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ARMENIA'S STRATEGIC U-TURN

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SUMMARY

The Armenian president's surprise decision to abandon a planned Association Agreement with the European Union in favour of joining the Russian-led Customs Union derailed the country's Western orientation and deepened Armenia's position within the Russian orbit. The U-turn triggered a new perception of the Armenian government as insincere and incompetent, weakened the course of reform, and undermined the credibility of reformers within the Armenian government. Yet even as the Armenian government pushes ahead with its stated goal of joining the Customs Union, good relations with Europe remain an important policy objective.

Although the Armenian leadership has closed the door to Europe, they did not lock the door, and both Yerevan and Brussels are committed to salvaging some sort of relationship from the aftermath of the decision. But the recent resurgence of Russian power and influence, including an assertive campaign targeting the new Ukrainian government, suggests that Armenia will likely face greater pressure from Moscow, resulting in even less room for manoeuvre and fewer options for Armenia. The EU needs to recognise Armenia's limitations as a partner and come up with new ways to engage and empower the country.

During a meeting with Russia's President Vladimir Putin on 3 September 2013, Armenia's President Serzh Sargsyan announced a sudden shift in policy, in what was later seen as the opening shot in a new Russian campaign to push back the European Union's eastward engagement. The Armenian president announced his intention to pursue membership of the Russian-dominated Customs Union. In doing so, he effectively dismissed the EU's alternative offer of an Association Agreement and a related Deep and Comprehensive Free Trade Agreement (DCFTA) with the union.¹ The unexpected declaration caught many EU officials off guard, since Yerevan had offered Brussels little notice of any course correction of this kind. The abrupt move also blind-sided many in the Armenian government, as officials in Yerevan scrambled to define and then defend the bombshell that their president dropped in Moscow.

Armenia's surprise surrender

Armenia's decision to commit to joining the Customs Union was quickly labelled as a policy "U-turn", reflecting the degree of surprise within both the EU and Armenia.² The decision came as such a shock because it ended any prospects that

¹ The Armenian government successfully completed preliminary negotiations over the Association Agreement in July 2013, and was expected to initial it at the November 2013 Vilnius Summit.

² The phrase was coined by Swedish Foreign Minister Carl Bildt.

Armenia would initial the Association Agreement with the EU as planned. And the timing of the announcement made the surprise even greater, since Armenian officials had failed to inform or warn the EU that an about-face was looming. However, in hindsight, the move was not as surprising as it seemed at the time. First, Sargsyan's abrupt summons to Moscow by Putin for a last-minute meeting not only suggested a new sense of urgency in Moscow, but also demonstrated the inherent asymmetry of the Armenian-Russian relationship. Understanding this imbalance sheds some light on what the atmosphere must have been like during the Armenian president's eleventh-hour decision to give in and give up so much, so quickly. For the Armenian president, whose personal relationship with Putin has long been seen as strained and tense, Armenia's weakness as an overwhelmingly junior partner in the "strategic partnership" with Russia invited subordination and submission.

Another factor that helps to explain the Armenian decision was the later confirmation of a new Russian policy on EU engagement in the post-Soviet space, what Moscow defines as its "near abroad" or natural sphere of influence.³ In light of more recent events, it is now clear that there was a shift in policy in Moscow before the one in Yerevan. Russia decided on a new, much more assertive course of pushing out and pushing back against EU engagement in the former Soviet space. This change in Russian policy was in part a belated reaction to the EU's Eastern Partnership (EaP) and the Association Agreements that have been negotiated with several EaP member states.⁴

Armenia's case confirms this belated shift in Russian policy: Moscow presented no opposition throughout Yerevan's nearly four-year process of negotiations with Brussels. It would also seem that Moscow seriously underestimated the EU, both in terms of its attractiveness to former Soviet states and in terms of its resolve in forging significant ties with the EaP countries. Russia made the mistake of considering the EU to be an insignificant geopolitical actor incapable of becoming a serious rival within Moscow's sphere of influence. Moscow's realisation of its error and subsequent change of direction was further demonstrated by its imposition of coercive measures and trade sanctions against Ukraine and Moldova. Armenia became little more than a sacrificial pawn, whose surrender and submission was designed to send a message of Russian strength and to deter European aspirations elsewhere.

The actions of the Russian military in Crimea in February–March 2014 and then Moscow's direct violation of Ukrainian territorial integrity signalled Russia's more assertive and aggressive reaction to European engagement. On a broader level, Moscow's shift in stance stems from a much deeper

campaign to consolidate Russia's power and position, both in its influence within the former Soviet space and against the United States and the West elsewhere, as evidenced in the case of Syria. The policy has an important political dimension: this combative stance bolsters Putin's personal image as a firm and decisive leader, and the projection of a strong Russia provides a much needed degree of power-based legitimacy.

Putin has been seen to display strong leadership as the defender of Russian interests through a more assertive "power posture".

Aside from Russian pressure, the Armenian president's decision was also based on a combination of his own personal and political calculus. In the context of Armenia's domestic politics, the shift in policy strengthened the Armenian government's position, because it neutralised attacks from the opposition over Sargsyan's westward-looking strategy. For months, the Armenian opposition, led by former president Levon Ter-Petrosyan's Armenian National Congress (ANC), criticised the government over the planned Association Agreement with the EU, arguing that it threatened the country's vital alliance with Russia. The second largest political party, Prosperous Armenia, also threw its weight behind the argument. This party has adopted an increasingly confrontational stance towards the Sargsyan administration. Sargsyan's policy reversal brought short-term political gain by neutralising the issue, stripping the opposition of its main policy stance.

The Armenian president's successful bid to co-opt the opposition was made even easier by the hypocrisy inherent in the opposition's policy. The ANC previously adhered to pro-Western liberal positions, so its new pro-Russian stance undermined its credibility. And the Prosperous Armenia party is riven by divisions: an essentially pro-Western camp led by former foreign minister Vardan Oskanian was increasingly coming into conflict with the more pro-Russian stance of the party's leader, wealthy businessman Gagik Tsarukyan, and of the party's political patron, former president Robert Kocharyan.

Insecurity and lost opportunity

In the weeks after the September 2013 policy reversal, the Armenian government struggled to defend its decision. Some government officials explained that Armenia was faced with an unwelcome choice between the EU and the Customs Union. They tried to argue that the country should be allowed to engage with both sides, dismissing the reality that the two commitments are necessarily exclusive. But neither the public nor the EU accepted this version of events. The discourse then shifted to an argument based on more traditional security considerations. The government contended that the country could not endanger its security relationship with Russia. This line of reasoning had more success in securing support among the Armenian public and limiting the political damage of an embarrassing strategic reversal.

³ For more on this, see Richard Giragosian, "The South Caucasus: The Limits of a Resurgent Russia", Heinrich Böll Foundation, 6 February 2014, available at <http://georgien.boell-net.de/web/52-1612.html>.

⁴ The Eastern Partnership (EaP) was initiated in 2008 seeking closer relations with six former Soviet states (Armenia, Azerbaijan, Georgia, Belarus, Moldova, and Ukraine), as part of the earlier European Neighbourhood Policy (ENP).

The security argument seems logical, given Armenia's position as the host country of Russia's only military base in the region and its membership of the Russian-led Collective Security Treaty Organization (CSTO). But on a deeper level, the decision was driven more by Armenia's insecurity than any striving towards real security. The underlying factor in Armenian insecurity is the country's pronounced over-dependence on Russia, even as Armenia's "strategic partnership" with Russia has become more and more one-sided and asymmetrical. For much of the past decade, Armenia's dependence on Russia has increased. Russian businesses and government enterprises have steadily acquired a hold on several sectors of the Armenian economy. They have gained control of much of the country's energy sector, its sole nuclear power plant, and the Armenian railway network, as well as winning a significant market share in the mining and telecommunications sectors. Seen from this angle, it is clear that the Armenian president's decision was motivated more by concerns about insecurity than considerations of security.

With Moscow's seemingly effortless success in forcing Yerevan to backtrack on its intention to finalise pending agreements with the EU, Armenia has clearly missed an opportunity to overcome the challenges of geographic isolation, marked by the closure of two of its four borders, and of economic insignificance, whereby its small size, marginal market, and entrenched corruption have impeded its longer-term development.⁵ In the short term, the Armenian government remains hard-pressed to regain confidence and restore credibility after reneging on its planned initialling of the Association Agreement and related DCFTA.⁶ The retreat also sacrificed years of difficult negotiations. And it put the government's entire reform programme in jeopardy, since the decision to join the Customs Union actually offers meagre, if any, trade or economic benefits. If Armenia does become a member of the Customs Union, the result will be even more damaging. Membership would place Armenia even more firmly within the Russian orbit, condemning it to a future of being little more than a captive to Moscow's grand Eurasian Union project.⁷

The weakness and vulnerability of the Armenian position also undermines the country's reliance on "complementarity", a policy that involved maintaining a delicate balance between its strategic partnership with Russia and its pro-Western orientation. This policy of complementarity served as the strategic framework for Armenia's "squaring of the circle", smoothing out the inherent contradictions between its reliance on Russia and its Western aspirations. Complementarity, although seemingly a merger of two incompatible policy directions, is in fact a natural result

of Armenia's historical and geopolitical situation. It tries to meet Armenia's strategic imperative towards security by continuing to rely on its alliance with Russia as well as cultivating a positive relationship with the West. Armenia has consistently worked to avoid any direct or open challenge to Moscow. But the policy of complementarity has tended to elevate the country's strategic significance to the West, while enhancing its value as Russia's only reliable ally in the region.

The Customs Union and the Eurasian Union

In the aftermath of Russia's military incursion into Crimea, it seems likely that Moscow will renew its focus on consolidating its sphere of influence through the use of the coercive economic and restricted trade measures of the Customs Union, as a foundation for a revamped project of reintegration within the former Soviet space in the form of the proposed Eurasian Union. This move could be seen as the natural expansion of existing Russian-led projects of reintegration, based on the Commonwealth of Independent States (CIS) and the Russian-dominated Customs Union. But the concept of the Eurasian Union is at the moment both incoherent and undefined: it lacks practical benefits and seems very short on substance. Even the potential economic incentives are fairly weak, with membership offering rather meagre and marginal economic benefits for most of the potential partners – any gains would mostly accrue to Russia. But in many ways the most significant limitation is the "loss" of Ukraine, which now seems determined to accelerate its signing of an Association Agreement with the EU. Ukraine's absence adds a potentially insurmountable obstacle to the viability of the Eurasian Union, as well as bringing the utility of the Customs Union into question.

Despite the optimism of senior Armenian officials, the outlook for Armenian membership in the Customs Union is neither as simple nor as secure as the Armenian government at present seems to believe. There are serious obstacles in the way, including the lack of a common border with any of the other Customs Union members: Russia, Belarus, and Kazakhstan. And there appears to be no coherent economic advantage to Armenia's membership. In fact, the Armenian government itself clearly articulated the structural impediments to the Armenian candidacy throughout its earlier negotiations with the EU. At that time, even the then Prime Minister Tigran Sargsyan stressed that "the structure of the Armenian economy is very different from that of the Customs Union's countries that [...] pursue a policy of supporting domestic manufacturers through quite high customs duties". The premier noted that "on the whole, the level of such duties in the Customs Union is twice higher than those levied in Armenia", adding that entering the Customs Union would be "very complicated, if not impossible".⁸ Armenia would also

⁵ See Laurence Peter, "Armenia rift over trade deal fuels EU-Russia tension", BBC News, 5 September 2013, available at www.bbc.co.uk/news/world-europe-23975951.

⁶ The EU's DCFTA represents more than a standard free trade agreement, covering not only the liberalisation of trade in all areas, by lifting customs barriers and trade quotas, but also the harmonisation of partner countries' trade-related legislation with EU standards and the *acquis communautaire*.

⁷ First launched in 2011, the Customs Union is composed of Belarus, Kazakhstan, and Russia.

⁸ Emil Danielyan, "PM Cites Another Hurdle To Armenian Entry Into Russian Bloc", *Radio Free Europe/Radio Liberty*, 4 February 2013, available at <http://www.azatutyun.am/content/article/24892837.html>.

have to overcome structural obstacles that would require a complex process of legislative, regulatory, and even constitutional reform to meet the requirements for Customs Union membership.

A third, external reason that casts doubt on Armenia's bid for the Customs Union is the seeming ambivalence of existing members towards Armenia's participation. Moscow seems hesitant to expend the political and economic capital necessary to ensure Armenia's entry into the Customs Union. And Belarus and Kazakhstan are reluctant to extend the preferential terms needed to secure Armenian membership. The absence of political will among the Customs Union members, and more importantly in Moscow, suggests that the main Russian motivation for orchestrating Armenia's September 2013 announcement was having Yerevan say no to the European Union rather than having it say yes to the Customs Union.

Fewer options, looming challenges

Armenia has lost an important opportunity to deepen its ties with Europe and must overcome a daunting set of obstacles if it is to become a member of the Customs Union. And beyond that, it now must face a new threat: its options have become fewer and there are serious challenges ahead. Armenia's dependence on Russia is now deeply entrenched, and a resurgent Russia is visibly ratcheting up bilateral pressure. This new environment threatens to derail Armenia's hard-won success in maximising its strategic options to overcome its isolation. For example, Armenia's "strategic partnership" with Russia has become steadily one-sided, with Yerevan demoted to the role of junior partner to Moscow far too often and much too much. Now, the future course of Armenia's relations with its neighbours, such as Georgia, Iran, and Turkey, may be subject to much greater Russian scrutiny.

Armenia's vulnerable position as a small hostage state within a tightened Russian orbit suggests that the country will have a difficult time resisting several looming challenges from Moscow. The first will likely centre on Armenian defence reform. In the same way as Russia has resisted Armenia's economic embrace of Europe, Moscow may now target Yerevan's expanding role within Western and Euro-Atlantic security structures. Armenia has tried to deepen ties with the West, both through bilateral agreements with a wide range of countries (such as France, Germany, Greece, and the US) and through active participation with NATO's Partnership for Peace (PfP) programme. Even so, Armenian military planners and officials have been prudent, repeatedly ruling out NATO membership while maintaining the country's active participation within the Russian-led CSTO security bloc.

Russia may try to reverse Armenia's steady drift away from relying on its strategic partnership with Russia and its membership in the CSTO as the sole sources for its military

security. Russia has grown increasingly impatient with the Armenian embrace of Western-style defence reforms, including its work with American and NATO military advisors. With Russia's much more assertive posture in its "near abroad", there is a clear danger that Moscow may try to limit Yerevan's defence reform and modernisation. In the short to medium term, the visibility of Armenian defence reformers' "Western embrace" may now be difficult to sustain. Moscow may seek to halt Armenia's deepening of ties with NATO and to exert greater pressure on Armenia's pro-Western reformers. Russia may move to constrain Armenia's Western-oriented NATO-supported military education reforms and could even seek to block Armenia's operational contribution to peacekeeping deployments abroad, which have included missions under Western command in Kosovo, Iraq, and Afghanistan. It could also challenge Armenian military planners and endanger operational plans to expand Armenian peacekeeping operations in Lebanon and Mali.

In light of these looming challenges, the EU now needs to explore alternative measures to engage and empower embattled Armenia. Its calculations should be based on a more realistic recognition of the limits and liabilities of Armenia as a partner. Yerevan's challenge will centre on the country's capacity and its leaders' determination to withstand a fresh onslaught of Russian pressure and coercion. Both Armenia and the EU need to face up to the fragility and vulnerability of the Eastern Partnership countries and to a resurgent Russia that seems intent on pursuing confrontation over co-operation and provoking conflict over consensus.

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