



# Contemporary Caucasus Newsletter

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## A Message from the Executive Director

The realization in the early 1990s that the Caspian Sea basin still held enormous untapped reserves of oil and natural gas—despite decades of intensive Soviet exploitation—has fueled a drive by energy companies around the world to develop new extraction, pipeline and transport networks to bring these resources to the world market. Anticipating a future windfall of “petro dollars,” the two Caspian littoral states on whose territory the lion’s share of these reserves are located, Azerbaijan and Kazakhstan, have begun formulating ambitious, long-term plans to develop their economies and societies. As these plans have moved from the drawing board into the arenas of public policy and new public-private energy consortiums, they have emerged as primary factors influencing negotiations over the region’s complex political conflicts and ecological problems.

Our research theme for the 1997-1998 academic year, “The Politics of Energy and Ecology in the Caucasus and Caspian Littoral,” has focused on the relation between energy policies, ecological problems, and regional political dynamics in the contemporary Caucasus and Caspian basin. As the scramble for access to Caspian oil and gas has intensified, the region has been unexpectedly transformed into a fulcrum of geopolitical interaction. Both Russia and the United States have tried to influence the placement of pipeline routes in ways that complement each of these great powers’ perceived national security interests. The United States, for instance, has with some success steered companies and regional governments away from consideration of pipeline routes running through Iran. At the same time, the growing interest of Japan, Russia, the United States, and Western Europe in Azerbaijani oil has further complicated negotiations to resolve the dispute between Armenia and Azerbaijan over Nagorno-Karabakh, and between Georgia and Russia over Abkhazia. Finally, the conflict in Chechnya has undermined the Russian government’s capacity to realize its policy goal of making sure that pipeline routes for Caspian oil and gas run through Russian territory. The geography of regional resource endowments and potential trade routes thus intersects in complex ways with the ethnic diversity and lingering political conflicts of the region.

All of these developments are unfolding against a backdrop of deepening ecological problems. The Black Sea is currently experiencing an unprecedented ecological catastrophe, a fact that has strengthened Turkish opposition to increased shipping of oil by tanker through the heavily traveled Bosphorus Straits linking the Black and Mediterranean Seas. In Azerbaijan, the legacy of Soviet oil production has saddled that country with a number of lingering ecological problems which cast a shadow over plans for the intensified extraction of oil and gas on its territory. And the unresolved legal status of the Caspian seabed in international law has generated a host of regional tensions over rights to Caspian oil between states bordering the sea, underscoring the powerful effect of uneven resource endowments on both regional political conflicts and geopolitical dynamics.

Thus, on the eve of the millennium, the Caucasus and Caspian littoral have emerged as one of the globe’s key regions. Indeed, the outcome of current struggles to influence

egional energy policies will shape the long-term prospects for energy, ecological and political stability on a global level for decades to come. For all these reasons, we believe that this year's research theme has been particularly timely and important. Reflecting this focus, our Program's spring calendar featured a diverse selection of talks on energy, politics and society in the postcommunist Caucasus and Caspian littoral. Summaries of some of these talks are presented in this issue.

Beyond our ongoing sponsorship of the Caucasus speakers series, graduate student research, and visits of regional scholars to Berkeley, our Program on the Contemporary Caucasus and Caspian Littoral is now publishing a series of research articles and reports on the region. Earlier this year, we published a Working Paper entitled "Causes and Visions of Conflict in Abkhazia" by Dr. Ghia Nodia. Dr. Nodia is Chairman of the Board of the Caucasian Institute for Peace, Democracy, and Development in Tbilisi, and was our first Caucasus Visiting Scholar. Prior to this, we published a Conference Report on our second annual Caucasus Conference, held in May 1997 in Berkeley on the theme "Institutions, Identity, and Ethnic Conflict: International Experience and Its Implications for the Caucasus." Both of these publications are currently available. Later this year, we will publish a Working Paper by Dr. Levon Abrahamian of Yerevan State University, who served as our second Caucasus Visiting Scholar in the Fall of 1997; as well as a report on our most recent Caucasus Conference, held in Berkeley on May 16 of this year on the theme of "The Geopolitics of Oil, Gas, and Ecology in the Caucasus and the Caspian Sea." Finally, we have arranged for Dr. Leila Alieva, the former Director General of the Center for Strategic and International Studies in Baku and currently the National Coordinator of the United Nation's National Human Development Report for Azerbaijan, to serve as our third Caucasus Visiting Scholar in the fall of this year. Next year, Dr. Alieva will contribute an article on postcommunist Azerbaijan for our Working Paper Series.

You can subscribe to our quarterly Caucasus calendar, sent out over the internet, by e-mailing the Program at [bsp@socrates.berkeley.edu](mailto:bsp@socrates.berkeley.edu). Please include your own e-mail address and a short description of your current position and interests in the region. If you would like us to publicize a Caucasus-related event on our quarterly calendar, please e-mail the above address with details. Our quarterly calendar now goes out to over a hundred scholars around the world. For more information about the program, including an archived copy of our calendar, please check our Caucasus website <http://socrates.berkeley.edu/~bsp/caucasus/caucprog.html>.

Marc Garcelon  
Executive Director

# US Policy and the Caucasus

Elizabeth Sherwood-Randall

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Contrary to a common interpretation, United States policy towards the Caucasus has never been conceived by American policy makers in terms of a zero-sum game between Russia and the United States. I will demonstrate today how misconceived this perception is by examining the broader context of U.S. policy in the post-communist Caucasus, reviewing the process of U. S. policy formulation toward the region, and outlining the ways in which the United States became engaged in regional security and defense relationships.

In the wake of the Soviet collapse in 1991, the United States developed working guidelines for dealing with the Soviet successor states. These included recognition of the states as independent and viable entities, support for their transition to market economies and democratic societies, facilitation of their integration into international institutions, and encouragement of regional cooperative arrangements. The United States was the first Western government to set up embassies in all fifteen of the newly independent states, and the first to legislate funding support for transition processes. Indeed, the Freedom Support Act and other strategic aid plans were enacted as early as 1992, but a preoccupation with the four “nuclear successor states” (Russia, Ukraine, Kazakhstan and Belarus) prevented the Caucasus and Central Asian states from getting much serious attention until 1994. In addition to our preoccupation with reducing the number of post-Soviet nuclear states from four to one, there were additional reasons for the slow development of a robust regional policy. The United States lacked a clear understanding of the new ruling parties in each country, for instance, and a number of unpredictable armed conflicts continued to unsettle the region. It was also unclear as to how to deal equitably with Armenia and Azerbaijan, given the interests and influence of the Armenian diaspora in the United States.

I was hired in 1994 by the Department of Defense to establish and facilitate ties between the military establishments of the United States and the new republics. This was a time when U.S. policy began to move beyond its initial stance of merely watching, listening and learning. From 1994, a coherent Caucasus policy began to emerge, a policy that would help the new republics and American interests to face future challenges. In the immediate period following independence, Russia remained the primary external power around which the

new republics built their foreign policies. By the mid-nineties, there was a growing recognition in the Department of Defense that it was desirable to supplant the primacy of regional ties to Russia with other unilateral and multilateral relations. Russian intervention in Abkhazia, as well as the Russian invasion of Chechnya, were also a cause for concern in this regard. The principles guiding American policy in easing regional dependence on Russia were: support of democratization, economic market reform and human rights; integration into the European community of states; support of stabilization; removal of weapons of mass destruction and nuclear materials; and the advancement of American business interests in the region.

The importance of Transcaucasian oil in driving American policy has been exaggerated. From the perspective of the Department of Defense, the biggest concern was with the role of the new post-Soviet military establishments in the Caucasian republics. These establishments were viewed largely as obstacles to the types of reforms we desired. In the revolutionary period of 1991-1992, large blocks of military hardware and manpower were transferred more or less intact from the disintegrating Soviet command structure to the emerging command structure of the new states. Our information both about these transfers, and about the internal politics of these “new” national militaries, remained extremely limited. The United States was interested in facilitating the eventual reform of these military structures in ways that would buttress rather than undermine emerging democratic systems, as well as ensure greater regional peace and stability. We tried to develop and strengthen bilateral, multilateral, and regional security alliances towards this end.

The greatest progress in developing bilateral relations between the new Caucasian states and the United States has been with Georgia. But despite President Shevardnadze’s progress in overall democratization, the Defense Ministry—led by the former Soviet General Nadibaidze—has remained unreconstructed. The ability of this Ministry to maintain a large, unreformed military force and the continuing presence of Russian military bases in the country has had tragic consequences for Georgian sovereignty. In the face of continuing Russian involvement in the Abkhaz conflict and the presence of 12,000 Russian ground troops and 4,000 border guards on

or near Georgian soil, Shevardnadze has found it difficult to initiate reforms in the military sector. Tensions between Russia and Georgia over the Abkhaz situation have, however, shown recent signs of a thaw, apparently precipitated by economic considerations on the side of the Russians. In January of 1998, for instance, Russia indicated some interest in abandoning some of its bases in Georgia.

Georgian-U.S. relations continue to evolve in a fruitful way. In 1997, the first high level talks were held between the defense ministries of the two countries, and Secretary of Defense Cohen has officially invited his counterpart to the United States for a visit in March 1998. Aid is forthcoming in the forms of border patrol training, two Coast Guard boats, humanitarian aid, and joint National Guard training based in the (American) state of Georgia.

Relations with Armenia and Azerbaijan remain at a very different level, hampered by the impasse over the Nagorno-Karabakh conflict. Although "security dialogues" are held regularly between the U.S. Department of State and these two nations, recent years have seen little progress toward the development of more sustained military cooperation between the defense establishments of the United States and those of Armenia and Azerbaijan. The defense ministries of these states appear to be highly resistant to reform and restructuring, though there has been some progress in developing bilateral cooperation on limiting the smuggling of loose nuclear material and drugs.

On the whole, more progress has been made on the multilateral front. Three organizations may yet play significant roles in improving multilateral relations. The United Nations has been intermittently important in mediating the Abkhazian conflict, and 150 UN officials remain in place, keeping an eye on the "CIS" peacekeeping force. Georgia has requested more of this attention, but the UN and United States have been unable to authorize this on fiscal grounds. And the OSCE (formerly CSCE) has attempted to deal with the Karabakh conflict. A chicken and egg situation exists here because of the absence of an OSCE peacekeeping force, despite the willingness of the Pentagon to help with this plan. Military planners on all sides are unwilling and unable to begin implementing an agreement without this structure in place.

Finally, the Partnership for Peace program has sought to link NATO's interest in military reform with the military establishments of Georgia, Armenia and Azerbaijan. Naturally, these unprecedented collaborations between former Soviet military structures and NATO interests have taken some time to take hold. Last summer saw the first NATO organized training exercise in Central Asia. Participants included Uzbekistan, Kyrgyzstan, Turkey, Georgia and Russia. Azerbaijan has recently signed on for future projects, while Armenia remains uncommitted.

At the regional level, prospects also appear to be assuming some unprecedented qualities. Peacekeeping battalions were recently trained in a multi-purpose alliance known as GUAM (Georgia, Ukraine, Azerbaijan and Moldova). Alliances such as these are encouraging because they are predicated on collaboration rather than conflict, and are similar to recent agreements between both Baltic and Scandinavian states, and Ukraine and Poland. It is regrettable that Armenia remains relatively isolated from these developments.

The costs to the American taxpayer of developing the policies I have outlined today have been well worth it. In particular, the cooperative threat reduction program has effectively consolidated Russian control over the nuclear weapons of the former Soviet Union, successfully reducing the number of nuclear states in the region to one. On the other hand, the Administration has been hampered in its policies toward Armenia and Azerbaijan, as the Armenian-American lobby in Congress has effectively prevented Congress from lifting the ban on even small restrictions of aid and investment in Azerbaijan until the blockade of Nagorno-Karabakh is lifted. In order to maintain a semblance of even-handedness in the region, the Administration has therefore felt compelled to withhold similar aid to Armenia. All of this underscores the fact that interpretations of American policy toward the Caucasus which assume that policy makers are solely preoccupied with the strategic value of Caspian oil and a purported zero-sum game with Russia for regional influence are simplistic. Indeed, the U.S. government is keenly aware of the fact that the geostrategic importance and economic potential of the Caucasus warrant a deeper and more sophisticated regional approach and policy.

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# Possible Solutions for the Nagorno-Karabakh Conflict: A Strategic Perspective

Armen Aivazian

*Armen Aivazian is a Visiting Fulbright Scholar at the Center for Russian and East European Studies, Stanford University. Dr. Aivazian condensed the observations of his forthcoming book-length study on the prospects of a negotiated peace in Nagorno-Karabakh in a talk given at UC Berkeley on February 25, 1998.*

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The failure to attain peace in Nagorno-Karabakh can be understood through a proper examination of the nature of the conflict and the failure of the sponsors of the Organization for Security and Cooperation in Europe (OSCE)-organized “Minsk Group” negotiations on Karabakh to realistically assess what is possible. The continuing stalemate justifies consideration of an alternative solution to those currently being promoted; a solution which, in fact, has a better chance of success.

Professional diplomats have spent the better part of the last decade trying to mediate this conflict. Many have resigned after continual failures to fundamentally grasp key factors. The predominant perception that the Karabakh issue is primarily ideological—an expression of bottled-up nationalism or ethnic psychology—is an erroneous one, as the conflict is more a product of long-term geostrategic dynamics. The OSCE has dealt with the conflict only at a superstructural level, confining itself to the narrowest frame, only dealing with the tip of an iceberg. There are two strategic levels of political power that need to be considered in formulating a possible framework for negotiating a settlement of the conflict: the level of the local, immediate parties, and the geopolitical level of the influence of great powers such as Russia and the United States on the region.

At the local level, we need to consider the positions of Armenia, Azerbaijan, Turkey, and Nagorno-Karabakh. Azerbaijan’s current strategic priorities today include finding a transport route for Azeri oil that bypasses Russia, and strengthening the security position of Nakhichevan, the small Azeri enclave squeezed between Turkey and southwest Armenia, which was created by the Soviet regime. Turkey is busy strengthening its influence in the region by deepening its economic and military support of the five republics of the former Soviet Union that speak Turkic languages (Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan). Like Azerbaijan, Turkey would like to see a further diminishing of

Russian power and influence in the region, as well as a reduction of the Armenian wedge between itself and Azerbaijan. These geopolitics place Armenia in a pincer between Turkey on one side and Azerbaijan on the other, forcing Armenia to lean toward Russia as a strategic counterweight. Armenia has managed to withstand the challenge of this extremely adverse strategic environment, though it continues to feel that its very survival remains at stake.

For Nagorno-Karabakh, two pivotal considerations stand-out. The first is the welfare of its indigenous Armenian population. The second is the maintenance of geographical access to Sumic, the southern portion of Armenia which runs parallel to Karabakh. The security of Sumic is also vital to the survival of the Armenian nation, as it is the only outlet to the south. The Soviet borders created in 1920 and 1921 ensured that Armenia could have no economic viability. Sumic is too small (50 km at some points) to have any strategic depth; it is indefensible, and its entire area can easily be bombed. With Nakhichevan forming a western strategic enclave for Azerbaijan on Armenia’s southwest flank, and the contested buffer of Azeri territory currently held by Armenian forces between Karabakh and Armenia to Sumic’s east, Sumic stands as the critical weak link in Armenia’s geostrategic position.

Given these strategic realities, what is often branded as Armenian irrationality makes more sense, especially when one considers that Azerbaijan refuses to negotiate directly with the Karabakh Armenians and that Turkey refuses to establish diplomatic relations with Armenia itself. This lack of recognition is one element of Turkey’s policy of maintaining the Azeri and Turkish economic blockade of Armenia, a blockade which has resulted in the exodus of 700,000 Armenians from Armenia. Equally troubling from the Armenian point of view is Turkey’s unsubstantiated allegations that Armenia is supporting the Kurdish guerrilla opposition group, the PKK, in its campaign to create an independent Kurdistan in eastern Tur-



key. Together with the Nagorno-Karabakh dispute, these allegations may provide a justification for future Turkish claims against the independent Armenian nation. While the de facto Turkish-Azeri military and political alliance is not particularly very visible on the global stage, bilateral military maneuvers between Azerbaijan and Turkey in 1996 were no secret.

All of this is better understood if it is viewed through the lens of the Armenian and Turkish perspective, both of whom view the current situation as an organic continuation of past history. For the world, the genocidal events of 1894-1923, and the conflict over Nagorno-Karabakh, are separate events. But this is not true for the Armenians. For Armenia, this historical continuum has moral and strategic value. An analogy would be the existence of a German state on Israel's border that was threatening to teach modern Israel "another lesson." The historical precedent of the Holocaust would be relevant in any analysis that would follow such a situation, as consideration of the Armenian view of possible Turkish actions must be considered today.

But acknowledgment of these political realities are absent in the reasoning of the Minsk Group, which has three major shortcomings: 1) the worldviews and strategic concerns of the combatants are ignored; 2) Armenia fails to clearly state and face its true concerns; and 3) Turkey is not identified as a party to the conflict, but rather, as a "mediating" party. Not surprisingly, plans envisioned in this politically naive form have major structural flaws. A two-stage process in which Armenian forces occupying Azeri regions are withdrawn, and then the blockade is lifted, understandably leaves Armenians completely distrustful. No peacekeeping force from outside can reasonably be counted on to keep such an agreement in place. Far from NATO's orbit, Armenia is much more susceptible to the unpredictable vagaries of its unstable neighbors: Russia, Iran, China. Peacekeeping forces as they are defined today cannot be counted on to provide the length of service that may be necessary for a conflict that has existed for a century. Indeed, economic considerations alone preclude the viability of a serious peacekeeping force (PKF), as a one-year PKF for Nagorno-Karabakh could cost some \$300 million, while the most recent Minsk plan budgets only \$30 million for the PKF for the duration of its entire mission. Furthermore, PKF functions, as defined at the Helsinki Summit, dictate that they can never be used as a substitute for a negotiated agreement and should be terminated as soon as possible.

The Minsk proposal can be viewed only as a short-

term anesthetic, which does nothing for the cure of the central problem. The small size (4200 troops plus 200 observers maximum) of the PKF as currently envisioned, its inability to take enforcement action, and a command structure that will rotate among the member countries constitute a recipe for disaster. A much more promising compromise calls for a radically different approach, three of which I will outline:

1.) Nagorno-Karabakh is internationally recognized as an independent state. Armenian troops may remain there. Given current geostrategic realities, this plan has no chance of success.

2.) A territorial swap in which Armenian claims on Karabakh are released in exchange for Armenian annexation of Nakhichevan. The enormous upheaval and resettlement of peoples entailed in this plan, together with the world community's hostility toward redrawing borders, makes this plan unrealistic as well.

3.) Armenian territorial concessions to Azerbaijan are compensated for by the retention of an autonomous Karabakh defense force. Armenia withdraws to its internationally recognized borders, and abandons support for Karabakh's independence. The political, military and legal agreements needed to keep this agreement in force require the creation of an Armenian, Russian and American tripartite security alliance ensuring Armenian security. At the same time, Turkey, Armenia and Azerbaijan conclude a series of bilateral territorial agreements. Karabakh can then become an autonomous part of Azerbaijan, with its own republican government and flag. Dual citizenship becomes available to its residents. Armenian troops are withdrawn.

The most pivotal point in turning this last plan into a working possibility is the entry of the United States into regional security arrangements. This is necessary because Armenia's only ally, Russia, will not be able to provide security in the near future and could even lose its will in the region if events in Chechnya or oil geopolitics take certain turns. Nevertheless, reliance on the United States alone in this formula is also not desirable; a sharing of this opportunity by the two allies is what commands the most hope. A likely scenario for this security umbrella would have the United States providing logistical support, and Russia military support. This strengthening of the American linkage to Armenia will effect a balancing of power in the post-hegemonic world order and stabilize the situation in the Caucasus.

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from the  
working paper series

# Causes and Visions of Conflict in Abkhazia

By Ghia Nodia

**Now Available**

**Ghia Nodia** was the BPS Caucasus Visiting Scholar during the 1997-1998 academic year and is currently the Chairman of the Board at the Caucasian Institute of Peace, Democracy, and Development in Tbilisi. He conducted a seminar at UC Berkeley entitled “Nationalism, Ethnopolitics, and Ethnic Conflict”.

*Editors: Edward W. Walker, Alexandra Wood, Aleksandra (Sasha) Radovich*

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# Change and Continuity in Armenia Today

Gerard Libaridian

*Dr. Gerard Libaridian was a Senior Advisor to the former President of Armenia, Levon Ter-Petrosian, from 1991 to 1997. He is the author of two edited volumes and many published articles on Armenia, the Near East, and the Caucasus, and has served as editor of the Armenian Review (1983-1988). Dr. Libaridian was founder and Director of the Zoryan Institute for Contemporary Armenian research and documentation in Cambridge, Massachusetts from 1982 to 1990. He holds a doctorate in history from UCLA. In his capacity as a Senior Advisor to President Ter-Petrosian, Dr. Libaridian worked on the negotiations for the Nagorno-Karabakh conflict, as well as on a broad range of domestic issues. He shared his insights from those six years in a talk given at Berkeley on March 5, 1998.*

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## *Democratization and economic reform*

I was first invited to Armenia by President Levon Ter-Petrosian in 1991. Initially, I was asked to help establish systems by which the new Parliament could effectively research and analyze the needs of their constituencies. This is a basic problem of democracy, and in organizing this information flow I would, of course, have to take account of the particularities of the Armenian situation. Accordingly, I spent considerable time in my first months on the job interviewing Armenia's new parliamentarians, learning much about the ways politically active citizens in post-communist Armenia thought. In one case, a head of the Commission on Local Self-Government suggested that the most effective way to organize this information flow would be to create a computer network extending throughout the country and centralized under a command post in Yerevan. Such formulaic approaches (with computers replacing Marxism-Leninism) drove home the extent to which people continued to think and act in ways shaped by the world of the Soviet past.

All of this holds an often over-looked lesson for those wishing to assess democratization processes in newly independent nations. During my tenure, for instance, Armenia's democratic and economic reforms were the principal concern of the international community, and especially the United States. In Washington, one often encounters an American image of what democracy should look like, and just as often encounters criticism in the American capital when a new version of democracy doesn't fit this image. We should keep in mind, however, that such criticism is framed in relation to an idealized model abstracted from American conditions, while actual democracies around the world have developed quite differently, in relation to their own traditions and experiences. This is certainly true for post-communist Armenia.

Armenia's electoral law, which many experts found

to be wanting after the parliamentary elections of 1995, stands as a typical example of conflicting views of the democratic process. In the wake of the elections, Armenians themselves recognized the need to re-examine the law and the way it had been implemented, and foreign experts were

invited to Armenia to contribute to the review process. In the end, an agreement was reached. Of the ten major objections to the law, nine were implemented. The single exception was the issue of allowing NGO representatives at the polling places. The Parliamentary Commission created to review the electoral law noted that candidate representatives, party repre-

sentatives, newspapermen, and international observers were already allowed to monitor the polls, and concluded that additional representatives were unnecessary. For its disagreement with this one outside recommendation, Armenia was nevertheless criticized.

During the same period, the operation of Armenia's Central Election Commission, which certifies election results, served as a second focus of outside criticism of democratic reforms in Armenia. As originally written, the law mandated that the Commission be composed proportionally, reproducing in its membership the ratio of parties represented in Parliament. President Ter-Petrosian thought that this would generate serious problems. When a party lost, so he reasoned, party loyalties among Commission members from the defeated party were likely to supersede these members' commitment to the integrity of the electoral outcome. The Americans disagreed with his position. The alternative suggested by Ter-Petrosian was in fact weak, as it presupposed the appointment of politically neutral individuals resistant to political pressure. In the Armenia of the mid-1990s, such individuals were difficult to





find, and they remain difficult to find in today's Armenia. Given the lack of potential appointees who could appear both independent and credible to the public, there really isn't a workable solution to this problem at the present time.

So how does one assess the seven years of Armenian independence and her attempt to democratize? In making such an assessment, one should look beyond the Western democracies for criteria of progress, to the most relevant comparisons, namely, the equivalent processes in Azerbaijan, Georgia, and the other newly independent republics of the former Soviet Union. How has democratization progressed in these republics? National movements were already present in Armenia and Georgia at the time of the Soviet collapse. This was not the case in the Central Asian republics. Where there were national movements, one finds different degrees of rootedness in nationalist ideology or demands for democracy. From the Baltic to the Caucasus, these factors differed widely. In a number of newly independent states, extreme nationalism slowed down democracy. The Gamsakhurdia regime in Georgia and, to some extent, the Elchibey government in Azerbaijan, stand as examples of this negative effect. In Armenia, the movement had national goals, but was not nationalistic. Ironically, what's going on now in Armenia represents a reversal of what happened in Georgia and Azerbaijan, where nationalistic ideologies initially dominated but then declined in importance in the wake of their practical failings. The civil wars and antagonisms generated by extreme nationalism in these republics led in the end to more openness to democracy, particularly in Georgia.

Moreover, the legacy of the Communist Party needs to be taken into consideration. The majority of people in the newly independent states do not associate themselves with any party, and tend to distrust parties and party leaders of whatever political stripe. Indeed, few parties in these states have done well enough to gain and consolidate a working electoral majority, and this trend is likely to continue for the foreseeable future. Though this might be healthy to some extent, it also makes political communication difficult. Even if a would-be politician tries to be honest, people tend to focus on everything else besides what he or she is actually saying, assuming that political declarations are always just cynical, opportunist maneuvers. This cynical predisposition toward politics in general in turn generates and reinforces political apathy.

The problem of generalized political cynicism and apathy is compounded by the fact that electoral processes in the newly independent states remain at best only partially legitimate in the eyes of the people. Though authorities may gain a certain legitimacy if they are elected, this legitimacy only follows to the extent that the integrity of the elections themselves are not widely disputed. All of this is further complicated by the continuing domination of personalities over issues in politics, which harms democratization insofar as it leads away from a public focus on clearly articulated positions and programs. In Armenia's last presidential election, for instance, little was said about a whole range of pressing

issues, beyond the opposition's claim that it would simply do a better job against corruption and in unifying the people politically. Concrete programs advancing social reform were notably absent from the scene. At best, the politics of personality were from time to time supplemented by claims that the wages of state sector employees would be raised if so-and-so were elected. Sometimes, the promised raise would be five-fold, and at other times even ten-fold. It was never clear where the money would come from.

The Armenian presidential elections of September 1996 were marked by some degree of fraud on all sides. The Supreme Court found several hundred fraudulent votes. It is unknown either if larger-scale fraud took place, or if these irregularities changed the outcome of the election. Whatever the actual extent of this fraud, the appearance of fraud certainly did not help legitimate elected authorities. The negative impact of such perceptions may have been further compounded by the use of tanks to quell the subsequent street unrest protesting fraud, though the decision to use tanks was a judgment call and it is difficult for me to say it was entirely wrong. After all, the opposition at this time wanted to repeat its earlier attack on parliament and the presidential palace. Ter-Petrosian had a strong aversion to civil strife and violence, and felt that stability would be best preserved through an initially strong show of force.

How should one address Ter-Petrosian's tenure in office? First of all, we should recognize that Ter-Petrosian's policies coupled economic reforms with democratization. The economic reforms were very radical, bordering on shock therapy. They created unemployment and lowered living standards. The middle class collapsed and the poverty rate quickly reached between 70% and 80%. When combined with the effects of the war and the blockade, independence and the new democratic ideals lost much of their appeal to the common man. Questioning of the government is standard in such conditions, and the cynicism and apathy that comes with it weakened the government's legitimacy and ability to pursue its policies.

On the other hand, the process of democratization developed fairly smoothly for a while, particularly in the arena of institution-building. Nevertheless, the social fabric of Armenian society was simply too frayed at this time to allow these new institutions to function well. Armenia's judiciary, for instance, can not be described as independent at all levels. Fifteen or twenty years of lawyers practicing in a new way are needed for this to come about. New judges need to be trained and paid well enough to keep them from becoming corrupt. Similarly, if law enforcement personnel and professors are not paid enough they will naturally continue the venerable tradition of corruption. Ter-Petrosian saw this problem in economic rather than moral terms, believing that corruption could be avoided if the economy was improved enough to pay civil servants decently. The alternative view casts corruption strictly as a moral issue, i.e., people who become corrupt are bad people. An extreme solution that follows from this exclusively

moral view of corruption — a solution called for from time to time by certain politicians — is the shooting of corrupt civil servants in the town square as a means of frightening the civil service as a whole into honest behavior. We all know the dangers that lie down this road.

To the credit of the Ter-Petrosian administration, organized crime in Armenia is not as bad as in the other countries of the former Soviet Union. Gangland murders have decreased, and the impact of organized crime on society at large has diminished. Cronyism exists — indeed ministers frequently have relatives that are heads of large industrial concerns — though its extent is less than in most of the newly independent republics.

In the end, concerns over economic conditions, corruption, organized crime, and cronyism did not figure prominently in Ter-Petrosian's fall from the presidency. The reasons for his fall lie elsewhere, in his strategy for resolving the Karabakh conflict, for opposition to this strategy ultimately led to his resignation.

### ***The Presidential Resignation, Karabakh and the Burden of History***

Was Ter-Petrosian's resignation in fact a constitutional act—a part of the democratic process? The opposition has publicly argued that this is the case. There were choices to be made, and the President chose to resign, following a normal course of constitutional legality. But Ter-Petrosian has maintained that it was in fact impossible to exercise his constitutional powers, for if he had tried to do so, he would have likely destabilized the entire country.

The resignation itself arose out of an internal conflict in the government. It is probable that the President requested his Prime Minister and Defense Minister to resign, and that they refused to do so. Given such a scenario, Ter-Petrosian then had the option of either forcing their resignation, or of admitting defeat and resigning himself. He chose the latter option in order to preserve an air of constitutionality. But in fact this was not so different from what happened in Turkey recently when the military effectively forced the elected Islamic government to resign.

Paradoxically, then, the conventional opposition—the communists and extreme nationalists—did not bring Ter-Petrosian down. Recall that in 1992 Armenia was convulsed by a similar crisis, a crisis occasioned by Ter-Petrosian's refusal to recognize the declaration of independence issued by Karabakh. At that time, the communists and extreme nationalists seized on this refusal as a major transgression, leading the call for the President's resignation. They failed, however, in their attempt to bring him down. But this March, Ter-Petrosian elected to step down rather than risk the prospect of greater destabilization.

Of course, there were other problems with his administration. Ter-Petrosian was perhaps too tolerant of the lack of discipline among some of his friends and allies, largely due

to a sense of loyalty to them and the expectation that they shared his vision of Armenia's future. He allowed them a great deal of latitude with their criticisms, and tended to project his own values onto those that he trusted. For him, greater power meant greater responsibility, and he felt a corresponding sense of accountability. But others operate in an opposite fashion—the more power they have, the greater their arrogance can become. Many ministers and vice-ministers went in this direction.

The effect of Karabakh on Ter-Petrosian's administration underscores an important consideration in assessing an emerging democracy. Where the processes of democratization and economic reform unfold in the shadow of an overarching and highly complex national issue, these processes are constrained and complicated by immediate strategic considerations and deeply felt national sentiments. Explaining the relationship between Karabakh and all of the other issues facing Armenia to the Armenian people is where Ter-Petrosian ultimately failed. Although his views on Karabakh had been made public before, the logic of the argument he presented to the people in favor of a compromise over Karabakh on September 26, 1997, was new. On this day, Ter-Petrosian stated that without such a compromise, there could be no economic reform or prosperity, and Armenia would be left behind the rest of the region. By substantially changing the nature of the debate—moving from discussion of specifics of how to resolve the Karabakh conflict, either in a step by step manner or in a “package deal”—he wanted to squarely face a painful question, a question which Armenians hitherto tended to avoid asking themselves. This, of course, is the question of the relation between Armenia's current economic plight and the impasse over Karabakh. Ter-Petrosian posed the question bluntly: were the Karabakh conflict and the ensuing blockades by Turkey and Azerbaijan not in fact the reasons why it had been impossible for Armenia to achieve substantive improvements in the lives of its people since independence?

Ter-Petrosian staked his presidency on the proposition that the answer to this question had to be yes. He agreed with the opposition and (then Prime Minister) Kocharian that, indeed, corruption could be reduced, efficiency could be greater, and that more could be done to bring in foreign investment, and that these things could produce some change. But Ter-Petrosian argued that the continuing state of no war and no peace severely limits real communication and economic integration with the rest of the world. Moreover, absent an open railroad into Turkey, it would prove impossible to attract sufficient investment to Armenia to make a qualitative difference in people's lives. After all, Armenia has been largely trading with Iran since independence and this trade consists primarily of importing Iranian manufactured goods. By itself, such trade cannot generate significant economic growth. The juxtaposition of the Caspian oil boom and Armenia's entanglement with the Karabakh conflict thus raises the grim prospect of Armenia being left out and left behind as the region develops. With this logic, Ter-Petrosian tried to illuminate the difference be-

tween accepting what you need for security today, thereby opening up Armenia to the rest of the region and the world, and what you would like to have and are willing to wait a decade or longer for. These arguments, however, were posed to the population in a rather sudden fashion, creating a window of opportunity for opponents of the President's strategic vision to act.

Then-Prime Minister Kocharian and others in the government didn't share Ter-Petrosian's analysis of the reasons for the failure to bring substantive economic change to Armenia between 1992 and 1997. Disavowing a linkage between Karabakh and the internal workings of the state, they maintained that Ter-Petrosian was unable to deal with the opposition, to lure in diaspora resources, and to convince the world of the justice of the cause of independence for Karabakh. Instead, they claimed that initiatives could be taken domestically to produce wealth and bring in investment to make a qualitative change in the standard of living. Moreover, the likely reason that Ter-Petrosian appointed Kocharian as Prime Minister in the first place was to test these claims. After ten or eleven months, some marginal improvements occurred, but not enough to change Armenia's long-term economic outlook. Kocharian then faced a question: had he been wrong? Ultimately, he decided that the problem lay, not with his program, but with insufficient power to implement his program. This has happened before with other leaders, and does not bode well for democratic principles in Armenia's near-term future.

The nature of the Karabakh situation has led Kocharian, the Defense Minister, and others to start thinking of themselves as historical figures. Until two years ago, the Defense Minister thought that he had done his (military) job, and that it was now the politicians' job to bring peace. More recently, the leadership has started thinking more expansively. Specifically, Karabakh has evolved in the minds of the current Armenian leaders from the problem of how best to secure the human, economic, and administrative rights of the 150,000 Armenian people living in Karabakh, into a much greater issue for the Armenian nation as a whole. In this way, the burden of history and genocide has entered the formula. Having finally won on the battlefield, Armenians have begun to think about how best to consolidate their victory in the larger terms of Armenian history. They have invested so much into the conflict that it is becoming impossible to resolve.

The recent evolution of Karabakh policy in Armenia illustrates the difference between national and nationalist movements. The quest for Karabakh is a national Armenian cause, but if you add a grand vision of Armenia to this, this cause takes on an ideological and nationalistic cast. The people who happen to be in Karabakh become incidental to the vision. Karabakh becomes an ultimate test of loyalties, of responsibility to history and the future. All else becomes subject to this test—relations with your neighbors, and ultimately your very independence. This is nationalism in the full sense of the term.

The importance of the nationalist Dashnak movement

has been exaggerated, but its presence in contemporary Armenian politics is indicative of what is happening. Although the Dashnak political party had been banned because of its control by outsiders and its willingness to use violence, Kocharian has brought it back as a political act intended to demonstrate Armenian unity. Probably this was a political deal for Dashnak support, despite the fact that the Dashnak party has neither complied with the law nor restructured itself. Thus, Dashnaks and Kocharian think they can use each other, and Kocharian himself is now sounding more like them.

So we see that two conflicting visions of Armenia for the 21st century have emerged in contemporary Armenia. For Ter-Petrosian, normalization of relations with neighbors was the substance of foreign policy, the best guarantee in the long run of Armenian security. Armenian independence depends on good relations with the hated traditional enemy, Turkey. This is a novel point of departure in Armenian political thinking. Ter-Petrosian tried to implement this vision, but Karabakh proved its Achilles heel. As long as this conflict remains unresolved, Armenia will be unable to establish normal relations with either Azerbaijan or Turkey.

I would like to emphasize that normalization of relations with Turkey was not such an impossible thing one year ago. Progress had occurred at both the symbolic and practical levels. A lower level Turkish official placed a wreath at a genocide memorial site. Many Turks favored the relaxation of the blockade, on the automobile highway if not the actual railroad. When they approached Azerbaijan on this point they were told that they could have either the pipeline or their highway. Turkey had been looking for a way, an excuse, to lower the blockade, but Azerbaijan knows that it is only the Turkish blockade that has any real negative impact on Armenia. Add to this the fact that Iran and Russia are both concerned about the prospect of Armenia's normalization of relations with Turkey, and you can see that there is much more at stake in Karabakh than just Armenian history. It is the politics of oil pipelines.

Similarly, Azerbaijan had also showed flexibility. The Azeri President Aliyev had said that if Karabakh is resolved, a pipeline through Armenia to Turkey would not be a problem. Aliyev, Ter-Petrosian, and Shevardnadze respected each other, and progress could have been made.

But Ter-Petrosian's vision has not weathered the political and economic climate in Armenia, although it was the country's leadership rather than popular sentiment that brought the President down. His position on Karabakh may have in fact have been supported by the public had it been given a chance in a public referendum. The gains made during his tenure will now be encroached upon by a different approach, although Ter-Petrosian himself continues to believe that a pro-peace party willing to compromise on Karabakh will eventually return to power. A more traditional set of views will now be adopted, in which Armenia will once again need protection from Russia and Iran to realize its policy goals.

## *Armenia and her neighbors*

The United States is concerned about Armenia's relations with Iran, particularly about nuclear and chemical technology transfers. Armenia must counter these concerns with common sense: what else is she to do, with the Azerbaijani and Turkish borders blocked? Armenia asks the United States to help open the Turkish border, which is what the people want. In the meantime, consumer goods come primarily from Iran. Indeed, if the Iranian border were to be closed even for one week, market prices in Yerevan would double.

As an Islamic state, Iran must publicly support Azerbaijan on the Karabakh issue. However, Iran's actual policy is strategically oriented. The Iranian leadership has behaved very pragmatically toward Armenia, as it doesn't want Azerbaijan in too strong of a position. After all, their northern tier is populated by Azeris, and occasional calls for the unity of the Azeri nation can be heard among Azeri intellectuals and politicians. Iran also wishes Azerbaijan to keep a distance from the United States and NATO. Resolution of the Karabakh conflict will reduce this distance, and the progress in building Azeri oil pipelines which may follow such a resolution will not improve Iran's geopolitical position as an oil supplier. Moreover, Armenia is a good market for their goods. Indeed, in practical terms, Iran functions as a de facto friend of Armenia, to a point.

Finally, I would like to comment on recent talk concerning the so-called resumption of an Armenian-Russian north-

south axis to counter the perceived east-west axis of Turkey, Georgia and Azerbaijan. This kind of perception fits more into Armenian collective consciousness and historical memory, but it is certainly at odds with Armenia's quest for remaining truly independent. This quest depends above all on a balanced approach to foreign policy. This means *not being dependent on any one power*, therefore having good relations *with your immediate neighbors so that others cannot interfere*. Unfortunately, given the recent direction in Armenian and Azeri policy, balanced regional development and a workable vision of regional security has become less likely. It is important to realize that prior to the fall of President Ter-Petrosian, some tentative negotiations had taken place between Armenia and Azerbaijan on these matters.

So who is to blame for failing to support the President in making his strategic vision viable politically? In addition to Armenian hard-liners, Azerbaijan's concessions were too little and too late. Turkey was unable to overcome ethnic affiliation and affinity to Azerbaijan, and did nothing to help Ter-Petrosian. This is in spite of the fact that there is a lot of understanding and even sympathy in Turkey for Ter-Petrosian's position. In the meantime, the new Armenian government may ultimately reach the same conclusions that the former President did. But there is also the danger that they may use less democratic means to create an illusion of dealing with the host of difficult problems they face, while letting Armenia's regional position continue to deteriorate.

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# The Politics of Oil in Post-Communist Azerbaijan

Nasib Nassibli

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During the Soviet era, the name “Azerbaijan” conjured up a vague, exotic image in the minds of those western readers aware of its existence. Then, in the final years of the Soviet Union, Azerbaijan gained wider recognition as the location of the disputed territory of Nagorno-Karabakh. Today, Azerbaijan is again drawing western interest, in connection with headlines on the scramble for Caspian oil.

Today's tendency to view Azerbaijan through the lens of oil recalls the situation that followed the earlier discovery of Azerbaijan's extensive oil deposits in the late nineteenth century. In the years since the Soviet collapse, the existence of previously undetected, large hydrocarbon reserves off the Azerbaijani coast has been confirmed. Consequently, talks and agreements between Azerbaijan and the world's largest petroleum companies became a regular and dominant feature of the post-communist political and economic scene. As this process has unfolded, Azeris and westerners alike have come to realize that gaining access to these offshore oil deposits will require a huge influx of capital and the most advanced technology.

As the oil drama unfolded, the petroleum factor began to have a more and more important impact on national policies aimed at strengthening independence, preserving Azerbaijan's territorial integrity, creating democratic institutions, and ensuring the well-being of the Azeri population. This raises the question: how realistic is the current expectation that oil money is the key to realizing such national goals? In terms of national security, for instance, oil played a negative role in the Azeri past, as Azerbaijan lost its short-lived independence of 1918-20 to the Soviet Union, as outside and regional powers struggled for control of its petroleum resources. So what will be the outcome of the second oil boom?

## *The Role of Oil in the History of Azerbaijan*

From early history to the present day, the city of Baku and the Absheron Peninsula have been known to the world for their oil. Indeed, for centuries oil—in what is today Azerbaijan—was used as a fuel for life, whether in traditional religious practices such as fire worshipping or for more modern medical applications. In fact, etymology tells us that one meaning of the term Azerbaijan is “protector of fire.” The flame in the

shrine known as “Ateshgah” (Fireplace) on the Absheron Peninsula is still active, attracting religious pilgrims and tourists alike.

The first oil well was drilled in Absheron in 1848. Eleven years later, in America, the first oil well was drilled in Pennsylvania. The first oil refinery was also constructed in Baku. Moreover, Baku was the center of the world's second great “oil rush,” following the Texas boom of the nineteenth century. From 1896 to 1906, the 833 kilometer-long Baku-Batum oil pipeline was constructed. The 200 millimeter-diameter pipe made transportation of 900,000 tons of petroleum per year possible.

Toward the end of the 19th century, Baku became a center of attention for world capital investment. In the 1880s, the Rothschilds helped finance the Baku oil industry. Within ten years, they had secured 42 percent of the revenue from the export of Baku oil. Both the Shell Company and the Nobel brothers also played crucial roles in developing the Baku oil industry. Finally, Russia and Armenian capital figured prominently in developing Baku oil. Indeed, Baku served as the principal oil provider of Imperial Russia. Without it, Russian industry would not have been able to function. By 1890, for instance, Baku provided 97.7 percent of Russian oil. At this time, oil production in Baku totaled 426 million Russian pounds, whereas America's production was 400 million pounds. By 1901, Baku's oil represented approximately half of the world's production.

Due to Russia's discriminatory policies, native capital was put in a disadvantageous position in the Baku oil industry, and thus relatively few Azeris benefited from the advanced oil industry which existed in Baku at that time. Nevertheless, the oil industry formed the economic basis of the native bourgeoisie and shaped the emerging Azeri national identity.

On the whole, oil was a calamity for colonial Azerbaijan. Russia had no intention of tolerating Azerbaijani independence. In the beginning of April 1920, the independent Azerbaijan Democratic Republic hardly had a chance to celebrate its second anniversary when Lenin predicted that “the Bolshevik revolution is certain” and appointed Mr. Serebrovski as an emissary to organize the oil industry in Azerbaijan. He gave an order to the Red Army gathering in the North Caucasus

to occupy Baku. Later on, after the so-called “April revolution” in Baku, Lenin wrote: “We all know that our industries stood idle because of lack of fuel. However, now the proletariat of Baku has toppled the Azerbaijani regime and is in charge of running the government. This means that we now control the basis for an economy capable of supporting our industries.”

During the Soviet era, Baku oil revenues were largely taken out of Azerbaijan and included in the central Soviet budget. Dr. Narimanov, the leader of the Azerbaijan Soviet Republic, requested from Lenin that 4% of the Baku oil revenues be allowed to remain for use in Azerbaijan. Later, he complained in one of his letters (to Lenin) that the price of kerosene was much more expensive in Ganja than Tbilisi.

In subsequent years, the discovery of various large oil fields in other parts of the Soviet Union—discoveries called by many Soviet officials the “Second Baku,” the “Third Baku,” and so forth—contributed to the decline of the Azerbaijan Republic’s oil production, as over-exploitation and alternative sources of oil combined with a lack of Soviet capital investment began to erode the Baku oil industry. In 1940, Azerbaijan provided 71.55 percent of the Soviet demand for oil. This figure steadily fell to 39.15 percent, then to 2 percent, then to 5.7 percent, and finally to 2.4 percent in 1950, 1960, 1970 and 1980, respectively. In the later part of the Soviet period, attention was given to extracting oil from the Azerbaijan section of the Caspian Sea. Oil production was 21 million tons between the years of 1964-1968, but in the following years, annual yields declined to 13 million tons. On the eve of independence, oil production was down to 9 million tons annually.

Compare the situation in 1991 with that of twenty years before. In 1971, the Soviet regime proudly announced that Baku oil production over the decades had exceeded one billion tons, thus twisting the declining statistics of annual Azeri oil production into a cause for celebration. Despite the huge amount of oil extracted over the years, Azerbaijan suffered from a lack of development, poverty, and ecological catastrophe. An aerial glimpse at the Absheron Peninsula with its puddles of oil and petroleum by-products lining the route to Baku is sufficient to convince any observer of the degree of this ecological catastrophe.

### ***The New Oil Boom***

The relaxation of foreign economic relations that took place as a result of Gorbachev’s *perestroika* created conditions favorable to foreign companies interested in Azerbaijani oil to become active in the republic. In the late 1980s, the untapped, rich Chirag and Azeri oil deposits, located in the Caspian sea beds, initially received the lion’s share of foreign oil companies’ attention. In January 1991, the Azerbaijan government issued a decree opening the oil sector to investment bids from foreign companies to jointly explore these rich fields. British Petroleum (together with Finland’s Statoil), Amoco, and Unocal

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participated in this tender, with Amoco coming out the winner. The Azerbaijan government subsequently invited the leadership of Amoco to form a consortium to exploit the Azeri oil field’s deposits. Unocal, BP/Statoil, McDermott, and Ramco all participated in this consortium. By October 1992, research on the technical and economic feasibility of exploiting this field was completed. This consortium was the precursor of today’s Azerbaijani International Oil Consortium (AIOC), the main organizational umbrella of the present boom.

Against this backdrop, the Azerbaijani government began to use the oil factor as a negotiating lever to pressure Armenia to compromise on the Karabakh conflict. At this time, the country witnessed a change in its government. Abulfaz Elchibey, the leader of the largest political organization of Azerbaijan, the Popular Front, was elected President. Elchibey’s government intensified efforts to attract foreign firms interested in developing Azerbaijan’s petroleum industry. By May 1993, six agreements were signed, all of them joint ventures to find and exploit oil deposits. In June of that year, a declaration was signed regarding the “utilization” of the oil deposits. At the same time, further talks on additional oil contracts were scheduled to take place in London. The President of the Republic of Azerbaijan was to attend these meetings.

At this moment, Azerbaijan’s previous negative experiences with oil and foreign powers replayed itself. Alarmed over the loss of Russian influence in Azerbaijan, expansionist circles in Russia engineered a revolt inside the young republic in June 1993. As a result, Elchibey’s national and democratic government was forced from power. Heyday Aliyev, Azerbaijan’s new leader, promptly suspended the London oil negotiations. Then, in the fall of 1993, Aliyev granted some concessions to Russia. For instance, he granted a 10 percent ownership stake to the Russian oil company Lukoil in the forthcoming contract. In early 1994, negotiations with foreign oil companies resumed, but this time, the management of the State Oil Company of Azerbaijan (SOCAR) did not participate in the process. Instead, the negotiations were conducted by expert compatriots living outside the country. After the appointment of the President’s son, Ilham Aliyev, as first deputy of the chairman of SOCAR, responsibility for negotiations was returned to the management of the State Oil Company of Azerbaijan.

On 20 September 1994, the finalization of a contract brought the months of long negotiations to an end. The press dubbed this “the contract of the century,” as 7.4 billion US dollars were earmarked for investment in the Azeri oil sector. The contract envisions the eventual production of 51.1 million tons of oil annually. The contract is based on “production-sharing” principals. In this contract the share of SOCAR is 10 percent, BP-17 percent, Amoco-17 percent, Lukoil-10 percent, Pennzoil-0.8 percent, Unocal-9.5 percent, Statoil-8.6 percent, Itochu-2.4 percent, Ramco-6.7 percent, and Delta-1.7 percent.

Following the signing of this contract, LukAgip, Pennzoil, Lukoil, SOCAR, and Agip signed the second con-

tract in 1995, known as the Karabakh oil field, worth 2 billion dollars. In 1996 BP/Statoil, SOCAR, Lukoil, Elf, Niok, and Tpaoc concluded a third contract, valued at 3 to 4 billion dollars and pertaining to the Shah Deniz field. A fourth contract for the Dan Ulduzu Ashrafi field worth 2 billion dollars, was soon signed by Amoco, Unocal, SOCAR, Itochu, and Delta, followed by a fifth contract—also worth 2 billion dollars and known as Lenkeran Deniz and Talish Deniz—signed by Elf, SOCAR, and Total. Since that time, a few additional new contracts have been signed.

President Aliyev's official visit to the United States in the summer of 1997 brought three more contracts calling for 10 billion dollars of capital investment. According to official information, the total capital investment envisaged for the development of the Azerbaijan oil industry now exceeds 30 billion US dollars.

Today, estimates of the total quantity of Azerbaijani oil deposits vary. Kemp and Harbey's report speaks of 8.8 billion barrels. Others, such as Shoumikin, estimate 150.42 million tons of crude oil. According to the American Department of Energy, out of the 200 billion barrels of oil estimated in the Caspian basin, one fourth is Azerbaijani. According to this source, the Caspian basin is capable of producing 178 billion barrels valued at 4 trillion US dollars. Based on expert calculations, if everything goes ahead as planned in these contracts, Azerbaijan will be able to produce 40 million tons of oil each year until 2015. By comparison, Azerbaijan produces approximately 9 million tons of oil at the present time.

Azerbaijan will thus receive a huge income from the export of oil after 2001. This year, the Azerbaijani budget will total US \$1 billion. By 2005, this figure is projected to rise to US \$5 billion. According to a statement made by the Prime Minister of Azerbaijan in Washington in May 1997, Azerbaijan's income from oil during the next 25 years will total US \$210 billion. Indeed, the first of the big post-communist oil contracts—"the contract of the century"—by itself is projected to add US \$80 billion to the Azeri budget in the coming years.

By November 1997, the first and second wells of this first contract went into production. Consequently, both the local and world media announced the launching of Azerbaijan's second oil boom.

### ***Pipeline Issues and Geopolitical Obstacles***

Despite the rush of excitement about Azerbaijan's second oil boom, a number of obstacles remain before Azeri oil can reach the world market on a large scale. These obstacles stem from the country's geopolitical location. Azerbaijan is surrounded by not-so-friendly countries, such as Russia, Iran, and Armenia. Thus the issue of pipeline routes is not simply an economic problem, but a geopolitical problem. In weighing possible pipeline routes, then, Azerbaijan must consider a whole range of complicating factors simultaneously.

Following the suggestions of Russia and the United

States, the Azerbaijan government and signatories to the first post-communist oil contract reached an agreement in October of 1995 to transport the initial, so-called "early" oil production via two routes, the Baku-Novorossiysk pipeline and the Baku-Supsa line (Supsa is a Black Sea port on the Georgian coast). After extensive overhauling costing some 50 million dollars, the capacity of the Baku-Novorossiysk pipeline has been increased to 5 million tons each year. This line began to function at the end of 1997. The Russian government nevertheless continues to press for adoption of its proposal to further expand this route by increasing the line's transportation capacity to 17 million tons annually, at a cost of \$2.2 billion. Behind this insistence lies Russia's geopolitical interests. By securing a supervisory role in the transportation of Azerbaijani and Central Asian oil, the Russian government hopes to keep these countries within its sphere of influence.

The other portion of early oil production (some 7 million tons) is supposed to be exported via the Baku-Supsa line. Its preliminary construction cost is estimated to be around 250 million dollars. Both the independence and well being of Georgia, as well as the entire region's future ability to lessen Russian influence, depends on this line. The line is scheduled for completion by the end of 1998.

The question of the routes and relative centrality of various existing and future oil pipelines for transporting Caspian oil thus has emerged as one of the hottest issues in the region. The issue of the route of the principal pipeline is supposed to be settled by October 1998. Various power centers are trying to settle the question according to their own interests.

Azerbaijan, Kazakhstan, and the United States — backed to a certain degree by Turkmenistan and Georgia — favor the construction of a Baku-Ceyhan pipeline (Ceyhan is a port on the far-eastern end of Turkey's Mediterranean coast). The Baku-Ceyhan line would stretch almost 1900 kilometers, and its construction cost has been estimated at US \$2.5 billion. The high projected construction cost of the line is the principal reason that some of the American and European oil companies involved oppose this pipeline. They lean toward an Iranian pipeline scenario, estimated to cost between 50 million and 1 billion dollars. In this regard, it is worth mentioning that oil companies have been exercising pressure on the Clinton Administration to issue waivers exempting oil companies involved in Azeri oil contracts from US sanctions penalizing companies active in Iran.

Other proposals, such as one for a Turkmen-Afghan-Pakistani pipeline route, have been submitted for study too. Taking their cue from the use of two lines to transport Azeri "early oil," some companies have come to favor a multi-pipeline strategy in the region.

### ***Is the Caspian a Sea or a Lake?***

On the eve of the signing of the "contract of the century," the Russian Foreign Ministry began to demonstrate its deep dis-

approval. However, this disapproval did not prevent the Russian Minister of Fuel and Energy from attending the signing ceremony. In addition, the Lukoil firm which is controlled by the Russian government participated as a full consortium member with a 10 percent membership right. The Russian government took two positions in this regard. Intending to pressure Azerbaijan, circles in Russia's political and military elites rejected the idea that the Caspian could be legally classified either as a sea or a lake. Instead, they argued that the Caspian is a special case, i.e., it is a "unique water reservoir." While Russia dragged her feet on the question of the Caspian's legal status under international law, she exercised severe pressure on Azerbaijan to adopt positions more favorable to Russian geopolitical interests, and especially to accept a settlement of the dispute over the Caspian's legal status that would not parcel the Caspian into separate national zones. The reason for this is simple: practically no oil lies in the projected Russian zone. During official talks with Kazakhstan in February 1998, however, Russia finally agreed to accept the idea of dividing the Caspian into different national sections.

Today only Iran insists that the Caspian belongs to everyone. (Iran's projected section of the Caspian, like Russia's, also contains no significant oil deposits.) However, Iran's position will not have a major influence on future negotiations. It seems that this tactic for leveraging pressure against Azerbaijan, Kazakhstan, Georgia, and Turkmenistan is, finally, exhausted.

### ***The Role of Oil in the Future of Azerbaijan***

For some years, the way expected oil revenues should be used has stirred debate in Azerbaijan. Combative, perhaps unrealistic statements such as Azerbaijan being a "second Kuwait" are still heard in lectures and conferences. The western press particularly is responsible for spreading such populist views.

At the same time, serious articles on how best to allocate Azerbaijani oil revenues are being written. Such articles usually turn to historical comparisons in developing their analyses, for many states in the twentieth century have made oil revenues the center of their development strategies. Thus when Azerbaijan asks itself whether it should allocate its oil revenues like Nigeria or like Norway, this is not a rhetorical question.

The history of oil exporting countries demonstrates that while the sale of oil brings in large revenues, this money does not guarantee prosperity and happiness. To the contrary:

reliance on oil as the principal source of economic growth can slow down the progress of a country's over-all sociopolitical development, and in some cases even *depress* economic growth. Iran is a good example. Had it not been for oil revenues, neither the Shah nor the present theocratic government could have stayed in power. Neighboring Turkey provides us with an interesting alternative scenario to Iran. Turkey has no oil resources. Nevertheless, Turkey's current political and economic system has secured an annual growth rate of 7-8 percent, and sometimes even higher. All of this underscores the extent to which oil can pose a whole range of economic, social and political dilemmas in a country.

### ***Conclusions***

Caspian oil is rapidly changing the geopolitical dynamics of the Caucasus and Central Asian regions, and will continue to do so for the foreseeable future. Today, the following fundamental changes are taking place before our eyes:

- 1.) The South Caucasus and the Central Asian regions are leaving the political orbits which used to be controlled by Russia, and are coming instead under the influence of the West.
- 2.) Oil, as a factor, is currently helping to bring a certain degree of peace and stability to the region. The lure of oil revenues has proved a strong catalyst in motivating parties to various regional conflicts to move toward compromise and thus secure access to these revenues.
- 3.) The oil boom is reviving the ancient "Silk Road" between East and West, enabling the penetration of global-scale changes into the interior of Eurasia.
- 4.) The coming oil boom has enhanced the influence of the Central Asian Union, and also contributed to the formation of a new alignment of four of the non-Russian newly independent states of the former Soviet Union. This alignment is called GUAM, for Georgia, Ukraine, Azerbaijan, and Moldova. The rise of these regional alignments outside Russian control function as indicators of the new geopolitical situation in the region.

As far as the future of Azerbaijan is concerned, great opportunities lie ahead. But the realization — or squandering — of these opportunities will depend mostly on the maturity of Azerbaijan's political forces.

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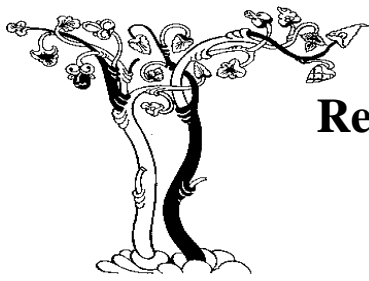
Igor Zevelev, Fellow, United States Institute of Peace and  
USA Canada Institute  
“Russian Foreign Policy and Strategic Interests in the  
Caspian Region”

Michael Ochs, Advisor to the US Commission on Security  
and Cooperation in Europe, Washington DC  
“The Congress and United States Foreign Policy Toward the  
Contemporary Caucasus”

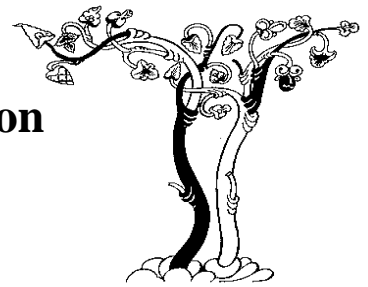


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# The New Silk Road: Energy, Regional Security and Democratization in the Caucasus and Central Asia



Rusudan Gorgiladze

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The tremendous hype in the West over the discovery of oil in the Caspian Sea has obscured other important developments in the region. I would therefore like to describe for you today some of the profound changes that have occurred in Georgia since the collapse of the Soviet Union and the steps that have been taken to integrate the Transcaucasus into the emerging post-Cold War geopolitical order of the Eurasian continent.

Georgia is currently concentrating a great deal of energy on realizing a project known as "Traseca." "Traseca" is an acronym for a multi-dimensional trans-Georgian commodity transportation network which, if successful, will shift the center of gravity on the Eurasian landmass to the Transcaucasus, thereby terminating Georgia's international status as a peripheral state. Founded and sponsored by the European Union in 1993, Traseca's purpose is the construction of a transportation and communication corridor linking Europe to China via Transcaucasia and Central Asia. Although such a concept might seem fanciful to those accustomed to the Cold War's bifurcation of the globe, the Eurasian corridor known as "the Silk Road" existed for many centuries prior to the rise of Russian imperial power in the Caucasus. Due to its propitious geographic location, the Transcaucasus formed an integral link in this historically significant network of East/West communication and trade. Through the construction of roads, railroads, and telecommunication systems, Traseca aims no less than to resurrect the legendary Silk Road of Marco Polo's time.

In addition to the three Transcaucasian and five Central Asian republics, participants in the Traseca project include Ukraine, Moldova, Bulgaria, Romania, China, and Mongolia, with the United States and Japan also having an interest in the project's fruition. Each of these states brings their own agenda to the project, as well as a distinct set of internal idiosyncrasies and problems that, especially for the nascent post-Soviet republics, need to be resolved before the Traseca vision for the twenty-first century can become a reality. Georgia is no exception, and, as a crucial Traseca partner,

its stability will have repercussions for the entire project.

Despite several years of political anarchy, ethnic warfare, and economic collapse, Georgia is further along the road of state-building and consolidating its young democratic system than many of its neighbors. As a presidential republic with a bi-cameral legislature and an independent judiciary, Georgia's constitution resembles the American model more closely than others in the region. Her new political system thus contains sufficient checks and balances to preclude further leadership crises. Freedom of the press is legally entrenched and is not violated in practice. Peace has been fully restored in the central regions of the country, and Tbilisi today is as safe as most North American cities. This a remarkable accomplishment, given the situation just a few years ago. On the road to full membership in the Council of Europe, Georgia is thus overcoming the chaotic legacy bequeathed to it by the collapse of the Soviet Union.

To be sure, Georgia faces certain structural impediments that can potentially undermine its new-found stability. Most ominous is the pervasiveness of corruption in state institutions. Although the Ministers of Energy and Defense were dismissed recently in an effort to reform corrupt practices in these ministries, such practices are part of a widespread problem, as students of the newly independent states of the former Soviet Union are all too aware. The system of corruption itself needs to be extirpated through the creation of political mechanisms that will impede its spread and restrict its scope. The need to transform the political system from its current dependence on one person is inextricably linked to the elimination of corruption. Embodying unity at a time of political fragmentation, Shevardnadze has played a critical role in consolidating Georgia when its very existence was at stake. With that task accomplished, the President is taking steps to create a more routinized political order, overcoming the tradition of paternalistic political rule. At the same time, we must frankly acknowledge that the building of civil society is far from complete, and needs to continue full steam ahead. The consolida-

tion of a vibrant market economy is crucial here, and stands as one of Georgia's top priorities. This presupposes, however, that ordinary Georgians reconcile themselves to paying for basic goods and services. Given the Soviet legacy of practically free utilities and housing, this is a difficult step for society as a whole to take. Thus, though democratic and market institutions may be in place, the cultural legacy of Soviet history has yet to be obliterated.

External threats pose an additional challenge to the process of consolidating Georgia's new internal socio-political order. Russia, in particular, is disturbed by the idea of a Eurasian corridor that bypasses its territory, effectively undermining its long-dominant role in the region. Georgia nevertheless welcomes Russian participation in the Traseca project, insisting only that the Russian government repudiate its traditional imperialistic mentality. These considerations underscore the degree to which Transcaucasia's perpetual quest for regional stability stands at a historic crossroads.

The other major power with geopolitical objectives in the region is, of course, the United States. American concerns in Transcaucasia are four-fold and tend to coincide with Georgia's goals. First, the United States also has an interest in achieving regional security, including the implementation of lasting peace settlements for the region's various ethnic conflicts. Second, the United States wants to see the strengthening of democratic state institutions and political practices. Third, it has a stake in the successful construction of a pipeline route to transport the Caspian Sea's copious oil reserves

to Western markets, so that Western dependence on Middle Eastern oil can be reduced. Fourth, the United States envisions the Transcaucasus as an effective buffer zone to contain the spread of Islamic fundamentalism. Thus, the United States' agenda in the region dovetails nicely with Georgia's, and the former could be a powerful force in furthering stability, democracy, and prosperity in the region.

I firmly believe that if the Traseca project is realized, it will bring affluence to the entire region, so long as regional actors actively participate in a spirit of cooperation. The question of an oil pipeline across Georgia is only one facet of this project, though a crucial one. Even though building a pipeline through Georgia would be the simplest and most cost effective route, the construction of multiple pipelines is ultimately the best solution, as multiple pipelines would help stabilize the region both politically and economically. Moreover, multiple pipelines would allow a larger quantity of oil to be transported to the West, and by including all those with a stake in the extraction of oil, a multiple pipeline strategy would ensure that there would be no regional economic losers.

Closer to Tel Aviv than to Moscow, Georgia's days as Russia's southern periphery are over. The collapse of the Soviet Union and the end of the Cold War have given Georgia an unprecedented opportunity to help consolidate regional stability, as well as to realize its perennial dream of integrating into the European community. The twenty-first century promises to witness the transformation of Georgia from a forgotten Soviet republic into an important player in Eurasian politics.

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