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Armenia on its way to the Customs Union (and greater dependence on Russia)

Szymon Ananicz

Armenia announced its decision to withdraw from negotiations on the association and trade agreement with the EU last September and opted to join the Customs Union of Russia, Belarus and Kazakhstan ('the CU'—it is expected that it will be transformed into the Eurasian Union in January 2015). Since its withdrawal, it has been consistently fulfilling the conditions required for membership in the integration project pushed for by Moscow. These actions have been accompanied by Armenia's domestic politics, economy and foreign policy being subordinated to Moscow's preferences to an extent even greater than before. This means a weakening of the central government, an entrenchment of the oligarchic system and a loosening of the bonds with the West and all other foreign partners besides Russia. The recent signs of Yerevan's encroaching dependence on Moscow include support for the Russian policy towards Ukraine and Prime Minister Tigran Sargsyan being replaced at the beginning of April (the fact that he has the same name as the president is merely a coincidence). Sargsyan had emphasised the need to build closer relations with the West and was replaced by Hovik Abrahamyan, an oligarch who wants to strengthen Armenia's bonds with Moscow.

Preparations for membership in the Customs Union

Armenia has been making consistent efforts since last September to join the CU as soon as possible. According to President Serzh Sargsyan, the government had completed 70% of the work necessary for accession by the end of March. This work included the adjustment of trade, customs and tax regulations to CU standards. Three reasons can be indicated as to why Armenia is in such a hurry. Firstly, this comes as a result of pressure from Moscow, which wished to torpedo the integration of former Soviet republics with the European Union and to present its own integration projects as a more appealing offer to the Eastern Partnership (EaP) countries. Secondly, Armenia hopes that Russia will view its fast and uncritical fulfilment of the conditions required to join the CU as deserving of reward in the form of economic aid and additional security guarantees. Thirdly, Yerevan wants to join the CU before it is transformed into the Eurasian Union in January 2015 so that, being a co-founder, it can have an influence on the formation of the new organisation (this is, however, unlikely). Rapid accession could be impeded by the present CU member states, especially Belarus and Kazakhstan, which fear that participation of one more state in the establishment of the Eurasian Union might reduce their own significance.

The impact of integration with the CU on the domestic political scene

From the perspective of the past seven months it is clear that the process of integration with the CU has reduced the Armenian government's room for manoeuvre on the domestic political scene and has made this scene subordinate to the Kremlin's interests. As a consequence, the president, who was dominant in domestic politics until recently, is losing his power to Moscow, and the oligarchic government system is becoming entrenched.

Tigran Sargsyan is thought of as the president's man, a supporter of at least partly counterbalancing Russia's influence by co-operating with the West, and is sceptical about Armenia's membership in the CU. His dismissal from the office of the prime minister can thus be interpreted in the terms mentioned above. His nomination in 2008 was a demonstration of the president's strong position, since he was able to push through his own candidate despite pressure from the oligarchic establishment (and probably from Russia). The nomination of Hovik Abrahamyan, an influential oligarch who has been serving as the parliamentary speaker, as the new head of government needs to be seen as a sign of submission to the Kremlin. According to his first declarations, CU accession (and also pension and education system reforms) will be among the priority tasks for Abrahamyan. The thesis that Serzh Sargsyan's position is weakening has been confirmed by his announcement at the beginning of this month that he will not run for the presidency in 2018.

Integration with the Customs Union will undermine the role of the political opposition further still and thus reduce the chance for pluralism to develop on Armenia's political scene. Given the public support for CU membership, the advanced stage of this process and the degree of Armenia's dependence on Russia, the opposition is unable to put forward a realistic alternative road for the country's development to follow. As a result, the greatest advantage a politician has is not their manifesto or their successes, but rather the favour they can (or cannot) expect from the Kremlin. For this reason a section of the opposition has hinted it is willing to continue its political activity as part of the government currently being formed (this has been expressed by the ARF Dashnaktsutyun party thus far).

Despite the government's declarations that it wishes to continue democratic reform as part of the Eastern Partnership, nothing is happening in this area. In practice, the decision to join the CU has lifted most of the restrictions which relations with the EU had imposed on the oligarchic system.

The economic consequences

The predominance of Russian capital in strategic sectors of Armenia's economy (such as the energy, transport and telecommunications sectors), the country's dependence on Russian loans, and remittances from Armenian expatriate workers employed in Russia (over 10% of the country's yearly GDP) have been among the key factors which have made Armenia dependent on Russia over the past two decades. However, the decision to integrate with the CU nearly deprives Yerevan of the influence on the formation of its own strategy for economic development. The withdrawal from creating a free trade zone with the EU will make trade with the European countries which have been its key trade partners thus far more difficult. According to estimates from the presidential administration, upon accession

to the CU, customs duty rates on more than 80% of products will go up (10% of the customs duty rates will remain unchanged, and several percent will go down), as a consequence of which foreign trade will contract by approximately US$100 million annually (according to data from the statistical office, trade value will fall between 5% and 10% in the first months of this year). It is also quite probable that the withdrawal from signing the DCFTA agreement with the EU and the expected accession to the CU contributed to the 35% fall in investments in 2013.

The increasing dependence on Russia is also evident in the energy sector. Under pressure from Moscow, Armenia sold its last 20% stake in ArmRosGazprom (an Armenian-Russian gas importer and distributor) within a six-month timeframe, with Gazprom the beneficiary, guaranteeing it a monopoly in gas imports until 2043. This way the country lost its chance of balancing the Russian share in the market with gas from other sources (in exchange for this, Gazprom cancelled the 50% increase in the gas price which it had introduced five months earlier and wrote off part of Armenia's debt which had accrued as a consequence of this price hike).

The impact of integration with the CU on foreign policy and the conflict in Nagorno-Karabakh

Fearing war with Azerbaijan and Turkey, Armenia has traditionally relied on its political and military alliance with Moscow (the Russian military base in Gyumri, weapons, air defence system, exercises and co-operation as part of the CSTO). However, it has made efforts to compensate, at least partly, its excessive dependence on Russia with relations with other partners (the EU and Iran) and by making attempts to normalise relations with Turkey. Once integrated with the CU, Armenia will find it much more difficult to continue this policy and will thus become more susceptible to pressure from Moscow. Yerevan's clear support for the Russian operation in Crimea may be recognised as the first sign of this. Armenia's reaction to the Russian intervention in Crimea was in stark contrast to the stance it had taken during the war in Georgia in 2008, when it refused to recognise the independence of Abkhazia and Southern Ossetia despite pressure from Russia.

Armenia's room for manoeuvre is also diminishing as regards the conflict in Nagorno-Karabakh. It is quite likely that the Nagorno-Karabakh issue will be decided less and less by Yerevan's interests and more and more by the goals of Russian foreign policy as an instrument to put pressure on Azerbaijan.

Conclusions

By deciding to join the CU, Armenia has relinquished yet more of its sovereignty in the areas of domestic and foreign policy and the economy to Russia, which has successfully and consistently been taking over almost full control of all the aspects of Armenia's statehood. As regards domestic policy, this will entail hamstringing the central government and making it more compliant to Moscow's will, as well as the entrenchment of the oligarchic system. As regards foreign relations, Armenia is becoming more and more an instrument of the Kremlin's policy.