

# ECONOMIC FACTORS OF THE NAGORNO-KARABAKH CONFLICT

(DAĞLIK KARABAĞ SORUNUNUN EKONOMİK UNSURLARI)

**Nika CHITADZE**

Associate Professor of the International Black Sea University  
Director of the Black Sea Region Geopolitical Research Center  
nchitadze@ibsu.edu.ge

**Abstract:** *This research paper represents an overview of the economic factors of the Nagorno-Karabakh conflict. The aim of the research is to discuss the theoretical aspects of the conflict and analyze the socio-economic issues of the Nagorno-Karabakh and its influence on Caucasus region. The conflict, alongside with other regional conflicts, is one of the main causes of destabilization in the Caucasus region, hindering its full-fledged development. The Nagorno-Karabakh case is particularly interesting as it was the first ethnic conflict in the former Soviet Union and other ex-Soviet republics should draw lessons from it. Besides Armenia and Azerbaijan, outside players too have much influence in this conflict. After so much time has passed since the beginning of the conflict, it has become obvious that war is not the way out of this conflict and that without compromise and negotiation, the parties involved will not reach lasting solution for this conflict.*

**Keywords:** *Nagorno-Karabakh, Armenia, Azerbaijan, Caucasus, conflict resolution, economy.*

**Öz:** *Bu makale Dağlık Karabağ sorununun ekonomik unsurlarına ilişkin genel bir bakış sunmaktadır. Makalenin amacı, sorunun kuramsal boyutunu tartışmak ve Dağlık Karabağ ile ilgili sosyo-ekonomik sorunlarını ve Kafkasya bölgesine olan etkilerini incelemektir. Diğer bölgesel sorunlarla beraber Karabağ sorunu, Kafkasya bölgesini istikrarsızlaştıran ve bölgenin tam anlamıyla gelişmesini engelleyen başlıca sebeptir. Dağlık Karabağ meselesi, eski Sovyetler Birliği coğrafyasında etnik temelli olarak ortaya çıkmış ilk sorun olması sebebiyle önemli bir vakadır ve bu nedenden dolayı eski Sovyet cumhuriyetleri olan ülkeler bu vakadan kendilerine ders çıkarmalıdır. Ermenistan ve Azerbaycan dışında dış aktörler de bu sorun üzerinde ciddi oranda etkiye sahiptir. Sorunun ortaya çıkmasından bu yana geçen bunca zamandan sonra, bu sorununun içinden çıkmanın yolunun savaş olmadığı ortadadır ve ilgili taraflar uzlaşma ve müzakere olmadan bu sorunla ilgili olarak kalıcı bir çözüm üretemeyeceklerdir.*

**Anahtar Kelimeler:** *Dağlık Karabağ, Ermenistan, Azerbaycan, Kafkasya, uyumsuzluk çözümü, ekonomi*

## INTRODUCTION

The Nagorno-Karabakh region (4,400 sq. km in size), is located in the South-Eastern part of Azerbaijan, between the Caucasus and the Karabakh range.<sup>1</sup> The region has numerous mineral springs as well as deposits of lithographic stone, marble, and limestone. Farming and grazing are important and there are also various light industries. Before the disintegration of USSR (Soviet Union), the population of Karabakh was around 192 000 people (1990). During this period, the population of the region was mainly Armenian (76%), with Azerbaijanian (23%), Russian, and Kurdish minorities.<sup>2</sup>

*The history and the origins of the Nagorno-Karabakh conflict is subject to serious contention. For every aspect of the conflict, there are two competing arguments, an Armenian and also an Azerbaijanian version of the same aspect. This level of contention even spills over to the region`s name itself, turning even the region`s name into a dispute.*

The history and the origins of the Nagorno-Karabakh conflict is subject to serious contention. For every aspect of the conflict, there are two competing arguments, an Armenian and also an Azerbaijanian version of the same aspect. This level of contention even spills over to the region`s name itself, turning even the region`s name into a dispute.

According to Armenian sources, the territory of modern Nagorny-Karabakh was part of the province of Artsakh when the Erevanduni (Orontid) dynasty first established the kingdom of Armenia after the collapse of the Kingdom of Urartu in the sixth century BC.<sup>3</sup>

With regard to the Azerbaijan sources, researcher Mehriban Aliyeva states that “Garabagh is one of the most ancient lands, not only in Azerbaijan’s history, but also in the history of the world. Throughout the history Garabagh was an inseparable part of Azerbaijan. Significant changes in Garabagh history took place in the 7<sup>th</sup> – 9<sup>th</sup> centuries, with the Arab Caliphate occupation and disappearance of the Albanian state from the scene”.<sup>4</sup>

After the establishment of Azerbaijan State of Safavids in 1501, centralization of Azerbaijani lands started. Garabagh or Ganja province was one of the four

1 Robert H. Hawsen. *Armenia: A Historical Atlas* (The University of Chicago Press. 2001), p. 264.

2 Human Rights Watch, *Seven Years of Conflict in Nagorno-Karabakh*, December 1994, p. xiii, ISBN 1-56432-142-8. Citing: Natsional’nyi Sostav Naseleniya SSSR, po dannym Vsesoyuznyi Perepisi Naseleniya 1989 g., Moskva, “Finansyi Statistika”.

3 Robert H Hawsen, “The Kingdom of Artsakh”, In: T. Samuelian & M. Stone, eds. *Medieval Armenian Culture*. Chicago, CA, 1983, map 19: Orontid (Ervanduni) Armenia.

4 M. Aliyeva, *Brief Information of the History of Garabagh* (Baku: Heydar Aliyev Foundation, 2006).

provinces established in those times. After the death of last decedent of Safavids dynasty Nadir-Shah, Safsavids state came to an end and several little Khanates and Sultanades emerged in Azerbaijan, one of them was Garabagh khanate. Its founder was one of the prominent statesmen of Azerbaijan - Panahali Bey Javanshir.<sup>5</sup>

The greatest problem concerning Nagorno-Karabakh is that it was always a disputable territory from a geographical, demographic, and cultural point of view. Geographically, it is situated on the Azerbaijani side of the mountainous watershed that runs down between the Azerbaijan and Armenia. Demographically, it was a mixed region, as it evidently had been for centuries: the Armenians predominated in the hills with more Azerbaijani in the plains, as well as in the city of Shusha (or Shushi, as it was known to its Armenian inhabitants). Culturally, it had great significance for both sides. For Armenians, the meaning of Nagorno-Karabakh lay in the dozens of Armenian churches dotted around the territory, its tradition of local autonomy through the “melik” princes of the Middle Ages and the high standard of living of Karabakh Armenians. For Azerbaijanis, their association with the region was primarily with the khanate based around the great Eighteenth century city of Shusha and with the great cultural flowering of composers and poets such as Vagif, Natevan and Uzeir Hajibekov. Karabakh was, in short, a culturally rich border-zone and it was exactly for this reason that it was always a place of battlefield between sides of competing interests and claims.

For centuries, the region has had an allure due to its unique aspects. Karabakh has been famous for its mixed Christian-Muslim population; for the independence of its rulers (whether Christian or Muslim); for being fought over by rival empires; for its forests and monasteries, for producing warriors and poets, and for its grapes, mulberries, silk, and corn.

### THEORETICAL ASPECTS OF THE CONFLICT

The last twenty years in international relations is characterized by the aggravation of disputes about the nature of the conflicts, main reasons of the internal and interstate conflicts etc. Until the end of 1980s, Soviet scientific literature regarded that Soviet governance had created a conflict-free model of society development. In Soviet scientific literature, ethno-political conflicts were seen as the examples of past historical process or processes that occurred only in Western countries. In contrast to this, Western scholars gathered huge scientific-practical experience on what would become the base of the following

---

5 Aliyeva, *Brief Information of the History of Garabagh*.

formation: the school of conflict studies. The main object of the conflict studies is to study the nature, reasons, and mechanisms of existing conflicts.

In contemporary literature and other means of information, we come across many explanations on the nature of conflict. Even, specialists on conflict do not have a common opinion on the concept of “conflict”. Very often, specialists use terms such as “fight”, “argument”, “tension in relations”, “incident” and etc. as the synonyms of the concept of “conflict”.

Despite disagreements on the details of the concept “conflict”, the basic premise of the concept is that conflict arises between two or more sides, which are in themselves the main participants of the conflict. In international relations, such participants are states or state groups, and in domestic conflicts, they are official governments, different political movements, and ethnic or religious groups. Finally, in interstate domestic conflicts, there are so called non-state participants (for example business groups, NGOs etc.) who play very active role. There are also indirect participants, who possibly do not participate in the conflict, but support it or who induce it by economical methods or by realizations of open or secret delivering of arms.

Johan Galtung is of the opinion that social structures have an integrative but violent character for social groups and individuals. Within this framework, Galtung introduced the concept of “structural violence”. Structural violence is the result of unrecognized political decisions. Galtung is also associated with “negative and positive peace”. According to this conception, “negative peace” means the absence of the war or other forms of the direct violence. At the same time, “positive peace” discusses about conditions, according to which non-violence, social justice, and environmental security removes the reasons for violence. “Positive peace” also includes the relations among the different social groups. Accordingly, “positive peace” is much more than simply the absence of violent conflict.<sup>6</sup>

Philip Wright characterizes conflict as the confrontation of social units. They utilize all their strength to reach distinct aims, despite such aims not being satisfactory for all.<sup>7</sup> In Wright’s opinion, conflict can be divided into four stages: 1) considering emergence of incompatibility; 2) growing tension; 3) pressure without using the force, and 4) military intervention or/and war with the purpose to dictate one’s decision. Each stage represents the means of

---

6 J. Galtung, *Essays in Peace research* (Copenhagen: Ejers, 1978), p. 565, 656.

7 Q. Wright, *The Study of International Relations* (New York, 1995), p. 241.

pressure for changing the existing political course. Each stage gives additional impulse to confronted sides to clearly realize their own interests.<sup>8</sup>

Conflict appears in two main forms: Those that involve armed forces or those that do not. Which form will appear in any specific occasion is dependent on the political culture of society, common condition of the social-economic system, the relationship between mass and elite etc. Once more, this means that, it is impossible to solve a conflict without looking into the real reasons underneath it. Related to this, conflict observation has shown that the higher economic or cultural (for example, being experienced in reaching a compromise instead of resorting to force) level of the country is, the less chance there is for confrontations to take place between different groups. One variety of political conflict is ethno-political conflict. Its main point is that some nation sees the best guarantee in creating its own state to protect its culture, independence or spiritual unity. Yet this inevitably constitutes a problem, because to creating a problem, a separate state for each nation is only possible in a utopia.

When the World War II colonial system collapsed and hundreds of African, Asian or Latin American ethno-national groups gained state independence, people were led to believe that the world once and for all was divided by the state borders. On the territory of former USSR, 15 independent states came into being. Former Yugoslavia was destroyed by bloody battles, leading to the creation of several states. Such processes have not finished yet, and the Caucasus is a good example for this. There are ethnic tensions in Turkey (with Kurds), Russia (with Chechens), Georgia (with Abkhazians and Ossetians), and Azerbaijan (with Karabakh Armenians) that have led and can still lead to armed conflict. Sometimes certain state policies specifically select certain nations or ethnic groups whose confrontation carries a high probability of conflict. When there are political mistakes involved as well, the explosive potential of inter-group conflicts is multiplied. There are clear examples of such conflicts is South Caucasus. If not for the harmful policies of the Soviet Union and then independent Russia, we could have avoided the bloody struggles in Nagorno-Karabakh, Abkhazia and in Tskhinvali region. In other words, ethnic confrontation was not the defining factor in the conflict in the South Caucasus, the defining factor was Kremlin's imperial policies.

The only way to solve conflicts is for the confronted sides to take bilateral steps. Nowadays, there is no universal conception for regulation the conflicts.

---

<sup>8</sup> Q. Wright, "Escalation of International Conflict", *The Journal of Conflict Resolution*, 1965, Vol. 9, #4, p. 435.

The modern theory is mostly built on case studies, opinions of sociologists, political scientists, and politicians. Solving the conflicts can be put off or prolonged in time. Yet, such delaying tactics do not eradicate conflicts. On the contrary, they only deepen and strain the relations between the confronted sides.

In ethno-political conflict sphere, there is one acknowledged truth; to foresee the conflict in advance and to avoid it is easier than to solve it later on.

I. William Zartman thinks that the important problematic character of a conflict is its asymmetry. Such asymmetrical relations are rarely subordinated on regulations, because the strong side has fewer stimuli to talk with weak side on an equal basis. Meanwhile, the weak side does its best to change undesirable correlation of forces.<sup>9</sup>

The opposing sides that seek to regulate the conflict by joint decisions recognize that the problem is solved only when both sides reach an agreement. In spite of the positive side of joint decision making process, opposing interests and demands are not eradicated. That is why it is necessary to seek the results that, establish balance that is to the interests of the opposing sides. Reaching such an aim involves the “bargaining” element, which means the development of negotiation processes.

The standard definition of “bargaining” was given by J. Rubin and B. Brown. In their opinion, bargaining process must be in accordance with the following: 1) at least two sides must interrelate to each other; 2) between these sides, there is conflict of interests about several issues; 3) from time to time, the sides go in the voluntary bilateral negotiation; 4) the most complicated steps in these bilateral relations is connected with the exchanging recourses between conflict subjects and solving some (or several) questionable issues; 5) these steps are more consecutive, than simultaneous in the means, and that one side offers its own suggestions and demands and then follows the counter-offer from another side. This process continues until no further avenue for bargaining is found or the sides feel that they have been backed into a corner<sup>10</sup>.

The most important problem of the ethno-political conflict is the so - called “right of nation for the self-determination”, though the wrong interpretation and support for the self-determination concept would theoretically lead to

---

9 C.R. Mitchell, *Asymmetry and Strategies of Regional Conflict*, In: I.W. Zartman and V.A. Kremenyuk, *Cooperative Security-Reducing Third World Wars* (Syracuse University Press, 1995), p. 36.

10 J.Z. Rubin and B.R. Brown, *The Social Psychology of Bargaining and Negotiation* (New York: Academic Press, 1975), p. 5.

the formation of hundreds of new sovereign states. And accompanying such wrong interpretations is perpetually occurring armed clashes and wars that drag on for years in one form or another. The world has already witnessed such examples with the South Caucasian “frozen” conflicts. If we look at the present conflicts around the world, it becomes clear that practically each of them is connected to the wrong interpretation of self-determination by the national minorities.

### **ECONOMIC ASPECTS WHICH THAT INFLUENCE THE CONFLICT RESOLUTION PROCESS**

Paying attention to the economic aspects of a conflict is also very important. It is worth to noting that to build a country, it is very important to first build an economy. Business may play a leading role in conflict resolution. At the moment, both parties of the Nagorno-Karabakh conflict are in very hard position. After the destruction of the Soviet Union, the economy of post-Soviet states was badly damaged, because according to Soviet economic plan, countries were to be dependent on each other. The ongoing conflict between the two neighbors, Azerbaijan and Armenia also making the situation even worse.

When the parties of the armed conflict over Nagorno-Karabakh accepted the situation of “no war, no peace”, they faced mixed economic prospects. Though some Azerbaijanians were growing richer and richer by entering in oil business, the economic security of majority of the population remained extremely low. Despite of the fact that Armenia is considered as the winner in the war, the economic situation of the country remains in much harder position than in Azerbaijan. Armenians lost many economic opportunities as a result of this conflict. During the Soviet Union period, most of the goods for living and oil were entering to Armenia through Azerbaijan. After the war, the borders between two countries were closed. Armenia also did not have good relations with Turkey. Northern neighbor Georgia had its own problems, so Iran and Russia were the only hope for Armenia. Karabakh itself suffers much from severe unemployment, and it is increasingly dependent on “external” support from the Armenian Diaspora groups in Western countries and loans from Armenia. So, as it happens in most situations, although the decision for the war was taken by the elites, it was the elites, it was the ordinary people struggled, fought and died.

On both sides of the conflict, understanding of the economic costs are minimal. Potential of “peace dividend” has not resulted in visible policy changes by any

party. So here rises the following question: “What will be the profit for each side to lead the diplomatic peace negotiations?” In this case, Azerbaijan is in much better situation because it has oil resources and is the part of the dynamics of diplomacy. Oil resources not only increases the income of the country by which they are able to support increased military capacity, but also it is used to court the support of the international community.

International Alert in 2003-2004 provided a research in rural areas of Azerbaijan far away from Baku; research demonstrated that for the Azeri population living in rural areas, oil was regarded as the key point for returning

*So, Azerbaijan has the recourses, but does not have the military victory, while Armenia on the contrary has the military victory but no resources. Yet, there are some people who want to reach out to Turkey trough informal business-to-business contacts. Armenian businessman found it easier to strengthen ties with Turkey than to resolve the conflict with Azerbaijan, but Turkish option is not the easy one either.*

lost territories. The opinion shared by all of them was that oil brings funds for the army and guarantees support from those Western governments whose companies extract Azeri oil, which will bring an end to the economic hardship, and also this will lead the way for the returning of Karabakh.<sup>11</sup> It is also a theory of change that suits those who want to strengthen stereotypes of “Armenian enemy” already prominent with these same communities.

So, Azerbaijan has the recourses, but does not have the military victory, while Armenia on the contrary has the military victory but no resources. Yet, there are some people who want to reach out to Turkey trough informal business-to-business contacts. Armenian

businessman found it easier to strengthen ties with Turkey than to resolve the conflict with Azerbaijan, but Turkish option is not the easy one either. Although there are flights from Armenia to Turkey and the people of two countries cross the boarders, the physical border between two countries is still closed. A diplomatic impasse deriving from a combination of reasons, including the disputed assessment of the Ottoman Empire’s treatment of its Armenian community in 1915, makes the situation hard. Armenians blame Turkey for genocide and want Turkey to confess it, while Turkey will never accept this accusation. The second important factor is that Turkey is in alliance with neighboring Azerbaijan over the Karabakh conflict. The two countries share the same language, culture, and religion. Turkey’s partnership with Azerbaijan

11 T. Tskitishvili, Master Thesis: “General Overview of Nagorno-Karabakh Conflict as the First Ethno-Political Conflict in Post-Soviet Area”, 2010, *International Black Sea University* (Tbilisi, Georgia), p. 39.



has been reinforced by construction of the Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline, which strategically aligns Azerbaijan, Georgia, and Turkey and thereby amplifies the conflict-fault-line in the region.

The importance of oil as an economic force in the South Caucasus and as a component of conflict-dynamics is too significant and necessary not to discuss. At the same time, the problem Azerbaijan faces in oil business is connected with corruption. Oil business, its development and the opportunities it offers to distribute patronage, tends to strengthen elites who will do their best to hold into offices given, because it is the main source of the power and prosperity. If the government tries to increase the efforts for gradually reducing corruption by increasing influence of local “oil watchdog” non-governmental organizations (NGOs) and with the international community’s backing of transparency initiatives such as the Extractive Industry Transparency Initiative (EITI), the country has ability to move decisively towards more transparent state-structures that will effectively regulate its oil-dominated economy.

On the other hand, economists believe that if the money earned by oil business can be kept within the formal economy and directed towards strengthening the non-oil sectors, then the prospects and benefits will be felt in many other directions. If this fact happens (together with positive policy developments at the international level), there is no doubt that peace will become the greater political and economic motivator for Azerbaijan in the Karabakh conflict. In this case, EITI would have more chance to gather momentum and Azerbaijan would begin to develop a more far-reaching economic role as the hub for regional economic development in South Caucasus.

One important factor that reduces the economic development of the region are the closed borders and fault lines. Land borders between Armenia and Turkey and Armenia and Azerbaijan are closed (Armenia interprets these closed borders as a blockade), there are also problems in Georgia’s de-facto Abkhazia and South Ossetia. These factors for sure create particular economic dynamics in the region that is consequence and feeder of the conflict. Closed borders are in fact porous, and support rising unregulated trade across borders, whilst the conventional wisdom of the international community prevents international actors from leading economic support to unrecognized entities such as Nagorno-Karabakh.

These so-called black markets are testament to the inevitability of business activities despite the closed borders and fault lines. Trade is the most important aspect for building community life, because it provides employment and income generation. Without any kind of trade, there is no chance for any

community to survive. During decades previous to the Nagorno-Karabakh conflict, trade between Armenia and Azerbaijan was commonplace and dynamic. All communication and trade between two countries was stopped when the borders were officially closed. Yet people of both countries manage to distribute goods between each other by using the neighbors Georgia and Iran as a middleman to enable Armenian goods to find their way to the Azerbaijan and vice-versa.

According to Arc News (Armenian News Agency), “the unofficial trade between Armenia and Azerbaijan reached 40 million USD annually by 2002, while the trade between Armenia and Turkey reached 60-80 million USD.”<sup>12</sup>

Due there being no regulation, unofficial trade strongly affects the tensed relationship between the governments of Azerbaijan and Armenia and their citizens. In the democratic countries, governments that are elected by the people for the people should have the legitimacy to tax their citizens in order to provide the services required for society’s needs to be met. Lack of trade regulation means that these taxes are not collected and that service provision based on democratic principles is replaced by inconsistent provision and ‘protection’ by what some refer to as ‘corruption networks’. In a narrow sense, this term refers to the cross-border links between people of comparable levels of authority and resourcefulness. Most often, these are local authorities and specialized law-enforcement institutions, namely police, and border guards and customs officials. Such a context certainly provides alternatives for survival to those trading in legitimate goods, but it also creates space within which exploitation is commonplace and criminality prospers. Criminal activities, such as trade in weapons and drugs, endure with some degree of overlap with the corruption networks within the public sphere of the South Caucasus sovereign states and unrecognized entities.

The clearest example of this dynamic is the Sadakhlo market. This is the space on Georgian border territory with Azerbaijan and Armenia created by Nagorno-Karabakh conflict where flour, bran, salt and other goods from the Azerbaijani side are sold. Meanwhile, Armenia offers its customers smoked fish. During 1991-1992, it was the only place where the cross border trade was possible between conflicting sides. The evidence of this market’s dependence on the conflict’s dynamics is the nervousness that was caused between traders when they have heard about the prospect of the opening Armenian-Turkish border. Opening of the border would definitely mean the death of Sadakhlo market

---

12 T. Tskitishvili, Master Thesis: “General Overview of Nagorno-Karabakh Conflict as the First Ethno-Political Conflict in Post-Soviet Area”, 2010, *International Black Sea University* (Tbilisi, Georgia), p. 41.

through the competition such an opening would create. The traders dependent upon Sadakhlo want the stability that the conflict brings, in a context devoid of effective public institutions. The price of stability is the unregulated system, which sustains the 'no war, no peace' situation. By my mind, to transform this context into a positive peace, both the Azerbaijani and Armenian governments should take efforts for establishment justice and regulation. Governments should arrange efficient and transparent state structures that can work in partnership with the private sector and civil society. Here, the other problem arises: has the private sector the ability to play a role in such a transformation process?

Engagement with the legitimate business community is strongly opposed by people engaged in the trade of guns, drugs, and people. (In fact, this kind of business flourishes well in uncontrolled zones). A meeting of business people from across the South Caucasus convened by International Alert in Trabzon in December 2004 demonstrated that there is an outward-looking business community in the Caucasus aware of the status quo's detrimental effects to their interests, and which in response seeks 'to improve the legal framework for business, strengthen the dialogue between business and state and expand the reach of business from a national to a regional level'. This kind of regional meetings are one of the ways of establishing the safe space for Azerbaijani and Armenian business people to engage with one another. It should be admitted by all means that, in fact, there is no chance to imagine concrete business ventures materializing without a change in the political context. The role of business is to lobby for political support, first of all, for cross-border economic collaboration, and when the political context gives opportunity, prepare to act.

If business communities take this role on their shoulders, peace-building organizations should interfere and help developing business ideas for it cannot be assumed that business will always act in the interests of peace. Additionally, taking a regional approach to economic cooperation is likely to bring greater rewards. Measures should be taken to link the whole Caucasian regions, not only Armenia and Azerbaijan but also Georgia, Turkey, and Iran. The debate surrounding potential rail links in the South Caucasus is an example of the importance of taking a regional perspective. Whilst some argue for opening a Baku-Nakhichevan-Yerevan-Gyumri-Kars railway link connecting Azerbaijan and Armenia that would take in Nagorno-Karabakh, others suggest opening the Baku-Ijevan-Yerevan-Nakhichevan route, which would avoid and exclude Karabakh. Meanwhile, Georgia actively lobbies for a Baku-Tbilisi-Akhalkalaki-Kars rail link that would connect Azerbaijan with Turkey via Georgia, thereby marginalizing Armenia. The Baku-Tbilisi-Ceyhan pipeline is a very good example of operating the oil industry that reinforces East-West

alliances between Azerbaijan, Georgia and Turkey, but at the same time bypasses Armenia. As it was mentioned above, it is impossible to separate economic and political interests, and the only constructive way out of these competing economic interests is of course diplomatic compromises.

## **GEO-ECONOMIC AND GEOPOLITICAL APPROACHES FOR THE CONFLICT RESOLUTION PROCESS**

During the discussion about the possibilities of the resolution of the conflict between Armenia and Azerbaijan, in my point of view, what should be taken into consideration is the realization of main concepts of international relations – idealism and realism. In particular, if we are discussing about the idealistic approaches for the conflict's resolution, we should discuss two main principles of international law: from one side the principle of territorial integrity of the state and from the other side, the right of nation for the self-determination. With regard to the last one, it does not always mean the foundation of the independent states. Taking into the consideration the current realities of the modern world, there are above two hundreds states on the political map. From the another side, there are about 4000 national and ethnic groups settled on our planet. Accordingly, it is practically impossible neither from idealistic nor from the realistic point of view to grant full independence to each distinct group in the world. For the balancing of this principle, what is required is to engage in the discussion of granting political, cultural, and/or economic self-governance or autonomy of national or ethnic groups within a state. Arguing about possibilities of the resolution of the Nagorno-Karabakh conflict, the principles of international law should be observed. Particularly, this means a high level of autonomy for Nagorno-Karabakh within Azerbaijan. In this regard, experience of the leading democratic states toward the dependent territories should be taken into consideration. In particular, relations of Denmark with its dependent territories – Faroe Islands and Greenland, Finland towards Åland Islands, USA towards Puerto Rico, etc. should be considered. Maybe at this stage, discussion about the resolution of the Nagorno-Karabakh conflict according to the principles of international law does not seem realistic, but in the long term perspective, in the case of changing geopolitical realities based on the approach of Francis Fukuyama related to his prognosis about gradual enlargement of democracy, resolution of the conflict based on the liberal approaches would be possible.

With regards to the realism approach, political bargaining issues could be considered. In particular, dividing of the conflict resolution process into two stages. The first stage would be: the withdrawal of Armenian troops from the

occupied territories around Nagorno-Karabakh instead of the restoration of direct trade between the Armenian side and the Azerbaijani and Turkish side and restoration of use of the Kars-Gyumri Railway. After this, in the second stage, there would be discussions about final legal status of Nagorno-Karabakh.

At the same time, there are two main scenarios of resolving of the conflict whether in favor of Armenia or Azerbaijan. First scenario: in the current situation, despite the functioning of Minsk Group on behalf of OSCE with participation of Russia, France and USA, the de-facto monopolistic position in the framework of the “mediation” process can be considered to be in favor of Russia. Taking into consideration the geographic factor of Russia bordering South Caucasus, Russia keeps its geopolitical influence in South Caucasus. its continuing geopolitical presence in South Caucasus and in the entire post-Soviet space means that Russia would continue its policy “divide and rule”, especially related to the conflicts in the region. In this regard, for Russia, what is most convenient is to keep the “status quo” related to the Nagorno-Karabakh conflict and at the same time to play the role of the “mediator”.

By this way, Russia will be able to have under its influence both countries: Armenia and Azerbaijan. Armenia will also be forced to counter-balance the increasing GDP and defense expenditures of Azerbaijan by keeping strong links with Russia. One of the clear examples of this is Armenia’s refusal to sign with the European Union Association Agreement and instead joining the Eurasian Economic Union (spear-headed by Russia) and by this way, having the guarantee to keep Nagorno-Karabakh under its control. If Russia keeps its geopolitical influence in the South Caucasus, Armenian presence in Nagorno-Karabakh will continue and Azerbaijan will be forced to accept the existing situation.

The second scenario involves taking into consideration the recent events in Ukraine and international sanctions against Russia, decreasing oil prices, etc. In this context, the position of Russia over the post-Soviet space could be diminished. This will allow Western countries to be involved more actively in the resolution of Nagorno-Karabakh conflict in compliance with the principles of international law – respect of the territorial integrity of the state. At the same, the following issues should be taken into account: Western countries will be more and more interested in the decreasing energy dependence on Russia – for example, reduction in the volume of import of gas and oil from Russia and accordingly, there will be more interest toward the implementation of Caspian energy projects with participation of Azerbaijan. The successful implementation of the Caspian energy projects can raise interest of Armenian society with regard to those projects as well, which in the long term

perspectives can cause a more eager approach of Armenian side towards the conflict resolution process. One of the clear examples of increasing EU interest in the conflict resolution process is its intention to revise the Minsk format due to the fact that it has not produced any positive results throughout the years since the formation of the Minsk Group.

## CONCLUSION

After the conflict outbreak in Nagorno-Karabakh in the second half of the 1980s, two perspectives of ethnic incompatibility have emerged. One perspective justified ethnic cleansing by the idea of matching state borders with regions occupied by ethnic groups. The other perspective, the Great Game narrative, examined the conflict as part of the global power struggle in the Caucasian area while disregarding societies and the shortcomings in the democratic mechanisms of the regimes in the region. Despite all that has happened since the outbreak of the conflict, time has revealed that these perspectives neither appreciate the internal conditions of the conflict nor offer a way out of the current impasse. By criticizing the ‘commonsense’ and ‘realness’ of these representations, analyzing who gains what from the current status quo will offer solutions for a sustainable peace in the region. As long as the regimes of Azerbaijan and Armenia (both of which possess democratic shortcomings), are satisfied with the status quo and outside powers maximize their interests, the ‘no war, no peace’ situation will not be challenged. The only resolution possible is to include the people, who are actually missing out on the “peace dividend”, in the decision-making and peace-making process.

The conflict of Nagorno-Karabakh is not only a problem of Armenia and Azerbaijan. This is the problem of the whole region of the Caucasus. This conflict is one of the many in the region and is historically the first factor that started the destabilization of the region. More than 20 years have passed after the destruction of the Soviet Union and many inside or outside parties tried to take part in the resolution of this conflict resolution, but none of them succeeded. It is clear for both sides of the conflict that due to the unstable situation not only the Nagorno-Karabakh region, but the whole countries of Armenia and Azerbaijan suffer. In our globalized world, it is impossible to imagine the development of economy without involvement of international business, but due to the unstable situation, many business people avoid bringing their business in these countries. Due to badly developed or unevenly developed economies, both countries suffer from the effect of unemployment and lack of trade.

The suggestions to both parties of the conflict is that they must finally realize and understand very well that the only way to attain a resolution for the conflict is for building consensus and reaching compromise. The diplomats of both countries should sit together on a round table, try to put aside or forget the anger and hatred that they feel towards each other and try to find the ways to out of this conflict that drags both countries into more trouble the more unstable it gets. Today, both countries are concentrating their energy and resources on proving to the whole world how cruel and bad their enemy (the neighboring country) is, but this approach is not and will never be the way out of this complicated conflict.

Despite of the politics, there is a role for ordinary people in this conflict as well. People should not be caught up in provocations, and they should remember that during decades prior to the conflict, they were in good relationship with their neighbors; they were classmates, friends, relatives, and so on. Good and bad nations or ethnic groups do not exist, there only are good and bad policies. Meanwhile, business people from both sides should lobby their politicians and put their interests in their countries` agendas. Neighbor countries cannot thrive if they do not have trade relations between each other, and as it was also mentioned above, without the trade there is no economy, and without economy there is no development or country.

## BIBLIOGRAPHY

### Literature:

Aliyeva, M. *Brief Information of the History of Garabagh*. Baku: Heydar Aliyev Foundation. 2006

Galtung, J. *Essays in Piece Research*. Copenhagen: Ejers, 1978.

Hewsen, Robert H. *Armenia: A Historical Atlas*. The University of Chicago Press. 2001. ISBN 978-0-226-33228-4

Hewsen, Robert H. "The Kingdom of Artsakh". In: T. Samuelian & M. Stone, eds. *Medieval Armenian Culture*. Chico, CA, 1983, map 19: Orontid (Ervanduni) Armenia

Human Rights Watch. *Seven Years of Conflict in Nagorno-Karabakh*. December 1994, p. xiii. ISBN 1-56432-142-8. Citing: Natsional'nyi Sostav Naseleniya SSSR, po dannym Vsesoyuznyi Perepisi Naseleniya 1989 g., Moskva, "Finansyi Statistika".

Mitchell, C.R. *Asymmetry and Strategies of Regional Conflict*. In: Zartman I.W., Kremenyuk V.A. *Cooperative Security - Reducing Third World Wars*. Syracuse University Press. 1995.

Rubin, J.Z. and B.R. Brown. *The Social Psychology of Bargaining and Negotiation*. New York: Academic Press, 1975.

Tskitishvili T. Master Thesis: "General Overview of Nagorno-Karabakh Conflict as the First Ethno-Political Conflict in Post-Soviet Area". 2010. *International Black Sea University*. Tbilisi, Georgia.

Wright, Q. "Escalation of International Conflict". *The Journal of Conflict Resolution*. 1965. Vol. 9, # 4.

Wright, Q. *The Study of International Relations*. New York, 1955.

### Additional Literature:

Azerbaijan Diplomatic Academy. *Librarian*. Vol. 3, 1993. [www.ada.edu.az](http://www.ada.edu.az)

Blandy, C. W. *Azerbaijan: Is War Over Nagorny Karabakh a Realistic*



- Option?* Shrivenham, England: Defence Academy of the United Kingdom, 2008.
- Blandy, C. W. *Azerbaijan: Permanently between Scylla and Charybdis?* Caucasus Series, Conflict Studies Research Centre. Watchfield, Swindon: Defence Academy of the United Kingdom, 2006.
- Broers, L. *Conciliation Resources*. London, United Kingdom: Accord, 2005.
- Dhenfield, S. D. *Armed Conflict in Eastern Europe and the Former Soviet Union* (Vol. United Nations and Civil Wars). (G. Weiss, ed. 1996).
- Eurodialogue.org* (n.d.). Retrieved September 2, 2010, from <http://www.eurodialogue.org?OSCE-Minsk-Group-issues-statement-on-Karabakh-dispute>
- Fisher, W. B. *The Cambridge history of Iran*. Cambridge: Cambridge University Press, 1991.
- Goltz, T. "The Hidden Russian Hand". Eurasia Letter, 1993.
- Hewsen, R. H. 1983. Retrieved January 26, 2010, from <http://www.gandzasar.com/nagorno-karabakh>
- Hovannisian, R. K. *Armeniaforeignministry.com*. (March, 1997). Yerevan: The Armenian Center for National and International Studies.
- Jacoby, V. 2005. *C-r.org*. Retrieved 2010, from <http://www.c-r.org/our-work/accord/nagorny-karabah/php.html>
- Kacharian, R. (n.d.). "From Rafi Kacharians Memories". *Azerbaijan: Puzzlement and Programs*.
- Kishlansky, M. *Readings in Western Civilization*, 4<sup>th</sup> ed., vol. 2. New York: Longman, 2001.
- Mehtiyev, E. *Armenia-Azerbaijan Prague Process: Road Map to Peace or Stalemate for Uncertainty?* Caucasus Series, Conflict Studies Research Centre. Haig Road Chamberley Surrey, GU15 4PQ, England: Defence Academy of the United Kingdom, 2005.
- Rustamkhani. "Interview with Rustamkhani" (T. D. Waal, Interviewer. November 8, 2000).

Samedov, A. *Russian Federaion Influence Mechanisms for allowing conflicts in Caucasus*. Baku: National Academy of Science of Azerbaijan, Institute of Human Rights, 2007.

South-Caucasus Institute of Regional Security. *Activity Report*. Tbilisi, 2004

V. J. (Ph.D.). 2005. *C-r.org*. Retrieved 2010, from  
<http://www.c-r.org/our-work/accord/nagorny-karabah/osec-role.php>

Volcer Jacoby, P. 2005. *C-r.org*. Retrieved March 2009, from  
<http://www.c-r.org/our-work/accord/nagorny-karabah/oscce-role.php>

Waal, T. D. *Black Garden, Armenia and Azerbaijan through Peace and War*. New York, London: New York University Press, 2005.