



BULLETIN

No. 22 (754), 23 February 2015 © PISM

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Armenia in the Eurasian Economic Union: Challenges for the EU

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Accession to the Eurasian Economic Union (EEU) in January 2015 is disadvantageous for Armenia. Abandoning the association agreement with the EU, as a result of pressure from Russia, has ended chances for reform stimulated by the country's deepening political and economic integration with the EU. The EU should try to bring Armenia back to the association agreement, taking into account the constraints arising from its membership in the EEU. Any new version of the document must oblige the government in Yerevan to continue reforms to approach EU institutional and legal standards.

The Negative Effects of Eurasian Integration. An association agreement and the creation of a free trade area negotiated by the EU and Armenia in 2013 was never signed, and now Armenia has decided to integrate with the Eurasian Economic Union (EEU). The decision on accession to the organisation built by Russia was taken by Armenia's president, Serzh Sargsyan, after a number of signals that the Kremlin, seeing rapprochement between Yerevan and Brussels as a threat to its own interests, might support Azerbaijan in its conflict with Armenia over Nagorno-Karabakh.

Before September 2013, the authorities in Yerevan, while declaring a desire to integrate into the EU and maintaining a military alliance with the Kremlin, could count on political and financial support from Russia, the EU and the U.S. Currently, Armenia's membership of the Collective Security Treaty Organisation (CSTO) and the EEU implies a far-reaching political dependence on Russia.

Since entry into the WTO in 2003, Armenia has pursued a more open economy, in particular aiming to attract foreign investments. The planned creation of a comprehensive free trade zone with the EU would also serve this purpose. The introduction of EU antitrust regulations would allow the fight against oligarchic monopolies, one of the main factors negatively affecting the Armenian economic system. Achieving this goal, however, did not have the support of a large part of the political class, which itself represents the oligarchs.

The EEU imposes tariffs that are higher than Armenia had previously in trade with countries outside of the organisation. Commodity prices have risen as a result of accession, combined with the Russian economic crisis caused by EU sanctions and low oil prices. Accession to the EEU also has a negative effect on the developing branches of the Armenian economy such as IT services sector, which is responsible for about one third of Armenian exports. After several years of growth in trade with the EU, Armenia must now begin to give preferential treatment to the markets of Belarus, Kazakhstan and Russia. However, in view of the economic crisis in the EEU countries, neither growth in Armenian exports to these countries nor Belarusian or Russian investments in Armenia should be expected.

Another factor impeding Armenia's trade with members of the EEU is the lack of a common border and rail connections, and only one road through Georgia. The Georgian authorities do not agree to the opening of railways connecting Armenia with Russia through Georgia and Abkhazia, because of the still strained relations with this breakaway region.

Eurasian Parties, the Still Pro-European Society, and Growth of Anti-Russian Sentiment. The Armenian government's decision to abandon integration with the EU was criticised by representatives of civil society, who hoped for a rapprochement with the EU as an opportunity for reform, the creation of a free market economy, and democratisation. Moving away from a policy of rapprochement with the EU did not however result in protests. There

has also been a decrease in Armenians' confidence in the EU (from 61% in 2013 to 45% in mid-2014, according to EU Neighbourhood Barometer research). This may be result of the negative image of the EU presented in Russian and pro-Russian media in Armenia since the revolution in Ukraine.

With the exception of the Heritage Party, with only five members of parliament, the opposition (the Armenian National Congress and Prosperous Armenia) supported the decision of the ruling Republican Party to choose Eurasian integration. The opposition parties are demanding the resignation of the government, not because of its errors in foreign policy, but because of its helplessness in the face of the economic crisis, unemployment, and the rising tide of emigration.

At the same time, however, public acceptance of pro-Russian government policy has decreased due to the brutal murder of seven members of an Armenian family on 12 January by a soldier from the 102nd Russian military base in Gyumri. This sparked waves of protests, among residents of Gyumri as well as in the capital, where the participants demanded the closure of the base, dismissal of the Russian ambassador, and handover of the perpetrator to an Armenian court. Although the Armenian prosecution has requested that Russia transfer the suspected killer to the Armenian justice sector, the Russian side intends to conduct a trial before a military court at the base in Gyumri.

Nagorno-Karabakh: Outside the EEU and the CSTO. The choice of Eurasian integration by Armenia, contrary to expectations, did not bring stabilisation of the situation in Nagorno-Karabakh. In the past year there have been many shelling and sabotage actions on the contact line in Karabakh and the Armenian-Azerbaijani border, resulting in the highest number of fatalities since the ceasefire in 1994. Further fighting on the border took place in the first weeks of this year. So, while further escalation of the conflict carries enormous risks for both sides, such a scenario cannot be ruled out.

During the founding summit of the EEU in Astana in May, Armenia did not obtain approval for the inclusion of the Karabakh region in the EEU regime. Belarus, Kazakhstan and Russia took into account a letter addressed to them by the president of Azerbaijan, Ilham Aliyev, who called for the accession of Armenia to the EEU only in accordance with internationally recognised borders (without Karabakh). The Armenian leader, for reasons of prestige, delayed the signing of the accession document. Ultimately, however, despite the lack of consent of the EEU members to include the Karabakh territory in the jurisdiction of the organisation, Armenia agreed to join. Armenia's membership was accepted on 10 October 2014.

Officially, Russia remains an ally of Armenia in the CSTO. Yet at the same time Moscow is a supplier of arms to Azerbaijan. This ambiguous role allows Russia to play the Armenia and Azerbaijan against each other in the conflict over Nagorno-Karabakh, in order to keep the two warring countries in its sphere of influence. If Azerbaijan started an offensive aimed at regaining the territory controlled by the Armenians, the Kremlin would not be obliged to intervene in Karabakh, as this area is outside Armenia and the CSTO.

Challenges for the EU. Armenia acceded to the EEU, against its national interests, as a result of Russian blackmail. With the economic crisis in the EEU, the government in Yerevan is seeking to repair relations with the EU and continues to express a desire to return to some form of association with the EU. Brussels should respond positively, but cautiously, to these signals. The EU should submit a new offer of an association agreement for Armenia. This document must take into account the limitations of economic integration with the EU due to the country's membership of the EEU. At the same time, a new version of the document should include as many as possible of the elements of the agreement negotiated in 2013. This proposal would have made sense only if the document signed by the Armenian authorities obliged them to continue reforms in the country in order to approach EU institutional and legal standards. Such a continuation of reforms is particularly important in those sectors that are still supported financially by the EU. The key areas in urgent need of reform are the judiciary and public financial management.

The EU should direct its offer not only to the government, but also to NGOs and academia, the section of society that is most concerned in EU integration. They are the elite putting pressure on the political class. Finally, with EU support, they can contribute to the return of Armenia to the path of democratisation and modernisation. The EU should especially give financial support to the activities of organisations that monitor the actions of state institutions and reforms in the above-mentioned sectors. Conditions of work for NGOs operating in Armenia are so far not so bad (especially when compared with neighbouring Azerbaijan). It is, however, important, that Brussels and EU Member States respond clearly in the event of government attempts to restrict the freedom of action of these organisations (for example, through laws making it difficult for them to be financed from abroad).

In view of the massive negative PR campaign hitting the image of the EU by the media either sponsored by Russia or sympathising with it, new channels should be developed for the flow of information on the objectives of the EU's Eastern Partnership policy. The addressees of this message should first of all be such important groups as entrepreneurs and young people.

Currently, the EU is not able to influence settlement of the conflict in Nagorno-Karabakh. However, it is in the interests of the Member States to prevent the escalation of armed conflict. In order to achieve the possibility of a positive impact on the situation, the EU must step up diplomatic engagement in the region. Repairing relations between the EU and Armenia, which have experienced a period of coolness in recent years, and the development of a new association agreement with Armenia, may be helpful in this respect.