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A strip of land situated between the Mediterranean and the Black Seas, the post-Soviet Caucasus embarked on a painful identity quest at the turn of the third millennium. This – still ongoing – quest involves several daunting choices: between Moscow, Washington and Brussels, between oil and democratic values, and between feudal realities and revolutionary ideals. Throughout the last decade, the Yerevan-based Caucasus Institute has been conducting in-depth research of the conflicting and often subtle trends in the regions' politics. This volume contains a selection of research papers published by the Caucasus Institute since 2001 in Armenian, Russian and English, which best represent the challenges faced by this varied region at this crucial stage of development.

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PRECEDENTS AND PROSPECTS: THE DE-FACTO STATES OF THE SOUTH CAUCASUS IN 2008¹

*by David Petrossyan*²

INTRODUCTION

The major events in the lives of the three unrecognized states of the South Caucasus in 2008 occurred in the month of August, both during and after the Russian-Georgian war. In late August, the Russian president issued a decree recognizing the independence of two of these three entities, namely Abkhazia and South Ossetia. This marked the transformation of the *de facto* Russian protectorate over Abkhazia and South Ossetia to a *de jure* protectorate. In addition, this created a precedent - one-sided to be sure - of the legal recognition of the independence of the *de facto* South Caucasian states.

The previous widely discussed precedent was that of Kosovo. Despite numerous official statements by representatives of the Western community to the effect that the recognition of the independence of Kosovo cannot serve as a precedent for resolving other conflicts, especially in the Old World, the expert community is far from being unanimous on this issue. In any case, during my numerous contacts with Western experts and diplomats, I have repeatedly heard the opinion that in fact the case of Kosovo *is* a precedent, or, at least, it may eventually become one.

In fact, this has happened. After just six months, Russia demonstrated its willingness to create its own precedents, although from a purely formal standpoint its recognition of the independence of Abkhazia and South Ossetia did not look particularly impressive, since, apart from Moscow, only Nicaragua recognized them, whereas Kosovo by that time had already been recognized by 50 nations.

There are, in fact, quite a few similarities between Kosovo, Abkhazia and South Ossetia. In all three cases, there was a conflict between former provinces and parent states, followed by the dispatch of peacekeeping contingents to the conflict zone. In

1 This paper was published in Russian as: Petrossyan, David. "Nepriznannyye strany Yuzhnogo Kavkaza v 2008 g.: pretsedenty i perspektivy." *Kavkaz – 2008. Yezhegodnik Instituta Kavkaza* ("The Northern Caucasus: the Situation as of 2008." *Caucasus 2008. CI Yearbook*). Ed. Alexander Iskandaryan. – Yerevan: Caucasus Institute, 2009 (in Russian). – Pp.68-82.

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Kosovo, peacekeeping units came from NATO member states and other countries, and in Abkhazia and South Ossetia they came from Russia.

There are also differences. Following the deployment of peacekeepers in Kosovo, no serious negotiations took place, while in the case of the Georgian-Abkhazian and Georgian-Ossetian conflicts talks were constantly underway, albeit sluggishly. They began to wind down only in 2004, mainly on the initiative of Georgia. Georgian State Minister for Conflict Resolution Giorgi Khaindrava was the last negotiator from Tbilisi who agreed to conduct a genuine dialogue with the Abkhaz and the Ossetians in the framework of the Moscow and Dagomys Agreements signed in the first half of the 1990s. Khaindrava was sacked at the beginning of August 2007, exactly a year before the start of the war in August 2008. In general, in the eyes of Ossetians (but not Abkhazians), the “doves” in Georgia’s ruling party (including the late Prime Minister Zurab Zhvania, former Foreign Minister Salome Zurbishvili and the aforementioned Giorgi Khaindrava) suffered a crushing defeat with the advent to power of Saakashvili’s administration. Abkhazians have never really had a positive disposition even towards the Georgian “doves.”

In addition, since the armistice and the signing of, respectively, the Moscow and Dagomys Agreements, Georgia made several attempts to regain - by force - its positions in Abkhazia and South Ossetia (in Abkhazia it happened in 1998 and 2001, and in South Ossetia it occurred in 2004 and, obviously, in 2008). All those attempts ended in failure. Serbia has never made any such attempts with regard to Kosovo.

As for domestic political developments, the year 2008 in Abkhazia and South Ossetia may be tentatively divided into two parts in the political sense: before and after Russia’s recognition of their independence.

1. SOUTH OSSETIA

1.1. External Actors and Conflict Resolution

The war marked a turning point in South Ossetia. Several issues that were little covered by the media must be highlighted in connection with the war, including in the context of the events of August 2008.

The Georgian-Russian conflict saw the interplay of the “duo” of Mikheil Saakashvili vs. Vladimir Putin. Analysts in Georgia have noticed this duality a while ago; some of them believe that these two politicians are very similar to each other. For instance, in a paper for the Caucasus 2006 Yearbook, Georgian scholars Marina Muskhelishvili and Gia Zhorzholiani wrote that “... the Georgian government has learnt a lot from its Russian counterpart – and, perhaps, also vice versa. In their

ongoing confrontation with external enemies, both countries are gradually tightening their political regimes, often utilizing similar methods. The public support for the presidents of both countries among a particular (albeit different-sized) portion of their populations displays a markedly similar ideology and worldview of a post-Soviet type. Methods used both here and there look as if they have been deliberately replicated. Putin, however, is not losing the image of a rational politician, and in domestic politics he apparently acts systematically and purposively. Meanwhile, Saakashvili is better versed in the intricacies of public propaganda in the global arena and is able to navigate in the modern information space, manipulating the public opinion on a global scale, something Putin who has inherited the hard materialism of dogmatic Marxism decidedly lacks. Saakashvili is staking on the virtual reality of the 21st century, while Putin is putting the emphasis on the material “energy component” of our age. In this they are dissimilar: each of them has inherited something of his own from the Soviet Marxism-Leninism: Putin has inherited the cynical Marxist belief that politics is a means of fulfilling egotistical interests, and that any talk of democracy creates false identity, while Saakashvili has inherited the Leninist belief that the end justifies the means, and the Bolshevik belief that politics can be built on ideology.”³

The Russian media and expert community claimed, often without evidence, that Washington gave the go-ahead to the August venture of Saakashvili, and the Georgian opposition, citing its sources, states the contrary, saying that Georgia’s president was recommended - in a very rigid form - to not undertake any military action in South Ossetia and to generally avoid clashing with either the peacekeepers or Ossetian armed forces, and even more so, with the Russian army.

Much has been said about democratic Georgia and its popularly elected president acting as Moscow’s opponent in the South Caucasus region. However, in reality, the war was fought by two hybrid regimes, not by an authoritarian and a democratic state.

1.2 Domestic Politics

The domestic political situation in South Ossetia in 2008 was closely intertwined with problems in the socio-economic sector and, especially, the need to restore the war-ravaged economy.

The Interdepartmental Commission (IDC), in which the Ministry of Regional

3 Muskhelishvili, Marina and Gia Zhorzholiani. “Gruziya i Rossiya v 2006 g.: novye realii.” *Kavkaz – 2006. Yezhegodnik Instituta Kavkaza* (“Georgia and Russia in 2006: New Realities.” *Caucasus 2006. CI Yearbook*). Ed. Alexander Iskandaryan. – Yerevan, 2008 (in Russian). – Pp.55-56.

Development of the Russian Federation was supposed to play the leading role, is responsible for the provision of Moscow's assistance to South Ossetia. The assistance program is designed for the period through 2011 (at the end of August 2008, 1.5 billion roubles were allocated for urgent activities). With the regulation of financial and other flows, there had for a while been a total bureaucratic mess: the Ministries of Finance, Regional Development and Foreign Affairs could not sort out their responsibilities. The bureaucratic shuffles of this period resulted in the discharge of four coordinators of the programs of financial and economic aid to South Ossetia. Only in April 2009 did the bureaucratic machine appear to be finally decided. Until then, however, the Chamber of Accounts of the Russian Federation expressed its dissatisfaction with the disbursement of funds allocated in 2008.

The IDC developed a plan for the rehabilitation of housing and a total of 575 facilities in the sphere of utilities, communication, education, health, agriculture and transport. The Ministry of Regional Development created a so-called state unitary enterprise (SUE), named the "Southern Directorate," which will act as a client for the construction and reconstruction of facilities and infrastructure in South Ossetia. In 2009, the Russian government plans to allocate 8.5 billion roubles to South Ossetia, and another 3 billion is expected to come from off-budget sources.

The situation as of April 2009 may be summed up as follows:

- The issue of the delimitation of the Georgian-South Ossetian border remains unresolved;
- A major construction project will be launched at the dual-purpose military airfield in the villages of Achabet and Kekhvi (Cheh);
- In July 2009, the Republic of South Ossetia (RSO) plans to launch the operation a natural gas pipeline running in a straight line bypassing Georgia (Tbilisi shut off South Ossetia's access to Russian gas on August 12, 2008).

Control over financial flows to South Ossetia is the key to the stability of its domestic political system. The struggle for control over financial flows from various forces, both from the Russian and Ossetian sides, was critical for both the opponents of President Eduard Kokoity and the president himself. In the second half of 2008, Anatoly Barankevich, the former Secretary of the Security Council of South Ossetia, Moscow-based businessman Albert Jusoev (Gazprom's contractor for the gas pipeline project to South Ossetia), as well as former Prime Minister Yury Morozov were widely discussed in media as potential opponents to the president.

The South Ossetian president sacked the government for "failing to fulfil their duties" in the crisis period of August 2008. The formation of the new cabinet was

delayed until November 2008. The new government underwent significant restructuring: all committees were transformed into ministries, and the functions of some of them were reshaped. There were new faces on the new government, including people from North Ossetia and the Ulyanovsk region (Russia). A new supra-governmental body, the Presidium of the Government, came into existence. The members of the Presidium include the prime minister's deputies and some key ministers. Eduard Kokoity became the Chairman of the Presidium of the Government.

Formally, neither Barankevich nor Jussoev nor Morozov are running for any office in South Ossetia, and are not taking part in the campaign for the parliamentary election set for May 31, 2009. Four parties are running for the parliament (three of them are represented in the present parliament): "Unity" (the party of the parliamentary majority), the Communist Party, the People's Party and the Fydybasta ("Fatherland") Socialist Party.

However, there are some serious concerns. In particular, in early April 2009, the People's Party (reportedly backed by Albert Jussoev) had serious problems with registering for the election. A clone People's Party headed by Roland Kelekhsayev appeared on the scene. This is something new in the political life of South Ossetia; such technologies were not used in the past. To resolve the situation, the leadership of the People's Party even appealed to the Russian authorities. It is unclear what can be done, but it is obvious that Kokoity still has some insecurity about his influence in the domestic political arena, and it is possible that in future this feeling may grow.

In general, despite the many challenges and serious delays in the disbursement of funds, President Kokoity remains an effective lobbyist for his country in Moscow, at least in the eyes of the Russian leadership. In today's realities, this quality must not be underestimated. In addition, Kokoity, by and large, controls the situation in South Ossetia, which does not mean that he will not face opposition, for instance, in the future parliament, especially if the genuine and not the cloned People's Party is allowed to run in the upcoming parliamentary elections. On the whole, regardless of its outcome, the parliamentary election will almost certainly provide political stability to South Ossetia. This is partly explained by the absence of radical opposition sentiment, despite all the problems that still exist.

2. ABKHAZIA

2.1. External Actors and Conflict Resolution

Following Moscow's recognition of Kosovo's independence in February 2008, the secession of Abkhazia got a major boost. In March 2008, Russia officially lifted its economic and trade sanctions against Abkhazia, thus signalling a benevolent political course with regard to Abkhazia.

To demonstrate its flexibility in the negotiation process, at the NATO Bucharest Summit of April 2008, Georgia declared its readiness to provide the status of "unlimited autonomy" and "economic freedom" to Abkhazia. In response, Abkhaz President Sergei Bagapsh said, "we will only negotiate if Georgia signs a treaty on the non-use of force and non-resumption of war and if Georgian troops withdraw from the Kodori Valley. Only after that will Abkhazia be ready to establish relations with Georgia on an equal footing, as a neighbouring country." Sukhumi thus demanded that Tbilisi execute the 1994 Moscow Agreement in full.

In May, the EU made an attempt to revive the negotiating process. According to the Abkhaz leadership, they registered some changes in the attitude of Brussels towards the settlement of the conflict; there were even hints at the possibility of some collaboration between Abkhazia and the EU. Overall, however, the EU and US mediation (including the settlement plans drafted by Dieter Boden and Walter Steinmeier, which contained very significant "economic carrots" for Abkhazia) was seen in Sukhumi as purely "pro-Georgian" and divorced from reality.

Interestingly, the authorities of Abkhazia believe that they have already fulfilled the part of the Moscow Agreements relating to the Gali district, because the refugees have returned there. Georgia has withdrawn from the Moscow Agreements, and Sukhumi refuses to implement the part of the Agreements dealing with the remaining refugees, considering that this topic needs to be revisited in the framework of new negotiations. According to Sukhumi, in the 15 years since the end of the war, Georgia has not created proper preconditions for the return of all Georgian refugees, and the Abkhaz society is not ready to take that step.

2.2. Domestic Politics

The Abkhaz domestic political situation of 2008 is remarkable in that political groups have *de facto* and *de jure* aligned for the presidential elections due to be held in early 2010.

Alignment within the opposition can, generally, be considered complete; it ended up creating two blocs.

The first bloc consists of the veteran Aruaa Movement (“The Warriors”), the Forum of National Unity of Abkhazia (a social and political movement which has transformed into a party), and the marginal Social Democratic Party. The real leaders of this bloc are Vice-President Raul Khajimba and, in a veiled manner, Foreign Minister Sergei Shamba. The opposition-style rhetoric and actions of the vice president have recently become more pronounced: if infrequently, he criticizes the actions of the current administration. For example, Khajimba criticized the authorities for their handling of the issue of Abkhazian passports to residents of the Gali district, and of the Geneva negotiations. In addition, he has been involved in various opposition activities.

The second bloc comprises the Party of Economic Development of Abkhazia (“ERA”), a powerful and capable force led by businessman Beslan Butba, who has openly declared his presidential ambitions. Butba funds *Abaza*, the first ever non-state TV station in the territory of Abkhazia which started its broadcasts in late 2007 and remains the only television station to give the floor to opposition actors. Butba began active consultations with leaders of other political movements, and by early 2008, Beslan Butba and the leader of the People’s Party of Abkhazia (NPA), Jakob Lakoba, signed a cooperation agreement. According to Butba, the methods of governance used by Sergei Bagapsh are based on an outdated system of power, lack of transparency and corruption. Previously cautious in his criticism of the authorities, this time Butba stated in categorical terms that he did not accept the course chosen by the authorities and highlighted the need to get rid of the “(Soviet) regional committee management style” and to modernize the system of governance.

The leaders of the two blocs cooperate, and it is quite possible that they will put forward a single candidate for the election; this will chiefly depend on Khajimba. In fact, the future of all opposition forces seeking to dislodge the current head of Abkhazia largely depends on his decision. At the time of Russia’s recognition of Abkhazia, the domestic balance of power was clearly not in favour of the incumbent government. However, the recognition gave a boost to the popularity and credibility of the authorities, and the president’s rating has been growing steadily ever since.

The third bloc is the main pro-governmental force, the presidential party, “United Abkhazia.” Its chairman, Daur Tarba, has declared that “United Abkhazia” supports a strong presidential power that ensures compliance with the constitution and efficient governance. In addition, he expressed confidence that “the present government is able to solve the main issue in the post-war development of Abkhazia, its recognition as a subject of international law.” According to him, “the country’s leaders are able to do everything necessary to strengthen the international positions of

Abkhazia and ensure its further integration into the global political and economic space.” The two most powerful social and political movements of Abkhazia of 2000-2005 - “Aytaira” (“Renaissance”) that supported the current Prime Minister Alexander Ankvab in the previous election, and veteran “Amtsakhara” (“Beacon”), have, in essence, turned into government puppets. Since Sergei Bagapsh’s ascent to power, both organizations have proved to be virtually redundant.

In 2008, the political discourse in the country was revolving around the planned constitutional reform, which, inter alia, is expected to establish the following:

- Approval of the candidacy of prime minister by the Parliament;
- The President’s right to dissolve the Parliament in the event that the Parliament thrice rejects the President’s nominee for the post of prime minister;
- Vote of no confidence in the prime minister;
- The Constitutional Court endowed with the right to interpret laws;
- The Chamber of Accounts;
- The Ombudsperson’s Office;
- Deprivation of the Attorney General of the right of legislative initiative;
- A 5-year residency requirement for candidates running for the parliament and for vice presidential candidates.

The stumbling blocks were the president’s right to dissolve the parliament and the five-year residency requirement for elective offices. The opposition fought against these two innovations, and against the adoption of Russia’s controversial constitutional procedures. The authorities of Abkhazia, having learnt hard lessons from the previous presidential election, use a variety of honest and dishonest technologies applied in the past. One of the problems is that the Central Election Commission (CEC) of Abkhazia, in charge of preparing for the election, is collaborating with the CEC of Russia, the professional experience of which is ambiguous, to say the least.

3. NAGORNO-KARABAKH

3.1. External Actors and Conflict Resolution

The recognition of the independence of Albanian Kosovo by leading Western powers, and Russia’s recognition of Abkhazian and South Ossetian independence following the Five-Day War, became a powerful incentive for the population and leadership of Nagorno-Karabakh to further defend their *de facto* independence from Azerbaijan. In fact, Nagorno-Karabakh believes that the difference of the problem

of Kosovo Albanians from their own can be reduced to just three aspects: the bigger population of Kosovo; the *de facto* exclusion of the possibility of an effective military operation by Belgrade to reintegrate the province into Serbia; and the active participation of international organizations in statebuilding in the region. As for Abkhazia and especially South Ossetia, their recognition, as perceived by Nagorno-Karabakh, was a demonstration of Russia's capabilities to play in the South Caucasus by the "double standards" unleashed in the Balkans. Hence, the statements of the leaders of Western countries, on the one hand, and Russia, on the other, on the "uniqueness of the cases" of Kosovo, Abkhazia and South Ossetia, i.e. the hints that those cases cannot be regarded as precedents.

In this context, the widely-touted "Madrid principles" on the settlement of the Karabakh conflict, proposed by the OSCE Minsk Group, may turn out to be unacceptable, especially for Stepanakert. It remains unclear how long the internationally-mediated negotiations between Baku and Yerevan can continue, when Nagorno-Karabakh, i.e. *the* most interested party, has not been participating in them for 10 years already, whereas its international mandate to participate in the negotiations has not been cancelled by anyone.

The documents discussed in the framework of the mediating efforts of the OSCE do not indicate either any intent to achieve a sustainable peace process (in light of the guarantees by all parties to the conflict to refrain from using force) or any desire to follow their own decisions and documents adopted earlier. An example would be the failure to comply with the decisions of the OSCE Budapest summit on the negotiations between the conflicting parties, and not merely between recognized states; another example is the failure of Azerbaijan, Armenia and Nagorno-Karabakh to follow through on their agreement "On the strengthening of the ceasefire," which came into force back on February 6, 1995.

The Five-Day War, which happened before the November 2, 2008 signing of the Moscow Declaration, called into question the work of the OSCE Minsk Group because of complications in the US-Russian relations. New formats are currently being tested (including the Turkish-Armenian "football diplomacy"), but none of the parties to the conflict and none of the mediators have officially abandoned the internationally recognized format of negotiations within the OSCE. Following the war, Washington and Brussels made considerable efforts to maintain the upper hand in settling the Karabakh conflict.

The results of the Five-Day War have significantly reduced the likelihood of renewed hostilities in the conflict zone, as Azerbaijan's leadership witnessed that attempts of the former parent state (Georgia) to apply force to resolve its conflict

with the former rebel province (South Ossetia) may result in a military and political disaster.

The new leadership of Armenia remained committed to the foreign policy of the previous government and stated its willingness to settle the Karabakh conflict solely by peaceful means and to continue the negotiations within the OSCE Minsk Group on the basis of the Madrid proposals, while insisting on the need for full participation of Karabakh in this process.

In February 2008, Azerbaijan submitted a draft resolution to the UN, reflecting its position on the conflict over Nagorno-Karabakh. Tabled at the UN General Assembly in March, the resolution was adopted by a majority of 39 votes; however, the countries co-chairing the OSCE Minsk Group - the US, France and Russia - voted against it. Most UN member states, including all EU countries, did not support the resolution. Nevertheless, Azerbaijan tried to use this resolution as a basis for negotiations and made efforts to dissolve the Minsk Group format.

In 2008, the Presidents of Armenia and Azerbaijan, Serzh Sargsyan and Ilham Aliyev, met twice, on June 6 in St. Petersburg and on November 2 in Moscow. The Moscow meeting, held at the initiative of and brokered by the Russian President Medvedev, was a milestone in the Nagorno-Karabakh conflict. The meeting resulted in the signature of a declaration, providing for the continuation of negotiations on the Karabakh problem within the framework of the OSCE Minsk Group and for a political settlement of the conflict on the basis of the Madrid proposals. It underlined the importance of confidence-building measures.

On behalf of the presidents of Armenia and Azerbaijan, the foreign ministers of the two countries, continued the negotiations on resolving the conflict under the mediation of the OSCE Minsk Group. In 2008, the top diplomats of the two countries held seven meetings.

Azerbaijan's leadership continued declaring the possibility of resolving the conflict by military means. On December 4, 2008, the foreign ministers of the countries co-chairing the OSCE Minsk Group made a joint statement, emphasizing the importance of maintaining the positive trends that emerged as a result of the meetings between the Presidents of Armenia and Azerbaijan in Saint Petersburg and Moscow. The statement further emphasized that there is no alternative to the peaceful settlement. The 16th meeting of the Council of Foreign Ministers of OSCE, held in Helsinki on 4-5 December, adopted a statement concerning the peaceful settlement of the Nagorno-Karabakh conflict. In their statement, the foreign ministers of OSCE member states welcomed the Moscow Declaration and called for further negotiations within the OSCE Minsk Group and on the basis of the Madrid propos-

als. They called on the parties to initiate the elaboration of a peace agreement and to take concrete steps to strengthen the cease-fire. Armenia has been consistent in the neutralization of obstacles arising during the negotiation process, and in the continuation of the negotiations, in line with the spirit of the Moscow Declaration and the Declaration adopted in Helsinki.

To reduce the likelihood of possible resumption of the Karabakh conflict, it would be useful for both Armenia and Azerbaijan to stick to the quotas for heavy and assault weapons, established under the Treaty on Conventional Armed Forces in Europe (CFE). However, in light of the moratorium imposed by Moscow and the refusal of NATO member states to ratify the adapted CFE Treaty, the proposal may fail to find understanding among the key players.

In general, in the medium term, the probability of the settlement of the Karabakh conflict is low, if, indeed, the settlement is understood as the signing and execution of a series of legally binding, rather than declarative documents, especially without the participation of Stepanakert. The proof of this statement lies, first of all, in the confrontation between the two asymmetrical doctrines: the “deferred revenge” (Baku) and the “retention of territories” (Yerevan, Stepanakert). Furthermore, a number of other circumstances provide additional evidence.

Firs, as a result of the “Five-Day War” between Russia and Georgia, a most important geopolitical line in the region, the Batumi-Baku line, is now outside the control of Moscow. Part of another major geopolitical line, Tbilisi-Tabriz, passes through the area of the Karabakh conflict. Should they establish control over the zone of the Karabakh conflict through the deployment of their peacekeeping forces, the main rival actors from the outside – Russia, on the one hand, and the US and its partners, on the other - could take part of the Tbilisi-Tabriz line under their de facto control. In the event that Russian peacekeepers are deployed there, Moscow will continue its fight for the South Caucasus. In the event that Western peacekeepers appear in the conflict zone, Russia will gradually be forced out of the region. Presently, Moscow, Washington and Brussels have developed a balance of forces and capabilities in terms of their influence on the situation.

Second, the configuration prevailing in the conflict zone and around it reflects the existing military balance between Baku, on the one hand, and Yerevan and Stepanakert, on the other. One has to note that the military budget cannot serve as solid evidence of a tangible military advantage. Azerbaijan has to use its military budget to sustain its defence capacities in other directions from which potential threats may come, especially on the border with Iran and its fleet on the Caspian Sea. Azerbaijani naval forces cannot threaten the security of Nagorno-Karabakh, and Armenia

is blocking the threat from the western, Turkish, direction with support from its strategic ally, Russia. This allows Armenia to concentrate its forces and resources on the eastern, Azerbaijani, direction. In addition, the balance system includes the fortified line of defence of the Armenian troops in the conflict zone. Any withdrawal from this line will create military imbalance between the parties in conflict, which, according to Armenia, cannot be compensated by the deployment of international peacekeepers, especially if one takes into account that there is *a priori* distrust towards hypothetical peacekeepers among all the conflicting parties.

Third, the whole philosophy of Western and Russian policy towards the settlement is mainly reduced to unilateral pressure on Armenia and the weakening of its position at the negotiating table, because their logic is that Armenia must make concessions and withdraw its troops from the “security zone.” However, even if it gives its consent, or pretends to give its consent to concessions, Armenia cannot make them in reality for a number of very good reasons, among them the absolute uncertainty relating to the future status of Nagorno-Karabakh, and the dissatisfaction with the international guarantees with regards to its security, as well as the reluctance of Baku to make any concessions in future. On the one hand, Baku’s tough stance partly provokes systemic external pressure on Yerevan, but on the other hand, it is shaped by Western and Russian policy of pressurizing Armenia.

Fourthly, the OSCE Minsk Group is a balanced policy instrument for major foreign players, allowing them to keep the process under control. Real progress in the settlement of the Karabakh conflict is possible in the event that a new system of balance is built, which will have to be no less complicated than the one now in place. Balance is needed not only among the actual parties in conflict (Baku, Yerevan and Stepanakert), but also in the centre of each of the parties (internal balance). In addition, a new system of balances needs to emerge in the capitals of the countries neighbouring the South Caucasus: Russia, Turkey and Iran, as well as in Washington and Brussels, and on top of that, a system of balances between all the stakeholders. This can take quite some time, of course. Currently, the critical points of this future system of balances are located outside the region and linked to major global developments.

Finally, under the present circumstances, the mediators have done little to establish at least a minimum level of trust between the warring parties. In this situation, the co-chairs would be well-advised to switch to politics of “small steps” towards peace. For example, they may proceed with the implementation of the agreement between Azerbaijan, Armenia and Nagorno Karabakh “On the strengthening of the ceasefire.” This would help improve trust in the military field.

3.2. Domestic Politics

The domestic political life in Nagorno-Karabakh in 2008 may be summed up in one word: stagnation. Due to lack of funds, two important alternative sources of information on Nagorno-Karabakh closed down: the *Demo* newspaper and the *Karabakhopen* website.

Perhaps the most significant event in the socio-political life of Nagorno-Karabakh was the establishment of the Council on Foreign and Security Policy by a group of local public figures. Former Deputy Foreign Minister Masis Mailyan assumed the position of Council Chairperson. The Council will be preparing analytical notes, publishing comments and peer reviews. According to Mailyan, the Public Council will revitalize the functioning of official foreign policy bodies and ensure the involvement of civil society in shaping the country's foreign policy.

In 2008, the economy of Nagorno-Karabakh continued its progress from survival to development. In 2008, the gross domestic product (GDP) of Nagorno-Karabakh rose by 14.9 percent and the self-generated income increased by 22.8 percent. From January 1, 2009, the minimum average wage was set at 30,000 Armenian Drams (about \$75). For 2009, the projection for real economic growth rate was 14%, including growth of self-generated income by 15 percent.