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Weiss, Andrea

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The Role of Iranian Azeris, Armenians and Georgians in Iran's Economic Relations with the Countries of the South Caucasus

By Andrea Weiss, Berlin

Abstract

This contribution examines Iran's economic relations with the South Caucasus through the (admittedly marginal) roles of Iranian Azeris, Armenians and Georgians. In quantitative terms, such as the movement of goods, economic interdependency between Iran and the South Caucasus is rather low and the ties are weak. Because the prevailing understanding of nationality in Iran is primarily of a civic nature, and not least due to their low numbers, these Iranian minority populations do not form the strong links to the Caucasus that one might expect.

Iran's Civic Understanding of Nationality and the Status of Minorities in Iran

Iran is not only a direct neighbor of Armenia (with a common border of 35 km) and Azerbaijan (with a common border of 611 km, including 179 km with the Azerbaijani Nakhchivan exclave)¹, Persia has been a major regional power in the South Caucasus for two millennia. Consider the early role of Iranian civilizations such as the Parthians and all the civilizations that developed in Persia, with all their high and lows. Only in the 18th century did Russia enter the scene, waging war with Iran while the Ottoman Empire, the third regional force in the last three hundred years of Caucasian history, finally lost the area north of the Arax river with the Treaty of Turkmenchay in 1828. It is through this prism—its long-standing historical and civilizational role as a regional power—that Iran has regarded the South Caucasus as a part of its own history.

Over the course of this historical relationship, Caucasian populations found their way into the contemporary territory of Iran. Shah Abbas in the 17th century (forcefully) re-settled Georgians from Eastern Georgia to various areas in Iran, predominantly in the Fereydunshahr area, east of Isfahan; Armenians from Julfa (Jolfa) were resettled to Northern Iran. The historical settlement area of Azeri-Turkic speakers extends on both sides of the Arax river into the Republic of Azerbaijan and Northern Iran, well into Eastern Turkey. The estimated number of Azeris in Iran ranges from conservative estimates of 12 million to 27 million people², while in comparison, Iran's northern neighbor, the Republic of Azerbaijan, has only approximately 8 million inhabitants, the majority of whom are Azeris. The Georgian

community totals some 60 000 people³, although the Armenian community is perceived to be larger due to attributions of craftsmanship and industriousness. In the past decades, the population has shrunk, through emigration, from approximately 200 000 to 45 000⁴.

The Georgian, Armenian, and Azeri communities not only exemplify completely different dimensions in terms of numbers but also in terms of perception, "classification" and status. Iran is an ethnically diverse country that perpetuates its self-understanding through a civic notion of nationality and not an ethnic focus. Therefore, Azeris are perceived as less of a separate community than as Iranian citizens—as Shia Muslims with a different second mother tongue. Particularly towards outsiders and in public, Azeri identity is entirely subordinated to the national Iranian identity. Given that a population of at least 12 million in a country with a total population of approximately 80 million is sizeable, and given Iran's historical experience and fear of destabilization by outside powers, a public emphasis on Azeri identity carries not only a strange but also at times a threatening connotation. For instance, the Soviet Union attempted to use minorities in neighboring countries as a vehicle to gain influence in domestic politics; at the end of World War Two it supported the short-lived People's Republic of Azerbaijan in Northern Iran. In the context of the prominent civic definition of Iranian identity, tacit fears and images of outside interference that potentially ignite separatism or irredentism make the question of Azeri identity a vulnerable soft spot. This fear of potential instability and the desire for stability together form one of the most important key concepts for understanding Iran's approach to the South Caucasus more generally.

Historically, Azeris have populated Iran's Northwest along with other groups, but, similarly to people from

1 <<http://www.nationmaster.com/country-info/stats/Geography/Land-boundaries/Border-countries>>

2 See Shaffer, Brenda. *Borders and brethren: Iran and the challenge of Azerbaijani identity*. MIT Press, 2002.

3 See Rezvani, B. "The islamisation and ethnogenesis of Fereydani Georgians." *Nationalities Papers* 36.4 (2008): 593–623.

4 Personal communication of the Floor Institute, Teheran

other regions, a considerable number have moved to Teheran, which is the country's major hub. Due to the sheer number of Azeris, Azeri ethnicity does not confer any accentuated class or social status, except, perhaps, for very subtle notions of provinciality. Among Azeris, a spectrum of all social classes is represented, mirroring the larger population.

Despite a huge difference in population size and subsequently in threat potential, Georgians are not considered a minority in Iran. Although they are—more so than Azeris—inclined to regard themselves as a minority, they would not be eligible for official minority status in the Islamic Republic of Iran because they are Shia Muslims. The Georgian community has preserved some of its distinct identity mainly because of its remote settlement away from major transit routes in the mountainous Fereyduhshahr area, West of Isfahan, while Georgians in other regions of Iran were mostly assimilated. Fereyduhshahr is an area in which the predominant source of income derives from agriculture, so the general income level—and also the educational status—of Iranian Georgians can be considered middle class; they may even be considered to be of lower socio-economic status.

In contrast to Iranian Azeris and Georgians, who are both (Shia) Muslims, Armenians—as Christians—have minority status. This status entails representation by two members in the Iranian parliament. Other religious minorities, such as the Zoroastrians, are also represented through a fixed number of MPs in the parliament. Despite their small number, which has also been diminished by accelerated emigration since the Islamic Revolution, the role and influence of Armenians in economic life is exaggerated in popular stereotypes. This is due to the success and industriousness attributed to Armenians, as well as to their overrepresentation in the middle class professions that use technical skills, such as mechanics. In general, although Armenians on average tend to be wealthier than average Iranians and are significantly overrepresented in the middle class, all social and income classes are represented among Iranian Armenians.

Economic Ties to the South Caucasus—a Priority?

From the perspectives of both ordinary citizens and state institutions, economic relations are seen through the prism of historical ties and the historical importance of the South Caucasus to Iran. Consequently, Iran has emphasized the geo-strategic importance of the South Caucasus as a stable neighborhood, as reflected in its economic status. This has led to the prioritization of pipelines, energy and transit routes rather than an emphasis on bilateral economic relations. Some of these pipelines

and routes serve the purpose of connecting Iran through but beyond the Caucasus, e.g., to Europe, rather than to the Caucasus itself.

However, this orientation is also a result of the fact that the South Caucasus is a small market compared with the needs of a country of Iran's size. Iran was quick to assert itself as a supplier of essential goods to blockaded Armenia during the Karabakh conflict. Today, Turkish goods have flooded the South Caucasus; ironically, they far outnumber Iranian goods even in Armenia, which in theory is under Turkish blockade. Several factors seem to be causing Iran's weakness: Iran produces few consumer goods that are competitive and can meet the needs of the South Caucasus countries. At the time of the collapse of the Soviet Union in the 1980s, Iran and its economy were still tainted by the effects of the Iran–Iraq war. Furthermore, Iran never saw the South Caucasus countries as a market to expand to and, last but not least, international sanctions later hampered Iran's economic relationships.

However, the sanctions are double-edged: on the one hand, they impeded Iran's economic development, while at the same time, Iran's relationships with Armenia and Azerbaijan also helped to subvert economic sanctions. This, for example, developed through the use of Armenian banks for international monetary transactions or by making use of informal practices in Azerbaijan that are a vital part of doing business and served as a proxy to hide the Iranian origin or destination of goods.

Furthermore, Iran engages in a balancing act between Azerbaijan and Armenia—the two parties to the Karabakh conflict; this also affects Iran's economic role in both. Iran has the best and most intense relationship with Armenia out of all countries in the South Caucasus, but Armenia is a small market. Armenia can only trade with and through its Northern neighbor Georgia and its Southern neighbor Iran. However, this relationship is not only vital for blockaded Armenia but for Iran. Armenia, as Iran's only Christian neighbor, constitutes a crucial ally because of this very fact.

In economic terms, Azerbaijan is a bigger market than Armenia, but mutually beneficial trade is hampered because both are petroleum-exporters and their economies compete and overlap instead of complementing each other. Further, Iranians complain about the rampant corruption in Azerbaijan. On the one hand, corruption facilitates and provides economic opportunities that are hindered by a stricter application of laws and a need for clean papers elsewhere; but corruption also means that actors incur more costs as consequences of bribery. In general, the long-strained relationship between Azerbaijan, which has stressed its secular orientation, and Iran, which has tended to see majority Shia Azerbaijan

as a space in which to project its religious authority, has gradually improved over the years. Although Iran has unilaterally lifted the visa regime for Azerbaijani citizens, this has not been reciprocated and—albeit merely theoretically—provides Azerbaijani shuttle traders who travel to Iran with a comparative advantage in the border area.

Georgia is not only geographically removed from Iran but also the only one of the three South Caucasian countries that is part of a Western orbit. This not only means that, before the 2011 sanctions, (liberal) business-minded Iranians used Tbilisi as their base but also that under US pressure Georgia implemented the sanctions in the banking sector with more fervor and abandoned the visa-free regime with Iran, only to reintroduce it in 2016. Armenia has also served as a door to the West in terms of shopping for Western or Russian consumer goods and as a vacation destination where Islamic law does not apply. Now that Turkey is increasingly experiencing unstable political conditions, the role of Armenia in this respect has increased, and the same is true for once again visa-free Georgia.

Iran's Northern border mirrors the complexity of the Karabakh conflict, which requires Iran to balance between its two neighbors Armenia and Azerbaijan. Armenia has to rely on Iran, as its border with Iran is one of its only two open state borders; it is an only 35 km long stretch along the Arax river with one single border crossing point. Azerbaijan needs Iran as a transit area between mainland Azerbaijan and the enclave of Nakhchivan. The lack of attention to cross-border trade with the South Caucasus in Iran mirrors the low priority of economic relations on Iran's agenda. Nevertheless, this trade has obviously been vital for the economic development of Iran's border zone. More than two decades of open borders have changed the economic situation there and led to (modest) flourishing in border towns such as Rasht and Julfa.

The Marginal Role of Iranian Armenians, Georgians and Azeris

Given the overall low priority in Iran of economic relations with the South Caucasus, the low level of minority involvement does not come as a surprise. In general, economic relations are more prominent in the minds of state officials, researchers and the interested public in the form of macro-economic relations, although shuttle trade has played a non-negligible role in the development of the border areas, economic development in the periphery and social cross-border ties.

A classical picture of ethnic entrepreneurs does not emerge in Iranian–South Caucasus economic relations. Neither Iranian Armenians nor Iranian Geor-

gians are numerous nor do any of them form a significantly wealthy small community; therefore, they cannot capitalize on any comparative advantages that their language skills might have granted them. Consequently, due to their lack of capital, Iranian Georgians have served as intermediaries for Iranian companies, helping them enter the Georgian market instead of being investors themselves. In general, the trade turnover between Georgia and Iran has been so low that even the activities of a few medium-sized companies visibly impact statistics. Although, on average, they are better educated than Iranian Georgians, Iranian Armenians also tend to be intermediaries rather than entrepreneurs. Though some are quite successful in the construction business in Armenia, mostly in housing and also in hotel construction. However, the housing sector in particular reached its peak for profit-making by the late 2000s.

Iranian Azeris fit the picture of ethnic entrepreneurs who forge ties to their imaginary “homeland” even less than Iranian Armenians or Iranian Georgians. As the majority of Azeris live in Iran, most do not relate to the Republic of Azerbaijan as an imaginary homeland, not the least because of its prevalent secular orientation. For Iranian Armenians and Iranian Georgians, culture shock is one element to reckon with in the face of an alleged home society that turns out to be “Sovietized” and therefore slightly different than expected. This is especially true for Iranian Azeris who, having grown up in a Persian-Azeri Shia environment, are confronted with a society that to them might seem “Soviet,” with such widespread bribery that tourists, not to speak of businessmen, are easily confronted with it. As knowledge of Azeri-Turkish is very widespread in Iran, Azeris do not possess any comparative advantage in language terms. While virtually almost no Armenians live in Iran's Northern border area, many Iranian Azeris do. They travel to Armenia to such a large extent that they become visible in public spaces, and Azeri can be heard on the streets of Yerevan. Using Armenia as a transit country, they have also forged (business) ties with Azeris living in Kvemo Kartli/Georgia and practice shuttle trade via Armenia.

Conclusion

Although economic relations between Iran and the South Caucasus are far less important than strategic and infrastructural concerns in terms of volume and government priority, and although they are overshadowed by the historical narrative about Iran's importance in the region, they should not be underestimated as a vehicle to ameliorate and intensify Iran's impact on and relations with the South Caucasus. Either the political circumstances (in the case of the Azeris) or

the small size of the community and its relative lack of economic leverage (the Georgian and to a certain extent the Armenian case) have prevented these communities themselves, entrepreneurs and the Iranian state from taking full advantage of the linguistic compara-

tive advantage that these communities possess and that could help foster economic ties. Geographic proximity trumps alleged cultural proximity in the case of Iranian Azeris and Armenians.

About the Author

Andrea Weiss is a social anthropologist who worked as a research fellow at the German Institute for International and Security Affairs (Stiftung Wissenschaft und Politik, SWP in Berlin from January 2015 to December 2016). At SWP, she conducted research within the framework of the EU-funded ISSICEU project.

The Unfreezing of Iran: Economic Opportunities for Georgia

By David Jijelava, Tbilisi

Abstract

In the aftermath of the Iran deal, there has been considerable speculation about the likely impact of the deal on the Caucasus. In Georgia, there has been speculation about the degree to which Iran could drive economic growth through development of the energy sector by providing a new market for Georgian exports or by becoming a source of FDI or tourists. This article looks at each of these areas and concludes that none of them are likely to be major drivers of growth in the short to medium term.

Introduction

Since the collapse of the Soviet Union, Georgia has engaged relatively little with Iran. Instead, it has focused its aspirations on the West and its worries on Russia. In recent years, even modest engagement has been made challenging by the increasingly stringent sanctions put into force by the international community. However, in July of 2015, the Joint Comprehensive Plan of Action (hereafter, 'the Iran Deal') was signed, and nuclear-related sanctions were suspended 6 months later.

This has led to a resurgence of discussions about Iran's potential role in the region. With a population of approximately 80 million and the 18th largest economy in the world (in PPP terms), as well as large oil reserves and the world's second largest proven stocks of natural gas, Iran certainly seems like a potential source of economic opportunity. Iran has been discussed as a means of diversifying Georgia's energy supply, a market for Georgian exports and a source of tourists and foreign investment.¹

This paper will consider each of these options within the broader geopolitical context. In general, it concludes that while there may be short-term opportunities in tourism, other areas are unlikely to see significant opportunity until the deal has been in place for at least a few years, as the Iranians know that, based on previous experience, if sanctions are re-applied, Georgia will not choose its relationship with Iran over its relationship with the West.

Oil and Gas

Georgia might benefit from Iranian oil and gas resources, from diversifying its own supply of oil and gas, from acting as a transit hub or from serving as a location to produce value-added exports. At the beginning of 2016, Georgian Minister of Energy Kakha Kaladze created a media storm by suggesting that it might be possible for Georgia to diversify its gas supplies and buy some gas from Iran. This built on previous suggestions by Iranian state officials that Iran might develop its gas supplies to Armenia as a transit route to Georgia. Georgia is overwhelmingly dependent on Azerbaijan for its gas supply, with a small percentage coming from Russia. Most of

1 See, for example, Economic and Policy Research Center (April 2016), Georgia and Iran: Opportunities for "Finding Keys to the Door", and Tbilisi and Charles Johnson and Lasha Lentava (Sept 2015), "Un-Muzzling the Persian Panther: Where Geor-

gia Stands to Gain from an Iran without Sanctions." ISET Policy Institute Blog.