

ARMENIA IN 2009

PROMISE AND REALITY

A Report by
The Civilitas Foundation
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ARMENIA IN 2009. PROMISE AND REALITY

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PREFACE

This second annual country report comes to build on the analysis and projections made in the Civilitas Foundation's first annual report issued in December 2008. At that time, the newly established foundation launched this annual publication to fill a gap – the need to assess global, regional and domestic developments from the inside, looking out. In other words, these annual reports come to complement the various assessments carried out by international organizations, to serve as the Armenian perspective on the year's developments within and around Armenia, and to take stock of the outlook for the coming year.

During the year, the Civilitas Foundation's three program areas -- the Council on International Relations, the Democracy and Development Initiative and the Generation Center – offer opportunities to publicly and privately discuss and debate the economic and political realities around us. The Generation Center convenes periodic gatherings with individuals from various walks of life and different political perspectives to identify the challenges and propose approaches. The Democracy and Development Initiative supports the strengthening of civil society through a variety of rural economic facilitation, media projects and educational programs. The Council on International Relations hosts public forums to debate the urgent issues of the day.

This annual report is the product of the work of all three of these program areas. The editorial team distills the varying perspectives we hear during the year from the Armenian public, as well as the international community and experts, and combines them with reasoned analysis. The outcome does not adhere to any one ideology or support any one agenda.

As in the developed world, so in the developing world, this is not always a clean and definable process. It is not always that opinions and positions correspond to that which is expected or desirable. Our attempt is to broaden the debate beyond black and white, beyond easy and mutually exclusive choices, and to acknowledge the complexities of our reality and our prospects.

Indeed, in the best international tradition, the Civilitas Foundation reaffirms its commitment to highlight Armenia's options in global, regional and domestic processes and address how they affect Armenia and the region. The Civilitas Foundation is guided by the principle of consistent, open and objective discourse, utilizing cultural, educational and political dialogue.

ARMENIA: PROMISE AND REALITY

This publication is intended to be an annual overview of the political and economic situation in Armenia, as well as those global and regional developments that affect Armenia and the region.

We had described 2008 as the year of “crisis and opportunity”. In retrospect, it is clear the crisis occurred but the opportunities were missed. In Armenia, both economically and politically, the crisis took a toll, yet the chance to take risky but essential actions was allowed to pass.

In the Caucasus, it is still not clear whether the opportunities that were indeed seized were for long-term stability and cooperation or short-term gain.

In looking back at 2009, we see another dilemma—the promise of change and opportunity overshadowed by the reality of entrenched ways and interests. The promise is not that made by any individual or institution. The promise is that which awaits us. The promise is the imperative of the day, the opportunity of the moment, the demands of the circumstances.

The year came and went under the weight of the global economic crisis which had strategic implications for all three Caucasus countries. It also promised to wreak havoc with Armenia’s fragile economy. Indeed, promise corresponded with reality. The drastic decline, reflected in almost all macroeconomic indicators, damaged the nascent

social improvements that had just begun to take hold. In addition, the crisis tested the economy’s structural weaknesses.

Regionally, the promise of improved relations among all pairs of neighbors continued to hang in the air. The reality was complex. By year’s end, the hope that Turkey’s government would indeed go all the way to establishing normal relations between Turkey and Armenia was less compelling than earlier in the year. Earlier, many had believed or wanted to believe that indeed a new process could re-define the situation. Months later, the doubts of the nay-sayers were borne out by the statements of the parties themselves.

These geopolitical realities in turn effected Armenian-Azerbaijani relations, where progress in finding a resolution to the Karabakh conflict seemed to hinge on the Armenia-Turkey process, even though the dangers of such linkage – to both processes – were known from the start to even the most optimistic observers.

Georgia and Russia, making no headway in their own troubles, watched developments in the neighborhood, calculating their effect on their own changing positions. Iran, too, watched while its problems with the international community persisted and its internal stability was shaken.

Finally, there was the promise of eventual resolution of Armenia’s internal tensions, by addressing controversies over basic freedoms, especially following the divisiveness from the previous year’s election and the violence that followed. Again, reality did not live up to the promise. Deeply entrenched economic and political monopolies, internal interdependencies, fear of further testing the status quo at a time when there were public challenges to the government’s economic and regional policies, and an absence of the necessary boldness sustained the deep mass cynicism from below and the hold on authority from above.

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Two external developments shaped events in the Caucasus in 2009.

One was the changing Russia-US relationship. The other was Turkey's strategic repositioning.

When Washington decided to 'reset' its relationship with Moscow, a whole series of relationships around the world also underwent review.

The Southern Caucasus was no exception. The nature of relations between the US and each of the Caucasus republics changed, as did the inevitability of the encroaching new dividing line between East and West. Thus, each republic saw its own relations with neighbors and with the power centers evolve in new, more nuanced ways.

But it was Turkey's 'resetting' of its own policies – globally, regionally and domestically, that was the most consequential. Its choice of heightened engagement and increased undertaking of responsibility across the Muslim world, and from the Eurasian crossroads towards Europe and Asia resulted in a new and rising position and projection of influence for Turkey. Globally, it took on the role of bridge, mediator and player in addressing and resolving matters which impact Turkey, the region and the Muslim world. It mediated between Syria and Israel, Syria and Iraq, and proposed mediation on the Iranian nuclear issue. It spoke against China and in defense of China's Turkic Uighur minority. Ankara publicly criticized Israel for bombing the Gaza Strip. Domestically, it said it intended to break down longstanding taboos against minorities, especially the Kurds, but at year's end the Turkish Constitutional Court shut down the only Kurdish party represented in Parliament. But it was its readiness to move on normalization with Armenia that affected the Southern Caucasus the most.

It was Turkey's 'resetting' of its own policies – globally, regionally and domestically, that was the most consequential

Predictably, the first indications of the incipient Armenian-Turkish rapprochement were met with anger and consternation in Azerbaijan. Visiting Baku in mid-May, Turkish Prime Minister Recep Tayyip Erdogan specifically reaffirmed Ankara's fraternal support for Azerbaijan and implicitly pegged the opening of the Armenian-Turkish border to Armenian withdrawal from territory under Armenian control. But such statements failed to assuage Azerbaijani anger, especially after

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the publication in late August of the text of the two draft protocols – one to establish diplomatic relations between Armenia and Turkey, and another to outline the development of relations between the two countries.

Azerbaijani anger peaked with the signing of the Armenian-Turkish protocols on October 10. Protesters burned portraits of Erdogan outside the Turkish embassy in Baku and officials removed Turkish flags flying elsewhere in the city.

Whether this was a game of good-cop, bad-cop, or whether this reflected genuine anxiety over the reliability of Turkey's allegiance to Azerbaijan, Russia profited from the continuing discord between Ankara and Baku over gas prices and transport tariffs

Azerbaijani President Ilham Aliyev then publicly raised the possibility of curtailing the amount of gas exports via Turkey beginning in 2010 unless Turkey agreed to a substantial price hike. Whether this was a game of good-cop, bad-cop, or whether this reflected genuine anxiety over the reliability of Turkey's allegiance to Azerbaijan, Russia profited from the continuing discord between Ankara and Baku over gas prices and transport tariffs. During Russian President Dmitry Medvedev's visit to Baku in late June, Azerbaijan signed an agreement under which Gazprom became the first potential purchaser of gas from the second stage of development of the Shah Deniz field, beginning in 2014-15. In the meantime, Azerbaijani natural gas will start being supplied to Russia as early as

in 2010, at the rate of the not-very-significant 500 million cubic meters per annum at least for now.

Although Georgia has not publicly expressed qualms about possible Armenia-Turkey rapprochement, there can be no doubt that today's status quo is far preferable for its own national interest. Notwithstanding the general benefits of open borders for the region as a whole, closed borders between Turkey and Armenia has rendered Georgia the only link between Europe and Central Asia, for transport and energy.

Georgia's silence may be explained by the fact that open Armenia-Turkey borders will not change either the transport or the energy corridor situation so long as Azerbaijan-Armenia corridors are not also functioning. Otherwise, Armenia-Turkey transit is a dead-end. Open borders between Armenia and Turkey do not necessarily bring with them open transit between Armenia and Azerbaijan and Georgia knows this.

Georgia continues to maintain cordial relations with Turkey, seen as a key partner together with Azerbaijan in regional energy and transport projects, and as an unequivocal supporter of Georgia's aspirations to join NATO. Turkey's Prime Minister visited Batumi in March, and Foreign Minister Ahmet Davutoglu visited Tbilisi in September, reaffirming Ankara's respect for Georgia's sovereignty and territorial integrity. Intensive economic ties between Turkey and Georgia continue.

Georgia's relations with Russia, however, are far from cordial. Recognition of Abkhazia and South Ossetia by Russia was one of the many causes for the persisting tensions between Russia and Georgia. Georgia had severed diplomatic relations with Russia to protest Russia's unilateral recognition of the two entities.

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The two countries set unrealistic, even maximalist conditions for restoring ties. Georgia still demands that Russia retract its recognition of the two breakaway republics and formally acknowledge Georgia's territorial integrity. Russian politicians, including President Medvedev, publicly say that while Russia wants cordial relations with Georgia, it considers a resumption of dialogue impossible as long as Mikheil Saakashvili remains president of Georgia.

Both countries persistently seek to discredit each other in the eyes of the international community. Each construed the report released in September by the European Union-mandated Independent International Fact-Finding Mission on the Conflict in Georgia on the events that led to the 2008 war as placing the moral responsibility for the resulting destruction and loss of life on the other party. Since mid-April, senior Russian officials repeatedly accuse Tbilisi of abetting the transit via Georgia to Chechnya of Islamic militants with links to Al Qaeda.

Of Armenia's four neighbors, it is probably Iran that had the most eventful year. The Islamic Republic's presidential elections were followed by post-election violence. Dozens lost their lives, hundreds were jailed. Despite the criticisms of Iran's own citizens, as well as foreign governments and observers, President Mahmud Ahmadinejad held on to his seat. However, these circumstances, together with continuing disputes over Iran's on-again, off-again nuclear aspirations, colored Iran's foreign relations.

On the other hand, US President Barack Obama reached out to Iran publicly several times in his first few months in office, but it wasn't until October that representatives of the two countries met. In this first meeting in three decades, Iran announced that it has more than one uranium-enrichment center

and agreed to IAEA visits, only to back out soon after and to make an unprecedented announcement that it would build not one, but 10 enrichment centers. It also dismissed Western efforts to convince Iran to allow the enrichment process to take place outside its borders.

Georgia's apparent comfort may be explained by the fact that open Armenia-Turkey borders will not change either the transport or the energy corridor situation so long as Azerbaijan-Armenia corridors are not also functioning

Even without agreement on Iran's true capacity or real intent regarding future uranium-enrichment processes, Russia appeared pleased at the possible thaw between Iran and the rest. Russia no longer single-handedly protects Iran in the UN Security Council and seems willing even to sacrifice that relationship in favor of what it views to be the more consequential one with the US and Europe.

Armenia and Georgia

The ongoing tensions between Russia and Georgia resulted in more active relations between Armenia and Georgia. If Georgia had heretofore assumed that Armenia needed Georgia more than Georgia needed Armenia, the aftereffects of the Russia conflict demonstrated that there was indeed more reciprocity of need than Georgia perhaps acknowledged. There was sufficient recognition of interdependence that in the new security doctrine, Georgia speaks not of cooperation with Armenia, as in previous documents, but strategic cooperation.

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Flights between Tbilisi and Yerevan exist as a consequence of the shutting down of Moscow-Tbilisi line, and that's an inarguable improvement. From a better customs regime to a necessary modern highway, there are critical bilateral issues that the two countries' leaders say they want to address but on which they've made little progress. Neither side took resolute steps toward that "strategic cooperation."

If Georgia had heretofore assumed that Armenia needed Georgia more than Georgia needed Armenia, the aftereffects of the Russia conflict demonstrated that there was indeed more reciprocity of need than Georgia perhaps acknowledged

Despite the geographically and historically imposed common interests, there are nevertheless grave ideological differences in policy and approach on significant global and regional issues, which, even if not publicly raised by the sides, frame the relationship between them nonetheless. These include a serious tactical difference in approaching NATO membership, conflicting positions on issues of self-determination, the extent and depth of the relationship with Russia and also Georgia's close ties with Turkey and Azerbaijan, with whom Armenia has adversarial relationships.

There is also of course the issue of the very large Armenian minority in Georgia. Following the Russia-Georgia war in 2008, the Georgian authorities found many opportunities to voice their

view that their own southern Javakhk region, with its majority Armenian population, is a fifth column, susceptible to Russian influence and pressure, and can foment insurrection. Recent polls demonstrate that Georgians consider Armenians their second enemy, after Russians.

This Georgian fear was evidenced in January, when two Georgian-Armenian activists were arrested on charges of spying for Russia, and creating illegal armed groups. They were soon released, even before judicial proceedings began. Another activist, Vahagn Chakhalyan, remains incarcerated for what are widely assumed to be politically motivated criminal charges.

The Georgian fear is manifested in all sectors, including education. Armenian school teachers were prevented this year from traveling to Armenia to participate in teacher training courses offered by the Armenian Church. The Armenian Apostolic Church is not allowed to register as a church.

The Armenian language is not recognized in any capacity even in the majority-Armenian region of Javakhk. This brought a rare public statement from President Sargsyan in September, urging his northern neighbors to at the very least allow for Armenian to be an official language in that region. Public reaction in Georgia cited this as an example of Armenians leaning away from Georgians and towards Turks.

These, together with incidents at the border, where Georgian border guards refused entry to Armenian citizens, including one member of Parliament, were cited as some of the reasons why President Saakashvili's visit to Armenia was met by demonstrations. President Saakashvili, prior to his visit, had on two occasions made deprecating public statements about Armenia, its economy and social situation, saying that the country has collapsed because it is completely dependent on the Russian

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market. During his visit, he seemed to use every opportunity to denounce Russia, which of course made his Armenian colleague uncomfortable.

Nevertheless, President Serzh Sargsyan bestowed upon President Saakashvili an honorary medal for “reinforcing the centuries-old ties of Armenian-Georgian friendship, and for efforts towards the deepening of Armenia-Georgia cooperation.” This could very well have been in response to President Sargsyan having received a medal himself, from Saakashvili in 2008. Nevertheless, the combination of the Saakashvili medal, and Saakashvili’s anti-Russian statements could not have been appreciated by Russia, and certainly hurt Armenia-Russia relations, too.

The effect of Russia on Armenia-Georgia relations is also evident in economic matters. The Upper Lars border has been closed by Russia since 2006, for stated purposes of repair. It remains closed. This effort to ostensibly hurt Georgia’s economy is actually more damaging to Armenia’s. Georgia-Armenia trade has decreased by one-fourth in the last year. In late 2009, it was reported that Russia and Georgia, with Armenia’s mediation, were making headway towards re-opening the border crossing.

Tbilisi has not moved on announcements made in 2008 during President Sargsyan’s Tbilisi visit about forming a consortium to implement the plan to develop a highway from Yerevan to Batumi. This road, economically and strategically essential for both countries and for the entire region, has not moved beyond wishful thinking.

There are other persisting political problems. Border demarcation, which is generally a technical issue, is still not complete for the nearly 200 km of frontier between Armenia and Georgia, although official accounts say 70 percent of the work is done. Possibly

as a consequence of this still-to-be-concluded process, there are periodic trespasses. Georgian border guards encroached into Armenian territory this summer, and residents from the village of Bavra were denied access to 1.3 sq km of land. Their situation remains unresolved.

Despite the geographically and historically imposed common interests, there are nevertheless grave ideological differences in policy and approach on significant global and regional issues between Georgia and Armenia

Armenia and Iran

The changing regional relationships rather than disrupting, in fact, reinforced Iran’s special place in Armenia’s policy framework. Despite ongoing changes in the Karabakh resolution process, despite the hope of improved relations between Armenia and Turkey, Iran maintained its neutrality on all issues, and continued with its even-handed policy with Armenia, despite its religious affinity with both Turkey and Azerbaijan, and despite having more than 20 million ethnic Azeris in Iran.

Despite ongoing changes in the Karabakh resolution process, despite the hope of improved relations between Armenia and Turkey, Iran continued with its even-handed policy

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In April, President Serzh Sargsyan visited Tehran and repeated that Armenia regards Iran as a reliable neighbor and a friend in tough times. In turn, Armenia has not succumbed to the temptation to please the US or Europe, to gain short-term dividends, at Iran's expense.

The tangible outcome of these warm relations was the actual opening in May of the Iran-Armenia gas pipeline. Although Armenia continues to use Russian gas for daily needs and for electricity production, the Iranian alternative at least exists as a safe resort and unlike the Russian gas pipeline, which traverses Georgia, does not depend on a third country.

According to the gas agreement between Yerevan and Tehran, the Iranian gas is converted entirely into electricity and returned to Iran – one cubic meter of gas is exchanged for 3 kWh of electricity. Two million cubic meters of gas enter Armenia each day, and that volume will multiply with a third Armenian-Iranian high-voltage electricity line, for which construction is to begin next year and will conclude in 2011.

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The remaining energy cooperation projects remain in the planning stages: a joint hydro-electric power plant on the Arax River between the two countries, an oil refinery on the Armenian side of the border

in Meghri, and a pipeline for Iranian gasoline and diesel to be sent north and the Armenia-Iran railroad.

Armenia and Turkey

The year 2009 was unprecedented in terms of the number of high-level meetings between Armenian and Turkish officials, and the number of documents produced. This was both the continuation of the "football diplomacy" that began the previous year, and the product of serious participation and intervention by regional and global powers.

Switzerland continued in its role of mediator between the two countries. The new US administration revamped America's policy towards the Muslim world, wanted improved relations in the region, and had Armenian-American constituents to please. One result was greater focus on Armenia-Turkey relations. Russia was willing to support a more open Armenia-Turkey relationship and open borders, if only to diminish the role of Georgia in the region.

Turkey itself had many reasons to intensify efforts to change the situation with Armenia:

- European pressure in the context of Turkey's accession process
- Economic issues at their eastern border
- Fear of the quickly-moving genocide recognition process which has culminated in great US pressure
- Reinforcing their leadership role in this region, in line with their 'zero problems with neighbors' policy.

Thus, the Armenian government, having extended an invitation to the Turkish President to come

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to Yerevan for a FIFA football game which they watched together in September 2008, had a willing partner in Turkey, and lots of help and pressure from the international community to move towards normal relations.

The year began with President Sargsyan meeting with Turkish Prime Minister Erdogan in Davos. It continued with a second high-level meeting, this time between the two presidents in Prague, at the EU Eastern Partnership Summit. Then, on the night of April 22, Armenia, Turkey and the mediator, Switzerland, made a joint announcement affirming that they have “been working intensively with a view to normalizing bilateral relations” and that “the two parties have agreed on a comprehensive framework for the normalization of their bilateral relations in a mutually satisfactory manner. In this context, a road-map has been identified,” they said.

Although Turkey’s opening to Armenia was generally a welcome concept, the content and timing of the announcement – coming as it did two days before the day that the genocide is commemorated globally – raised questions. The fundamental dissatisfaction was the obvious attempt to time the statement such that President Obama would be compelled to suspend his pre-election commitment to call the genocide a ‘genocide’ since there appeared to be a serious bilateral process in place.

Internally, there was domestic fallout within the Armenian government. The Armenian Revolutionary Federation - Dashnaksutyun left the coalition, in protest of the content of the announcement and the process and timing of its introduction. The actual protocols outlining the establishment of diplomatic relations were not released until August 31 and immediately resulted in a variety of disparate and often contradictory

interpretations. The ARF-Dashnaksutyun and a dozen other small political parties, and according to public opinion surveys, a majority of the Armenian population, continued to oppose the protocols which were nevertheless signed in Zurich on October 10 by Foreign Minister Davutoglu and Foreign Minister Edward Nalbandyan of Armenia.

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In addition to standard language about respecting international documents and principles, and “Reconfirming their commitment, in their bilateral and international relations, to respect and ensure respect for the principles of equality, sovereignty, non-intervention in internal affairs of other states, territorial integrity and inviolability of frontiers,” the Protocol on the Establishment of Diplomatic Relations Between the Republic of Turkey and the Republic of Armenia, also included a provision “Confirming the mutual recognition of the existing border between the two countries as defined by the relevant treaties of international law.”

The second document, the Protocol on Development of Relations Between the Republic of Turkey and the Republic of Armenia, said the sides agree to conduct regular political consultations between the ministries of foreign affairs of the two countries on a variety of subjects, including a “sub-commission on the historical dimension

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to implement a dialogue with the aim to restore mutual confidence between the two nations, including an impartial scientific examination of the historical records and archives to define existing problems and formulate recommendations, in which Turkish, Armenian as well as Swiss and other international experts shall take part.”

These two formulations were, among some others, the key controversial provisions. In addition, the agreement that the protocols be ratified by the parliaments of each country before any of the provisions of the protocols are implemented, including the opening of the border, also raised serious concerns. These reactions and concerns can be divided into four categories:

- There are those who unreservedly support the protocols and the process that they lay out. They insist that this is a serious diplomatic victory for Armenia, succeeds in driving a wedge between Turkey and Azerbaijan and provides an opening to Turkey, with no pre-conditions placed on the Armenian side. The three political parties which remained in the government coalition -- the Republican Party, the Prosperous Armenia Party and the Rule of Law Party -- support the process.
- There are others who are also in favor of the protocols, however they acknowledge that there are certain inherent dangers and also certain pre-conditions to which Armenia has acquiesced. They insist however that Armenia would not have been capable of resisting or countering those conditions in any case, and so the loss is worth the gain.

- The third group consists of those who are generally opposed to Armenia-Turkey rapprochement, or normalization, or dialogue or relations of any sort, so long as Turkey has not recognized the Armenian Genocide nor made compensations for its consequences.
- The fourth group, led by two parties in Parliament -- the ARF-Dashnaksutyun and Heritage -- as well as several political groupings not represented in Parliament, are in favor of diplomatic relations between Armenia and Turkey, but not at all cost, and they consider the concessions made in these documents to be too high a price. They criticize the contents of the documents and point to the above provisions as evidence that Armenia has been forced to concede to Turkey's three conditions.

To understand and assess the very different points of view within Armenia and within Turkey, and the conditions at the core of the argument, it is important to remember the recent history of Armenia-Turkey non-relations.

In 1991, Turkey recognized Armenia's independence, together with that of the remaining ex-Soviet republics. But it did not establish diplomatic relations in 1992 when it did so with the rest, because it demanded that Armenians

- renounce genocide recognition efforts
- explicitly recognize the existing frontier between the two countries.

Armenia refused to accept those two conditions and diplomatic relations were not established. In

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1993, Turkey, in allegiance to Azerbaijan, closed the border with Armenia, demanding that Armenians

- return those territories around Karabakh which had come under Armenian control in the military conflict with Azerbaijan over Nagorno Karabakh.

Thus, when Turkey accedes to contemporary documents, such as the protocols that provide for the establishment of diplomatic relations and opening of the border, that means Turkey has either dropped its three decade-and-a-half-old conditions, or they have been met. Judging by pronouncements made by the Turkish leadership soon after the signing, they believe it is the latter and the first two conditions have been met:

- today's border is explicitly recognized
- a commission to study the facts of the Armenian claims of genocide will be created so the genocide recognition process can be considered suspended.
- In addition, the ratification provision (unusual in such protocols) provides the necessary mechanism to maintain a link between opening the border, which is perceived as a benefit to Armenia, and a movement on the NK issue that is favorable to Azerbaijan.

By year's end, in his first public response to repeated Turkish insistence on the need for a Karabakh solution in order to move with ratification, President Sargsyan hinted that Armenia may back away from the protocols if the linkage continues. This promptly brought a telephone call from US Secretary of State Hillary Clinton urging Armenia to stay the course.

It is unclear how this process will go forward, but it is clear that the mere existence of the signed protocols, even without ratification, has introduced a new situation in Armenia-Turkey relations, as well as in the Karabakh resolution process. The differing and often diametrically contradictory interpretations by the leaderships of Armenia, Turkey and Azerbaijan will continue to be an endless source of friction. It has already changed the nature of the delicate negotiations, the normalization process and the debate on long-standing bilateral issues between Armenia and Turkey.

The mere existence of the signed protocols, even without ratification, has introduced a new situation in Armenia-Turkey relations, as well as in the Karabakh resolution process

Armenia and Azerbaijan

Relations between Armenia and Azerbaijan naturally revolved around the still-unresolved Karabakh conflict. The year was a most active one in terms of frequent high-level meetings between the presidents of Armenia and Azerbaijan and their foreign ministers, under the aegis of the OSCE Minsk Group co-chair countries, even as the negotiations process appeared to take a back seat to the more high-profile Armenia-Turkey process. As much as the Armenian side insisted that the two processes are not linked – that the Armenia-Turkey process can indeed move forward to normalization independent of the Karabakh resolution process – the international community hoped for resolutions to both.

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Armenia's and Azerbaijan's presidents met six times in 2009 – three times before and three times after a statement made at the G8 meeting in July, during which the presidents of the Minsk Group co-chair countries called on their Armenian and Azerbaijani colleagues to reach a resolution. Not since 1997 had the presidents of these three powers found it expedient to specifically highlight this conflict. Together with that announcement, the Minsk Group co-chairs also found it appropriate to make public, for the first time, the basic principles at the basis of the negotiations.

The annual OSCE Ministerial Council statement, this year in Athens, hinted at a new tactic by Azerbaijan to water down Karabakh's right to self-determination

These Madrid principles, thus named because they were at the core of the last revision of the negotiating document which was presented by the Minsk Group co-chairs in Madrid, at the OSCE Ministerial Council in 2007, were presented as the following:

- return of the territories surrounding Nagorno-Karabakh to Azerbaijani control
- an interim status for Nagorno-Karabakh providing guarantees for security and self-governance
- a corridor linking Armenia to Nagorno-Karabakh

- future determination of the final legal status of Nagorno-Karabakh through a legally binding expression of will
- the right of all internally displaced persons and refugees to return to their former places of residence
- international security guarantees that would include a peacekeeping operation.

The government announced that negotiations shall continue based on these principles. Some political groups countered that these principles are not in Armenia's national interest and called for a denunciation of the Madrid document. Some blamed the previous administration for adopting these principles in the first place.

The debate however really was about how Armenians believe the principles ought to be reconciled and detailed in a final document. The principles themselves are the same ones that have been, a part of any peace process:

- Karabakh's status
- security guarantees
- the return of territories
- the return of refugees.

The question is how the final document addresses the modalities – details, timing and sequence of these elements – in order to meet the minimum requirements of all sides.

The annual OSCE Ministerial Council statement made in Athens, in November 2009, hinted at a new tactic by Azerbaijan to water down Karabakh's right to self-determination. The Athens statement

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selectively highlighted the principles, without acknowledging or reinforcing the mechanism – the actual right to a vote – that is to put into practice the right of self-determination, which was and remains at the root of the conflict. The other fundamental issue, one of security, is a source of continuing disagreement among the sides: the issue of territories and in particular the ones with greatest strategic significance, as well as the issue of a geographic link between Armenia and Karabakh, and its status.

These and the other outstanding issues will remain on the negotiating table, but the process has become essentially more complicated and risky because of the Armenia-Turkey negotiations process, which hinges, as Turkish leaders clearly say, on a resolution of the Karabakh conflict. But this linkage, coupled with the public encouragement of the international community, makes it extremely difficult for the Armenian side to agree to the most innocuous of compromises, including those which would have been acceptable just a short time ago, without them being perceived as concessions at best, or trade-offs or “payback” at worst.

Turkey’s heightened involvement in this process, unabashedly promoting a Karabakh resolution in its frequent meetings with world leaders, makes these delicate negotiations even more difficult. This puts strategic pressure on the Armenian side and gives Azerbaijan the invaluable advantage of a powerful, connected, unreservedly supportive ‘lobbyist’ defending its interests.

Beyond the Region

Russia, the European Union and the United States are the major powers engaged in the Caucasus

region, although China is becoming more visible in the neighborhood.

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In 2008, the policies of Moscow, Brussels and Washington towards Armenia were largely conditioned by their reactions to the crises of 2008: the post-election violence in Armenia, the Russia-Georgia war and the global economic downturn.

In addition, 2009 saw more high-level involvement by Moscow, Brussels and Washington in Armenia-Turkey negotiations and in the Karabakh peace process, in the context of a significant decline in acrimony between Russia and Europe and especially between Russia and the US. This helped set the stage for collaborative regional engagements.

Russia remains the main security ally and most important trade partner for Armenia.

Intensity of high-level contacts is indicative of the close nature of relations. In 2009, the Armenian and Russian presidents held at least six tete-a-tete meetings.

In October, Armenia joined the Russia-led Rapid Reaction Force set up in Collective Security Treaty Organization framework (of which Armenia is a member) to defend member states.

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In spite of this alliance, Armenia was able to maintain a largely neutral line in the Russian-Georgian dispute while Russia continued to expand cooperation with Azerbaijan, most prominently securing energy agreements but also re-launching military cooperation.

Russian Armenians are among the biggest investors in Armenia, particularly in banking, construction and mining

Armenia-Russia relations are not solely of an interstate nature. Russia is home to some two million ethnic Armenians, many of them natives of Armenia and Armenian citizens. Russian Armenians are among the biggest investors in Armenia, particularly in banking, construction and mining.

In 2009, Russia extended a \$500 million loan to Armenia that together with \$800 million from the International Monetary Fund and other credits helped stabilize the Armenian economy, at least in the short-term

But it is Russian majors, including state-controlled Gazprom, RAO UES and Russian Railroads in energy and transport and MTS and Vympelkom in communications that dominate the Armenian economy. These companies are Armenia's largest

employers and biggest taxpayers. Overall there are more than 1000 Armenian companies operating with Russian capital with total Russian investments nearing \$2 billion.

In 2009, Russia extended a \$500 million loan to Armenia that together with \$800 million from the International Monetary Fund and other credits helped stabilize the Armenian economy, at least in the short-term.

The economic downturn and transportation disruptions caused by the Russia-Georgia conflict resulted in an estimated 20 percent drop in bilateral trade from a high of US\$ 1 billion in 2008.

By year's end, Russia secured the construction of Armenia's future nuclear power plant, a project estimated at US\$ 5 billion and due for completion by 2016, and for which Armenia had also sought to attract European and US participation. The construction will be a joint Armenian-Russian enterprise which will utilize a Russian-made reactor. The capacity of the new plant will be 1060 MW, and will have a life of 60 years. In May, Armenia had made a formal offer to the French-owned Areva company to participate in the planned construction but by October an Armenian official warned that Armenia was eager to go ahead with the project whether Europeans join in or not.

Having surpassed Germany as Turkey's number one trade partner, Russia is also looking towards potential Armenia-Turkey border opening as a fresh opportunity to expand into the Turkish market. Armenia and Turkey have already discussed electricity exports from Armenia's production facilities controlled by Russian companies. The Armenian rail line into Turkey is also a Russian concession. In fact, many believe Russia, not

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Armenia, will be the prime beneficiary of that open border.

2009 also saw a number of key developments in relations between Armenia and members of the European Union.

Since independence, Armenian officials have prioritized integration with European organizations and have called European Union membership a long-term goal for Armenia. In April an EU advisory team began working within the Armenian government. The advisors are based in Yerevan and are involved in day-to-day decision-making. EU officials have described the program as unique and successful. It is now expected to be replicated in other former Soviet republics involved in EU Eastern Partnership program.

Eastern Partnership, in addition to Armenia, involves Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The new partnership format was conceived in the wake of the Russia-Georgia war and in part meant to reaffirm EU's interest in former Soviet republics. The program is built around fresh association agreements that the EU is expected to negotiate with the Eastern Partnership states. Those would in turn pave the way for the easing of visa regulations for Eastern Partnership country citizens and potential future free trade agreements.

While EU officials continue to emphasize democratic reform as part of Eastern Partnership engagement, there appears to be more tolerance of authoritarian tendencies following democratic setbacks throughout the former Soviet republics. Broader EU interest rests on the development of hydrocarbon resources in the Caspian Sea basin that could help reduce Europe's reliance on Russia for natural gas supplies.

Not a major energy producer, Armenia's trade relations with Europe have focused on Armenia's exports of molybdenum, copper and gold as well as polished diamonds primarily to Germany, the Netherlands and Belgium. The three countries remain Armenia's main European trade partners.

Having surpassed Germany as Turkey's number one trade partner, Russia is also looking towards potential Armenia-Turkey border opening as a fresh opportunity to expand into the Turkish market

Armenia's overall trade with EU amounted to about US\$ 842 million in the first three quarters of 2009, down nearly half from the same period the previous year, with the trade balance greatly favoring the EU.

November 2009 saw the arrival of France's Orange into Armenia's cellular telecommunications market, substantially boosting the overall European investment presence in Armenia, which includes HSBC, Credit Agricole and ProCredit in banking, Veolia in water management, Pernod Ricard in brandy manufacturing and Chronimet in mining.

There appears to be more tolerance of authoritarian tendencies following democratic setbacks throughout the former Soviet republics

Armenia-Euroatlantic security cooperation continued primarily through NATO, with

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Armenian officers trained in France and Greece and contingents serving with NATO-led forces in Kosovo and slated to join the Afghanistan force in early 2010.

Armenians saw their Washington influence curtailed by the growing presence of the Turkish lobby effort led by former congressional leaders and former senior Clinton and Bush administration officials turned foreign lobbyists

Armenia's relations with the United States were affected by the shift of American focus away from the counter-terrorism agenda that was dominant under the Bush Administration.

While the Obama Administration retained a focus on Iran's nuclear program and stability in Afghanistan and Iraq, the US became more eager to secure the cooperation of the larger powers including Europe, Russia and China, rather than a "Coalition of the Willing" which required the participation of smaller states, with their attendant difficulties.

Barack Obama raised Armenian issues repeatedly, especially in his ground-breaking address to the Turkish parliament

And even though US officials pledged to deny Russia any "spheres of interests," including the

Caucasus, the US also notably curtailed its public and private engagement with the regional favorite Georgia, declining its requests for large-scale military assistance, and putting off the issue of Georgia's NATO membership.

The US denied it wanted to establish a military presence in the Caucasus, such as to monitor potential missile launches from Iran. Russia's willingness to provide logistical assistance to US-led forces in Afghanistan also reduced the perceived importance of the Caucasus to the Central Asia transport corridor.

Visiting Turkey in April, Barack Obama raised Armenian issues repeatedly, especially in his ground-breaking address to the Turkish parliament. He urged Turkey to address what he termed the "terrible events of 1915" and lift its blockade of Armenia. He insisted that he had not changed views he had expressed as a presidential candidate, but declined to use the term genocide, in order to engage Turkey rather than distance it.

On October 10, after Armenia and Turkey signed the protocols, US Secretary of State Hillary Clinton revealed that US diplomats were actively engaged in efforts to produce an Armenia-Turkey deal for many months.

US officials publicly insisted that Armenia-Turkey progress should not be linked to negotiations over Karabakh, as Turkey has continued to do, and produce results "within a reasonable timeframe."

But at year's end, chances for ratification and implementation of the documents remained uncertain, with high-level American diplomats acknowledging that progress on that track would inevitably be difficult unless there was also progress in Karabakh talks.

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Overall, Armenians saw their Washington influence curtailed by the growing presence of the Turkish lobby effort led by former congressional leaders and former senior Clinton and Bush administration officials turned foreign lobbyists.

Also joining in the anti-Armenian lobbying effort are some of the largest US companies seeking business contracts in Turkey, including Chevron, Northrop Grumman and Raytheon.

Resolutions affirming the US record on Armenian Genocide have not had full congressional consideration since 1996. House and Senate resolutions introduced in 2009 appeared similarly stuck in spite of the fact that both the Obama Administration and incumbent congressional leadership have been strong supporters of such resolutions in the past and have not publicly withdrawn that support.

The potential of success this time is hanging over the heads of both the Turkish and US governments. Without tangible movement on the border, and with Turkey increasingly distancing its policies from those of the United States, the possibility remains that elements of the US establishment might favor passing a resolution condemning the Armenian Genocide.

In another departure from pre-election pledges, Obama Administration continued its predecessor's policy of reducing assistance to Armenia. In June, the Millennium Challenge Corporation chaired by Secretary Clinton citing Armenia's failure to address US concerns over 2008 elections voted to cut nearly \$65 million in aid to Armenia's rural areas. The decision was predicated on the handling of the Yerevan municipal election, which was condemned by Armenia's opposition parties.

In July, Deputy Secretary of State James Steinberg became the most senior US official to visit Armenia in more than five years, albeit as part of a longer regional tour.

Joining in the anti-Armenian lobbying effort are some of the largest US companies seeking business contracts in Turkey, including Chevron, Northrop Grumman and Raytheon

Also reflecting US priorities, President Obama had his first telephone conversation with President Sargsyan almost nine months after taking office during Sargsyan's tour of Armenian communities in New York and Los Angeles in October.

The US-Armenia Task Force meeting in November identified good governance and business climate as two of the main discussion themes. Additionally, Armenia and the US signed a memorandum of understanding on cooperation in science and technology.

In 2008, US-Armenia trade for the first time reached \$200 million, with US goods exported to Armenia accounting for most of the turnover. In the first 10 months of 2009, total trade was just over half of the 2008 figure. But Armenia remained largely off the radar of major American investors, with projects funded by Armenian-American businessmen and philanthropists as the only exceptions.

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OUTLOOK

- Although the re-setting of US-Russia relations is moving along, there are still uncertainties as to specifics. Nevertheless, it appears that trade-offs have already been made between the powers, and they have arrived at certain understandings in various contentious areas, including the degree of their stake in Iran's nuclear future, in missile defense across Europe and in NATO expansion.
- Even in the framework of deeper cooperation between Russia and the West, discussion and debate about a new security architecture -- sure to affect the Caucasus -- will continue and is unlikely to produce substantive changes to the status quo or a resolution within the coming year.
- The tension over Iran's nuclear future will lead to increased tension with the West, and in light of Iran's domestic troubles, may become more exacerbated. On the one hand, this will be a distraction from the Southern Caucasus; on the other hand, the Southern Caucasus will receive more attention as a front-line neighbor.
- Differences between Russia and Georgia will persist. On some issues, there will be some progress, such as opening of the Upper Lars border crossing, and perhaps even resumption of flights between capitals, but there will not be a substantial thaw.
- Turkey's "zero problems with neighbors" policy will shape their real and perceived relations with neighbors. The mere expectation of open borders
 - has already altered Georgia's real and perceived place in the region
 - will affect the nature of the Azerbaijan-Georgia-Turkey relationship
 - will diminish prospects for a new rail line from Kars, Turkey via Georgia to Baku
- Armenia-Turkey normalization process will dominate the agenda and there will be one of four possible scenarios forward:
 - Turkey will ratify the protocols and open the border when Armenians and Azerbaijanis come to an agreement acceptable to the Azerbaijani side, within a 'reasonable timeframe' as the American and Turkish leaderships have publicly said, with or without an official document
 - Nothing will be agreed to between Armenians and Azerbaijanis 'within a reasonable timeframes' but under international, especially American, pressure using April 24 as a deadline, Turkey will find it incumbent to ratify the protocols and begin the process of opening the border
 - Nothing will be agreed to between Armenians and Azerbaijanis; there will be international, especially American and Swiss pressure on Turkey to open the border, but Turkey will resist
 - Most likely scenario: Armenians and Azerbaijanis will not reach a mutually acceptable agreement, but Turkey will receive serious guarantees from

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the US and other mediators, that the Karabakh outcome will be favorable to Azerbaijan, especially regarding the return of territories and the nature of the decision on the future status of Nagorno Karabakh.

- The Karabakh negotiations process will be complicated by the ongoing and inconclusive Armenia-Turkey process. The sides will focus on and try to sign the framework document on principles. The increased pressure from the Armenia-Turkey process will diminish Armenia's room for maneuver and make this difficult. Even the most innocuous compromise possibilities which might have been acceptable earlier will be more difficult now for the Armenian side, putting the Armenian administration in a bind.

POLICY OPTIONS

- In this changing environment, Armenia needs to adopt a conceptual anchor, an ideology, for its policy in the region, to avoid forcibly having to choose sides between problematic dualities which may emerge – between Iran and the West, Russia and the US, Europe and Georgia.
- Given Turkey's new self-assigned role, Armenia's leadership should offer clear articulated public responses to developments on Armenia-Turkey relations and on the Karabakh process, otherwise Armenians risk losing the war of perception which is often as important as real developments.

- Armenia's main challenge now, in the Armenia-Turkey normalization process, is to be more publicly outspoken about its understanding of the provisions of the two protocols, especially on the two problematic issues, especially since Turkey's leadership has long gone public with their own interpretation, even before ratification of the documents.
- Armenia ought to prevent Turkey from taking on the role of lead advocate for a Nagorno Karabakh resolution.
- Armenia must avoid being perceived as the guilty party should Turkey decide not to ratify the protocols. Armenia must make public Turkey's efforts to turn the tables by presenting the protocols as a completed process in which Turkey has made a huge compromise simply by participating, and is now waiting for Armenia to make concessions by returning territories surrounding Karabakh.
- In order not to forfeit Karabakh's right to self-determination, Armenians must counter Azerbaijan's clear efforts to shift the Karabakh resolution focus to return of territories while chipping away at the principle of self-determination, by representing it as a right within Azerbaijan's territorial integrity.
- Neither the expectation of an open Armenia-Turkey border nor the actual opening of that border should make Armenia complacent regarding Georgia and Iran. As Armenia-Turkey uncertainties linger, it is especially important to re-emphasize the

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importance of both Georgia and Iran for Armenia's security and development. Those two countries should sense that the Armenia-Turkey opening is not viewed by Yerevan as a substitute but a complement to the north-south neighbors.

- Projects considered of strategic importance with Georgia (the Batumi highway) and with Iran (the rail line and the oil pipeline) have remained on the drawing table too long. They should receive the necessary attention to begin implementation.

NEW PROMISE, OLD REALITY

The year 2009 was a year in which there was less by way of expectation, domestically, and more in the way of a harsh recognition of reality. The political crisis of 2008 – the presidential election and its aftermath, which included a day of violent clashes on March 1 between police forces and demonstrators and which resulted in 10 deaths – had not been satisfactorily confronted or resolved by year's end. The opposition continued to build its agenda on those events and the government lacked the boldness to address the problems those events had brought to the fore.

Dissatisfied with the unproductive 10 months in the year just ended, the major players on Armenia's domestic political stage had their eyes on Strasbourg at the start of 2009. The Parliamentary Assembly of the Council of Europe (PACE) continued to assess Armenia's democratization, something they had done since Armenia's membership in 2001, but which had become more earnest following the February 21 presidential elections in 2008 and the deaths on March 1.

The opposition continued to build its agenda on post election events and the government lacked the boldness to address the problems those events had brought to the fore.

PACE had already passed two resolutions on the events themselves and pointed to ways to overcome the crisis. Frustration with the pace and nature of the resolution implementation process had led to the possibility of the Council of Europe sanctioning Armenia during its January Parliamentary Assembly session.

Indeed, Armenia was not sanctioned and did not lose its right to a vote. An additional resolution was passed as the natural continuation of the previous two. The government hailed this new resolution as “a victory of Armenia’s democracy” even, because Armenia’s right to vote was upheld. Oddly enough, the opposition, too, hailed the resolution because “it facilitated their ongoing struggle for the release of political prisoners.”

What was not said by either government or opposition is that the outcome of this vote was

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something worse: Armenia remained and remains subject to the conditions of PACE resolutions, its domestic issues remain on the agenda of the Council of Europe, and thus Armenia remains under monitoring by a body whose membership it has held now for nearly a decade.

Levon Ter-Petrossian accused President Sargsyan of being ready to make fatal decisions regarding Nagorno Karabakh, in an effort to ensure continued Western support for his rule

The new resolution not only repeated the previous calls but passed yet a third resolution, demanding that Armenia's authorities take necessary steps to address the four outstanding issues: detained activists, media freedoms, a complete report on the events of March 1, with the intention of holding accountable those responsible, as well as freedom of assembly.

The opposition's issues with freedom of assembly were delayed because they had not tried to convene a public assembly for months. In October 2008, opposition leader and former president Levon Ter-Petrossian had announced a halt in their demonstrations in order to avoid weakening Armenia's leadership at a crucial stage in the Nagorno Karabakh peace process. He further accused President Sargsyan of being ready to make fatal decisions regarding Nagorno Karabakh, and said that he, Ter-Petrossian, does not want to be blamed for such concessions. The opposition stood by their promise not to disrupt the negotiations, even in the absence of active progress.

The first demonstration to be held in 2009 was on March 1, to remember the disastrous and unsettled events of the previous year, during which Ter-Petrossian was expected to speak about the movement's future strategy. Instead, he announced that the opposition had determined that the words 'revolt' and 'revolution' were not to be part of their vocabulary any longer, since the only way to achieve real change in the country is through an institutionalized opposition.

That turning-point speech was received in different ways by different factions. Some saw it as the beginning of new, more effective tactics by the opposition. For others it was the acknowledgement of the failed tactics of the last year, and a sign of retreat. President Serzh Sargsyan, during his one-year anniversary press conference, said if Ter-Petrossian had felt the same way a year ago, the events that followed the presidential elections would not have taken place. Yet Ter-Petrossian's statement was not sufficient impetus for the administration to do anything about the dozens of opposition activists held behind bars.

As the opposition undertook less initiative domestically, the government came forward with more foreign 'initiatives' as they liked to call their policies. Thus, it seemed that as far as the attention of the international community went, democracy was pushed to the back burner in favor of the Armenia-Turkey process. The same was true in Armenia, where domestic developments became add-ons to the international process.

Indeed, when the announcement was made on the night of April 22 that Armenia and Turkey, with Swiss mediation, have arrived at a roadmap to regulate Armenia-Turkey relations, 'football diplomacy' took on a new name: nocturnal

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diplomacy. And this nocturnal diplomacy gave rise to noticeable backtracking in the international genocide recognition process. US President Barack Obama's moving and politically strong April 24 statement avoided use of the term 'genocide' despite his earlier promises to do so. Instead, he pointed, as he had done publicly a few weeks earlier in Ankara, to the promise of Armenia-Turkey rapprochement.

There was domestic fallout as well as a result of this nocturnal diplomacy. On April 27, the Armenian Revolutionary Federation - Dashnaksutyun, one of three coalition parties, announced it would leave the coalition because the executive had changed the course of the country's foreign policy. They first said they would resign from the ministries which they held, as well as the Parliamentary Commissions. But at the suggestion of the executive, they kept the chairmanship of their two parliamentary commissions. Public reaction was mixed. Some praised the ideological correctness of the ARF-Dashnaksutyun. Others questioned the authenticity of their opposition stance.

All this, in a political context that promised to become more contentious given that in May Yerevan was to hold its first-ever direct elections for City Council, which were in effect elections for Yerevan Mayor..

Former President Ter-Petrossian announced that he would head the Armenian National Congress (ANC) slate for the Yerevan City Council elections; that is, he was in effect running for mayor. The government vs opposition duel was on again.

The international community suddenly became active again, increasing the political weight of the contest. But their engagement was not so serious

as to warrant sending serious monitoring missions, with the exception of the Council of Europe. Their delegation consisted of 30 people who at the end of the day concluded that the elections, albeit flawed, met European standards.

When the announcement was made on the night of April 22 that Armenia and Turkey, with Swiss mediation, have arrived at a roadmap to regulate Armenia-Turkey relations, 'football diplomacy' took on a new name: nocturnal diplomacy

It was no surprise that the election was won by the ruling Republican Party, whose slate was headed by Gagik Beglaryan. They received over 40 percent of the vote which was the minimum to declare a win, without having to resort to forming coalitions with other parties. The Prosperous Armenia party came in second, and Ter-Petrossian's ANC was third. The Rule of Law and Armenian Revolutionary Federation – Dashnaksutyun parties did not pass the 7 percent threshold.

Some had publicly expressed that since the stakes were not as high as that of a presidential election, perhaps those with power would allow this vote to take place with less interference. Still, the process was questioned, as was the final vote. The head of the Prosperous Armenia party, in an interview, even mentioned irregularities.

The ANC publicly repudiated the veracity of the results, accused the process of falsehoods, violence

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and fraud, and laid down their mandates. However, this time, there were no public meetings protesting the results of the election. The ANC reconciled itself to the results of the vote in a way that gave rise to a mixture of acceptance and incomprehension. They appeared satisfied with their win in the opposition field.

Prior to the campaign, there had been a serious contest between the ANC and Heritage. Both professed a desire to run on a combined slate, but each presented its own version of that slate.

Just a few days after the fact-finding group was disbanded, Armenia's National Assembly passed a presidential proposal to offer amnesty to those who had been incarcerated since March 1 of the previous year

By the time Ter-Petrossian announced his candidacy, Heritage had to take a step back. That turned into a full retreat when they announced they would not participate in the election at all. One interpretation is that ANC managed to push Heritage out of the contest. Whether this helped the opposition or not is arguable.

But the Heritage Party did continue to reel from ANC's local win on the local playing field, and for months afterward, the wranglings within the party continued, often publicly. This reached its peak in September, when in protest of the Armenia-Turkey process, the founder and head of the Heritage Party, Raffi Hovannisian, resigned his parliamentary seat. Just a few weeks later, before the resignation went into force, he retracted his resignation, for reasons perhaps having to do with the problems of his party.

Internal falling out was the political fate of other bodies, too. The Fact-Finding group formed by presidential decree in 2008 and charged with identifying the circumstances surrounding the March 1 deaths was dissolved, again by presidential decree, in June 2009. The cause was the serious disagreements among the group's pro and anti-government members. The sides endlessly accused each other of obstructing the group's work, trying to derail the real business of identifying and exposing the facts, and attempting to politically exploit the work of the group. The dissolution of the group went counter to the demands of the PACE resolution to which the Armenian government had committed itself.

On June 19, just a few days after the fact-finding group was disbanded, Armenia's National Assembly indeed followed through with another PACE demand; it discussed and passed a presidential proposal to offer amnesty to those who had been incarcerated since March 1 of the previous year. This was presented not as the president's own initiative, but as his response to a call made a short time earlier asking the political parties and the public to propose suggestions regarding amnesty. Thus, he managed to appear unshakeable in his earlier position, yet, in the process, the majority of those still detained were released, including according to the Armenian National Congress, about 30 of their activists. A few had been released earlier. Then the number of detained increased by one. Nikol Pashinyan, editor of the Haykakan Zhamanak newspaper, and an active leader of the Armenian National Congress, who had gone underground on March 1, turned himself in. Even as his trial continued, he offered his candidacy for the parliamentary seat vacated by another fugitive, ANC supporter and businessman, Khachik Sukiasian.

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Sukiasian's troubles had begun the previous year, when he was a visible supporter of the opposition camp. He subsequently came under the scrutiny of the tax authorities who brought a case against his holdings, including the Bjni mineral water bottling company, and sanctioned him by putting the company up for auction. The purchaser did not complete the deal. But Sukiasian had already gone underground because he too had been accused of organizing mass unrest on March 1.

When he returned and turned himself in, he received somewhat lighter treatment, and has not returned to public life.

In the months following the Yerevan elections and the amnesty decision, the opposition took on a more passive role, speaking almost exclusively about foreign affairs at their increasingly rare public meetings, and allotting less space to the domestic issues on which they had focused in the pre-election period.

In turn, there was no movement on the part of the authorities either to address the fundamental issues causing discord.

The 'distraction' of the Armenia-Turkey process escalated when on August 31, at midnight, the Armenia-Turkey protocols appeared on the website of the Armenian foreign ministry, presenting the roadmap to which the April 22 statement had referred. Very quickly, political forces aligned in interesting configurations – those who rejected the content of the protocols because of what were considered to be poorly formulated provisions about a commission to study history, and about the mutual recognition of borders. The most contentious part was a provision not defined in the protocols but hanging in the air and articulated by the Turks – the expectation that Armenia would hand over territories to Azerbaijan before Turkey would move to open the border.

The Armenian National Congress, the Heritage Party and the Armenian Revolutionary Federation-Dashnaksutyun all opposed the protocols and there was a small possibility that this would be the umbrella under which they would join to form a mass opposition to the authorities. The ANC moderated its opposition, rejecting the protocols most forcefully for the provision on a commission of historians, but not quibbling with the language on borders. The Heritage Party and the ARF-Dashnaksutyun were more intense in their opposition, but initially demonstrated no inclination to join forces.

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When the protocols were actually signed in Zurich on October 10, it was almost anticlimactic. Ironically, immediately prior to the signing, President Sargsyan issued a statement to the Armenian people insisting that there were no preconditions in the document, reiterating Armenia's position, prompting sharp criticism from those who insisted that the arguments in the presidents appeal were the best articulated reasons for not signing those protocols.

Nearly a dozen political parties, including the Armenian National Congress, the Dashnaksutyun, the Heritage party, announced a unified campaign against the protocols. Aside from holding a couple of rallies, that format has not held. On September

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18, the Armenian National Congress announced it would suspend activities and leave the field to others.

On November 11, it announced it would return. At a meeting of the ‘party faithful’ Ter-Petrosian spoke about the country’s ills and placed the bulk of the responsibility not on the present administration, but on former President Robert Kocharian. In an apparent reference to President Sargsyan, he appeared to say that the Armenian people, or at least the Congress can tolerate Sargsyan’s presidency if he seeks legitimacy from within the country, and not outside. This approach led to various interpretations, including from within his own camp. A few days later, the pro ANC press cited Ter-Petrosian’s explanations at a closed meeting with his supporters which had taken place the same day, where Ter-Petrosian was quoted as explaining that once President Sargsyan turns over that which is being demanded of him on Karabakh and in Armenia-Turkey relations, then he will no longer be needed. But until then, he has been left free to do as he wishes domestically, so long as he resolves those two issues.

The Congress moderated its opposition, rejecting the protocols most forcefully for the provision on a commission of historians, but not quibbling with the language on borders

The start of Serzh Sargsyan’s presidency had promised to be tense and complex saddled with the task of consolidating power and staying in office.

The reality however was that his own steps, coupled with such hands-off approach by the opposition, resulted in an even stronger hold on power by the Republican Party. They won the mayoral election. Later in the year, in a space of a few days, the prime minister as well as the ministers of economy and finance both joined the ruling party. This was viewed as a step to consolidate power before the next election, given the opposition’s diminished threats. These steps by government and by opposition leave the impression that instead of talking to the public, they are satisfied with a dialogue between themselves, leaving the public in the role of observer.

2009 caused domestic uncertainties to deepen and crushed the only certainty that had emerged from the 2008 election – that Armenia was caught between a strong opposition and a suspended government. Instead, internally, there came the promise of getting away from extremes and entering a meaningful debate. There was the promise of opportunity to focus on resolutions to the fundamental problems which had become more deeply entrenched when the economic crisis and the international developments came to compound the domestic challenges. All those together required the joining of internal public and political potential to generate and implement effective solutions. But the promise remained a promise. The hope for a new approach to political problems remained just that, and the challenges were met by the same old reality of political cliques, intolerant prejudices and monopolies of power. In other words, old thinking as always got in the way of new promises. The wall dividing the public remained standing; those standing on the two sides of the wall, simply walked away, in opposite directions.

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CHANGING INSTITUTIONS

Armenia's civil society institutions continue to grapple with finding systemic responses to the challenges facing society and each of them individually. The 131-member National Assembly started the year with 113 members from the ruling coalition parties, 7 members in opposition (from the Heritage Party) and the rest independent. In April, the ARF-Dashnaktsutyun left the coalition and its 16 National Assembly deputies joined the opposition. Many, including the ANC, did not consider the Dashnaktsutyun serious opposition because the party did not demand the president's resignation. Nevertheless, their departure did not significantly affect the balance of power.

As in years past, the National Assembly did not always offer the checks and balances that a legislative body (with representative and oversight functions) should ensure in a three-branch governance system.

The existence of the Public Council did not seem to in any way effect the Parliament's work nor was there interaction between the two bodies both of which were expected, in different ways, to represent the public and its interests. The non-governmental sector was also pulled into the presidential effort to create this Putin-modeled body made up of popular figures from the arts and politics. While a number of non-profit sector representatives—government associated and not—were appointed and were selected to serve on the large board of directors, the effort as a whole failed to gain traction or legitimacy, largely because its aims and objectives were entirely unclear. With a parliament in place, conceptually tasked to represent citizen interests and respond to NGO efforts at cooperation

through legislative, oversight, and representative functions, it remains unclear how this new body was to add value to the democratic process.

Among the National Assembly's most significant tasks this year was the work of the Ad-Hoc Inquiry Committee into the March 1 events and their causes. The Committee, established in June 2008, presented a 138-page report in Autumn 2009, which the opposition as expected, criticized. Indeed, the committee was not able to answer the fundamental question: how is it that Armenian citizens came to be killed in the center of the capital?

The Congress can tolerate Sargsyan's presidency if he seeks legitimacy from within the country, and not outside

The committee itself said in its report that it could not have, even if it had wanted to, find an answer to this question because it did not have the right to function as an investigative body. It did conclude however, that the police acted generally within reasonable norms.

The right to legislative initiative is reserved for individual members of parliament and the executive branch. Given the ruling coalition's majority in parliament, often laws are quickly ushered through the system. While the timeline for the three readings necessary for approval of laws varies, at times legislation can be introduced and passed in the same week of a four-day sitting of the legislature. On some laws, such as that on excise tax, the same majority voted for raising the tax and then two

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months later voted to decrease the tax, in both cases citing the economic crisis as reason.

The hope for a new approach to political problems remained just that and the challenges were met by the same old reality of political cliques, intolerant prejudices and monopolies of power

The capacity of the parliament's constitutionally mandated 12 standing committees did not change this year. They continue to have small staffs with limited legislative and policy experience and as a result, particularly in the case of the foreign relations committee, non-specialist parliamentarians' effectiveness within the NATO, Council of Europe and OSCE parliamentary assemblies becomes limited.

An independent overview of parliamentary votes indicated that between February–October 2009, of a total 52,183 voting opportunities (cumulative by all 131 MPs), 12,431 absences were entered into the record—a 24 percent absentee rate. This can be at least partially explained by the fact that most parliamentarians, are, despite the provisions of the law, indeed at least indirectly, active businessmen with significant financial interests and responsibilities. Their number grows each election despite the provisions to the contrary of the Article 65 of the Constitution.

This became obvious when in February, the proposed tax reform package which provided for the creation of Taxation Representatives, was not

passed until the National Assembly imposed its own changes.

Among other laws under discussion was the law on television and radio broadcasting, which determines among other things the composition and operation of the body that licenses broadcast outlets, on criminal justice legislation which was presented immediately before some March 1-related trials and allowed the absence of the defendant if sanctioned by the court. Other legislation affected the Lake Sevan ecosystem, and freedom of conscience and religious organizations. In almost all cases, the only faction voting against, or abstaining from a vote on the proposed legislation was the Heritage Party.

Another major piece of legislation to come before the National Assembly was the proposed change to the law on **non-profit organizations**. In October the Justice Ministry, in an effort that mirrored Russian “managed democracy” laws, introduced for the government’s approval changes to the NGO law. The legislation was swiftly forwarded to the National Assembly’s Standing Committee on Human Rights and Public Affairs, for consideration and a vote. In a coordinated campaign to oppose these changes, the NGO sector mobilized more than a hundred organizations in a letter writing and advocacy effort, which generated media interest and led to a stay of the legislation for 90 days, with the justice ministry’s acknowledgement of its failure to engage in a real public process and a promise to begin the consultations anew.

Whatever the intent of the law might have been – to streamline NGO reporting and accountability, as the proponents said, or to better control NGO activity and independence, as opponents claimed –

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the entire process of the perceived need for the law and the organized opposition to it served as evidence of the growing influence of the NGO community.

The residual impact from the post-March 1, 2008 period governed perceptions and actions in the **non-profit sector**. At the conclusion of that emergency period, public organizations, foundations, professional unions and associations—comprising the non-profit sector—treaded a fine line between counterbalancing official Yerevan, representing beneficiary and community needs, while simultaneously remaining in the good graces of government agencies who implicitly and in some cases explicitly kept a close watch on their activities.

Human rights groups and activists and their ongoing monitoring efforts brought to light serious mistreatment of children in state institutions, but again here constructive dialogue failed to materialize when authorities directed their ire not at investigating the serious allegations, but at the single activist who brought to light taboo realities.

On the other hand, NGOs were successful in addressing, at least incrementally and on a technical level, the process of cooperation between the non-profit sector and governance structures, by advocating for and instituting social partnership mandates. Close to two-dozen municipalities put into place ordinances mandating municipal budget allocations to NGO services and activities, and several executive branch ministries, including the ministry of labor and social affairs, passed charter amendments requiring policy initiatives to be discussed with NGOs in a formal process before moving on to government approval.

NGO financial sustainability and mobility remained high on the sector's legislative agenda, without any major progress to reforms.

The existence of the Public Council did not seem to in any way effect the Parliament's work nor was there interaction between the two bodies both of which were expected, in different ways, to represent the public and its interests

In the context of local self-governance, the Yerevan municipal election was a first; it resulted in a 65-member council based on a proportional (party-list) electoral process, which was a microcosm of earlier dysfunctional political processes – the elections did not leave the public confident that their voice was duly registered; the mayor – from the Republican Party – remained indebted to the powers which had selected and backed him; the opposition chose not to participate in the council.

On some laws, such as that on excise tax, the same majority voted for raising the tax and then two months later voted to decrease the tax, in both cases citing the economic crisis as reason

In this context, the starting position and the mechanisms that such a new council will establish,

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are not sufficiently responsive or responsible. The economic crisis has affected the national budget and community access to financial sources is more urgent. An election victory that depended on favors will lead to a governance system that operates on paybacks. The public is excluded at both ends of the process.

This is as true of local elections outside Yerevan, as the Yerevan elections. To counter both the cause and effect of such exclusion, several municipalities have signed memoranda of understanding on social partnerships which open up the local budget allocation process to non-governmental organizations.

Generally, however, even such agreements are the exception rather than the complement to existing local administrative bodies that are still dependent on the central government for budgetary allocations. The laws have, over the years, been reformed with Council of Europe and other support, to reduce the communities' dependence on the regional or central governments and to augment communities' self-governance capacity. However, the influence of the other power centers remains. This lack of local resources and options will become a bigger problem with the effects of the economic crisis, diminishing remittances and decreasing rural populations.

For the media, the absence of political and financial independence remains the main impediment to development as a free, credible and responsible institution in Armenia. The past year has seen little improvement in that regard, with the government maintaining its tight grip on virtually all domestic broadcasters and the far more diverse print media continuing to display political bias and partisanship.

There have also been more instances of violence against journalists. The Armenian police pledged, following the third attack, to do their best to end what one senior police official described as "this vicious type of crime." There have been no attacks reported since.

The increase in attacks was one of the reasons why Armenia slipped in global press freedom rankings, according to Reporters Sans Frontières (RSF), a respected international media watchdog. Armenia ranked only 111 out of 175 countries and territories covered in the RSF 2009 Press Freedom Index released in October, nine points lower than in 2008.

Earlier in the year, an Armenian media watchdog group, the Committee to Protect Freedom of Speech, described 2008 as the worst ever year for the Armenian media since independence, not only due to the number of violations of the rights of journalists and media outlets, but also for the "imposition of censorship on mass media."

After years of resistance, the authorities agreed in August 2009 to grant parole to Arman Babajanian, the ailing editor of the pro-opposition daily Zhamanak who was arrested in June 2006 and subsequently sentenced to three-and-a-half years in prison for evading compulsory military service. Babajanian was set free two months after being diagnosed with a brain tumor. He was due to complete his controversial prison sentence in September. Babajanian's release came one month after another opposition editor, Nikol Pashinian, of the widely-read Haykakan Zhamanak daily, surrendered (after more than a year in hiding) to law-enforcement authorities to stand trial for his alleged role in the March 1, 2008 clashes

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in Yerevan. The authorities refused to free him pending trial despite a broad appeal by press associations and two dozen media outlets and they continue to insist that the case has nothing to do with press freedom.

He is charged with organizing mass unrest and resisting arrest and is considered one of the leaders of the opposition movement led by Ter-Petrossian. This status was reinforced when he announced that he would seek the parliament seat vacated by another opposition leader and fellow fugitive, businessman Khachatur Sukiasian.

While these and other similar news cover the pages of Armenia's newspapers, the same cannot be said of Armenia's broadcast media.

Despite its small size, Armenia boasts more than a dozen national TV companies broadcasting news, entertainment and other programs. The state-run public television and the three largest private networks attract the bulk of television viewers and advertising revenues. These and other broadcasters are the most accessible sources of information. They are also willing to control their reporting and programming to retain the government's favor. The only major TV station that regularly aired criticism of the government, A1+, was controversially pulled off the air in 2002. Today, it has become an internet news source.

In the absence of A1+, a small Gyumri-based TV station, GALA, has emerged as a rare bright spot in the Armenian electronic media landscape. Yerkir Media, ideologically aligned with the ARF, which had previously attempted to distance itself from the accepted government line, expanded

its range of coverage and more openly criticized the government's policies, particularly in foreign relations.

The government maintaining its tight grip on virtually all domestic broadcasters and the far more diverse print media continuing to display political bias and partisanship

Armenian newspapers are just as numerous, but unlike the broadcast media, they offer a great variety of opinion on political and economic issues facing the country. This year that clear difference was even more obvious. Of the 12 Yerevan-based dailies, most highly critical of the government, some saw a serious increase in their circulation. Pashinian's Haykakan Zhamanak, with a stated daily circulation of 8,000, and Chorror Ishkhanutyun (5,200), are the two front runners. All other dailies typically print from 2,000 to 4,000 copies, with the exception of the parliament's official Hayastani Hanrapetutyun which has a print run of 6,000 copies a day. Such small circulation numbers significantly limited the print media's influence on Armenian public opinion. On the contrary, even a cursory look at their content shows that the increased demand for information was met with increased expressions of frustration.

With minuscule advertising revenues and proceeds from sales not sufficient for covering their expenses, most Armenian newspapers survive with the financial assistance of political and economic

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patrons that can be in both government and opposition. Perhaps it is lower production costs that have allowed less political bias and more objectivity among Armenia's online news outlets which are rapidly proliferating and becoming an important source of information in a society where electronic access is becoming more affordable. There are presently more than a dozen such outlets reporting a broad range of news.

NGO financial sustainability and mobility remained high on the sector's legislative agenda, without any major progress to reforms

Police and judicial reforms were an important focus in 2009, largely due to the political and institutional crisis created in the post-presidential election period.

In its continuing monitoring of the post-election political crisis, the Parliamentary Assembly of the Council of Europe passed several resolutions including No. 1677, which clearly urges the government to "implement police reforms, without delay, create the necessary public monitoring mechanism, as well as reform the judicial system in such a way as to ensure its independence."

The combined efforts of the Prime Minister and the Interior Security Ministry resulted in actual implementation of traffic laws long on the books – from the use of seat belts, to motorists stopping for pedestrians, to pedestrians not jaywalking. The difference was immediately visible on the

road, for citizens aware of impending negative consequences of not following the new strict regime. This success almost worked against the government, however. Unsurprisingly, even as drivers and pedestrians overnight began to follow the rules, this unexpected success led to questions about why the same urgency and intensity can't be brought to bear by the government on other, potentially more politically consequential, situations – from bribes to elections to ensuring basic freedoms, including those that a police force should enforce.

Instead, the perception remains that the main task of a police force is to monitor (or obstruct, according to many activists) public assemblies. Political rallies remain a focus of the Armenian Helsinki Committee's report on public assemblies. In the post March 1 period, police presence during rallies and demonstrations is disproportionately greater than necessary to maintain order, and is often obstructive. Of 88 public rallies held during the last year, the Helsinki Committee maintains 37 percent were obstructed by police. They maintain the same was true during Yerevan City Council elections. Further, even the pro-Javakhh demonstration held in Yerevan's Republic Square during Georgian President Saakashvili's spring visit was disrupted by police, for inexplicable reasons.

Although the number of crimes registered in the first 9 months of 2009 is 57 percent higher than during the same period of 2008, the police say the higher numbers are because of more effective identification of crimes and their perpetrators. But it is not just the number of incidents that is on the rise, but so is the nature of the violence and the

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use of violence to settle scores. By year's end, the penetration and brutality of this informal justice system had become a topic of private and public apprehension.

The previous year's judicial reform policy aimed at the reinforcement of the independence and self-governance of the judicial system was abandoned in February. The judiciary reverted to a three-tiered system: courts of general jurisdiction, courts of appeal and the Court of Cassation. The reversal took place after a very short time period and was explained by the same argument -- the need for independence. This, in a year when the courts were busy adjudicating cases instituted in relation to the events of March 1, 2008. Altogether courts heard over 100 cases, including several high-profile cases.

OUTLOOK

- Domestic political developments will be conditioned largely by developments in the Karabakh resolution process and the Armenia-Turkey rapprochement process.
- The opposition's tactics, too, depend on external developments. Therefore, if there are no significant alterations in the Karabakh and the status quo is not affected, domestic turmoil is unlikely.
- The authorities, too, are unlikely to affect a change in the domestic status quo. There will be no sweeping efforts made to allow for greater economic and political liberties, equal implementation of the rule of law, or to find fundamental solutions to problems related to the basic

freedoms of speech and press and human rights. On the contrary, monopolies will be deepened.

- The deepening economic crisis may eventually give rise to a wave of social discontent. This will both weaken the government's position and also enable varying opposition groups to compete for maximal exploitation of this theme.
- 2010 brings Armenia one year closer to the next parliamentary election; as a result, the formation of various new political configurations can be expected both within the opposition and the ruling coalition, as demonstrated by the economic team's recent collective Republican Party membership, led by the prime minister.
- Without specific intervention and direction from above, the police and justice systems will continue to not work effectively, fairly or consistently. Improvements in application of traffic laws demonstrated that such intervention can work.

POLICY OPTIONS

- The striking and disappointing gap between promise and reality must be bridged. Armenia's top leadership express an adherence to liberal political values and equal economic rights, but the government's actions must be brought to match the pronouncements, even if this comes with a two-year delay.

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- By improving the domestic situation, opening up the political field and giving space to alternative perspectives, the Armenian leadership will be able to occupy the international stage with greater leverage and credibility.
- Control mechanisms on media, albeit informal, should be released in order to decrease social tension, improve access to information and allow the necessary and purposeful debate on the critical political and economic issues facing Armenia in 2010.
- A more open media will also offer those political forces not represented in government to participate and effect political change institutionally. The opposition forces, in turn, will have to dialogue with the public, and not with the authorities alone, and rally the public to use future electoral and political processes to make political and institutional change.
- Given diminishing rural populations and decreased external and internal resources, existing community councils or intercommunity councils ought to be encouraged to function as local administrative units in order for citizens to better understand the demands and challenges of governing, and to increase municipal financing options.
- The law on non-governmental organizations and others which limit universal rights in order to address or prevent potential abuse of the system should be abandoned in favor of laws that encourage volunteerism, incentivize more active civic participation in order to broaden the political field and share the responsibility and burden of governance, encourage charitable giving and additional income generation for NGOs.
- Just as Parliament voiced an opinion when it came to tax implications for large businesses, it must also use its leverage as a check and balance to express and introduce differing approaches on all legislation.

FROM DOUBLE-DIGIT GROWTH TO DOUBLE-DIGIT DECLINE

In 2009, the financial crisis and the resultant economic crisis continued to dominate the international debate, and everywhere the focus of activity was on rescue and recovery. Stimulus packages and quantitative easing were the measures, at the same time as attempts were made to reform and regulate the international financial system.

By the end of year, the result for most major economies has been a slow recovery, albeit generally fragile and jobless, with the exception of China, India, and some other developing nations where the recovery has been stronger.

The risk now is of a further slowdown. The dilemma facing the global economy is how to find the right balance between a strategy to exit the current dependence on stimulus efforts, while managing growing national debts and budget deficits.

The economic downturn itself and the responsive processes affected all regions and all countries. Armenia was no exception. In fact, Armenia's economy was one of the hardest hit in the region and in the world. Government numbers affirm approximately 18 percent GDP decline for the first half of 2009 compared with around 10 percent growth in the first half of 2008.

This unexpected fall cannot be explained by the global crisis alone. The crisis of course was the main trigger, because it resulted in a decline in

- private transfers and remittances
- foreign direct investments
- trade, particularly exports.

The second set of reasons has to do with structural problems in Armenia's economy.

They include

- low levels of diversification
- deep monopolization of the economy
- close interdependences between businessmen and government officials
- deficiencies in finance mechanisms
- low competitiveness
- lack of good governance.

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Finally, the third reason for this unnecessarily huge decline was the government's belated and insufficient response to the deepening crisis, including

- a stimulus effort that was insufficient, mostly directed to the supply side rather than demand
- a relatively restrictive fiscal and monetary policy, despite the clear need acknowledged through public pronouncements for the opposite
- overly aggressive and selective tax collection
- ineffective use of foreign loans and assistance
- losing the opportunity to implement reforms.

For the year 2010, Armenia's budget is based on a projected 1.2 percent growth. This projection is based on an optimistic view of economic growth globally.

Regardless of what happens globally, the impact on Armenia will come with a time lag. Further, Armenia's macroeconomic picture has been weakened by the huge decline in 2009, creating the following picture:

- The recession has eroded the purchasing power of the population. Unemployment has gone up, disposable income has gone down due to more aggressive tax policies, and over 17,000 new families have been added to the Family Benefits program, bringing the total number of registered needy families to over 120,000.

- Tax revenues have fallen by 18 percent which despite cuts in government expenditure is expected to raise the 2009 budget deficit to 7 percent of GDP, compared to the 1 percent projected in the 2009 budget.
- The external balance has deteriorated greatly, the current account deficit has exceeded 10 percent of GDP and the trade deficit has passed the 25 percent mark. Armenia's exports have fallen by 40 percent.
- Foreign debt will increase from 13 percent of GDP in 2007 to more than 40 percent in 2010, raising doubts about Armenia's debt sustainability. Fitch has downgraded Armenia's credit rating to BB- from BB.
- Total assets in the banking system remain the same as in 2008, while the level of non-performing loans has more than doubled, exceeding 11 percent in 2009, threatening banks' solvency.
- Given rising bank losses and declining economic growth, lending has become highly restrictive and prohibitive, thus impeding borrowing and hampering local investments.

THE ECONOMIC PICTURE

Based on available 2009 data, Armenia registered the greatest decline in GDP among CIS countries. The decline hit 18.3 percent in the first three quarters of the year. Capital investments fell 53.5 percent, against a CIS average of 15 percent. Only inflation which is up an average of 12 percent in the region is a modest 4.6 percent in Armenia, despite

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the devaluation of the national currency and the resulting increase in the prices of consumer goods.

The limited export base creates great dependency on the international markets for a few types of goods. Moreover, the large proportion of raw materials in the export structure testifies to the economy's low level of competitiveness.

Private remittances, which today constitute 9 percent of GDP (down from 14 percent the previous year) play a pivotal role in Armenia's economy. Such fluctuations in private remittances have an immediate impact on household disposable income, and for that reason they have greatly shaped demand in the most important sectors of the economy.

The deficiencies in financing mechanisms significantly limit the availability of financing sources for shaping demand in the investment and consumer markets.

But the fundamental expression of the global crisis in Armenia was its impact on the real sector, and industries such as construction. This sector has depended largely on external financing of both supply and demand, and both were strongly affected by a 30 percent drop in foreign direct investments.

The **construction** sector, which had been the most dynamically growing area of the economy, suffered most from the crisis. The level of contraction in the sector is estimated at 41 percent. Housing construction, which from 2005 to 2008 grew on average 25 percent annually, not only did not grow, but recorded a 7 percent decline in the first nine months of 2009. The limited availability of financing has temporarily frozen market supply and demand.

Construction firms are attempting, at all cost, to complete current construction projects, with new initiatives placed on hold.

A series of government initiatives is aimed at stimulating supply and demand in the sector. The government is providing guarantees to construction firms to take bank loans if their projects are more than 50 percent complete. To stimulate new construction, subsidies are being provided that allow construction firms to reclaim, after construction has been completed, the Value Added Tax and employee benefits they have paid. Efforts to develop a mortgage market, such as the establishment by the Central Bank of a mortgage fund that by year's end will have capital funding totaling 30 billion AMD, and the government's mortgage-credit program, are intended to stimulate demand.

The large proportion of raw materials in the export structure testifies to the economy's low level of competitiveness

Manufacturing output totaled 460 billion AMD in January-September 2009, which is a decline of more than 11.4 percent compared with the corresponding period in 2008. The greatest decline was in chemical and textile manufacturing and jewelry production. Production of metals and minerals, which constitute nearly one-fifth of industry, increased by 12 percent in 2009. The performance of mining-related activities has generally not changed compared with the corresponding period of the previous year. The production and distribution of electricity, natural gas and water has declined 16 percent.

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In the first half of the year the **agriculture** sector's output declined by 0.8 percent. A reduction in powder milk prices in international markets led to a shift from domestic producers of milk to imported powder milk. Instead, tobacco production increased and tobacco exports offset negative growth in other areas.

The real sector has depended largely on external financing of both supply and demand, and both were strongly affected by a 30 percent drop in foreign direct investments

Horticulture production, on the other hand, is expected to grow by 4 to 5 percent and thus compensate for the negative contribution of livestock.

Overall it is expected that agriculture will end the year with a low growth rate, if any. This sector provides the single largest source of employment and is crucial for a healthy economy.

The greatest decline was in chemical and textile manufacturing and jewelry production

The level of **commercial transactions** in Armenia in 2009 decreased 5.4 percent in the January-September timeframe. That reduction is conditioned by the steep decline—by nearly half—of auto purchases, which is typical of the global automotive market. In the retail market, minor but positive movement has been recorded. Although the quantitative growth registered is negligible, the increase in transactions in stores

and a decrease in street markets testify to the more regular use of cash registers.

The **service sector** has seen a 1.5 percent decline by October. In the tourism sector, development has not been uniform. In the first three quarters of 2009, the number of visitors to Armenia grew nearly 6 percent. Hotel and restaurant activity increased as the amount of services provided in the sector increased; however, a substantial decline of 15.5 percent was recorded in tourism or travel agency transactions. In the financial services sector, there was a substantial decrease -- 13 percent -- in transactions.

In the **external sector**, as anticipated, the flow of private remittances into the country began to decrease starting at the beginning of the year. Thus, the substantial increase of 14 percent in the fourth quarter of 2008 was followed by a steep decline, by nearly one-third, in the first and second quarters of 2009. The flow of private remittances is expected to continue to decrease, because the economy in Russia—the largest source of remittances to Armenia—remains unstable.

The numbers are also extremely negative in the foreign trade sector, which has recorded a 30 percent decline in volume. Trade relations with the European Union have suffered most, with a 40 percent decrease. The decline in international trade is particularly evident among the types of goods that form a large share of Armenian exports: metals, minerals, precious and semiprecious stones and processed foods. Decline in the export levels of these categories is significant—40 to 50 percent—and is the consequence of diminished demand globally.

In the external sector, the flow of direct investments has registered major fluctuations. Foreign direct

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investment in the first half of 2009 totaled US \$180 million, which is 30 percent less than during the corresponding period of the previous year.

The year 2009 was also notable for shocks in foreign currency markets. After selling 40 percent of foreign reserves, the Central Bank moved the national currency from a fixed exchange-rate regime to a floating one. As a result, in March 2009 the AMD lost 20 percent of its value against the US dollar virtually overnight and settled at the 370-380 AMD to US \$1. For the January to September period, the average exchange rate was 355 AMD to US \$1.

However, after mid-year, the Central Bank again resorted to interventions to create artificial demand for the Dram. Over time, the level of intervention has continued to grow such that the Central Bank will find itself in more or less the same position at the same time, next year. The result, again, will be steep and sudden depreciation.

Public finances were not exempt from the adverse effects of the crisis. The substantial drop in state budget revenues during the first 10 months of 2009 was a reflection of reduced economic activity. Tax revenues decreased 15.7 percent over the same period the previous year. As a result of the decrease in state revenues, the budget deficit has grown substantially, to 158 billion AMD. State revenues have decreased in absolute terms, they have grown in relation to GDP and now constitute 22.4 percent.

Unprecedented increases have been recorded in the levels of state debt, which has doubled in size and is expected to exceed 40 percent of GDP by the end of 2010. According to Armenian legislation, that debt cannot surpass 60 percent of GDP. This situation also limits the government's ability to assume additional debt.

ECONOMIC POLICY

One year ago, Armenia adopted the Sustainable Development Plan which was the outgrowth of the Poverty Reduction Strategy. However, the international financial crisis, which eventually did indeed affect Armenia distracted the country from the plan's projected goals. The crisis forced a reevaluation of existing realities, and managed to make certain adjustments (sometimes fundamental) in Armenia's economic policy.

Production of metals and minerals, which constitute nearly one-fifth of industry, increased by 12 percent

When Armenia's Prime Minister addressed the National Assembly near the end of 2008, and presented the budget draft for 2009, he also introduced the government's plan to counter the crisis. That plan and the government's earlier initiatives were notable for their ambition: including turning Armenia into a regional center for health services, education, financial services and for organized recreation. These projects did not get off the ground, nor has the Pan-Armenian Bank idea yet, for which the government had expressed readiness to allocate funds and to solicit financing from the private sector and international institutions.

After selling 40 percent of foreign reserves, the Central Bank moved the national currency from a fixed exchange-rate regime to a floating one

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In 2009, when the government belatedly recognized the real impact and immediacy of the crisis, it adopted a plan of response which included new policies and new mechanisms, in order to

- maintain macroeconomic and financial stability
- protect jobs by providing loans to selected large employers
- maintain the spending level by attracting external financing to spur the aggregate demand
- adopt a floating exchange rate to maintain international reserves

Infrastructure development at the national and regional levels was an important component of the plan. The government spoke about a variety of projects, including

- construction of a new nuclear power plant
- 1000 km of road construction including a North-South highway from the Iranian to the Georgian borders, restoring rural roads and the city of Yerevan transportation project
- the Iran-Armenia railway project
- restoring the water supply system in every region of Armenia
- continued rehabilitation of the Earthquake zone

The government's response also focused on improving Armenia's business environment and making it more attractive for investment. The

measures outlined to reach this goal: streamlining tax and customs procedures, the creation of free trade zones near Zvartnots airport and in Gyumri, reduction in the number of inspections, providing loans to small and medium enterprises with the support of international financial institutions.

To encourage business development, the government created the following tools:

- loan guarantees especially to small and medium enterprises
- subsidy mechanisms
- equity participation in private enterprises
- direct financing through state funds
- fighting unfair competition
- reduction and simplification of taxes on small and medium enterprises
- creation of a task force to evaluate business plans received from the private sector and determine the format and level of government contributions.
- expansion of the construction sector, including state support for unfinished construction projects
- short term loans to finance the working capital needs of mining companies.

Although these measures are and will remain useful for economic development, and each taken alone may be effective. However, a multiplicity of tools, measures and instruments do not constitute a plan. If such a variety of tools are not based on a solid strategy, strong structural links, then they can also

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be ineffective. In the year since the implementation of these measures, economic decline has only been slightly affected.

The major components of the plan (the free zone, the nuclear power plant and the rail line to Iran) are still on the drawing board and their implementation is not realistic for the near future. The remainder of the plan frequently cited by the economic leadership, are not part of the effort to counter the crisis. They are no different from those which have been part of Armenian government budgets in non-crisis years. The proposed interventions do not have the necessary scope, speed or purpose necessary in a crisis period. They are too small to effect a change. In addition, the government acknowledged too late the impact of the crisis and its timing.

The government's effort is conservative and selective, with no infusion of large funds, directed at protecting the jobs and structures that exist as opposed to creating new employment.

The government is missing the opportunity to make serious systemic improvements in areas which are fundamental hindrances to stable economic growth: strengthening rule of law, weakening monopolies, prohibiting the deep linkages between business and government.

The government is not addressing the limitations placed on demand; there is no reduction in the cost of borrowing, nor tax incentives nor a level business environment. At the same time, low competitiveness and lack of financial resources remain an obstacle to a healthy export environment.

STRUCTURAL CHALLENGES

The global crisis exposed the vulnerabilities in the Armenian economy. All stakeholders recognized

that the economy is not competitive, the financial intermediaries are shallow, the social safety net is exposed, tax and customs require reforming with an eye to eliminating corruption and other blockages. The crisis created difficulties but also offered the political opportunity (and cover) to justify fundamental policy changes.

*The government belatedly
recognized the real impact and
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and financial stability*

It is difficult to create a **competitive environment** with a small domestic market and tight linkages between government officials and the business community. Indeed, Armenia continues to rank a shockingly low 129 in extent of market dominance and 132 in effectiveness of anti-monopoly policy among 133 countries in the Global Competitiveness Report.

The State Commission for the Protection of Economic Competition noted that in 2009, the level of market concentration increased, the number of enterprises decreased and the market shares of large enterprises increased. These observations imply that serious interventions are necessary to open up the market.

Today, the extremely low level of competition for some products, price setting and other factors conditioned by monopolies are considered by the

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business community itself to be some of the key obstacles to the development of a healthy market environment. The lack of competition prevents market-regulated prices, optimization of resources and new entries. Firms with dominant positions in the market, working in the shadow economy, have an advantage of lower costs and prices.

Unlike in other countries, Armenia's **financial institutions** were not devastated by the economic crisis. The main reasons are the small size of the banking sector (banking assets are 30 percent of GDP), weak integration and the lack of established stock markets.

The low level of competition for some products, price setting and other factors conditioned by monopolies are considered by the business community itself to be some of the key obstacles to the development of a healthy market environment

However the negative effects are nonetheless apparent. In 2009, the banking system continues to face increased risk due to continued economic contraction. The high-credit expansion in recent years of largely consumer lending, collateralized by household mortgages, has increased banks' vulnerability to the decline in real estate prices. They are also affected by external funding sources having dried up, and by a sharp decrease in remittances. In some banks, monetary transfers are down 60 to 70 percent.

Total banking system assets remained flat after September 2008, while non-performing loans have

more than doubled putting pressure on banks' earnings and profitability.

The 20 percent Dram depreciation led to lack of confidence in the Dram together with the persistent assumption that it would continue to depreciate. High dollarization (reached 72 percent in July, over 43 percent just a year earlier) led to higher Dram deposit interest rates to attract deposits in Drams, which in turn raised Dram loan interest rates so banks would maintain a profit margin. This partially accounts for diminished investments in the economy throughout 2009.

The spread between deposit and lending rates which is one of the biggest in the world, decreased during the year. However, in September the spread once again increased. According to the official statistics, during the first nine months of 2009 the value of total loans, excluding delinquencies, grew in nominal terms by about 6 percent, as a result of refinancing and extensions, as well as some new loans.

Taking advantage of the low inflation rate, Armenia's Central Bank has, since December 2008, tried to implement an expansionary policy by gradually reducing the refinancing interest rate. Currently it is 5 percent compared to 7.75 percent during November 2008.

During 2009, the most significant development in the stock market was the establishment of the primary market. The role of the stock market in the economy remains very small. It represents just 0.8 percent of the GDP.

Private pension plans were to start in January 2010, workers in Armenia were to see part of their pay invested there. This plan has been postponed to January 2011. Until then, mandatory retirement

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contributions will continue to go into a public pension pillar. The mandatory contributions workers make today fund the benefits of current retirees and retirement funds are not infused into financial markets. The International Monetary Fund and the World Bank, in the Joint Staff Advisory Note on the Second Poverty Reduction Strategy Paper for the Republic of Armenia, argued that Armenia should not privatize its pension system because Armenia is not ready to adopt a mandatory private pension system which requires a domestic bond market, which is not yet developed in Armenia. The government argues the opposite, saying that the initiation of any pension reform will benefit the development of capital, although the stated intention of the government's pension reform is to increase benefits and to link benefits to the amount a worker has contributed over the years.

In the field of **taxation and customs**, the economic crisis brought the government face to face with a dilemma. On the one hand, stated policy was to implement radical tax reforms and increase government tax revenues as a percentage of the GDP. On the other hand, the crisis impelled the government to act cautiously with respect to the risks involved in bringing large entities out of the shadows into the open sphere, at this time, and endanger jobs.

Tax and customs have always been considered Armenia's major weakness. According to the 2009-2010 Global Competitiveness Report the customs process was considered a serious obstacle to a competitive business environment. That together with taxation, is considered Armenia's second problematic factor following corruption. The same is true in World Bank reports. Although Armenia ranks high in the Ease of Doing Business survey (44 out of 181 countries) it is in 150th place when it comes to tax administration.

Within the business community there is significant dissatisfaction about the arbitrary process of determining the price index of imported goods against which to charge customs duties. Arbitrary decisions and other bureaucratic hassles affect the price of goods and have a significant impact on the level of competition in the domestic markets.

Unlike in other countries, Armenia's financial institutions were not devastated by the economic crisis

Nevertheless, the government was able to introduce significant legislation to reform the tax system, and a set of initiatives, which were directed towards the reduction of the shadow economy. Efforts focused more on changing behavior among consumers (encouraging the use of cash register receipts by offering prizes) rather than on forcing in new and large tax-payers. As a result, from January to September 2009, tax revenues as a percentage of GDP increased by an insignificant 0.1 percent compared to the same period the previous year.

The 20 percent Dram depreciation led to lack of confidence in the Dram together with the persistent assumption that it would continue to depreciate

The main components of the taxation and customs reforms focus on increasing the supervision of large enterprises and simplifying the bureaucratic process for small and medium enterprises. Possibly the most controversial proposal was assigning tax inspectors to large and delinquent taxpayers, whose number is about 100.

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Also to counter the effects of the crisis, the government has tried to reduce the burden on corporations by drastically reducing the number of inspections until January 2011. Only the State Revenue Committee can actually carry out inspections.

The spread between deposit and lending rates, which is one of the highest in the world, decreased during the year

The government will expect electronic tax filings in 2010 for all banks and large enterprises. Tax inspection procedures, too, will change. Rather than universal inspection, there will be selective inspection based on an automated risk-assessment system. The purpose of all these measures is to reduce the opportunities for personal interaction and the opportunity for corruption, as well as to increase the efficiency of the tax collection processes.

Within the business community there is significant dissatisfaction about the arbitrary process of determining the price index of imported goods against which to charge customs duties

Some of these changes are to be temporary, others permanent. Most have been positively assessed by international observers. The effect in the public sphere is still to be felt.

OUTLOOK

- Globally, while most economists agree the economy has bottomed out, they continue to differ on the shape and pace of the recovery. The majority insists that the recovery will be U shaped, meaning a slow recovery, as opposed to V shape, meaning a fast recovery, and some economists even predict double-dip W shape recession.
- Whichever way events develop globally, the impact of those developments will be projected on Armenia. But since Russia will be the main conduit of that recovery, and Russia is the weakest positioned due to its dependence on commodities and its poor financial system, and since there will be in any case a significant lag from the global recovery to Russia and then to Armenia, under the best circumstances that impact is unlikely to be felt in 2010.
- Similar to 2009, the macro assumptions of the 2010 budget are also questionable both in terms of growth and tax revenues. Added tax collection pressure in particular may cause further disruption in the business environment creating more regulatory barriers and deterring investments.
- The government will have little fiscal flexibility if growth is slow and the rate of growth is low, and will be faced by the dilemma of controlling external debt, the budget deficit and the increase in expenditures of primary importance.

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- Widespread public distrust in the government's actions and the gap between the government's pronouncements and their actions will result in further disillusionment and impede economic progress.
- The government's stimulus plan and overall approaches will continue to be reactionary in nature and hostage to uneven market relations and strong monopolistic pressures. Inadequate incentives in vital sectors such as housing and construction, mining and agriculture will hinder growth in 2010.
- Businessmen with monopolized interests will have no new incentives to become internationally competitive and seek foreign markets.
- Armenia's debt may exceed 40 percent of GDP by the end of 2010. If the loans are not utilized to strengthen accelerated economic growth and increased export receipts, then this will be a serious burden on the budget and economic growth will be further dampened, in addition to impeding debt repayment and further borrowing capacity.
- The renewed policy of pegging the exchange rate is likely to continue and could exacerbate external imbalances in 2010. Government policies will consequently put pressure on net reserves and create the need for further rescue from the IMF. If the pattern of intervention continues, the Central Bank may find itself in the same situation as in spring 2009 and be forced to go to similarly steep devaluation.
- Weak confidence in the Dram and rising non-performing loans will further escalate the dollarization of deposits (72 percent in July against 43 percent before the crisis) and pose serious lending risks for 2010 and beyond.
- The Armenian banking system remains small (\$3.3 billion in assets) despite significant growth in recent years, as well as exposed to external conditions -- in fact 67% of total capital is held by non-residents. This may not cause insolvency among Armenian banks in the short term but is already pointing towards serious challenges.
- The opening of the border with Turkey will certainly affect the economic outlook. The government should adopt a clear vision and measures to minimize possible negative effects in this respect.

POLICY OPTIONS

- High unemployment, a sharp drop in remittances and declining incomes have all dramatically diminished demand in the economy. To revive consumer demand, consumers in all segments of society need access to disposable income. This can be done by implementing a tax policy intended to increase household disposable income.
- Although the government envisages infrastructure projects, those announced are either too small in scope to serve as stimulants (the earthquake zone) or too distant in implementation (the nuclear

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power plant or the Iran-Armenia rail line) to have a speedy impact on the economy.

The government can only make a real difference with projects with rapid and noticeable multiplier effects and which create the most jobs.

- Both domestic and foreign investment must be encouraged through confidence-building as well as tangible economic measures. As a first practical step, banks must be encouraged to reduce interest rates to bring down the cost of borrowing.
- Exports, critical for Armenia's sustainable growth given the small size of the domestic market, have declined over 40 percent in the past year. The government can overcome the two main impediments for export growth by revisiting the exchange rate policy, and by setting up a mechanism for providing short-term concessionary export loans.
- Solutions must be sought beyond the economic sphere. The economic crisis can be used to improve the economic environment by ensuring rule of law, eliminating monopolies, breaking the deep linkages between business and government and instituting good and predictable governance.

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THE REGION IN FIGURES

ARMENIA

<i>GDP Growth:</i>	Outlook: Armenia's growth is projected to be 1.2 percent in 2010, depending on optimistic rebound -15.6 percent globally and in Russia.
<i>Inflation:</i>	However, Armenia's own weakened macroeconomic situation created in 2009 will offset the benefits of global growth.
<i>GDP:</i>	\$8.7 bn
<i>GDP per capita:</i>	Politically, tension between government and opposition will continue as will the jockeying among various opposition groups seeking the role of leader. In the absence of unexpected developments on either Armenia-Turkey or Karabakh processes, there will be no major domestic shocks.
<i>Population:</i>	Armenia's biggest foreign policy challenge will be to de-link the two processes and not allow Turkey to play a major role in the Karabakh process. Armenia will need to re-position the process so that the international community's focus is on Turkey to quickly ratify the protocols and leave the Karabkh process to run its course, rather than on Armenia for quick concessions in the Karabakh process.

AZERBAIJAN

<i>GDP Growth:</i>	Outlook: Azerbaijan's economy is expected to grow at around 7 percent sustained by improving conditions in international commodity markets. Reliance on commodities shielded the country from the crisis, although growth was down because of diminished international and domestic demand. Other risk factors include limited integration and a fragile financial sector.
<i>GDP:</i>	\$42.5 bn
<i>GDP per capita:</i>	Domestically, no significant events are expected and the government will continue to maintain an unmitigated grip internally.

GEORGIA

<i>GDP Growth:</i>	Outlook: Georgia is expected to show modest recovery in 2010, at around 2 percent, due to low investments and a weak financial system. Domestic demand may be encouraged by expansionary policies and lending programs supported by international funding which will somehow counter the effects of declining remittances, rising non-performing loans and contraction in the real estate sector.
<i>GDP:</i>	\$11 bn
<i>GDP per capita:</i>	(PPP \$4,747)

Domestically, a weak and divided opposition will not be able to repeat their permanent aggressive presence of 2009.

Tension with Russia, over S. Ossetia, Abkhazia and other issues will not dissipate, although there may be a slight thawing with the probable opening of Upper Lars border crossing with Russia and resuming direct flights between capitals. Internationally, Georgia will try to revive its NATO accession issue. It will also watch the Turkey-Armenia rapprochement process closely to gauge its effects on its own role as a transit corridor.

RUSSIA

<i>GDP Growth:</i> -7.5 percent	Outlook: The economy is expected to grow at 2 to 3 percent. Russia remains heavily dependent on the speed of recovery in the international economy, especially in the commodity markets, because of the economy's reliance on commodity prices.
<i>Inflation:</i> 11 percent	
<i>GDP:</i> \$1,254 bn	
<i>GDP per capita:</i> \$8,873 (PPP \$ 15,039)	If the Russian president's strong rhetoric in 2009 on the weaknesses of the economy and calls for election and other reforms continue, they will be seen as his efforts to strengthen his own position as a leader, rather than a placeholder for former President Putin. This will be closely watched by others in the CIS, who may consider a domestic repetition of a similar scenario.
<i>Population:</i> 141m	Internationally, Russia and the US will continue to reset their relationship and therefore arrive at trade-offs on Iran, NATO, new security arrangements and other problematic issues.

TURKEY

<i>GDP Growth:</i> -6.5 percent	Outlook: The global recession and weak domestic demand underlined decline in Turkey in 2009. However, the economy is expected to rebound next year by about 3 percent as a consequence of improving external conditions, as well as Ankara's fiscal policies aimed at restoring confidence and economic activity. Domestically, two major events will shape the situation: the Ergenekon trials, the extent and scope of revelations, as well as the effect of the process on Turkey's internal power structures; as well as the degree of success with the Kurdish plan.
<i>GDP:</i> \$593 bn	Internationally, Turkey will pursue 'zero problems with neighbors' to reinvent its role in the region, and strengthen its position with the US and the EU. The two problematic directions are Cyprus, where they will not be able to arrive at a deal, and Armenia, where the strong link between Turkish ratification of protocols for normalization and the Karabakh issue will pose problems for the US (and its use of the term 'genocide') and for the Armenian administration.

IRAN

<i>GDP Growth:</i> 1.5 percent	Outlook: Iran is likely to experience a slow recovery in 2010 (2.4 percent) and continued international pressure and sanctions over its nuclear program. The economy is driven by an inefficient state sector and overreliance on the oil sector.
<i>GDP per capita:</i> \$4,477 (PPP \$11,201)	Internal tensions, driven by economic as well as political concerns, will not subside, but cannot overturn the rule of President Ahmadinejad and the clerics.
<i>Population:</i> 74m	The nuclear issue will remain a source of tension between Iran and the US. In light of possible further isolation on the nuclear issue, Iran will try to expand its regional involvement. The Turkey-Iran rapprochement will at least partly remain driven by their common issues with Israel. Iran will maintain the balance between Armenia and Azerbaijan over Karabakh.

*All indicators represent estimates for 2009.

Sources: The World Bank, IMF World Economic Outlook, EBRD, The Economist, E&V Research Center, Dun & Bradstreet, US Census Bureau.

FOR NOTES

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