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**NO PEACE IN NAGORNO-KARABAKH:  
ECONOMIC AND POLITICAL INCENTIVES  
FOR THE PERPETUATION  
OF THE AZERBAIJANI-ARMENIAN CONFLICT**

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## *INTRODUCTION*

Throughout the history, Caucasus was inhabited by numerous groups of people, which contributed to its diverse, multi-ethnic character nowadays. However, ethnic, cultural and religious differences led to various disputes and conflicts, some of which escalated after the collapse of the Union of Soviet Socialist Republics (USSR) in 1991.

The divergence between the Republic of Armenia and Republic of Azerbaijan over Nagorno-Karabakh is an aftermath of 1988-1994 war, and it remains to be the one of the most serious and long-standing conflicts in the Caucasian region. Nagorno-Karabakh is a mountainous region of 4400 square meters, located in the southeastern range of the Lesser Caucasus. Despite being internationally recognized as a part of Azerbaijan, Nagorno-Karabakh is populated by a vast majority of Armenians. In 1991 Nagorno-Karabakh declared its independence as the Nagorno-Karabakh Republic<sup>1</sup>, however, the international community worldwide did not recognize it as a sovereign state. The conflict has a complex character due to ethnic, historical, territorial, geopolitical, and economic factors that caused its emergence and perpetuation. Moreover, the case of Nagorno-Karabakh exemplifies the clash of key concepts of Public International Law – the right of self-determination, the inviolability of frontiers and the right to territorial integrity. The problem remains unresolved for decades, but its roots reach even deeper.

The Armenian-Azerbaijani war over Nagorno-Karabakh stopped on 12<sup>th</sup> May 1994 by the cease-fire treaty (Bishkek Protocol) negotiated by the Russian Federation. The agreement led to temporary cessation of the armed conflict, nevertheless, it did not resolve it conclusively. First reconciliations attempts were initialized jointly by newly established Russian Federation and Republic of Kazakhstan and took place in 1991. Ever-since, the peacemaking process is an important objective of various international subjects, such as involved parties, but also the Russian Federation or international organizations, such as the Commonwealth of Independent States (CIS) or the Organization for Security and Co-operation in Europe (OSCE).

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<sup>1</sup> Both the Nagorno-Karabakh Republic and Artsakh Republic designations are used as official name of this unrecognised entity; however, it will be referred to as the Nagorno-Karabakh Republic (NKR) in the further text.

Due to its high complexity, the Nagorno-Karabakh conflict is an exciting, yet challenging subject for countless types of research. The possibility of the definitive conflict resolution or its potential continuance are some of the perhaps most thought-provoking aspect of the problem and they are closely related to the peacemaking process. Despite the efforts of the international community, the Armenian-Azerbaijani conflict still remains curbed, yet unsolved, occasionally interrupted with the outbreaks of violence regardless of the ceasefire treaty. Throughout the years, mediators and negotiators came up with numerous options of compromise that took standpoints of conflict's parties into account to various degrees. Yet, the agreement was not reached since the Bishkek Protocol in 1994. That might signal that there are other obstacles that defer Armenia, Azerbaijan, and Nagorno-Karabakh from reaching a settlement or perhaps some incentives that encourage the perpetuation of the conflict. Since the obstructions to the conflict resolution are discusses in the academic space more often that motivations for the conflict prolongation, this manuscript focuses on the later and solely in the context of the Nagorno-Karabakh Republic. Therefore, this master thesis is an attempt to answer the research question:

How does the politics and economy of the NKR explain the continuation of the status quo?

In order to answer such inquiry, it is necessary to focus on smaller units, gradually analysing what factors contribute to the persistence of the Nagorno-Karabakh conflict. Thus, it is important to first establish whether the peacemaking process and its potential shortcomings could be a reason that the conflict remains unresolved. If the negotiations seem to offer a reasonable settlement to the conflict parties, there must be other reasons for them to favour the *status quo* over reconciliation and potential cooperation for the mutual benefit. Hence, outcomes of the analysis of the peace efforts allow recognizing the degree to which politico-economic incentives are significant to the conflict prolongation.

Then, it is crucial to investigate the political and economic regimes of the Nagorno-Karabakh Republic in years 2005-2016 in order to assess potential existence of benefits that the unrecognized state could possibly associate with the conflict perpetuation. The beginning of the evaluated period is set by the parliamentary elections in 2005, one year prior to the adoption of the Constitution of the Nagorno-Karabakh Republic. Implementation of the Main Law marks an important change in

both, politics and economy, because it systematize them and subjected to a set of explicit rules. Hypothetically, the conflict perpetuation contributes to the establishment and development of the patrimonial capitalism in the NKR, allows illicit economic activities on the systemic level (particularly when it comes to the NKR's ties to Armenia), and poses an impulse for the international community to support the *de facto* republic financially. Moreover, it might serve the survival of the current regime in Nagorno-Karabakh, position of which is feasibly built on the political rhetoric focused on conflict, victory, common enemy, and pride. Seemingly, the endurance of the *status quo* creates a possibility for the politicians of the Nagorno-Karabakh Republic to build up their position locally and in Armenia.

The study of the unresolved Nagorno-Karabakh conflict is highly relevant not only from the academic point of view, but also from the practical perspective. Such analysis can contribute to the discussion on unresolved conflicts, especially those that emerged in the Eurasian region after the collapse of the USSR due to strong links between the newly independent states and their common Soviet heritage. Moreover, it can also re-direct the conflict studies from the obstacles to the peace, and towards the incentives for the conflict perpetuation. The on-going Armenian-Azerbaijani conflict obstructs the regional stability and potential cooperation in Caucasus, but also the return of more than 1 million of Internationally Displaced People (IDPs) that migrated or were relocated due to the conflict. Last but not least, the conflict might erupt into new war, which would have significant consequences on the regional and global scale. This is especially relevant in context of the latest escalations, such as in 2012, 2014, and most recently in April 2016.

This research employed a case study strategy, because it tries to thoroughly investigate and explain incentives for Nagorno-Karabakh to favour the Armenian-Azerbaijani conflict continuation over its resolution. The analysis focuses on three smaller units – peacemaking process, economic regime, and politics of the NKR in years 2005-2016. The conflict over Nagorno-Karabakh is used as a critical case study that can contribute to the academic debate on unresolved conflicts, especially in the Caucasus region, or broader, in the post-Soviet area (Yin 2009, 3-4, 18).

The investigation is based on secondary sources and does not deal with primary sources (empirical data gathered through the field research). Foremost, it draws from various types of documents (i.e.

treaties), but also books, and articles published in academic journals as well as from mass media (narrative sources) (Chodubski 2004, 104, 179). Especially texts published on-line are often a great source of most recent information. However, they all have to be approached critically due to the risk of the subjectivity of the author. This is particularly important due to the fact that they regard a very subtle subject and even the same data might be interpreted in multiple ways. Hence, this thesis used articles from reliable websites of organisations such as the Freedom House or the Centre for Eastern Studies.

The structure of this thesis follows the logical and chronological order. After the first introductory section, Chapter One discusses the place of the Nagorno-Karabakh conflict in the literature, with the additional stress put on its overlooked aspects. This conflict is very often covered just in a section in books dedicated to Armenia, Azerbaijan, and the relationship between these two states, or books about the contemporary international disputes and conflicts.

Chapter Two provides a broader context of the conflict in order to better understand its complexity. It outlines the history of the region, tracking early causes of the conflict and describing its escalation and outbreaks of violence in 1980s and 1990s. Both Armenia and Azerbaijan refer to the ancient history of Caucasus and primordial role of Nagorno-Karabakh to their statehood and identity (Krüger 2010, 4). However, the overview of the regional history demonstrates that the Nagorno-Karabakh conflict is not just a revival of primeval, persistent hatred, which is fundamental for this thesis.

Chapter Three focuses on the peacemaking process since early 1990s. Negotiations are led mostly by the Minsk Group, created by the OSCE in 1992 solely for this purpose, and the Russian Federation (the Minsk Group co-chair, next to France and the United States). This part is crucial to recognize whether the peace efforts generate the circumstances that should be sufficient to lead to the conflict resolution. If the peacemaking process proves to be adequately conducted, it would imply there are other factors contributing to the conflict perpetuation.

Chapter Four regards the political economy of the NKR in years 2005-2016 in correlation to the on-going conflict in order to scrutinise potential benefits of this connection for the NKR in period

2005-2016. It examines ways that Nagorno-Karabakh's economy might be used by the incumbent regime to survive, for instance through the establishment and development of patronage networks or presence of the illicit business activities.

In Chapter Five, the economic regime of the NKR is evaluated in the international context. It analyses economic links between the NKR and Armenia, and Russia but also remittances, financial aid coming mainly from the Armenian Diaspora to the NKR. This enables to assess whether financial and economic support obtained by the NKR in various ways in years 2005-2016 may be also a source of rents and reinforce rentier mentality of this *de facto* state.

Chapter Six focuses on the NKR's politics in period 2005-2016, and especially on political rhetoric of the incumbent regime. This section investigates whether the authorities use the conflict as a source of power in order to maintain their position in the NKR. It also examines the strong military background of Nagorno-Karabakh's elites, and opportunities for the Nagorno-Karabakh's politicians to pursue their career also in Armenia thanks to the status that they built around the conflict, such as so-called 'Karabakh clan' did.

Finally, last section contains closing remarks. It deals with the outcomes of each of the analysis's elements. The results of the research are all tied to each other to produce synthetic, comprehensive conclusion. It also emphasises the fact that economy and politics of the Nagorno-Karabakh Republic in period 2005-2016 posed numerous incentives for the NKR to favour perpetuation of the conflict. Thus, the conflict remains unresolved not only due to the obstacles to the peacemaking process, but also due to encouragements derived from the *status quo* maintenance.

*CHAPTER 1*  
*LITERATURE REVIEW*

Literature on the subject of the Nagorno-Karabakh Republic *per se* is quite unpopular, especially considering significance of the NKR as a conflict party. Similarly, it happens in English, Polish and Russian literature.

Usually in monographs and collective works the Nagorno-Karabakh conflict is discussed not as a separate problem, but more in the broader context, i.e. as an issue of Armenian-Azerbaijani relations or generally regarding conflicts of the post-Soviet space. Books such as *Ethnicity and Territory in the Former Soviet Union: Regions in Conflict* by James Hughes Gwendolyn Sasse or *The Post-Soviet Wars: Rebellion, Ethnic Conflict, and Nationhood in the Caucasus* by Christoph Zurcher are great examples of that – they focus on the ethnic and nationalist aspects of conflicts, among them Armenian-Azerbaijani one. There are, however, some cases of books fully dedicated to the Nagorno-Karabakh problem, such as *The Black Garden. Armenia and Azerbaijan through Peace and War* by Thomas de Waal (2003), *The Nagorno-Karabakh: A Legal Analysis* by Heiko Krüger (2010), *Nagorno-Karabakh in Politics of Independent Azerbaijan*<sup>2</sup> by Przemysław Adamczewski (2012).

*Black Garden. Armenia and Azerbaijan through Peace and War* by T. de Waal explores the history of Armenia and Azerbaijan, and ties it to the contemporary situation and consequences of the conflict. Thanks to an over a hundred original interviews, he presents it in a very insightful way, and includes social, political, cultural, and economic aspects of it. De Waal overthrows some misconceptions about the conflict, too. Despite the common belief, it does not originate only from the “ancient hatreds”. It is also not sparked by a top-down politics of Moscow, like it happened in Chechnya, but quite the contrary – in late 1980s the Soviet political leaders made some attempts in order to stop it from escalating. Lastly, although the national interests played and still play an important role, the Armenian-Azerbaijani conflict cannot be reduced only to socio-economics and in

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<sup>2</sup> Translation by the author. The original title as follows: *Górski Karabach w polityce niepodległego Azerbejdżanu*.



the past this kind of incentives, used by Moscow, failed to bring peace to parties. *Uncomfortable as it is for many Western observers to acknowledge, the Nagorny Karabakh conflict makes sense only if we acknowledge that hundreds of thousands of Armenians and Azerbaijanis were driven to act by passionately held ideas about history* (de Waal 2003, 272). The author also points out how difficult reaching the agreement might be for the parties, somewhat due to the clash of fundamental rules of international law – the right of nations to self-determination, and state’s territorial integrity.

In his book *The Nagorno-Karabakh: A Legal Analysis* (2010), Heiko Krüger approaches the Nagorno-Karabakh conflict from the legal point of view and scrutinises the territorial status of the NKR in accordance with Soviet law and international law, and involvement of the Republic of Armenia in the conflict. According to Krüger, the decision of Nagorno-Karabakh to secede Azerbaijan Socialist Soviet Republic (SSR) in July 1988 as well as to accede the Armenian SSR in December 1989 was not legitimate under the law of USSR. He also states that neither the prospect secession would be legal under present international law – Krüger’s analysis proves that in case of Nagorno-Karabakh the right to self-determination does not predominate the rule of state territorial integrity. Thus, the view that Nagorno-Karabakh is a part of Azerbaijan presented by international organisations, such as the United Nations (UN), the Council of Europe or the Organisation for Security and Co-operation in Europe (OSCE) is consistent with international principles.

The monograph *Nagorno-Karabakh in the politics of Azerbaijan* by Adamczewski (2012) addresses the position of Nagorno-Karabakh in the politics of the Republic of Azerbaijan, but also in the agendas of various international organisations, for example the OSCE, the CIS or the Organisation of the Islamic Conference (OIC)<sup>3</sup>. Not only does he depict the genesis of the conflict, but also the peacemaking process, and he debates both in a very broad and holistic way. Adamczewski also identifies key factors that contribute to the maintenance of the *status quo*. Armenia and Azerbaijan believe that the perpetuation of the conflict is beneficial for them. Secondly, politics (skilfully built on the conflict discourse) is one of the tools of survival of incumbent regimes in the two states. Also, the stands of parties are completely contradicting, thus reaching a compromise is even more

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<sup>3</sup> The Organisation for Islamic Conference transformed into the Organisation of Islamic Cooperation in 2011.

difficult. Moreover, the international community seems not to be genuinely interested in bringing peace to the region, but only in stabilising the situation.

The economic factor is one of the most commonly discussed by authors of both books and academic articles, most likely due to the economic potential of the region and its natural resources. *Oil and Geopolitics in the Caspian Sea Region* by Michael P. Croissant and Bülent Aras focuses on natural resources and geopolitical situation of the Caspian Sea region. Hence, it discusses Nagorno-Karabakh as an obstacle to the economic development and stability of the area but at the same time as Azerbaijan's motivation and objective of economic politics (Croissant and Aras 1999). In the chapter *Oil and conflict: the case of Nagorno Karabakh* of book *Oil wars* Mary Kaldor examines the role of oil in the emergence and perpetuation of the conflict to find out that even though it was not a factor in its early developments, currently it strongly influences the existing "no war, no peace" state of matters (2007).

The acquaintance of the academic discussion is fundamental to understand the Nagorno-Karabakh conflict. It also points out that literature often discusses origin of the conflict and obstacles to its resolution. Seemingly, it does not address the issue of incentives that could encourage parties of the conflict to favour its perpetuation and accept the *status quo*. Thus, this thesis significantly contributes to the academic debate on the subject.

*CHAPTER 2*  
*HISTORICAL OVERVIEW*

**2.1. Developments until 20<sup>th</sup> century**

The region of modern-day Nagorno-Karabakh was a subject of countless conflicts and takeovers. Both Armenia and Azerbaijan consider it to be the cradle of their nation and state, but their historians disagree on the development of the Artsakh province, which was one of three state-like organisms created in ancient South Caucasus (Krüger 2010, 4).

The proto-Armenian nation consisted of small ethnic principalities that built their own empire under the Artashesian Dynasty in 2<sup>nd</sup> century BC, after overcoming Persian control (Zakrzewska-Dubasowa 1990, 26-27). In 63 AD it became dependent on Roman and Parthian Empires, and later also other domains (Zakrzewska-Dubasowa 1990, 24-27, 40). In the 1<sup>st</sup> century AD the territory of present-day Nagorno-Karabakh was a part of Artsakh, a province of the Caucasian Albania (Potier 2001, 1). At that time Armenia, as the first state, adopted Christianity as an official religion, and it was followed by the Caucasian Albania and Georgia (Suny 1993).

In the early 7<sup>th</sup> century, the Arab Muslims invaded the region and took control over almost entire territory of the present-day Azerbaijan and successfully imposed Islam on the local population (Baranowski and Baranowski 1987, 27-28). The mid-ninth century migration of Turkic people, Khazars, changed the ethnic structure of the region and led to turkisation of Azerbaijan (Baranowski and Baranowski 1987, 32, Adamczewski 2012, 50-51). The Mongols invaded Caucasus in 1220-1222 and 1235-1239 and controlled it throughout 13<sup>th</sup> and 14<sup>th</sup> centuries (Baranowski and Baranowski 1987, 48-50, Zakrzewska-Dubasowa 1990, 102-103). Since the 16<sup>th</sup> century the majority of Armenian lands were ruled by Ottomans (that originated from Oghuz Turks) and that continued until Persian-Russian war in 19<sup>th</sup> century (Zakrzewska-Dubasowa 1990, 134-138, 166-170). Meanwhile in Azerbaijan, the Safavid dynasty gradually gained power and continued its reign until 18<sup>th</sup> century, when it started losing its influence (Baranowski and Baranowski 1987, 57, 78-86, 96).

In 1805 the Russian Empire practically took over control over the Karabakh Khanate from Persia. It was officially confirmed by the Treaty of Gulistan that concluded the Russian-Persian war in 1813 (Potier 2001, 1) and then re-confirmed by the Treaty of Turkmenchay in 1823, which settled the Persian-Russian revenge war (Bazylow 2005, 256, Potier 2001, 1-2, Turkmanchayskiy mirnyy dogovor mezhdru Rossiyey i Iranom 1828). After a period of Russian religious tolerance, the Karabakh Khanate was abolished in 1822 and replaced with the Nagorno-Karabakh province with a military administration (Potier 2001, 1). Nonetheless, the Muslim (mostly Azerbaijanis) and Christian (mainly Armenians) inhabitants of Nagorno-Karabakh were co-existing peacefully. Thanks to the favourable social circumstances and rich soil, after including Nagorno-Karabakh in the Russian market, the region started developing dynamically (Adamczewski 2012, 51-52); i.e. Shushinsky Uyezd became one of the richest areas in the entire South Caucasus until mid-nineteenth century (Opisaniye gorodov 1850, 120). Over the years, the rivalry between Turkey and Russia led to wars in years 1828-1829, 1853-1856, and 1877-1878. Unstable political situation in Turkey stimulated Armenians to migrate from the Ottoman Empire to Tsarist Russia. Constantinople's fear of the potential Armenian uprising gradually contributed to occasional carnages of Armenians and the creation of "massacre culture", which culminated in genocide in 1915. This growing reluctance of Armenians towards Turkic people and *vice-versa* was later employed in order to increase Armenian-Azerbaijani antagonism (Peterson 2004, 22-25).

The Russian Empire saw the South Caucasus as a region of strategic importance and thus aimed at securing its power in the region through the colonial policy, i.e. relocating Armenians into the Nagorno-Karabakh province. The number of Armenians in Nagorno-Karabakh was gradually growing. According to the Russian Census of 1810, 20,83% of its population was Armenian, meanwhile in 1832 its Armenian share increased to 35% (Berzhe 1870, 38-39, Baguiro 2008). Resettlement was caused by the belief that Armenians, in comparison to Azerbaijanis, are culturally more alike Russians (Peterson 2004, 23-25). Moreover, they were considered to be more loyal to the Tsar and to further stimulate it, Russians offered financial aid to Armenians that settled in territories previously inhabited by Muslim Azerbaijanis (Griboyedov 1828).

Such policy drastically changed the ethnic map of the region and contributed to the growth of the socio-cultural gap between Armenians and Azerbaijanis, hence increasing antagonisms between the two nations. First Armenian-Azerbaijani clashes took place in 1905 in Baku, then Shusha, Ganja, Tbilisi, and eventually Yerevan. According to Zakrzewska-Dubasowa, events were provoked by the Tsarist administration to undermine revolutionary tendencies<sup>4</sup> by redirecting attention towards intensifying ethnic conflicts (1990, 220).

## **2.2. The Soviet Period**

The conflict escalated after the World War I, when Russia was submerged into chaos of the Bolshevik Revolution. After a brief attempt to cooperate as Transcaucasian Democratic Federative Republic, in May 1918 the Democratic Republics of Armenia, Azerbaijan, and Georgia each proclaimed independence (Ismailov and Papava 2008). Already then Azerbaijan took some steps in order to regulate the dispute with Armenia over Nagorno-Karabakh. As exposed in documents released in accordance with the Decree of the President of the Republic of Azerbaijan Heydar Aliyev, Azerbaijan was consulting the issue of Nagorno-Karabakh with the Ottoman Empire, and conceded Yerevan and Yerevan district to Armenia (Gosudarstvennaya Komissiya 1998). That did not solve the problem and the dispute exacerbated in 1919 again. Engaged and militarily present in the South Caucasus, Great Britain confirmed Azerbaijani authority over Nagorno-Karabakh in the circular issued in January 1919 by the Colonel D.I. Shuttleworth. Armenia refused to accept this solution and protested, and the ethnic tension stayed high (Geukjian 2016, 55-57).

Both Armenia and Azerbaijan lost their independence in 1920s, when they were incorporated into the Union of Soviet Socialist Republics. Despite the fact that Nagorno-Karabakh was inhabited by 94% of Armenians at that time, Bolsheviks that took over Baku maintained claims and control over the area, however, they granted it the status of autonomy (Tyrakowska 2009). In years 1920-1921 Nagorno-Karabakh was often changing hands between Azerbaijan and Armenia – in December 1920 the Revolutionary Committee of Soviet Azerbaijan stated that Nagorno-Karabakh, Zangezour, and Nakhchivan were to be controlled by Armenia, but Azerbaijani leader Narimanov later denied

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<sup>4</sup> Revolution of 1905 was triggered in the Tsarist Russia by the 'Bloody Sunday' in Saint Petersburg; eventually it was followed by the February, and October Revolution, leading to the creation of the Soviet Union in 1922.

the transfer. In spring 1921 both Nagorno-Karabakh and Nakhchivan were reassigned to Azerbaijani Soviet Socialist Republic due to the *Treaty of Brotherhood and Friendship* between the USSR and Turkey, which at the time was opposing strong Armenia. (Cornell 2001, 59-60). In July 1921 the authority over Nagorno-Karabakh was again transferred to Armenian SSR, but Narimanov opposed this decision, leading to its reversal. The region remained in the Azerbaijani SSR, but it was granted significant autonomy and in 1923 it officially obtained a status of the Nagorno-Karabakh Autonomus Oblast (NKAO) (Cornell 2001, 60).

The tension between Azerbaijanis and Armenians deepened in 1930s. The World War II posed an excuse for the further changes of the ethnic structure of the South Caucasus. Soviet leadership applied the rule of the collective responsibility on chosen ethnic groups, accusing them of collaboration with Nazi Germany. They mass deported whole groups of Turkic people and replaced them with Armenians and Georgians (Adamczewski 2012, 119-120).

In eyes of Armenians, Khrushchev's Thaw posed a great opportunity to cede Nagorno-Karabakh to Armenian SSR. In 1963 Khrushchev received a petition against the economic policy of Azerbaijan SSR signed by approximately 2,5 thousand Armenians. It stated that Azerbaijan intentionally economically neglects the NKAO. When Moscow did not take any action, unrest sparked in Nagorno-Karabakh, causing eighteen casualties. Next demonstrations happened in 1968 (Suny 2004, 377, Cornell 2001, 63). Riots and clashes took place also on 50<sup>th</sup> anniversary of the 1915 Armenian Genocide and authorities had difficulties in returning order (Suny 2004, 63-64, Szmurło 2013). A year later leadership of Armenian SSR sent a letter to Moscow with an official request to resolve the issue of Nagorno-Karabakh and Nakhchivan, and offered a suggestion to transfer both regions to Armenia. Even though the demands were ignored by the Soviet authorities (such a solution could pose a precedent and cause similar demands from other regions in the USSR), Armenia continued sending official documents of this character for next years (Szmurło 2013).

### **2.3. Conflict escalation and war**

The liberal developments of Perestroika led to the escalation of separatist tendencies in Nagorno-Karabakh. In 1987 the leadership of the NKAO issued another request to transfer the region to Armenian SSR. This appeal was based on the results of survey in which 42% of the NKAO's population supported that idea. This did not bring the desired results, thus another resolution seeking the handover was adopted on 20<sup>th</sup> February 1988 during the 20<sup>th</sup> convocation of delegates of the NKAO (Potier 2001, 6-7, Resheniye sessii ot 20 fevralya 1988). Moscow's refusal led to popular protests, manifestations, and even clashes in Soviet Armenia, Azerbaijan, and NKAO itself, i.e. to Sumgait pogrom in late February 1988, where the Azerbaijani demonstration evolved into brutal attacks and looting, and officially led to death of 32 people (26 Armenians and 6 Azerbaijanis) (de Waal 2003, 32-42).

Despite the mass violence outbreak, USSR continued supporting inviolability of borders, and took limited steps in order to normalise the situation. Moscow appointed Arkady Volsky a Representative of the Central Committee and the Supreme Soviet in the NKAO, and in January 1989 established a special authority in Nagorno-Karabakh – it was controlled from Kremlin and supervised by Volsky (Potier 2001, 6-7, Cornell 2001, 72-73, de Waal 2003, 67). According to de Waal, Volsky focused on the socio-economics, for instance on search for the new economic partners in Russia. Despite his best efforts, Moscow abolished the “Volsky mission” in November 1989 due to little success, and transferred control over the NKOA back to Baku (2003, 71).

On 1<sup>st</sup> December 1989 Supreme Soviet of Armenian SSR and the National Council of the NKAO issued a joint resolution on their reunification, referring to the principle of self-determination of nations. They also set up a joint commission to create a framework to pursue the reunification process (Yerevan International Service 1989). The resolution was denounced by the Azerbaijani SSR five days later as an impossible interference in its internal affairs and violation of its territorial integrity (Baku Domestic Service 1989). These declarations and constantly heightening nationalist tendencies in both Armenia and Azerbaijan further accentuated the conflict over Nagorno-Karabakh. The climax of these tensions took place in January 1990 (Black January). After the anti-governmental rally in Baku evolved into Azeri pogroms on Armenians (88 casualties), the Presi-

um of the Supreme Soviet of USSR declared the emergency state in Baku. On 20<sup>th</sup> January Soviet troops entered the city, brutally suppressed all the resistance, and caused chaos and dozens of deaths (according to official sources, death toll was over 100; according to the Azerbaijani Popular Front (APF) it was over 500 or even possibly thousands) (Cornell 2001, 75-75). Under such circumstances Azerbaijan was able to subject Nagorno-Karabakh to a total blockade, which resulted in famine and displacement of the population in that region (Adamczewski 2012, 153).

In 1991 the inter-communal clashes evolved into direct confrontations between armed units of both, Armenian and Azerbaijan SSRs, beginning with the Operation “Ring”. The action was conducted jointly by 23<sup>rd</sup> Motorized Rifle Division of the Fourth Army and Azerbaijani special-purpose militia brigades. It was tightly tied to policies of both Azerbaijan SSR and USSR, and beneficial for both of them. The former of them intended to weaken and demoralise Armenians, while the latter got an opportunity to discourage Armenian SSR from taking next step to achieve independence<sup>5</sup>. Officially Operation “Ring” aimed at disbandment of unauthorised armed militias under the legal pretext of the July 1990 presidential decree (Croissant 1998, 40-42). Meanwhile in Azerbaijan it was referred to as a “passport checking operation” – control of the internal passports that stated the *propiska* of Soviet citizens was used as an excuse by Azerbaijani authorities to eject the intruders and reinstate the order (de Waal 2003, 114-115). Despite the official narrative, Operation “Ring” caused the systemic mass extermination of Armenians (Kaldor 2007, 161-162).

The collapse of the Soviet Union resulted in the creation of new independent states and officially changed the status of the conflict from intra- to international. Azerbaijanis, and Armenians of the Nagorno-Karabakh Republic (NKR)<sup>6</sup> were conflict’s immediate parties, and Armenians from Armenia became a secondary party (Gamaghelyan 2005). Thanks to its active involvement in Soviet Armed Forces and the ‘armenisation’ of Soviet units stationed on its territory, Armenian army proved superior to Azerbaijani military forces (Adamczewski 2012, 183). In February 1992 Arme-

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<sup>5</sup> On 17th March 1991 republics of the Soviet Union participated in the referendum regarding the new Union treaty. Armenia (among six Soviet republics) refused to participate. Azerbaijan voted ‘yes’ and proved to be loyal, thus gaining support of Moscow.

<sup>6</sup> The NKR declared independence from Azerbaijan (thus also USSR) within the borders of the former NKAO and Shahumian region on 2nd September 1991 (Declaration on Proclamation of the Nagorno Karabakh Republic 1991).



nia took over Khojaly<sup>7</sup>, two months later Shusha, and it gained control over Lachin in May. Thanks to that Armenia was able to achieve its strategic goal to open a corridor connecting it to the Nagorno-Karabakh Republic around mountains. In years 1992-1993 Armenians definitely prevailed over Azerbaijanis, and since 1994 they controlled not only the former NKAO, but also its southwest territories (Adamczewski 2012, 190-197).

Azerbaijan made its last attempt to change the course of the war in late 1993. Two months after Heydar Aliyev was elected the President of Azerbaijan in June 1993, Azerbaijan became a member state of the CIS. The mid-December offensive was supposed to popularise the new regime and gain Russian support in the war (Areshev 2009, 96-97). Azerbaijan attacked on three fronts, after it forced the Armenians to retreat from the area east to Fizuli. The largest Azerbaijani attack took place in the beginning of 1994 and became the bloodiest known campaign of the Nagorno-Karabakh war – Azerbaijani forces defeated Armenian Vanadzor division and the battalion consisting of 240 people near the village Charply (Shirokorad 2009). Armenian counterattack (supported by Russia) destroyed Azerbaijani units, with a death toll of 5,000-8,000 Azerbaijanis and 500-2,000 Armenians. Last big Armenian operation (April 1994) resulted in the trench warfare, which was especially difficult for Azerbaijan due to the economic crisis and decreased morale of its army (Adamczewski 2012, 196-197). Under such circumstances peace negotiations started. Russia – as a main mediator and a representative of the CIS – led to the conclusion of the ceasefire treaty on 5<sup>th</sup> May 1994 in Bishkek (The Bishkek Protocol 1994).

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<sup>7</sup> Armenian attack on Khojaly forced the local population to run from the city. Offenders fired on civilians, which resulted in the biggest massacre of the Nagorno-Karabakh war. According to sources such as a report *Bloodshed in the Caucasus* by the Human Rights Watch, the definite number of victims is impossible to establish. Over 300 bodies presented the evidence of violent death, unknown number of people died due to frostbite. Among casualties were women, children, and elderly (Human Rights Watch 1992).

*CHAPTER 3*  
*PEACEMAKING PROCESS*

**3.1. Peace negotiations since 1990**

First attempt to settle the Nagorno-Karabakh conflict took place after the Black January in 1990. The negotiations were held in Ryga, Latvia, between the Azerbaijani Popular Front Party and Armenian All-National Movement, but the parties were not able to achieve any agreement and talks proved unsuccessful. Leaders of USSR brought to the table the authorities of Armenia and Azerbaijan to officially discuss the adherence of Nagorno-Karabakh for the first time. However, both parties presented completely opposing standpoints and neither of them wanted to compromise. Azerbaijan emphasised the territorial integrity of its state, meanwhile Armenia accentuated the nations' right of self-determination; both parties referred to the same document, namely the Helsinki Accords of 1975 (Adamczewski 2012, 53-54)

Due to its gradual dissolution, the Soviet Union lost its ability to directly influence Armenia and Azerbaijan. But its collapse also caused the internalisation of the conflict, and led to the first major attempt to resolve it. Mediations under the aegis of Boris Yeltsin and Nursultan Nazarbayev started in September 1991. Already on 23<sup>rd</sup> September parties agreed on a joint communiqué committing them for instance to disarm, withdraw armed forces from the conflict zone, and permit the return of refugees (Eichensehr and Reisman 2009, 54-55, Zheleznovodsk Declaration 1991). Two days later they also signed the ceasefire agreement, but neither of the documents planned specific procedures of its implementation due to the assumption such measures would be established during next meetings (Adamczewski 2012, 159-161). The follow-up talks in October did not bring any further developments; meanwhile the fights intensified, and the agreement was harshly criticised in Azerbaijan, thus Yeltsin-Nazarbayev effort to settle the conflict was unsuccessful (Eichensehr and Reisman 2009, 54-55). However, the *Zheleznovodsk Declaration* set the right direction to the peacemaking process and emphasised sovereignty of both Armenia and Azerbaijan.

Soon after, the Belavezha Accordss (8<sup>th</sup> December 1991) declared the dissolution of the USSR and established the CIS in its place. The agreement was originally signed by Presidents Boris Yeltsin of Russian Federation and Leonid Kravchuk of Ukraine, and the Chairman of the Supreme Soviet of the Republic of Belarus Stanislav Szuskevich, and then also by seven other post-Soviet states<sup>8</sup>. This document specified key rules of the CIS, such as democracy, rule of law, respect for the International Public Law, and compelled its member states to peacefully resolve their conflict (Alma-Atinskaya deklaratsiya 1991). Hence, through joining the CIS in 1993, Azerbaijan as well as Armenia became *de iure* obliged to settle the Nagorno-Karabakh conflict without force. The CIS continued organising the regular meetings for Armenia and Azerbaijan, initiated by Yeltsin and Nazarbayev, and kept them on the highest level. In September 1993 in Moscow took place an official meeting of Levon Ter-Petrosyan and Heydar Aliyev, and unofficial meeting of the latter with the Karabakh Armenians' leader at that time, Robert Kocharyan (Adamczewski 2012, 293). Since the beginning of 1994, the CIS intensified its peacemaking efforts – in February the organisation suggested a conflict solution, and in April it organised the summit of the Council of the Heads of State (Zayavleniye Soveta glav gosudarstv SNG po konfliktu w Nagornom Karabakhe 1994). At this meeting Russian mediator managed to finalise the ceasefire agreement, which was signed on 5<sup>th</sup> May 1994.

Unfortunately, the agreement brought fragile peace and did not settle the conflict completely; moreover it was violated repeatedly. While the influence of the CIS on the conflict gradually declined, the role of the Organisation for Security and Co-Operation in Europe (OSCE)<sup>9</sup> rose since Armenia and Azerbaijan became its members in January 1992 (OSCE 1992). In March 1992 the OSCE established a Minsk Group<sup>10</sup> as a framework for conflict resolution and a platform for Armenian-Azerbaijani negotiations, and in 1995 appointed its Co-Chairmen and a Personal Representative of the OSCE Chairperson-in-Office on the Conflict (OSCE The Secretariat of Conflict Prevention Centre 2013, Hungarian OSCE Chairmanship 1995). In 1997 the Minsk Group pro-

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<sup>8</sup> Armenia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan joined the CIS on 21<sup>st</sup> December 1991 through signing Alma-Ata Protocols. Azerbaijan signed the document also, but did not ratify it until 1993, when Heydar Aliyev became the President.

<sup>9</sup> The OSCE evolved from the Conference on Security and Co-Operation in Europe; its name was altered by a decision of the 1994 Budapest Conference.

<sup>10</sup> The Minsk Group started as the Conference on Nagorno-Karabakh under the auspices of the OSCE (the Minsk Conference).

posed a 'step-by-step' plan that stipulated Armenian withdrawal from the occupied territories, demilitarisation of Nagorno-Karabakh, and further negotiations on the matter of the Nagorno-Karabakh's status within Azerbaijan. Armenia and Azerbaijan received it very enthusiastically, but Karabakh Armenians refused to accept the solution that would not offer them independence (de Waal 2003, 258-261). In 1999 – for the first time since the Moscow talks in 1993 – Presidents Robert Kocharyan of Armenia and Heydar Aliyev of Azerbaijan unofficially met in Washington, and again a few months later in Istanbul during the OSCE summit. Even though it did not bring any major change, the positive approach of the conflict parties during these meetings on the highest level were considered as a good sign for the conflict resolution (Adamczewski 2012, 279, OSCE 1999, 53).

2001 was supposed to be a turning point in the conflict resolution process. Just after the meeting in Paris, the most intense (and expensive) negotiations took place in Key West, United States. Despite the new form of talks (they were confidential and complemented by the support of Minsk Group experts) and the fact that parties reached an agreement on 80-90% of issues according to mediators, no treaty was signed (de Waal 2003). Neither was it signed in Prague in 2004 but that meeting was concluded with the establishment of the *Prague Process* – the cycle of negotiations between Armenian and Azerbaijani foreign ministries in order to implement conflict resolution plan. The proposal assumed a combination of complex and gradual settlement. Armenians would have to withdraw from five of seven occupied regions and permit the return of refugees. Simultaneously, borders between Azerbaijan and Armenia, and Armenia and Turkey would be opened. Then the step-by-step approach assumed a next stage – referendum on the status of Nagorno-Karabakh held in Azerbaijan 10-15 years later (B. A. Graham 2009). That conception was altered already in 2007 in Spain with the *Madrid Principles*. Instead of combining the complex and gradual approaches, it proposed step-by-step conflict resolution, starting from steady withdrawal of Armenian forces from the occupied territories. It also suggested a special regime for Lachin and Kelbajar corridors due to their strategic meaning (OSCE 2011).

The Georgian-Russian war in August 2008 illustrated how quickly the *frozen conflict* might transform into a regular military confrontation and threaten the stability of the entire region. Hence, it was a strong impulse to intensify the efforts to settle the Nagorno-Karabakh conflict, especially from the Russian perspective (Pashayeva 2010, 61-63, Tadevosyan 2010, 16-17). In Fall 2008 Russian President Dmitry Medvedev initiated and mediated the meeting between Presidents Serj Sargsyan of Armenia and Ilham Aliyev<sup>11</sup> of Azerbaijan. It was concluded with the *Moscow Declaration*, which referred to the *Madrid Principles* and obliged parties to settle the Nagorno-Karabakh conflict and bring stability and security to the region (Śmigielski 2009, Deklaratsiya Azerbaydzhanskoy Respubliki, Respubliki Armeniya i Rossiyskoy Federatsii 2008). The *Madrid Principles* were also confirmed by the Minsk Group Co-chair states in July 2009 in *L'Aquila Joint Statement* signed during the G8 meeting, *Muskoka Joint Statement* in June 2010 at the OSCE Summit in Astana in December 2010, and in *Deauville Joint Statement* in May 2011 at the Summit of the Eight (Declarations of the OSCE Minsk Group Co-Chairs 2009-2011 2011). None of these declarations enforced much progress in the conflict resolution and the situation was stagnant; meanwhile the relations between Armenia and Azerbaijan deteriorated.

### **3.2. Exacerbation of the conflict in years 2012-2016**

In 2012 Azerbaijan managed to negotiate the extradition of Azeri officer Ramil Safarov, who killed an Armenian soldier Gurgen Markarian in Hungary in 2004. Safarov was not only greeted as a hero in Baku, but he was also pardoned and freed from the term of his punishment by the President Ilham Aliyev (de Waal 2013, Rasporyazheniye Prezidenta Azerbaydzhanskoy Respubliki 2012). This incident negatively influenced Armenian-Azerbaijani relations and negotiations.

Tensions between Armenia and Azerbaijan began increasing again since the beginning of 2014; weeklong fights in January caused 4-20 deaths (Freizer 2014). Another escalation occurred in July-August and it resulted in unprecedented number of casualties – at least 15 soldiers from Azerbaijan and 7 Karabkh Armenians. The incident happened just a few weeks after the parties of the conflict met in Paris in order to discuss developments of the peacemaking process. On 12<sup>th</sup> November

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<sup>11</sup> Ilham Aliyev was elected a President of Azerbaijan and replaced his father Heydar Aliyev in 2003. According to the OSCE/ODHIR elections did not meet democratic standards (OSCE/ODIHR 2003).

Azerbaijan shot the Armenian Mil Mi-24 near the 1994 demarcation line most likely causing death of the 3-men crew (Jarosiewicz, 2014). These events might be a result of the growing military disproportion between the conflict parties, but they also might be accelerated by the Ukraine-Russia conflict that started in 2013 and escalated throughout 2014. According to Thomas de Waal, the case of Crimea vote could pose a good precedent for Nagorno-Karabakh (2014). The situation was mitigated by the individual meetings of the President Vladimir Putin with Ilham Aliyev, and Serj Sargsyan that resulted in the confidential three-party talks in August 2014 in Sochi (Vstrecha s Prezidentom Azerbaydzhana 2014, Vstrecha s Prezidentom Armenii 2014).

In 2015 the Co-chairs of the OSCE Minsk Group organised the summit for the Presidents of Armenia and Azerbaijan in order to clarify their stands on the Nagorno-Karabakh conflict (OSCE 2015). Despite their declarations of commitment to the Minsk Group format and readiness to settle the conflict, in April 2016 fights erupted again on unprecedented scale. The military confrontation renewed at night of 1<sup>st</sup> to 2<sup>nd</sup> April and due to its intensity currently is often referred to as “four-day war”. Azerbaijan managed to alter somewhat the demarcation line in their favour, but parties seemed militarily equal. Clashes ended unexpectedly with the ceasefire declarations of Karabakh Armenians, Armenians, and Azerbaijanis on 5<sup>th</sup> April (Jarosiewicz and Falkowski 2016).

According to Shalala Mammadova, a head of the Research and Development Department at Azerbaijan University of Tourism and Management, *Azerbaijani officials and the mass media reported the Armenian forces’ sneak attack and the Azerbaijani Army’s retaliatory measures* (2016, 12), but other authors, such as Thomas de Waal, Aleksandra Jarosiewicz, Maciej Falkowski or Vicken Cheterian claim that it is more likely that Azerbaijan initiated fights (de Waal 2016, Jarosiewicz and Falkowski 2016, Cheterian 2016). This incident as well as fights in 2014 proved that the influence of the OSCE Minsk Group is declining; meanwhile the significance of Russia for the conflict and its settlement increased. Also the developments of the period 2012-2016 demonstrated that parties might be encourage by some factors to maintain the *status quo* and deter from the resolution, either peaceful or military.

### **3.3. Stands of the engaged parties**

Even though the international community actively attempts to bring peace to the South Caucasus, it seems that Nagorno-Karabakh conflict parties cannot reach a compromise. None of described above propositions of the conflict resolution is satisfying to Armenia, Azerbaijan, and the Nagorno-Karabakh Republic simultaneously. Proposals such as 1997 ‘step-by-step’ plan or 2007 *Madrid Principles* were accepted enthusiastically by Armenia and Azerbaijan. However, those solutions do not guarantee the NKR full independence and international recognition, hence they are not satisfactory for the authorities of this *de facto* republic. Moreover, negotiations focus more on Armenia and Azerbaijan as full members of international community and often neglect the NKR as a party of the peacemaking process. Thus, albeit negotiations seemingly do not have many shortcomings from the perspective of disputed states and could possibly eventually lead to the ultimate resolution, the NKR continues to favour the status quo over proposed solutions and it is not willing to compromise.

## CHAPTER 4

### *DOMESTIC ECONOMIC REGIME OF THE NAGORNO-KARABAKH REPUBLIC*

#### **4.1. Overview of economy of the Nagorno-Karabakh Republic**

Economy of the Nagorno-Karabakh region was severely damaged especially by the war in 1988-1994 and its recovery was curbed by the international status of the Nagorno-Karabakh Republic as an unrecognised state, and the economic blockade imposed by Azerbaijan and Turkey. Thus, the Nagorno-Karabakh Republic's economy is heavily dependent on Armenian support (especially due to the fact that their markets are highly interdependent) and the financial aid of Armenian Diaspora. (B. A. Graham 2009, Czachor 2015). Moreover, the economic development of the region is delayed by the “neither war, nor peace” state (Tadevosyan 2010). However, according to the official data provided by the Nagorno-Karabakh Republic's National Statistical Service, despite all the obstacles, GDP as well as GDP per capita of the NKR grew steadily in the timeframe 2008-2014. GDP increased from 87148.1 million Armenian Drams<sup>12</sup> in 2008 to 135498.5 million AMD in 2011, and to 188840.3 million AMD in 2014. Meanwhile, GDP per capita rose from 623.1 thousand dram in 2008 to 936.1 thousand AMD in 2011, and to 1268.1 thousand AMD in 2014 (and the population number also raised from 139.9 thousand in 2008 to 148.9 thousand in 2014) (Natsional'naya Statisticheskaya Sluzhba NKR 2015, 26).

In order to transition from a command into a market economy with limited government regulation, economic reforms were introduced soon after the cease-fire agreement. According to the data of the Office of the Nagorno-Karabakh Republic in the US, price liberalisation resulted in an increased number of goods available for people and – even despite the currency devaluation – it provided an impulse for the population to engage in entrepreneurial activities (especially small and medium businesses due to the state's gradual withdrawal from economy). The economic reform

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<sup>12</sup> On 27<sup>th</sup> July 2016 the exchange rate of Armenian Dram (AMD) to US Dollar (USD) was 1=0.00210, and to Euro (EUR) 1=0.00191. Armenian Dram is the currency used in the NKR; however in 2005 the ‘souvenir’ currency Nagorno-Karabakh Dram (NKD) was introduced =. It was ordered by the Educational Coin Company located in Highland, New York, and printed in late 2004 by the Österreichische Staatsdruckerei (Austria State Printing House). Currently it is possible to buy 2 and 10 NKD notes at the numismatic auctions and in the on-line stores (Airapetian and Gryckiewicz 2009, 342).



aimed at accomplishing economic stabilisation, establishing market infrastructure, and initiation of the privatisation process in 1995 completed in 2005 (Economic Reforms, NKR National Assambly 2005). These aspects constitute three first conditions for the successful transition to market economy, according to Anatoly A. Sobchak (1991). Reforms were continued in 2000 with the tax reform that significantly reduced taxes and social payments, creating favourable conditions for foreign investments (NKR National Assambly 2005). The tax reform was amended in 2014, simplifying the calculation method as well as creating a favourable legal framework for the implementation of pension reforms (Pravitel'stvo odobrilo proyekt "Byudzheta 2014g" 2013). This welfare system was also created in order to provide an incentive for the demographic boost (despite the economic cost of such support), because population growth is one of the priorities of the NKR (Adamczewski 2012, 410). Nevertheless, the NKR's economy is still not self-sustainable, thus it attempts to attract foreign investors with the tax exemptions or lack of export duties (10 Reasons to Invest in NKR). Sectors that contribute to the NKR's GDP the most are: mining, hydro-energy, agriculture, alcohol production (especially mulberry spirits manufactured by the Artsakh Brandy Company), and tourism. Rich deposits of copper and gold are mostly extracted by the company "Base Metals". The Nagorno-Karabakh Republic is self-sufficient when it comes to electricity – the hydropower plant "Sarsang" covers more than half of the demand (Adamczewski 2012, 410, Sharrow 2007). Nagorno-Karabakh's rivers move towards Azerbaijan, thus the unresolved conflict negatively affects Azerbaijani economy, since Azerbaijan's water resources are not under its control (Valigholizadeh and Karimi 2016). Moreover, Nagorno-Karabakh's climate, its grasslands and soil are very favourable for the agriculture's development (Sharrow 2007).

The conflict itself as well as economic blockade contributed to the creation of this particular economic dynamic that is both a feeder and a outcome of this "no war, no peace" situation. However, the blockades are not impermeable, which creates an opportunity for the development of unregulated trade across borders (Champain 2005). Thus, illegal weapons and drugs trade largely contributed to partial sustainability and independence in Nagorno-Karabakh (Howard and Traugher 2009, 378). Due to the lack of necessary regulations, unofficial trade is not a subject of taxation, hence it negatively influences fiscal situation of any involved state, mainly Armenia, Azerbaijan,

and the NKR. It means that services provided normally according to democratic rules are being delivered inconsistently, which most likely contributes to the development of corrupt networks.

Academic literature focusing *per se* on the economy of the NKR is insufficient; hence the majority of the collected data comes from the sources of Armenian and Karabakhi origin. It is important to acknowledge that because they aim at the promotion of the Nagorno-Karabakh Republic, thus might not be fully reliable and might present most optimistic results. However, they also lead to conclusion that economic policy of the NKR attempts to incite the demographic growth through favourable socio-economic system, and to stimulate its economy through Foreign Direct Investments. Comparable assumptions are presented by Przemysław Adamczewski in *Nagorno-Karabakh in Politics of Independent Azerbaijan* (2012, 410-411).

#### **4.2. The correlation between the conflict and domestic economy**

Regimes of the South Caucasus states evolved under similar circumstances – separatist tendencies and progressing clan rivalry – thus all of them could be characterized by the distinct domination of the president and the informal personal network of elites concentrated around him. Moreover, legal instruments and mechanisms of South-Caucasian states are often being broken and abused on the highest level and in the deliberate manner in order to achieve political and economic goals and eliminate competition (Fedorowicz 2015). The links between conflict, governance, and corruption can be complex and interdependent, and often corruption undermines public trust in authorities and for this reason it poses one of the common factors of the state destabilisation. In South-Caucasian states, rulers, powerful and competing clans, and oligarchs and elites often have shared stakes – the conflict is just a tool in their hands to create for instance “violence and protection” market (United States Institute of Peace 2010, 7-8). Moreover, presence of a hated enemy is beneficial for such regimes – their leaders can present themselves to the population as the only alternative to unstable and hostile reality (Johnston 2009).

Those features could be also associated with patrimonial capitalism, an economic order typical to post-Soviet region (with the exception of Lithuania, Latvia and Estonia). This system operates throughout various patron-client relationships and, according to Rene Lemarchand, *clientelism and*

*ethnicity have seldom operated independently of each other* (Lemarchand 1972, 69). Ukana B. Ikpe applied it to the case study of Nigeria and came to conclusion that *political elites rely extensively on mobilization of ethnic sentiments and solidarity for electoral support or political blackmail* (2009, 683). Despite the fact that the population of the Nagorno-Karabakh Republic is quite homogenous, its elites can draw from those sources (ethnic sentiments) thanks to the perpetuation of the unresolved conflict and ethnic hatred, and thus, build up and secure their political and economic position. Hence, the existence and survival of the patrimonial capitalism in the NKR might pose an incentive for the conservation of the *status quo*, since they seemingly reinforce each other. Hence, in order to find out whether the NKR favours the *status quo* over conflict resolution because its current economic situation is beneficial to the regime's key figures, it is necessary to examine the extent of the presence of patrimonial capitalism's indicators and symptoms in the Nagorno-Karabakh Republic.

Patrimonial capitalism follows certain rules and mechanisms of formal and informal character. Due to typical absence of rule of law, the unofficial principles might be equally or even more important than official ones and because of that they often contradict one another. Law is usually applied in a selective way, rather to serve the ruling elites than the whole population (Schlumberger 2008). Patrimonial capitalism also takes various forms and it has commonly the democratic façade, depending on the power concentration levels as well as diverse consolidations of the elites. Thus, even when political actors compete within formal electoral mechanisms in the democratic manner, if their objective is the state capture as a main benefit, this system could be still classified as neopatrimonial democracy (Fisun 2012, 92-94). The co-optation of the elites and social nonparticipation are just some of the possibilities in hands of the incumbent regime functioning in the patrimonial capitalism. In order to build up the network of clients and marginalise the opposition, patron uses state's economic resources, frequently employing the 'divide-and-rule' strategy. Typically, the narrow group of the high level clients constitute the winning coalition of the state; simultaneously the selectorate remains large in order to maintain the illusion the common access to power (Mesquita, et al. 2001). The key positions are commonly obtained rather because of personal relationships instead of the candidate's qualifications. The network created this way in the post-Soviet space is often called *blat*' (Onoshchenko and Williams 2013). Meanwhile, the selectorate is not encouraged

to participate in the political life. Just the contrary, the regime can follow the ‘no taxation-no representation’ rule *via* the adequate fiscal policy.

### **4.3. Indicators of patrimonial capitalism in the Nagorno-Karabakh Republic**

One of the consequences of political clientelism is that politics evolves into a kind of business, since political resources provide access to economic resources. Thus neo-patrimonialism and patrimonial capitalism both encourage economic growth to produce a surplus to extract, then mode the extraction process, and finally redistribute it in order to nurture political support (Médard 2014) That means that economic resources are essential in order to establish patron-client network. As outlined in the beginning of this chapter, the Nagorno-Karabakh Republic territory is not reach in energy sources such as oil or gas, and – due to economic blockade and the lack of international recognition – its economy is not developing rapidly. However, illicit economic activities such as trade of drugs or illegal weapons in the region are not a subject of taxation and they are a source of great revenue available for extraction. Nagorno-Karabakh conflict feeds the illegal market, thus its resolution would not be beneficial for the patron and his clients. Also, the progressing privatisation process creates some opportunities for the development of the patronage network.

Since the independence proclamation in 1991, six presidential elections were held in the Nagorno-Karabakh Republic and two of the presidents, Arkady Ghukasyan and Bako Sahakyan, were re-elected for the second turn. Importantly, in 2006 Arkady Ghukasyan created a precedent as he decided to leave the post instead of extending his rule, as happens in the post-Soviet states<sup>13</sup>, as the Constitution of the NKR was adopted later in December 2006. That indicates that none of the NKR’s presidents took serious steps to consolidate perpetual power and turn into an incontestable patron. However, presidential elections in 2007 caused some controversies, being criticised for the use of state resources in order to impact the outcome of voting in favour of and by the winning candidate, Bako Sahakyan (Beacháin 2015, Freedom House 2008, Amelina 2007). Allegedly, Sahakyan won also partly thanks to the protection and open support of Ghukasyan, which might pos-

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<sup>13</sup> Constitutions of Azerbaijan, Belarus, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan were altered in order to grand their presidents more power and extend their ability to act as presidents, and drastically shifting the balance of power and led to change of the political regimes. However, president of Uzbekistan Islam Karimov died on 29<sup>th</sup> August 2016, sparking a succession discussion not only domestically but also worldwide (Standish 2016).

sibly be more related to *blat*' than Ghukasyan's trust in Sahakyan capabilities, because the latter had military, not political experience (Markedonov 2014). Similarly, Sahakyan used administrative state resources during the presidential campaign in 2012. According to the NKR Prime Minister since 2007<sup>14</sup> Arayik Harutyunyan, Sahakyan run a moderately low-budget campaign (6 million AMD, which equals 15 thousand Euro) partly due to forty campaign offices that he was provided with for free and that enabled large operation (Harutyunyan 2012). Nevertheless, neither Ghukasyan nor Sahakyan seem to consolidate enough power to become a strong patron and manage the complex network of clients. Due to the economic circumstances, production and revenue surplus that could be extracted and used to redistribute among the elites to gain their support and loyalty is insufficient for that purpose. Moreover, it seems that economic elite in the Nagorno-Karabakh Republic has yet not emerged.

Early elite of the Nagorno-Karabakh Republic could be divided into two categories: intellectuals and artists, and a new political and military elite. The former group is older, ideological and history-conscious and originates from the Soviet era activists that initiated "Karabakh Movement" in the late 1980s and created a base for the academic life in the NKR. Meanwhile, the latter group is comprised of younger people that surfaced after the declaration of the NKR's independence and were engaged in the Armenian-Azerbaijani war over Nagorno-Karabakh (Tchilingirian 1999). The people that belong to the second group currently hold important governmental positions and constitute the ruling elite, which pursues *outwardly civic politics ostensibly rooted in multiparty politics* (Broers, 2005b). Meanwhile, similarly to the patron emergence, the economic obstacles curb the development of business elite and oligarchs as well. This group remains very small, yet powerful and limits business opportunities for the rest of the society (Freedom House 2016). Those engaged in criminal activities such as illegal arms or drugs trade remain unknown, most likely protecting their identity.

The strategy of co-optation commonly used in patrimonial capitalism cannot be employed in the Nagorno-Karabakh Republic. The ruling elite might use this technique in order to interconnect with the strategic and influential military and business actors, and maintain the linkage between the

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<sup>14</sup> Arayik Harutyunyan was also a manager of the presidential campaign for Bako Sahakyan in 2012.

selectorate and possibly narrow winning coalition. Chances of joining the ruling group are low due to its size, which helps to reduce the costs of the regime maintenance. Simultaneously, the leader maintain the loyalty of the population by upholding the illusion of accessibility of the winning coalition, because any citizen has right to do enter it, if chosen (Mesquita, et al. 2001) National leader and patron can use the resources redistribution to persuade military and economic elite not to obstruct interests of the incumbent regime (Gerschewski 2013). Also due to the economic obstacles (no gas or oil reserves, economic blockade curbing economic growth), employment of the co-optation strategy by the NKR's regime seems to be extremely low, because the leader does not have resources that they could use in order to manipulate elites. The political system of the NKR confirms this; the multi-party system, turnover of politicians (including the president), and progressively more and more democratic elections prove that not only selectorate, but also the NKR's winning coalition is broad. International observers reported that most recent 2015 parliamentary elections were a significant improvement over the 2010 vote, because, unlike in 2010, also the opposition parties took part in elections. Similarly, the presidential elections were higher assessed by the observers due to the genuine participation of the opposition candidate, Vitaly Balasanyan. However, during both 2007 and 2012 presidential elections the predicted winner Bako Sahakyan was accused of administrative resources misuse during his campaign (Freedom House 2016). This means that the incumbent regime does not attempt to marginalize or prosecute opposition, however it seems that top figures still abuse state resources in order to influence the results in their own favour.

Due to low taxation and many free social services, it might seem that the ruling elites use fiscal policy in order to numb the society according to *no taxation – no participation* rule. Typically, it regards states rich in resources, such as Azerbaijan or Kazakhstan, that can sustain the impression of developing its economy and simultaneously satisfy its essential needs of its population (Franke, Gawrich and Alakbarov 2009, 123-124). The fact that the Nagorno-Karabakh Republic does not belong to this category of states indicates that there are other reasons behind this particular fiscal policy. Taxes pay an important role in the budget of the NKR and, according to the official data of the Tax Service of Nagorno-Karabakh, contribution of taxes on i.e. income, profit, nature utilisation and protection to the NKR's budget grows steadily since 2005 (Nalogovaya sluzhba

Nagorno-Karabakhskoy Respubliki 2015). The personal income tax currently stands at 5% and remains at this level since 2000-2002 reform, when it was decreased from 30%; meanwhile the land tax was reduced from 15 to 6% (Ayrumyan 2002). The income tax is imposed on the gross income reduced by the deductible income i.e. insurance indemnities, scholarships paid by the state to students or personal deductions that depend on the category of the taxpayer, such as Artsakh heroes or parents and spouse of servicemen that perished when defending the Nagorno-Karabakh Republic (Tax Service of Nagorno-Karabakh Republic 2015).

Simultaneously, government of the NKR offers its citizens benefits from the social welfare system, such as basic health care or free primary and secondary education. Also some of the medical expenses are refundable. Moreover, the government subsidizes up to a half of mortgages and it fully covers the house building costs in cases of families with six children and more. Such developed welfare system causes the high budget deficit, which is annually countered thanks to Armenian subsidization (Adamczewski 2012, 410-411). With help of such preferential tax rates the NKR's government attempts not only to attract foreign investors, but foremost to create favourable circumstances for families and ultimately stimulate demographic growth<sup>15</sup>.

Economic regime of the NKR seemingly does not fall under patrimonial capitalism; however, it is still prone to illicit business and demonstrates some of the symptoms of patrimonial capitalism, i.e. the abuse of the state resources by authorities. While conflict resolution could be an impulse for the economic growth and a chance for the prosperity, its perpetuation feeds unregistered illegal sectors, such as drug and human trafficking and arms trade. Hence, engaged in them influential actors would favour *status quo* and try to maintain it as long as possible. While a part of economic elite of Armenia is closely linked to Nagorno-Karabakh, there is too little evidence in both academic and grey literature to disprove the absence of the patronage network in the Nagorno-Karabakh Republic, but the economic aspect of the “no war, no peace” situation might provide also other incentives, such as financial benefits.

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<sup>15</sup> This concept is not supported by principles of the International Public Law and could be difficult to accomplish, but it is still popular among Karabakh Armenians.

*CHAPTER 5*  
*ECONOMY OF THE NAGORNO-KARABAKH REPUBLIC*  
*IN THE INTERNATIONAL CONTEXT*

**5.1. Economic ties of the Nagorno-Karabakh Republic with states**

Due to the geopolitical isolation, the Nagorno-Karabakh Republic remains economically dependent on external actors. The NKR does not have any official economic (nor diplomatic) relations with any other state, because such action would mean *de facto* recognition. Also, many of the international expert organisations that focus on sustained economic development, such as World Bank, International Monetary Fund or United Nations Development Programme do not participate or support economic development of the NKR. However, the NKR holds seven offices abroad, such as the NKR Permanent Mission in the United States & Canada, the NKR Permanent Representation in the Russian Federation, the NKR Permanent Representation in the Republic of Armenia or the NKR Permanent Representation in the Middle East Countries. Besides them, it also has offices in Australia, France, and Germany (Office of the Nagorno Karabakh Republic 2015). Despite the fact that one of the main objectives of these institutions is to help Armenians of Nagorno-Karabakh and promote the NKR abroad, they do not have official diplomatic or consular character. Even though they are founded with the cooperation of *de facto* authorities of the NKR, they are in fact established by the citizens of the hosting country, for instance The Office of NKR in the USA was requested by a Decree of the NKR President Arkady Ghoukasian, but registered by the Armenian Assembly of America with the US Department of Justice (Office of the Nagorno Karabakh Republic 2015).

Despite its international status, the NKR maintains trade relations, primary with the member states of the Commonwealth of Independent States. According to official data provided by the NKR Permanent Representation in France, in 2013 export of Nagorno-Karabakh amounted to EUR 44,8 million, meanwhile its import reached EUR 202,2 million; mining products as well as food constituted majority of both export and import (Représentation du Haut-Karabagh en France 2014). Meanwhile in 2014 export increased to USD 64,6 million (EUR 58,3 million) and import to USD



301,9 million (EUR 272,3 million) but in 2015 the level of export reached only USD 62,0 million (EUR 55,9 million) and import only USD 252,4 million (EUR 227,7 million)<sup>16</sup> (Natsional'naya Statisticheskaya Sluzhba NKR 2015, 72). It is important to emphasise that data on economy of the NKR is rare; hence it is important to emphasise that data that originates from sources prepared by the Nagorno-Karabakh Republic and Armenia might not be fully reliable. It is nearly impossible to compare official statistics and facts because the internal situation of the NKR is not a common subject in academia and there is not much analogous information offered by scholars.

Nagorno-Karabakh is militarily and financially supported by some international actors, foremost Armenia, which vehemently denies that. According to Heiko Krüger as well as Przemysław Adamczewski, Armenia largely contributes to the budget of Nagorno-Karabakh, covering its deficit every year (Krüger 2010, 51, Adamczewski 2012, 410). Armenia is regarded as a patron state of Nagorno-Karabakh – it supports its armed forces financially and performs as a fundamental economic lifeline for the NKR. It also grants the *de facto* state a so-called interstate loan, which in first years of the existence of the NKR constituted the vast majority of its budget, which was still comprised of more than 70% of Armenian financial sources in 1999 (Zourabian 2012, Caspersen 2013, 55-57, Ayrumyan 2002). Armenia continues to subsidize the NKR's budget because, despite the gradual economic development of the latter, Nagorno-Karabakh's high social expenditures (up to 40% of its GDP) yearly lead to the budget deficit (Adamczewski 2012, 410). Moreover, Armenian currency is simultaneously used in the Nagorno-Karabakh Republic, and Armenia remains the main market for Nagorno-Karabakh's products and forms the only official link to the rest of the world<sup>17</sup>; thus those two entities are often considered to be a single space (Caspersen, 2013, 55-57). The financial resources that the NKR receives from Armenia as well as from Armenian Diaspora is being managed by a small group of elites who have connections outside of Nagorno-Karabakh. They are able to gain a sizeable profit throughout financial embezzlement, using commercial banks and employing various strategies, such as delaying assorted payments to i.e. army or altering costs of construction projects (Ayrumyan 2002, Freedom House 2016).

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<sup>16</sup> Numbers are calculated basing on the average Euro and Dollar exchange rate in 2015 provided by the European Central Bank (European Central Bank 2016)

<sup>17</sup> For instance, population of Nagorno-Karabakh uses Armenian passports in order to travel abroad.

Other external international actors strongly linked to the Nagorno-Karabakh Republic are Russian Federation and the US. Both states are actively involved in the peacemaking process as Co-Chairmen of OSCE Minsk Group<sup>18</sup> and neither of them is officially directly economically tied with the NKR. However, Russia and the US remain top destinations for the Armenian migrants and thus, due to their large Armenian Diaspora both states have a strong connection to Armenia and Nagorno-Karabakh on the personal level (Mansoor and Quillin 2006, Adamczewski 2012, 348, 358).

According to Adamczewski, approximately 70% of investments in the Nagorno-Karabakh Republic comes from Armenian Diaspora, majority of which lives in Russian Federation. They comprise the business group most desired by the NKR because they are driven not only by the economic profit but also personal relation with the region and thus, often they engage in social projects and charity actions (Adamczewski 2012, 411, Sotsializm s Karabakhskim Litsom 2008). The example of such behaviour is presented by Levon Hayrapetyan, whose financial assistance helped to renovate and modernise village Vank (region of Martakert) throughout the years (Levon Ayrapetyan: patriotizm u menya v krovi 2016). However, in April 2016 Hayrapetyan was sentenced to four years in prison on charges of fraud of USD 700 thousand (Biznesmen Ayrapetyan osuzhden na 4 goda za moshennichestvo 2016). The NKR is also a subject of interest of some Russian businessmen, for instance it became also a refuge for German Sterligov and his family in 2015 (Pervyy rossiyskiy oligarkh German Sterligov pokinul Rossiyu i uyekhal v Nagornyy Karabakh 2015).

Diplomacy of the US still considers the Nagorno-Karabakh Republic to be a separatist, predominantly ethnically Armenian region located within borders of Republic of Azerbaijan<sup>19</sup> (U.S. Department of State 2012). However, due to the large and influential Armenian Diaspora in the US, Republic of Armenia still receives the second largest economic aid *per capita* from the US (only Israel obtains more). The assistance includes also Nagorno-Karabakh but officially only small

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<sup>18</sup> Russia is also engaged in the peacemaking process individually and contributed to the peacemaking process for instance in 2008 talks led by Medvedev and concluded with *Moscow Declaration*. In 2016 Moscow negotiated verbal truce after the unprecedented outbreak of violence in the beginning of April.

<sup>19</sup> Some of the US states passed a bill recognising the Nagorno-Karabakh Republic as an independent state. These states are: Rhode Island (May 2012), Massachusetts (August 2012), Maine (April 2013), Louisiana (May 2013), California (May 2014), Georgia (March 2016), Hawaii (March 2016). However, this does not change the official position of the US on the matter.

amounts of money are dedicated to this entity as a way of supporting the peaceful conflict resolution. Adamczewski states that this part of financial support is distributed among various international organisations, for instance those focusing on demining (2012, 356-358). Armenian National Committee of America (ANCA) is the biggest and most influential Armenian American grassroots organisation, active in political, social and educational fields, hence also promoting development and right to self-determination of the NKR, and lobbying for the allocation of US Assistance to the NKR (Armenian National Committee of America 2016). According to ANCA, the US Aid to Nagorno-Karabakh remains on the same level of USD 2 million since 2002, despite the much higher Congressional Intent (i.e. USD 2,5 million in 2005, USD 6 million in 2008, and USD 8 million in 2009 and 2010) (Armenian National Committee of America 2010). However, unofficial level of the financial aid might be much higher and reach up to tens of millions of dollars (Kardumyan 2009, 162), which suggests that received financial aid might be a subject of misappropriation and embezzlement.

## **5.2. Armenian Diaspora and its establishments**

Armenian Diaspora plays a significant role in relatively successful process of state building in Nagorno-Karabakh, especially considering all constrains caused by its international status. Since the NKR does not receive support from specialised organisations, such as WB or UNDP, it relies mostly on the funds provided by Armenian Diaspora. According to Mary Kaldor, *[T]he Armenian diaspora provides support for infrastructure and humanitarian assistance, houses, hospitals, education for the children of officers, publishing and water supplies* (Kaldor 2007, 178). Nina Caspersen confirms this, *[M]uch of the country's infrastructure has been built or rebuilt with the help of diaspora money, including the road linking Nagorno Karabakh proper and the entities north-south highway* (Caspersen 2013, 60). Armenian Diaspora is identity-driven, highly organised and it established many institutions, which objective is the support and promotion of the NKR's development and recognition (Shain 2002). This is illustrated by its fast and well co-operated action taken directly after the violence escalation in April 2016 (so-called Four Day War). According to mass media, Armenian Diaspora not only organised community protests and demonstrations in attempt

to pressure for the end of clashes, but also created 24 funds in order to assist the NKR (S tsel'yu pomoshchi Artsakhu 2016).

The oldest institution whose mission was to unite Armenians outside of their homeland is the "Hayastan" All-Armenian Fund, established in 1992 by the Presidential Decree. This charity organisation is led by the Armenian President and its Board of Trustees, which includes the President and Prime Minister of the NKR. The "Hayastan" All-Armenian Fund has 25 affiliates all over the world and obtains its financial resources throughout various fundraising events, such as telethons, galas or benefit bike rides, but also through donations (Hayastan All Armenian Fund 2015). During those campaigns the organisation encourages Armenians to financially support infrastructural undertakings in the NKR as well as deprived regions of Armenia. Billboards that inform about the Armenian Diaspora's involvement (in Armenian, English, and frequently Russian) are often placed next to completed projects (Muth 2016, 95-96). According to official data provided by "Hayastan" All Armenian Fund, since 2005 the organisation turned to the new type of actions, namely revitalisation and development of particular regions of the NKR (Martakert and Hadrut). Funds collected in telethon in 2009 were distributed to socio-economic projects in the town of Shusha; meanwhile in 2013 they were directed to the reconstruction of the Vardenis-Martakert Highway, which also serves as an additional lifeline between Armenia and the NKR. In 2015 gathered amounts of money were assigned to single-family homes construction for families with five and more children that lack adequate accommodation (Hayastan All Armenian Fund 2015). Each project – completed and on-going – is listed on the website of All Armenian Fund, specifying its status, cost, and contributor, although it does not state the donated sum.

Collaborative effort of "Hayastan" All-Armenian Fund is complemented by Armenia Fund, tax-exempt, non-governmental corporation established in 1994 in California, US. Its objective is to implement extensive humanitarian and infrastructure development aid to Armenia and the NKR (Armenia Fund 2016). Armenia Fund undergoes a voluntary financial audit performed by Grant Thornton; annual audit reports are available on the website of Armenia Fund in Armenian and English.

Armenian Diaspora situated in Russian Federation is organised and represented by Union of Armenians of Russia, which aims at integration and cooperation of Armenian Diaspora and provision of multi-faceted support to Republic of Armenia and the NKR, especially their markets (Soyuz arмянan Rossii 2006). Since 2001 Union of Armenians of Russia engaged into computerisation initiative promoted by the motto *Computerisation of schools of Armenia and Artsakh*. According to the data offered by the organisation, during period 2004-2006 it provided 600 schools and higher educational institutes (approximately 7000 computers), and in 2005-2006 it donated 400 computers together with equipment such as printers (Agayan 2006, Voskanova 2006). Directly after the breakout of violence in April 2016 the president of the organisation Ara Abrahamyan donated USD 100 thousand to fund of humanitarian assistance to Artsakh<sup>20</sup>, established by the Armenian Apostolic Church of the US (Soyuz Armian Rossii 2016). This Armenian Diaspora organisation seems less active and documents its projects in less transparent way, and seemingly does not undergo annual financial audits.

Despite the fact that aid to Nagorno-Karabakh its not one of its objectives, Foundation “Tashir” contributed to the development of this *de facto* state on the bigger scale than the Union of Armenians of Russia. This non-profit charitable organisation was founded by a group of companies *Tashir* in 2000 and its owner Samvel Karapetyan is a large Russian businessman of Armenian origin (Blagotvoritel’nyy fond «Tashir» 2015). The foundation fulfilled two major projects in the healthcare and social sectors. In 2013 Group *Tashir* built and donated modern and fully equipped National Medical Center of Sargis and Amalia Karapetyan in Stepanakert (Tashir Foundation 2013) and since 2012 the organisation supports the NKR’s projects in the fields of culture, music, and education, for instance Nagorno-Karabakh’s band “Voices of Artsakh” (Tashir Foundation 2015). “Tashir” Foundation does not focus on the NKR but, perhaps influenced by the Armenian origin of its owner, it still invests in Nagorno-Karabakh’s development.

The approach of Diaspora towards the conflict and variants of its resolution strongly depends on their host state environment and the shifts of generations, for instance members of Armenian Diaspora in the US usually absorb *America’s multicultural ethos and liberal social values, and indeed*

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<sup>20</sup> Armenians commonly use *Artsakh* as a name of Nagorno-Karabakh. It refers to the ancient kingdom of Artsakh (de Waal 2003).

*sometimes try to export those values back to their homeland* (Shain 2002, 123). Thus, Armenian Diaspora often very vocally and actively seconds Nagorno-Karabakh's right to self-determination and is willing to support it financially. Foreign aid allocated in the countries suffering from the existence of multiple influential social groups and divided policy process will be associated with higher rent-seeking and corrupt activities (Svensson 1998). As explored and presented by Sari Hanafi and Linda Tabar in the case study of international aid impact on rent-seeking in Palestine, external assistance can be misused in the absence of appropriate procedures and mechanisms (Hanafi and Tabar 2014). The Nagorno-Karabakh Republic receives financial assistance on the large scale and thus, similar scenario is possible in this *de facto* state.

### **5.3. Indicators of rent-seeking in the Nagorno-Karabakh Republic**

Rent-seeking is a phenomenon observed in many states, and especially in developing regions (Svensson 1998, 2, Svensson 2000, 437-438). The windfall to the state budget, such as foreign aid or discovery of natural resources, influences the inclination of rent-seeking proportionally: as the budget increases, also the incentive to seek rent gets stronger. Rent-seeking leads to the diminished economic efficiency caused by the poor resources allocation, and results in reduction of overall welfare of the society. Moreover, it triggers underproduction and decline of consumption. *Rent-seeking is the expenditure of resources and effort in creating, maintaining and transferring rents* (...) throughout legal activities such as lobbying or illegal actions i.e. bribery (Khan 2000, 70). Rents exploited from foreign aid, like in case of the Nagorno-Karabakh Republic, have a negative impact on the tax revenue collected by the government. However, external assistance as well as tax revenue both finance the public funds and similarly, they are a subject of rent-seeking competition. Only the remaining part of public funds is used for productive public goods (Hodler 2007). Foreign aid may lead to rent-seeking, which in turn, could decrease aid effectiveness, nevertheless, according to Svensson, external assistance tends to increase corruption and rent-seeking activities rather in socially and politically fractioned states (Hodler 2007, Svensson 1998, Svensson 2000). Due to discretionary nature of rent-seeking, it is difficult to empirically examine its presence and extend within a state. However, this phenomenon is manifested through corruption and lower provision of

public goods despite the foreign aid, thus presence of those indicators in the Nagorno-Karabakh Republic should suggest rentier mentality of this *de facto* state.

Intra-state loan provided to the NKR by Armenia as well as external aid coming foremost from Armenian Diaspora certainly helps to diminish hardship for the wider population. The NKR's budget largely depends of Armenian financial support and only thanks to it this *de facto* state is able to maintain its social welfare system. Nevertheless, foreign assistance also alleviates the need of the NKR's government to negotiate the social contract with its population, because it is not dependent of the tax revenue. Similarly to *no taxation, no representation* rule, the regime that is maintained by resources of origin external to its society is less accountable to it. According to Laurence Bouers, *This to some extent lends the Stepanakert regime a 'rentier' profile (...)* (Broers, 2005b, 69). Nagorno-Karabakh suffers from corruption and favouritism in filling social service positions for years; those issues are listed in reports of Freedom House on the *de facto* republic annually (Freedom House 1998-2016). However, after presidential elections in 2007, president Bako Sahakyan implemented reform of the local traffic police in 2008 and considerably restructured the law enforcement system and partly judiciary (Shakhnazaryan 2012). The outlook on a potential international recognition is a strong incentive for Nagorno-Karabakh to democratise. It is difficult to determine the provision of productive public goods by the NKR *per se* due to the fact that some of them are financed directly by external aid and donors. This can be illustrated by the project of construction of single-family homes for families with five and more children accomplished by "Hayastan" All Armenian Fund and covered by funds gathered during 2015 telethon or the construction of the National Medical Centre in Stepanakert sponsored by "Tashir" Foundation. Moreover, the welfare system provided by the government of the NKR is widely subsidized by Armenian financial support.

Qualities of rentier state present in the Nagorno-Karabakh Republic might be potentially diminished by the homogenous structure of its society and political scene. According to Svensson, ethnic and linguistic division enhances political competition over resources in the policy process and it is associated with increased corruption (Svensson 1998). Nagorno-Karabakh became ethnically homogenous as a result of 1988-1994 war and the removal of the Azeri population. As a result, Na-

gorno-Karabakh's political elite is uniform, which enables a core consensus on the national interest of this *de facto* state (Broers 2005b, 69).

The Nagorno-Karabakh Republic might not be a fully developed rentier state but it does have its qualities. Foreign assistance and Armenian intra-state loan to the NKR remain the main source of possible rents and thus, actors engaged in rent-seeking activities are inclined to favour the “no war, no peace” state that encourage Armenian Diaspora to continue financially support the NKR. The resolution of the Nagorno-Karabakh conflict would lead either to the NKR's independence or recognition of this region as an internal part of Azerbaijan or Armenia. Both of these scenarios would result in decrease of international aid and financial support of Republic of Armenia and Armenian Diaspora. As an unrecognised state, the NKR remains in the “grey zone” of international relations and it is rarely a subject of detailed examination by other states and specialised international organisations. Hence external sources of financial and developmental support as a source of rents for the Nagorno-Karabakh's top figures are a strong incentive for the NKR to favour *status quo*.



CHAPTER 6  
CONFLICT AS A SOURCE OF POWER IN POLITICS  
OF THE NAGORNO-KARABAKH REPUBLIC

**6.1. Conflict in the political narrative**

Conflict and threat play an important role in the political narrative, especially in state-building and regime maintenance. According to Charles Tilly and his predatory theory of state formation, state authorities typically carry on four types of activities that could generally classify as organized violence: war making, state making, protection, and extraction<sup>21</sup> (Tilly 1985, 181).

However, states that emerged through decolonization or through reallocations of territory by dominant states, like it happened in case of Nagorno-Karabakh, obtained their military organization from outside and thus, they did not form mutual constraints between rulers and ruled. Unlike in European states, where authorities and their military apparatus were built gradually and through *sustained struggles with their subjected populations and by means of selective extension of protection to different classes within those populations*, rulers of the newly emerged states were not limited (Tilly 1985, 185-186). Hence, the military organizations become dominant in those states and they might easily overshadow other institutions. This is observable in the NKR, where former military elite and participants of Armenian-Azerbaijani war currently hold key state positions and dominate politics.

This theory applied in the modern world and the international system might highlight the fact that the existence of the potential external threat to the entity might reinforce the internal sovereignty of its authorities by increasing the population's demand for protection. Fear of the formal central authorities is used by the leadership of *de facto* states, such as the NKR uses threat of Azerbaijan, to maintain 'us versus them' rhetoric and unify its population into cohesive society. Azerbaijan is used as the existential challenge to the survival of the Nagorno-Karabakh Republic by the authori-

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<sup>21</sup> Read more in C. Tilly, *War Making and State Making as Organised Crime*, [in:] *Bringing the State Back*, by P. Evans, D. Rueschemeyer, T. Skocpol, Cambridge 1985, pp. 169-187.

ties of the latter. The exploitation of insecurity by the NKR intensifies its population's demand for the protection (Lynch 2002). Hence, the Nagorno-Karabakh Republic could be described as 'a racketeer' – *someone who produces the danger and, at price, the shield against it* (Tilly 1985, 170-171).

Territorial threats to a state lead to a very specific type of militarization that does not require elite-public bargain over rights. According to Douglas M. Gibler, regime that wants to increase its military force must either have resources to pay the army or bargain with its citizens and trade rights and institutional reform for an expansion of the military power. Meanwhile, non-territorial threats<sup>22</sup> increase society's bargaining power for a limited period of time. At the height of such threat regime has the strongest incentive to trade militarisation for socio-political reforms that might encourage democratisation in the future (Gibler 2015). The omission of the bargaining step in case of territorial threat means that repressive power of the authorities rises significantly without any simultaneous liberalization of other state institutions (Gibler 2015). This, however, might influence the composition of the elites – the military elites (considered to be a state guardian) might have high popular support and thus, it might be able to compete with or even become political elite (Gibler 2015). This trend can be observed in the Nagorno-Karabakh Republic, where vast majority of key political figures has military background. Moreover, the prolongation of the *status quo* means that the NKR does not have to face non-territorial threats and thus, the leverage of its citizens in the elite-population bargain remains weak and does not force regime to engage in demanding reforms.

Conflict also became an ever-lasting element of the political discourse not only in Armenia or Azerbaijan, but also the Nagorno-Karabakh Republic itself. Nagorno-Karabakh conflict can be described as a clash of exacerbated collective memories of involved neighbouring parties. The ethnic strata of social memory is extensively used as a way to create the "image of the enemy" and the reproduction of the "national offence" (Dashdamirov 2001). Mythologisation serves the policy of authorities as well as unifies the society through the creation of the "common enemy" that would be allegedly responsible for all the state's problems (Kara-Murza 2014). However, through my-

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<sup>22</sup> Non-territorial threats are about the international status of the state. Two or more states compete over their position at the global, regional or functional arena (Gibler 2015, Thompson 2001).

thologisation of the past, especially events related to the acquisition of the homeland, and formation and flourishing of the state, authorities might attempt to legitimise the right to territory and self-proclamation as independent entity (Makovskaya 2014). Hence, all the references to elements of regional history, such as the crown of the Artashesids dynasty visible in the NKR State Emblem or ancient name Artsakh, are partly the strategy to legitimise existence of the NKR and invoke the sense of nationhood in Nagorno-Karabakh society.

## **6.2. Political setting in the Nagorno-Karabakh Republic**

Despite being not recognised by the members of international community, the Nagorno-Karabakh Republic continues to maintain its self-proclamation claims, and upholds and develops its political system. However, its political regime was not regulated by any supreme law for over a decade, because the Constitution of Nagorno-Karabakh was adopted in December 2006, thus 15 years after the NKR declared its existence and independence. The NKR is a presidential republic based on the social justice, rule of law, and separation of powers, and with the multi-party political system (Konstitutsiya Nagorno-Karabakhskoy Respubliki 2006). Officially the NKR authorities control its entire territory, however, in practice their ability to implement government policies is limited by the geopolitical situation, such as security threats along the cease-fire line (Freedom House 2016). This obstacle is addressed in the Constitution of the NKR – article 142 states that state's authorities exercise its power on the area under its factual jurisdiction until the adjustment of its borders (Konstitutsiya Nagorno-Karabakhskoy Respubliki 2006). According to Nina Caspersen and the Freedom House, the Nagorno-Karabakh Republic still operates under martial law, however its provisions have not been enforced since 1995 (Caspersen 2008, 126, Freedom House 2016).

The National Referendum on the Constitution of the Nagorno-Karabakh Republic was held on the 15<sup>th</sup> anniversary of the NKR's independence referendum, and according to official information its turnout was 87.2%. The Main Law was accepted by 98.6% of the participants, meanwhile 0.7% voted against it (Górecki 2008, The Office of the NKR President 2007-2016). The voting process was monitored by international observers, mainly from Armenia, Russia, and France; however, due to the NKR's unrecognised status, the OSCE and similar organisations refused to participate in the observation mission. Despite the initially questioned timing of the referendum and its proximity to

2007 presidential elections, it did not cause any controversies. International organisations such as the OSCE, the European Union or the Council of Europe as well as states (especially Azerbaijan) did not recognise the referendum and its results as legal and binding (Górecki 2008, Nagorno-Karabakh Gains a Constitution 2006, Tishchenko 2006). The Constitution can be adapted and amended only by the national referendum, which should be initiated by the President or the National Assembly of the Nagorno-Karabakh Republic (Konstitutsiya Nagorno-Karabakhskoy Respubliki 2006).

After the conclusion of the ceasefire the Nagorno-Karabakh Republic introduced the presidential office. In December 1994 Robert Kocharyan was appointed for this post by the parliamentary vote and became the first president of the NKR; he defended his position in November 1996 in general elections. Kocharyan stepped down in 1997 after being appointed as Prime Minister of Armenia. The NKR Prime Minister Leonard Petrosyan acted as interim president until extraordinary presidential elections in 1997, when Arkady Ghukasyan was elected as the President of the NKR by the 89.3% of votes. Ghukasyan proved himself as a popular and charismatic leader, and was re-elected in 2002 (Matsuzato 2007). During his first term he managed to increase the position of political elite over military leaders in the power struggle with Samvel Babayan who was the military commander and the Minister of Defence in period 1994-1999 (Kolstø and Blakkisrud 2012, 146, Markedonov 2014, 144). The Constitution of the NKR was adapted in 2006 and it regulated the extent of presidential power but also the electoral process in the Chapter III, it also clearly specified in article 62 that *the same person may not be elected for the post of the President of the Republic for more than two consecutive terms* (Konstitutsiya Nagorno-Karabakhskoy Respubliki 2006). Thus, Ghukasyan did not stand for the presidential office in the 2007 elections, especially that the opposition expressed their concerns that this could have been a first step towards unlimited presidency and possible authoritarian developments in this unrecognised republic. Bako Sahakyan, who won 2007 presidential elections, obtained a strong popular mandate (he garnered 85.1% of votes), which additionally strengthened his already solid position – he is regarded as so-called *silovik*<sup>23</sup> and in the past he was the military commander and head of the National Security Service. He was then re-elected for the office of president in 2012, gathering 67.65% of votes (Kolstø and

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<sup>23</sup> *Siloviki* is the group of policy makers with strong ties to the military and security services (Bruce 2007, 39).

Blakkisrud 2012, Grigoryan 2012). This result was significantly lower comparing to 2007 but was still sufficient to defeat his competitor Vitaly Balasanyan, who gandered 31.53% of votes and *chalked up the most significant opposition performance in [Nagorno-Karabakh's] electoral history* (Beacháin 2015, 248).

Currently (September 2016), a commission on constitutional reforms established by Bako Sahakyan is working on the draft amendment. The concept was submitted to public discussion and proposes continuation of the presidential system and expansion of presidential powers (i.e. the office of Prime Minister would be abolished and President would become a head of government). The majority of political parties support the reform; however, some opposition groups such as National Revival or Movement<sup>88</sup> disagree, because they are in favour of transition to parliamentary republic (Grigoryan 2016a, 2016b). This alternation raises the question of transition period (the 2006 Constitution prevents Sahakyan from participation in presidential elections in 2017 and seeking a third term in the office) and elections alignment, since both presidential and parliamentary vote would have to be held simultaneously (Sargsyan 2016). The possibility of the presidential term extension until 2020 (when the next parliamentary elections are planned) may cause concerns over potential evolution of the political regime into unlimited presidency and drastic decline of democracy in the Nagorno-Karabakh Republic.

Even though the Nagorno-Karabakh functions as *de facto* presidential republic, in the beginning of the state-building process its regime was closer to parliamentary model with the National Assembly (*Azgayin Zhoghov*) comprised of 81 members (Beacháin 2015, 249). The turn happened in 1992, when the parliament transferred most powers to the chair of the State Committee of Defence and the president (Matsuzato 2008, 101, 104-105). The first parliamentary vote was held in 1995 and it was preceded by the introduction of the new legislation, which reduced the number of elected representatives from 81 to 33. As Kolstø and Blakkisrud phrase it, [A]s *the first elections after the conclusion of the 1994 ceasefire agreement, these elections represented an important step towards a 'normalization' of political life in the new de facto state* (2012, 145). The big winner of elections in 2000 was a new party established by the president Arkady Ghukasyan called Demo-

cratic Artsakh<sup>24</sup>, which won 13 seats and was also supported by most of the independent representatives (Peuch 2005, Kolstø and Blakkisrud 2012). The 2005 parliamentary elections were preceded by another legislature change from exclusively majoritarian type to partly proportional one with one-third of representatives chosen according to party lists (Kolstø and Blakkisrud 2012, Beacháin 2015). That vote proved to be the liveliest and most competitive (127 candidates competing over 33 seats in the National Assembly) and included a new and popular opposition party, Movement88. It received 24.4% of votes but according to the new electoral legislature the result was translated into only three seats in the parliament. Meanwhile, The Democratic Party of Artsakh obtained 37.6% and a total of twelve seats; and newly established Free Motherland got 26.7% of votes and ten seats. Two latter parties cooperated closely in the National Assembly afterwards, causing a suspicion that Free Motherland was created as a clone party only to divide the opposition (Kolstø and Blakkisrud 2012). Such results caused uproar among politicians of opposition who criticized elections for being *unfree, unfair and untransparent* (Institute for War and Peace Reporting 2005). Due to the unrecognized status of the NKR, organizations with high international profile such as the OSCE did not participate in the election monitoring (and continues so). Despite that, approximately 130 observers participated in the monitoring mission and assessed the conduct of elections as satisfactory (with a few minor exceptions) (Kolstø and Blakkisrud 2012). Five years later, electoral legislature was altered again and 17 deputies were chosen according to the proportional system, meanwhile 16 of them according to majoritarian (Beacháin 2015). In 2010 Free Motherland, with 44.2% of votes, captured fourteen seats and again closely cooperated with the pro-presidential Democratic Party of Artsakh (seven seats) in the parliament and the government, headed by the leader of Free Motherland Arayik Harutyunyan (Kolstø and Blakkisrud 2012, 145-146). Even though parliamentary elections in 2010 were assessed as conducted in the democratic way, they were also denounced for absence of opposing parties (Kolstø and Blakkisrud 2012, Freedom House 2011). Meanwhile, observers of the parliamentary elections in 2015 notified significant improvements, such as participation of opposition – both Movement88 and National Revival gained seats in the National Assembly (two and one, respectively) (Freedom House 2016)., Free Motherland remained the leading power after gaining eleven seats (47.35% of votes). Another

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<sup>24</sup> Since 2005 Democratic Artsakh was renamed the Democratic Party of Artsakh.

legislative change increased the number of deputies were elected by party list to 22. The gradual reduction of the threshold from 10% in 2005, to 6% in 2010, and 5% in 2015 led to the increasing political inclusion (Beacháin 2015, 249-250).

The NKR Constitution comprises of the introduction and 12 chapters that not only set the foundation for the democratic republic but also recognises rules of International Law, and *human rights and freedoms as undisputable and essential value for freedom, justice and peace* (Konstitutsiya Nagorno-Karabakhskoy Respubliki 2006). The strong emphasis is put on the democratisation by authorities of the NKR because it is associated with the potential prospect of international recognition. In 2006 David Babayan, then adviser to the NKR president Arkady Ghukasyan, stated that *recognition will not be possible without democracy; we have to be ahead of Azerbaijan* (Babayan 2006). The concept that democratisation increases the chance for recognition was reinforced in 2008 when Republic of Kosovo declared independence from Republic of Serbia and gradually gained international recognition from 113 states (109 member states of the United Nation) (Caspersen 2008). Additionally, according to Nina Caspersen, the lengthy existence of this *de facto* state and its increasing internal stability reduced the role of military in politics and increased opportunities for the political opposition. After the period of war-induced homogenisation, political pluralism was developed in politics of the NKR partially as a result of dissatisfaction with pace of democratisation process and socio-economic changes, and partially as a strategy of political competition<sup>25</sup> (Caspersen 2008, Nagorno-Karabakh Gains a Constitution 2006).

However, experiences of Republic of Kosovo, but also Abkhazia and South Ossetia, proved that international recognition does not always lead to actual sovereignty. *De iure* independence can become an obstacle, for instance when the *de facto* state does not gain the recognition of the metropolitan state (in case of the NKR of Azerbaijan) or when they are achieved at cost of major compromise (Krüger 2010, 66-68). As a result, despite the recognition and *de iure* independence, the newly emerged state might remain under control of other international actors and thus, these concepts became less attractive for the NKR's authorities. Moreover, the preference of the *status quo*

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<sup>25</sup> According to deputy for Movement88 Gegham Baghdasarian, president Arkady Ghukasian described his political competition with the military commander Samvel Babayan as a clash between democratic and authoritarian regimes (Baghdasarian 2006)

communicates unwillingness of the NKR's leaders to compromise full sovereignty for the sake of recognition. This ultimate goal intensifies value of democracy to the NKR. For years independent watchdog organisation Freedom House ranked the Nagorno-Karabakh Republic higher (assessed as Partly Free yearly since 2003, with the exception of 2011 and 2012 when it was degraded to Not Free category) than Azerbaijan, which is classified as Not Free for over a decade (Freedom House 1998-2016, Freedom House 1998-2016). This fact is often emphasised by the NKR's authorities that use it to reason the importance of recognition of the NKR as a sovereign state (Minasyan 2014, 145).

### **6.3. Key political figures in period 2005-2016**

The prolonging conflict proves to be an important factor in position-building and careers of Nagorno-Karabakh's politicians. Much like in Armenia and Azerbaijan, core political narrative in the NKR is built around the Nagorno-Karabakh conflict, which is used in the instrumental way in order to gain popularity, and which serves as an excuse for most socio-economic shortcomings and problems (Minasyan 2014). Most influential figures in the NKR built their status somewhat thanks to their involvement in the 1988-1994 war.

Vast majority of the key figures of the NKR's politics have a military background and they were engaged in the Armenian-Azerbaijani war<sup>26</sup>. Since the Nagorno-Karabakh Republic is a *de facto* presidential republic, president plays the most significant and influential role. In period 2005-2016 two presidential elections took place in the NKR. In 2007 Bako Sahakyan replaced Arkady Ghukasyan at the office of the president and then was re-elected in 2012. Both of them highlighted their participation in war in 1988-1994 and built their position around their firm stand on the conflict resolution and simultaneously independence of the NKR. Ghukasyan was a member of Karabakh Movement since 1988 and four years later he was elected in the parliamentary elections and appointed advisor on political issues to the chairman of the State Committee for Defense, which he accentuated in both presidential campaigns in 1997 and 2002 (Broers 2005). During the presidential campaign in 2007 Bako Sahakyan emphasised his military background and engage-

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<sup>26</sup> All of the presidents of the NKR in period 1994-2016 had such background, due to i.e. participation in the Artsakh National-Liberation Movement or involvement in Armenian-Azerbaijani war.



ment in the Nagorno-Karabakh conflict, and promised to seek full independence of the NKR, too. Voters often mentioned Sahakyan's record in the security as a factor to support him in elections, especially that his rival Masis Maylian does not have any ties to security or military sector, which in eyes of Nagorno-Karabakh population was and still is a disadvantage until the conflict resolution (Beacháin 2015, 246-248, Azerbaijan breakaway elects new president 2007). Meanwhile, the main competitor of Sahakyan in 2012 presidential elections, Vitaly Balasanyan had a strong military background as a Major General and Hero of Artsakh. He garnered 31.53% of votes and managed to pose a real threat to the favourite in the presidential elections, but the conflict-affected population of Nagorno-Karabakh still fears the possible outbreak of violence thus, they favour stability over promise of improvement (Beacháin 2015). Moreover, since the key political issues relate to the NKR's security, sovereignty and independence from Azerbaijan, the society is cohesive and there are no major differences that opposition parties could organise around. The external threat increases the value of unity among the Nagorno-Karabakh's population. This sentiment is often exploited by the regime to marginalise its possible competitors – opposition is associated with disunity that could weaken *de facto* state and its society (Beacháin 2015).

The Nagorno-Karabakh conflict, however, is not used instrumentally only in the NKR but also in Armenia. Each of the Armenian presidents, Lewon Ter-Petrosyan (in office in years 1991-1996), Robert Kocharyan (the first president of the NKR and Armenian president for two terms, 1998-2003 and 2003-2008) and Serj Sargsyan (current president elected in 2008 and then re-elected in 2013) played crucial roles in Karabakh Movement and participated in Armenian-Azerbaijani war as commanders (Minasyan 2014, 98). Two latter politicians hold key positions in so-called “Karabakh clan”, which dominates Armenian political life and ensures political and economic interests of the NKR within Armenia (Lewis 2014, 4, Simão 2012, 197). Even though scholars seem to specify only “Karabakh clan” leaders, some mass media representatives, such as Aram Abramian, editor in chief of the newspaper *Aravot*, claim that the “Karabakh clan” might consist of 20 to 30 families and include Sedrak Kocharyan (son of Robert Kocharyan), Barsegh Beglarian (dominates the gas-station sector), Mika Bagdasarov (controls oil imports and heads the national airline), and Karen Karapetian (executive director of ArmRusGazard) (Whitmore 2008).

The persistence of the *status quo* in Nagorno-Karabakh seems to be favoured by the NKR's elites because "no war, no peace" situation helps to create right socio-political circumstances to maintain the incumbent regime. The Nagorno-Karabakh conflict can be used instrumentally in order to build political position not only in the *de facto* republic but also in Armenia, especially by those actively engaged in Karabkh Movement and Armenian-Azerbaijani war. Conflict-affected population of that region favours stability over change, even if the latter would potentially lead to the increase of the life standard and democratic progress. The existence of the external threat helps the elite to weaken the opposition because it imposes the popular notion that political stage has to remain homogenous to preserve the national unity. As long as the conflict remains unresolved, it remains a tool in hands of politicians to manipulate the society that dreams of full independence and peace.

## CONCLUDING REMARKS

The Nagorno-Karabakh conflict remains unresolved for over 20 years and it seems that all the efforts of the international community to bring peace to the region are ineffective. All the involved parties, Republic of Armenia, Republic of Azerbaijan, and internationally unrecognized Nagorno-Karabakh Republic (NKR) are unable to find the common ground. Even though scholars often examine this conflict from the historic and cultural perspective, it seems that the NKR itself remains understudied and it is crucial to fill up this gap. Better understanding of the reasons that hold up the Nagorno-Karabakh conflict settlement could possibly contribute to broader conflict studies. Despite of the on-going negotiations, compromise is not achieved. Perhaps, it is not the shortcomings of the peacemaking process but rather internal incentives that make the *status quo* more attractive to this self-proclaimed state. Thus, this thesis investigated the economic and political regime of the Nagorno-Karabakh Republic for the existence of potential internal incentives that might induce the NKR to favour the *status quo* over conflict resolution.

Exploration of the historical context of the conflict is a crucial element of this research because it provides the foundation for understanding its complexity and long-term effects on the current situation in the region. Thorough examination of the peacemaking progress allowed determining that from the point of view of Armenia and Azerbaijan some of proposed settlements could eventually lead to ultimate conflict resolution. However, none of them is satisfactory for the authorities of the NKR since they assume referendum as a way of regulating its international status; meanwhile *de facto* state seeks international recognition and full independence. Thus, negotiations' shortcomings are not the factor that motivates the NKR to favour the status quo only seemingly. In reality lack of offered sovereignty makes final conflict resolution a less attractive option, because prolongation of 'no war, no peace' situation could potentially lead to gradual international recognition in eyes of the NKR's authorities.

This research also aimed to discover any hidden incentives that could motivate the NKR to favour *status quo* over the possibility of conflict settlement and prospect peaceful coexistence within

the framework negotiated during the peace talks. Analysis of the economic and political regime of the NKR allowed to assess whether the motivation of the NKR to maintain in the ‘no war, no peace’ situation comes from within. Since the proclamation of its independence, the Nagorno-Karabakh Republic continues its democratic efforts and economic development in order to convince the international community that it did earn full independence and recognition as a sovereign state. Economy of the NKR is rather neglected in the academic literature, thus often comparison of the official data with information provided by scholars proved to be impossible. The initial assumption that the NKR is a subject of the patrimonial capitalism did not fully prove to be right, however, Nagorno-Karabakh’s economic regime is prone to illicit business, for instance drug and arms trafficking, and it suffers from some of symptoms such as abuse of national resources by the *de facto* state authorities. With insufficient academic and grey literature coverage on the subject, it is nearly impossible to prove or disprove the existence of the patronage networks within the NKR but also in its kin-state, Armenia. Nevertheless, all the influential actors engaged in those activities benefit from them and hence, they should favour ‘no war, no peace’ situation and try to maintain it for as long as possible. Moreover, as a recipient of the significant foreign aid mainly from Armenian Diaspora and Armenia, the NKR exhibits some of the rentier state’s qualities. The conflict resolution would transfer the NKR from the ‘grey zone’ of international relations and change its unrecognised status into a part of the international community either as an independent state or a region subjected to Armenia or Azerbaijan. In effect, international assistance would be reduced and simultaneously attention of international watchdog organisations would increase, hence all the benefits from rentier activities would decline, which makes conflict resolution a less attractive option in comparison to the *status quo* maintenance. From the perspective of politics, the existence of the external threat (present as long as Nagorno-Karabakh conflict remains unsettled) is a great instrument of social manipulation. It creates the political environment favourable for the military elite that can build their political career using popular fear of war and independence dream not only in this *de facto* republic, but also in Armenia. Because of that, current elites of the NKR do not see the conflict settlement as the most preferential option and they would rather maintain the ‘no war, no peace’ situation for their own benefit.

The current international status of the Nagorno-Karabakh Republic results in the occurrence of various opportunities available mainly to the most influential Nagorno-Karabakh figures. The sole existence of those opportunities make the *status quo* more attractive than settlement, even despite the outbreaks of violence and social and economic uncertainty, especially that they, too, can be used as powerful political tools. It is crucial to understand that the Nagorno-Karabakh Republic is often marginalised as a negotiations party and, since the probability of achieving independence as its desired settlement outcome is low, Nagorno-Karabakh authorities and elites prefer the *status quo* with all its benefits to the conflict resolution. Thus, on one hand the conflict resolution is curbed not only by the often unobserved shortcomings, but on the other, the NKR as various internal incentives that encourage it to maintain the current *status quo*.

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