

# Armenia's Strategic Setback

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In a largely unexpected development, on September 3, 2013, Armenian President Serzh Sarkisian announced a dramatic U-turn in Armenian policy. While in Moscow, after being summoned to a meeting with his Russian counterpart, the Armenian president promised Russian officials that Armenia would join the Russian-led Customs Union, and would support Moscow's efforts to "integrate" the former Soviet space. That decision effectively ended Armenia's plans to initial an Association Agreement, and the related Deep and Comprehensive Free Trade Area (DCFTA) with the European Union, set for the Vilnius Summit in late November 2013.

Moscow's success in forcing Yerevan to backtrack on its intentions to finalize pending agreements with the EU poses several significant challenges for Armenia. In the short-term, once Armenia was forced to renege on its promise to the EU, it will be hard pressed to recover confidence and credibility. This move has not only imperiled several years of difficult negotiations and reform, but has also tested European patience. The decision to join the Customs Union also offers Armenia few alternative benefits, and may lock Yerevan even more firmly into the Russian orbit,

limiting its future to little more than a captive to Moscow's grand project for a rival Customs Union, as the first step toward its so-called "Eurasian Union." Furthermore, Armenia has clearly missed a strategic opportunity in terms of opening to the West. And the longer term impact may be significant, undermining the Armenian government's meager legitimacy by endangering the overall reform program, and significantly weakening the position pro-Western reformers within the government.

Thus, from a broader perspective, the Armenian retreat also reveals several deeper deficiencies within the Armenian government in terms of closed public policy, inadequate strategic planning and the informal decision-making process.

Although the sudden decision by the Armenian president to commit the country to joining the Russian-dominated Customs Union effectively ends any chance for Armenia to initial the Association Agreement with the EU, the Armenian government has recently reaffirmed its intention and desire to go ahead with reaching at least some sort of agreement on relations with the EU. But, as is now clear, the loss of the Association Agreement and the DCFTA suggests that by opting for the Russian-led Customs Union, the Armenian president has committed a strategic blunder, and this move represents a missed opportunity for Armenia.

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Moreover, as Moscow seems to have succeeded in forcing Yerevan to backtrack on its intentions to finalize pending agreements with the EU, Armenia will face several significant challenges. In the short-term, if Armenia implements this decision to choose the Customs Union over the DCFTA, it will be hard pressed to recover confidence and credibility. Such a move would not only imperil several years of difficult negotiations and reform, but would also reduce European interest in Armenia. Thus, the danger for Armenia is greater isolation, enhanced insignificance, and, most distressing, the threat of becoming little more than a “small, subservient Russian garrison state.”

This single move also imperils the overall reform program, by weakening the pro-Western reformers within the government, and by reverting to an inherently problematic policy of remaining dangerously overly-dependent on Russia.

There is an additional obstacle to Armenian entry into the Customs Union: specifically, the absence of common borders with Russia, or with Belarus and Kazakhstan, the two other members of the Customs Union. This poses a logical impediment to Armenia’s membership. Second, even the Armenian prime minister has noted that “the structure of the Armenian economy is very different from that of the economies of the Customs Union’s countries that have substantial depos-

its of energy resources and pursue a policy of supporting domestic manufacturers through quite high customs duties.” He further noted that “on the whole, the level of such duties in the Customs Union is twice as high as those levied in Armenia,” adding that as “Armenia was one of the first CIS countries to join the World Trade Organization” (WTO), the a switch to the Russian-dominated Customs Union would be very complicated, if not impossible.

#### *What Next?*

In the aftermath of this decision, the EU is now exploring alternative ways to engage with Armenia. One such move may be a new Legal Framework, consisting of a six-point agenda: (1) mobility, and people-to-people contact and exchange, as a carrot for Armenia; (2) good governance, with a new stress on local and regional governance and greater accountability; (3) the rule of law, with a focus on judicial reform and more attention to law enforcement and enhanced standards for police conduct and performance; (4) democratization, with a broader approach to political parties, party and campaign finance and measures to promote greater civic and civil society engagement in the public policy process; (5) anti-corruption measures, including a new targeting of commodity-based cartels, or so called “oligarchic structures” and anti-trust mechanisms; and (6) sectoral cooperation, for more sweeping and broader capacity-building.

The challenge now stems from how to salvage and redefine a relationship between the EU and Armenia in the wake of this surprise retreat by Armenia, and how to avoid any attempt by Russia to coerce Armenia to surrendering to the Russian-sponsored Customs Union.