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ASSESSMENT OF POLITICAL RISKS IN THE SOUTH CAUCASUS REGION



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About the report

Minchenko Consulting Communication Group has expanded its research geography of political risks in the countries of post-Soviet space¹. We are offering our English-speaking readers an abridged version of the Russian-language report on country risks in South Caucasus. The rating system, which is a centerpiece of our reports, was adjusted to the peculiarities of the South Caucasian political situation. Besides the three internationally recognized states of Azerbaijan, Armenia and Georgia, the present report also succinctly examines three South Caucasian *de facto* republics². As previously, our regional rating reflects strictly the positions of countries vis-à-vis each other in the context of a specific area. We hope this report on South Caucasian political risks will be useful for companies with investment plans or projects in the region.

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¹ Previously, we have produced reports on political risks for investors in Central Asian countries.

The 2015 comparative report is available at: http://www.minchenko.ru/en/analytics/analitics_13.html

The 2014 comparative report is available at: http://www.minchenko.ru/en/analytics/analitics_8.html

Report about political risks in Turkmenistan is available at: http://www.minchenko.ru/en/analytics/analitics_3.html

² This report features a dedicated section on political risks in Abkhazia, South Ossetia and Nagorny Karabakh.

Translator's note: for the purposes of this report, the geographical terms of South Caucasus and Transcaucasia are considered synonymous and interchangeable.

Introduction

The demonstrative effect of the conflict in Southeastern Ukraine, ongoing geopolitical confrontation between Russia and the West, and growing ISIL ambitions led to an exacerbation of the situation in the entire post-Soviet space, including South Caucasus. The region is facing **an intensifying competition between the projects of European and Eurasian integration**. Certain post-Soviet states chose to sign Free Trade Agreements with the European Union, while others opted to join the Moscow-led Eurasian Economic Union. At the same time, both types of countries (Armenia, Georgia, Moldova, and Ukraine) are involved in unsettled ethnic political conflicts, while integration opportunities are viewed by them, inter alia, as an auxiliary instrument to resolve those conflicts.

The Caucasus is a troubled region in terms of security. Only in the Caucasus do neighboring post-Soviet states not have diplomatic relations. At present, this is the case of Armenia and Azerbaijan, Russia and Georgia, as well as of Armenia and Turkey. Two of Armenia's borders are closed (with Turkey and Azerbaijan).

Since the collapse of the USSR there have been six armed conflicts in the Caucasus (including North and South). Most of them cannot be considered fully settled. Moreover, there are diverging interpretations of what can be considered a resolution to ethnic political confrontation. If recognizing Abkhazia and South Ossetia is viewed as a way out of conflict for Russia, Georgia sees this state of affairs as occupation and national humiliation. For Armenia, the Nagorno-Karabakh (NK) conflict can be resolved by the self-determination of the NK Armenian community, while the only acceptable solution for Azerbaijan is to incorporate the disputed territory and attain territorial integrity.

Half of all existing de facto states of the post-Soviet space are also located there (Abkhazia, South Ossetia, the Nagorno-Karabakh Republic). It was in the Caucasus that the precedent of recognizing former autonomies within Soviet republics as independent states has been set in August 2008. And although the process of their international legitimation has slowed down at present³, even the ardent opponents of Abkhazian and South Ossetian recognition would not dispute their role and significance in conflict resolution and stabilization (or, on the contrary, destabilization) of the Caucasus. This importance was reflected in the participation of Abkhazian and South Ossetian representatives in the Geneva security discussions established in 2008 as part of implementing the Russian-French arrangements, which ended the Five-Day War between Georgia and Russia.

Old unresolved conflicts of the South Caucasus are accompanied by new risks. The gravest of them appear to be:

³ As of June 2015, the independence of Abkhazia and South Ossetia has been recognized only by Russia, Nicaragua, Venezuela and Nauru. In March 2014, Tuvalu has withdrawn its recognition of both republics. Throughout 2011-15 Vanuatu's position on recognizing Abkhazia has changed several times. As of March 2015 this state recognized Abkhazian independence but also established diplomatic relations with Georgia. <http://ria.ru/interview/20150331/1055729593.html>

- Escalation of violence in the Nagorno-Karabakh conflict zone and at the Armenian-Azerbaijani border outside the Line of Contact limits⁴, while the Co-Chairs of OSCE Minsk Group (in particular, the United States) are attempting to dominate the peace negotiation process;
- Strengthening of Georgia's Euro-Atlantic drive⁵;
- **Impending chaos to the South of the old Soviet border in its entirety. In particular,** the solidifying positions of the so-called Islamic State of Iraq and Levant (ISIL) in the Middle East and attempts of exporting radical Islamist moods and terrorist methods to the Caucasus (at present, the natives of North and South Caucasian republics are joining ISIL ranks);
- The macroeconomic stability of the region's countries is under pressure. Marked currency devaluation is taking place at the backdrop of shrinking remittances from abroad and stagnating investments. Incidentally, Georgian lari is losing value almost more rapidly than Armenian dram. The resilience of Azerbaijani manat is limited given low oil prices. High import reliance combined with the undergoing devaluation of national currencies may adversely affect social and political stability;
- social and domestic political problems in the region's countries (mass protests and constitutional reform in Armenia, rise of the opposition United National Movement in Georgia and non-systemic Islamist opposition in Azerbaijan in the context of complicated economic situation);
- uncertainty of political future in Turkey, which is threatened by a destabilization similar to the countries affected by the Arab Spring, and Iran, which, further to fully-fledged deal with the West, can either considerably boost its regional clout, launch Europe-bound energy transport routes and become a key player in South Caucasian politics, or, on the contrary, fall victim of a political perestroika, implode in case it fails to weather a drastic ideological change.

The present report provides assessments of political risks for three Transcaucasian countries (Azerbaijan, Georgia and Armenia) from the viewpoint of sustainable domestic political development, sustainable economic development, the efficiency of foreign policy and ability to resist the destructive influence of non-state extremist actors. Each of the four parameters was assessed individually for each country. The maximum possible risk grade was 10 points.

We bring your attention to the fact that the report assesses the sustainability of political systems formed in South Caucasian states, rather than their current regimes. The proposed assessment is provided for a short-to-mid-term period, the span of current risks being maximum two years. We also provide a brief summary of long-term threats. All noted risks represent a grave challenge for regional security.

⁴ On 12 November 2014, Azerbaijani Armed Forces took down Armenian combat helicopter Mi-24 (incurring deaths of 3 crew members). This accident became the first case of aircraft destruction in the conflict zone since May 1994. For further details, please consult: <http://www.kavkaz-uzel.ru/articles/252305/>

⁵ On 5 September 2014, official Tbilisi obtained the substantial cooperation package from the NATO. For further details, please consult: <http://www.kavkaz-uzel.ru/articles/248769/>

Final comparative table of political risks for South Caucasian states

Rating place	Country	Aggregate point count
1	 Azerbaijan	22
2	 Georgia	25
3	 Armenia	29

The countries are ranked in accordance with the scale of political risks. The lower the final point count, the lower the political risk. 40 points corresponds to maximum risk.

Arguably, South Caucasus maintains a high level of political risks. In many ways, this situation is a consequence of extremely weak regional integration. Key players lack even basic arrangements, while the agreements on sustainable rules of the game encounter numerous impediments. At the same time, risks do not reach a critical level in either country and can be mitigated if political will is present. In the short term, it is the Armenian statehood that is facing the most powerful challenges, as it is yet to find instruments for raising the efficiency of governance. But in the long run even Azerbaijan that built a monolith of running the nation is in a difficult situation. Domestic and external political pressures tend to increase, while the leadership is unlikely to trade economic growth for political stability.

1st place: Azerbaijan (22 of 40 possible points)

General conclusion: Of all countries of the region, Azerbaijan is characterized by the lowest level of risks. Azerbaijan is the strongest economy of South Caucasus, attractive for foreign investors, and a politically stable state. The downside of political regime's effectiveness is a critical weakening of the secular opposition and the accumulation of protest by non-systemic players (above all, by Islamist groups with various extents of radicalness). The country's oil specialization ensures it a decent place on the world arena and provides for internal development resources. However, these resources are gradually being exhausted, and the Azerbaijani economy requires diversification. The development of gas fields partially makes up for the revenue plunge caused by the progressive depletion of oil reserves. Baku's trumps are its multi-vector foreign policy and its ability to balance between the interests of the United States, the European Union, Russia, Turkey, Iran, Israel and the Arab World countries. But the danger of deepening confrontation between Russia and the West, and the destabilization in the Middle East may push Baku toward a choice which would entail additional risks and change the existing status quo.

Domestic politics: stability and its costs

The positions of current Azerbaijani authorities appear solid. They are not facing a serious internal competition and are resilient to risks. As a matter of fact, during the municipal elections in December 2014 the ruling party Yeni (New) Azerbaijan even renounced to free air time granted by the electoral legislation⁶.

In 2009, President Ilham Aliyev (previously elected in 2003 and 2008) managed to promote constitutional amendments, which lifted the limitations of number of terms for one person⁷. In four years, Ilham Aliyev effortlessly won the first tour of election already with a result of 84.55% votes (the ballot took place on 9 October 2013). The candidate from coalition National Council of Democratic Forces (NCDF) Jamil Hasanli earned only 5.27% of votes, according to Central Election Commission (CEC). Therefore, Ilham Aliyev continued and reinforced the "family rule", started in the summer of 1993 by his father Heydar Aliyev, technically not a formal but the actual founder of independent Azerbaijan.

Yet this is where possible risks Azerbaijan's political future lie, since ensuring the above-mentioned electoral victory was aimed not so much at sustainable institutional development as at maximal prolongation of the current leadership's mandate.

Achieving this goal is accompanied by harsh administrative pressure on the opposition. Thus, in August 2013 the republican CEC refused to register a renowned cinema playwright and the NCDF leader Rustam Ibragimbekov as presidential candidate using as pretext his second citizenship and ineligibility per residence requirements. In 2014, Azerbaijani law enforcement agencies and special forces initiated the persecution of numerous human rights activists and public figures (journalist Rauf Mirkadirov, the Yunus spouses known for their activism and political science, head of Society for Legal Education Intiqam Aliyev, activists of the oppositional Popular Front of Azerbaijan Murad Adilov, journalist Khadija Ismayilova).

⁶ <http://www.kavkaz-uzel.ru/articles/253299/>

⁷ <http://www.kavkaz-uzel.ru/articles/152377/>

In November 2015, Azerbaijan will host the fifth election for Milli Mejlis, the national parliament. According to the representatives of Azerbaijani authorities, the election is unlikely to bring significant change into the domestic political landscape, while the ruling New Azerbaijan Party will preserve its dominance. The current parliament makeup (elected in November 2010) includes only one opposition figure Iqbal Agazade⁸. A part of opposition is habitually calling for boycotting the election as non-democratic⁹, although this strategy proved itself as ineffective. Meanwhile, according to the Azerbaijani opposition the municipal election campaign ended on 23 December 2014, did not receive voters' interest. The candidates from the ruling party ended up getting more than 60% of seats in local councils¹⁰.

At the same time, Ilham Aliyev's solid positions cannot be explained by his authoritarian policy alone. The strengthening of Azerbaijani power was significantly "enabled" by the weakness and disunity of the opposition, its incapacity to nominate genuinely strong candidates, absence of serious alternative programs of national development. Traditionally, negative popular memories of short-lived rule by the Popular Front of Azerbaijan also play in favor of the current regime.

Furthermore, the Azerbaijani leadership managed to effectively adapt to the anti-corruption platform and rhetoric of its opponents. It is regularly carrying out internal crackdowns and campaigns on "cleaning the state apparatus" from corrupt officials, accompanied by large-scale populist information coverage. In 2013, MP Gulyar Ahmedova was excluded from the ruling party and placed under police supervision. In Ismayilly, a town which faced mass riots, a mayor was sacked from his post, while the business of his relatives was put under the scrutiny of law enforcement¹¹.

If in the 1990s and early 2000s the Azerbaijani authorities were largely coming from two regional groups – Nakhchivani and Yerazi/Armenistani (Azerbaijani name for Azerbaijanis born in Armenia), this monopoly was subsequently challenged by the representatives of other regions.¹² Although Nakhchivanis play a significant role in deliberating and making key decisions, a large part of top-ranking officials and big business close to the ruling elite is represented by other groups.

The Azerbaijani authorities are savvy in their appeal to various population strata. For pro-Western intellectuals, they are attractive as upholders of secular principles and active, in particular economic cooperation with the United States and the European Union. And in that regard, their discontent with current regime is compensated by the choice in favor of stability and containment of Islamist extremists. For the rural population, the ruling elite is attractive due to its paternalist posture, whereas ethnic minorities are conservative, as a rule, and not interested in power shifts which may incur an unpredictability of their status. Social discontent is also channeled via high outward labor migration. For instance, in Russia, according to the data from the Federal Migration

⁸ At the 2010 election Yeni Azerbaijan won 72 mandates out of 125. 40 more MPs made it as "independent candidates", 11 MPs were representatives of other parties, while two did not specify their party affiliation. The leaders of oppositional Azerbaijani Popular Front Party and Musavat, Ali Karimli and Isa Gambar respectively, lost the election and did not obtain MP mandates. // <http://russian.eurasianet.org/node/58430>

⁹ Source: <http://www.kavkaz-uzel.ru/articles/257073/>

¹⁰ <http://www.kavkaz-uzel.ru/articles/255465/>

¹¹ Markedonov S.M. Azerbaijan in 2013: main trends of socio-political and socio-economic development//Kavkaz-2013. The yearbook of the Institute of Caucasus, Yerevan. The Institute of Caucasus. 2013. PP. 9-31. [Russian]

¹² Sidiqov B. New or traditional? Regional groupings in post-Soviet Azerbaijan //Vestnik Evrazii. 2004. - № 2. PP. 151-167.

Service alone, Azerbaijanis represent the fourth largest foreign group on Russian territory (their number amounts to 620 thousand people)¹³. According to expert estimates, however, this figure exceeds one million.¹⁴ Their potential return following a socio-economic crisis inside Russia is also viewed as potential risk for Azerbaijan.¹⁵

At the same time, notwithstanding the Aliyev power system's appeal for the broader Azerbaijani public, one cannot deny the prospect of rising confrontation inside the republican state bureaucracy due to possible decrease in the reallocations of oil windfall revenues, which are claimed by all elite groups in one way or another.

Azerbaijani domestic politics is a traditional object of criticism from American, European and international human rights organizations¹⁶. However, to date it has not impeded a pragmatic cooperation between the U.S., the E.U. and Azerbaijan (in the field of energy, above all). The West's confrontation with Russia over the Ukrainian events raises interest toward Baku as Europe's alternative supplier of hydrocarbons and still makes the West turn a blind eye to the incompatibility of Azerbaijani politics with democratic governance norms. The "oil in exchange for non-democracy" model is still functioning.

It is uncertain that the United States would still support their partners in case of emergency, as happened in Egypt after Hosni Mubarak's fall. The loss of Western backing may turn out entirely event-driven. The West may support a moderately Islamist political movement, which uses formally democratic slogans, or radicals imitating moderation at the level of rhetoric intended for external audience.

At the same time, American political circles are not monolithic in regard of Azerbaijan and its president. The agencies in charge of energy, security and defense view Baku as an important element of "energy pluralism" in the process of providing hydrocarbons to Europe bypassing Russia, and as a partner in combating radical Jihadism. The 'human rights' bloc (whose representatives are part of the U.S. Department of State and a number of government commissions), and certain influential ex-diplomats (for instance, Richard Kauzlarich, who served as Ambassador to Baku in 1994-7) spoke in favor of pressuring Baku harder on the issues of human rights respect and electoral transparency.

¹³<http://www.fms.gov.ru/about/statistics/data/>

¹⁴ <http://www.islamrf.ru/news/mosaique/culture/3928/>

¹⁵ <http://www.zerkalo.az/2013/vozvrashhenie-migrantov-v-azerbaydzhan/>

¹⁶ In 2013 году the rhetoric of Americans and a number of international institutions in regard of Azerbaijani election procedures was markedly more critical. For instance, the representatives of the OSCE Parliamentary Assembly stressed the evident information advantage of the ruling party during the campaign. Observers affiliated with the OSCE Bureau on Democratic Institutions and Human Rights also confirmed the limitations of civil liberties and rights during the election. Quoting the U.S. Department of State Press Secretary Mary Harf, "we constantly called the Azerbaijani government upon holding a free and fair electoral process and respecting the freedom of speech, which, however, did not happen" (quoted from: <http://www.apsny.ge/2013/pol/1381533819.php>). In May 2014, the U.S. Ambassador to Baku Richard Morningstar (he had assumed his position in July 2012 and left it in early 2015, after the Senate approved Robert Cekuta as new representative in Azerbaijan), stated that the authorities of the Caspian republic must draw lessons from the Ukrainian situation. And the Kiev scenario may repeat itself if the official Baku will not renounce to its hard line on the civil society. <http://newsland.com/news/detail/id/1376858/>

Non-systemic players: the downside of internal stability

Azerbaijani stability has its reverse side. It is founded on the monopolization of political space and marginalization of secular opposition. Yet the weakness of secular opposition, absence of attractive programs and bright leaders in its ranks run the risk of accumulating social discontent with the help of various non-systemic forces (non-state actors). Firstly, there is a threat of sporadic riots, bringing violence both onto officials and on behalf of the authorities (as was the case in January 2013 in Ismayilly or in March 2012 in Quba)¹⁷. Secondly, the rising Islamist movement should not be disregarded. Ideologically, it is not homogeneous. While the northern parts of Azerbaijan (at the border with Russian Dagestan) encounter a strong Salafi influence, the southern and central regions (for instance, Nardaran village 25 km away from Baku) are influenced by Shiite currents¹⁸. The recent years saw an active spread of various currents of Turkish Islam (teachings of Said Nursi (1876-1960) and Fethullah Gülen)¹⁹. All Islamist movements either support the deconstruction of present Azerbaijani statehood and conversion of the country into an Islamic republic, or favor the minimization of secular order. As a rule, they instrumentalize the slogan of social justice, fighting corruption and criticize the leadership for its cooperation with the West and Israel.

At present, although there is no accurate data on the number of Azerbaijanis in the ISIL ranks, it is known that by early 2015 more than 100 citizens of the country were killed in action in the Middle East and more than forty fell victims of internal ISIL feuds.²⁰

Therefore, the solid domestic political position of ruling elite should be considered in conjunction with the problem of non-systemic forces (non-state actors), which may represent a severe challenge to the country's stability.

Economy: a demand for diversification

Azerbaijan's economic situation appears stable at present, which, however, does not imply an absence of risks. Among positive indicators, the economic development of Azerbaijan counts low inflation (1.4%), a stable exchange rate of national currency manat and the growth of foreign exchange reserves (circa \$15 billion). Projects that are considered key for Azerbaijan have reached agreement stages (Shah Deniz-2, Trans-Anatolian gas pipeline TANAP, which is intended to supply the 'blue fuel' to South European consumers)²¹. On the negative side, the leadership achieved only weak success in diversifying the economy. Certain experts view the Azerbaijani economy as fully dependent on oil output and do not see real opportunities to diversify it even through gas production, given the insufficiency of its reserves.

¹⁷ In March 2012, Quba became a place of demonstrations demanding the resignation of municipal head Rauf Habibov. His harsh crackdown on protests provoked riots (a house of local official was set on fire).

¹⁸ The most popular Shiite structure is the Islamic Party of Azerbaijan (whose leader Movsum Samedov was arrested and charged with planning terrorist acts in January 2011). It counts approximately 11 thousand members. According to various estimates, the number of Salafites fluctuates within 10-30 thousand persons. Followers of Nursi and Gülen are about 40 thousand strong.

¹⁹ Yunusov A. Islamic factor in Azerbaijan. Baku. Adilgoly. 2013. PP.35-110.

²⁰ http://news.bakililar.az/news_skolko_azerbaydzhantsev_v_115070.html

In June 2014, the social media spread calls on behalf of ISIL which announced, in particular, a creation of "Islamic order" on the territories of Azerbaijan and Turkey. The state maps and flags of Azerbaijan and Turkey were disseminated with black background and a stamp of the prophet Muhammad. <http://www.iarex.ru/articles/48515.html>

²¹ <http://www.contact.az/docs/2014/Analytics/123000101570ru.htm#.VTY5pNysWE4>

2014 was officially declared the Year of Industry in Azerbaijan. For this purpose, the government initiated the establishment of several industrial parks. In December 2014, President Ilham Aliyev signed a 10-year state industrial development program (until 2025). Yet, whatever the objectives declared, the non-oil sector in industry still has not exceeded 5%. Therefore, the country still has not managed to escape energy's spell as the single economic determinant. Sluggish growth rates in oil production produced an extremely negative impact on the national economy. The plunge of global prices for 'black gold' induced an additional aggravation. Investment attraction also started to slow down: by year-end the growth rate hit 0.3% as compared to 14.8% in 2013. Agriculture is also following this negative scenario, dipping into a considerable recession (of about 5%)²².

The 2015 Iran deal may result in a powerful energy competitor for Azerbaijan. If the agreement enters in force (after a discussion in the U.S. Congress and the minimization of controversies between the West and Iran on a whole range of Middle Eastern issues, such as Syria or Yemen), a drop in oil prices can be expected alongside the boost of projects of transporting Iranian gas to Europe. This would result in a staunch rivalry with Azerbaijan.

Swing policy: Azerbaijan on the international arena

Multi-vectorism is a distinct feature of the Azerbaijani foreign policy. Azerbaijan does not join the extreme poles of Caucasian geopolitics (while Armenia is member of the CSTO and EAEU, Georgia is a partner of the United States, NATO and the EU). In this regard, Azerbaijan can be considered one of the most clear-cut examples of multi-vector foreign policy adopted in various forms by most post-Soviet countries.

In September 2014, Baku was celebrating the 20th anniversary of the so-called Contract of the Century (an agreement between Azerbaijan and twelve Western petroleum majors). The jumbo deal became one of the largest commercial contracts of the past two decades and in many regards remains the foundation of Azerbaijani external trade and foreign policy. Baku managed to adjust its strategy to American and European energy insecurities of Russian weaponization of oil and gas and energy imperialism which is supposedly eyeing the restoration of the USSR. The energy alternative which materialized in the projects of Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline, further improved Azerbaijan's positive image in the West. During the visit of Russian President Vladimir Putin to Baku in August 2013 an agreement was signed between Rosneft and SOCAR (State Oil Company of Azerbaijan). However, it only concerned trade cooperation and not Rosneft's stake in the Absheron field²³. In addition, almost one third of the NATO cargoes going from Europe to Afghanistan transit through Azerbaijan.²⁴

For Baku, the advantages of cooperation with the West are evident. Firstly, it allows to minimize the Western criticism of Azerbaijani domestic politics (it particularly concerns the hereditary power transition from father to son and the political dominance of the Aliyev family) and ensure the support of current regime as guarantor of secular development and ally of NATO-affiliated Turkey. Secondly, Azerbaijan is seeking a counterweight to Moscow and the Armenian lobby in the United States and Europe, thus attempting to secure backing from Western politicians

²² Ibid.

²³ <http://www.kavkaz-uzel.ru/articles/228540>

²⁴ <http://afghanistan.ru/doc/54040.html>

in order to resolve the Nagorno-Karabakh conflict to its advantage. Azerbaijan's contribution to the EU-led Eastern Partnership should also be taken into consideration, although Baku's strategy does not include a task of EU membership.

On the other hand, Azerbaijan, unlike Georgia, does not aim to join the NATO. At present, the Caspian republic is a member of the Non-Alignment Movement. A Muslim country, Azerbaijan is extremely wary of the Western policy of democratizing the Greater Middle East (above all, this concerns the prospects of its potential entanglement into the confrontation with neighboring Iran). As a result, the leadership is interested in maintaining cooperation with Russia. Baku values trans-border cooperation with Russia on combating terrorism, as countries share the border at the Dagestani section. Azerbaijan and Russia also have common approaches toward the status of the Caspian Sea.

Baku's active purchases of Russian arms were, in essence, a solid financial compensation of pro-Western elements in Azerbaijani policy for Moscow. At the same time, they showed that Moscow is not Azerbaijan's potential adversary in the Nagorno-Karabakh conflict, despite Russian security guarantees for Armenian territory (both on bilateral level and within the CSTO). Unlike Western countries, Moscow does not criticize Azerbaijani domestic political standards (this is particularly the case of parliamentary and presidential elections). Consequently, Russia's position is an important factor for the international legitimation of political order in the Caspian state.

Baku's reaction to the Ukrainian events further strengthened its 'swing policy'. On the one hand, Azerbaijan supported Ukrainian territorial integrity (itself having similar problems) via votes in the UN General Assembly, the OSCE Parliamentary Assembly and inside the GUAM (Organization for Democracy and Economic Development, which includes Baku and Kiev). President Aliyev's participation in the NATO summit on 4-5 September 2014 can be viewed as an example of solidarity between Azerbaijan and the NATO. Nevertheless, Baku distanced itself from sanctions on Russia. In January 2015, the entire Azerbaijani delegation voted against the suspension of Russian delegation's mandate at PACE (Parliamentary Assembly of the Council of Europe)²⁵.

While balancing between Russia and the West, Azerbaijan is striving to establish a mutually beneficial relationship with Iran. In the presidency of Mahmud Ahmadinejad (2005-13) their bilateral relations underwent a negative impact. Ilham Aliyev's visit to Tehran in April 2014 was dedicated to normalization and was the first since Ahmadinejad's departure.

Therefore, Azerbaijan did not join either of rival integration projects, such as an Association with the EU or the EAEU accession. Baku is savvy in maneuvering between the West and Russia, supporting one or another side just where and when it deems necessary, without crossing the 'red lines' set by its own diplomats.

²⁵ <http://www.vesti.az/news/234910>

Table 1. Sustainability risks of Azerbaijan’s political system on a 10-point scale, with 10 standing for maximal risk.

Analysis criteria	Level of political risks
Domestic politics	5
Foreign policy	5
Social and economic development	6
Non-state actors	6
Final rating	22

2nd place: Georgia (25 out of 40 possible points)

General conclusion: Despite the demise of the country's third President Mikheil Saakashvili (2003-2013), who had played a considerable role in turning the state into a test ground of libertarian social-economic reformation and into a platform for the confrontation between Russia and the West, Georgia remains a country with a considerable amount of political risks.

The ruling coalition cannot boast any serious achievements in economic development. Relations between the coalition and the leading national opposition force UNM (whose two key leaders ended up in exile or in prison) remain confrontational. Nevertheless, Georgia overall managed to leave behind the period during which the governing of the country and the development of the society took place in a mode requiring to constantly surmount force majeure circumstances or extraordinary challenges. The formal political structures are merely beginning to gain institutional weight, whereas the role of the informal factor remains strong, yet the home affairs development model becomes increasingly rational.

Georgia's foreign policy course runs much higher risks, as it maintains its strategic continuity since the times of Saakashvili's rule, nowadays subject to minor tactical adjustments. The national elite's overoptimistic expectations of the possible benefits of integrating Western structures do not end up in any tangible results. As far as its relations with NATO are concerned, Georgia remains an "aspirant country" without any concrete perspectives of participating in the North Atlantic Treaty's MAP ("Membership Action Plan"), lest of joining the Organization. Similarly, the present situation with the European Union is such that Tbilisi is not even being awarded the Visa Liberalization regime. What is more, the Russian-Georgian relations remain anything but simple. The status of Abkhazia and South Ossetia as well as Georgia's choice in its foreign policy course remain to this day the three 'red lines' that both countries are not ready to cross. Announced in 2012, the normalization of Moscow-Tbilisi relations is increasingly important for the fight against the radical Islamic structures (ISIL). However the achievement of this normalization remains doubtful.

Domestic politics: a new status after Saakashvili

In the summer of 2014, the local self-government election concluded the electoral biennium, as a result of which the national parliament, president and the capital Tbilisi's mayor were all reshuffled. An incident of peaceful transition of power has been carried out in the country. After 10 years in power, the United National Movement has definitely reverted to opposition. It is worth noting that, prior to 2013, Georgia's presidents were either overthrown in armed coups (as was the case of Zviad Gamsakhurdia in 1992-1992) or left the office as a result of mass protests (the 2003 "Rose Revolution" marked a full stop on Eduard Shevardnadze's career)²⁶.

Notwithstanding the initiations of criminal cases against the UNM executives, Mikheil Saakashvili's effective emigration (appointed Governor of Ukraine's Odessa region as of late May 2015) and the imprisonment of Georgian politics' *éminence grise* - the former Prime Minister and Minister of Interior Vano Merabishvili, the party saved its backbone. In that way, at the 2012 parliamentary elections, the "Nationals" got 40.43% of votes by proportional representation and

²⁶ In January 2008, President Saakashvili won the early elections, yet the opposition did not consider them legitimate. It denounced fraud, stuffing, as well as other transgressions, making it the subject of political discussions for practically the entire duration of Saakashvili's second term (2008-2013)..

43.48% – through the majoritarian voting system, thus securing 65 seats out of 150²⁷. In 2013, the UNM candidate and the ex-Speaker of the Parliament Davit Bakradze²⁸ ended up second at the presidential elections, polling 21.73% of the votes. For the first time in Georgia's most recent history, an integration of the wider socio-political circles into the decision-making system occurred. The Georgian society no longer awaits simple solutions and no longer seeks a great leader's strong hand. The radical apologists of Mikheil Saakashvili's methods became marginalized. The opposition's more election-savvy part is presently guided by the ex-President's positive heritage, by an elevated rate of vertical mobility that his rule has been delivering.

Nevertheless, the Georgian Dream coalition that emerged as the de-facto bi-party political palette following its parliamentary and presidential success (2012-2013), started disintegrating. In November 2014, Irakli Alasania, the leader of the Free Democrats, left the Georgian Dream. The Georgian Dream itself bears several confronting vectors. For instance, contradictions are piling up between the President Giorgi Margvelashvili (in line with the constitutional adjustments, the Head of State's powers were significantly reduced) and the Head of Government Irakli Garibashvili. The issue of a hike in electricity tariffs brought up contradictions between Irakli Garibashvili and the Minister of Energy Kakha Kaladze (the minister in question supported an increase, whereas the Head of Government stood against it). The interaction between resignee Bidzina Ivanishvili and his close companions inside the government remains a factor not to be underestimated. President Margvelashvili actually pays much more attention to the oligarch's opinion than Garibashvili does (despite the fact of being less associated with the management of the economic "routine").

A considerable role in the social-political processes is played by the eightieth Catholicos-Patriarch of All Georgia Ilia II (born as Irakli Ghudushauri-Shiolashvili). Over the course of the entire Georgian independence period, the Georgian citizens invariably approve of Ilia II as of one of their most popular public leaders. The Catholicos-Patriarch was even named Man of the Year in his country. That being so, the Georgian Orthodox Church with its informal influence contributed to the electoral success of the Georgian Dream and the process of the peaceful transition of power in 2012-2013. Ilia II is known for his aspiration to normalize the relations with Russia, his assertive aversion to a radical Westernization of the country and his adherence to an effective containment of the Islamic threat.²⁹

Social-economic dynamics: reality v. overoptimistic expectations

The GDP growth became the chief positive outcome of the year 2014 (5.5% against 3% in 2013). According to the World Bank's forecast, the 2015 Georgian GDP growth might make up around 6%. However, as long as new power facilities are not launched, supplying the energy to the growing Economy would be problematic. Incidentally, in early 2014, the inhabitants of the high-mountain settlement Khaishi prevented the construction of a new hydropower plant.

Nevertheless, many of the slogans with which the Georgian Dream ran for the parliamentary and presidential elections (most notably unemployment containment, the fight on poverty and

²⁷ With 85 seats secured by the Georgian Dream, even when taking into account B. Ivanishvili's supporter's coalition type of a reunion, the Georgian Parliament clearly ended up as a bipartisan legislature.

²⁸ It should be noted that D. Bakradze is not seen to be an agent of Saakashvili agent by a number of experts, but is rather considered to be playing his own game and judged prone to compromise with political opponents..

²⁹ <http://www.kavkazoved.info/news/2011/07/18/gruzia-spor-mezhdu-gosudarstvom-i-cerkovju.html>

curbing the monopolies) did not materialize. According to the World Bank's data, Georgia remained the poorest country of the region. Georgia is equally among the five poorest countries of the former USSR. The GDP per capita in Georgia is US\$ 3570 (less than in Armenia and Azerbaijan).³⁰

Besides, the "Georgian Dream" did not succeed in tackling the demonopolization of the Georgian economy, although the process entailed the emergence of a dedicated Competition Agency (October 2014). The monopolies' share still amounts to 80% of production and import, whereas that of the small and medium enterprises is merely 10%.

The EU-Georgia Association Agreement equally calls for additional effort on Tbilisi's part. In particular, the necessity of achieving an approximation of the country's system of standards with that of the EU is emphasized. Previously, under the Saakashvili Presidency, the standardization system and quality management were rebuked as "the heritage of socialism". The credit system would also need to be reformed.³¹

Accordingly, the rate at which the economy grows is not sufficient enough for an improvement of the social and economic situation in the country. Poverty and unemployment, the monopolization of the economy remain chronic problems of Georgia, increasing the state's sustainability risk on the whole. The mismatch of the overrated social expectations and the reality may actually become influential factors for political changes.

Foreign policy: an invariable strategy and changing tactics

The new Georgian authorities (representing the Georgian Dream) have adhered to the strategic approaches of the former leadership, i.e. the continuation and the reinforcement of integrating ties with NATO and the European Union. None other than the "Dreamers" launched (November 2013) and then signed and ratified (summer of 2014) the EU-Georgia Association Agreement: a task deemed almost unattainable at the times of Saakashvili's rule. Tbilisi maintained the course that was de-facto ruled out following the Five-Day War of August 2008: cooperation with NATO deprived of realistic chances of joining the Alliance and the development of bilateral military-political ties with the USA above the NATO projects.

However, the present Georgian authorities, unlike Saakashvili, undertook serious changes in their tactics. The strategic objective of joining NATO and the EU is perceived by them not so much through the prism of a head-on confrontation with Russia and the "rekindling" of two ethnic political conflicts (especially since Moscow recognized the independence of Abkhazia and South Ossetia, the relevant possibilities were drastically reduced), as through the prism of "normalization". First and foremost, through the minimization of hard rhetoric and the relaunch, however confined and limited it might be, of social-economic cooperation and intergovernmental dialogue³². Accordingly, Tbilisi's strategic vector still pertains to a consensus³³, shared by all of

³⁰ <http://data.worldbank.org/indicator/ny.gnp.pcap.cd>

³¹ <http://www.kavkazoved.info/news/2014/07/02/posledstvia-associacii-s-es-dlya-gruzii.html>

³² Presently, the dialogue is maintained in the form of meetings between Russia's Deputy Foreign Minister Grigory Karasin, and Zurab Abashidze, Georgia's Special Representative for relations with Russia.

³³ A few experts consider that the public discussion on the foreign policy choices, held by politicians such as Gogi Topadze or Nino Burjanadze, may gradually gain legitimacy. The consensus on foreign politics, taken for granted, is actually being subject to erosion.

Georgia's leading political forces, no matter whether they adhered to the ruling authorities or to the opposition.

At the same time, it cannot be claimed that the North Atlantic vector has fully and definitely prevailed in Georgia. There are several reasons to it. Firstly, the fostering of the cooperation with NATO and the EU does not assist Georgia in solving the issue of its territorial integrity. Despite its confrontation with Moscow, the West is not interested in opening up another face-off of a front, whereas Russia has reinforced its military-political presence in Abkhazia and in South Ossetia.

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Secondly, not only does the popularity of the Eurasian integration "survive" in the Georgian society, it is in fact burgeoning. Thus, according to the National Democratic Institute's data (USA), 31% of the persons surveyed (on a total of 4360) in May 2015 supported the integration with the Eurasian Economic Union. In this regard, factors such as the social-cultural ties, the diaspora and the money transfers from Russia to Georgia all play a role.³⁴ It is quite likely that a new Parliament might be endowed with forces opposing the Georgian Dream and doubtful of the pro-NATO choice.

Thirdly, from year to year the threat from radical Islamists and non-systemic players is rising in Georgia, which might facilitate the rapprochement between Moscow's and Tbilisi's stances beyond the existing divergences, hence favoring the prospective of a multi-vector foreign policy.

Non-state actors: ISIL and the Pankisi Gorge

"The level of attention that our Government is paying to Pankisi has been doubled and quadrupled. We are giving maximum heed to the Gorge", – the Georgian Prime Minister Irakli Garibashvili announced during a governmental session in April 2015.³⁵ The Pankisi Gorge is located in the Northern part of the historical Kakheti region. Today the experts put forward different counts of the people inhabiting the Gorge (the number varies from seven to ten thousand). Nonetheless, within these numbers one may emphasize the affiliation of one or two hundred persons with the Middle East jihadists. One of ISIL's chief characters is Umar (Omar) al-Shishani. Known by this *nom de guerre*, he actually is Tarkhan Batirashvili (of a Georgian father and a Kist mother – of the Kists, as these Chechen inhabitants of the Pankisi are called in Georgia). The risks and threats to Georgia's security are on the rise ever since several North Caucasian jihadists (having previously manifested interest in the Pankisi Gorge) started swearing allegiance to the ISIL. All this impels Tbilisi to seek means of interaction with Moscow³⁶, since the U.S. and NATO representatives, despite having declared a recognition of Georgia as significant partner in the fight on ISIL, did not offer concrete mechanisms for the minimization of Jihadism in this Caucasian Republic.

³⁴ <http://www.eurasianet.org/node/73611>

³⁵ <http://www.kavkaz-uzel.ru/articles/261409/>

³⁶ <http://www.kavkaz-uzel.ru/articles/253084/>
<https://www.youtube.com/watch?v=VYDHpC0gaa0>

Table 2. Sustainability risks of Georgia's political system on a ten-point scale, with 10 being the maximum risk.

Analysis criteria	Level of political risks
Domestic politics	5
Foreign policy	7
Social and economic development	8
Non-state actors	5
Final rating	25

3rd place: Armenia (29 out of 40 possible points)

General conclusion: Today's Armenia remains a vulnerable country for various reasons: political and economic isolation, the stalemate of the Nagorno-Karabakh conflict, a rise in mass social protest movements throughout the entire 2014 and the first half of 2015 against the backdrop of chronic problems in the national economy, a 'zero-option' cooperation with Russia.

Although the current authorities did not lose control of the situation and even demonstrated certain effectiveness in resolving the arising problems, the society is laden with a considerable level of social-political discontent. The unresolved Nagorno-Karabakh conflict prevents Armenia from surmounting the regional isolation that plagues both the internal and the external positioning of the Republic. Two out of the four state borders are closed (Turkish and Azerbaijani). The two remaining windows to the world – Georgian and Iranian – are intrinsically linked to the conflicting contexts of the Russian-Georgian relations, as well as the relations between Russia and the West, Tehran and the USA.

The security assurances and the economic support received by Yerevan from Moscow, on the one hand, secure a status quo that is overall advantageous for the republic, yet on the other hand, amplify its dependence on Russian corporations. In turn, the Russian corporations' entwinement with the Armenian authorities is fraught with the electorate equating disdain for the presidential and governmental policies with Russia's deeds. As a consequence, there are efforts to seek a diversification of the foreign policy that also pose additional risks of disrupting the status quo.

Domestic politics: in search of power continuity

By the time of 2012-2013 electoral cycle, Armenia had completed its "stabilization period". During this period, the republic has witnessed its parliamentary elections, the presidential campaign and the election to the Council of the Elders of Yerevan – the country's key municipality.³⁷

The period opened with the tragic events of the 1 March 2008. In the course of the then opposition's mass protest action, its participants in dissent with the outcome of the presidential elections clashed with the police, leaving 10 people dead and over 250 wounded.³⁸ Yet, over the four years following this tragedy (dubbed Bloody Saturday in Armenia), the President Serge Sargsyan managed to solve several fundamental political problems. Firstly, he brought himself out of the shadow cast by his predecessor Robert Kocharian, as well as dissociated himself from Kocharian's person, building his own vertical of power. Secondly, he renounced to frontal pressure on the opposition, switching to dialogue and to the incorporation of its representatives into the political system. Finally, on both the Armenian municipal and national Assembly levels, practically the entire range of the opposition showed up: the Heritage party, the Armenian National Congress (ANC)³⁹, the oldest Armenian party Dashnaktsutyun, as well as Prosperous Armenia which left the ruling coalition in 2012.

³⁷ Since over a third of the voters are concentrated in Armenia's capital, the party-list voting to the City Parliament (ultimately electing the mayor) are considered a benchmark of the national campaign.

³⁸ <http://www.kavkaz-uzel.ru/articles/258019/>

³⁹ It is the Armenian National Congress (ANC) under the leadership of Armenia's first President Levon Ter-Petrosyan (1991-1998) that was the instigator of the mass demonstrations in 2008.

However, the presidential elections, lacking serious competition for incumbent Serge Sargsyan (running for a second term)⁴⁰, presented the Armenian authority with certain surprises, as they demonstrated the limits of the “stabilization model”. The Heritage party candidate Raffi Hovhannisian, having never exceeded 10% in anterior nor posterior polls, got almost 37% against 58% for the incumbent Head of State.⁴¹ These results showed an important tendency for the Republic: the presence of a mighty protest vote that is not satisfied with the authority, as well as instability in the support of the candidates seeking to lead the popular protest. The protest voter is more liable to support any critic of the authority rather than a specific constructive programme. This entire Armenian political system is thus rendered unstable. The discontent towards the authorities’ policies may propel upwards random characters, persons who are not necessarily endowed either with a sufficient level of competences or of training in order to govern the country. This scenario is favored by the replenishment of the ranks of the youth in dissent following the summer wave of protests against the hike in electricity tariffs. The poorly organized movement, deprived of political leaders, presents a convenient target for manipulations.

Against such a backdrop, the ruling authorities started rolling out the topic of constitutional reform: the President made a statement on its necessity in September 2013, its concept emerged in October 2014, in March 2015 it was approved by Serge Sargsyan. The reform envisages a reallocation of powers among the fundamental institutions in favor of the Parliament and the Government. If this project is a success, the country’s President would not be elected directly, as he is now, but by the National Assembly, for a seven-year term. This notwithstanding, the real powers (neither representative nor these of the “Guarantor”) would be transferred to the Head of Government or the President of the National Assembly.

Sargsyan is suddenly pending a chance to “stay despite leaving”, for example, in gaining the prime ministerial office instead of the presidential one.⁴² This said, the June protests in Yerevan and in other Armenian cities revealed that the place of the parties as the main protest resource may be taken by civil movements. They may disrupt the authorities’ plans to ensure the continuity between President Sargsyan and Prime Minister Sargsyan.

Non-state actors: the Armenian case

This segment of the Armenian political life differs considerably from the neighboring Georgia and Azerbaijan. Whereas in the first two cases the Islamists pose a serious threat to the political system’s stability, as well as in the Azerbaijani case one should mind the spontaneous protests, in Armenia the non-state actors are a specific segment of a country, where political institutions such as parties are poorly organized.⁴³ It can be, with certain reservations, considered civil society, acknowledging that a considerable part in the way it works is not only a matter of (and even not as much a matter of) social problems as it is a matter of politics.

⁴⁰ Armenian political heavyweights did not take part in this poll: such persons as Levon Ter-Petrosyan, the second President Robert Kocharian (1998-2008) and the leader of the Prosperous Armenia party Gagik Tsarukyan.

⁴¹ Iskandaryan A. Crop harvesting. // Caucasus-2013. The Institute of Caucasus. Yearbook. – Yerevan, 2014. It is worthy of attention that at the Elders of Yerevan elections 2.5 months after the presidential campaign, Hovhannisian’s movement only made 8% of the vote (although the capital gave 43% to this candidate in the presidential elections).

⁴² If the reforms are to be carried out with this cycle in mind, and the ruling party (the Republicans) would win the parliamentary elections, then Sargsyan would have a true chance to “stay despite leaving”, winning the Prime Minister’s office, or gain the position of the President of the National Assembly or that of the ruling party instead of the President’s seat. Cf.: <http://www.politcom.ru/18781.html>

⁴³ Some experts deem Armenia to be deprived of political superstructure altogether.

Some non-state players in Armenia are aspiring to distance themselves not only from the authorities, but also from the structures of the opposition, to make their claim for an overhaul of the whole Armenian State project. One may assign to their count the so called Pre-Parliament (its founders define themselves as a “political initiative”), founded in November 2012 and voicing the need of creating a Constitutional Assembly in order to work out a renewed strategy of the national development and the establishment of a new State for the Armenians.⁴⁴

Besides, there are ‘specialized’ civil initiatives. For instance, the DEM.AM (I’m against!) movement was organized in October 2014. It made a stand against the transition to a forced-contribution pension system and organized a series of protests in January and May 2014. Largely under the influence of these actions, the Constitutional Court (CC) of Armenia suspended the validity of the law on the pension system’s implementation until 30 September, having judged the system’s forced component as anti-constitutional.⁴⁵

During the Yerevan June 2015 mass protests, the civil movement “No to plunder!” numbering over 15 thousand people (chiefly students, entrepreneurs and office workers from the republic's capital) came into the focus of public attention. Ideologically, it is distinct in its indecisiveness, as well as in social populism (as a matter of fact, its entire positive programme was limited to the fight on “plunderers and thieves”). Today it is hard to tell when and who among the representatives of the non-systemic civil forces would make a full-blown political career. Serving as the opposition forces, the political parties are not in a hurry to join hands with the non-state players.

Yet, by now the latter present a serious challenge for the authorities. In Yerevan in 2013 groups of protesters ranging from 200 to 500 people managed to compel Yerevan’s municipal authorities to abandon a 50% hike in public transport tariffs.⁴⁶ In 2015, the representatives of “No to plunder!” succeeded in securing the authorities’ decision to audit the company “Electric Grids of Armenia” (that initiated a 16.7% hike in electricity tariffs).

Therefore, the presence of a social protest under a weak political system actualizes the singular role of non-state initiatives of variable degrees of radicalness. There is, however, a constraining factor for these risks in the form of the unresolved Nagorno-Karabakh conflict, in relation to which the Armenian society maintains a consensus – support for the self-determination of Nagorno-Karabakh Armenians.

Economy as a trigger of instability

The financial, economic and social situation in Armenia remains rather alarming. Although the 2014 growth rate was around 3.5%, it turned out to be inferior to the projected rate (5.2%). At the same time, in order for the economic growth to ensure positive social dynamics, the rate must exceed the 6% mark. Within this growth, trade and the services sector had the highest share, but not manufacturing.

⁴⁴ <http://novostink.ru/armenia/57799-politicheskaya-iniciativa-predparlament-namerena-sozdat-novuyu-armeniyu.html>

⁴⁵ <http://www.kavkaz-uzel.ru/articles/242296>

⁴⁶ <http://www.ritm Eurasia.org/news--2015-06-29--protestnye-akcii-v-erevane-vygljadjat-spontannymi-lish-na-pervyj-vzglyad-18577>

In late November 2014, the collapse of the dram, the national currency, turned out to be an acute challenge for the Armenian economy. The dram renewed its eight-year minimum and fell by 16.6 points. Another fluctuation spike occurred in December. The volatility of the exchange rate entailed a rise in consumer prices, thus complicating the Armenian population's situation even further. The minimal salary in the republic is US\$87, whilst the average is US\$ 300; pensions vary between US\$ 26 and US\$ 100, whereas the utility bills amount roughly to one third of an average salary.

A considerable share of the population lives off remittances. This is an important factor of the country's social and economic development. The role of the transfers has even been repeatedly cited in the budget addresses to Armenia's Parliament. A decrease in transfers from other countries (Russia, the USA, EU member states) is an additional risk for the stability of the republic's entire social, economic and political systems.

And yet, in the course of January 2015, there was a sharp reduction in the volume of transfers for individuals (US\$ 72.1 million against US\$ 122.5 million in January 2014). The decrease in transfers paired with the dram devaluation further impact the consumer price index.⁴⁷

The lessening in the volume of exports and the negative trade balance constitutes an additional problem for the Armenian economy. In January 2015, exports fell by 22%, influenced by a change in customs rules following Armenia's accession to the Eurasian Economic Union that have not yet been adapted by the country's business community, as well as by the rouble weakening in relation to the dollar and the euro. Neither have any serious changes taken place in the field of attracting foreign investments. Over 2009-2013, the inflow of international investment diminished by 42.2%⁴⁸.

Negative economic trends provoke social discontent. In January and in May 2014, the opponents of the pension system reform held rallies in Yerevan (one of those attended by 10 000 people). Throughout December and on the very New Year's Eve, the citizens of the republic organized mass actions, expressing their discontent with the growing prices and the depreciation of the national currency. At that time, the participants demanded the boycott of supermarkets and retail networks owned by tycoons close to the authorities.⁴⁹ The June 2015 decision to increase the electricity tariffs sparked off marathon mass actions, rapidly dubbed "Electromaidan".

Consequently, economic problems that have considerably worsened in 2014-2015 create considerable risks for the stability of the Armenian political system.

Foreign policy: the gains and expenses of the pro-Russian choice

In comparison with its neighbors, Armenia has the highest degree of integration with Russia. It is Moscow's priority partner in the South Caucasus. Armenia is the sole country in the region to be a member of the Collective Security Treaty Organization (CSTO) that was unofficially labelled as "Eurasian NATO". The 102nd Military Base of the Group of Russian Forces in Transcaucasia is located in the Armenian city of Gyumri, whereas Russian border guards together with their Armenian colleagues jointly patrol the external perimeter of the republic's border. In

⁴⁷ <http://www.ritm Eurasia.org/news--2015-01-18--armenija-pervye-dve-nedeli-v-eaes-16307>

⁴⁸ <http://newsinmir.com/biznes/94867-armeniya-ekonomicheskie-itogi-i-pessimisticheskie-ozhidaniya.html>

⁴⁹ <http://www.kavkaz-uzel.ru/articles/254990/>

September 2013, having curtailed the association negotiations with the European Union (started in 2010), Armenia opted for the Eurasian Customs Union and the Eurasian integration. As of 2 January 2015, Yerevan is officially part of the Eurasian Economic Union (EAEU). Furthermore, Moscow plays an extremely important role in the Nagorno-Karabakh peace process, both co-chairing (along with the USA and France) the OSCE Minsk Group – as a peace broker, and as a side that is regularly organizing bilateral consultation with Yerevan and Baku. In the absence of the conflicting parties' willingness to compromise, Russia, in its stance for the maintenance of the status quo, is a stabilizing factor. Russia also plays a significant role in Armenian economy. More than a half of all the international investments flowing into Armenia are of Russian origin.⁵⁰

Simultaneously, Yerevan strives to keep a high degree of partnership with the West (USA and EU). Firstly, Armenia seeks to prevent the establishment of Azerbaijani monopoly in the interpretation of the Nagorno-Karabakh conflict. Secondly, Armenia has a vested interest in cooperation with Washington and Paris as two co-chairs of the OSCE Minsk Group. Thirdly, Yerevan is interested in using the diaspora's influential resources for the promotion of its objectives (Armenian Genocide recognition, support for the Nagorno-Karabakh population's self-determination, critical declarations to the attention of Azerbaijan and Turkey on the international arena). Fourthly, Yerevan wishes for an economic rapprochement with the EU, notably, it was ready to sign the economic part of the EU Association Agreement (without the political part contradicting Moscow's interests). Although the EU has not yet agreed with this, it might do so in perspective.

At the same time, neither the USA nor the EU are ready to offer Armenia anything greater security-wise than what Russia provides today. The CSTO membership allows relying on military help from Moscow's side in case of an incursion into Armenian territory. This equally grants access to Russian weapons at privileged, Russian domestic prices. The USA and the EU do not have any alternative projects for the settlement of the conflict over Nagorno-Karabakh that would differ from the Russian approaches⁵¹. All this shrinks Yerevan's room for maneuvering and practically leaves for no alternatives to Russia as ally, especially given Turkey's NATO membership with the bloc's second largest armed forces, as well as bearing in mind Baku's close energy ties with the EU.

Iran represents an important foreign policy vector for Armenia. Both countries (whose interactions with the outside World are substantially afflicted) consider each other as a convenient platform for reaching the outside World. The Armenian-Iranian relations are characterized by high summit intensity. Were the Western sanctions against the Islamic Republic to be lifted, a possibility for the stepping-up of bilateral economic cooperation would emerge in transport and energy. On the one hand, Iran would have an option, bearing in mind Armenia's present-day isolation, to serve as Armenia's "window" to Europe and to Russia (since in this event there would be a railway connection with Russia).⁵² On the other hand, the process of lifting sanctions would theoretically provide the USA with leverage over Iranian leadership, up to the requirement to block the transport routes.

⁵⁰ <http://www.regnum.ru/news/polit/1624407.html>

⁵¹ All three OSCE Minsk Group co-chairs agree that the so-called "Renewed Madrid Principles" ought to be a basis for peaceful settlement. <http://www.osce.org/mg/51152>

⁵² <http://www.kavkazoved.info/news/2015/05/18/armenia-i-uregulirovanie-otnoshenij-irana-s-zapadom-vyigrysh-ili-vyzov.html>

Table 3. Sustainability risks of Armenia’s political system on a ten-point scale, with 10 being the maximum risk.

Analysis criteria	Level of political risks
Domestic politics	7
Foreign policy	7
Social and economic development	9
Non-state actors	6
Final rating	29

De facto states of South Caucasus

The present section examines three entities (Abkhazia, South Ossetia and Nagorno-Karabakh), which are not members of the United Nations. At the same time, all of them have a different status. Abkhazia and South Ossetia enjoy several international recognitions by sovereign states, while the Republic of Nagorno-Karabakh (NKR) has none (even on behalf of Armenia, which considers itself a guarantor of self-determination of Karabakh Armenians)⁵³. Russia recognized Abkhazian and South Ossetian independence, but denies it to NKR, having supported Azerbaijan's territorial integrity since 2008.

The disputed status of all de facto entities is a risk factor in itself, as most international actors do not consider them distinct political subjects and appeal to the restoration of territorial integrity of Georgia and Azerbaijan. In this regard, the risks of conventional commercial investments (without political or geopolitical motivation) in the said states are extremely high in any event.

We calculate the risk assessment points of these de facto entities as an exceptional evaluation applied only for the purposes of this section and outside the comparative context involving internationally recognized states.

The level of risks varies upon each of three cases. While after 2008, besides Russian recognition, Abkhazia and South Ossetia received Russian security guarantees, military aid and economic assistance, and Georgia aborted the attempts to forcibly change the status quo, Nagorno-Karabakh exists in the conditions of escalating armed confrontation. It has not become a full-scale “defrosting” of the conflict, but the intensity of ceasefire violations has risen in comparison to the preceding period.

Domestic politics

Each of the three cases features a certain competitive political environment. It is stronger in Abkhazia and weaker in South Ossetia and NKR. Of all three entities, the Abkhazian agenda was the most heavily charged in the past years. 2013 saw a crystallization of organizations criticizing authorities. The next year, following mass protests brought about a change of power. The former leader Alexander Ankvab (elected at the 2011 early election) left his post prior to the expiry of his mandate and was replaced by Raul Khajimba after the extraordinary electoral campaign. The change of power in Abkhazia clearly demonstrated that the demand for competitive political process and elite rotation is not inevitably “tied” to Euro-Atlantic foreign policy orientation.

South Ossetia will hold its presidential election in 2017. The 2014 parliamentary campaign became a test drive for main political forces. The election outcome showed significant support for Anatoly Bibilov who led the proponents of joining Russia as part of unified Ossetia⁵⁴. At the same

⁵³ According to the Georgian legislation, Abkhazia is an autonomous republic within Georgia, while South Ossetia is not considered as separate autonomous entity (this status was abolished already in December 1990). South Ossetia is defined as the Tskhinvali region (territories of former South Ossetian Autonomous Oblast) // <http://www.vescc.az/constitution/georgian-constitution-rus.html>

The Azerbaijani Constitution does not provide for any political or legal subject status for Nagorno-Karabakh, although in December 1998 an autonomous republican status (with limited powers) was granted to Nakhchivan // http://www.azerbaijan.az/portal/General/Constitution_r.pdf

⁵⁴ With more than 44% votes, the United Ossetia party obtained 20 of 34 seats in the South Ossetian parliament, while Anatoly Bibilov became the speaker. // <http://south-osetia.kavkaz-uzel.ru/articles/243970/>.

time, the presidential team of Leonid Tibilov, similarly to the Kremlin, favors the existing status quo which does not imply the republic's absorption by Russia.

For Abkhazia, the problem of nation-state building remains a priority. At present, its state project does not match the multiethnic composition of the republic and, to a large extent, remains that of ethnic Abkhaz: Article 49 of the Constitution stipulates that only an Abkhaz can be elected president⁵⁵. The problem of full-fledged integration of other communities (Armenian, Russian, and Georgian) is far from being resolved.

In either case, Moscow's ability to exercise direct control over internal processes in both entities is limited, which was demonstrated by a number of election campaigns in the 2000s.

In May 2015, Nagorno-Karabakh held parliamentary elections distinguished from the previous 2010 campaign by a higher competition level. As a result, two opposition parties entered the supreme representative body of the republic. As five years ago, the victory was achieved by the Free Motherland Party (47.35% in comparison to 46.4% in 2010). Democratic Party of Artsakh came second with 19.1% (which is a decline compared to 28.6% at the previous election). This trend reflects certain corrections inside the NKR power groups. The Democratic Party of Artsakh was founded as platform for supporting the ex-president Arkadi Ghukasyan, whereas Free Motherland was oriented at the incumbent President Bako Sahakyan elected in 2007. The NKR internal risks are related to power succession, as in 2017 Sahakyan's second term will expire, while he is not eligible for a third one, not only due to constitutional limitations but also as part of *sui generis* competition with Azerbaijan, whereby Karabakh positions itself as more democratic community⁵⁶.

Socio-economic dynamics

Of all three de facto republics, Abkhazia has the highest potential owing to its Black Sea access and tourist infrastructure. The absence of international recognition impedes investments in its economy.

In essence, the investment process is reduced to Russian participants. Abkhazia's GDP growth of 5-6 % is also a corollary of Russian support. Russia, especially in the lead up to the Sochi Olympics, provided considerable assistance to the restoration of transport infrastructure and objects of cultural heritage. According to President Vladimir Putin, the annual volume of Russian investment program of Abkhazian development in 2015–2017 will amount to 4 billion rubles⁵⁷.

Another hindrance for private business is the lack of institutions in the republics. After surviving an acute conflict, postwar Abkhazia is facing a tough choice between 'ethnic' and full-fledged private property. Private investments from Russia are essentially blocked, as the land market is not ready for liberalization vis-à-vis Russian buyers.

South Ossetia is blessed by far more modest opportunities, as it is landlocked and has a labor deficit (due to sparse population and high Russia-bound migration outflow). Although the republic's reconstruction is considered a priority task (both by the republic's authorities and by Moscow), this issue is still not fully resolved. And the problem is not so much an economic risk as a socio-political one.

The social and economic situation in Nagorno-Karabakh remains stable overall but lacks marked progress as well. In 2013, the agriculture received \$10 million worth of investments. The same year witnessed a GDP growth of 9%, while in 2014 this number was 8.9%. NKR's own

⁵⁵ http://embabhazia.ru/respublika_abhaziya/konstituciya_respubliki_abhaziya/

⁵⁶ <http://www.politcom.ru/15091.html>

⁵⁷ <http://www.memo.ru/d/219510.html>

budget revenue amounted to 92.7% of planned level⁵⁸. Nonetheless, similarly to the past, there was a deficit of investments and a disparity between the development of the Stepanakert capital region and individual provinces of the republic. Intensifying military escalation at the Line of Contact renders long-term projects problematic. A number of experts point out a significant investment inflow in the NKR economy, as compared to other de facto states, while growing population outflow is considered to be the main problem.

Foreign policy

The signing of treaties with Russia became the key event in the foreign policy of Abkhazia and South Ossetia. The Russian-Abkhaz treaty on cooperation and strategic partnership was executed on 24 November 2014, while the Russian-South Ossetian treaty on union and integration was signed on 18 March 2015. And while both documents marked Moscow's growing military-political presence in partially recognized republics, they cannot be called an entirely new milestone. Basically, the treaties formalized the situation of August 2008, when Moscow changed its peacemaker status for that of patron and security guarantor for both republics.

One can't help noting that the Abkhaz side was aspiring to revise the document in order to retain certain preferences for itself (for instance, Russians did not obtain the right for gaining Abkhaz citizenship, the term "integration" was removed from wording). On the contrary, the South Ossetian side was interested in maximal integration with Russia up to full accession (similar to Crimea). These differences are explained by fundamental divergences of the two projects. While Abkhazia's goal is to preserve its statehood (under Russian military and political guarantees), South Ossetia views independence not as an aim in itself, but as a transition stage to the unification with North Ossetia under the auspices of Russia.

The foreign policy agendas of NKR and Armenia are virtually identical. The reason for this homogeneity is that Armenia and NKR are sharing a common political, economic, financial, military, and media environment, while the Karabakh problem is the key element of post-Soviet Armenian identity⁵⁹. At the same time, Yerevan is unlikely to undertake any changes or attempts at changes to the current NKR status.

The hopes for multiplication of the Kosovo case, actively exploited in the past by the ex-President Arkadi Ghukasyan (1997-2007), and which peaked in 2006-7, have receded since then. The United States and the EU have recognized the self-determination of former Serbian region as "unique" and closed the channels for NKR's activity as autonomy claimant. At the same time, the aspiration toward stronger self-determination of Nagorno-Karabakh regardless of rigid coupling with Armenian interests persisted. It was actively promoted during the 2012 presidential campaign by candidate Vitaly Balasanyan (he came second with 32.5% of votes)⁶⁰.

Therefore, the defrosting of conflicts is the primary foreign policy risk for de facto entities. It is much lower in the Abkhaz and South Ossetian cases and much higher in Nagorno-Karabakh, which lacks the containment instruments provided by the "maternal state" and comparable to those of Russia (in Abkhazia and South Ossetia) or the West (in Kosovo).

⁵⁸ http://www.express.am/news/view/tempy-rosta-vvp-nkr-v-2014-godu-sostavili_8.html

⁵⁹ The republic formally is not even a party to the negotiation process on defining its future status (in that regard, Russian and Western positions are similar).

⁶⁰ <http://www.kavkaz-uzel.ru/articles/206765/>

Non-state actors

For the de facto states of the South Caucasus this format is not as significant as for internationally recognized entities. Nonetheless, this area is not devoid of certain challenges.

Arguably, Abkhazia runs (and already ran) the highest risks of this kind, as the most important Russian ally and a republic located in the Black Sea region, which is strategic for Moscow. In 2011-12, the Abkhazian Jamaat related to the Caucasus Emirate was destroyed. In 2007 and 2010, there were a number of incidents related to the murders of Abkhaz Muslim Spiritual Directorate representatives, while in September 2013 Jihadists killed Russian Vice Consul Dmitry Vishernev and his spouse⁶¹.

Taking into account the difficulties in sorting out the property issues and land market organization in Abkhazia, criminal groups should also be considered part of the equation, as their activity also creates problems for developing Russian-Abkhaz relations and doing business.

Table 4. Sustainability risks of political systems of South Caucasian de facto states on the 10-point scale, with 10 standing for maximal risk

Republic	Domestic politics	Foreign policy	Social & economic development	Non-state actors	Final rating
South Ossetia	5	5	8	5	23
Abkhazia	5	6	6	7	24
NKR	4	9	7	3	25

⁶¹ <http://www.politcom.ru/16464.html>

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- Rating of political survivability of governors in Russia (jointly with the Centre of Political Conjuncture of Russia, subsequently with the St. Petersburg Politics Foundation, since 2007);
- Politburo 2.0 – analysis of elite groups of the Russian Federation (since 2012);
- Assessment of political risks for foreign investors in post-Soviet countries: comparative analysis (since 2013).

2015

- British parliamentary election: new trends in political technologies;
- Assessment of political risks for foreign investors in the countries of the Caucasus: comparative analysis;
- Lobbying competition in the Russian pharmaceutical market (confidential report);
- Lobbying competition over suburban railway transport in Russia (confidential report).

2014

- Politburo 2.0 and post-Crimean Russia;
- Technological aspects of 2014 elections to the European Parliament;
- Monitoring of gubernatorial elections in Russia;
- Lobbying competition in the Russian automotive industry (confidential report);
- Ukrainian revolution: analysis of the first stage and development prospects;

2013

- Assessment of political risks for foreign investors in Central Asian countries: comparative analysis;
- Politburo 2.0 in the Lead-Up to a Reset of Elite Groups;
- Political strategies of new Russian governors, appointed in late 2011-2012;
- Political Survival Rating of Russian Governors;
- Investment Potential of Uzbekistan: Political Risk Analysis;
- First Anniversary of Dmitry Medvedev's Cabinet: Results and Prospects;

- Mayor of Moscow Elections: Scenario Programming of Campaigns and Candidates' Reputation Management;
- Political Strategies of 2013 Governor Candidates.

2012

- System of Presidential Elections: Russian and Foreign Experience;
- French Presidential Elections: Analysis of Political Technologies;
- U.S. Presidential Elections: Analysis of Political Technologies;
- Presidential Elections in Turkmenistan: Political and Economic Risks of Gurbanguly Berdymukhammedov's second term;
- Turkmenistan's Investment Potential: Political Risk Analysis;
- Vladimir Putin's Greater Government and Politburo 2.0.

2011

- Social Engineering for Russian Modernization (based on survey of moods of mono-cities inhabitants);
- Post-crisis situation in mono-cities: problems and solutions.

2010

- 5th Anniversary of Governor Appointment System in Russia. Time to Return to Direct Elections;
- 2010 Presidential Elections in Poland. Main Candidates and Tactics;
- Pre-election Situation in the Kyrgyz Republic;
- Future of the South Stream Project;
- Political Influence Index of the Heads of 100 Largest Cities in Russia (jointly with the Petersburg Politics Foundation);
- 2010 Parliamentary Elections in Moldova: Analysis of Political Technologies.

2009

- Geopolitical Lobbying over the NATO Eastern Enlargement;
- Monitoring of the 2009 European Parliament Election;
- Images of Russia and the United States in the Lead-Up to Relationship Reset;
- Algorithms for conflict resolution in Russian mono-cities;
- Foreign Influence in the 2010 Ukrainian Presidential Elections;
- Russia's Recognition of Abkhazia's and South Ossetia's Independence: One Year After;
- Monitoring of the Lobbying Struggle over the Federal Law on Foundations of State Regulation of Trade in the Russian Federation;
- Economic Situation in Belarus and Vectors of Geopolitical Lobbying in the President Lukashenko's Team;
- Lobbying in Russia and Pressure Groups: What Changed during the First Year of the Putin-Medvedev Tandem;
- New European Security Architecture and Prospects for Kazakhstani OSCE Presidency.

2008

- Political Survival Rating of Russian Governors (jointly with the Centre of Russian Current Political Situation and the Petersburg Politics Foundation), 2007-2013;
- Conflict in South Ossetia: Geopolitical and Image Consequences for Russia.

2007

- Pressure Groups and Lobbying Technologies in Ukraine (jointly with Kiev Gorshenin Institute of Management Issues);
- Energy Potential of Ukraine (jointly with Free Europe Foundation, United Communications and Sofia Center);
- United Economic Space Project lobbying. Pressure groups and lobbying technologies in Russia, Ukraine, Belarus and Kazakhstan: comparative analysis (2006-2007);
- Lobbying by Foreign Companies in Turkmenistan;
- Scenarios of Power Succession in Central Asia and Kazakhstan: Experience and Perspectives;
- Russian Energy Strategy in Eurasia: Priorities and Technology of Implementation.

2006

- Optimization of Russia's Administrative and Territorial Division: First Results and Future Steps;
- Attitudes of Ukrainian Electorate and Experts towards the Prospect of Joining Accession (jointly with Sofia Center for Social Technologies and Army, Conversion and Disarmament Research Center).

2005

- Universal Electoral Technologies and Country-Specific Features: Experience of Russian Political Advisers;
- How to Become and Remain a Governor. Second edition. Lobbying Technologies for Candidates Running for Regional Leadership in the Russian Federation (2005-2009);
- Monitoring of the Ukrainian Rada elections (2005-2006, 2007).

2004

- President-2004. Comparative Analysis of Electoral Technologies Implemented in Russian, Ukrainian and U.S. Presidential Elections;
- Psychological Portraits of Candidates for Ukrainian Presidency;
- Monitoring of Regional Parliamentary Elections in the Russian Federation: Technologies of Political Party Brand Promotion (2004-2007).