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To cite this article: Vahram Ter-Matevosyan , Anna Drnoian, Narek Mkrtchyan & Tigran Yepremyan (2017) Armenia in the Eurasian Economic Union: reasons for joining and its consequences, Eurasian Geography and Economics, 58:3, 340-360, DOI: [10.1080/15387216.2017.1360193](https://doi.org/10.1080/15387216.2017.1360193)

To link to this article: <http://dx.doi.org/10.1080/15387216.2017.1360193>



Published online: 11 Aug 2017.



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Armenia in the Eurasian Economic Union: reasons for joining and its consequences

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ABSTRACT

On 3 September 2013, the president of Armenia shifted the long-praised process of initialing political association and economic integration with the European Union and announced Armenia's decision to join the Russia-led Customs Union and participate in the processes of formation of the Eurasian Economic Union (EAEU). Practitioners and observers interpreted it either as a U-turn or as a surprise move mainly assuming that what happened was the result of Russian pressure on Armenia. However, when tensions and uncertainty eased, it became obvious that what happened was a result of complex reasons. Geopolitical constraints and socio-political problems that had accumulated in Armenia during recent years coincided with an assertive expansion of Russia's foreign policy. This research provides a number of explanations for that political decision to understand the primary determinants of that move. It also examines the political and economic implications of Armenia's membership of the EAEU.

ARTICLE HISTORY

Received 5 July 2016
Accepted 24 July 2017

KEYWORDS

Armenia; Russia; European Union; Eurasian Economic Union; Eastern Partnership; security

Introduction

On 3 September 2013, the president of Armenia, Serzh Sargsyan, announced Armenia's decision to join the Customs Union (CU) and participate in the processes of formation of the Eurasian Economic Union (EAEU). To make his move more profound and convincing, he emphasized that since Armenia's partners in the Collective Security Treaty Organization (CSTO) were forming a new platform for economic cooperation, it was "unfeasible and inefficient to stay away from the relevant geo-economic area" (Website of the President of the Republic of Armenia 2013a). The president concluded that it was a "rational decision" which did not preclude dialog with European structures. This statement implied that Armenia effectively backtracked from the planned initialing of the Association Agreement

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(AA) with the European Union (EU) that was negotiated for over three years. To conclude the process, 15 months later, on 4 December 2014, the Armenian Parliament ratified the document “On Joining of the Republic of Armenia to the Treaty of 29 May 2014 on the ‘Eurasian Economic Union,’ signed in Minsk on 10 October 2014”. The EAEU came to be formally operative on 1 January 2015. The next day Armenia became a member of the EAEU, which is currently comprised of five states from the post-Soviet era (Russia, Belarus, Armenia, Kazakhstan, and Kyrgyzstan).

The decision taken on 3 September was initially viewed as an isolated case; however, in November 2013 Ukraine followed suit and announced its decision to stop the preparation for signing the AA with the EU. Three months later, *Maidan* protests led to enormous reshuffling of the political and geopolitical landscape in Eastern Europe, resulting in the overthrow of the Ukrainian president Viktor Yanukovich, Russia’s seizure of Crimea, the “parade of sovereignty” in Eastern Ukraine, deaths in Odessa, and Civil War in the Donetsk and Lugansk regions of Ukraine. These events suggested that a paradigmatic shift in the regional integration processes was underway.

This study aims to contribute to academic debate about the causes and determinants of Armenia’s decision to join the Russia-led union and the real-term implications it had on Armenian politics and economy. It will also discuss to what extent that policy met the expectations and anticipations set by the government. The article argues that twofold factors; that is, geopolitical constraints in the first place (Nagorno-Karabakh conflict, Turkish blockade, marginalization from regional projects), as well as domestic policies (dependence on Russia in economic and energy sectors, oligarchical and monopolistic practices, question of regime survival) steadily increased Armenia’s dependence on Russia and limited Armenia’s foreign policy choices.

The road to the “rational decision”

In May 2009, the EU and Armenia, along with five other Eastern European countries (Azerbaijan, Belarus, Moldova, Georgia, and Ukraine), launched the Eastern Partnership (EaP) with the main goal of creating “the necessary conditions to accelerate political association and further economic integration between the EU and interested partner countries” (Council of the European Union 2009). For the next four years, following the objectives of the EaP declaration, the Armenian Government carried out a series of political and socioeconomic reforms aimed to facilitate approximation toward the EU. Throughout the whole process, Armenia’s political leadership has also emphasized EU’s civilizational importance. For instance, during the 2011 address at the Council of Europe Parliamentary Assembly President Sargsyan affirmed, “The people of Armenia have made their historic and irreversible choice. ... For us, it is a homecoming to the European civilization and cultural realm, to which we belong, and where we have been ever-present” (Website of the

Council of Europe 2011). With Armenia's completion of extensive political, legal, and socioeconomic reforms, on 24 July 2013 the EU officials announced that since negotiations with Armenia were successfully completed, it was ready (along with Georgia and Moldova) for initialing the AA during the Eastern Partnership Vilnius summit scheduled on 29 November 2013. Recurrent assurances of the Armenian and European leaders on Armenia's deserved place in the European family left no doubts that concluding the AA along with the DCFTA (Deep and Comprehensive Free Trade Agreement) at the Vilnius summit was inevitable.

However, already back in 2011 and 2012 some political circles both in Armenia and Russia hinted about possible setbacks and reactions from Russia. Prior to that, the Russian leadership had rarely shown any visible indications of discontent with the EaP. Starting from mid-2012, Russia, however, moved to increase the costs for association with EU by offering various (dis)incentives to the EaP participant countries (Ademmer, Delcour, and Wolczuk 2016, 12). To counter pressure from Russia, Armenia had developed a working formula of "both ... and," meaning that Armenia is ready to work both with Russia and with the EU. Meanwhile, a few European (mainly Swedish and Polish) politicians and observers were insisting on another formula, "either ... or," hoping that Armenia would make an informed decision between EU and Russia by staying away from the latter's increasing assertiveness. For quite some time, Russian political leadership had revealed no visible discomfort with the Armenian determination to initial the AA. That stance was in line with Putin's declared strategy that Russia "is not going to either hurry or push anyone [to join the EAEU]. It should be the sovereign decision of any state directed by the long-term national interests" (Putin 2012). The Armenian political elite was also careful not to provoke unfriendly reactions and was keen to proceed with the EaP commitments without pursuing a hidden agenda. To that end, Tigran Sargsyan, then the Prime Minister of Armenia, noted, "... our strategic partner Russia is kept informed about Armenia's integration projects and views them with understanding. We hide nothing from our partners and this is our strength" (Kommersant 2012). In that interview, he also famously stated that Armenia is not interested in the Customs Union.

The dominant counter-argument against the CU, regularly stated by the Armenian officials, referred to the fact that Armenia did not have a common border with the Russia-led CU. On several occasions both the president and the PM, as well as other high-ranking officials argued that the lack of common border with the CU would make Armenia's participation in it "meaningless" (Kommersant 2012). In a statement just 12 days before the 3 September decision, the Deputy Foreign Minister of Armenia once again claimed, "there is no precedent of a country becoming a member of a customs union without having common borders with other member-states." He also noted that joining the CU would mean the end of sovereignty. He further elaborated that the government's self-confidence was an indication that everything was proceeding as planned (Armnews 2013). Moreover,

observers were of the opinion that the Armenian president's planned working visit to Moscow on 3 September was an ordinary one reminiscent of dozens of identical meetings that had taken place in the past. However, what occurred on that day and afterward became a harbinger of drastic changes not only in Armenia's foreign policy, but also in Russia's attitude towards the EU and the EaP.

On 3 September 2013 after a discussion behind closed doors, Russia's president, Vladimir Putin, as host, was the first to share the news about Armenia's decision to join the CU; he also pledged to support Armenia by all possible means. Putin went on to share a few numbers, which emphasized the level of the Russian presence in the Armenian economy. He particularly mentioned that Russia is Armenia's leading trade partner with a trade turnover of USD 1.2 billion in 2012; Russian investments in the Armenian economy were over USD 3 billion; about 1300 Russian companies work in Armenia; and a number of strategic assets in Armenia were owned and run by Russian companies. Moreover, developments in cultural and educational spheres, according to him, also constituted an important component of bilateral relations (Website of the President of Russia 2013). Only after this presentation Armenia's president took the stage and confirmed Armenia's decision to join the CU.

The decision received different interpretations both in Armenia and abroad. First, it created uncertainty in the Armenian society as a new period of ambiguity came to prevail in the public discourse. Reactions from the European leaders were unequivocally critical: some saw no compatibility between the Russia-led Customs Union and the DCFTA with the EU, while others considered that Armenia's decision was made under Russian pressure and blackmailing. In order to react to the flow of critical remarks, on 4 September, the head of the presidential administration was the first high-ranking official to provide an explanation to the decision. Vigen Sargsyan's remarks and clarifications (Radio Liberty 2013a) added more ambiguity as he claimed that the initialing of the AA with the EU in Vilnius remained on Armenia's political agenda; therefore, he hoped the EU would help Armenia to disintegrate economic and political components of the AA and initialize only the political part of it. More interestingly, he touched upon the argument about the lack of common borders and stated that experts have prepared solutions to assure efficient and effective membership of the Republic of Armenia in the CU (2013a). For the next 10 days, the European Commission and its Commissioner for Enlargement and Neighborhood Policy, Štefan Füle, made a few statements aimed to counter Armenia's revised intention to conclude only the political component of the AA. Commissioner Füle stressed, "the political association and economic integration must go hand in hand and they are integral parts of the AA. We cannot therefore decouple those two essential building blocks of the Agreement." He also added the EU was informed about Armenia's decision to join the CU only on 31 August – meaning just three days before Sargsyan's visit to Moscow (Mediamax 2013).

Security and regional considerations

During negotiations with the EU, the Armenian Government was so determined in its cause to finalize the deal that little or no public debate was initiated to foresee potential obstacles. However, with the benefit of hindsight, it is possible to identify a chain of primary and proximate causes that influenced the government's decision to favor the Eurasian Economic Union. Even though members of the ruling elite started to back up the president's decision and asserted that Armenia's economy and national security were at stake, little effort was invested to unpack what was beyond "security," which became an umbrella term for a host of domestic and regional complexities that Armenia was facing.

One of the important foreign and security policy goals of Armenia continues to be the conflict resolution in Nagorno Karabakh. The dispute over Karabakh, which resurfaced in 1988, went through a number of stages. Despite international mediation efforts in the framework of the OSCE Minsk group, the leaders of Armenia and Azerbaijan have failed to agree on the basic principles of the conflict resolution. As a result, the prospects of finding a lasting solution to the most violent conflict in the post-Soviet space remain vague. The cease-fire agreement that was agreed by Armenian, Azerbaijani, and the Nagorno Karabakh authorities in May 1994 ceased the hostilities for over a decade. However, in 2008 the hostilities resumed, sparking a series of unprecedented violations of the cease-fire regime. The ruling elite in Armenia, which emerged in the Karabakh war, continues to rationalize many of its foreign, domestic, and security-related decisions based on the conflict in Karabakh (Iskandaryan, Mikaelian, and Minasyan 2016). In addition, both governments have invested massively in the military buildup: only in 2016, the Armenian Government spent USD 430 million on defense and security (4% of GDP), whereas Azerbaijan's military budget was four times higher – USD 1767 billion (5.61% of GDP). It bears mentioning that when Ilham Aliyev started his presidency in 2003, Azerbaijan spent only USD 175 million on defense and security.

The difficulties in negotiations with Azerbaijan and incessant hostilities on the borders between Karabakh and Azerbaijan are accompanied by Turkey's hostile attitude to Armenia. Its refusal to establish diplomatic relations with Armenia and to lift the quarter-century blockade over the last closed border in Europe, which is also EU's customs border, remains a perplexing challenge for the regional stability. Even though Turkey was one of the first countries to recognize Armenia's independence in 1991, it refuses to establish good-neighborly relations with Armenia by interpreting it as a support towards Azerbaijan. By inventing a "one nation, two states" formula, the leaders of Turkey and Azerbaijan have worked closely since the early 1990s to marginalize Armenia from regional energy and communication projects. Suffice to say that because of the sealed borders, Armenia is one of the unique cases in the world that has 80% of its land borders closed. Borders with Georgia and Iran are the only ones open, which, in turn, makes Armenia overly dependent on them; particularly on the Georgian one, as 70% of Armenian foreign

trade goes through Georgia. In addition to these factors, Azerbaijan and Turkey have increased their political and economic presence in Georgia, which many in Armenia perceive as an emerging challenge to the regional security and balance of power.

Based on these realities, all the interviewees of this study with the members of the ruling Republican Party of Armenia repeated security-related arguments (national, economic, and energy) to justify Armenia's decision to join the Customs Union. Moreover, the interviewees pinpointed that the 3 September was not something unexpected, but rather a rationally calculated choice, based on the historical interconnections between Armenia and the CU member-states, particularly Russia. They have also interpreted it as an absolute necessity, which had to be handled through extraordinary measures and with increased pace. For instance, vice-speaker of the National Assembly, Eduard Sharmazanov, emphasized that Armenia's decision to join the Customs Union stemmed from Armenia's national interests: military cooperation, security, and the resolution of the Nagorno-Karabakh conflict: "The security issues of Armenia can be considered resolved after the decision was made to join the Customs Union" (Personal interview with Eduard Sharmazanov, 8 September 2014). The chair of the Armenia's National Assembly's standing committee on science, education, culture, youth, and sport, Artak Davtyan, indicated that the 3 September decision to join the Eurasian integration projects was the only optimal decision. He also added that the initiation of the AA with the EU was too vague and hypothetical, and with the unresolved Nagorno Karabakh conflict, the Republic of Armenia primarily sought security where it exists (Personal interview with Artak Davtyan, 11 September 2014). The chair of another standing Committee on Foreign Relations, Artak Zakaryan, also highlighted security-related determinants behind Armenia's decision. He also mentioned that with two of the state borders closed, it was the most advantageous at this stage for Armenia to deepen its economic relations with the unified Eurasian economic space (Personal interview with Artak Zakaryan, 19 September 2014). Interestingly, the statements of these and many politicians came to downplay the importance of the CSTO that Armenia was a member of. As a result, Armenia's membership to the CU, in their minds, was meant to primarily entail security benefits followed by economic ones. The interviewees also failed to explain to what extent the security-related questions were discussed during the negotiations with the EU.

Using the operational framework of Buzan, Waever, and de Wilde (1998, 24), we argue that Armenia's leadership "securitized" the integration decision and presented it as an extraordinary matter that required emergency measures (i.e. taking the decision without consulting the wider public, without an advance notification of EU partners, etc). Buzan, Waever, and de Wilde (1998, 29) also posit, "securitization should be seen as negative, as a failure to deal with issues as normal politics. Ideally, politics should be able to unfold according to routine procedures without this extraordinary elevation of specific 'threats' to a 'pre-political immediacy.'"

The decision taken on 3 September received mixed blessings from the opposition and civil society. Former members of the coalition government, the Prosperous Armenia Party and the Armenian Revolutionary Federation Party, have largely supported the decision, mainly referring to the “security” argument of the government, whereas the Armenian National Congress, the Liberal Democratic Party, and the Heritage party were against it. They also did not appreciate the way the decision was made, as it was widely seen as “one of the fateful decisions” struck behind closed doors. Some political parties not represented in the parliament (e.g. Republic Party, National Self-Determination Union) and civil initiatives fiercely opposed the move and calling their supporters to go to the street and start protesting. Most of them saw the CU as “USSR 2.0” and did not want Armenia to have anything in common with it. Despite calls for protests, no major rallies were held.

Some policy analysts, too, put more concentration on “security” as an important determinant behind Armenia’s decision. In the words of Iskandaryan (2013), the director of the Caucasus Institute think tank, “... whenever Armenia has to choose between security and anything else, it chooses security.” Sergei Markedonov, a Russian expert on South Caucasus, also stressed the need for Yerevan not to be deceived by the European visual appeal and thereof understand that Russia’s role in maintaining Armenia’s security and ensuring the status-quo in the NK peace process cannot be substituted (Markedonov 2013). To support his argument, he further underlined the EU’s lack of “hard power,” the EU’s strategic partnership in the field of energy with Armenia’s long-time rival Azerbaijan, and Turkey’s possible tougher actions against Yerevan (2013). Furthermore, some supporters of the decision came to question the insightfulness of the European politicians and diplomats who missed the messages that, according to them, the Armenian president and members of the political elite had sent out on numerous occasions. For instance, Foreign Minister Eduard Nalbandyan stated that the Armenian Government had told Brussels throughout the three-year association talks that it would not forge closer links with the EU “to the detriment of our allied relationship with Russia” (Radio Liberty 2013b). Karen Bekaryan, a senior analyst in the presidential administration, mentioned a list of promises that were given by the EU well before 3 September but were never delivered, causing the Armenian Government and society to turn suspicious. For instance, he refers to the fact that the EU intended to hold a donors’ conference for Armenia but had never implemented it; moreover, that the EU had promised to do its best to make Turkey open its borders with Armenia, but they remained closed (Obozrevatel 2014).

Armenia’s dependence on Russia, what Delcour (2016) coins “vulnerability,” is driven by multiple factors. The conflict in Nagorno Karabakh and closed borders continue to shape Armenia’s security cooperation with major powers. Being a strategic ally of Russia and a CSTO member state, Armenia continues to rely heavily on military assistance from Moscow. Russia provides Armenia credits to purchase weapons, and Armenia buys weapons mainly from Russia at discount prices. Russian military shipments to Armenia include high-precision short-range ballistic missile systems (9K720 Iskander, 9M79 Tochka); multiple-launch rocket (9K58 Smerch) and

air-defense (S-300) systems; ballistic, anti-tank, and anti-aircraft missiles; electronic warfare vehicles; armored personnel carriers; and tank upgrades (Sanamyan 2016). In addition, Armenia and Russia have worked to create the Caucasus Unified Air Defense System as well as a joint Russian and Armenia military group (Romanova 2016). The 102nd Russian military base (around 5000 personnel) in Gyumri, the lease of which Russia extended to 2044, and, its air-force component, the 3624th airbase (squadron size) in Erebuni airport in Yerevan belong to the Southern Military District of the Russian Federation. The Border control division of the Federal Security Service (FSS) of the Russian Federation, together with Armenian partners, protects Armenia's borders with Turkey and Iran. 4 detachments of Russia's FSS Border guards are positioned in Gyumri, Armavir, Artashat and Meghri border regions, and a separate unit of FSS border guards operates in the Zvartnots airport in Yerevan. Overall, the FSS of Russia has around 4500 personnel in Armenia. Despite the presence of the Russian base in Armenia and close cooperation between the military agencies of two states, there are contradictions that surface from time to time. For instance, more people in Armenia debate about whether the Armenian Government should pay the expenses of the Russian base in Gyumri.

A number of commentators and practitioners in Armenia have always been critical about the security argument being used in integration processes. This was particularly relevant to the arguments raised by critics who strongly doubt the viability of the CSTO, a six-member security alliance dominated by Russia, and the strategic partnership between Armenia and Russia. The conflict in Nagorno-Karabakh contributes to that sense of suspicion, as some CSTO member countries, especially Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan, according to them, periodically refrain from adequately condemning the Azerbaijani offensives into the territory of Armenia. Soon enough, the security argument that the ruling party used in order to rationalize its 3 September decision became even more problematic. During the Four-Day War in Nagorno Karabakh in April 2016, which was the most violent escalation since 1994, Russia did not intervene on Armenia's side, as some in Armenia expected, which led many commentators and politicians to voice critical remarks about Russia, the CSTO, the EAEU, and Armenia's decision to join it. In the face of the documented facts of delivery of Russian weapons to Azerbaijan before and after the Four-Day War, the Armenian-Russian "strategic partnership" came to be heavily criticized. In such circumstances, many voiced questions concerning the prospects of Armenia's membership in the CSTO and in the EAEU. Particularly, the leaders of two founding members of these organizations, Belarus and Kazakhstan, openly took sides in the conflict, which left the Armenian Government and society visibly disappointed in the EAEU and CSTO partners, which, except Tajikistan, are the same.

Against this background, it is important to note that statements made and policies undertaken both during the negotiation process with the EU and afterward reveal a set of contradictions. One of the most important determinants of the 3 September 2013 decision derived from obvious security concerns and the challenging regional environment. The long-simmering conflict over Nagorno-Karabakh;

frequent violations of the ceasefire both in the Karabakh frontline and on the Armenian-Azerbaijani border resulting in hundreds of casualties annually; the arms race; and Azerbaijan's increased military spending, as well as closed borders evidently limited Armenia's strategic choices. The mentioned constraints have also reduced the strategic maneuvering space for Armenia and limited its options. In turn, despite the contradictions among the EAEU and CSTO member states vis-à-vis the Karabakh conflict as well as obvious displeasure of the Armenian Government towards Russian military shipments to Azerbaijan, the political leadership, the opposition, and the wider public continue to perceive Russia as an irreplaceable strategic partner and a security guarantor.

Understanding socioeconomic constraints and implications

A security argument that the government has continuously promoted alone cannot explain Armenia's decision to join the Customs Union. A host of the structural deficiencies in Armenia's economic and energy security can also be qualified as no less important reasons for Russia to promote its foreign policy goals. Those dependences also serve as a source of policy transfer in Armenia (via the EAEU) (Ademmer, Delcour, and Wolczuk 2016, 12). Although both the EU and Russia are key external trade partners of Armenia (as will be scrutinized in detail below), back in 2013 Russia led in terms of accumulated foreign investments in Armenia with 40% share. A dozen of Russia's corporate giants are 100% share holders of Armenia-based CJSCs. They are active in key sectors of Armenian economy, including energy supply, refinement and distribution, transport, telecommunications, banking, insurance, and mining (Website of the President of the Republic of Armenia 2013a).

The study conducted by the Eurasian Development Bank in 2013 assessed the effects of the integration initiatives on the overall economy as well as on the energy and transport sectors of Armenia. The forecast indicated an additional growth of Armenia's GDP of approximately 4% in two years, counting on reductions of gas and oil prices. Among the major advantages from Armenia's membership in the CU, the report also emphasized Armenia's integration with the CU single labor and capital market, which would provide further annual increase in remittances of about USD 36 million (by 3%) (Tavadyan et al. 2013, 44). Thus, the government favored the EAEU, which offered full-fledged membership within a short time, as compared to the benefits that the EU was ready to offer in the mid-term and long-term perspectives (visa liberalization; a number of legislative, administration, and institutional reforms; access to the European single market of 500 million people; development of agriculture; a better-functioning judiciary; a strengthened rule of law; increased transparency; an increase of Armenia's GDP; creation of job opportunities; better opportunities for SMEs, etc). Other than adoption of a set of laws to synchronize Armenian legislation with the EAEU countries and some economic benefits, the EAEU-members states could hardly set standards for liberal political and legal reforms, neither could Armenia hope to improve its democratic indicators thanks to the EAEU membership. In fact, compared to the EAEU member states Armenia was well ahead in democratic standards and rule of law.

However, as it will be demonstrated later on, the Armenian Government failed to harvest even the anticipated short-term economic benefits as the timing of accession to EAEU coincided with economic recession in Russia. Moreover, the Armenian leadership downgraded the impact of the much-debated and anticipated tariff increases on the Armenian economy. Particularly, the EAEU has much more protectionist trade policies in place than most post-Soviet states do, with Russia's tariff levels taken as a basis for its own tariff provisions. Thus, for example, Russia's trade-weighted average tariff agreed in the WTO for 2011 was 9.9%, whereas in the same year it was 3.6% for Armenia (Popescu 2014). In practice, raising customs duties means that importing from third countries becomes more expensive; that is, prices for food and other commodities imported to Armenia from, for instance, the EU and China, will be more costly for the population. Additionally, in Armenia's case, problems may arise in bilateral relations with those countries it has negotiated trade agreements with based on WTO principles of opening and liberalizing the markets, as the EAEU's supranational institutions will be responsible for negotiating trade and customs policies of the union. In fact, during the preparations on accession to the Customs Union, Armenia has negotiated exemptions from higher customs duties on about 900 commodity groups. Duties on natural gas, petroleum products, and rough diamond deliveries from Russia were annulled, saving Armenia around USD 200 million annually (Minasyan 2015). Observers add that the EAEU needs to liberalize its trade policies at least in relation to the key economic partners of its constituting member states, otherwise the benefits from the EAEU membership will cost some of them dearly.

Based on the explanation provided afterward, energy security issues as well as considerations related to the foreign trade also played no secondary role in the 3 September decision. According to the former Minister of Energy, Armen Movsisyan, Armenia decided to join the Customs Union and sold the remaining 20% of ArmRusGazArd shares to Russia in order to get the USD 300 million national debt waived (Hayrumyan 2013). Thus, the price of gas becomes an important tool in the hands of Russia to influence and achieve its objectives in Armenia through the manipulation of not only military but also energy security issues. Such kinds of policies towards Armenia have been implemented by Russia at least since 2006 when the Armenian Government and Gazprom concluded an agreement to avoid a doubling of gas price to USD 110 million till 2009 at the expense of transition other energy assets of Hrazdan to Gazprom (De Souza and Vinhas 2008). This agreement also granted Russia exclusive opportunity to take control over 75% of the Iran-Armenian pipeline, hence limiting Armenia's opportunities to diversify its energy and preventing the country from becoming an energy transit country (Minassian 2008).

In January 2014, during his visit to the Czech Republic, President Sargsyan had an off-the-record meeting with the representatives of the local Armenian community Diaspora. His reflections, which leaked to the *Aravot* daily nine months later, shed light on Armenia's choice of the CU. When answering the question about his decision to join the CU, he particularly mentioned,

We cannot sign the free trade agreement [DCFTA] and increase the gas price and the electricity fee three-fold. If it turns out that cognac does not meet the European standards, we would not grow grapes, and so on. Is this what you want? I do not think that we would be able to sell even 150 bottles of cognac per annum in Europe in the future, whereas we sell 150 million bottles of cognac in Russia. We are organically tied to the economy of the CIS countries; this is the reason for going to the Eurasian Union. We clearly understand that the economic relations in Europe are 20–30 years ahead, but what should we do, to sign FTA and increase poverty in the country? (Aravot 2014)

This rather concise deliberation of the president reconfirmed the practical benefits that the Armenian Government was looking to get from the CU.

Deriving from this, the next claim has to do with the question of regime survival. It adds to the “rationality” argument of the 3 September decision not only from a security or economic perspective, but also from the purely political one as a tool for securing the regime’s legitimacy and even survival. Furthermore, the political elite’s broad consent for Armenia’s accession to the Customs Union derives from its oligarchical and monopolistic position caused, on the one hand, by the lack of accountability of authorities, and on the other hand, by restrictions brought to market competition by the same monopolies (Delcour and Wolczuk 2015). Besides, it shall be argued that the ruling elites of Russia and Armenia have mutual interests that most of the times shape their joint policies. In other words, one may put Armenia’s distraction from European integration in quite simple terms: the Armenian political and business elites, who rule over what Acemoglu and Robinson (2012) have termed “extractive political and economic institutions,” could hardly agree to get rid of “strategic” partnership with the Russian Federation. That collaboration provides attractive opportunities to continue their extractive relations in order to further concentrate the power and resources in their hands.

The global financial-economic crisis in 2008 and 2009 has profoundly affected the Armenian economy. Experiencing one of the dramatic declines in the world, it took several years for Armenia to recover from the economic downturn. Substantial decline of FDI since 2008, heavy taxation policy on small and medium enterprises, the size of the shadow economy, abundant monopolies in various import and export sectors, and many other factors (dependence on a limited number of commodity exports, a difficult external economic environment, etc.) caused Armenia’s economy to be both fragile and sensitive to external instabilities. These trends intensified the labor migration, which headed mainly to Russia. According to the Federal State Statistics Service of the Russian Federation (Federal’naja Sluzhba Gosudarstvennoj statistiki [Federal State Statistical Service] 2017), 200,000 Armenian citizens went to Russia between 2008 and 2013. Chronically, the Armenian economy has been heavily dependent on remittances coming mostly from Russia, equal to USD 1.5 billion, or 15% of Armenia’s GDP. The purchasing power of the population, trade turnover, and service sectors have dramatically suffered. As the Russian economy entered into decline, private money transfers to Armenia declined by 30%, or USD 520 million, in 2014 (World Bank 2014). Private

remittances received from Russia reduced by another 36% in 2015 (USD 916 million), though still comprising 76% of total non-commercial money transfers to Armenia (Central Bank of Armenia 2016). Naturally, the slowdown in domestic demand also affected unemployment in the respective countries, which grew to 18.5% in Armenia in 2015 (Armstat (National Statistical Service of the Republic of Armenia) 2016b). Meanwhile, many Armenians working in Russia lost their jobs or earned less because of the devaluation of the ruble (Grigoryan 2015). Armenia's slow recovery from the 2008–2009 economic crisis and a number of sluggish economic, structural, and social reforms increased the poverty rate in Armenia. As a result, the percentage of the population living below the poverty line reached 32.4% in 2012, up from 27.6% in 2008 (Armstat (National Statistical Service of the Republic of Armenia) 2013). In other words, around 1 million citizens (out of 3 million) live below the poverty line.

Although the EAEU stands for the elimination of customs borders among its member states; establishment of a single market with free movement of goods, capital, services, and people; and provisions for greater integration in the future, the economic interconnection between countries is deeply disproportionate. Armenia's economic security is highly conditioned by the Russian economy. Many in the Armenian business class also expressed support for the U-turn in Armenia's integration process, primarily due to high standards and tough competition in the EU market that Armenian products in spite of reduced tariffs struggle to confront (Giragosian 2015). On the other hand, the markets of the EAEU are less developed and more familiar to Armenian entrepreneurs and migrant workers because of the cultural ties, shared historical memory, and non-existence of language barriers, which create better chances for the demand of the Armenian products (Almasian 2014). Similarly, recent data from the Caucasus Barometer survey suggests that the majority of the Armenian society continues to be more inclined toward the Eurasian Economic Union (52% of respondents) than the EU membership (37% of respondents) (Caucasus Research Resource Centers 2015).

However, the timing of Armenia's accession to the EAEU coincided with falling hydrocarbon prices, Western sanctions, and depreciation of the Russian ruble, which led to the contraction of domestic demand in Russia. Being heavily conditioned by the developments in the Russian economy, Armenia's growth prospects also fall short of expectations. Furthermore, according to IMF (2016) predictions, the medium-term growth prospects for Russia remain limited, which has hampered Armenia's economic development. Overall, Armenia's moderate 3.5% economic growth rate in 2014 slowed to 3% in 2015 and 0.5% in 2016 (World Bank 2016).

The deterioration of economic activity in Russia – the major destination for Armenian labor migrants and the largest market for its agricultural and manufacturing exports – affected the Armenian economy through lower Russian demand for its exports and a significant drop in remittances and FDI (World Bank 2014). Armenia's export volumes to Russia declined by 27% in 2015 compared to 2014, comprising USD 244 million, which is still 95% of the overall trade with the EAEU

member states (Armstat (National Statistical Service of the Republic of Armenia) 2016a; Eurasian Economic Commission 2016). However, for the first time in years, in 2015 Armenian imports from Russia decreased to USD 942 million. The underlying reasons for slowdown in external trade between Armenia and EAEU countries are domestic capacity constraints of the CIS markets emanating from geopolitical tensions and sinking metal and mineral prices as well as depreciation of the Russian ruble,¹ which caused Armenia's small economy to struggle to compete with cheaper Russian goods (Gharabegian 2015). At the same time, in 2015, Armenian exports to EU countries increased by 12.7% compared with the previous year, amounting to USD 352 million (European Commission 2016). Meanwhile, in 2016 the Armenian exports to EAEU countries increased by 53%, equaling USD 392.1 million, of which USD 371 million went to Russia (Armstat (National Statistical Service of the Republic of Armenia) 2017). The export volume to that country has increased by 51.5%. Armenia was able to export to Russia textile, clothes, food, drinks (wine, mineral waters), brandy, cigarettes, etc. Observers, however, are cautious about the increase of export volumes, as they recommend contrasting them with the decreased export volumes in 2014 and 2015 (Tunyan 2016).

Armenia's integration preference also failed to attract foreign investments. According to the National Statistical Service of the Republic of Armenia (Armstat (National Statistical Service of the Republic of Armenia) 2015), net foreign investments in the real sector of the Armenian economy fell to USD 257 million from USD 348 million in 2014 (a 26% downturn), of which the volume of direct investments amounted to USD 146 million, a decline of 40% in comparison to 2014. The leader in terms of total foreign investments made to Armenia's economy in 2015 was Switzerland, with about USD 89.7 million and direct investment (FDI) amounting to USD 85.5 million (2015). Russia emerged the second biggest investor in 2015, with total foreign investments comprising USD 66.5 million and Russian FDI dropping by 18% to amount to USD 74.8 million (2015). By 2017, 47% of total investments in the Armenian economy belonged to Russia, even though investment volumes decreased compared to the previous years.

Thus, Armenia's accession to the EAEU has not yet yielded in any significant positive economic impact. Even though in 2016 Armenia's export to the EAEU single market increased, Armenia imports more than it exports. Moreover, Armenia continues to export more to the EU countries, while Russia leads in terms of imports. Russia's own economic crisis and devaluation of the ruble need to be considered too.

Role of the Armenian diaspora in Russia

Armenia's decision to side with the CU was visibly influenced by another codependent factor that is oftentimes understudied – the role of Armenians in Russia. As important transnational actors, diasporas have considerable influence on the behavior of states in the international arena. Armenians in Russia are quite

successful economically and professionally (Manaseryan 2004). After the collapse of the Soviet Union, Russia received a new wave of immigration from Armenia (Cohen 2008, 56, 57). As of 2010 the Armenian population of Russia was estimated at 1.2 million according to the official population census (Federal'naja Sluzhba Gosudarstvennoj statistiki [Federal State Statistical Service] 2010) and around 3 million according to President Putin of Russia (Putin 2015). At the same time, Russia remains a top destination for many labor migrants from Armenia (Dyatlov and Melkonian 2009, 103). In some regions of southern Russia, Armenians are the second-most numerous ethnic group; in others they are the third (Rostov), and so forth (Federal'naja Sluzhba Gosudarstvennoj statistiki [Federal State Statistical Service] 2010). A survey by the OSCE for the period 2002–2005 found that almost 90% of labor migrants from Armenia went to Russia (ILO (International Labor Organization) 2009, 1–7). According to National Statistical Service of Armenia (Armstat (National Statistical Service of the Republic of Armenia) 2012) data for the period of 2008–2011, 85% of household member labor migrants went to Russia.

Membership in the EAEU aimed to bring free movement of goods, services, and labor, which are widely presented as important benefits. According to that logic, the access of the Armenian citizens to the Russian labor market would give them a preferential status after the planned introduction by Russia of a new visa regime for all citizens of the CIS, with the exception of those coming from CU member states. Armenian leadership was, therefore, not in a position to be indifferent to the needs and policy preferences of Armenians in Russia. However, the supporters of that argument failed to foresee that possible economic slowdown or recession in Russia would lessen demand for Armenian exports and labor.

The largest number of diaspora investors also comes from Russia (29% of all investors). Although many Russian-Armenian businessmen reveal unwillingness to invest in the economy of Armenia due to a number of negative factors, like a high level of corruption in Armenia (Galstyan 2013, 108) or small size of the market, there are a few dozen Russian-Armenians who invested in Armenia, which makes them the largest number of diaspora investors (European Training Foundation and Caucasus Research Resource Centre – Armenia 2013). They possess influential business and political connections with both Russian and Armenian policy-makers. In 2017, seven Armenian businessmen were among the 200 richest people in Russia with total net assets of USD 15 billion (Forbes.ru. 2017). Some of the largest companies are “Tashir Group”, “Rosgosstrakh”, Luding, “Reso”, “Uniastrum bank”, “BAMO” etc. (Zakarian 2013, 98).

It is interesting that for years, according to “All Armenian Fund” annual reports, the amount of finances directed to Armenia from the United States was usually several times higher than that of Russia. However, over the past few years, the situation changed when in 2010 the All Armenian Fund received 2.5 times more donations from Russia than from the United States. Samvel Karapetyan, real-estate mogul and the head of the “Tashir Group”, has invested extensively in the economy of Armenia;

he also bought shares of “InterRaouEes” in the “Electric Networks of Armenia” in 2015, after the Electric Yerevan protests in the streets of Yerevan.² The founding president of Bamo Company, Murad Muradyan, invested USD 130 million into the Armenian economy. Another influential Russian Armenian businessman, Ruben Vardanyan,³ has started to play a prominent role in business, philanthropic, and educational projects in Armenia. The Ruben Vardanyan Fund co-financed the project of “Tatev Revival” in Armenia at a total cost of USD 45 million. Together with his wife, he founded the RVVZ family foundation, which financed the construction of the Dilijan International School, which, in turn, became part of the United World College in 2014.

Russian companies and Armenian businessmen living in Russia are also highly involved in the mining and mineral sectors of Armenia. The correlation between Russian businessmen and Armenian diplomacy is another aspect that draws the attention of observers. For instance, in 2013, one of the Armenian billionaires in the Russian Federation, the Chairman of the Board of Directors of “RESO-Garantia” (a major Russian insurance company), Sergei Sarkisov, was appointed Armenia’s Consul General to Los Angeles. His brother, Nikolay Sarkisov, was appointed Consul General in Lyon upon the opening of that consulate in December 2013. Such appointments tend to support the hard-to-prove speculations that some of these individuals pursue their business interests while serving abroad (Ter-Matevosyan and Drnoian 2016, 73).

Since assuming the office, President Sargsyan has met with members of the Armenian community on many occasions. For him, the Armenian community of Russia is “special in many ways. Its ties to Armenia are much stronger and multi-sided encompassing political, cultural, and economic areas as well as family ties,” and it leaves its impact on the relations between the Armenians in Russia and Armenia (Website of the President of the Republic of Armenia 2008). “The largest Armenian community resides in Russia... [therefore] we have never made a step aimed against Russia and have no intention which would compel us to make such a step” he stated later (Website of the President of the Republic of Armenia 2013b). Consequently, the flow of capital from Russia’s Armenian community to Armenia strengthens Russia’s position in the economic and political spheres of Armenia. Given the nature of Russian Government, the Diaspora community can hardly operate in Russia without conforming its interests with the economic, political, and foreign policies of Russia. Thus, it can be assumed that many businesses and financial organizations of the Armenian Diaspora in Russia can be used as tools in the hands of the Russian government. Meanwhile, it is difficult to speak of the Armenian Diaspora in Russia in terms of commonly accepted social identity and collective interests (Oussatcheva 2001, 20, 21). It also has weak institutional development which has implications for the identity preservation of Armenians too (Ter-Matevosyan et al. 2017).

Conclusions

The article discussed a number of factors that lead the Armenian leadership to abandon the prospect of association with the EU and opt for the Customs Union. In addition to a complex set of primary and secondary determinants that shaped bilateral relations of Russia and Armenia, geopolitical challenges, the closed borders with Turkey, and the conflict in Nagorno-Karabakh also limited Armenia's strategic choices. On other hand, the polarization of the integration policies was not as rigorous back in 2009 as it turned out to be 2–3 years later. After Putin's return to power as president in May 2012, Russia made a resolute step to accelerate the building of its own integration alternative. Russia's assertiveness coincided with European efforts to build momentum and expand their relations with EaP states and with the economic crisis in Armenia that has constrained regime's short-term choices. It is still difficult to exemplify or measure the level of explicit pressure that Russia exercised on the Armenian government. Likewise, it is difficult to comprehend the depth of commitments that the Armenian Government assumed in its relations with the EU. However, the fact of the matter is that Armenia successfully concluded large-scale legal and institutional reforms and later backtracked, which came to prove that Armenia was unable to overcome a set of domestic and external predicaments. Post-integration developments also demonstrated clear contradictions between announced policy objectives and outcomes. So far, the EAEU has not been able to contribute to Armenia's economy – quite the contrary; it has significantly slowed economic performance, adding more weight to the arguments that were utterly critical of Armenia's decision to join Russia-led economic union.

Notes

1. The Russian ruble had fallen to 50% of its value against US currency at the start of 2014, whereas the Armenian dram had fallen by only 17% over the same period (ARKA News Agency 2016).
2. In June 2015, the central Baghramyan Avenue of Yerevan was occupied by thousands of people who protested against the government's decision to increase energy prices by 17%. The civic initiative, which soon became known as Electric Yerevan, initially attracted mainly young people. Protesters were particularly vocal about the reported cases of poor management, fraud, and robbery in the energy company owned by Russians. Some observers tried to trace anti-Russian sentiments at these rallies; however, it soon became obvious that the protestors demanded from the government able management of its resources. The Armenian Government responded to it by agreeing to audit the company.
3. Ruben Vardanyan has been the president of "Troika Dialog," the Chairman of Sberbank, the general director of Rosgosstrakh, and the Chairman of Ameria Bank. He is also the coordinator of the development project "Armenia 2020," "IDeA foundation," and the coordinator of the council under the president of the Russian Federation for National Priority Projects.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

This work was supported by the Norwegian Institute for International Affairs. Research Project: "Research Beyond the Ivory Tower: Policy and Communications Training for University Teams". Grant no. - R QZA -13/0338.

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