

SPS Global Insights

Nagorno-Karabakh



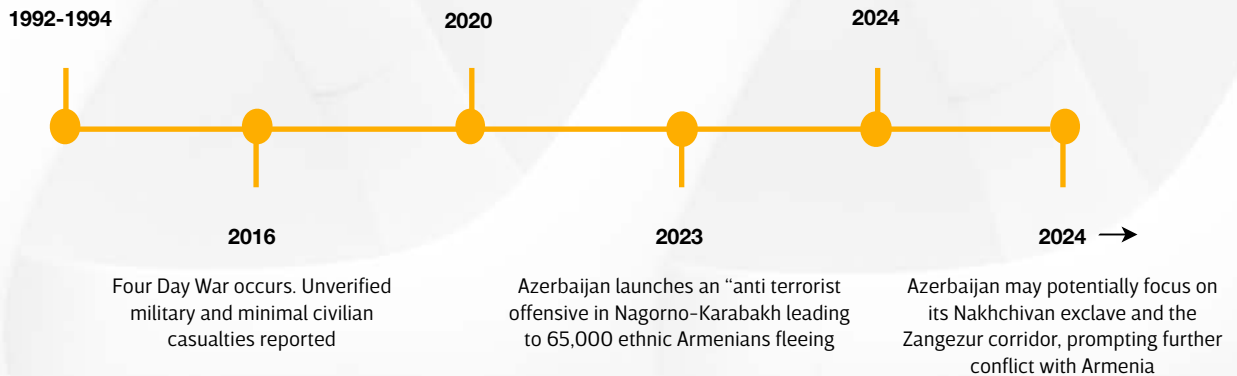
This report delves into the ongoing dynamics of the Nagorno-Karabakh crisis, recent developments, potential future scenarios, and the associated risks for business operations and travellers. It examines the two main scenarios and the likelihood of their occurrence, shedding light on the evolving situation in this sensitive region

Executive Summary

Conflict between Armenia and Azerbaijan results in mass casualties and civilian displacement. A ceasefire agreement was reached but no peace treaty was signed

Most significant fighting occurs since 1992. September 27th - November 10th Ceasefire agreement sees Russian peacekeepers deployed

The self-declared Republic of Artsakh will cease to exist on January 1st Fully integrating the Nagorno-Karabakh territories with Azerbaijan



On September 19 2023, Azerbaijan initiated an operation it termed as an "anti-terrorist campaign" in Nagorno-Karabakh, an enclave within Azerbaijani borders primarily inhabited by an ethnic Armenian population, accounting for 95% of its residents. While Nagorno-Karabakh is internationally recognised as part of Azerbaijan, it has operated as a self-declared republic, the Republic of Artsakh, largely supported by Armenia since the 1990s. The breakup of the Soviet Union in 1991 resulted in the redrawing of borders in Armenia and Azerbaijan, with the government in Yerevan asserting territorial claims due to the collapse of trust between the two countries. Skirmishes and insurgency took hold, leading to a full-scale war erupting in 1992. Since then, low-level skirmishes have occurred. While a conflict that erupted in the disputed region in late 2020, led to Russian peacekeeping forces being stationed there to maintain a tenuous peace.

Azerbaijan's offensive in 2023 in Nagorno-Karabakh was of brief duration. Slightly more than 24 hours after the commencement of military operations, local authorities in Karabakh agreed to a ceasefire proposal initiated by the Russian peacekeeping command overseeing the region. Azerbaijan declared this as a victory, while Armenia accused the Azerbaijani government of pursuing policies that amounted to ethnic cleansing. Furthermore, this offensive came after a nine-month blockade of the Lachin Corridor, which is the sole road connecting the enclave to Armenia. This blockade caused severe shortages of essential goods such as food, fuel, medicine, and supplies. In August 2023, the United Nations had already declared a humanitarian emergency in the region.

Currently, Nagorno-Karabakh is entirely under Azerbaijani control. Per the ceasefire agreement, Armenian military personnel are mandated to withdraw. While in September 2023, Samvel Shahramanyan, the leader of the self-declared Republic of Artsakh, confirmed that all state institutions would be dissolved by January 1, 2024, marking the cessation of the state's existence. The international community has called on Azerbaijan to ensure the rights and security of ethnic Armenians. However, significant levels of mistrust persist between the Karabakh Armenians and Azerbaijan, resulting in a substantial exodus, with 65,000 individuals leaving for Armenia and fears of ethnic cleansing. In this report, we will delineate potential future scenarios from a continuation of the direction on where current things are heading to escalation occurring and the associated risks.

Scenario 1: Diplomatic Talks

The first scenario will be see a continuation of diplomatic talks. It's important to note that, as stipulated in the Sochi agreement of late 2022, Russian peacekeeping missions in Karabakh are scheduled to conclude in 2025. In addition, the entry of the Azerbaijani military is anticipated to transpire without major conflicts.

Furthermore, it's expected that there will not be any major clashes, although minor skirmishes may occur, but at a limited scale. In this scenario, Yerevan would recognise that all Azerbaijani laws apply in Karabakh, and the security of the Armenian community in Karabakh is assured in line with Azerbaijan's constitution, just as the security of other people residing in the country.

Nonetheless, the likelihood of a swift recognition of Azerbaijani law in the disputed region of Karabakh and the integration of its residents into Azerbaijan is extremely low. Prime Minister Nikol Pashinyan of Armenia would face significant backlash and an increased risk of being overthrown if he were to pursue such a course of action. As recent events unfolded, thousands of protests erupted in the Armenian capital of Yerevan, with many demonstrators demanding the resignation of Prime Minister Nikol Pashinyan.

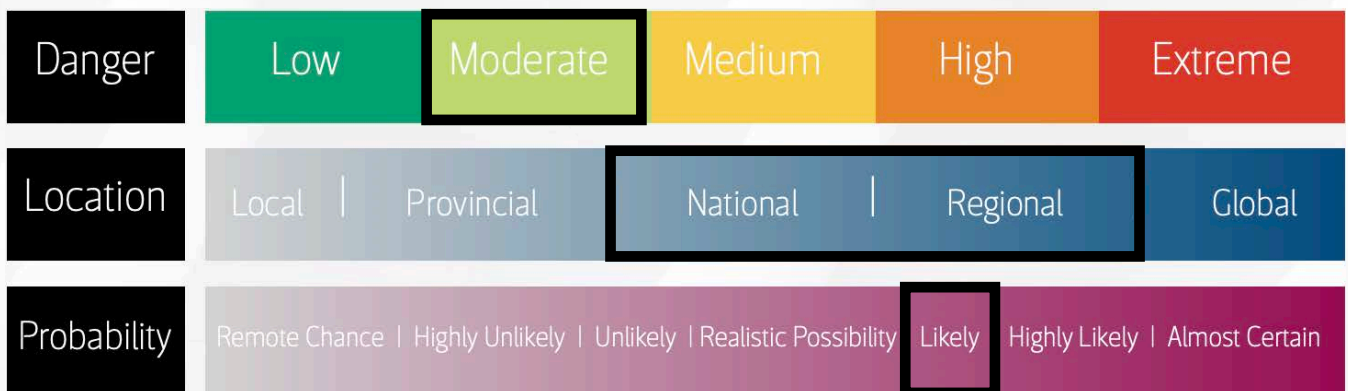
These protests illustrate the fragility of his political leadership, with a significant portion of

the population expressing dissatisfaction with his handling of the situation that culminated in September 2023.

Therefore, this scenario could see further developments amalgamating into one of compromise, suggesting the gradual transfer of control to Azerbaijan and taking the measures on integration of the Karabakh community into the Azerbaijani society and statehood. Nagorno-Karabakh is set to dissolve by January 2024. Therefore, the associated risks will remain low. Over the long term, this could potentially lead to a resolution of the disputed territories.

Furthermore, diplomatic efforts amongst regional talks will take place. In October 2023, the foreign ministers of Armenia, Azerbaijan, Iran, Türkiye, and Russia met in Tehran with Russia stating peace talks are much closer. Therefore, the possibility that diplomatic talks can settle this dispute is a likely outcome.

Thus, business operations and foreign travel in the region would carry a moderate level of risk, with a higher likelihood of this risk continuing in the short to medium term.



Scenario 2: Escalation Occurs

The second scenario envisions the potential for an escalation. In this situation, Armenia, having faced repeated losses to Azerbaijan in previous conflicts, might look to form alliances beyond Russia's sphere of influence potentially severing ties with Russia. Moreover, Azerbaijan may feel emboldened to take other territories. Thus, Armenia might even explore the possibility of forging an agreement with the North Atlantic Treaty Organisation.

Azerbaijan has expressed concerns about Armenia strengthening its ties with the West, fearing that this could lead to further escalation and conflict in the region. For example, the status of Nakhchivan, which remains the landlocked exclave of Azerbaijan sharing a border with Türkiye. An emboldened, Azerbaijan with support from Türkiye would seek for a direct land link via the Zangezur corridor, which is along Armenia's border with Iran to the south. Unsurprisingly, both Yerevan and Tehran would oppose such a move, which would result in Armenia ceasing to be neighbours with Iran, and become encircled by an Azeri-Türkish strategic axis.

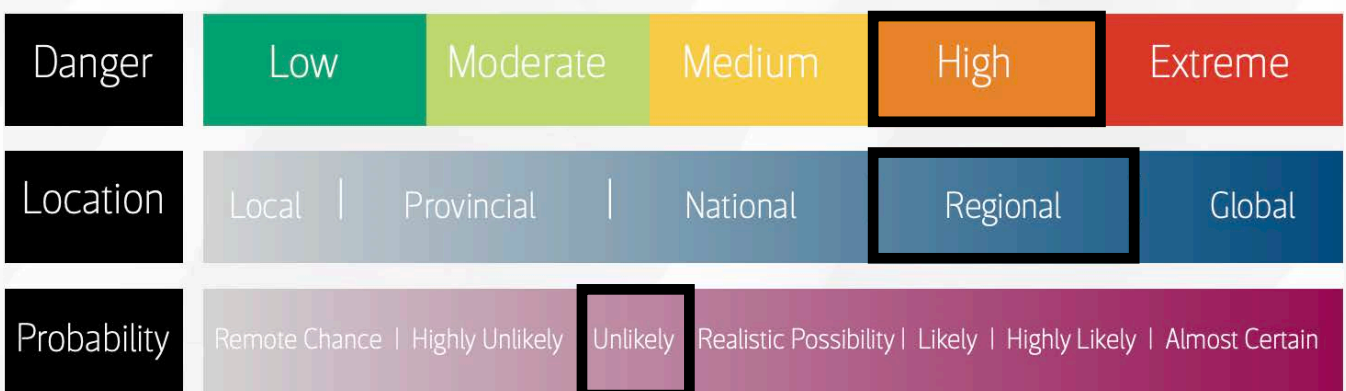
Also, prominent Western institutions like the European Union have criticised Russia's handling of the situation. Charles Michel, the President of the European Council, expressed that Russia had betrayed the Armenian people. Additionally, President Pashinyan criticised

Russia for what he perceived as insufficient support for Armenia. During a recent interview, Pashinyan emphasised doubts about Moscow's role as a security guarantor for Armenia.

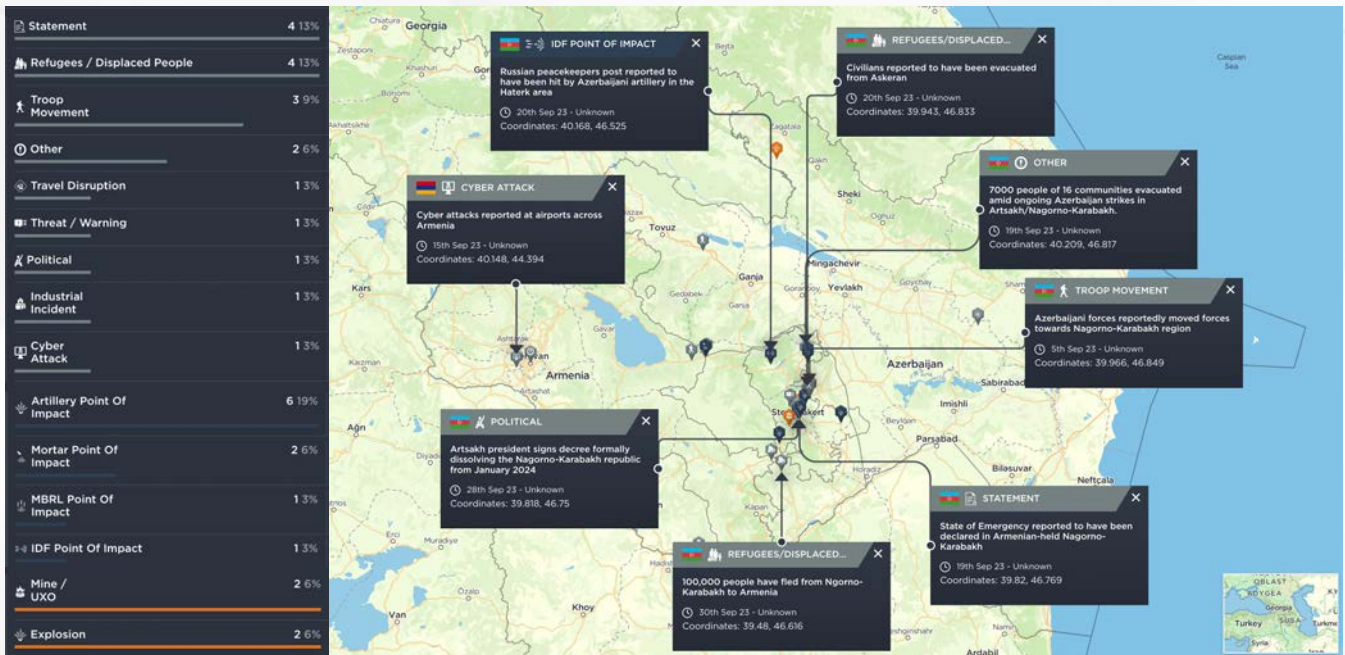
In response to these dynamics, Yerevan may further strengthen its ties with Western countries to enhance its security vis-a-vis Azerbaijan. In October, the French Foreign Minister, Catherine Colonna, declared that France would supply military equipment to Armenia to bolster its defence and security capabilities. This move underscores the potential shift in Armenia's alliances away from its traditional reliance on Russia.

Thus, Russia will likely be concerned about one of its traditional allies moving closer to Western influence, possibly perceiving it as a situation similar to Ukraine unfolding on its southern border.

While it is unlikely that Armenia will take a course of aligning with the West, given the severe ramifications it could have for the country. The risks for businesses and foreign travellers would be high, potentially spreading regionally and causing significant disruptions to travel and operations especially with possible Azeri ambitions on taking more territory.



Risk Assessment



The recent events in the Nagorno-Karabakh region have significantly deteriorated Armenia-Azerbaijani relations. Tensions had been escalating for several months, culminating in Azerbaijan's military offensive that resulted in a victory over Armenia. The humanitarian crisis, with tens of thousands of ethnic Armenians fleeing from Karabakh to Armenia, underlined Azerbaijan's political and military success.

While there are potential sources of tension still present in the Nagorno-Karabakh situation, the most likely outcome will be scenario 1 which will see continued diplomatic talks between the two countries. This is because Armenia has lost previous conflicts with Azerbaijan and could risk further loss of territory if it chooses to escalate the conflict with Azerbaijan. Therefore, Armenia is likely to pursue a more cautious and diplomatic path. With scenario 1, business operations and foreign travel in and around these countries are likely to carry a moderate risk in the short to medium term. Additionally, the integration of Nagorno-Karabakh into Azerbaijan starting in January 2024, will drastically reduce the risk of conflict. Moreover, regional talks amongst neighbouring countries will certainly demonstrate a willingness to reduce conflict such as the recent talks in October. However, while the risk is currently moderate, tensions between Armenia and Azerbaijan remain high and could escalate at any time. The status of Nakhchivan could be a possible aim for President Ilham Aliyev of Azerbaijan to take by military means while emboldened by their previous victories, which will cease diplomatic efforts. Therefore, the geopolitical landscape in the South Caucasus still signifies potential for escalation as described in scenario 2, impacting the region's stability and security.

In addition, the various risks demonstrated throughout the 2023 crisis from the political risks to the military operations on the map indicate the potential volatility that can occur in the region. Therefore, it is highly advisable for foreign travellers and business operations to understand the current political landscape in order to mitigate risks.

Contact

For more information on our services,
Please contact our Intelligence Research Team
irt@sps-global.com

Or follow our social media to access future SPS Insight reports



This report was Edited by Daniel Ratna
Intelligence Analyst



Based in Birmingham, UK, Daniel is a geopolitical expert. Holding an exemplary academic record with a first class Bachelor's degree in International Relations, with a dissertation focusing on great power politics answering one of the foremost security questions of our world: "Why will the rise of China be a threat for the United States?"

Propriety Information

The material provided in this report is based on the information made available at the time of writing and the conditions then in existence through open-source reporting and SPS proprietary human sources and represents the best judgment of SPS. The information provided in this report, which is issued without prejudice to liability, constitutes neither a warranty of results nor a surety against risks.