

FOREIGN AND SECURITY POLICY REORIENTATION DILEMMAS OF A SMALL EUROPEAN STATE: THE CASE OF ARMENIA

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Abstract

Armenia's foreign policy and security orientations have recently been in the spotlight. Armenia has been a strategic partner of Russia since the early days of independence in the early 1990s. It has been part of Russia-led integration and security projects – Commonwealth of Independence States (CIS) and Collective Security Treaty Organization (CSTO) and the Eurasian Economic Union (EAEU). Simultaneously, Armenia and the EU signed Comprehensive and Enhanced Partnership Agreement (CEPA) in November 2017. How was Armenia able to find the compromise between its strategic ally – Russia, and its “normative ally” – the European Union? In contrast to the prevalent argument that the foreign policy choices and security alignments of small states are mostly determined by external and imposed factors, the paper argues that a set of equally significant domestic variables impact small states in making foreign policy decisions.

KEY FINDINGS

- The Nagorno Karabakh Conflict and the blockade imposed by Turkey have visibly constrained Armenia's foreign and security policy choices;
- Poor democratic practices and underdeveloped institutions make small states more vulnerable to foreign policy influences;
- Armenia's example demonstrates that small states can play constructive role in reconciling the geopolitical differences of global actors.

EXECUTIVE SUMMARY

The standoff between Russia and the Western powers have visibly limited integration alternatives of small states in the post-Soviet space. The increasing tensions between the parties have overshadowed the concerns and aspirations of small states. Some of them (for instance, Georgia and Moldova) deepened relations with the EU at the expense of confrontation with Russia, while Armenia favoured the “*both...and*” formula. Being a member of Russia-led integration projects and simultaneously expanding the cooperation with the EU make Armenia a rare case in the post-Soviet space.

Analysis



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Situated in a volatile region, Armenia remains in a geopolitically challenging situation. Two major foreign policy issues have shaped its security agenda since the early 1990s – the Nagorno Karabakh conflict and the Turkish-Azerbaijani blockade of Armenia.

The violent conflict with Azerbaijan over the Nagorno Karabakh has visibly limited Armenia's development perspectives and constrained its strategic choices. Since 2008, the only question that was dominant among policy-makers and practitioners alike was not whether the conflict would resume or not but when and how it would. Therefore, the likelihood of a breakout of major hostilities always remained high and this feature had become a characteristic component of this conflict. This is to suggest that since 2008, the conflict in Nagorno Karabakh has transformed into a low-intensity conflict, which entailed phases of escalation, intensive violations of the ceasefire and times of short-term truce. In April 2016, the Karabakh conflict erupted into prominence again. The April escalation, which Armenians coined as a "Four-day war", was widely interpreted as a watershed in the modern phase of the Karabakh conflict.

The conflict between Armenia and Azerbaijan over Nagorno-Karabakh remains a perplexing challenge for the regional security and development. Notwithstanding numerous efforts that the Minsk group co-chair countries and various international organizations have invested, final resolution of it remains a distant goal. With the expanding authoritarian politics in Azerbaijan, when track-two diplomacy or societal efforts of confidence building with Armenia is legally forbidden, peace seems more distant than ever before. The regional arms race and heavy military expenditure increase the potential of a large-scale regional conflict in the South Caucasus.

It bears mentioning that Azerbaijan's strategic partner, Turkey, has also exacerbated the situation by unreservedly supporting Azerbaijan. Since 1991, when Armenia gained its independence, Turkey has refused to establish diplomatic relations with Armenia and open the borders. For the last 27 years, numerous initiatives have tried to find solutions to the problem, but the two countries still have no diplomatic relations, and the border remains hermetically sealed. The closed border and non-existence of diplomatic relations, which are widely as the last reminders of the Cold War era in Europe, significantly hinder the development of Armenia. With closed border in the west and mined borders in the east, Armenia is one of rare states in the world that has more than 80 per cent of its borders sealed. Armenia has only two open borders –with Georgia in the north and with Iran in the south.

Against this background, Armenia chose to deepen its strategic partnership with Russia, which has also become an important trade partner and political ally in major international organizations and policy forums. Being a strategic ally of Russia and a CSTO member state, Armenia continues to rely heavily on military assistance from Moscow. Russia provides Armenia credits to purchase weapons, and Armenia buys weapons mainly from Russia at discount prices. In addition, Armenia and Russia have worked to create the Caucasus Unified Air Defense System as well as a joint Russian and Armenia military group. The 102nd Russian military base (around 5000 personnel) in Gyumri, the lease of which Russia extended to 2044, and, its air-force component, the 3624th airbase (squadron size) in Erebuni airport in Yerevan belong to the Southern Military District of the Russian Federation. The Border control division of the Federal Security Service (FSS) of the Russian Federation, together with Armenian partners, protects Armenia's borders with Turkey and Iran.

Meanwhile, Armenia has intensified its relations with Europe too. One of the central initiatives of the last ten years started in 2009, when the EU and Armenia, along with five other Eastern European countries (Azerbaijan, Belarus, Moldova, Georgia, and Ukraine), launched the Eastern Partnership (EaP) with the main goal of creating necessary conditions to accelerate political association and further economic integration between the EU and participant states. For the next four years, following the objectives of the EaP declaration, the Armenian

Government carried out a series of political and socioeconomic reforms aimed to facilitate approximation toward the EU. However, on 3 September 2013, the president of Armenia shifted the long-praised process of initialing political association and economic integration with the European Union and announced Armenia's decision to join the Russia-led Customs Union and participate in the processes of formation of the EAEU. Practitioners and observers interpreted it either as a U-turn or as a surprise move mainly assuming that what happened was the result of Russian pressure on Armenia. However, when tensions and uncertainty eased, it became obvious that what happened was a result of complex reasons. Geopolitical constraints and socio-political problems that had accumulated in Armenia during recent years coincided with an assertive expansion of Russia's foreign policy. The EAEU came to be formally operative on 1 January 2015. The next day Armenia became a member of the EAEU, which is currently comprised of five states from the post-Soviet era (Russia, Belarus, Armenia, Kazakhstan, and Kyrgyzstan).

In this context, any observer would assume that Armenia lost its interest in the European Union. However, the Armenian government hardly abandoned the idea of finding a working deal with the European Union, the latter also was not interested in letting Armenia go. After years of negotiations, Armenia and the EU signed a new strategic document –CEPA– in November 2017, which many interpreted as the tailor made version of the Association Agreement that Armenia and the EU were planning to sign in Vilnius in 2013. In the following months, both Russia and the EU praised Armenia for carefully maneuvering between different power centers and for successfully completing the partnership agreement with the EU. After signing the deal, the Armenian government officials liked to emphasize that unlike Georgia, Ukraine and Moldova, Armenia was able to expand its relations with the EU without harming its relations with Russia.

In addition to foreign policy determinants, the Armenian domestic politics had also impacted its integration preferences. To understand Armenia's decision to side with the Eurasian Economic Union the socio-economic consequences of the global financial-economic crisis in 2008 and 2009 should also be considered. Experiencing one of the dramatic declines in the world, it took several years for Armenia to recover from the economic downturn. Substantial decline of FDI since 2008, heavy taxation policy on small and medium enterprises, the size of the shadow economy, abundant monopolies in various import and export sectors, and many other factors (dependence on a limited number of commodity exports, a difficult external economic environment, etc.) caused Armenia's economy to be both fragile and sensitive to external instabilities. These trends intensified the labor migration, which headed mainly to Russia. According to the Federal State Statistics Service of the Russian Federation, 200,000 Armenian citizens went to Russia between 2008 and 2013. Chronically, the Armenian economy has been heavily dependent on remittances coming mostly from Russia, equal to USD 1.5 billion, or 15% of Armenia's GDP. The purchasing power of the population, trade turnover, and service sectors have dramatically suffered. As the Russian economy entered into decline, private money transfers to Armenia declined by 30%, or USD 520 million, in 2014. Private remittances received from Russia reduced by another 36% in 2015 (USD 916 million), though still comprising 76% of total non-commercial money transfers to Armenia. Naturally, the slowdown in domestic demand also affected unemployment in the respective countries, which grew to 18.5% in Armenia in 2015. Meanwhile, many Armenians working in Russia lost their jobs or earned less because of the devaluation of the ruble. Armenia's slow recovery from the 2008–2009 economic crisis and a number of sluggish economic, structural, and social reforms increased the poverty rate in Armenia. As a result, the percentage of the population living below the poverty line reached 35.4% in 2011, up from 27.6% in 2008. In other words, more than 1 million citizens (out of 3 million) live below the poverty line.

It bears mentioning that after joining the EAEU in 2015, Armenian exports to EU countries increased by 12.7% compared with the previous year, amounting to USD 352 million. Meanwhile, in 2016 the Armenian exports to EAEU countries increased by 53%, equaling USD 392.1 million, of which USD 371 million went to Russia. The export volume to that country has increased by 51.5%. Armenia was able to export to Russia textile, clothes, food, drinks (wine, mineral waters), brandy, cigarettes, etc.



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Why does this matter to Armenia?

Traditionally, the smallness has usually been seen as a major disadvantage for Armenia. For a long time, the physical size, its geopolitical volatility and conflicts have limited Armenia's "manoeuvring front" and spectre of alternatives. However, since the late 2000s, domestic political discourse has slowly started to transform its smallness into a capital in the international relations.

Policy advice points/ What should Armenia do?

Armenia's dependence of foreign powers is sourced from its institutional preferences. The existence of extractive economic and political institutions in Armenian is a case in point. Under such institutions the ruling elite used coercion in securing control over larger groups or to manage the distribution of political power in the society. The government with such kind of institutions would be kin to cooperate with a state that share the same rules of the game in order to make benefits for its regime. In spite of the fact that Armenia is actively involved in Russia-led integration and security projects, there is still a door for inclusive institutional reforms. The CEPA agreement between Armenia and the EU can be an additional opportunity for initiating inclusive institutional reforms.

A small state with security deficit like Armenia needs to establish inclusive institutions aiming at creating democratic prosperity, incentives for technological investment in military sector despite its size, geographic location and cultural context. The creation of inclusive institutions is more than necessary for the resource-minimal small state Armenia. The inclusive institutions can create incentives for the accomplishment of creative ideas and investment in high technologies. The new high technologies and institution building processes are closely interconnected. The development of Information Technologies (IT) is important for both economic growth and institutional reforms. The targeted development of IT sector can be alternative method to minimize non-democratic institutional practices. For example, IT sector can contribute to the production of a number of innovative companies by the way of fostering competitiveness. This process implies de-monopolizing practices aiming to improve economic infrastructures and of course to attract foreign investments. Armenia has a chance to become technology generator for the global market. The research and high ITs need to be the main export product of Armenia, which can allow Armenia to build and exercise its own diplomatic power as well. So, the policy makers of Armenia should define the concept of Armenia. Taking into consideration the number of IT specialist (17,000) and registered international IT companies one can conceptualize Armenia as "small but smart". Armenia has a potential to turn into an island of technologies in post-Soviet space.

Armenia has another resource to compensate its smallness in international system. The social capital of the Armenian nation comes to re-define its physically and economically smallness. The existence of over 10 million Armenians in diaspora across the continents can be economic, social and even diplomatic shelter for Armenia. However, even for the engagement of the resources of diaspora the Armenian government should create incentive-based investment environment in Armenia, which can resist the demographic challenges of Armenian by organizing repatriation of diaspora Armenians.

Conclusion

To continue the dissemination of democratic values in Armenia, the EU should search for new frameworks to strengthen political reforms. To consider Armenia as a reliable partner in the Eurasian Economic Union, the EU should strengthen its institutional assistance to Armenia, which in turn might enable Armenia to decrease its economic and energy dependence upon Russia.

The mutually empowering link between institutions-incentives-creative ideas-technological investments should play pivotal role in transforming the national discourse. There is a fertile ground to put this formula into motion and benefit from it. The smallness, usually perceived as liability, should be transformed into asset. This change of paradigm has benefitted in the past, it is capable of bringing more benefits in the future.