REGIONAL DEVELOPMENTS AND ARMENIAN NATIONAL SECURITY

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Background

The region of the South Caucasus has long served as an arena for competing regional powers and, for much of the past two centuries, has been hostage to the competing interests of much larger regional powers, as neighboring Russia, Turkey and Iran which have jockeyed for power and influence. And those very historic powers – Russia, Turkey and Iran – continue to exert influence today as the dominant actors in the region.

This competition has not only continued in the wake of the collapse of the Soviet Union, but has only intensified with the onset of new opportunities for engagement and energy-based interests. For the three infant states of the region, Armenia, Azerbaijan and Georgia, the combination of a lack of political legitimacy, fragile economies and several unresolved or "frozen" conflicts, have prevented them from resisting the powerful sway of their larger neighboring regional powers.

But most significantly, this combination of historical legacies and current realities has constituted a rapid shift in regional security. This shift in security incorporates not only several general elements, ranging from the challenges of energy security to the constraints from unresolved or "frozen" conflicts, but also more specific trends, including a recent resurgence in tension between Russia and the West.

Against the backdrop of a dynamic shift in security, the three states of the South Caucasus region each face a difficult course of economic and political reform, systemic transition and nation building. The region also continues to struggle in overcoming the legacy of constraints and challenges stemming from seven decades of the Soviet rule.

In the light of this regional reality, each state has pursued a different course, with Armenia backed by its sizable diaspora, yet remaining firmly rooted in the Russian orbit, and Azerbaijan leveraging both its Caspian energy resources and its historic ties to Turkey. For Georgia, the legacy of instability from a destructive civil war in the 1990s and the loss of the separatist regions of Abkhazia and South Ossetia have prompted Georgia's strategic reorientation, based on exploiting its role as a key "transit state," offering its territory and Black Sea ports as crucial links in the regional energy chain, providing Azerbaijan with a strategic link to both the Black Sea and to Turkey, and as a frontline Western ally.

But it is the more recent intersection of interests among greater powers that tends to place this region, more than many others, in danger of devolving into an arena for confrontation. This was further evident in the August 2008 conflict between Georgia and Russia that triggered a new period of confrontation well beyond the confines of the South Caucasus.

Conflict in Georgia

Although initially centered on a conflict in Georgia's breakaway region of South Ossetia, the Georgian crisis expanded rapidly, sparking fresh tension between Moscow and Washington and seriously derailing Georgia's long-held aspirations to join the NATO alliance. The fallout from the Georgian conflict has been equally serious, with new doubts over the U.S. commitment to the fledgling pro-Western Georgian democratic government. But even more troubling, the crisis further revealed the inherent fragility of security and stability in the strategically significant South Caucasus region.

Although Georgia's strategic significance was substantially enhanced after the so-called "Rose Revolution" that ushered in a new staunchly pro-Western and democratically reformist government, Georgian President Mikheil Saakashvili has suffered a severe setback after his miscalculation in seeking to fulfill his pledge to re-impose central Georgian control over the country's breakaway region of South Ossetia. The aftermath of the August conflict has not only weakened his personal rule, but has also eroded his position as a key NATO aspirant.

For Armenia, the immediate effects of the August conflict in Georgia was serious, imposing some $70 million in economic damage and losses and sparking a five-day nationwide shortage of gasoline after Georgian transport routes were closed. For Armenian national security, the conflict reaffirmed both the vulnerability of Armenia's dependence on Georgia as a key trade and transport route

and the need for a new policy of strategic energy security. In terms of energy security, the most obvious and immediate impact of a nationwide gasoline shortage only highlighted Armenia's dangerous and short-sighted lack of an adequate energy reserve.

Searching for a New Regional "Center of Gravity"

In a broader context, the Georgian conflict with Russia raised new doubts over Georgia's previous role as the regional "center of gravity" for the West. Prior to the conflict, Georgia enjoyed a unique advantage as the focal point for Western security policy. For the Saakashvili government, Georgia's future was clearly with the West, reflecting a strategic vision that saw membership in NATO and the European Union as the ultimate guarantee to external security as a front-line state bordering a resurgent Russia.

Moreover, such an avowed Western orientation was seen as the most effective way to overcome and reverse the legacy of a serious erosion of state sovereignty and territorial integrity. This new orientation forged important immediate benefits, ranging from a deepening of U.S. and Western military ties to an influx of capital and investment as the Georgian government liberalized the economy and initiated a new anti-corruption campaign.

This ambitious shift to the West enabled Georgia to graduate from the role of a key regional transit state to assume even greater prominence as the West's new "center of gravity" in the South Caucasus. This role as a center of gravity was most evident in the U.S.-run $64 million "Georgia Train and Equip Program" (GTEP) and the subsequent "Sustainment and Stability Operations Program" (SSOP), each of which elevated Georgia as a "flagship" for U.S. military activities and ambitions in the region, surpassing even U.S. training of Azerbaijani forces in the Caspian Sea. But this prominence also served to bolster Georgian over-confidence, despite the reality that neither the U.S. military program was ever aimed at providing the Georgian armed forces with any real combat readiness or offensive capability.

More specifically, the Train and Equip program was actually designed as a flexible, phased training initiative, and merely provided training and equipment for less then three thousand troops with the intended goal of acquiring limited counter-terrorism capabilities. Similarly, the goal of the U.S.-run Sustainment and Stability Operations Program merely sought to prepare select Georgian units for deployment to Iraq in support of the U.S. Operation Iraqi Freedom (OIF).

But these new doubts over such a reliance on Georgia have also sparked a

search for a new regional "center of gravity" in the South Caucasus. Western dissatisfaction with the Georgian leadership, although something that started well before the August conflict, reached a turning point after Georgian leaders ignored Western caution and concern and proceeded to confront Russian power.

Although Georgia's Westward shift was heralded as a Western success, there were inherent limits to exactly how far and how fast Georgia could go, however. These limits stemmed from the finite limits to Georgia's capacity to resist the steady reassertion of Russian power and influence, especially evident when Moscow resorted to imposing both energy and trade sanctions after reluctantly withdrawing from its Soviet-era military bases in Georgia.

But a second inherent limit to Georgia's longer-term goal of NATO and EU membership was the scale and scope of the West's commitment to Georgia. Although strong on rhetorical support for the Georgian government, the West has long been reluctant to encourage any Georgian moves that would confront Russia too directly, and has been even more wary of the danger of a Georgian bid to retake its breakaway regions by force.

Overplaying a Weak Hand

Against the backdrop of these limits, it seems clear that the Georgian leadership seriously miscalculated at the onset of the August crisis. After a series of provocations through the summer, including sporadic artillery and mortar fire and the downing of Georgian unmanned arial vehicles (UAVs), the Georgian leadership ordered a military offensive against the break-away region of South Ossetia. Although the exact chronology of events during the opening of the conflict remain unclear, it is fair to conclude that Georgia's military strategy was significantly flawed by both an initial underestimation of the Russian response and a subsequent over-estimation of its own combat capabilities.

And most importantly, while the Georgian offensive may have been effective within the small theater of South Ossetia, it was doomed from the start when confronted by the full might of Russian military resolve. Over the course of the conflict, as Russian forces launched a massive land, air and sea response, the Georgian leadership also greatly misread the West's capacity and commitment to intercede or intervene in support of Georgia.

While politically the Georgian decision to move against South Ossetia reflected President Saakashvili's consistent threats to restore his country's territorial integrity, militarily, the offensive was the first-ever test of his U.S.-trained and –equipped Georgian troops, both of which were long-standing worst-case scenarios for the West. On a broader scale, however, what turned the Georgian miscalcula-

tion into a strategic blunder was the Russian ability to exploit the conflict as an opportunity to seriously challenge and check Georgia's fundamental Westward shift.

In the first military deployment beyond Russia' borders since the Soviet invasion of Afghanistan, the Russian response to the Georgian conflict was both rapid and overwhelming. For Russia, Georgia's strategic blunder was an opportunity much larger than South Ossetia, as Russian forces moved quickly to reinforce the country's second break-away republic, Abkhazia. Surpassing the objectives of simply securing South Ossetia and Abkhazia, Russian forces then completely repulsed and overwhelmed Georgian forces, and established a perimeter security zone within Georgia.

An essential secondary Russian goal was then to destroy fundamental Georgian military capabilities by targeting as much military equipment as possible and by bombing each and every Georgian military facility and base, even those not involved in the conflict. This successful destruction of the country's military infrastructure was, with the sole exception of the Georgian loss of Abkhazia and South Ossetia, the most significant set back for Georgia's strategic aspirations to join NATO.

Moreover, the scope of devastation of the Georgian armed forces posed a new financial obstacle to the question of Georgia's bid for NATO membership, in addition to the already serious political considerations. On an even broader scale, the aftermath of the conflict also seriously questioned Georgia's role as both a secure energy transit state and as a regional "center of gravity" for the West.

The danger for Armenia from this search for a new Western outpost or "center of gravity" is the fact that there is a new degree of attention focused on Azerbaijan. This new assessment of using Azerbaijan as the regional center for Western security interests stems from three factors. First, Azerbaijan's border with Iran continues to attract Western interest, especially as the longer term challenge of dealing with Iran may include a military option at some point, making Azerbaijan a central theater for any such operations.

Second, in the wake of renewed tension between the West and Russia, there is new interest in bolstering the Azerbaijani naval capability to address Russian and Iranian naval power in the Caspian Sea, under the guise of securing the offshore energy platforms in the Caspian.

And third, there is also Western interest in utilizing Azerbaijan as a platform to Central Asia, as well as the continued reliance on Azerbaijani air space as a key air corridor to reach Western bases in Central Asia, an imperative for operations in Afghanistan that has only been magnified in the wake of the loss of Pakistan as a key ally in the West's global war on terrorism.

Remaking the Map

But even aside from the destruction from the Russian-Georgian hostilities, by far the most significant result from the August crisis was its impact on the region. The Georgia crisis offered Russia an important opportunity to reassert its power and leverage throughout the region, an opportunity that was seized to virtually remake the map of the South Caucasus and to redraw the parameters of the region's strategic landscape. Although it was largely a Russian initiative that spurred the virtual redrawing of the region's landscape, the reactions and responses to the new regional reality by other states were equally as profound.

From the Russian perspective, the new regional reality was marked by three distinct achievements: first, an abrupt end to NATO expansion in the South Caucasus, at least for the near-term, second, the demise of Georgian capabilities to fulfill its ambitions as a fully fledged Western anchor in the region, and thirdly, a serious spike in broader tension and looming confrontation with the West as a whole.

Notably, despite Russian recognition of the independence of separatist Abkhazia and South Ossetia can not be seen as an important achievement, especially given Russia's firm stance that the move will in no way infer similar recognition for the region's other "frozen" conflict, the Armenian-populated enclave of Nagorno-Karabakh. Nevertheless, Russian President Dmitry Medvedev has recently signed "friendship accords" with the leaders of Abkhazia and South Ossetia, formalizing military, diplomatic and economic cooperation and securing a new Russian bridgehead in Georgia proper.

Russia was also able to reaffirm the inherent energy insecurity of the South Caucasus, demonstrating the vulnerability of the region's pipelines and ports and raising new doubts over the reliability of Georgia as a key transit state. Interestingly, this lesson was also one of the most important concerns for both Turkey and Azerbaijan. In terms of the Azerbaijan-Georgia-Turkey energy chain, both the Turks and the Azerbaijanis were angered at what they interpreted as a Georgian blunder that only portrayed them as weak and vulnerable.

This energy insecurity factor also reignited questions over the viability of the long-standing U.S. regional energy strategy of seeking to bypass the existing Russian pipeline network while also isolating and excluding Iran. In fact, in order to manage the closure of the existing pipelines through Georgia during the crisis, Azerbaijan resorted to exporting its oil to Iran, utilizing so-called "swap" agreements whereby Iran re-exported the same quantity through its Persian Gulf facilities.

Reinforcing Underlying Trends

The impact from the Georgian crisis will also accelerate several trends already underway in the region. One such trend, concerning an improvement in Azerbaijani-Russian relations, was already evident during the July 2008 visit to Baku by Russian President Dmitry Medvedev and which was marked by new progress in negotiations over the planed Russian purchase of a substantial amount of natural gas from Azerbaijan.

While Azerbaijani energy has been driven by its primary role as an essential component in the U.S.-backed Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum oil and gas pipelines, Russia is now seeking to promote its own Baku-Novorossiysk pipeline, playing on Azerbaijani apprehension of relying on the Georgian routes and promising to purchase Azerbaijan's growing gas output, which have almost doubled over the last two years, to an annual level of 10.3 billion cubic meters (bcm).

An added bonus for Azerbaijan is that improved relations with Russia, which has traditionally followed policies in support of Azerbaijan's archrival Armenia, may weaken Armenia's position over the unresolved Nagorno-Karabakh conflict. With presidential elections set for October, Azerbaijan may also benefit from less international scrutiny over its poor record on democracy, with the aftermath of the Georgian crisis tending to downplay the past standards of electoral performance.

Despite the obvious geopolitical context to the aftermath of the Georgian conflict, the most conclusive consideration has little to do with broad regional factors of security or even energy. Rather, the more pressing conclusion was that domestic politics and economics matter much more than weeping geopolitics. In many ways, the Georgian conflict was rooted as much in domestic politics as in regional geopolitics, as likewise the decision by the Georgian leadership to attempt a military solution to the South Ossetia issue, the Georgian miscalculation in over-estimating their own military capabilities, and the Georgian misreading of the West's capabilities and commitments were also domestic Georgian decisions.

The Turkish-Armenian Engagement

The second trend to be influenced by the Georgian crisis was the new process of Armenian-Turkish engagement, capped by the first-ever visit to Armenia by a Turkish head of state. After months of secret talks among Armenian and Turkish officials in Switzerland, both sides seemed ready to tentatively open a preliminary dialogue after years of Turkey's refusal to extend diplomatic relations or open its

border with Armenia. But it was the Georgian conflict that spurred a new breakthrough in talks, with an added impetus for at least opening the closed Armenian-Turkish border and offering both countries a potentially important new economic and trade route alternative to Georgia. Aside from the Georgian factor, another key to this new diplomatic opening, however, was Russia's support for such a breakthrough between Armenia and Turkey.

More specifically, Russian policy has long been opposed to any significant improvement in relations between Armenia and Turkey and the closed border was seen as a helpful way of maintaining Russian dominance over Armenia, as demonstrated by the continued presence of a Russian military base and Russian border guards in Armenia. But Russian policy shifted dramatically in the wake of the August crisis, with a possible Armenian-Turkish rapprochement only serving to bolster the Russian strategy to more completely isolate, marginalize and surround Georgia. Nevertheless, Russia will only remain supportive as long as the future direction of Armenian-Turkish relations remains under its control.

There are also added benefits for Russia from the issue, however, such as the possible sale of electricity to eastern Turkey from Russian-owned energy network in Armenia. There was also a diplomatic coup by Moscow seizing the issue from the Americans, as the Armenian president publicly invited his Turkish counterpart to Armenia while on an official visit to Moscow and coordinate the opening closely with Russian officials.

For Turkey, whose decline in power and influence in both the South Caucasus and Central Asia has never been fully reconciled with its vision and aspirations, the Georgian conflict prompted a new diplomatic initiative. The so-called "Caucasus Stability and Cooperation Platform," is an initiative that seeks to forge a new cooperative attempt at conflict-prevention, multilateral security and regional stability, but also reflecting a goal for securing the now vulnerable energy export routes running from the Caspian basin to Europe.

Aside from the reiteration of general principles of stability and security, which are neither particularly new nor novel, the energy imperative is the key to the initiative, as the recent outbreak of hostilities in Georgia have raised new concerns over the viability of not only the BTC and Baku-Supsa pipelines, but also the Baku-Tbilisi-Erzurum natural-gas pipeline and the U.S.-EU backed Nabucco gas pipeline project, which proposes to carry an additional 31 billion cubic meters of natural gas to Europe once operational by 2020.

Scenarios & Recommendations for Armenian National Security

Scenario One: An Armenian-Turkish Diplomatic Breakthrough?

In terms of scenarios to be considered for Armenian national security, the first challenge is posed by the recent Turkish engagement of Armenia. The historic visit of the Turkish president to Armenia marked a significant turning point in Armenian-Turkish relations. Clearly, as the first-ever visit of a Turkish head of state to Armenia, Turkish President Gul's visit to Armenia was an important step success for Armenian diplomacy and foreign policy. Yet in the wake of the visit, the obvious question remains: why now?

The timing of the visit and the apparent sudden breakthrough in Armenian-Turkish relations stems from two important factors. First, it reflects the fact that Turkey is now struggling with its deepest and potentially most disruptive degree of change, with a profound reexamination of the very tenets of its national identity, driven by a combination of internal reforms and external challenges. And most recently, there has been an equally significant strategic reorientation involving Turkey's role within the region and its future position in a broader international context. The depth and degree of change and redefinition in Turkey is also matched by a battle with itself, redefining itself and the very core of its identity.

The second key factor in the timing of the breakthrough in Armenian-Turkish relations is rooted in the new shifts in the regional landscape. More specifically, in the wake of several months of careful diplomacy and secret meetings between Armenian and Turkish officials in Switzerland, Gul's visit to Yerevan was revealed as an integral part of a broader Turkish diplomatic initiative that seeks a greater degree of stability in the region. Within this context, this Turkish initiative was only accelerated by the recent conflict in Georgia, which not only demonstrated the need for real security and stability in the South Caucasus, but also affirmed the limits of Turkish policy in the region.

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was seen as a helpful way of maintaining Russian dominance over Armenia, as demonstrated by the continued presence of a Russian military base and Russian border guards policing Armenia's borders, as well as its economic dominance over the Armenian economy. But Russian policy shifted dramatically in the wake of the August crisis, with a possible Armenian-Turkish rapprochement only serving to bolster the Russian strategy to more completely isolate, marginalize and surround Georgia. Nevertheless, Russia will only remain supportive as long as the future direction of Armenian-Turkish relations remains under its control.

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But while this Turkish regional initiative includes a new breakthrough with Armenia, including the opening of the border and an attempt to open a new chapter in relations, it also includes larger goals of engagement, with Turkey as a leader in the region. And from this larger perspective, Turkey now views the unresolved Nagorno-Karabakh conflict as a central factor to regional stability. But there is a very important difference in Turkey's strategic view of Karabakh. Specifically, Turkey no longer seeks to merely support Azerbaijan by pressuring Armenia.

In fact, the new Turkish engagement of Armenia, ranging from the secret talks to the high-profile visit to Yerevan by the Turkish president, actually represents a significant shift in Turkish policy away from its traditional close support for Azerbaijan. This was most clearly demonstrated by the strong negative reaction by Azerbaijani officials to the Turkish opening toward Armenia, as Azerbaijani leaders are now gravely concerned and worried. The Azerbaijani leadership is worried that the potential for normal Turkish relations with Armenia and the opening of the long-closed Turkish border with Armenia will only weaken their position regarding the Nagorno-Karabakh issue.

But what is most interesting is the fact that the Turkish engagement with

Armenia has also weakened the Turkish position on Karabakh. For example, although it can be argued that a Turkish move to build relations with Armenia may grant them more power over the Karabakh issue, in reality Turkey's engagement with Armenia has already seriously weakened and undermined its relations with Azerbaijan.

Implications for Armenia: What is to come Next?

Despite the poor record of past initiatives, the potential benefits from even the most basic and rudimentary form of engagement are clear for each country, but we can ask: what is to come next? For Turkey, opening its closed border with Armenia would constitute a new strategic opportunity for galvanizing economic activity in the impoverished eastern regions of the country, which could play a key role in the economic stabilization of the already restive Kurdish-populated eastern regions and thus meet a significant national security imperative of countering the root causes of Kurdish terrorism and separatism with economic opportunity.

Likewise, an open border with Turkey would offer Armenia not only a way to overcome its regional isolation and marginalization, but also a bridge to larger markets crucial for economic growth and development. In addition, the commercial and economic activity resulting from opening the Armenian-Turkish border would foster subsequent trade ties between the two countries that, in turn, would lead to more formal cooperation in the key areas of customs and border security. And with such a deepening of bilateral trade ties and cross-border cooperation, the establishment of diplomatic relations would undoubtedly follow.

Thus, the opening of the closed Armenian-Turkish border could not only bring about a crucial breakthrough in fostering trade links and economic relations, but may also serve as an impetus to bolster broader stability and security throughout the conflict-prone South Caucasus. Since August, despite the obvious tension between Russia and the US, which came out in the open so strongly over the recent crisis in Georgia, both Washington and Moscow remain not only committed to working together within the OSCE's Minsk Group, but will step up efforts, together, to prevent the "frozen" Karabakh conflict from "heating up" into a new "hot" conflict, as both are equally concerned over the danger of Azerbaijan resuming hostilities and threatening war over Karabakh.

There is no viable apparent alternative to the Minsk Group process. But the one most important factor missing from the peace process is the fact that Karabakh has no place at the table. The real key to success for the peace process does not involve Russia or the US, and certainly does not involve Turkey. The real key to progress in the peace process is to include the democratically-elected govern-

ment of Karabakh as an equal party to the conflict and to grant Stepanakert an equal seat at the peace table. Karabakh has been prevented from holding equal status with Yerevan and Baku for too long. Now is the time, especially after lessons from Georgia, to include Karabakh in the peace process.

A New Political Context: Future Prospects?

Within a broader context, the opportunities from a breakthrough in Turkish-Armenia relations offer a new beginning to an old problem, defined by the promise from a foreign policy success and the pressure from a lack of legitimacy, as well as a new challenge to the existing order, which inherently poses challenges to Armenia's internal "vested interests." For Armenian politics, which is now marked by the emergence of clan-based elites and defined by an "arrogance of power," there is a fresh chance to use this transition point to more fully reform the closed political and economic systems. The closed economic system, in particular, will be under threat from a possible opening of the long-closed border. The threat will also be felt among the country's new clan-based oligarchic elite, which has attained significant political power in recent years.

Although not as outwardly visible as the ruling elite, a new, wealthy political elite, so-called "oligarchs," have managed to secure significant political power. Their election as deputies demonstrates a convergence of corporate, state, and in some case, even criminal interests. In addition to gaining serious influence over the formulation of public policy and garnering substantial leverage over the course of governmental policies, this new oligarchic elite has come to embody the difference between the power to rule and the responsibility to govern.

In the case of the other former Soviet economies, this new class of oligarchs has tended to exploit the privatization process to gain economic power first, but has exhibited a subsequent appetite for political power. It is that political role that inherently threatens the course of democratization and political reform. In Armenia, these oligarchs have been able to extend their informal networks of political power through informal cartels and commodity-based semi-monopolies, and now wield significant economic and political power.

The key to defeating the power of the oligarchs is to attack the economic monopolies and cartels that comprise the oligarchic system by introducing greater competition and law-based enforcement, regulation and supervision. Generally, such cartels and monopolies flourish within "closed" economies, averting the transparency and competition that dominate the more open marketplace. But in addition to the need for greater anti-trust legislation and stronger state regulatory bodies empowered to limit or breakup monopolies, it is the rule of law and politi-

cal will that is needed to overcome this "cronyism."

Thus, the closed nature of the Armenian political system, utilized by a new dual clan-based and oligarchic elite, has significantly eroded the state's most important asset - legitimacy. This has also been matched by a steady decline in "good governance," with a tendency for both public policy and national security formulated by self-interest over national interest. Thus, one can only hope that the combination of new opportunities and challenges will serve as "agents of change" to force open and reform the overly restrictive and rigid political and economic systems that have become so entrenched as to deny the legitimacy, political will and efficacy so necessary to move the country forward.

Scenario Two: Armenian-Iranian Relations

A second scenario for bolstering Armenian national security in the face of new threats and challenges stems from the issue of Armenia's relations with Iran. Among the countries of the former Soviet Union, Armenia has been largely recognized as a small state faced with an especially difficult set of challenges. Faced with a blockade imposed by its neighbors Azerbaijan and Turkey that has imposed a degree of relative isolation stemming from disrupted trade and energy links, landlocked Armenia has relied on a strategy of adaptation.

Such a strategy of adaptation has been most evident in its pursuit of a rather innovative foreign policy, known as "complementarity," which effectively balances its inherently pro-Western position with its preference for a strong alliance with Russia. While the dual nature of this policy has brought a limited nature of benefits, Armenia holds a more significant advantage from a similar policy of balancing competing strategic interests. More specifically, this longer term strategic advantage is rooted in Armenia's unique balancing of its commitment to the West and its integration into the architecture of Euro-Atlantic security with its dynamically developing relationship with the Islamic Republic of Iran.

The Imperative of Isolation

Despite the long history of close ties between Armenia and its Persian neighbor to the south, the bilateral relationship between Armenia and the Islamic Republic of Iran has not been a natural alignment. Rather, the Armenian-Iranian relationship is rooted in a shared condition - an imperative to cooperate in the face of isolation. Moreover, even through the difficult course of the Nagorno-Karabakh conflict in the 1990s, Iran followed a consistently pragmatic course that prevented the conflict from taking on any religious connotations and sought to promote a negotiated resolution to the conflict.

In a larger context, Iran was drawn to Armenia as a natural ally, bolstered by the shared challenges of isolation, blockade and external pressure. But there is also an element of opportunity in Iran's view of Armenia. This view is only compounded by the role of Armenia as a routine destination for Iranians on weekend visits and by the over 1200 Iranian students currently studying in Armenian universities and educational institutions.

The Armenian strategic approach toward Iran is also less about history but more of practical necessity or opportunity. Specifically, Armenia's relations with Iran are driven by the need for an outlet from the East-West blockade of Armenia and the desire for reducing its already serious over-reliance on Russia as the primary, or even sole, external partner for trade and energy. Thus, Armenia's Iran policy is shaped largely by blockade and isolation, most apparent in the exclusion of Armenia from all regional energy plans, most notably apparent in the Baku-Tbilisi-Ceyhan pipeline project.

But it is the geopolitical context that is most significant for Iran, especially as the South Caucasus has reemerged as a regional arena for competing interests among larger powers. From this perspective, Iran values its engagement with Armenia as a tactical counterweight to the projection of both Western and Russian power and influence in the region.

Such a geopolitical agenda is rooted in the historical record, as Iran has been vulnerable to Russian, British and, for a more limited time, American pressure and interference. Although this historical vulnerability to pressure from both East and West reached its zenith during the rule of the Shah, even current Iranian leaders recognize their vulnerability. For this reason, Iran has more recently steadily sought to counter first Turkey, as a U.S.-backed regional proxy, and then the United States more directly, driven by the American military presence in both neighboring Iraq and Afghanistan. It is this expanding U.S. military network and presence in the region and in Central Asia that fuels an Iranian desire to solidify ties to Armenia, stabilize relations with Azerbaijan, and deepen ties with Georgia.

Armenia as a Bridge to Iran

But from the broader perspective of Iranian interests in the region as a whole, Iranian policies are also driven by a strategic drive to consolidate a North-South transport network, with the South Caucasus as an integral link in that plan. And it is Armenia, more than any other state that offers a unique role as a potential platform or bridge to Iran.

In practical terms, such as trade and commerce, Armenia's relationship with Iran has been marginal, however. Despite the limited nature of bilateral trade, the true significance of Armenian-Iranian relations rests with the unique Armenian potential as an outlet for Iran and as a bridge to Iran. The clearest demonstration of this significance is in the energy sector, as seen by launch of a project in 2004 to build a 141-kilometer natural gas pipeline between Iran and Armenia. After years of delay and prolonged negotiations, the pipeline was completed in 2007.

The gas pipeline project is to supply Armenia with roughly 1.1 billion cubic meters (bcm) of gas, expected to rise to 2.3 bcm over the next twenty years. The pipeline will also allow Armenia to import Turkmen gas as an alternative to its sole reliance on Russia as a gas supplier. In turn, Armenia is to pay for Iranian gas with electricity supplies. But even this pipeline was a limited success for both countries, as Russian pressure succeeded in reducing the size of pipeline, thereby preventing the pipeline for use to transport gas beyond the Armneian market. The Russian interest in reducing the diameter of the pipeline was mainly due to its desire to prevent Armenia from emerging as a gas transit rival.

Thus, Armenia sees and presents itself as bridge to Iran to the current regime and as bridge to new Iran. But as demonstrated by the now reduced parameters and potential of the Iran-Armenia gas pipeline, for the immediate future, Russia is the key impediment or incentive for a deepening of Armenian-Iranian relations. In fact, the final details of the Iran-Armenia gas pipeline reveal an accommodation of the Russian reassertion of influence and power in the region.

Yet in one of the rare instances of an Armenian advantage of geography, Iran is likely to emerge as a key partner over the course of transition in both countries. And perhaps most significant is the potential for linking the two regions of the South Caucasus and the Middle East, each of which face even more profound geopolitical change in the near- to medium-term.

In addition, it is instructive to examine Armenia from an Iranian perspective. Iran also exhibits a broader geopolitical consideration, as Iran's engagement with Armenia is seen as a tactical counterweight to the projection of Western, or U.S. power and influence. Through much of the period of independent states in the Caucasus, Iran had sought to counter Turkey, as the U.S. regional proxy or agent state. More recently, however, given the deterioration of U.S.-Turkish relations and the replacement of proxy states by direct U.S. engagement, Iranian strategy has shifted to counter the U.S. more directly. The expansion of the U.S. military presence has surrounded Iran in each direction: from Iraq to the west, Azerbaijan to the north, Central Asia, Pakistan and Afghanistan to the east and

northeast, and in the Gulf to the south. Thus, Iran feels compelled to pursue external ties to Russia with Armenia and by improving relations with Azerbaijan.

Thus, from the Iranian perspective, the significance of Armenia stems from three considerations: (1) strategic, by a shared sense of blockade and isolation; (2) geographic, with Armenia as a neighbor seeking cooperation over confrontation, and, (3) geopolitical, as Armenia offers an avenue to check the surrounding of Iran by a web of expanding the US military bases. And, finally, from the broadest perspective, Iran's national interests in the region are driven by the pursuit of the only remaining outlet: through the North-South transport network, with the South Caucasus as an integral link in that plan. This too is rooted in the isolation of the Iranian regime.

Scenario Three: The Rise of Azerbaijan as a Military Power

A third and crucial scenario for Armenian national security is the threat of renewed war as Azerbaijan seems determined to build a modern and strong military, hoping to become the most powerful armed forces in the region. And with the long record of aggressive and threatening statements from Azerbaijani leaders, there is a growing danger, at least over the medium- to long-term, that war over Nagorno-Karabakh may return to the region.

Although much of the recent Russia tension over NATO expansion has centered on the Georgian and Ukrainian bids for NATO membership, the more fundamental challenge for NATO enlargement stems from neither political or even geopolitical considerations, but is rooted in the test of military reform. And most significantly, one of the most militarily ambitious of the former Soviet states is Azerbaijan, a country which has repeatedly asserted a commitment to building modern and self-sufficient armed forces on its own terms, rejecting the patronage of both NATO and Russia. Yet the course of military reform in Azerbaijan has been particularly difficult in recent years and, despite a sharp increase in its annual defense budget financed by its energy wealth, the outlook for Azerbaijan's rise as a regional power by the year 2020 is far from certain.

Obstacles to Azerbaijani Military Reform

Despite the benefits of three consecutive years of defense budgets of more than $1 billion, Azerbaijan accomplished little in terms of procuring advanced weapons systems or investing in modern equipment. Of its three branches of service, both the army and air forces have continued to suffer from neglect, with continued shortages of spare parts and poor maintenance of existing stocks. The one excep-

tion has been the Azerbaijani navy, which has significantly increased its capabilities. Yet even the development of its naval forces has resulted from the training and equipping from the U.S. "Caspian Guard" program, which has bolstered the naval capabilities of both Azerbaijan and Kazakhstan in an effort to match a naval buildup by both Iran and Russia in the Caspian.

The development of the Azerbaijani navy, including the standing up of an impressive new maritime Special Forces unit, has provided Azerbaijan with important new counter-proliferation capabilities to combat the trafficking of both weapons and most crucially, of drugs through the Caspian Sea. But it has not endowed Azerbaijani with any offensive capabilities beyond an enhanced command and control and radar-based surface monitoring system, thereby depriving Azerbaijan of its most valued prize - the ability for real power projection.

But there are real limits to such a future of Azerbaijani military dominance, as its Air Force continues to suffer from shortfalls in munitions, ordnance and even aviation fuel, making the service the least combat-ready force in the Azerbaijani armed forces. In addition, the Azerbaijani army, traditionally the core service of the armed forces, also lacks power projection capabilities and is far from attaining even a minimum level of combat-readiness.

Nevertheless, over the longer term, the rise of Azerbaijan as a military power seems assured. Its rise is based on an influx of oil (and gas) wealth used to finance a new, modern armed forces, enhanced with both training and equipment, and a political will in Baku that seems set to exercise a new-found self-sufficiency based not on Turkish or even American patronage, but relying on its own national power. For both Karabakh and Armenia, such a strategy is obviously a threat not only to its own security but will also result in a dramatic shift in the already delicate regional "balance of power" in the South Caucasus.

As the recent developments have confirmed, the Azerbaijani government has resolved to implement an assertive and ambitious effort aimed at forging a new and robust military.

First, Azerbaijan sought to develop its own defense industry. Established as early as 2005, Azerbaijan's Defense Industries Ministry, headed by Yavar Jamalov, took over the State Departments for Military Industry and for Armaments and the Military Science Center, each of which was formerly a separate agency within the Azerbaijani Defense Ministry. This new ministry has an annual budget of between $60-70 million and has already started to create an indigenous defense production capability, bolstered by assistance from both Ukraine and Pakistan, with some Russian technical expertise as well.

A second development has been the return of a role for the Turkish mili-

tary. This Turkish role in developing Azerbaijan's military capabilities is no longer simply about providing Turkish arms or training, but comprises a much more strategically significant role by senior, high-level Turkish military advisers. News of this enhanced Turkish role first surfaced in January 2007, and included reports that a senior Turkish military officer would be appointed to a post within the Azerbaijani Defense Ministry. Those early press reports claimed that senior Turkish military leaders selected an unnamed Turkish Army general to assume the position of a deputy minister within the Azerbaijani Defense Ministry, endowed with sweeping power and authority, including direct and sole control over a team of lower-ranking Turkish military officers serving as military instructors and advisers.

But this plan for a direct Turkish military role in Azerbaijan, marking a reversal of the deterioration in Azerbaijani-Turkish military ties over the past few years and a return of Turkish military advisers following their departure from Baku in 1995, was never carried out. In addition, to the surprise of many analysts, Turkey was unable to restore its traditional military alliance with Azerbaijan. And throughout 2007 Baku actually moved farther away, not closer to Western security structures and NATO.

But in the light of its commitment to building a modern and powerful Azerbaijani armed forces and after several years of substantial defense budget, why has Azerbaijan failed to embark on serious military reform?

Interestingly, the main obstacle preventing Azerbaijan from building a powerful new military is the very man who heads the Azerbaijani Ministry of Defense. The Azerbaijani Defense Minister, Colonel General Safar Abiyev, is today the longest-serving defense minister in the world. Yet his position stems not from military competence but rests on his personal loyalty to the Aliyev family. And his tenure as defense chief has been defined by a long period of neglect, underinvestment, and marginalization of the Azerbaijani armed forces, not to mention a record of miserable conditions for front-line soldiers and even an unacceptable high rate of death for conscripts.

Specifically, the late President Geidar Aliyev was firmly convinced that the one true threat to his power came from a strong military and, in response, kept the Azerbaijani armed forces weak, corrupt and incompetent. Aliyev senior also ensured that the military was denied essential training and equipment, a policy maintained by his son and successor, current President Ilham Aliyev. Both leaders also utilized the Azerbaijani Ministry of Defense as an important vehicle for corruption. This ensured that the military would always be weak and divided, undermined by the cancer of corruption from within.

Thus, the real potential for building a modern and powerful armed forces in Azerbaijan remains little more than a distant promise. And even with the enormous annual state budgets for defense, a relatively small proportion of defense spending has actually been spent on arms, training and essential equipment. Moreover, although the future trajectory of Azerbaijan as a regional military power seems assured, most experts believe that it will take between 5-10 years of sustained and serious military reform before Azerbaijan can meet this potential. In the shorter term, there are several important lessons revealed from recent clashes between Karabakh and Azerbaijani forces. First, it is clear that the Karabakh (and Armenia) forces still hold a significant military dominance over Azerbaijan, an advantage likely to continue for at least the coming 5-10 years.

Second, Azerbaijan faces a new deterrent against renewing war. This new deterrent against any Azerbaijani attempt to restart hostilities is posed from the very sources of their wealth - the international energy companies and the powerful Western energy consuming nations themselves. This is very important and offers a new "energy deterrence" that will do everything to keep the oil flowing.

Lastly, and perhaps the most important is the fact that despite the wealth and power of Azerbaijan, both Karabakh and Armenia are substantially more stable and secure than Azerbaijan. This asset of stability is also an important positive consideration for world and regional powers that are now seeking ties with stable partners over riskier authoritarian regimes like Azerbaijan. Thus, while the outlook for security for Karabakh and Armenia is not without its own challenges, there is a comparative advantage of stability in a region already very much at risk.

Conclusion: The Need to Strengthen the National Security Process

Despite the focus on the pronounced shift in regional geopolitics, on a deeper level, the other consideration is that local politics, such as good governance and democratization, and local economics, in terms of market reforms and anti-corruption efforts, are the real keys to lasting security and stability in the South Caucasus. And with the South Caucasus more than ever a "region at risk," the imperative should be more on focusing on bolstering local politics and economics and less on grand geopolitical designs in order to forge a degree of stability more durable than simply relying on individual leaders, no matter how pro-Western or accommodating. In this way, institutions matter more than individuals and evolutionary reform, not revolutionary change, offers more assurance for stability.

And finally, there is an obvious need to strengthen the process of national security in Armenia. Although there are obvious limitations of resources, both human and financial, to the development of a more sophisticated and compre-

hensive Armenian strategy of national security, there are some key points for consideration. The core mission, however, is to establish a coherent process of national security. This entails both organizational and ideological reforms, including recognizing the fact that the most glaring deficiency in the current institutions of Armenian national security is their absence. Even in the wake of the recent appointment of a new head of the Armenian National Security Council, the body has met infrequently and has been largely marginalized from the formulation and considerations of the national security decision-making process as many of the most crucial decisions have been concentrated in the president's office.

Although there has been a marked increase in the role of parliamentary committees with jurisdiction over defense and security policy, the sheer dominance of the executive branch in general, and the president in particular, the dysfunctional nature of the national security process remains uncorrected. One basic recommendation to improve the process of Armenian national security would be to reform the organization of the National Security Council. Currently, the Armenian National Security Council is rarely convened as a full consultative body and, even when it meets, is usually focused on the implementation of a decision already adopted. This distorted process stems from the fact that the body is subordinate to the presidential administration, an act that limits the capability for longer term strategic planning and preparation, a potentially fatal flaw for Armenia in the wake of such recent threats and challenges to Armenian national security.

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