevan-Gyumry-Kars and The Baku-Ijevan-Yerevan- Nakhichevan railways;

 • The former-Soviet railway route: Baku-Armenia-Nakhichevan-Turkey;

 • The Moscow-Baku-Yerevan railway;

 • The Aghdam-Karabakh-Sisian (Armenia)-Nakhichevan-Turkey highway;

 • The transport ring around the Black Sea;

 • Trans-Caspian transport infrastructure;

 • North-South and East-West South Caucasus transport corridors;

 • The regional electricity grid covering Armenia-NK-Azerbaijan-Turkey;

 • The Aghdam - Khankendi(Stepanakert) – Shusha – Lachin – Goris – Sisian – Nakhichevan - Turkey gas pipeline.

The research has also identified a number of **obstacles hindering possible Armenian *participation* in regional infrastructure projects**, which included:

 • The existence of minefields and unexploded ammunitions along the line of contact separating the parties;

 • The unknown technical state of rail and road infrastructures, which have not been in service for many years;

 • The absence of common technical standards and of appropriate frameworks for dialogue between technical experts;

 • Domestic politics in Yerevan;

 • The influence which oligarchs-cum-politicians currently exercise over the Armenian economy;

 • The influence of the Armenian Diaspora which, on the one hand, might be interested to invest in such projects, whilst on the other, might view them as a negative factor and one capable of undermining “the Armenian cause”;

 • Russia’s geopolitical interests in the region. Moscow may have a vested interest to preserve the present-day status quo over Nagorno-Karabakh as a means of maintaining its leverage over both Armenia and Azerbaijan;

 • Baku's perception of Armenia as little more than “a continuation of the Russian political and economic sphere (of influence) in the South Caucasus”.

In conclusion, the research **acknowledged that “discussions around economic issues” should take place.** To that end, **starting a comprehensive dialogue among interested businesses and experts from the conflicting parties (together with international actors) on post-conflict scenarios involving joint regional energy and infrastructure projects** would be a step in the right direction. **Possible topics for the agenda** of such a dialogue could include:

* + **joint Armenian and Azerbaijani rehabilitation of war-weary infrastructure in both Nagorno-Karabakh and the occupied districts**. A technical basis for such discussions already exists in terms of a private study produced by Azerbaijani and international experts[[3]](#footnote-3). Armenian participation by way of commentary on this study could be invited in possible working group format and would constitute a substantial confidence building measure helping build trust between the parties.
	+ **priorities, joint management, sources of funding, inter-operability of technical standards and other challenges** (not directly related to the Nagorno-Karabakh conflict) **to planning and implementing regional infrastructure projects.**
	+ **how to make best use of regional infrastructure projects to help the process of resettlement of IDPs and refugee communities of both Armenian and Azerbaijani ethnicity**.

**Many of the interviewed experts believed that the commencement of such dialogue should not, necessarily, be dependent on adoption of the Minsk Group Madrid Principles.** Indeed, **such initiatives could form a useful, additional instrument capable of complementing Minsk Group endeavors.** Developing additional tools where post-conflict scenarios could effectively be modeled would itself provide a framework within which conflict transformation approaches could take place.

Clearly, there is much influence which international stakeholders could bring to this process – providing new frameworks for dialogue, guaranteeing security and political aspects of economic pilot projects and associated confidence building measures, and compelling both sides to take a more flexible and constructive approach towards the conflict. **The EU, in particular, can bring the powerful message of “focusing creative energies on fostering regional economic cooperation, rather than striving to maintain an unacceptable status quo or threatening the use of force”.** Bringing in **experience of “conflict dissuasion” and fostering economic cooperation from the previously war-torn Balkans**, where the EU continues to play a quintessential role, would also not go astray.

**Threat perceptions could begin to change on both sides if joint working groups, Armenian and Azerbaijani, would begin to tackle such studies together,** albeit it would be most likely that they would have to meet under wider international supervision.

One interviewed expert described the **economic incentives approach as a key element of a new vision for peace in the South Caucasus reinforced by comprehensive, integrated and sustainable cooperation, which would ultimately enable free movement of people, goods, services and capital at the regional level, lead to economic integration and the opening of all closed borders.** Could Armenia and Azerbaijan work together in rehabilitating the seven districts of Azerbaijan around Nagorno-Karabakh and oversee their integration into the wider regional economy of the South Caucasus? Who should take charge of implementing the work and under which auspices should it be developed? Perhaps, a Regional Development Agency working to create relevant institutions for a “South Caucasus Confederation of States and Entities” – an economically integrated region governed by free trade and open borders? Finding answers to those questions may be the subject of further independent research.

1. Thomas de Waal, “The Lightness of History in the Caucasus”, 2010, extracted from www.opendemocracy.net. [↑](#footnote-ref-1)
2. Conclusions of the Council of the European Union on the South Caucasus, 27 February 2012, from http://register.consilium.europa.eu/pdf/en/12/st06/st06932.en12.pdf [↑](#footnote-ref-2)
3. Nazim Muzaffarli, and Eldar Ismailov; "Basic Principles for the Rehabilitation of Azerbaijan's Post-Conflict Territories", Institute of Strategic Studies of the Caucasus, CA&CC Press AB, Stockholm, 2010. [↑](#footnote-ref-3)