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Summary

The New Year in Armenian politics opened with a pronounced return of foreign policy as a both driving and dividing issue. Specifically, Armenian-Turkish diplomacy, which seeks to “normalize” relations as outlined in two diplomatic protocols signed in October 2009, has come to a halt. The effort stalled after Turkey strongly criticized the Armenian Constitutional Court. Ironically, the Armenian court’s decision represented a mere formality and resulted in an endorsement of the protocols, thereby easing the path toward ratification by the Armenian parliament. But some six days later, the Turkish foreign ministry issued a statement sharply criticizing the court, but representing more of a tactical move by the Turkish government to either pressure Armenia or to craft a political pretext to distance itself or even to withdraw from the Armenian–Turkish protocols. Foreign policy as a dominant issue within the country’s political discourse also stemmed from the launch of a new round of diplomacy over Nagorno Karabagh in January.

Aside from the renewed attention to foreign policy, however, domestic politics continued to be marked by confrontation over cooperation. The Armenian opposition continued to struggle through January, losing momentum and in danger of becoming increasingly irrelevant, while the authorities only reaffirmed an “arrogance of power,” after removing an opposition deputy from the country’s official delegation to the Council of Europe’s Parliamentary Assembly (PACE) and in the wake of a special parliamentary by-election that was marred by violence, fraud and irregularities.

Political Overview

The first month of the New Year in Armenia was marked by a return to foreign policy as a main issue in domestic politics, as the Armenian side moved closer to adopting the two Armenian-Turkish diplomatic “protocols” on the “normalization” of relations that were signed in October 2009. Although the protocols must still be ratified by both the Armenian and Turkish parliaments, Armenia’s Constitutional Court ruled on 12 January that the protocols fully conformed to the terms of the Armenian constitution and existing law. The Court’s positive ruling on the protocols was never seriously in doubt and was largely a formality, reflecting a constitutional requirement that the country’s highest court review and certify all international treaties, agreements and conventions. Yet six days later, the Turkish foreign ministry issued a statement sharply criticizing the Armenian Constitutional Court and alleging that its “decision contains preconditions and restrictive provisions which impair the letter and spirit of the protocols.”

On closer scrutiny, however, the Turkish criticism of the Armenian court suggests a new Turkish hesitation to ratify the protocol. While the fate of the protocols now seems to rest on Turkish domestic politics, there is little or nothing Armenia can do at this stage to ensure that the Turkish parliament decides to adopt the protocols. Turkey’s AKP government has yet to make a final decision on the protocols and this lack of political will has only tended to bolster doubts within Turkish society and seemingly strengthened the Turkish opposition parties’ vehement stance against any normalization of relations with Armenia. Moreover, the complicated nature of current Turkish politics is exacerbated by the competing challenges from the Turkish government’s Kurdish initiative and consideration of a new Cyprus strategy, as well as by lingering pressure from the ongoing political battle between the AKP government and the military, as demonstrated by the so-called *Ergenekan* case. Thus, this latest Turkish criticism seems to represent a tactical move by the Turkish government to either pressure the Armenian side, perhaps for concessions over Nagorno Karabagh, or to craft a political pretext to distance itself or even to withdraw from the Armenian–Turkish protocols.

Following US intervention during delay in the October 2009 signing ceremony in Zurich, US Secretary of State Hillary Clinton reassured Armenian Foreign Minister Eduard Nalbandian in late January that Washington would “continue to seek a quick and unconditional normalization of Turkish-Armenian relations. That message was reiterated to Turkish Foreign Minister Davetoglu in a telephone call and during a subsequent brief meeting in London on 28 January between the American and Turkish foreign ministers. Similarly, the Russian position against linking the Karabagh issue with Armenian-Turkish diplomacy was equally firm, and was conveyed by Russian leaders, including Prime Minister Vladimir Putin, during the Moscow visit by Turkish Prime Minister Recep Tayyip Erdogan on 13 January. Russia’s stance was further reinforced on the same day in Yerevan by Russian Foreign Minister Sergei Lavrov, who reaffirmed Moscow’s support for an “unconditional normalization of Turkish-Armenian relations” that should not “artificially link” the two issues.

Although the Armenian side responded to the crisis by seeking to calm Turkish concerns, the incident tends to confirm that Armenian-Turkish diplomacy is now stalled or deadlocked, as Turkey seems to be intent on crafting a political pretext to delay consideration of the Armenian–

Turkish protocols. The timing of the move is driven by the informal deadline of April, suggesting that Turkey is seeking to maximize its power to prevent the US Congress from adopting a measure that would formally recognize the 95th anniversary of the Armenian Genocide on April 24, 2010.

The second factor that contributed to a political discourse dominated by foreign policy was a new round of diplomacy over Nagorno Karabagh. The Karabagh issue returned as a strategic issue in January, not only due to its role as the sole “frozen conflict” in the region (after Russia recognized the independence of Abkhazia and South Ossetia), but also because of the unsuccessful but unrelenting Turkish attempt to link the Karabagh issue to the Turkish-Armenian normalization effort. But despite the start of a new round of diplomatic mediation and Armenian-Azerbaijani dialogue, January opened with a New Year’s message from Baku that only reaffirmed Azerbaijan’s “maximalist” diplomacy regarding the unresolved Nagorno Karabagh conflict.

Even prior to the new diplomatic effort of 2010, President Ilham Aliyev articulated his “all-or-nothing” policy, reiterating the return of Nagorno Karabagh and the complete restoration of Azerbaijani territorial integrity as the basic starting points, rather than as the eventual goals for Azerbaijani diplomacy, casting serious doubt on the outcome of any mediation or negotiations. But even more distressing was the Azerbaijani president’s renewed threats of war, ignoring the lessons from the August 2008 war in Georgia and presenting Azerbaijan as an obstacle, if not threat, to regional security and stability.

Seeking to build on the previous six meetings between the Armenian and Azerbaijani presidents in 2009, the mediators from the OSCE Minsk Group focused on a newly revised document that elaborated the basic elements of the negotiations, now known as the “Madrid Principles.” After a 21 January meeting with Azerbaijani leaders in Baku, the three Minsk Group co-chairman began preparations for a Russian-hosted summit between the Armenian and Azerbaijani presidents. During the 25 January meeting in the Black Sea resort of Sochi, Russian President Dmitry Medvedev guided the two-hour discussion between the Armenian and Azerbaijani leaders that resulted in an agreement on a “preamble” of the OSCE-presented basic principles of resolving the Karabakh conflict. Although such an “agreement” on the “preamble” was arguably a sign of diplomatic “progress,” by its very definition, a “preamble” is merely a general and vague introductory component to the more important principles under negotiation, suggesting that tangible progress remains remote.

Aside from the renewed attention to foreign policy, domestic politics continued to be marked by confrontation over cooperation, and personal enmity rather than political unity. The Armenian National Congress (ANC), an opposition coalition led by former President Levon Ter-Petrosian, which decided in September 2009 to indefinitely suspend its previous routine of regular public rallies, held a special rally in Yerevan on 8 January in support of a jailed opposition figure. But with only a few thousand participants in attendance, the rally was overshadowed by Ter-Petrosian’s promise to present a “clear and comprehensive political program” during “a much more powerful rally” planned for March. Although the later rally is timed to coincide with the anniversary of the 1 March 2008 post-election clash that left at least ten people dead and several hundred wounded, many participants in the January rally were increasingly impatient and frustrated with the opposition ANC and its lack of any clear or coherent political strategy. Perhaps reflecting this feeling, Ter-Petrosian urged his supporters to not “despair” and

defended the opposition as still “extremely serious” and buoyed by “optimism and perseverance.”

The January rally was organized to support jailed opposition newspaper editor Nikol Pashinian and mobilize voters for Pashinian’s candidacy in a special 10 January parliamentary by-election. Although Pashinian lost his bid to win a seat in parliament, the special by-election revealed that even in the wake of the profound post-election crisis of 2008, the Armenia authorities were quite comfortable with the flagrant disregard for free and fair elections, and complicit with yet another ballot flawed by voter intimidation and open fraud. The contest was also marred by more than standard voting irregularities, however, but was also marked by outright violence. A senior Pashinian campaign manager, Petros Makeyan, along with two companions, were brutally beaten outside a polling station in downtown Yerevan on election day, while a dozen young opposition activists were attacked and injured by a larger group of unknown assailants days before, while they were conducting a house-to-house campaign urging Yerevan residents to vote. Several independent and opposition journalists covering the election were also forcibly prevented from entering polling stations or interviewing voters and, in some cases, involving local election officials illegally interfering with their news coverage.

In addition to a politics of confrontation over cooperation, a pattern of personal enmity was also evident in Armenian politics in January. This was most evident in the controversial decision by the speaker of the Armenian parliament, Hovik Abrahamian, to reconstitute the official Armenian delegation to the Strasbourg-based Council of Europe Parliamentary Assembly (PACE) in order to remove an outspoken opposition parliamentarian. Arguing that the Armenian delegation to PACE no longer reflected the political “balance of forces” within the parliament, the speaker ordered that Zaruhi Postanjian of the opposition Heritage (*Zharangutiun*) party, the sole opposition party represented in the Armenian parliament, be replaced and not allowed to represent Armenia at the Strasbourg venue.

Opposition deputy Postanjian previously represented Armenia in the delegation to PACE along with three other deputies affiliated with the ruling Republican and “Prosperous Armenia” (*Bargavach Hayastan*) parties as well as the Armenian Revolutionary Federation (ARF or *Dashnakstutian*). The latter, which withdrew from the pro-government ruling coalition in April 2009 over disagreements with President Sarkisian over its policy toward normalizing relations with Turkey, is not generally perceived as a “real” opposition party, mainly due to the party’s steadfast support for the government through the deadly post-election crisis of February-March 2008. Nevertheless, the ARF defended the speaker’s decision to remove Postanjian, arguing that, by virtue of holding more seats than the Heritage Party, it deserves to be the sole opposition member of the delegation. The decision to reconstitute the Armenian delegation was widely seen as a move by the Armenian authorities to preempt any serious criticism by the Council of Europe Parliamentary Assembly (PACE) and to marginalize or silence Postanjian, who has strongly and effectively highlighted the serious shortcomings and violation of human rights by the Armenian government. And as the Armenian authorities have tended to ignore or dismiss recent demands by PACE to carry out an independent investigation into the tragic events of the March 2008 post-election crisis, this move only suggests a blatant attempt to remove any alternative voice from the Armenian delegation to PACE in order to block any retribution by the European body.

Economic Overview

After suffering one of the world's most dramatic economic declines, when Armenia's gross domestic product (GDP) fell by 18.5 percent for the first nine months of 2009, official statistics released in January 2010 reported a somewhat more modest decline in GDP to 14.4 percent for 2009. The impact of that sharp fall was also significant in terms of policy, as the government had grown accustomed to a comfortable reliance on several years of double-digit economic growth. Last year's steep decline in GDP was triggered in large part to a nearly 37 percent contraction in the construction sector, which traditionally accounted for as much as one-fifth of overall GDP. The end to the construction boom was also tied to the cutoff in investment from Russia, which, as Armenia's leading foreign investor suffered its own crisis, sparked a decline in Russian investment in Armenia by about 70 percent through the end of 2009.

The economic crisis continued to resonate in January, as the government, which has responded to the crisis by turning to external lending, remained hindered by added fiscal pressure. While in the short-term, the roughly \$1.3 billion in new loans has allowed the government to sustain its spending plans and to meet its budget constraints, the severity of mounting debt, inadequate and inefficient tax collection and a sharp downturn in exports have only exacerbated the economic crisis over the longer term. Armenia's foreign debt, estimated at a total of \$3 billion or roughly 37 percent of GDP for 2009, is projected to rise to a dangerous level of between 46-50 percent of GDP by 2010. In addition, Armenia has been beset by a serious decline in the level of remittances, or money from abroad, and by a 30 percent decline in foreign direct investment.

In a report in mid-January, Finance Minister Tigran Davtian announced that the state budget deficit had expanded to a new record high of about 7.4 percent of GDP in 2009, nearly reaching the recently raised debt-to-GDP ceiling that was raised by the parliament from 5 to 7.5 percent in June 2009 in order to allow the government to gain time to secure loans to sustain its budget shortfall. Specifically, the authorities relied on a considerable portion of the \$1.3 billion in new loans to finance the widening deficit, preventing any serious cuts in the 945 billion drams (\$2.5 billion) in government expenditures from the 2009 budget. Nevertheless, the finance minister confirmed that overall state revenue decreased by nearly 11 percent for 2009 and noted that tax collection was 16 percent less than the prior year.

The government was able to strengthen its anti-crisis stimulus response in mid-January with the announcement of a new \$120 million road construction program that is set to start in the spring of 2010. The new construction, part of a massive eight-year \$962 million project funded by the Asian Development Bank (ADB), will modernize the country's main highways and other transportation arteries connecting Armenia to neighboring Iran and Georgia. The ADB project will also repair and expand the road network running from the Armenian-Iranian border to one of the two main Armenian-Georgian border crossings. As a supplemental but separate part of the project, the ADB is also providing another \$500 million in funding to complete ongoing road construction in southern Georgia and along the Georgian Black Sea coast, which also envisions improvements that would substantially shorten travel time between Armenia and the Georgian Black Sea coast. Armenian officials hope to leverage this new infrastructure project to attract greater volumes of cargo and freight from Iran, using Armenian territory as a trans-shipment hub to reach Georgian ports and European markets.

The need for greater and more effective measures to combat corruption also returned as a priority message articulated by the Armenian government. In late January, President Serzh Sarkisian ordered the parliamentary oversight body, or "Audit Chamber," to "work more actively" with law enforcement to prosecute state officials suspected of embezzling public funds and engaging in other corrupt practices. The president also directed the head of the body, Ishkhan Zakarian, to ensure that the Audit Chamber resist pressure from corrupt officials or their influential patrons. For his part, Zakarian reported that the Audit Chamber has carried out full "inspections" of most ministries and state bodies and has formally reported 21 criminal cases of embezzlement. Zakarian further noted that the body's investigatory work has succeeded in returning some \$3 million (about 1.13 billion drams) in "embezzled or wasted public funds" to the state budget in 2008 and is currently "recovering money allegedly misused" in 2009. President Sarkisian has already openly admitted that the lack of prosecution of government officials for corruption has only undermined public trust in state institutions and has undermined the efficacy and integrity of his government's official campaign to fight corruption.

In late January, the Armenian government launched a new program to expand mortgage lending, backed by some \$8 million (or 3 billion drams) in financing from the Central Bank. The targeted lending program seeks to offer new ten-year low-interest mortgage loans to an initial group of up to 300 young couples. Although recipients will be eligible for mortgage loans from a pool of more than \$25 million (about 10 million drams), even that amount will not be enough for most real estate in the capital Yerevan. The loan program is to be channeled into the local mortgage market through Armenia's National Mortgage Company (NMC), an entity that was established by the Central Bank in mid-2009 to expand the availability of affordable home loans. The NMC has a total capitalization of about \$47 million (roughly 17 billion drams) and will be supplemented by a German promise to contribute another 20 million euros (\$28.6 million) to a similar home loan program that it has operated in Armenia for several years.

The month of January also saw a sudden upsurge in the price of lamb, as exports of Armenian sheep to Iran rose sharply, resulting in a tripling of the retail price for lamb, to between 3-4,000 drams (\$10.6) per kilogram since May 2009. According to official reports from the Armenian National Statistical Service, exports of livestock and meat rose by some 65 percent to \$13.7 million for 2009. Although the jump in exports was in stark contrast to the overall 37.4 percent decrease in exports last year, the anomaly was due to the sharp difference between low domestic prices and a spike in demand from Iran, where a shortage of lamb has triggered a dramatic wholesale price rise in the Iranian market. Although there is concern among local meat traders that the demand for lamb may also spark greater exports of cattle and beef products, which is consumed in Armenia in far greater amounts than lamb, the retail price of beef has risen only slightly in December-January, currently averaging about 1,700-1,800 drams per kilogram in the Yerevan market.

Conclusion

Although politics in Armenia remains locked in a virtual stalemate and hostage to the limited and petty nature of Armenian's "politics of personality," it is the mounting economic pressure that will pose the more serious threat to stability and security in Armenia in the coming months. The most recent sign of mounting pressure concerns inflation and a new round of price rises, widely expected to be introduced in the coming months and covering a wide range of commodities and basic staples. Throughout the economic crisis, the Armenian government sought to contain inflation and keep it below a maximum level of 5.5 percent. But according to recent Central Bank figures, consumer prices rose by around 2 percent in December, pushing up the annual inflation rate to 6.5 percent for 2009, one full percentage point beyond the inflation target.

There are also signs of deeper structural deficiencies, as January saw no improvement in the level of investment or remittances and the government still seems unwilling or unable to take on the challenges of entrenched corruption and arbitrary and poor tax collection. And even in the best-case longer term scenario, Armenia can only hope for meager growth of 1.5 and 3 percent for 2010 and 2011 respectively, according to the World Bank and the International Monetary Fund (IMF). Economic growth is projected to reach an estimated 4.5 percent increase in GDP, but only by 2014 and still far from the earlier period of easy double-digit growth when the Armenian economy expanded by an average of 12 percent from 2002 through 2007.