

## ARMENIA AT TWENTY-FIVE: A ROUGH RIDE

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Armenia is at a turning point. The economy remains troubled, the population is growing tired of its politicians and their decisionmaking, and the security situation in and around the Caucasus has deteriorated, as was most visibly seen in the April 2016 Four-Day War with Azerbaijan. In fact, a series of events beyond Yerevan's control, combined with missteps of its own making, has exposed a widening chasm between the population at large and the ruling elite. The old social contract, in which the population accepted limited democratic choice and a struggling economy in exchange for security, is eroding.

A political outlier in Eurasia, Armenia has resisted the two dominant paradigms of development followed by most former Soviet states. Countries in the first group—including Georgia, Moldova, and Ukraine—are democratic, are generally pro-Western, and have generally sought to put as much distance as possible between themselves and Russia. These countries have achieved significant progress in building democratic societies, even if their governance practices often suffer from dysfunction. Azerbaijan, Belarus, and most of Central Asia have embraced the contrasting, authoritarian paradigm. While these states' human rights records complicate the development of close partnerships with the West, few are outwardly pro-Russian, and those that appear to be so out of necessity rather than free will. Comparatively speaking, the authoritarian states' trajectories generally have been more stable thus far, although stability has come at enormous costs to their civil societies.

Armenia does not fit neatly into either of these camps. Security concerns historically have pushed Armenia into

Moscow's orbit, but that alliance has not yet translated into a full turn toward authoritarianism of the kind seen elsewhere in Eurasia. Armenian civil society remains remarkably robust and active, as do the country's multiple political parties. Civil society activists and opposition figures use social media effectively and take to the streets when they want their voices heard. Corruption is still one of the biggest barriers to the country's political, social, and economic modernization. It is a long-standing source of public grievance, but it ironically facilitates a measure of competitive politics as a vehicle for the nontransparent interests of the oligarchs and business leaders who dominate the economy.

The end result is a chaotic political system, where shifts in economic power play out, but one that provides government critics with just enough public space to discuss the country's problems and contest government decisions. Civil society's ability to influence policy through electoral and constitutional means remains constrained, but it occasionally wins concessions—although more often in the streets than through

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formal mechanisms of governance. Freedom House in fact rated the country as “partly free” in its 2016 *Freedom in the World* report—the same rating given to Western-leaning Georgia, Moldova, and Ukraine.

However, Armenia’s status as a regional outlier is being challenged. Growing popular dissatisfaction with the lack of transparency in Armenian politics, rising frustration with the status quo, and a looming generational turnover in the political system all call into question how sustainable the Armenian governing model of partial democracy is. Geopolitical tensions in Europe after Russia’s annexation of Crimea in 2014 have made it more difficult for Yerevan to balance its security ties to Moscow with its pursuit of greater economic ties to China, Europe, and the Middle East.

## **PROMISING POLITICAL START, UNCERTAIN FUTURE**

Armenia was at the forefront of efforts to tear down the Soviet Union. Yerevan had one of the strongest civil society movements in the late Soviet period, with mass protests assuming a nationalist character and focusing on Armenian claims to the disputed enclave of Nagorno-Karabakh. Protests in the country ultimately led to the Armenian branch of the Communist Party of the USSR ceding power in 1990. However, by the time the Soviet Union collapsed in 1991, newly independent Armenia and Azerbaijan were already at war over Nagorno-Karabakh. The politicians who rose to prominence during the independence movement and the subsequent war have dominated Armenian politics ever since.

Levon Ter-Petrosian, a scholar and leader of a nationalist civil society movement, became the first president of independent Armenia in October 1991 amid challenging circumstances. Factory production in Armenia—once the high-tech center of the Soviet Union—ground to a halt, as supply chains and transportation networks were interrupted by the USSR’s collapse. Wars throughout the Caucasus (in Chechnya, Georgia, and Nagorno-Karabakh) cut off Armenia’s gas

and electricity supplies. Although the Armenians won the war for Nagorno-Karabakh, the early years of independence were cold and dark; many Armenians were forced to burn furniture and level forests for fuel to stay warm. GDP growth fell by 41 percent in 1992, recovering to 5 percent growth by the end of the war in 1994. Inflation reached an all-time high of 5,273 percent in 1994 and more than 50 percent of the population had fallen into poverty. The war and the Soviet collapse were the main reasons for the failing economy, but Ter-Petrosian received most of the blame.

Ter-Petrosian’s legacy is mixed. The political system was more open in the 1990s than it is today, while his outreach to Turkey and willingness to compromise with Azerbaijan on the Nagorno-Karabakh stalemate reflected a pragmatic approach to Armenia’s two key national security threats. However, those policies won him no favors with nationalists at home or those in the Armenian diaspora. Meanwhile, his 1994 decision to ban the opposition Armenian Revolutionary Federation (Dashnak) party tarnished his image as a democrat, as did his 1996 reelection, which was marred by allegations of voting irregularities. Thus, with his stature diminished and his administration on the verge of accepting a compromise peace plan with Azerbaijan (as called for in the 1994 Nagorno-Karabakh ceasefire agreement), he was forced from office in 1998 by a group headed by Robert Kocharian, the country’s then sitting prime minister and former head of Nagorno-Karabakh.

Kocharian’s presidency coincided with the slow recovery of the Armenian economy. Unemployment gradually declined from roughly 12 percent in 2001 to about 6 percent in the first quarter of 2008, when Kocharian left office. These official figures likely fail to account for the underemployed or those living off subsistence agriculture. GDP growth was impressive, hovering around 14 percent from 2005 to 2007, and Armenian gas, electricity, and transportation infrastructure started to work again; that said, the rebound probably had more to do with luck than Kocharian’s policies, as post-Soviet states across Eurasia experienced a recovery at this time.

Under Kocharian, a small group of oligarchs in or close to the government established tight control over the economy. Because of the unsettled conflict in Nagorno-Karabakh, Azerbaijan and Turkey continued to keep their borders with Armenia closed. This caused Yerevan to be excluded from the lucrative regional energy and transportation infrastructure developed in the South Caucasus since independence and pushed Armenia further into Russia's economic and security orbit. Armenia's only open borders remain with Georgia and Iran, which constrains its ability to pursue integration into the global economy.

Kocharian consolidated his hold over the country and facilitated the political rise of many Nagorno-Karabakh officials to positions of power in Armenia proper. One of those officials was Serzh Sargsyan, a Nagorno-Karabakh military commander who had served in numerous defense and security positions in Karabakh and Armenia. He succeeded Kocharian as Armenia's president in 2008.

Kocharian's presidency and the start of Sargsyan's, however, were mired in political violence. A 1999 attack on the Armenian parliament left the country's prime minister, parliamentary speaker, and six parliamentarians dead after a seventeen-hour hostage standoff. The 2008 presidential election campaign, in which Ter-Petrosian attempted a political comeback by leading the opposition, ended tragically. The election focused largely on personal rivalries, with Sargsyan presenting himself as a stronger defender of Armenian security. Ter-Petrosian and other opposition leaders alleged mass vote rigging, and the country stopped for ten days as Ter-Petrosian led the opposition into the streets. The protests ended in a violent crackdown that left ten dead and many more detained or arrested. The violence caused friction between Armenia and the international community, and it cast a shadow over the start of Sargsyan's presidency.

Sargsyan faced further early challenges. The global financial crisis caused a steep economic downturn. In 2009, the economy shrank by 14 percent. The 2008 Russian-Georgian

war briefly cut off Armenia's main access to the outside world, which highlighted the country's difficult geographic position. The impact of the war also probably pushed Sargsyan to speed up Armenian-Turkish normalization, a bold diplomatic process that nationalists criticized. It, however, won plaudits from the international community, although it broke down in 2010.

Kocharian and his allies criticized his successor's economic and foreign policies, fueling early rumors of a rift between the two and raising speculation about Kocharian's alleged desire for a comeback along the lines of Russian President Vladimir Putin's 2012 return to the Kremlin. Kocharian has become a vocal critic of current government policies and backed several of Sargsyan's opponents. He was linked to oligarch Gagik Tsarukian's attempts to challenge the president—a move that ended in 2015 with Sargsyan ordering tax audits of Tsarukian's businesses and warning of criminal prosecution. Tsarukian left politics shortly thereafter, although he appears to be pondering a return. Reportedly, Kocharian also has ties to former foreign minister Vartan Oskanian's recent effort to reenter politics as a government critic.

The high-stakes maneuvering between the Sargsyan and Kocharian camps paints a picture of a political system dominated by intrigue and behind-the-scenes power plays, none of which involves the population at large. Attempts by Kocharian's faction to exert influence at home and reportedly in Moscow have been met with moves by the government to sideline him, just as Kocharian effectively sidelined Ter-Petrosian in the early 2000s. Ties between the first and third presidents briefly warmed this year, with Kocharian serving as a common foe. Sargsyan met with Ter-Petrosian privately in mid-April 2016, following the Four-Day War with Azerbaijan, and Ter-Petrosian subsequently called on the public to support the president, once his bitter rival, in the face of external threats. Their truce is evidence that personality disagreements and shifting alliances dominate Armenian politics, often concealing competing oligarchic interests underneath.

Such personality-based politics and rivalries are fueled by competition within a small circle of political insiders, and this makes it difficult for critics of the government to unify on a common platform that goes beyond vague notions of regime change or broad condemnations of corruption. When political alliances do occur, they tend to be tactical and short-lived, as was the case with the 2016 truce between Sargsyan and Ter-Petrosian. By mid-October, the latter had resumed his harsh criticism of the government's economic and democratic record. Several opposition parties are now in talks about creating a unified bloc for the upcoming 2017 parliamentary elections, but it remains unclear whether party leaders can overcome personal and political rivalries—a long-standing problem. The lack of transparency into these shifting alliances has increased the public's frustration with both the government and most of the opposition; the fact that the country's politicians stay on the scene for so long has added to this dissatisfaction. The next generation of Armenian leaders is rising both within and around the government, the opposition, and civil society, but it remains mostly on the sidelines of a system that has not yet figured out how to integrate these newcomers.

### **ANOTHER TRANSITION IN THE WORKS?**

President Serzh Sargsyan's term in office ends in 2018. He spearheaded a constitutional amendment, adopted as a result of a widely questioned December 2015 referendum, that will transition Armenia from a presidential to a parliamentary system. Sargsyan's critics have charged that this transition was engineered to extend his own or his allies' hold on power beyond the end of his term. There was little input from the public on the amendment before it was put up to a vote, but its opponents made their voices heard through public protest and on social media. The amendment's critics hailed not only from a broad spectrum of civil society and the political opposition but also from among the political and economic elite, including Kocharian himself. Opponents are concerned that the ruling party will manipulate future elections in its favor, as it has been accused of doing in the past.

To address these fears, opposition parties in parliament have since worked with the government to introduce changes to the electoral code that may help curb voting irregularities. The government justifies the new political structure as a way to increase public influence on policymaking by moving it from the presidency to a multi-stakeholder parliament. The reform could lead to a more accountable government, but a large cross-section of the population remains skeptical.

Questions also remain over how the new political structure will take shape, who will lead the country, and what role the current president or his two predecessors—all of whom are striving to stay influential—will play after 2018.

As a point of comparison, neighboring Georgia moved to a similar parliamentary system toward the end of former Georgian president Mikheil Saakashvili's term in office, but that transition has been far from smooth. Both Saakashvili and his biggest rival, former prime minister Bidzina Ivanishvili, loom large over the political system despite the fact that neither is a sitting government official. The new system backfired on Saakashvili and his party, which lost two successive parliamentary elections in 2012 and 2016.

Armenia's April 2017 parliamentary elections will launch a gradual two-year transition to the new political system. Yet, the upcoming electoral cycle is coming at a difficult time for the political establishment. The economy remains sluggish, remittances from Russia are down, and socioeconomic grievances are rising. The Armenian Central Bank has cut interest rates seven times between January and November 2016, and the government is considering more spending cuts. Yerevan has yet to see benefits from its membership in the Russian-led Eurasian Economic Union (EEU). The ruling party's hold on power is strong, but it performed worse than expected in the autumn 2016 regional elections. These losses occurred despite a government reshuffle in early September and allegations of voting irregularities. Opposition candidates from multiple parties even bested the ruling party in city council elections in Vanadzor, Armenia's third-largest city. However, several opposition city council members

allegedly broke away from the opposition coalition to back the ruling party's candidate in a secret ballot, thus preventing the opposition candidate from becoming mayor and raising public doubts about the fairness of these proceedings.

These regional elections and the government shake-up took place after a tumultuous year of war, protests, and political violence. The April 2016 Four-Day War with Azerbaijan saw heavy casualties and the loss of some Armenian-held territory for the first time since the 1994 Nagorno-Karabakh ceasefire. The war shocked many Armenians out of complacency and raised doubts among them that control of the disputed region and surrounding territories can last indefinitely. Armenian losses raised questions about the country's military readiness—one of the pillars of the government's legitimacy. The losses also opened up a public debate on the corrosive impact of corruption on the country's security, prompting the Ministry of Defense to fire and arrest several officials in the spring of 2016. The country's long-standing minister of defense and the chief of the general staff of the armed forces both lost their positions a few months later. Ceasefire violations continue on a regular basis, with sniper fire going beyond the Nagorno-Karabakh line of contact into uncontested border regions. The brutality and violence seen in April was a powerful reminder of the fragile and changing security environment in the region.

The political establishment was stunned again in July when a fringe group of armed radical nationalists seized a police station in Yerevan, took police officials and emergency medical workers hostage, and held them for two weeks. The group, called Sasna Tsrer, had long been under government surveillance, is highly nationalistic, and adamantly opposes any compromise settlement with Azerbaijan. The militants—many of whom were decorated Nagorno-Karabakh war veterans, demanded the resignation of the president and the release of political prisoners. Sasna Tsrer had little public support before July, but its actions resonated with part of the population, leading to street demonstrations in support of the hostage takers. Not all the protesters backed the group's violent tactics, but the

demonstrations suggested many Armenians were disenchanted with the status quo and at least sympathized with those willing to take extreme measures.

Armenian security forces allowed the hostage standoff and protests to continue for almost two weeks, but the confrontation ultimately ended violently. More than sixty people were injured in a police crackdown in which scores of others were detained. Many observers at home and abroad have criticized these tactics, which likely led to the sacking of the capital city's police chief and several other officers. Yet, the fact that many Armenians accepted the hostage takers' and protesters' radical action as a legitimate means of seeking change is disturbing in its own right. This suggests that the gap between the government and the governed continues to widen and that the institutions of government are not addressing the public's concerns.

## THE OUTLOOK FOR CIVIL SOCIETY

The complexity of Armenian domestic politics is further illustrated by the fact that the Armenian parliament is not merely a rubber stamp serving the needs of the executive branch. Debate does occur in part because the Armenian parliament is home to so many businesspeople. This parliamentary debate, however, does not always result in positive change, which forces the public to go outside the formal mechanisms of governance, as activists did in the summers of 2013, 2014, and 2015.

Political protests during these years focused on socioeconomic grievances (public transportation rate hikes, pension reform, and electricity tariffs) as opposed to vague notions of democracy and human rights. Many protesters are young millennials who have not yet found a place for themselves in the political system, are concerned about the lack of transparency in politics and economics, and are frustrated with limited job prospects. Smaller-scale protests are regular occurrences, again mostly focusing on bread-and-butter issues: school and healthcare conditions, housing problems, and wage arrears.

Independent journalists, nongovernmental analysts, and watchdog groups are able to monitor and criticize developments from inside the country, although the parameters for such independent analysis are often restricted. Broadcast media, for example, remains controlled by the government or government-friendly entities, and independent journalists and opposition figures traditionally have difficulty getting their messages out on television. Furthermore, freedom of speech and the press becomes curtailed when violence is used as a tool to intimidate journalists, opposition figures, or civil society leaders, although it typically has been tough to determine who exactly was behind any individual attack. Nevertheless, the public generally has unfettered access to the Internet; network reliability and penetration has improved in recent years, growing from only 15 percent of the population having Internet access in 2009 to almost 50 percent in 2014. Journalists and bloggers take advantage of Internet freedom to disseminate alternative views. They already have documented the new prime minister's extensive business interests. However, most independent media outlets and web news portals are dependent on international funding, as are most nonprofits.

Despite the challenges it faces, Armenian civil society remains energetic and defiant. Armenia has its share of human rights problems, but so far has resisted making the sharp authoritarian turn seen elsewhere in Eurasia in recent years. This is due to the dynamic nature of Armenian civil society, the importance of a semi-open political system to competing oligarchic groups, and political elites' understanding that such a turn would aggravate the West and some influential diaspora figures, which Yerevan sees as hedges against Russian geopolitical and economic domination.

## **ECONOMIC HEADACHES**

Given that the Armenian economy is controlled by an oligarchic few who have used the country's geopolitical isolation to gain tight control over the economy, Armenia bears slight resemblance to Ukraine, where competitive politics coexist with an oligarch-monopolized economy.

Oligarchic influence in politics remains a key barrier to reform in both Armenia and Ukraine, while popular frustration with the status quo is high in both countries. Armenia and Ukraine are close on the United Nations Human Development Index, with the former ranked 85 and Ukraine ranked 81. Both countries are much lower than Russia (50) and slightly lower than Armenia's immediate neighbors: Iran (69), Turkey (72), Georgia (76), and Azerbaijan (78). The World Bank's growth forecast for Armenia in 2016 is 1.9 percent, down from 3.0 percent in 2015 and 7.2 percent in 2012. Armenia is a lower-middle-income country with a per capita GDP of \$3,489. Successive governments have failed in their efforts to create a productive economy that promotes investment in small and medium-sized enterprises, broadens the base of foreign investors, and sustains the country's population.

Around 30 percent of Armenia's population lives below the poverty level. With the bulk of the country's wealth around Yerevan, a stark urban-rural divide remains a persistent problem for a country in which almost 40 percent of the population lives in rural areas. A lack of employment opportunities forces many Armenians abroad. Remittances are a key part of the Armenian economy, constituting 14.1 percent of GDP in 2015, down from 18.7 percent in 2013. Traditionally, about 80 percent of total remittances come from Russia, and they are key to poverty alleviation. The economic downturn in Russia, however, led to a sharp 56 percent reduction in remittances between 2014 and 2015, and it continued to fall in the first nine months of 2016.

In terms of business climate, Armenia ranks 35 in the World Bank's 2016 Ease of Doing Business index, up three spots from the previous year, although corruption remains a barrier to foreign investment, as does the state of the country's transportation networks. The World Bank, the Asian Development Bank, and the U.S. Millennium Challenge Corporation have provided assistance for modernizing the country's road networks, with China now following suit. Armenia is heavily dependent on Russian energy, and key infrastructure is Russian owned, although Chinese electricity and energy companies have expressed

interest in this sector as well. It is clearly a growth sector as Armenia faces energy shortages, with “access to electricity” pulling down the country’s Ease of Doing Business score.

The country is diversifying its energy sources through greater cooperation with Georgia and Iran. Armenia and Iran already swap electricity, and the two countries are jointly building a hydroelectric power station. Yerevan also has announced plans to increase Iranian gas imports. Russian gas flows to Armenia through Georgia, and Tbilisi and Yerevan are also constructing a cross-border, high-voltage transmission line that should become operational by 2018. Global Contour, a New York–based investment fund and energy operator, made the single-largest private U.S. investment ever in Armenia with its 2015 acquisition of the country’s second-largest hydroelectric complex, spending \$180 million for the plant and investing another \$70 million in upgrades.

Armenia’s trade patterns are also noteworthy. Trade with the European Union amounted to \$762.4 million in the first eight months of 2016. The EU as a whole remains one of Armenia’s largest trading partners, accounting for almost 30 percent of Armenia’s total trade, according to EU figures. This trade orientation to Europe helps explain why Yerevan resumed negotiations with the EU on establishing a cooperative framework for deepening trade and political ties. Individually, however, Russia constituted Armenia’s top trading partner in 2015 with 15.2 percent of total trade; it was followed by China with 11.1 percent, Germany with 9.8 percent, Iraq with 8.8 percent, and Georgia with 7.8 percent. Trade with China has skyrocketed in recent years, increasing from \$16 million in 2011 to \$171 million in 2014. Along with increased trade has come increased Chinese humanitarian assistance. Trade with the broader Middle East also has grown, apparently facilitated by Syrian-Armenian businesspeople who have relocated to Armenia. Increased trade and people-to-people ties with the Middle East are evident in the proliferation of air connections from Yerevan to the region; the average number of daily flights to the Middle East now exceeds those headed to Europe.

Agriculture is an important lifeline for many Armenians, employing about 40 percent of the working population and representing about 20 percent of GDP. However, much of it is subsistence farming. The agriculture sector grew by 11 percent in 2015, which helped offset both declining exports to Russia and reduced remittances. Armenia produces about 60 percent of the food it consumes, relying on imports for grain, sugar, and oil. Eighty-five percent of Armenian households are considered food secure by the UN World Food Program, but 19 percent of children under the age of five have stunted growth due to poor nutrition—a clear gap in the country’s social welfare system. Agriculture and food processing—almost 50 percent of which is done in or near Yerevan—are promising exports, but the country’s geographic isolation limits its ability to export perishable food.

The service and information technology sectors are the bright spots in the economy. Several international IT companies, including Microsoft, Synopsis, and National Instruments, have branches in the country; these companies are taking advantage of the country’s historical strength in high technology and government tax breaks for IT companies that employ more than thirty people. The IT sector reportedly grew 22 percent per year between 2008 and 2013, making it the fastest-growing part of the economy. As of 2016, it already employs about 15,000 people, although the education system is struggling to keep up with the constant demand for qualified IT specialists. Approximately 500 technology companies now operate in the country, including many local start-ups. The rapid growth of the Armenian IT sector is due at least in part to the relatively low levels of corruption in this sector, which is relatively borderless and has limited contact with customs officials.

## **ARMENIA'S FOREIGN POLICY BALANCING ACT**

From the earliest days of its independence, Armenia has tried to pursue a multivector foreign policy. Although Yerevan is an ally of Russia and a member of the Moscow-dominated Collective Security Treaty Organization (CSTO) and the EEU, Armenia continues to seek trade and security

ties with the West and recently added China to this balancing act. Armenia's connections to Armenian diaspora communities overseas help it secure ties to Europe, North America, and Russia, as well as the Middle East and even Latin America. With Armenia lacking the oil revenue of Azerbaijan or the political clout of Turkey, the diaspora is vital to Armenia's efforts to influence international public opinion and international policymakers' decisions concerning the Caucasus.

The diaspora, however, can play a dual role. Diaspora Armenians tend to attach greater importance to the genocide recognition agenda than the government of Armenia does. While understandable, the diaspora's attitude toward Turkey as the successor to the Ottoman Empire, which perpetrated the genocide and has refused to recognize it as such, does little to alleviate Armenia's isolation or its economic problems—the main concern of the country's citizens. Many in the diaspora, for example, ardently opposed proposals for Armenian-Turkish normalization of relations, while the population in Armenia generally welcomed it. Armenians within the country also show greater willingness to engage with Turks on a people-to-people level than do diaspora Armenians, and these engagements laid the groundwork for the normalization process.

Yerevan also has found that the diaspora's investment in the Armenian economy is lacking, while diaspora Armenians—many of whom hail from countries with much stronger legal systems and more transparent regulatory frameworks—often find the investment climate in Armenia unwelcoming. High expectations on both sides have led to mutual disappointment. Despite its considerable influence in a number of Western capitals, the diaspora also has been unable to transform Armenia into a top priority for the West. Armenia is simply too small and far away to garner priority attention in most Western countries.

Given this reality and its challenging neighborhood, Yerevan has had little choice but to align itself closely with Russia—home to the world's largest Armenian population.

In its defense posture, Armenia remains tightly connected to Russia, hosting 5,000 Russian troops at a military base near Gyumri, 25 miles from the Turkish border. A 2015 poll by an Armenian think tank indicated that 55 percent of respondents found a foreign (implying Russian) military presence in Armenia to be acceptable; a different question in this same poll revealed that 38 percent viewed that foreign military presence as key to protecting Armenia from Azerbaijani or Turkish aggression, while another 25 percent claimed it provided a general security guarantee for the country at large.

However, Armenia's security ties to Russia come with risks. Russia has proven itself to be an unpredictable and at times unreliable actor. The 2008 Russian-Georgian war pitted Armenia's most important neighbor against its security partner. Georgia is Armenia's link to the outside world and a vital corridor for trade into and out of Armenia. The war cut off that trade route, stopping deliveries of wheat, fuel, and other products into Armenia and leading to shortages. The late 2015 collapse in relations between Russia and Turkey also complicated the region's already delicate security framework and increased tensions on the Armenian-Turkish border. Furthermore, Moscow's willingness to provide discounted weapons to Armenia reinforces its dependence on Russia. The two countries have a joint air defense agreement, and Yerevan in June 2016 ratified a treaty on the operation of a joint Russian-Armenian air defense system. In 2015, Moscow provided Armenia with a \$200 million loan to purchase Russian weapons, including new Iskander missiles, which were on display during Armenia's celebration of the twenty-fifth anniversary of its independence. The Armenian and Russian governments reinforced these close security ties by announcing an agreement to bolster a decade-old joint military force, although neither side provided any details about what changes this November 2016 decision will bring. Close security ties, however, have facilitated large-scale Russian investment—not always conducted in a transparent manner—into the Armenian economy, allowing Russian firms to dominate key sectors of the economy, particularly the energy sector.

In other ways too, Armenia's military and economic dependence on Russia often complicates the country's diplomacy. Yerevan has resisted Russian pressure to recognize Georgia's breakaway territories as independent since 2008, realizing that such a move would damage its ties to Georgia and raise questions in Armenia and among the diaspora about Nagorno-Karabakh's unrecognized status. However, Yerevan's dependence on Russia probably was a major factor in its decision to side with Moscow when it vetoed the United Nations General Assembly Resolution no. 68/262 reaffirming Ukraine's territorial integrity after Russia annexed Crimea in 2014. Armenia and Belarus were the only former Soviet countries to follow Russia's lead, and they were joined by a list of unsavory regimes: Bolivia, Cuba, Nicaragua, North Korea, Sudan, Syria, and Zimbabwe.

Moscow forced Yerevan's hand to join the EEU. After completing separate negotiations with the EU, Armenia backed away in 2013 from signing an association agreement (AA) and the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. Given that Russia is Armenia's only ally, the latter's decision to join the EEU instead was made for political and national security reasons, not economic ones. Yerevan's about-face on the AA and DCFTA, however, did not provoke widespread protests at the time, likely because most Armenians understand and accept that Armenian security has been dependent (since the imperial era) and will remain dependent on a strong relationship with Russia. This shows an inseparable connection between Armenia's security imperative and domestic issues. Not unlike Israel, security in Armenia generally trumps all other economic, social, or political issues.

This security, however, comes at a stiff price. Yerevan reportedly expected \$250–\$300 million annually in trade benefits, cheap imports of Russian energy, and discounted prices for weapons after joining the EEU. However, exports to Russia dropped 26 percent in 2015, the first year of Armenia's membership. Trade with Russia rebounded by 12 percent in the first half of 2016, according to President Sargsyan, but the increase does not appear to have returned trade to pre-EEU volumes. Savings from cheaper imports

of Russian gas were not passed on to Armenian consumers. Instead, the 2015 decision to raise electricity rates at the request of Electric Networks of Armenia, the country's electricity provider and a subsidiary of Russia's Inter RAO UES, sparked that year's Electric Yerevan protests. Anger over the rate hikes quickly became a symbol of popular dissatisfaction with Russia.

Popular discontent in Armenia toward Moscow is growing. Armenia's January 2015 accession to the EEU coincided with the brutal murder of an Armenian family by a mentally disturbed Russian soldier outside Russia's military base in Gyumri. The atrocity prompted protests in Yerevan and in Gyumri. At first, the Russian government failed to comprehend the scope of the anger and growing sense of injustice that was brewing in Armenian society. Putin waited six days before calling Sargsyan to offer his condolences, while Russian Foreign Minister Sergey Lavrov denigrated the protesters, claiming they were using the tragedy to gain "geopolitical advantages." His implication that the protesters were inspired by a Western plot to undermine Russian influence was a display of his tin ear toward and poor understanding of Armenian civil society.

Anti-Russian sentiment further increased after the Four-Day War. About 100 Armenians were killed during the fighting. Russian weapon deliveries to Azerbaijan contributed to the bloodshed, angering many Armenians and raising doubts about the value of Moscow's security guarantees to Armenia. Social media since the April war has added fuel to the fire, leading to protests outside the Russian embassy in Yerevan during Lavrov's visit that month. A small group of demonstrators also protested against Putin during his October 2016 visit to Yerevan for the CSTO summit. Given the country's security is built around its ties to Moscow, growing anti-Russian sentiment in Yerevan is unlikely to lead to a reorientation of the country away from Moscow. But Armenian society is increasingly nervous about the one-sided nature of the bilateral relationship. The Armenian government is caught between its deep dependence on Moscow and growing public doubts about Russian intentions.

## DIPLOMACY BEYOND RUSSIA

Aside from Russia, the United States also factors prominently in Armenian diplomacy. Armenia's relations with the United States generally are positive. As a co-chair country, along with France and Russia, in the Minsk Group tasked with resolving the Nagorno-Karabakh dispute, the United States is generally seen as a more impartial arbiter in conflict mediation efforts with Azerbaijan than Russia. Over the last year, this perceived impartiality has led many regional experts to call on the United States to take a more active role in the negotiations, as it did at the start of the George W. Bush and Barack Obama administrations. However, U.S. Secretary of State John Kerry's recent statement that neither Armenia nor Azerbaijan is ready for or interested in a compromise solution suggests that Washington sees little purpose in re-engaging at a senior level in the conflict any time soon—an approach that most likely will remain unchanged under the next presidential administration.

Trade is not a major factor in Armenia's relationship with the United States, accounting for only about 4 percent of Armenia's foreign trade in 2014. Trade turnover with the United States was \$221 million for that year, according to Armenian government figures. While trade is relatively low, the United States ranks as the second-largest source of remittances (after Russia) due to the large Armenian-American diaspora.

Trade with the United States is miniscule, but the security relationship between Washington and Yerevan is stronger than one would expect. Despite its close security relations with Russia, Armenia's military reforms generally have been modeled after the United States and supported by both the United States and NATO. Armenian service personnel have undergone training in the United States and other NATO countries, with a large focus on peacekeeping. Armenia also has participated in NATO-led operations at least in part to enhance its forces' capabilities. Yerevan deployed contingents of 130 troops to Afghanistan and forty-five to Iraq at the height of those wars. In Kosovo, thirty-five Armenian peacekeepers have been deployed on rotation since 2012

alongside U.S. forces. Armenia also has deployed peacekeepers to Lebanon under UN auspices, a logical deployment given the large Armenian community there and across the Middle East.

Beyond Russia and the United States, the geopolitical environment around Armenia is shifting, particularly with regard to Azerbaijan and Turkey. Turkish-Azerbaijani relations remain strong, but both countries have been rocked by political instability. The economic downturn in Azerbaijan has led to protests, purges of the political elite, and a clampdown on criticism. Yerevan fears that Azerbaijan could resort to military force to deflect public attention away from the country's growing domestic problems. Meanwhile, Turkey has been deeply affected by the war in Syria, repeated terrorist attacks at home, and the aftermath of the July 2016 coup. Both Baku and Ankara are becoming increasingly authoritarian, less predictable, and more nationalistic—a problem for Armenia, where both Azerbaijan and Turkey are seen as the biggest threats to its survival.

Nonetheless, societal ties and trade across the closed Armenian-Turkish border are much stronger than they are between Azerbaijan and Armenia. The border between Armenia and Turkey remains closed, but charter flights between Yerevan and Istanbul now operate. Cultural and business ties between the two countries are growing, with Georgia playing an essential intermediary role in Armenian-Turkish trade. Armenia imports over \$225 million in Turkish goods annually, making it Armenia's fourth-largest import-origin country.

Slightly better relations with Turkey have had little effect on Armenia's most urgent security problem of Nagorno-Karabakh. Turkish President Recep Tayyip Erdoğan quickly backed Baku during the Four-Day War, aware that doing so would win favors with a nationalist public at home. Azerbaijan is one of the top foreign investors in Turkey and conducts active lobbying campaigns in the country to try to shape Turkish public opinion and policymaking. This gives Baku added leverage within Turkey.

In the Middle East, the war in Syria has decimated the Armenian diaspora communities there, forcing many ethnic Armenians to flee the country. Despite the carnage in Aleppo, the Armenian consulate in the city remains open to facilitate the departure of ethnic Armenians from the country. Armenia has taken in at least 20,000 refugees from Syria, making it the third-largest European recipient country of Syrian refugees based on population size. More refugees are likely to follow.

Most of these refugees are ethnic Armenians, who can receive citizenship and Armenian passports relatively easily, often even before leaving Syria or the Middle East. Armenian consular officers in Iraq, Lebanon, and Syria can grant citizenship, adjudicate asylum applications, and provide passports to ethnic Armenian refugees on the spot. Granting immediate citizenship, however, has drawbacks. It facilitates the departure of displaced Armenians from a war zone, but it also takes them off global refugee tolls, depriving Yerevan of some international assistance. It also makes it difficult to determine the exact number of people fleeing to Armenia.

Furthermore, with Armenia's slow economic growth, high cost of housing, and limited employment opportunities, not all Syrian Armenians stay. Their plight is similar to that of ethnic Armenians from Iraq, who sought refuge in Armenia a decade ago. Europe, North America, and the Persian Gulf have been attractive onward destinations for both waves of refugees. Some displaced people from Syria allegedly have moved to Nagorno-Karabakh or the occupied territories around it, although the exact number is not clear, and Armenian officials generally downplay these allegations.

Separately, Armenian ties with Iran are mostly positive, dating back to when Tehran sided with Yerevan in the Nagorno-Karabakh war in the early 1990s. Iran has long sought a greater role in mediation efforts, but has been continually rebuffed by the international community. Sanctions on Iran have kept Armenian-Iranian economic ties relatively constrained, but the Iran nuclear deal is changing calculations in both capitals. Yerevan clearly welcomes the Joint Comprehensive Plan of Action (JCPOA) as it has long

feared that Iran's nuclear ambitions would lead to a military conflict between Iran and the West or Israel. Either scenario could have destabilizing repercussions for the region. Yerevan specifically hopes the JCPOA will facilitate greater economic ties and boost the more moderate sectors of the Iranian elite that have been Armenia's main interlocutors. Iran and Armenia already swap energy and are looking to expand this relationship.

Armenia has become a popular tourist destination for the Iranian middle class; 144,000 Iranians visited the country in 2015, with daily bus and plane service facilitating this travel. Armenia also sees itself as a potential staging ground for international firms seeking entry into the Iranian market, although it will likely face fierce competition from Georgia, which markets itself as a business hub for the entire region. Yerevan hopes Iran can become a more reliable transportation outlet to the south through the construction of road and rail links that could facilitate trade flows from the Persian Gulf all the way north to the Black Sea. Chinese investors have shown interest in these projects, possibly as part of Beijing's Belt and Road Initiative of infrastructure investment. Yerevan, however, has limited control over that project and the overall future of Armenian-Iranian relations.

## WHERE TO NEXT?

Armenia is at a juncture. Its economy is not meeting the needs of its population, forcing many to leave the country. The International Organization for Migration estimated that 23.7 percent of all Armenian citizens lived outside the country in 2015—likely one of the main reasons why the Armenian government created a Ministry of Diaspora in 2008. The bulk of these people live in Russia, solidifying the economic and people-to-people ties between the two countries. About 500,000 fewer people live in Armenia today than did during the late Soviet era. Most Armenian migrants generally leave the country during their prime working years. Some never return. This outbound migration deprives Armenia of talent and initiative, impeding its ability to develop a productive economy. The country's geographic

isolation and its closed borders with Azerbaijan and Turkey add to its economic woes, as do high levels of corruption, a weak judiciary, an opaque political system, and the persistent threat of war.

Armenia is actively seeking partnerships with China, Europe, the Middle East, and the United States to help boost trade and investment, but is doing so in a way that does not alienate Russia. Yerevan's problem, however, is that these countries generally do not see Armenia as the main prize in a region with the untapped potential of Iran, the huge market of Turkey, or the more welcoming investor climate and geographic location of Georgia. Moscow also has warned Armenia not to stray too far from its orbit—a clear message from Armenia's security guarantor at a time of geopolitical uncertainty spanning from the Middle East to Central Asia.

While this geopolitical environment is complex, ultimately it is the social upheaval seen in Armenia over the last few years that should unnerve the political establishment. The events

of July 2016 suggest Armenian society is frustrated and has little trust in the political establishment's ability to solve the country's growing problems. President Sargsyan responded in the fall of 2016 by reshuffling the government in an attempt to put forward fresh and capable faces before the 2017 parliamentary elections. Some of those senior officials are European or U.S.-educated, while others, such as the prime minister, are seen as closer to Moscow—a clear indication Sargsyan hopes to continue Armenia's delicate foreign policy balance.

However, what happens to Armenia after the current president's term ends in 2018 remains to be seen. Amid growing discontent with the status quo and competition among rival political factions, Sargsyan's purported plan to move to the prime minister's office in order to remain at the helm—as some believe he intends to do—could prove risky. If he does not, all eyes will be on one of those new, fresh faces, adding to the mounting expectations of change.

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