

Armenia's Imperative: Regaining Strategic Balance

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Introduction

Since gaining a rather sudden independence in the abrupt wake of the collapse of the Soviet Union, the three states of the South Caucasus region, Armenia, Azerbaijan and Georgia were ill-prepared and generally ill-equipped to manage the early period of state-building. Over time, each of these three states has pursued a difficult course of economic and political reform, systemic transition and state-building, with a widening variance in consistency and commitment. As a region, these countries also continue to struggle to overcome the legacy of constraints and challenges stemming from seven decades of Soviet rule.

For Armenia, the struggle to overcome a daunting set of challenges, ranging from the inherent limits of its small size and landlocked geography to a virtual “state of war” with Azerbaijan over the unresolved Nagorno-Karabakh conflict, was especially difficult. Equally daunting, Armenia embarked on a difficult path of state-building, bolstered by ambitious economic and political

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Part I

The Common Neighbourhood: Vying for an Independent Choice

reforms. Even well before independence, Armenia was beset by two seminal events: the eruption of the Nagorno-Karabakh conflict and the subsequent outbreak of war with Azerbaijan in February 1988 and a devastating earthquake in December 1989. Against that backdrop, the sudden and unexpected collapse of the Soviet Union left Armenia largely unprepared for the urgency of independence.

Armenia's threats of isolation and insignificance

From a broader strategic perspective, the most serious threats to Armenia centre on the challenges of isolation and insignificance. For a landlocked country limited by its small size in both terms of demography and territory, the threat of isolation stems from the constraints of closed borders, the collapse of regional trade and transport and an exclusion of all regional development projects. With its borders with Azerbaijan and Turkey both sealed since the early 1990s, the imperative for Armenia is to overcome the limits of geography.

This threat of isolation involves the danger of becoming disconnected from the globalised marketplace and from the technological and economic changes inherent in the process of globalisation. In addition to the relative isolation of the country, Armenia also faces a second, related threat of insignificance, defined by the limits of a small, landlocked country with two of its four borders closed.

The burden of unresolved conflict

In addition, Armenia also continues to struggle to manage the burden of unresolved conflict. Since a 1994 ceasefire suspended

hostilities between Armenian and Azerbaijani forces, the unresolved Nagorno-Karabakh conflict has been subject to an international mediation effort aimed at forging a negotiation resolution capable of solving the inherent contradiction between the principles of self-determination and territorial integrity. The mediation effort has been managed since 1992 by the Commission on Security and Cooperation in Europe (CSCE) - now the Organization for Security and Cooperation in Europe (OSCE) - through the so-called Minsk Group, a tripartite body co-chaired by France, Russia and the United States working in close and effective co-operation with the parties to the conflict. More recently, there has been little progress in the negotiations over Nagorno-Karabakh, as the two sides are simply too far apart. Aside from the broader contradiction between two relevant provisions of international law (the opposing principles of self-determination vs. territorial integrity), the Karabakh conflict is viewed quite differently by each of the contesting parties. For Armenia, anything short of outright independence or unification with Armenia for Karabakh is unacceptable, although there has been some flexibility on the Armenian side over the terms and duration of a possible transition stage toward final status of Karabakh. On the other hand, Azerbaijan offers little more than a degree of autonomy for Karabakh, but premised on the return of Karabakh to Azerbaijan.

Fortunately, and to its credit, Armenia's position regarding the return of the Armenian-held areas of Azerbaijan outside of Karabakh (the so-called "occupied territories") is both moderate and prudent, viewing the return of those areas as inevitable, but only as part of a larger peace deal regarding Karabakh directly. Given this divide, the real challenge now stems more from the maximalist position of Azerbaijan, which demands the return of

Part I

The Common Neighbourhood: Vying for an Independent Choice

both Karabakh and the occupied territories, but remains unwilling or unable to offer any reasonable compromise.

Yet the broader context is also dangerous, as Russia is clearly exploiting the unresolved Karabakh conflict in order to further consolidate its power and influence in the region. Within this context, Russia has not only emerged as the leading arms provider to Azerbaijan², but also continues to deepen its military support and cooperation with Armenia³. For Armenia, its external security guarantees stem from both the bilateral partnership with Russia and membership in the Russian-led Collective Security Treaty Organization (CSTO). And as the only CSTO member in the region, Armenia enjoys preferential discounts for arms purchases, as well as financial and technical support for its modernisation programme⁴.

In addition, the 102nd Russian base at Armenia's second largest city Gyumri has been upgraded and hosts a force of roughly 5000

² More specifically, the recent announcement of a new \$1 billion Russian arms delivery to Azerbaijan is particularly disturbing given the nature of this latest procurement by Azerbaijan. The delivery of battle tanks, heavy artillery pieces and multiple rocket launchers stems from bilateral contracts first signed in 2011-2012. But according to Russian sources, the shipment also includes nearly 100 T-90C tanks, Smerch and TOS-1A multiple rocket launchers and Msta-A and Vena artillery cannons. See "Russia starts delivering \$1 billion arms package to Azerbaijan," *Reuters*, 18 June 2013.

³ Emil Danielyan, "Russian, Armenian defence Chiefs in Fresh Talks", *Radio Free Europe/Radio Liberty (RFE/RL)*, Armenian Service, 17 April 2013.

⁴ See Richard Giragosian, "Soft and Hard Security in the South Caucasus and Nagorno-Karabakh: A Euro-Atlantic Perspective", in Michael Kambeck and Ghazaryan Sargis (eds.), *Europe's Next Avoidable War. Nagorno-Karabakh*, London, Palgrave Macmillan, 2013.

Russian troops and a squadron of MiG-29 fighter jets. Nevertheless, there are concerns over the terms of the Russian base agreement that was renegotiated with Armenia in 2010, which extended the lease up to the year 2044⁵. More specifically, the agreement is largely seen as a one-sided deal, stemming from the fact that as the host country, Armenia not only fails to receive any leasing payment from Russia, but also covers all of the costs of the base itself, including all services, such as electricity, water and infrastructural expenses.

A shifting balance of power

Thus, there is now a clear imperative for greater concern over the now shifting balance of power in the South Caucasus, which is driven by three specific trends. The first trend is defined by an increasingly tense and shifting balance of power that has only been exacerbated by what has now become a pronounced and escalating “arms race”. But it is not a classical “arms race” that is now underway, however, as the traditional Cold War-era concept of an arms race implies a degree of symmetry, as two opposing sides increase defence spending and pursue an arms buildup from a position of proximity. Rather, the current trend of an arms race is more one-sided, driven by a serious surge in defence spending and a new pattern of procurement by Azerbaijan, with Armenia compelled to try to keep pace. Clearly, Azerbaijan has moved farthest and fastest, steadily increasing its defence budget over the past several years, from \$175 million in 2004 to \$4.8 billion in 2015, including targeted spending for modernization through the purchase of up-to-date equipment and weaponry (see chart below).

⁵ Hasmik Smbatian, “Armenia, Russia Sign Extended Defence Pact,” *Radio Free Europe/Radio Liberty (RFE/RL)*, Armenian Service, 20 August 2010.

Part I

The Common Neighbourhood: Vying for an Independent Choice

Regional “Arms Race” Armenian & Azerbaijani defence Spending (2004–2015)

Year	Armenia	Azerbaijan
2015	\$470 million	\$4.8 billion
2014	\$460 million	\$3.75 billion
2013	\$451 million	\$3.7 billion
2012	\$400 million	\$3.1 billion
2011	\$387 million	\$3 billion
2010	\$360 million	\$2.15 billion
2009	\$495.3 million	\$2.46 billion
2008	\$370 million	\$2 billion
2007	\$273 million	\$1.3 billion
2006	\$166 million	\$700 million
2005	\$136 million	\$300 million
2004	\$81 million	\$175 million

Sources: Radio Free Europe/Radio Liberty (RFE/RL), SIPRI Database, Jane’s Information Group, RSC monitoring & local sources

The second driving trend is rooted in a substantial increase in the procurement of modern offensive weapons by Azerbaijan. More specifically, the danger from the first trend of a virtual arms race is not simply in terms of the scale of the surging Azerbaijan’s defence budget, but where the funding has been directed and how it is spent. Within the context of analysing the impact of rising defence spending, there is a new trend in procurement,

with Azerbaijani purchases of new, modern offensive weapons systems. Unlike past procurement deals, which were largely limited to limited deals with arms producers in Belarus and Ukraine, these more recent acquisitions involved modern offensive weapon systems⁶.

Moreover, over the past several years, a number of new arms suppliers have replaced Turkey as the traditional source of arms for Azerbaijan. And for most of these new suppliers, the arms sales to Azerbaijan are driven by profit, with little concern for the danger of renewed hostilities. As one of the key actors in this new groups of arms suppliers, Israel sold Azerbaijan some \$1.6 billion in arms in 2012, including unmanned aerial vehicles (UAVs) and missile defence systems, with a subsequent \$300 million contract for several dozen more UAVs.⁷ And according to the Stockholm International Peace Research Institute (SIPRI)⁸, the volume of Azerbaijan's imports of major conventional weapons increased by 164 per cent between 2002–2006 and 2007–11, making it the 38th largest recipient of weapons.

Yet there is an inherent limit to the impact of this trend procurement. This stems from the absence of serious defence reform, which only hinders improvements in weapons systems or even training. In addition, the sharp decline in global oil prices will tend to only discourage and deter expensive buying sprees by the Azerbaijani government. As the combination of falling oil

⁶ For more background on corruption within the Azerbaijani armed forces, see: Liz Fuller and Richard Giragosian, "Azerbaijan's Unsinkable General," *Radio Free Europe/Radio Liberty (RFE/RL)*, Caucasus Report, 14 March 2010, and Richard Giragosian, "Looking to 2020: Azerbaijan's Military Aspirations," *Jane's Islamic Affairs Analyst*, 23 April 2008.

⁷ "Armenian-Azerbaijani war for Karabakh might resume," *Oxford Analytica*, Daily Brief, 12 June 2012.

Part I

The Common Neighbourhood: Vying for an Independent Choice

prices and decreasing oil reserves in Azerbaijan suggests, such an expanded and expensive procurement program will be difficult to sustain.

Moreover, there is a third trend now underway. This trend follows a serious pattern of increased Azerbaijani attacks, expanded probes of Karabakh defensive positions and even cross-border incursions targeting Armenia proper, as well as Nagorno-Karabakh. Each of these tactical developments is an element of a new, broader Azerbaijani military strategy that is seeking to attain an improved and impressive state of “operational combat readiness.” Overall, this greater operational tempo of attacks, incursions and probes of Armenian defensive positions has now emerged as a major threat to regional security and stability.

More specifically, over the past two years, clashes along the so-called “line of contact” separating Karabakh forces from Azerbaijani troops have notably increased. And the approximately 1000 kilometre-long Armenian-Azerbaijani border has also seen a spike in sniper fire and sporadic cross-border attacks. This only demonstrates the fragility of the security situation and the danger in the region stems from the risk of a possible “war by accident,” based on threat misperception and miscalculation rather than any official declaration of war, which may quickly spiral out of control and could trigger direct Russian involvement, as well as a response by Turkey and Iran⁹.

⁸ SIPRI Fact Sheet, *Trends in International Arms Transfers*, SIPRI, 2011.

⁹ For a deeper threat assessment, see: RSC Special Analysis, *Cause for Concern. The Shifting Balance of Power in the South Caucasus*, Regional Studies Centre (RSC), Yerevan, Armenia, 12 June 2013. Available at: www.regional-studies.org/en/publications/analytical/238-250613

Finally, there are also disturbing signs that Azerbaijan is actively preparing for an escalation. A serious pattern of increased Azerbaijani attacks, expanded probes of Karabakh defensive positions and even cross-border incursions have all increased significantly in the past several years. Each of these tactical developments is an element of a new, broader Azerbaijani military strategy that seeks to attain an improved state of operational readiness. Overall, this trend of a greater operational series of attacks, incursions and probes of Armenian defensive positions has made the “frozen” Karabakh much more of a “hot” conflict, with clashes expanding both in terms of scale and intensity, including the use of artillery, and in terms of scope, with attacks widening beyond Karabakh to the roughly 1000 km-long Armenian-Azerbaijani border.

The imperative to regain strategic balance

Thus, in a broader sense, for Armenia, there has been little opportunity for longer term strategic vision or planning. After more than two decades of independence, however, there is now an obvious imperative for Armenian leaders to recognise and respond to the need for garnering greater strategic options. And despite the burden of unresolved conflict, insufficient democratic institutions and incomplete economic reform, Armenia is endowed with a significantly wider range of strategic options and greater flexibility in overcoming its isolation. These opportunities are neither immediate nor easy, and require political will, vision and statesmanship. But in light of the country's geographic, economic and geopolitical isolation, there is no longer any excuse or luxury for failing to recognise the changing regional environment and adopt the dynamic policy initiatives that may be initiated by the Armenian government.

Part I

The Common Neighbourhood: Vying for an Independent Choice

For much of the past two decades, Armenia sought to maximise its strategic options, based on the imperative to surmount the deeper threat of isolation, exacerbated by the closure of two of the country's four borders. And, for example, in the broader context of foreign policy, Armenia has always pursued a "small state" strategy of pursuing policies designed to maximise its options and expand its room to manoeuvre amid much larger regional powers.

More specifically, for much of the past decade, Armenian foreign policy has successfully bridged the division between its "strategic partnership" with Russia and its deepening of ties and orientation with the West. This particular foreign policy, termed "complementarity," incorporates Armenia's strategic imperative of security, based on a reliance on its strategic alliance with Russia and a positive relationship with Iran, while simultaneously expanding its role within Western and Euro-Atlantic security structures.

Moreover, this policy of complementarity, although seemingly contradictory, is in fact a natural result of Armenia's historical and geopolitical considerations. The strategic partnership with Russia is both rooted in history and necessity, especially given the closure of the country's Turkish and Azerbaijani borders, which has forced Armenia to look beyond its traditional trade and export routes, thereby encouraging ties with Iran. Although these inherently contradictory impulses have at times seemed insurmountable, the Armenian policy of complementarity offers an enhanced degree of security based on accommodating and exploiting the interests of traditionally competing powers.

Challenges and limits

This imperative to regain a degree of strategic balance is limited by several challenges, however. First, and most recently, the war in Ukraine has also challenged the Armenian government, especially as it has threatened to only further isolate Armenia as a more subservient Russian supplicant state. Moreover, throughout the crisis, the Armenian government has been especially cautious, largely due to a policy decision to refrain from doing or saying anything that would anger or alienate Armenia's "strategic partner" Russia. At the same time, however, the broader context of the Ukraine conflict has significant implications for Armenia, especially in terms of Russian power and influence in the so-called "near abroad".

A second challenge stems from a sudden and unexpected crisis in Armenian-Russian relations. This was sparked by the murder of an Armenian family by a Russian soldier stationed at the nearby Russian military base, which triggered a surprisingly intense debate over Armenia's security relationship with Russia. For Armenia, its role as a reliable partner and ally of Russia has never faced any real challenge. Much of this reliance on Russia stems from security and economic ties. Armenia's security reliance on Russia is rooted in the Karabakh conflict, and only exacerbated by the absence of "normal" diplomatic relations and the closed border with Turkey. For Armenia, a strategic alliance with Russia is generally accepted as essential for security. And beyond security, Armenia also depends on Russia as a crucial source of remittances, or money sent home by large numbers of Armenians living and working in Russia. Yet there is a surprisingly intense debate now underway within Armenia that seriously questions the Armenian-Russian relationship.

Part I

The Common Neighbourhood: Vying for an Independent Choice

The timing of this tragedy could not be much worse, for several reasons. First, back in 2013, in what many perceived as Russian pressure on its so-called “strategic partner,” Armenia was forced to scrap its planned free trade deal with the European Union in favour of joining the Russian-led Eurasian Union in 2013. Additionally, Russia supplies arms and advanced weapons systems to Azerbaijan that are subsequently used against Armenia. This has sparked a sense of outrage within Armenia and has even triggered a rare rebuke by the Armenian president. And most recently, the negative impact on the Armenian economy from Western sanctions imposed on Russia, evident in the steep depreciation of the Armenian currency and by the substantial decline in remittances, has only revealed the asymmetry and lack of parity in Armenia’s “partnership” with Russia. More specifically, the decline in remittances, estimated to have fallen by one-third for the first quarter of 2015, have hurt a large number of Armenians who depend on such inflows for basic living expenses. This year’s decline was on top of an earlier decrease, when private remittances to Armenia fell by 7.7 percent in 2014. A related negative impact is already evident in terms of falling exports and imports, compared to January 2014, with exports decreasing by 22 percent and imports down by one-third, representing the worst figures since 2010. Thus, it seems clear that this unexpected challenge to Armenia’s reliance on Russia will not end any time soon.

A third challenge stems from Armenia’s move to join the Eurasian Union, which is especially negative for Armenia as a missed opportunity to move closer to the European Union (EU). More specifically, in the wake of Moscow’s seemingly effortless success in forcing Yerevan to backtrack on its intention to finalise pending agreements with the EU, the country clearly has missed

an opportunity for overcoming the challenges of geographic isolation, marked by the closure of two of its four borders, and of economic insignificance, where its small size, marginal market and entrenched corruption have impeded its longer-term development. In the short-term, the Armenian government remains hard pressed to regain confidence and restore credibility after retreating and renegeing on its planned “initialling” of an Association Agreement and related Deep and Comprehensive Free Trade Area (DCFTA).

Moreover, the retreat also sacrificed years of difficult negotiations and imperilled reform, with its decision to join the Eurasian Union actually offering meagre, if any, trade or economic benefits. And when Armenia actually becomes a member of the Eurasian Union, the net result will be even more damaging, as it would constrain Armenia even more firmly within the Russian orbit and limit its future to little more than a captive of Russia. Further, even the potential economic incentives are fairly weak, with membership offering rather meagre and marginal economic benefits, while gains would mostly accrue to Russia. But in many ways most significant, the “loss” of Ukraine, adds a perhaps insurmountable obstacle to the viability of the Eurasian Union, as well as seriously questioning the utility of the Eurasian Union.

Clearly, the shift in Armenian policy to join the Eurasian Union was a serious strategic setback. Moscow's apparent success in forcing Yerevan to retreat and back down from its stated goal of forging deeper ties with the EU was largely a result of pressure and coercion. While the pressure was rooted in Armenian security considerations, with Russian officials implying a “reconsideration” of its security partnership if Armenia went

Part I

The Common Neighbourhood: Vying for an Independent Choice

ahead with its EU Association Agreement, the situation reveals three deeper problems. First, for Armenia, such Russian pressure and coercion were not the actions of an ally or partner. And despite the generally pro-Russian feeling in Armenia, Moscow's pressure tended to spark a new sense of resentment and insult within the Armenian public at large.

A second problem was that the policy shift imposed significant challenges on Armenia. In the short-term, the Armenian government was clearly embarrassed, and lost a significant degree of confidence and credibility in the eyes of the West. Further, the move not only sacrificed nearly four years of difficult negotiations and reform, but also offered Armenia little in return. Its stated commitment to join the Customs Union only suggested a deepening of its already serious over-dependence on Russia and in economic terms, offered little real benefits, especially as Armenian tariffs would have to be significantly raised to conform to the Customs Union standards, thereby decreasing competitiveness and dissuading foreign investment. Third, the handling of such a sudden and unilateral policy shift by the president reveals a deeper deficiency in the Armenian government's decision-making process. In this way, the decision only exacerbated the country's already closed and opaque public policy process and revealed the pronounced absence of adequate strategic planning.

But in a broader context, and especially in the wake of the Russian invasion of Ukraine and annexation of Crimea, there is now a clear trend of a new Russian policy toward "pushing back" and "pushing out" EU engagement in the "post-Soviet space," or as what Moscow defines as its so-called "near abroad" or natural sphere of influence. More specifically, it is now clear that there

was a belated shift or “U-turn” in policy in Moscow, with a new, much more assertive Russian reaction to the EU’s Eastern Partnership (EaP) and the Association Agreements that were negotiated with several EaP member states.

The case of Armenia’s unexpected last minute decision to forgo the planned initialling of its Association Agreement with the EU also confirms such a belated shift in Russian policy, evident by the absence of any opposition from Moscow throughout Yerevan’s nearly four-year process of negotiations with Brussels. It would also seem that Moscow seriously underestimated the EU, both in terms of its “seductive appeal” attracting former Soviet states and regarding its resolve to forge significant ties with the Eastern partnership countries.

In this way, Russia tended to mistakenly perceive the EU as an insignificant geopolitical actor incapable of becoming a serious rival within Moscow’s “sphere of influence”. And this shift was further demonstrated by the imposition of coercive measures and trade sanctions against Ukraine and Moldova, with Armenia relegated to serving as little more than a “sacrificial pawn,” whose surrender and submission was designed to send a more important message of Russian strength and deterrence against European aspirations elsewhere.

Thus, in the aftermath of Russia’s military annexation of Crimea, it seems likely that Moscow will renew its focus on consolidating its “sphere of influence” through the use of the coercive economic and restrictive trade measures of the Eurasian Union, as a foundation for a revamped “Eurasian Union” project of “reintegration” within the former Soviet space. Although such a move can be seen as a natural expansion of existing Russian-led

Part I

The Common Neighbourhood: Vying for an Independent Choice

projects of reintegration, based on the Commonwealth of Independent States (CIS) and the Russian-dominated Eurasian Union, the concept of the Eurasian Union is both incoherent and undefined, marked more by its lack of practical benefits and absence of substance.

Conclusion

Despite the rather bleak outlook for Armenia, the country also has a second opportunity- to regain a degree of balance by salvaging a relationship with the EU. Reflecting a degree of sincerity in both Brussels and Yerevan, the Armenian government has been able to rebuild much of its lost credibility and has embarked on new talks on a draft “legal framework” as a foundation for Armenian-European Union relations. At the same time, Armenia also has been cautious in presenting its re-engagement of the EU, seeking to pre-empt any Russian pressure by highlighting (and exaggerating) its role as a “bridge” between the Eurasian Economic Union and the European Union. Thus, given the combination of rising costs and meagre benefits of the Eurasian Union, Armenia’s only real hope at this point rests on containing the fallout from the economic contagion and seeking a prudent but quiet “exit strategy” from a dangerous over-dependence on Russia.