ARMENIA:

INTERNAL INSTABILITY AHEAD

18 October 2004

Europe Report N°158
Yerevan/Brussels

TABLE OF CONTENTS

ICG Europe Report N°158 18 October 2004

ARMENIA: INTERNAL INSTABILITY AHEAD

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Armenia, which regained its independence in 1991 and won its 1992-1994 war with Azerbaijan, is at peace and rebuilding its economy but its stability is fragile. Nagorno-Karabakh remains an unsettled problem that easily could reignite, and the regional economic isolation that the war over it produced could become permanent if there is no resolution soon. Corruption and violations of democratic procedure have disillusioned a population half of which still lives below the poverty line. Armenia's friends in the West and in Russia need to work together to help it overcome old enmities with Azerbaijan and Turkey. Donors should do more to press for democratic reforms and good governance.

The past two decades have been turbulent. In 1988 a disastrous earthquake rocked the north of the country, killing at least 25,000 and affecting one third of the population. The collapse of the Soviet Union destroyed traditional economic ties and social texture and was followed immediately by the war over Nagorno-Karabakh. Ten years later the country is at peace and busy rebuilding its economy, though the legacy of the conflict and significant sources of insecurity remain.

The May 1994 ceasefire that ended the war marked a military victory for Armenian forces, but there is no real peace. There are no mechanisms on the ground to prevent the conflict from restarting, and the negotiation process is stalled. Now that Azerbaijan is drawing significant dividends from its oil industry and developing military partnerships with, among others, the U.S., Turkey and Pakistan, there is a temptation among certain forces in Baku to consider trying to retake the enclave. Such a conflict would have disastrous consequences for the entire Caucasus, perhaps even spilling-over to affect simmering disputes in South Ossetia and Abkhazia. Until Armenia and Azerbaijan solve the Nagorno-Karabakh problem peacefully (an issue to be addressed in a subsequent ICG report), it is unrealistic to talk about long-term stability and full economic cooperation in the region.

The March 2003 Presidential elections were a missed opportunity for the state to demonstrate in practice its commitment to democracy and the rule of law. An uneasy political stalemate has set in, with the opposition boycotting the Parliament and the government refusing to implement the Constitutional Court's recommendation to organise a popular referendum on the legitimacy of the 2003 elections. Opportunities to express political grievances freely -- through fair elections, an active parliament, and open media -- remain limited. Consequently many choose to disengage from politics or to migrate, while a handful resorts to street demonstrations or in some instances violence.

Internal stability was most recently shaken during several weeks of opposition protest in April 2004, which revealed the intensity of a segment of the population's dissatisfaction with the regime and its policies. Yet, the numbers that turned out were relatively small and did not represent the totality of those unhappy with existing economic inequalities, high unemployment, worsening access to social services, and corruption. While the present opposition -- divided and seen by many as more interested in regaining power than truly fixing the system -- does not have wide popular resonance, the situation could become much more explosive if a charismatic leader emerged.

Armenia has benefited from substantial macroeconomic growth in the past ten years. Gross Domestic Product (GDP) growth, currently over 10 per cent annually, is driven by the construction, manufacturing, food processing, diamond cutting, and tourism sectors. A large and committed diaspora and remittances from Armenians working abroad have guaranteed a steady influx of money. However, the fruits of development

have been felt by only the relative few. Per capita monthly income remains under $80.

Armenia has difficult relations with its immediate neighbours, Azerbaijan and Turkey, while cultivating good ties with its larger partners, especially Russia, Iran, and the U.S. The Southern Caucasus badly needs economic integration to sustain its nascent growth but this is impeded by the Nagorno-Karabakh problem. Yerevan is excluded from participation in all major regional trade and East-West pipeline projects, mostly as a consequence of the unresolved conflict. There is a growing feeling in Armenia that as Turkey, Azerbaijan and Georgia link up, Armenia is being purposely isolated. Increased integration would not only help Armenia address economic inequalities within its borders but also promote regional confidence building and increase the chances of peaceful negotiations with Azerbaijan.

To guarantee its stability, Armenia needs to supplement economic success with robust democratisation and strengthened rule of law. By using force to stop street protests in April 2004, President Kocharian and his advisors showed they are unlikely to welcome calls to make Armenia a more tolerant, democratic and less corrupt state. Yet, as Western European institutions and the U.S. increase their engagement, they should condition additional support and funding on reform. Even as its co-operation with Russia and Iran increases, Armenia is aware that it cannot exclude potential partners and that it must extend its ties to avoid isolation. Ultimately this is most likely to occur when it sits down with Azerbaijan and finds the durable solution to the Nagorno-Karabakh conflict that is in both countries' fundamental interest.

RECOMMENDATIONS

To the Leadership of Armenia:

1. Make appointment of members to electoral boards, including the Central Election Commission, transparent and bring to account those responsible for election fraud and violations.
2. Conduct a credible and public investigation into the behaviour of law enforcement agencies during the April 2004 demonstrations, reform laws and law enforcement agencies so as to end administrative detention and severe physical ill-treatment in pre-trial detention, and improve the judiciary by training and appointing new and additional judges, and by increasing the Justice Ministry budget so it can provide better working conditions for judges.
3. Guarantee full freedom of media, require the Broadcasting Commission to meet and allocate new frequencies yearly, investigate cases of harassment of journalists, and allow ownership of independent electronic media outlets by persons not affiliated with government circles.
4. Implement the recommendations of the international community for a truly independent and permanent anti-corruption commission with a mandate to conduct transparent investigations and prosecutions.
5. Implement the recommendations of the Council of Europe's Venice Commission on proposed constitutional changes.
6. Develop economic and legislative incentives to encourage small and medium-sized business, such as tax breaks, better access to small loans, and protection from administrative harassment.

To the Opposition:

7. Counter the perception that the opposition is only interested in regime change by developing issue-based platforms on key political and economic topics, including anti-corruption strategy and youth and rural-oriented programs.

To the United States and the European Union (EU):

8. Condition development aid to progress on democratic reforms, including rule of law and independent media.

To the Council of Europe (COE):

9. Continue to press Armenia to respect its commitments as a COE member to hold free and fair elections, to investigate allegations of election fraud without delay, and to uphold the rule of law, including by abolishing administrative detention and severe physical ill-treatment during pre-trial detention.

To Russia:

10. Protect Armenian migrants working in Russia from harassment and abuse and guarantee their security from extremist groups.

To Turkey:

11. Agree with Armenia on the technical modalities involved and open the border.

Yerevan/Brussels, 18 October 2004

ICG Europe Report N°158 18 October 2004

ARMENIA: INTERNAL INSTABILITY AHEAD

I. INTRODUCTION

Armenia, one of the first Soviet republics along with the Baltic states to try and break from the Soviet Union, gained its independence in September 1991. The people are Indo-Europeans. In 301 their state became the first to adopt Christianity, and they have had their own alphabet and an uninterrupted literary tradition since the fifth century. Armenians expanded their presence to the entire Middle East, from eastern Anatolia to northern Iran, and their independent kingdom survived to the fifteenth century, after which territories they populated were divided into the Persian, Ottoman,[1] and Tsarist Russian empires.[2]

In the early nineteenth century, Russia relied on Armenians in its fight against the Persian and Ottoman Empires and the first hopes for an Armenian state re-emerged.[3] Following the collapse of the Tsarist Empire in 1917, the Armenian Revolutionary Federation-Dashnaktsutsiun Party (ARFD) set up an independent republic in May 1918 with its capital in Yerevan.[4] However, the Bolsheviks quickly took control of the Southern Caucasus and in late 1920 established Soviet power in Armenia.[5]

During the Soviet period, Armenia benefited from significant economic development, particularly in sophisticated technologies.[6] Moscow persuaded Armenians that only the Soviet Union could guarantee their security against Turkey[7] after the 1915 genocide.[8] Armenians were rather well integrated into Soviet society as long as they did not agitate for independence -- an idea that resurfaced only in 1988, fuelled by the Nagorno-Karabakh issue.[9]

Gorbachev's perestroika in the late 1980s convinced Armenian elites that Moscow could be persuaded to redraw borders in the Caucasus. In February 1988, the regional council[10] of the autonomous region of Nagorno-Karabakh requested that Moscow transfer the entity[11] from the Soviet Republic of Azerbaijan[12]

[1] Mkrtich Nersisian, *Istorija armjanskogo naroda* [History of the Armenian nation] (Yerevan State University, 1980).
[2] *Hay zhoghovrti patmutyun* [History of the Armenian nation], Armenian Academy of Science, vol. 5 (Yerevan), 1974.
[3] Ibid.
[4] Richard Hovannisian, *The republic of Armenia*, vol. I (University of California, 1971). Most of western Armenia, part of current Turkey, was not included in the republic created in May 1918.
[5] Ibid, vol. II (1982).
[6] Soviet Armenia produced sophisticated electronic machines and equipment mostly for military purposes. After independence, the closure of those factories in regional centres such as Vanadzor, Gyumri, Kafan symbolised lost prosperity and became a source of nostalgia for many.
[7] The Turkish-Soviet Armenian border was one of those that separated the Soviet bloc and NATO at that time.
[8] The number of ethnic Armenians living in the Ottoman Empire who died in 1915 as a result of forced deportations is generally accepted to have been around 1.5 million, though Turkish sources claim that somewhere between 300,000 and 600,000 ethnic Armenians died and strongly dispute the appropriateness of the term "genocide" to describe what happened. See Republic of Turkey, Ministry of Foreign Affairs, "The Armenian Allegation of Genocide: The Issue and the Facts", at www.mfa.gov.tr/grupa/ad/adf/massacre. wash.being.htm. Survivors sought refuge around the world, including in independent Armenia in 1918, and from 1922 to the late 1980s in Soviet Armenia. For a survey, see Robert Melson, *Revolution and Genocide: on the origins of the Armenian Genocide and the Holocaust* (Chicago, 1992).
[9] Nagorno-Karabakh, which means Mountainous Black Garden, is sometimes spelt Karabagh in English. The region also has an ancient Armenian name, Artsakh.
[10] The autonomous region of Nagorno-Karabakh had its own council of locally elected deputies. "Nagornyj Karabakh. Istoricheskaja spravka" [Nagorno-Karabakh. Historical notice], Armenian Academy of Sciences, Yerevan, 1988, p.88.
[11] Soviet Armenian authorities requested the unification of Nagorno-Karabakh with Armenia a number of times, starting in 1956. The 1988 demand was printed in the 21 February 1988 issue of *Sovetskij Karabakh*. Thomas de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War* (New York University Press, 2003), p.10.

to the Soviet Republic of Armenia. Stepanakert based its request on historical grounds and the argument that Nagorno-Karabakh was 70 to 80 per cent ethnic Armenian, the rest ethnic Azeris and Kurds.[13]

The reaction in Soviet Azerbaijan was violent: Armenians living in the city of Sumgait near Baku were subjected to several days of killings and other violence. This brought the Nagorno-Karabakh issue to the forefront of political debate in both republics.[14] In Armenia, the Karabakh Committee, led by intellectuals including Levon Ter-Petrossian, was created and rapidly became the leading opposition to the Communist Party. Capitalising on massive support in Armenia and within the diaspora, it transformed itself into the Armenian National Movement (ANM) and won elections to the republic's Supreme Soviet in 1990, thus becoming the ruling party of Soviet Armenia.[15]

In September 1991, Armenia declared its independence, and Ter-Petrossian was elected president but the euphoria was rapidly overshadowed by the full-fledged war that developed with Azerbaijan over Nagorno-Karabakh. This ended in a ceasefire in 1994, with a de-facto independent Nagorno-Karabakh, and ethnic Armenian forces occupying Azerbaijan territory surrounding the enclave.[16] The cost was high: 30,000 were killed and over 1 million displaced on the two sides (more than two thirds of these expelled from the areas occupied by Armenia).[17] Armenia's borders with Azerbaijan and Turkey remain blockaded.[18] Its troops continue to occupy five Azerbaijan districts (Kelbajar, Lachin, Zangelan, Jebrail, and Kubatly) in whole and two (Fizuli and Agdam) in part, as well as maintain a land blockade of the Nakhichevan enclave.[19]

In 1996, Ter-Petrossian was narrowly re-elected. He owed his victory to the security forces, who engineered the result, but he had lost public confidence.[20] His open letter in late 1997 calling for compromises with Azerbaijan over Nagorno-Karabakh was his political death warrant, and he resigned in 1998. Robert Kocharian (previously President of Nagorno-Karabakh and then Armenia's prime minister) was elected president that year and re-elected in 2003.

[12] Nagorno-Karabakh was incorporated into Soviet Azerbaijan as an autonomous region by a decision of the Bolshevik ruling organ, the Kavbjuro [Caucasus Bureau] on 5 July 1921.
[13] "Nagornyj Karabakh. Istoricheskaja spravka" [Nagorno-Karabakh. Historical notice], op. cit., p.47.
[14] De Waal, *Black Garden*, op. cit., pp.29-44.
[15] Ibid.
[16] For a detailed description of the war, see ibid.
[17] Ibid.
[18] Turkey sealed its border with Armenia in 1993 in solidarity with Baku.
[19] Nakhichevan is an enclave of Azeri territory surrounded by Turkey, Armenia and Iran. It has no land border with the rest of Azerbaijan -- a situation mirroring that of Nagorno-Karabakh before 1992.

[20] ICG interviews with journalists, political leaders and analysts, Yerevan, May-September 2004.

II. SOURCES OF POLITICAL INSTABILITY

Armenia is politically unstable because many basic safeguards of a participatory democracy do not function. Since the 1995 Parliament was voted in,[21] elections have been invariably rigged, causing political unrest and violence.[22] Frustrated over its inability to have a voice, the majority of the population has disengaged from politics. As an observer noted to ICG: "Unlike in the late 1980s and early 1990s, today people in Armenia have lost faith in their ability to be able to change politics in their country".[23] A small minority has remained active and twice in the past two years has taken to the streets. Nagorno-Karabakh continues to play a central role in political debate.

A. POLITICAL VIOLENCE

1. History of political violence

The most dramatic incident to shake political life was the massacre in the Armenian Parliament on 27 October 1999. Armed men shot dead eight people, including Prime Minister Vazgen Sarkisian and Speaker of Parliament Karen Demirchian.[24] Their motives have never been totally established. Another dramatic killing followed on 28 December 2002, when Tigran Naghdalian, chairman of the board of state television and radio, was assassinated on the street.[25] In March 2003, Armen Sarkisian, brother of the assassinated prime minister, was arrested on charges of ordering the killing of Naghdalian, known to be a staunch Kocharian supporter.[26]

The indictment came as a surprise. A long list of unresolved politically sensitive cases starting in 1993 includes the violent deaths of, among others, State Security Committee Chief Major-General Marius Yuzbashian, Railroads Director-General Hambartsum Kandilian, former Yerevan Mayor Hambartsum Galstian, Prosecutor-General Henrik Khachatrian, Deputy Defence Minister Colonel Vahram Khorkhoruni, and Deputy Minister of Internal Affairs Major-General Artsrun Markarian.

2. 2003 elections

Armenia's first presidential election, in 1991, which brought Ter-Petrossian to power, is generally considered the only truly fair vote to have been held in the country. Ter-Petrossian claimed victory in the first round of the 1996 election with 51 per cent against his former ally, Vazgen Manukian, who gained 41 per cent. The thin margin was perceived to have been manipulated, and violent demonstrations and the declaration of a state of emergency followed announcement of the result.[27] The third presidential poll took place in 1998, bringing Kocharian to power after Ter-Petrossian stepped down.[28] In March 2003, he was opposed by Demirchian, and parliamentary elections followed two months later.

Both sets of 2003 elections were significantly marred. In its assessment, the Organisation for Security and Cooperation in Europe (OSCE) stated: "The presidential election in Armenia fell short of international standards for democratic elections. Voting, counting and tabulation showed serious irregularities, including widespread ballot box stuffing".[29] During the second round, over 200 opposition supporters were placed under administrative

[21] In July 1995, Armenians also voted on the first constitution of independent Armenia.

[22] For an assessment of post-1991 elections, which generally have been recognised as manipulated, see OSCE Office for Democratic Institutions and Human Rights (ODIHR) reports on Armenian elections for 1996, 1998 and 1999, available at www.osce.org/odihr/index.php?page=elections&div=reports&country=am&PHPSESSID=0f3bb432632068552aff05e3dc9cb962.

[23] ICG interview with NGO leader, Yerevan, September 2004.

[24] ICG interview with witness of the killing, July 2004, Yerevan. See also Mark Grigorian, "The calm killer of Vazgen Sarkisian -- Divining their true motives", IWPR, October 1999, www.iwpr.net; Zhanna Alexanian, "Yerevan Five remain tight-lipped", IWPR, April 2001, www.iwpr.net.

[25] Mark Grigorian, "TV chief killing rocks Armenia", IWPR, January 2003, www.iwpr.net.

[26] Zhanna Alexanian, "Armenia: Storm over political murder trial", IWPR, November 2003, www.iwpr.net.

[27] "Report on Armenian Presidential Election by the Commission on Security and Cooperation in Europe", September 1996, www.csce.gov.

[28] Kocharian won in the second round with 60 per cent of the vote. His opponent, Karen Demirchian, gathered 40 per cent. The election was declared "neither free, nor fair" by the international community, including the OSCE. Freedom House report on "Nations in Transit -- Armenia", 1998, www.freedomhouse.org.

[29] ODIHR's Final Report on Presidential Elections in Armenia, 19 February and 5 March 2003, www.osce.org/documents/odihr/2003/04/1203_en.pdf.

detention, some for fifteen days.[30] The media were biased, and A1+, the only independent television channel, was off the air for the entire period. Observing both the presidential and parliamentary elections, the Parliamentary Assembly of the Council of Europe (PACE) stated it "cannot but express its profound disappointment at the conduct of the elections -- which gave rise to serious irregularities and massive fraud".[31]

Close to a decade of rigged elections has not only discredited democratic practices, but has also favoured a culture of political violence that includes assassination.

3. April 2004 demonstrations

The most recent peak of political violence was reached in April 2004, when the government sent police to crush peaceful opposition demonstrations in central Yerevan.[32] The protests were organised after the Constitutional Court ruled on opposition leader Stepan Demirchian's challenge to the result of the 2003 presidential election. The court recognised Kocharian as winner but conceded there had been vote rigging, without specifying whether it had affected the result. It ordered a criminal enquiry, which the Prosecutor's Office subsequently refused to carry out as "unconstitutional".[33] The government officially denied all charges of fraud, stating that "despite efforts to demean Armenia and diminish its standing, however, Armenia registered a number of successes in these elections".[34]

In April 2004, the opposition mounted a pressure campaign. On 12 April, an estimated 15,000 people gathered in front of the Parliament.[35] The police broke up the demonstration that evening, beating pensioners and journalists, using stun grenades, water cannons, electric prods and tear gas.[36] The offices of opposition parties were raided, computers and archives confiscated and staff arrested and interrogated for up to 36 hours.[37]

Some observers believe that President Kocharian resorted to violence to prove that he maintains control over the police and the army, his staunchest supporters.[38] The opposition considers it a sign of weakness, demonstrating that Kocharian lacks genuine public support.[39] In any case, the muscle flexing was a stark reminder that violence is still a part of Armenian political life.

After threatening to sanction Armenia in April 2004, the Council of Europe's PACE adopted a resolution on 7 October recognising certain improvements but expressing concern at the lack of investigation into electoral fraud in the 2003 elections and calling for measures to end severe physical ill-treatment, in some cases apparently amounting to torture, and pre-trial administrative detention.[40]

4. More violence to come?

A new political season began in September 2004, and the opposition parties have already stated that they are getting ready for action.[41] It is unclear to what extent the opposition will manage to co-ordinate its actions, but having decided to continue to boycott Parliament, it is unlikely to compromise with the government and will most probably call for

[30] See in particular the Human Rights Watch briefing paper, "Cycle of Repression: Human Rights Violations in Armenia", 4 May 2004.
[31] Parliamentary Assembly of Council of Europe Resolution (PACE) 1361 on the honouring of obligations and commitments by Armenia, www.coe.am/en/docs/pace/resolution_1361.pdf.
[32] Emil Danielyan, "Armenia braces for political upheaval", www.eurasianet.org, 18 September 2004.
[33] Karine Kalantarian, "Constitutional court upholds presidential election result", RFE/RL, 16 April 2003, www.rferl.org. Also Emil Danielyan, "Prosecutors at odds with constitutional court over election fraud inquiry", RFE/RL, 17 April 2004, www.rferl.org.
[34] Speech by Foreign Minister Vartan Oskanian, "Understanding Armenia's Elections: Myths and Expectations", 18 March 2003, Yerevan, www.armeniaforeignministry.com.
[35] Rita Karapetian, "Armenian President cracks down", IWPR, April 2004, www.iwpr.net.
[36] Human Rights Watch Briefing Paper, "Cycle of repression: Human rights violations in Armenia", May 2004.
[37] ICG interviews with opposition party activists and leaders, May-August 2004, Yerevan. Prime Minister Markarian himself criticized the ransacking of offices, see Ruzanna Khachatrian, "Markarian condemns police raids on opposition offices", RFE/RL, 8 June 2004, www.rferl.org. See also "Digging deep in trenches: the opposition in Armenia faces stalemate", Groong/Armenia News Network, 13 May 2004, www.groong.usc.edu.
[38] ICG interviews with diplomats, journalists and political analysts, Yerevan, May-September 2004.
[39] ICG interviews with opposition leaders, Yerevan, May-September 2004.
[40] PACE Resolution 1405, Implementations of resolutions 1361 and 1374 on the honouring of obligations and commitments by Armenia, www.coe.am/en/docs/pace/resolution_1405.pdf.
[41] ICG interviews with opposition leaders, September 2004, Yerevan.

new demonstrations. The authorities have warned they will not tolerate such actions, which they deem unconstitutional, and have further restricted the right to demonstrate. In May 2004, the Parliament banned rallies not approved in advance on virtually all squares in Yerevan and other major cities. Though this law was criticised by the Council of Europe and OSCE's Office for Democratic Institutions and Human Rights (ODIHR), it was reinforced in September by a decision to ban indefinitely any demonstration in front of the Presidential palace, where most of the April events had occurred. The opposition has announced it will ignore this ban if necessary.[42] The street remains the main space for expression of political discontent but it is an open question whether demonstrations will be of sufficient size and duration to reach critical mass.

One issue likely to polarise society further relates to proposed changes of the 1995 Constitution. In May 2003, the government put a package of amendments to a referendum that failed. It is now working on a revised package that it plans to submit to the Council of Europe's Venice Commission and then to Parliament in the coming months. President Kocharian's chief constitutional lawyer, Armen Harutyunian, who is the main author of the project, admits there is no agreement as yet between the president and the ruling coalition on the final texts.[43] Over 120 amendments are included,[44] and it remains uncertain what effect they would have on the independence of the judiciary and the legislative. One amendment apparently under consideration might give Parliament the power to dismiss the prime minister -- a presidential prerogative at present, bit another proposed change would give the president the right to dismiss Parliament should it refuse his nomination of the prime minister three consecutives times.[45]

Experts are concerned that the reforms could also provide a means for Kocharian to remain in power beyond his constitutional mandate: "We cannot exclude that following the Central Asian model, Kocharian could consider that he has the right to either extend his mandate beyond 2008, or to declare that he can run again as president on the basis of a newly revised Constitution".[46] The government must submit the package to a new referendum by June 2005, according to PACE requirements. The opposition, which has its own set of proposals,[47] says it will make the referendum a vote of confidence on Kocharian.[48]

B. NAGORNO-KARABAKH

The Nagorno-Karabakh issue looms over all aspects of Armenia's political life and compounds its instability. This report examines the issue only in so far as it relates to Armenia's domestic politics and relations with neighbours: a subsequent ICG report will discuss the Nagorno-Karabakh peace process and the possible parameters of a settlement.[49]

The status of Nagorno-Karabakh and its relations with Armenia remain unclear. Officially, Armenia maintains a studied ambiguity about the territory's status, recognising it neither as an independent state nor as part of its own territory. However, President Kocharian recently declared that "[a]t the time of collapse of the Soviet Union two states were formed: the Azerbaijani Republic on the territory of [the] Azerbaijan Soviet Socialist Republic and [the] Republic of Nagorno-Karabakh on the territory of the Nagorno-Karabakh Autonomous Region. Establishment of both these states has similar legal grounds".[50] Defence Minister Serzh Sarkisian has repeatedly stated that "the Armenian army serves as a guarantor of Nagorno-Karabakh security".[51]

Developments in Nagorno-Karabakh significantly influence Armenian politics. The issue previously

[42] Gevorg Stamboltsian, "Rallies outside Kocharian palace banned by law", RFE/RL, 6 September 2004, www.rferl.org.
[43] "Armenian President, allies continue to mull constitutional amendments", RFE/RL, 16 September 2004, www.rferl.org.
[44] "Draft of constitutional reforms of Armenia contains a point depriving government of right to pass resolutions equivalent to law", Arminfo, 16 September 2004, www.arminfo.am.
[45] "Armenian President, allies continue to mull constitutional amendments", RFE/RL, 16 September 2004, www.rferl.org.
[46] ICG interview with constitutional lawyer, Yerevan, September 2004. Under the current constitution (Article 50), President Kocharian cannot run for a third term in 2008.
[47] Opposition deputy Arshak Sadoyan, member of the Justice Bloc, has drafted an alternative project of constitutional amendments. ICG interview with opposition leaders, Yerevan, September 2004.
[48] ICG interviews with opposition leaders, Yerevan, September 2004.
[49] See also ICG Europe Report N°156, *Azerbaijan: Turning Over a New Leaf?*, 13 May 2004.
[50] Speech delivered by President Kocharian, at the Parliamentary Assembly of the Council of Europe, 23 June 2004, Strasbourg, www.armeniaforeignministry.gov.
[51] "Karabakh military exercises aimed at keeping peace - Armenian defence minister", Arminfo, 10 August 2004, www.arminfo.am.

helped unify Armenia's political elite, but ultimately, it may polarise popular opinion and society. All political forces agree that nothing should be done to undermine Nagorno-Karabakh's interests and security. Yet, increasingly divisions can be felt, especially among many Hayastantsis,[52] who consider that the interests of Armenia should come first. In society generally, there are probably many more interests and opinions on the issue than formal political discourse would suggest.

1. A political trigger of conflict with Azerbaijan

The nature of power relations between Armenia and Nagorno-Karabakh has shifted over time. While Yerevan formerly was politically dominant, more recently the opposite appears true. Stepanakert political elites have become increasingly powerful in Armenian politics, most notably with Kocharian's rise to the presidency.[53]

When calls for Armenian independence started emerging in the late 1980s, nationalists considered Nagorno-Karabakh a means to advance their cause. Before the first 1988 demonstration in Yerevan, most Armenians had rarely showed any particular interest or concern for the remote enclave inside the neighbouring Soviet Republic of Azerbaijan. Suddenly it became a national symbol that most of society could coalesce around. As a political observer puts it: "Nagorno-Karabakh is the symbol of the injustices Armenians have suffered in the hands of Turks. Today Armenians must change the course of Armenian history. In this case, Nagorno-Karabakh is about Armenian history, not about the real Nagorno-Karabakh". [54] The strategy worked. The Karabakh Committee established in 1988 rapidly evolved into the Armenian National Movement and won elections, becoming the ruling party in an independent Armenia just three years later. Yet in 1998, Ter-Petrossian had to step down precisely because of the Nagorno-Karabakh issue. Today, the issue is perceived as dangerous, if not suicidal for Armenian politicians. President Kocharian has learned from his predecessor's experience and acted very cautiously.

The opposition has an equally vague policy. It considers the issue the only one that could alter the current frozen internal political situation and perhaps even serve to initiate a popular revolution like that which Georgia experienced in 2003, but believes this would require a change in the balance between Armenia and Azerbaijan. [55] Pro-government and opposition parties compete to appear the most patriotic, looking for opportunities to accuse the other of having betrayed Nagorno-Karabakh.[56]

On the ground, the situation is as volatile as ever: there are no peacekeeping troops, only OSCE monitors, and there are regular exchanges of fire that could rapidly escalate into a full military conflict. According to a poll conducted in August 2004, nearly 50 per cent of Armenians believe war with Azerbaijan is the country's most serious threat in the coming five years.[57]

2. A social divider domestically

Even though the political elite -- government and opposition -- share similar views on Nagorno-Karabakh, divisions within society are visible. Armenia is ethnically the most homogenous post-Soviet state,[58] yet it is divided among groups that identify differently to the very notion of being Armenian. Hayastantsis, Karabakhtsis, refugees from Azerbaijan, [59] and diasporan Armenians are distinct communities.

---

[52] Armenia is "Hayastan" in Armenian, thus Hayastantsi refers to ethnic Armenians originating from and living in Armenia, as opposed to those originating from or living in Nagorno-Karabakh or elsewhere.

[53] Kocharian was elected President of Nagorno-Karabakh in 1994 and kept this function until 1997, after which he became Prime Minister of Armenia.

[54] See Gerard Libaridian, *The Challenge of Statehood, Armenian political thinking since independence* (Cambridge, 1999), p.156.

[55] ICG interviews with opposition activists, Yerevan, May-September 2004.

[56] See Ara Tadevosian, "War of words in Yerevan", IWPR, May 2001, www.iwpr.net.

[57] Poll conducted in Armenia by the Armenian Centre for National and International Studies (ACNIS), www.acnis.am/pr/security/Socio07eng.pdf.

[58] The eleven ethnic minorities living in Armenia, mostly Kurds, Greeks, Jews, Russians and Assyrians, constitute only 2 per cent of the population. "Armenia ethnic minorities facing difficulties in preserving culture", Noyan Tapan agency, 2 August 2004.

[59] An estimated 350,000 ethnic Armenians left Azerbaijan from 1988 to 1992. According to polls, only half feel integrated in Armenia, and many have re-migrated to Russia and the West. Lyudmila Arutyunian, "Socialnaja adaptacija bezhencev v Armenii: popytka tipologizacii" [Social adaptation of refugees in Armenia: a tentative typology] in

Many Hayastantsis perceive that Karabakhtsis are foreign to Armenian values and culture and have imposed their politics upon the country, bringing suffering during the war and isolation today. A Hayastantsi told ICG:

> There is a huge divide in society here: on the one side, you have Karabakhtsis, Asian rural people; on the other side you have Armenian, European urban people, and we are very different. Why do we have to bear those Karabakhtsis here, in Armenia?[60]

The main reason for this resentment is the price Armenia pays for the Nagorno-Karabakh conflict: economically, it experienced extremely severe power and energy cuts and food shortages, and it still is blockaded. Two-year military service is compulsory for young men. Given the appalling conditions of barracks,[61] many emigrate to escape this service.[62]

More Armenians live outside than within the country.[63] Usually economically well off and integrated into their countries of residence and citizenship, they initially expected Armenia to correspond to an image they had constructed from family stories and legends. There were great expectations and emotions in 1988, when the Spitak earthquake triggered a generous response in the diaspora, and many discovered a real country for the first time. Since independence, many Armenians have left that country to live in diaspora communities. They brought with them a different culture forged during years in the Soviet Union. Much poorer than their diasporan relatives, some also brought criminality into communities that have been respected for honesty in host countries, thus creating resentment among diasporan Armenians.[64]

After independence, diasporan Armenians invested large financial and human resources in Armenia. In 2004 they sent an estimated $700 million, mostly from Russia and the U.S.[65] The Lincy Foundation of Armenian-American millionaire Kerk Kerkorian has been reconstructing roads and houses in the Spitak region, which was devastated by the 1988 earthquake, as well as repairing central streets and historical landmarks in Yerevan. Its $160 million investment in 2003 was 30 per cent of the national budget. Yet, many from the diaspora complain they are cheated. A human rights activist told ICG: "the truth is the diaspora is viewed as the milk cow".[66] The Hayastantsis, on the other hand, accuse diasporans of behaving as masters. As one Hayastantsi said, "in the early 1990s, the diaspora was very paternalistic, and wanted to teach us how to live. Well I told them, come to Armenia, and let's see how you handle the situation, because charity is easy if you live a comfortable life in the West".[67]

Now both groups have overcome their initial illusions, and relations are somewhat better, but they remain different, culturally, linguistically,[68] and mentally. As a diasporan told ICG, "we are very different from local Armenians. We look, dress, think, act, socialise, work differently and have different lives from local Armenians. There is no hate, but a clear distinction between the two communities".[69] A Hayastantsi echoed this: "people are divided into diasporans, Armenian, and Karabakhtsis. The diaspora and us have learned from each other, but the rapprochement that was anticipated did not take place, and each community lives very separately from the other one".[70] Even ecclesiastically, some diasporans recognises a different Catholicosate[71] from the official one in Armenia.

Migracija na Kavkaze [Migrations in the Caucasus], Caucasus Media Institute (Yerevan, 2003).

[60] ICG interview with Hayastantsi, Yerevan, July 2004.

[61] An estimated 60 servicemen died non-combat deaths in the first half of 2004. See Gevorg Stamboltsian, "Armenian military accused of hushing up non-combat deaths", RFE/RL, 20 May 2004, www.rferl.org.

[62] ICG interview with student, Yerevan, June 2004.

[63] It is generally considered that there are about 7 million Armenians worldwide. David Petrosian, "Armenian Diaspora critical of Yerevan authorities", IWPR, June 2002, www.iwpr.net.

[64] ICG interview with foreign expert, Yerevan, May 2004.

[65] Figures denoted in dollars ($) in this report unless otherwise noted refer to U.S. dollars.

[66] ICG interview with NGO leader, Yerevan, June 2004. See also David Petrosian, "Armenian Diaspora critical of Yerevan authorities", IWPR, June 2002, www.iwpr.net.

[67] ICG interview with Armenian staff in Western embassy, Yerevan, June 2004.

[68] There are two forms of Armenian -- Western and Eastern -- the latter of which is the official language of the country. Each has its own spelling.

[69] ICG interview with U.S. member of the diaspora, Yerevan, May 2004.

[70] ICG interview with NGO worker, Yerevan, June 2004.

[71] Armenians have their own Christian Apostolic Church headed by the Catholicos, traditionally based in Armenia in the city of Echmiadzin. A parallel Catholicosate was developed for Middle East communities and transferred to Antilias, Lebanon. There was a major split between the two religious authorities in 1956.

Nagorno-Karabakh is also a source of division between the communities. Diasporan communities are more prone to underline Armenia's historical grievances and call for a stronger and larger state that incorporates Nagorno-Karabakh.[72] Some Armenians accuse them of harming the country because of their different understanding of the character of the Armenian state.[73] Most diasporans come from what is historically called Western Armenia, and thus regard today's state as only a partial substitute for the "true Armenia".[74] An Armenian complained: "diasporans are obsessed with the Genocide, but they don't think whether this is beneficial for Armenia. First, they don't really consider this Armenia as their historical homeland because most come from Western Armenia".[75]

III. POLITICAL LANDSCAPE

Neither the government nor the opposition has a large committed popular following. After heavy engagement in the late 1980s and the first years of independence, people tend to be disenchanted with politics. The political landscape is bitterly divided between the coalition of pro-government parties now in power under President Kocharian's firm grip and an extremely ideologically diversified and poorly co-ordinated opposition.

According to the constitution, the president is elected for a five-year term and can serve a maximum of two mandates.[76] He appoints the prime minister and cabinet, without approval from Parliament.[77] Since the May 2003 parliamentary elections, Armenia has been governed by a coalition of three political parties, which share ministerial posts: the Republican Party has seven, Orinats Yerkir (Country of Law) and ARFD three each.

The unicameral Parliament has 131 deputies, of whom 56 are elected from single-member districts and 75 by party lists for four-year terms.[78] The coalition parties have an absolute majority with 73 seats, 40 of which are Republican Party, 22 Orinats Yerkir, and eleven ARFD.[79] The opposition has 24 seats, including the fourteen of the Justice (Artarutyun) Bloc and the eight of National Unity. The head of the second largest party in the coalition, Artur Baghdasarian, became speaker on the president's recommendation and Parliament's vote. On paper the Parliament has significant powers -- it can impeach the President[80] and control the budget.[81] In practice, it is largely a rubber stamp. Its committees work poorly, and there is little opportunity for policy discussion on the floor. The president has been able to count on coalition unity and has had few obstacles to getting his proposals approved by the current legislature.

[72] The Dashnaktsutiun Party, which has a major following within the diaspora, states as its goals: "The creation of a Free, Independent, and United Armenia. The borders of United Armenia shall include all territories designated as Armenia by the Treaty of Sevres as well as the regions of Artzakh [the Armenian name for Nagorno-Karabakh], Javakhk, and Nakhichevan". ARFD Program, www.arfd.am.
[73] Asbed Kotchikian, "Armenian foreign policy: between state and nation", Groong/Armenia News Network, 8 December 2003, www.groong.usc.edu.
[74] ICG interview with political analyst, Yerevan, August 2004.
[75] ICG interview with political analyst, Yerevan, June 2004.
[76] Article 50 of the Armenian Constitution.
[77] Article 55 of the Armenian Constitution.
[78] The Economist Intelligence Unit, "Armenia Country Report", November 2003.
[79] In the current Parliament, the ruling coalition has 73 seats, the opposition 26 seats, and non-party affiliated deputies 32 seats. About twenty of the latter are regarded as fully supportive of the coalition. Ruzanna Khachatrian, "Baghdasarian Party Gets Vacant Parliament Seat", RFE/RL, 20 September 2004, www.rferl.org.
[80] Article 57 of the Armenian Constitution.
[81] Articles 76, 77 of the Armenian Constitution.

A. THE KARABAKH CLAN

Since Kocharian came to power in 1997, the Karabakh clan has been described as the driving political force in the country.

1. President Kocharian

Aged 50, Robert Kocharian started his career in Soviet Azerbaijan, as head of the Communist Party organisation in his work unit, the silk factory in Stepanakert, the main town of Nagorno-Karabakh. During the war with Azerbaijan, he became head of the Nagorno-Karabakh State Defence Committee, which repelled Azeri forces after they retook half the enclave in June 1992.[82] In 1994, he became president of the self-declared Nagorno-Karabakh Republic, and in 1997 he was brought into Armenian politics as prime minister by the ANM.[83] Ter-Petrossian was losing popular support and needed new allies; Kocharian, with his image of Karabakh hero, seemed ideal.[84]

Kocharian is perceived by the majority of Hayastantsis as a foreigner in terms of traditional Armenian politics.[85] Faced with some initial resistance, he gradually consolidated his power by breaking old structures,[86] and putting his supporters, mostly originating from Karabakh, in key socio-economic positions.[87] Today he can rely on this network of Karabakhtsis, who are dependant on him and his clan to maintain their political status.[88]

Kocharian's term expires in 2008, and he has not designated a successor. It is believed that if he does not extend his mandate, he will eventually choose someone who can guarantee him immunity, as he did for Ter-Petrossian in 1998.[89]

2. His entourage

Kocharian's closest ally and fellow-Karabakh native is Serzh Sarkisian, sometimes dubbed the real president for his extensive influence in politics, economics and relations with Russia. Sarkisian started his career as Komsomol first secretary in Stepanakert,[90] and later became commander of the Karabakh armed forces. Since 1998 he has held the following posts concurrently: security minister, defence minister, National Security Council secretary, head of the Armenian side of the Russia-Armenia intergovernmental cooperation commission coordinating most aspects of relations with Moscow, and electoral campaign chief for Kocharian in March 2003. Kocharian and Sarkisian may disagree on important issues but they seem to need each other too much to threaten their relationship. Sarkisian appears to be a good executioner of Kocharian's political decisions and could eventually be a safe successor.[91]

3. The ruling coalition

President Kocharian, who does not belong to any party, claims, "my party is my people", though since the May 2003 parliamentary elections, he has relied on a three-party coalition to rule the country. The Republican Party, the most powerful and probably most inclined to betray the coalition, is headed by Prime Minister Andranik Markarian.[92] It controlled the government before May 2003. Founded in 1990,[93] it is composed mainly of former Communist elites who had to yield to the intellectual nationalists until 1998. Their aim is to retain the economic power they held during the Soviet period. Continuity is the key word, and anyone who can guarantee this has their support.[94] Republicans are wary of Kocharian, who, they fear,

[82] See "Biography of the President of Armenia", www.president.am.
[83] Freedom House report on "Nations in Transit -- Armenia", 1998, www.freedomhouse.org.
[84] ICG interview with political analysts, Yerevan, May-September 2004.
[85] ICG interviews, Yerevan, May-September 2004.
[86] Groong research and analysis group, "Diplomatic rotation or elimination. President Kocharian dismisses senior ambassador in continuing power consolidation", 21 April 2000, www.groong.usc.edu.
[87] While only Defence Minister Serzh Sarkisian is a Karabakhtsi, many other Karabakhtsis have been appointed heads of universities and departments, hospitals, and schools. ICG interviews across Armenia, May-September 2004.
[88] ICG interviews, Yerevan, Vanadzor, Gyumri, May-September 2004.
[89] ICG interviews with journalists, political leaders and analysts, Yerevan, May-September 2004.
[90] Komsomol refers to the Soviet Youth Groups that served as a gateway to Communist Party membership.
[91] ICG interviews with journalists, political leaders and analysts, Yerevan, May-September 2004.
[92] Andranik Markarian, a political dissident in the 1970s, spent two years in prison. He was trained as an engineer, and became a deputy in 1995 on the Republican Party ticket. He has been prime minister since May 2000.
[93] The party has its own website at www.hhk.am.
[94] ICG interviews with journalists, political leaders and analysts, Yerevan, May-September 2004.

could potentially restart an ethnic conflict with Azerbaijan. If that were to happen and Kocharian's base become fragile as a consequence, they might abandon him and eventually join the opposition.[95]

Orinats Yerkir,[96] the centre-right party headed by Artur Baghdasarian,[97] is the second most important coalition member. At 35, Baghdasarian is young and well liked by the West, France in particular.[98] He lacks a power base among the police and army but could by 2008 become a consensus choice to follow Kocharian.[99]

The third coalition party, the ARFD (often called the Dashnak Party), was established in 1894 in Tbilisi and reintroduced into Armenia after 1988, but banned in 1994 by Ter-Petrossian on allegations of terrorism.[100] Appealing mainly to those from the diaspora, it is ideologically distinct from the other parties and stands apart from all domestic political forces. It seems to be the most loyal to Kocharian, who allowed them to work legally in 1998 and invited them to join his coalition. The Dashnaks have a very strong nationalistic line and are prominent in Nagorno-Karabakh, both as a party and via links to the diasporan organisations that heavily fund reconstruction in the enclave. They call for unification of Nagorno-Karabakh and Armenia; autonomy for Javakhk in Georgia,[101]and a "reunification of Armenia", which in their view encompasses Eastern Turkey.[102]

The ARFD and the Karabakh clan are very close. They believe in strengthening the security forces and share a similar anti-Turkey stance. Unlike their coalition partners, the Dashnaks appear more concerned with ideology than having a leader succeed Kocharian. ARFD has strong structures[103] and can relay its message through local and youth organisations much more effectively than the other coalition parties, which is much appreciated by Kocharian. A senior ARFD leader claimed: "We brought Kocharian legitimacy through our networks".[104]

Observers, however, also note a split within the party itself, between the Dashnak elite in Armenia on the one hand, and on the other, the middle-rank members and overseas Dashnaks, who dislike the association with Kocharian. A senior party official acknowledged:

> We are being made responsible for areas of government with which we have absolutely no relation or contact. We are also being made responsible for the performance of the state official for whom the office he holds is only a means for furthering bribery and wealth accumulation, a means of battle against any potential competitor that threatens his business interests.[105]

As the ARFD is an ideologically strict, tightly structured former underground organisation, it usually obeys its leadership, which is committed to Kocharian out of political pragmatism. As a member explained to ICG, "there is no Western-style democracy in Armenia; thus, if you want to have an influence on policies, you have to be within the ruling power, not outside".[106]

Despite repeated claims of unity and after sixteen months of work, the coalition is divided by political ambitions and serious ideological differences.[107] Before the election, Baghdasarian's party criticised

[95] Ibid.
[96] Orinats Yerkir means Country of Law, or Country of Rule of Law.
[97] Artur Baghdasarian is 35. Trained as a lawyer in Russia, he founded Orinats Yerkir in 1990, was elected to Parliament in 1995 where he served on the Standing Committee on Foreign Relations, and was elected Speaker of Parliament in June 2003, officially the second most important position in the government. Under the constitution, the speaker becomes acting head of state if the president steps down.
[98] ICG interviews with diplomats, Yerevan, May-September 2004.
[99] ICG interviews with journalists, political leaders and analysts, Yerevan, May-September 2004.
[100] Mark Grigorian, "Divining the true motives of the calm killers of Vazgen Sarkisian", IWPR, October 1999, www.iwpr.net.
[101] Javakhk is the Armenian name for two districts of Georgia -- Akhalkalaki and Ninotsminda -- whose residents are 95 per cent ethnic Armenian and that form part of the province of Samtskhe-Javakheti.
[102] See ARFD Party Program, www.arfd.am.
[103] Unlike any other party in Armenia, the ARFD has a hierarchical system, from local cells of ten to twenty members up to the regional, central and international levels. ICG interviews with ARDF members, Yerevan, September 2004.
[104] ICG interview with senior ARD leader, Yerevan, September 2004.
[105] See speech delivered by Hrand Margaryan, ARFD-chairman, during ARFD 29th World Congress, February 2004.
[106] ICG interview with ARD senior leader, Yerevan, September 2004.
[107] "Digging deep in trenches: the opposition in Armenia faces stalemate", Groong/Armenia News Network, 13 May 2004, www.groong.usc.edu.

the Republicans as "the party of money",[108] hinting at leadership corruption. The Dashnaks are disappointed. They had expected a strong anti-corruption agency with investigation rights would be established as they had proposed.[109] They have few Parliament seats, and even their share of middle and low-ranking governments posts is resisted by old Republicans.[110] An alliance of only the Dashnaks and Orinats Yerkir is unlikely because they disagree about opening the border with Turkey, with the former insisting on prior Turkish acknowledgement of the 1915 Genocide. Many expected the coalition to shatter under street pressure during the April 2004 demonstrations.[111] The main reason it survived seems to have been the attraction of staying in power and uncertainty about what the opposition would have given the old elites in a new power distribution.

4. The security forces

Security forces are a key element in Armenian politics, as in other former Soviet republics. Control over and support from them rules out serious challenges from other political forces.[112] As an observer told ICG, "parliamentary and other state structures are only decorative…in comparison to the security structures".[113]

The army, believed to have 60,000 troops, is one of the pillars of the government. It initially incorporated some elements of the Soviet 7th Army and the many ethnic Armenians serving in the Red Army across the Soviet Union. In 2004, the military budget increased by 10 per cent, to $82 million.[114] It is loyal to Kocharian, who is described as a fighter and Karabakh war hero, and some elements were called in to crush demonstrators in April 2004.[115]

The internal security forces form the other pillar of the Karabakh clan's power. Kocharian has effective control of all security structures, can appoint and dismiss their key people, and keeps a balance among different departments to ensure no single strong figure could emerge to challenge him.[116]

B. DIVIDED OPPOSITION

The opposition is divided. In most cases its parties are personality based, associated with families or clans that had influence before or immediately after independence. The leadership of several has been handed from father to son, or brother to brother. It is unclear whether they can re-invent themselves as relevant today.

1. The Demirchian clan

The Demirchian family is one of the most powerful political clans, having been influential since the 1970s. Karen Demirchian led Soviet Armenia as the Communist Party First Secretary from the 1970s to 1990 and made a come-back in 1999 as speaker of Parliament. When he died in the 27 October 1999 shooting inside Parliament, his son Stepan took over as a key opposition leader. He now heads the Hayastantsi Zhoghovrdakan Kusaktsutyun (People's Party), and the Justice Bloc, an alliance of nine opposition parties. In the March 2003 Presidential elections, he secured 32.5 per cent, a result his supporters considered fraudulently low.[117] More than a career politician, Demirchian, a former engineer, is a political symbol. An analyst describes him as "prone to compromises and quiet, which is a rare quality for an Armenian politician, yet his carefulness sometimes turns into indecisiveness".[118] His supporters are mostly older people, former nomenklatura members, who feel nostalgia for the Soviet period associated with his father's rule.

Another key figure in the Justice Bloc is Vazgen Manukian, a leader of the Karabakh Committee and

[108] Armen Zakarian, "Orinats Yerkir leader admits interest in heading new parliament", RFE/RL, 7 June 2003, www.rferl.org.
[109] Armen Zakarian, Ruzanna Khachatrian, "Pro-Kocharian parties edge closer to power-sharing deal", RFE/RL, 9 June 2003, www.rferl.org.
[110] ICG interview with political analyst, Yerevan, August 2004.
[111] ICG interviews, Yerevan, May-September 2004.
[112] See Liana Minasian, "The role of the army in Armenia's politics", IWPR, November 1999, www.iwpr.net.
[113] ICG interview with NGO leader, Yerevan, September 2004.
[114] *Voenno-promyshlennyj Kurier* [Military-industrial Courier], no. 32, August 2004, p. 2.
[115] The military police, which according to law have authority only with respect to the armed forces, were used in April 2004. Hrach Melkumian, "Military police presence at opposition rallies confirmed", RFE/RL, 22 September 2004, www.rferl.org.
[116] The June 2003 coalition deal provides specifically that Kocharian can name himself defence minister. Ruzanna Khachatrian, "Kocharian, loyal parties seal coalition deal", RFE/RL, 11 June 2003, www.rferl.org.
[117] "Election Guide on Armenia", International Foundation for Election Systems (IFES), www.ifes.org.
[118] ICG interview with political analyst, Yerevan, September 2004.

the ANM. Trained as a mathematician, he was defence minister and prime minister in the first post-independence government of Ter-Petrosian, against whom he ran for president in 1996.

2. The Sarkisian clan

The Sarkisians are another powerful clan. Vazgen Sarkisian was Armenia's unofficial strongman during much of the 1990s. He served as defence minister and played an instrumental role in Ter-Petrossian's 1996 re-election, as well as in bringing Kocharian from Nagorno-Karabakh and ensuring his election in 1998.[119] He became prime minister in 1999 but was assassinated along with Karen Demirchian later that year. His brother Aram, formerly director of the Ararat cement factory, took over as prime minister from November 1999 to May 2000. Today he heads the opposition Republic Party,[120] which is also a member of the Justice Bloc. As noted, Armen, the youngest brother, is presently accused of having ordered the killing of the head of state television, Tigran Nagdalian, in December 2003**.**

The Republic Party is often described as the most serious challenge to the current government, given its links with other political forces, including the ANM.[121]

3. The Geghamian clan

Artashes Geghamian came third during the first round of the 2003 Presidential elections with 17 per cent.[122] He is a controversial figure among the opposition: a former Yerevan mayor, a populist orator sometimes dubbed the "Armenian Zhirinovski", and leader of the National Unity Party (AMK). Having gained support from very different groups, including some in government in the past, many question to what extent he deserves to be called, along with Stepan Demirchian, the second leader of the opposition.[123] Geghamian, who also ran for president in 1998, was boosted in 2003 by the endorsement of Armenia's best-known ex-dissident, Paruir Hairikian, who until recently was chairman of the presidential human rights commission. Most of his supporters, however, are former urban elites. He appears open to any coalition that offers him more power.

4. The Armenian National Movement (ANM)

The Armenian National Movement, in power from 1991 to 1998, distances itself from the Demirchian, Sarkisian and Geghamian clans. It is the successor of the Karabakh Committee, which played an essential role in 1988 in launching Armenia's independence bid. Since he stepped down in 1998, Ter-Petrossian has been estranged from the movement, has withdrawn from mainstream politics, and dedicates most of his time to historical research. David Sahnazaryan, former security minister and father-in-law to Ter-Petrossian's son, is now one of the movement's key figures. The ANM remains unpopular because it is associated with the worst years of the blockade.[124] It is considered more a lobby group today, maintaining influence via private counselling and two newspapers.[125] Very few believe Ter-Petrossian could make a comeback unless there is a sudden change in Nagorno-Karabakh.

5. The opposition's potential

The opposition holds 26 of 131 seats in Parliament but all are left empty because of the boycott. Both the Justice Block and Geghamian advocate market reforms, integration with Europe, and a balance between Russia and NATO. A common accusation addressed to the opposition by the government, the elites and most diplomats is that it lacks programs that differ from the government's. An opposition leader told ICG: "if we say we fight corruption, then, of course, how can we be different from the government? The difference is not in the program, but in its implementation".[126] Nevertheless, there is an impression that the opposition only wants Kocharian to step down, but has little else to offer.[127] A member of the opposition recognises that "change

[119] Ara Sanjian, "Murder in Parliament: Who? Why? And what next?", Groong/Armenia News Network, 1 November 1999, www.groong.usc.edu.
[120] The Republic Party in opposition is distinct from the Republican Party, which is a member of the ruling coalition.
[121] ICG interviews with political leaders and analysts, Yerevan, May-September 2004.
[122] "Election Guide for Armenia", op. cit.
[123] ICG interviews with political analysts, Yerevan, May-September 2004.
[124] Gevork Ter-Gabrielian, "Explaining Armenia", Groong/Armenia News Network, 7 February 1998, www.groong.usc.edu.
[125] The two newspapers are *Haykakan Zhamanak* and *Aravot.*
[126] ICG interview with opposition leader, Yerevan, May 2004.
[127] Asbed Kotchikian, "Politics in Armenia: a thorny "revolution" in the making?", Groong/Armenia News Network, 5 April 2004, www.groong.usc.edu.

of regime is not enough, it is not what people want. What they want is a change of system".[128]

The opposition is also regularly accused of disunity.[129] One of its members acknowledged: "the opposition does not have a united agenda, and one leader, because we are all very different. It would not be realistic to aim at one common candidate, or one united program -- that's beside the point".[130] Clearly, however, the opposition needs to co-ordinate its strategy. The April 2004 demonstrations, for example, started without much coordination, and some observers attribute their loss of momentum to a lack of clear and united strategy.

At the same time, some signs of coordination do exist. The Justice Block is a union of nine parties, and in 2003, Aram Sarkisian stepped down in favour of Demirchian for the second round of presidential balloting. Both the Justice Block and the Geghamian group boycott Parliament, hold common demonstrations, and speak in the same voice before the Council of Europe in Strasbourg. But this is clearly not sufficient. Members of the opposition admit their dual leadership is a problem.[131] Armenian politics are very emotional, and personalities are often more important than agendas.[132] As another observer noted: "The force of this weak ruling coalition is in the opposition: the opposition has no charismatic leader, as [Georgia's] President Saakashvili, nor any team, as we had the Karabakh Group".[133]

The support base needs to grow if the opposition is to become more credible. As an opposition leader told ICG: "public support is difficult to get now, because in 1998 people saw that their leaders betrayed them, and they have lost confidence. They do not believe that a new leader will be better than the current one".[134] One objective reason for insufficient support is the lack of democracy itself. Following the April 2004 demonstrations, a number of opposition party members and supporters were beaten up and detained.

But there are also other reasons. Independent elites are particularly critical:

> The opposition has some popular support among the impoverished and uneducated population, yet the majority of the public remains rather indifferent, and cynical in regard to politics. The majority understands this is a struggle for power, for regaining, re-establishing political-economic interest.[135]

Another source says:

> The so-called opposition are "prezhniki" -- people of the past -- their riches are coming to an end, and they want to renew them, which is why they tried to get something from the current ruling coalition. Many people are unhappy with Kocharian's policy but not many of them are ready to join the ranks of the demonstrators.[136]

Whether justified or not, the perception is that the opposition does not offer a credible alternative. It needs to change its image radically if it is to transform social and economic frustration into a catalyst that overcomes popular apathy and distrust. One way would be to present a credible strategy for gradual improvement in the fight against corruption and for the rule of law, but slogans and demonstrations will not be enough.

[128] ICG interview with opposition party leader, Yerevan, July 2004.
[129] ICG interview with NGO leaders, diplomats, political analysts, Yerevan, May-September 2004.
[130] ICG interview with opposition party members, Yerevan, June 2004.
[131] Ibid.
[132] ICG interviews with political analysts, NGO leaders, Yerevan, Vanadzor, Gyumri, May-September 2004.
[133] Ibid.
[134] Ibid.
[135] Ibid.
[136] Ibid.

IV. CONSTRAINTS ON DEVELOPMENT

Good governance is perhaps the most important element for fighting poverty and achieving sustainable development. Yet, because it means powerful people and groups will eventually lose privileges, it is normally resisted by elites. The United Nations Development Program (UNDP) in Armenia notes: "The civil society of Armenia has still a long way to go to become a 'hefty watchdog' controlling the distribution of powers in the country. The successive governments of independent Armenia have failed so far to identify the country's priorities and development strategies in all spheres".[137] Strong political will is needed within both the government and international agencies to push good governance as an issue. Reforms aimed at strengthening good governance must be linked to economic reforms and include elements of institution building.

1. Access to justice and human rights

According to the constitution, the president presides over the Judicial Council and appoints eleven of its fourteen members for five-year terms. Judges elect the three remaining members.[138] The Council submits to the president for approval the lists of all judges and prosecutors. [139] Judges and members of the Constitutional Court are appointed for life but may be removed by the Council.[140] The Constitutional Court has nine members, five appointed by Parliament, four by the president.[141] While in theory such a system should guarantee the independence of the judiciary, the practise is very different.[142]

In Armenia, as in many former Soviet republics, rule of law on paper seldom translates into implementation. Courts act mostly as an extension of the executive: the system can be described as "phone-call justice", with legal decisions ordered from above by telephone to judges who have little option but to obey.[143] A lawyer explained to ICG: "judges follow other cases, and fearing for their jobs, will apply what is politically correct, but not judicially correct, in their verdicts. The reason why judges are so arrogant is simply out of fear; it is a self-defence mechanism, because they know they can hardly work ethically".[144] An insider echoes this: "There is a tacit agreement between the executive and the judges: we ask you to obey our orders, in return we turn a blind eye on bribes and corruption".[145]

Judges are also overworked, one claimed: "We have too much work. Since the change of law in 1999, the number of cases has increased significantly, and I have 350-400 cases every six months to deal with. We now have a decent salary of $400 but we have to work tremendously".[146]

The justice ministry's budget, funded mostly by the EU and the World Bank,[147] is primarily used to rebuild court houses. In Vanadzor, for example, judges work in metal containers with leaking roofs and rotten wooden floors.[148] But changes within the institution itself are more crucial. As a lawyer remarked, "pressure must come from outside, and donors must condition their aid very strongly to real institutional changes, and not to the current cosmetic changes we see today".[149] A legal expert explained: "what is really needed is first to raise salaries, but more important, to appoint new judges trained by Western standards because the current judges will never reform".[150]

Most judges come from a Soviet, and procurator's office background, and their mentality is based on proving guilt, more than defending the rule of law. [151] Legal clinics that train lawyers help, however. While judges regularly abuse vulnerable citizens' lack of knowledge of the law, they act differently to avoid scandals when faced with an NGO-appointed lawyer.[152]

---

[137] "UNDP in Armenia -- Democratic governance", www.undp.am.
[138] Article 94 of the Armenian Constitution.
[139] Article 95 of the Armenian Constitution.
[140] Article 96 of the Armenian Constitution.
[141] Article 99 of the Armenian Constitution.
[142] In fact, changes in the judicial system are intended to be part of the package of constitutional amendments discussed above.
[143] ICG interviews with lawyers, judges, human rights activists, journalists, Yerevan, Vanadzor, May-September 2004.
[144] ICG interview with lawyer, Yerevan, May 2004.
[145] ICG interview with lawyer, Yerevan, July 2004.
[146] ICG interview with judge, July 2004.
[147] "World Bank helps develop independent, accessible judiciary in Armenia", World Bank news release, 12 September 2000, www.worldbank.org.
[148] ICG visit to Vanadzor, July 2004. The judges have been promised a new building in September 2004.
[149] Ibid.
[150] ICG interview with legal expert, Yerevan, July 2004.
[151] ICG interviews with lawyers, Yerevan, Vanadzor, May-September 2004.
[152] ICG interview with lawyers and NGO staff, Yerevan, Vanadzor, May-September 2004.

Respect for human rights is equally ambiguous. Administrative detention has been maintained in the Criminal Code and is widely used, despite international criticism.[153] A Council of Europe committee received "numerous and consistent allegations" of severe physical ill-treatment -- beatings and even torture -- by security forces and police to extort confessions in pre-trial detention.[154] Human rights groups point to the lack of official interest in investigating claims of brutality and torture by security forces.[155] An activist summarised: "The main problem of human rights here is that there is no justice, and as long as we don't have an independent justice system, we cannot talk about human rights. Violations are usually not of minorities -- ethnic, religious[156] -- but of most of the citizens of this country".[157] Activists are harassed and occasionally physically threatened. On 30 March 2004, during the demonstrations, the chairman of the Helsinki Association, Mikael Danielian was attacked, beaten up by unknown men and brought to hospital.[158]

2. Access to information

Information and transparency are essential to good governance. Armenia is a country where freedom of information is severely controlled, permitted only exceptionally when sensitive issues are involved.

Print media has a limited impact given its low circulation[159] -- less than 25,000 for more than 2 million people. This is due to defective distribution networks and the high cost of paper and ink that must be imported via Georgia and are heavily taxed.[160] Most newspapers cost 100 drams ($ 0.20), the equivalent of one loaf of bread, which makes them almost inaccessible to many.

Electronic media outlets are booming[161] but virtually no television or radio stations offer independent news. Most television stations are leisure-oriented and in Yerevan. The licenses of the last two television stations doing critical reporting, A1+ and Noyan Tapan, were not renewed in 2003.[162] Business elites have invested massively in media and control many television stations. Some small stations that initially were reluctant to sell to big business interests have been forced to do so after pressure was put on advertisers to boycott them -- a very effective practice across the former Soviet Union. Yerevan's electronic media operate under a system of patronage[163] in which journalists, editors, publishers and owners are regularly harassed and threatened if they step over the line of political correctness.[164] Many crucial issues, an observer pointed out, are off-limits: "The main problem is the high level of self-censorship in the areas of the president, the defence minister, the army, the police, the judiciary, top-level corruption. It is very internalized, done in a subtle way, and difficult to pin down, but people know exactly where to stop in their investigation".[165] Several journalists have been threatened after publishing and broadcasting on those issues.[166]

While the new media law has had some success,[167] there is no change in the broadcasting law that provides a commission of six members, all appointed by the president, which controls radio and television

[153] PACE stated that it is "shocked by the scandalous use that continues to be made of the arbitrary procedures concerning administrative detention provided for in the Administrative Code". PACE resolution 1361, www.coe.am/en/docs/pace/resolution_1361.pdf

[154] Council of Europe's Committee for the Prevention of torture (CPT) Armenia report, July 2004, www.cpt.coe.int/documents/arm/2004-07-28-eng.htm.

[155] See International Helsinki Federation for Human Rights Armenia report 2004, www.ihf-hr.org.

[156] The Jehovah's Witnesses are probably the only religious group discriminated against in Armenia.

[157] ICG interview with human rights activist, Yerevan, May 2004.

[158] ICG interview with Danielian, Yerevan, May 2004. See also Human Rights Watch Briefing Paper, "Cycle of repression: Human rights violations in Armenia", May 2004, p.6.

[159] Ashot Melikyan, "Print Mass media and news agencies' market", www.internews.am.

[160] ICG interviews with journalists, Yerevan, Gyumri, May-September 2004.

[161] There are about 65 television stations in Armenia, 40 in Yerevan alone.

[162] "OSCE media representative voices regret that two TV channels in Armenia did not receive licenses", 21 July 2003, www.osce.org.

[163] "Digging deep in trenches: the opposition in Armenia faces stalemate", Groong/Armenia News Network, 13 May 2004, www.groong.usc.edu.

[164] Outside Yerevan, private television stations enjoy comparatively broader freedom to express their opinions but remain highly dependent on the good will of local authorities. ICG interview with media analyst, Giumri, July 2004.

[165] ICG interview with media observer, Yerevan, May 2004.

[166] See Freedom House report, "Nations in Transit, Armenia" for 2004, www.freedomhouse.org.

[167] Media outlets no longer need to register with the Justice Ministry but the criminal code maintains libel as a criminal offence. The Economist Intelligence Unit, "Armenia Country Report", November 2003.

frequencies. In many case, the commission,[168] which according to the law should open regional competitions for new frequencies every year, simply avoids this by not convening for several years.[169] As a result, state television, which is received across the country, is the only source of information for many rural inhabitants.[170] Satellite and cable television is popular but offers mostly entertainment. The widely watched Russian channels provide little and then pro-government coverage of Armenian news.

The lack of objective and full information is cited as the main hindrance to public participation in decision making and the main cause of corruption.[171] Without public pressure and scrutiny, officials have little incentive to clean up their acts.

3. Accountable public administration

The lack of rule of law stems from a general absence of transparency at the highest political level, a situation that encourages the spread of the shadow economy and opaque decision making. Major business privileges are given to individuals and clans to secure political loyalty. A diplomat said: "The problem is that we have a mafia-style country moving slowly towards a dictatorship. All the business is controlled by clans, no newcomer has any chance to break in, and the struggle is for huge monopolies, which of course have the support of customs and thus of the state".[172] This explains why corruption is pervasive at all levels, from the policeman on the street trying to compensate for an insufficient salary to ministers benefiting from kickbacks and graft throughout their agencies.[173]

Employment is often obtained through patronage, not qualifications. People buy their positions, thus indebting themselves from the first day and contributing to the general corruption as salaries are low, so bribes are needed to pay back the purchase price. Corruption has become so systematic that, according to an observer, "people see not corruption but where to find the money for the bribe as the problem. Corruption is so entrenched, people expect officials to ask for money and propose it themselves, thinking it will accelerate the process".[174] One of many consequences is the high level of unofficial work. As an NGO worker told ICG:

> Given the level, growing gap, of poverty -- people will of course accept any job, particularly outside Yerevan because the only other alternative is to leave Yerevan to any country where there is a job. People working in the shadow economy have, of course, no legal protection, can be hired and fired anytime since there is huge unemployment.[175]

Another consequence of corruption is that taxes cannot be properly collected from major companies that are protected by political alliances,[176] while small and unprotected business becomes the target of extensive attention. In this case, the law discriminates against average citizens instead of providing equal rights. The problem has been recognized by the international community. The International Monetary Fund (IMF) has initiated a project aimed at eliminating taxes that target mostly cash-based businesses, such as consumer services, and do not reflect the actual income of the taxpayer.[177]

Corruption must be addressed on many levels. Raising salaries is only part of the solution. The present system gives too much impunity to officials. For example, few if any judges have been punished for corruption. NGO workers told ICG: "How can we believe the government is fighting corruption if they are the most corrupt themselves? In the end it is only

---

[168] PACE requests that "National Broadcasting Commission be renewed as soon as possible and ... fair conditions for awarding broadcasting licenses to television [stations]", "Implementation of Resolutions 1361 (2004) and 1374 (2004) on the honouring of obligations and commitments by Armenia", PACE Report by Co-Rapporteurs Jerzy Jaskiernia, Rene Andre, 20 September 2004.

[169] ICG interview with media analyst, Gyumri, July 2004.

[170] For example, during the April 2004 demonstrations, state channels did not show the street protest.

[171] ICG interviews with civil society across Armenia, May-August 2004.

[172] ICG interview with European diplomat, Yerevan, May 2004.

[173] While Armenia is considered to be better in this respect than many former Soviet republics, corruption is a recognised impediment to development. See Emil Danielyan, "Global corruption survey claims improved governance in Armenia", October 2003, www.eurasianet.org.

[174] ICG interview with civil society, Giumri, July 2004.

[175] ICG interview with NGO worker, Yerevan, June 2004.

[176] According to the government's probably low estimates, the shadow economy accounts for 35 per cent of the GDP. Independent experts believe the real figure might be twice that.

[177] Concluding statement of the IMF Armenia Mission , Augsut 2003, www.imf.org/external/np/ms/2003/080503.htm. "Reform of the Armenian Tax System", joint report by the American and European Union Chambers of Commerce in Armenia, August 2003, www.armeniadiaspora.com/business/TaxWhitePaper.pdf.

the small people who have to pay for the fight against corruption -- while the big fishes continue their illegal business as before".[178] A lawyer pointed out:

> Opening a small business is not difficult, but then if you want to pay all the taxes according to the law, you have to close down, so of course the authorities come and offer you a deal: a bribe for letting you break the law and continue your business. For example, none of the shops on the main street have the compulsory receipt-machines. When tax controllers come in, they are paid a bribe.[179]

Officially the government is fighting corruption with the help of the World Bank, which loaned $300,000 to develop a strategy with inputs from OSCE, World Bank, IMF, EU and European embassy experts. In 2003, the government created the Council on Combating Corruption, headed by Prime Minister Markarian and composed of several ministers, including the justice minister, but it has no right to conduct investigations, and its transparency and efficiency are already being questioned.[180] No serving high-rank official has been prosecuted for corruption.

[178] ICG interview with civil society in Giumri, July 2004.
[179] ICG interview with lawyer, Vanadzor, July 2004.
[180] Armen Zakarian, "Polls find public distrust in Armenian anti-graft plan", RFE/RL, 16 September 2004, www.rferl.org.

V. THE REAL ECONOMY

Compared to the past decade, Armenia is booming economically, with GDP growth ahead of all other former Soviet republics.[181] Yet, this apparent recovery is heavily concentrated in central Yerevan and circles close to the government. More than half the population still lives below the poverty line.[182]

A. MACROECONOMICS

In 1992 GDP dropped over 50 per cent.[183] Over the next two years, at the peak of the war with Azerbaijan, Yerevan residents were cutting trees to heat their frozen apartments. Today luxury boutiques and restaurants are opening in the capital, and the economy is expanding rapidly, with GDP growth at 13 per cent.[184] The recovery was crowned in 2003 with membership in the World Trade Organization (WTO).

The expansion is mostly driven by the construction and manufacturing sectors. Tourism also shows record growth,[185] as does real estate. A broker explained: "The market is booming now because everyone is investing in real estate. A one-room apartment in central Yerevan where you have to rebuild everything goes now for $25,000, and if well done, it can sell at $45,000".[186] The diamond cutting industry is also important: raw gems are imported from Russia, cut, then exported. The industry has experienced tenfold growth since 1998, reaching $120 million in the first half of 2004.[187]

However, a visit outside central Yerevan reveals a very different picture of elderly people begging and

[181] "Armenia sees highest industrial growth in CIS", Interfax, 5 December 2003.
[182] The World Bank Group, "Armenia Data Profile", at http://devdata.worldbank.org.
[183] United Nations Development Program (UNDP) Armenia Indicator, 1996, www.undp.org/rbec/nhdr/1996/summary/armenia.htm.
[184] "Armenia Data Profile", op. cit.
[185] Tourism shows a 10 per cent increase in 2004. Anna Saghabalian, "Armenia sees more tourists in 2004", RFE/RL, 8 July 2004, www.rferl.org.
[186] ICG interview with real estate dealer, Yerevan, May 2004.
[187] A new diamond-cutting factory was open in the Kotayk region, following investment of $4 million from a diaspora Armenian, Hayk Arslanian. The Economist Intelligent Unit, "Armenia Country Report", November 2003.

searching trash at night. Real unemployment is estimated to be as high as 30 per cent, and there are entire villages whose men between fifteen and 45 have gone to Russia for work. Per capita annual income is a low $950.[188] Armenia also has high foreign debt. In the last eleven years, it has borrowed more than $1 billion from international financial institutions (IFIs) and governments.[189] Since the second quarter of 2004, the dram, the national currency, has increased in value by nearly 10 per cent against the dollar. Nearly two-thirds of bank account holders maintain their savings in the U.S. currency, so there is expectation that the dram may soon be devalued.[190] In this context, the current economic boom is hardly sustainable.

B. AGRICULTURE

Armenia was among the first former Soviet states to adopt widespread private ownership of land,[191] and agriculture remains the backbone of the economy, accounting for about 25 per cent of GDP.[192] However, growth has been very slow, mainly because of severe winter frosts.[193]

The rich agricultural regions are in the west, the fertile Ararat Valley where most fruits, vegetables and cereals are produced. This region also has a natural market in nearby Yerevan and in a few food-processing factories. Yet, the soil there requires constant and abundant irrigation with increasingly scarce water. According to a World Bank study, the region could turn into a desert region, unless an alternative is found.[194] Water allocation may create conflicts within communities, as officials manipulate distribution in exchange for bribes.[195] Farming is difficult in the rest of the country due to dry soil, scarce water, and extreme climatic conditions. The World Bank funds much needed irrigation projects.[196]

Natural conditions are not the only reason for poor revenue development in many rural areas. The lack of credit opportunities and market structures for buying inputs or selling produce explains why many farmers still live in poverty.[197]

C. INDUSTRY AND RESOURCES

Industry has suffered the most from the transition to a market economy. In the immediate post-Soviet period, many factories went bankrupt, and larger cities, whose population was previously employed in large Soviet-style factories, had skyrocketing unemployment.[198] Today smaller factories, mostly dealing with alcohol brewing[199] and textiles, are the mainstays of industry. Many remaining large factories involved in cement and mining, for example, remain under the control of powerful ministries opposed to reforms that would undermine their vested interests.[200]

Since Armenia has few energy resources, it relies heavily on nuclear power. The Medzamor nuclear plant was constructed in 1979 and produces 40 per cent of the country's electricity.[201] It was closed in 1989, a year after the earthquake, for safety reasons as it is in a highly seismic zone 40 kilometres from Yerevan, and its structure is aging, but it was reopened in 1996. Russia's Unified Energy Systems Corporation manages the plant and is in charge of technical issues and delivery of nuclear fuel.[202] The EU considers Medzamor a threat to the region and offers $120 million compensation for immediate

[188] "Armenia Data Profile", op. cit.
[189] At the end of 2003, Armenia's external debt was $1.08 billion. Most of it was owed to the World Bank and the International Monteary Fund (IMF). Other major creditors included Russia ($94 million) and Turkmenistan. The Economist Intelligent Unit, "Armenia Country Report", November 2003.
[190] See Harutiun Khachatrian, "Currency fluctuations causes concern in Armenia", August 2004, www.eurasianet.org.
[191] Land privatisation started in 1991 and by 1997 had affected 90 per cent of agricultural land.
[192] "Armenia Data Profile", op. cit.
[193] In 2003 the agriculture sector grew only some 0.1 per cent. The Economist Intelligent Unit, "Armenia Country Report", November 2003.
[194] See Suzana Poghosian, "Yerevan turning into a desert", IWPR, July 2004, www.iwpr.net.
[195] ICG interview with human rights activist, Yerevan, July 2004.
[196] "Armenia: World Bank supports rehabilitation of dams", World Bank news release, 10 June 2004, www.worldbank.org.
[197] Farmers sell their production mostly on street markets, or to urban relatives and acquaintances. The only other option is to sell to local traders, who often impose artificially low prices.
[198] Desolate industrial and mining cities can be seen in Vanadzor, Kaftan.
[199] Armenia's prized version of Cognac is an important source of revenue across the former Soviet Union.
[200] ICG interviews with journalists, political analysts, Yerevan, May-September 2004.
[201] Tigran Janoyan, "Armenian N-power plant can operate at least for twelve more years", ITAR-TASS, 19 July 2004.
[202] Ibid.

closure.[203] Until the Iranian gas pipeline is completed in 2007, however, that is unlikely because it would reinforce Armenia's dependence on Russia.[204]

The government has made direct foreign investment a top priority and has achieved some success, according to official statistics. Several scandals have marred the picture, however, and made investors cautious. In 2003 the British company Ransat, which had invested massively in the Nairit chemical factory employing 2,000 people, had to leave. The privatisation of Armentel, the only mobile phone provider, by the Greek company OTE has gone badly, with both sides embroiled in a lengthy law suit.

D. POVERTY AND ACCESS TO SOCIAL SERVICES

The benefits of economic recovery are not equally shared. Indeed, there is little sign of poverty decreasing. According to Armenia's Poverty Reduction Strategy Paper (PRSP), 55 per cent of the population lives below the poverty line, of whom 23 per cent are the extreme poor.[205] The average monthly salary in mid-2004 is $78.[206] With the depreciation of the U.S. dollar and 5 per cent inflation, the buying capacity of the average Armenian is unchanged.[207]

Economic development requires a healthy, well-educated and capable work force but Armenia's population is diminishing. While the last official census, in 1989, put it at 3.2 million, many experts believe the real current figure is between 2 and 2.5 million.[208]

Education is seriously affected by the economic situation. While in 1991 education expenditure was 7.2 per cent of GDP, in 2003 it was 2 per cent. Teachers are paid a mere $30 monthly, and the profession, perceived as prestigious during the Soviet period, is now abandoned en masse by young people, who earn more in seasonal field jobs in Russia. Corruption has been institutionalized through university level.[209] Because state universities can offer male students military deferments, many use university simply to avoid army service.[210] Study at prestigious faculties in Yerevan can cost $1,500 a year, about twice the average yearly income.

Donors are particularly active in education but some of the reforms they have proposed have had negative consequences. The school system is going through a process of "optimisation" by which school directors decide which teachers to dismiss to save money. One teacher told ICG: "This is an open door to corruption: directors get rid of people who do not pay bribes, people whom they don't like".[211]

E. LABOUR MIGRATION

According to the International Organisation on Migration (IOM), over 1 million Armenians have left since independence, primarily to Russia, Ukraine, Turkey and Central Europe. The immediate effect of labour migration is positive as it reduces poverty for many families. Long-term consequences are more ambiguous. First, it creates brain-drain, attracting the most talented young people. Secondly, it breaks up families. Life in Russia is not easy for Armenians, who in the eyes of average Russians, do not differ from other Caucasians or Central Asians and are thus victims of racism, mafia and security service harassment. Whether because of encounters with neo-fascist groups, or because of disputes within business mafias -- including Armenian groups -- several young men are killed every month across the former Soviet Union.

Remittances, which are not taxed, tend to be used for immediate consumption, and so are not invested in development of small business that should be a state-sponsored priority. Remittance revenue may

[203] Ahto Lobjakas,'South Caucasus: EU Commissioner says region has future in Europe, but must be patient", RFE/RL, 14 July 2004, www.rferl.org.
[204] Armenian experts claim that Medzamor can operate safely for another twelve years.
[205] See World Bank, "Poverty Assessment of Armenia, 2003".
[206] In the private sector, the figure is $100, while in the public sector it remains around $50. See Armenia's National Statistic Service, August 2004.
[207] According to polls, over 50 per cent of Armenians say the reported economic growth has not improved the family budget. See www.acnis.am/pr/economy/Socio5_eng.pdf
[208] "Population and ethnic composition of Armenia", at http://countrystudies.us/armenia/23.htm; Peter Magdashian, "The Armenian exodus", IWPR, February 2002, www.iwpr.net.
[209] Deputy Education Minister Aida Topuzian was dismissed in June 2004 after allegations were made of bribery involving university entry examinations.
[210] A new draft higher education law is under consideration that would put state and private universities on an equal footing and cancel military deferments for male students.
[211] ICG interview with school teacher, Giumri, July 2004.

soon shrink as a growing number of migrants and their families apply for Russian citizenship.

F. COMMUNICATIONS AND TRADE

Economic development and decentralisation is dependent on transportation links. Good roads lead to the Georgian and Iranian borders, mostly thanks to a massive project financed by the Lincy Foundation. External links are much poorer, and there is a real danger that Armenia will remain outside the main economic and trade routes under development in the Caucasus. The blockades imposed by Azerbaijan and Turkey on its eastern and western borders limit access to global markets. According to a World Bank study, Armenian GDP would increase 14 per cent from the opening of the border with Turkey.[212] According to other studies, transport costs would be reduced by 30 to 50 per cent.[213]

As long as the border with Turkey remains closed, Tbilisi is Yerevan's key partner. The Yerevan-Tbilisi-Poti railway, and the roads north to Georgia, are Armenia's only access to the Black Sea, Russia and Europe. About 80 per cent of Armenian land trade and transportation goes through Georgia.[214] The country's imported gas comes from Russia through the Georgian pipeline. This dependency is aggravated by Georgia's political instability and its conflicts in South Ossetia and Abkhazia. As long as the Abkhazian conflict is not resolved, train communications with Russia are impossible, despite the growing trade. Armenian traders also complain of widespread discrimination and harassment by Georgian customs and road police[215] and claim that "Georgians treat Azerbaijanis much better". There is a small border with Iran but the economic relationship favours Tehran, which does not allow Armenian trucks to enter and enjoys a substantial trade surplus.

Air corridors have developed exponentially, bypassing even the land blockade with charter flights to Turkey. However, Armenia is extremely concerned about its economic isolation. The new East-West Caucasian axis of development, based on the Baku-Tbilisi-Ceyhan oil and the Baku-Tbilisi-Erzurum gas pipelines, leaves out Armenia. As a member of the opposition told ICG, "there will soon be a free economic zone linking Turkey, Georgia, Azerbaijan -- and Armenia will once again be isolated. We need to think in pan-Caucasus terms, and not in closing our country".[216] Even the traditional Russian ally has established a new corridor to Iran via Azerbaijan (the Daghestan-Baku-Tehran railway), not via Armenia. Clearly, resolution of the Nagorno-Karabakh problem is a key factor that would help Armenia out of its difficult position and improve its prospects for regional integration.

[212] "The EU's relations with Armenia, Overview", April 2004, at www.europa.eu.int
[213] Ibid.
[214] ICG interviews with political analysts, Yerevan, May-September 2004
[215] ICG interviews with traders and farmers, Vanadzor, Giumri regions, July 2004. See also Avet Demurian, "Armenian traders call for corruption crackdown", IWPR, 20 September 2002, www.iwpr.net.

[216] ICG interview with opposition leader Artashes Geghamian, Yerevan, July 2004.

VI. THE INTERNATIONAL ENVIRONMENT

Armenia is a small country highly dependent for security and economic development on its external relations. However, since independence, successive governments have experienced increased tension with immediate neighbours, compared with the rather more positive links forged with larger powers, particularly Russia and the U.S.

A. RUSSIA: THE BIG BROTHER

Armenia looks first and foremost to Russia to help guarantee its security in a region where it distrusts its several larger and better armed neighbours. In May 1992, Armenia joined the Agreement on Collective Security, which guarantees mutual military assistance when a member is attacked.[217] Armenian and Russian troops hold regular military exercise in Armenia, the most recent in August 2004.

Russia maintains a military presence at two places in Armenia, Yerevan and Giumri, with 3,000 to 5,000 soldiers, a mix of Russians and ethnic Armenians.[218] Despite its limited military significance, this presence suggests that attacking Armenia would amount to attacking Russia -- a fact often underlined by Armenians. Russian troops also provide the bulk of border guards on the border with Turkey. In 1993, when Turkey massed troops at this border, top Russian leaders flew to Yerevan and reiterated that Moscow would defend the border as its own.[219] Military cooperation also involves training of young Armenian officers in Russian academies.[220]

Even though popular opinion continues to consider that Russia will guarantee security in times of need, analysts argue that this assumption needs to be revisited. During the Nagorno-Karabakh conflict, Moscow gave military support to Azerbaijan as well as Armenia.[221] Moscow also maintains a radio-monitoring military station in Gabala in Azerbaijan, its most important base in the South Caucasus for preventive purposes.

Increasingly Armenia's dependence on Russia is being felt less in the military and security than in the economic field. In 2003 trade with Russia was 15 per cent of Armenia's total foreign trade.[222] As a governmental official told ICG, "economically Armenian-Russian relations will only increase….Our aim now is to develop direct relations with regions of Russia like Rostov that is bigger than Armenia".[223]

Russia has in the last two years become the country's biggest direct investor. In 2003 alone, two Russian giants, Siberian Airlines and the utility empire, UES, both invested heavily.[224] Russian firms will most likely replace the Greek OTE in the mobile phone joint venture Armentel, and Armenia Saving Bank, one of the largest in the country, is now in Russian hands.[225] Cash flows from Russia also include the remittances sent by 1 million migrants and ethnic Armenians, which are especially crucial for poor rural families.

Moscow has significant leverage and can impose an advantageous economic policy.[226] Armenian popular opinion is concerned that it has gained control over key sources of production while providing few compensating benefits.[227] It points to President Kocharian's decision in June 2002 to pay off the $93 million debt to Russia by selling five large factories to Russians, including the Razdan hydroelectric station -- producer of 20 per cent of Armenia's electricity -- the Mars factory and two scientific research

[217] The Agreement on Collective Security includes the following additional members of the post-Soviet Commonwealth of Independent States (CIS): Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan.
[218] Oleg Gorupai, "The strength is in the truth", *Krasnaja Zvezda*, 31 August 2004.
[219] ICG interviews with political leaders and analysts, Yerevan, May-September 2004.
[220] During the Soviet period, ethnic Armenians made successful careers in the Red Army, for example, Commander-in-Chief Hovanes Baghramian, and Commander-in-Chief of Tanks Amazasp Babadjanian. See also "Russia to train 150 Armenian military specialists", Interfax, 24 August 2004.
[221] De Waal, *Black Garden*, op. cit.
[222] Emil Danielyan,"Russia's Putin Concerned About Falling Trade With Armenia", RFE/RL, 20 August 2004, www.rferl.org.
[223] ICG interview with Armenian Foreign Ministry analyst, Yerevan, June 2004.
[224] Peter Magdashian, "Armenia: Crossed lines over Telecom deals", IWPR, February 2004, www.iwpr.net.
[225] See Atom Markarian, "Russians buy major Armenian Bank", 24 March 2004, www.rferl.org.
[226] Russia is Armenia's main trade partner, investor and creditor. "Information on Russian-Armenian relations", www.putinru.com, 20 August 2004. Also Marina Ananikyan, "Armenian Russian relations have grown into allied strategic partnership", Arminfo, 4 July 2003, www.arminfo.am.
[227] ICG interviews across Armenia, May-September 2004.

institutes.[228] As a result, Russia owns 5 percent of Armenia's defence and power enterprises. In February 2003, in the midst of the presidential campaign, the two governments signed an agreement giving Moscow financial control of the controversial nuclear power station, Medzamor. [229] Armenia's gas distribution system is already controlled by the Armenian-Russian company ArmRosGazprom, while Russian giants Gazprom and Itera are monopoly suppliers of the gas itself.

Many of these factories need large investment and have equivalents in Russia. Some analysts ask why so much time and money is devoted to Armenia, which is a smaller market than major Russian provinces, and call attention to Anatoly Chubais's "liberal empire" theory,[230] according to which economic presence is a means to achieve political influence. Indeed, it appears that as in Georgia, Russia is seeking to shift from a pure military presence to an economic presence.

Some Armenians living in Russia have become important economic players and may eventually develop political ambitions either there or at home.[231] One such individual is Aram Abramian, who has established the Union of Armenians in Russia (SAR), claiming leadership over the global Armenian diaspora. He clearly seeks a political career and tried to play a role in the 2003 parliamentary elections by supporting Ramkavar Azatakan, from the Liberal-Democratic Party. The party won 4.5 per cent, a half point less than necessary to enter the Parliament. Via his brothers, Abramian maintains large interests in Armenia in the diamond business and the construction industry, particularly on the prestigious Northern Avenue that will cross central Yerevan.

Whether Russia's role in Armenia is increasing or it is losing Armenia to the West receives contradictory responses in Armenian society, with the division roughly falling along social and economic lines. Apart from the president's entourage, a growing number of the elite are gradually becoming indifferent or even opposed to the Russian state, which does not mean they are anti-Russian.[232] Recent polls indicate they are turning to the West: "…we conducted a survey among 100 decision-makers, including 30 per cent of governmental officials. Here are the most interesting responses: does Russian military presence guarantee the security of Armenian in the region? The "No" response got 74 percent, whereas the "yes" got 16 percent".[233]

Typically, a member of the elite told ICG, "in my opinion Armenia does not need Russia as many pretend. It can live very well without Russia, and we are leaving Russia's zone of influence Particularly young people do not associate Moscow with the CIS and the USSR as a guarantee of a normal life; this generation is different". [234] The NGO community also is sceptical of Russia, which seldom criticises human rights violations.

On the other hand, Armenians who face daily social and economic difficulties are more focused on Russia. A majority of the rural population takes comfort in the historical friendship and military assistance that goes back to the eighteenth century. They highly respect "the Russian soldier" and want him to stay. They watch Russian television, are dependent on remittances from Russia, and see partnership with Russia as an immediate solution to Armenian problems. The older generation tends still to want their children to go to school and university in Russia.[235] Younger people might bridge the gap between their elders and the elites: they tend to be less Russia-oriented, and they understand and speak the language much less. A diplomat suggested: many Armenians want to rely on Russia for military support and the U.S. for money.[236]

[228] Ruzanna Khachatrian, Atom Markarian, "Markarian Denies Plans To Seek Russian Loans", RFE/RL, 23 August 2004, www.rferl.org.
[229] "Armenia to give Russia control of nuclear power plant's finances", Associated Press, 5 February 2003.
[230] "RAO UES chief sees Russia as liberal empire", The Russia Journal, 26 September 2003, www.russiajournal.com.
[231] It is important to note the difference between diasporan Armenians living in the Middle East and in the West and Armenians living in Russia. The latter's sense of the diaspora is recent, or even rejected by some who say Russia and Armenia were one country during the Soviet period.
[232] For example, while there is frustration with Russia's policy towards Armenia, the same people do not reject the Russian language, which is still widely spoken in Armenia and taught in schools.
[233] Survey conducted by Armenian Centre for National and International Studies (ACNIS).
[234] ICG interview with political analyst, Yerevan, June 2004.
[235] ICG interviews with Armenian citizens applying for resident status in Russia, Yerevan, June-August 2004.
[236] ICG interview with diplomat, Yerevan, July 2004.

B. THE WEST: BUILDING A FRAGILE BRIDGE

1. European partners

Armenia prides itself on Christian and European roots, but integration into European structures is a challenge.

In 1999, the EU and Armenia signed a Partnership and Cooperation Agreement (PCA) [237] by which Brussels provides financial and technical assistance mostly via its Tacis programs. [238] The EU's main priorities are to find a solution to the Nagorno-Karabakh conflict, close down the Medzamor nuclear plant, and develop the rule of law, respect for human rights, and a market economy. Its 2001 Armenia Country Strategy Paper (CSP) [239] provides the strategic framework for assistance through 2006. The integration process moved ahead in June 2004 when Armenia was included in the EU's new European Neighborhood Policy (ENP) that offers privileged ties. [240] Though Armenia's absence from Trans-Caucasian pipelines and the Traceca project[241] seem to have made Georgia and Azerbaijan greater regional assistance priorities, Armenian diasporas in Europe ensure continued engagement.

Armenia has a rather ambiguous relationship to the OSCE, of which it is a member. Its reaction to the criticism of the 2003 presidential elections as "unfair" was a July 2004 letter accusing the organisation of meddling in internal affairs and violating its mandate.[242] Yerevan insists that it has a good relationship with the OSCE Minsk Group, which oversees negotiations on Nagorno-Karabakh and is considered pro-Armenian by many.[243]

2. The U.S. partnership

Armenian-U.S. relations are dominated by three factors: the lobbying of the U.S. government by an important and well mobilised diaspora; Washington's desire to promote Armenian-Turkish rapprochement; and its wish to contain Iran's influence in the Southern Caucasus.

The Armenian diaspora in the U.S. cannot be underestimated, both financially and politically. It plays a vital role in reconstruction of the Armenian economy through foundations and remittances, and it lobbies for official recognition of the 90th anniversary of the 1915 genocide among its other interests. The Armenian vote is important in the U.S. presidential election. The majority of the Armenian community in the U.S. considers President Bush as pro-Azerbaijan due to his oil background and favours his opponent.[244]

Washington pushes Ankara and Yerevan towards normal relations[245] because it wants economic and strategic integration of the region, a better climate for more NATO cooperation in the Southern Caucasus, and stability along the route of the BTC pipeline. U.S. aid -- $65 million in 2004 -- is important.[246] But Yerevan counts on more and has submitted projects to the Millennium Challenge Corporation (MCC).[247] To qualify for the additional funds, Armenia will be judged on its democracy and rule of law record, as well as economic development. The U.S. is also building a new Embassy in Yerevan, at an estimated cost of $55 million.[248]

Military assistance was increased in the aftermath of the 11 September events and following Washington's

[237] See www.europa.eu.int/comm/external_relations/ceeca/pca/pca_armenia.pdf.
[238] From 1991 to 2001, Armenia received €286 million in grant-based assistance.
[239] See www.europa.eu.int/comm/external_relations/armenia/csp.
[240] General information about the ENP is available at http://europa.eu.int/comm/world/enp/index_en.htm. See also Ahto Lobjakas, "Caucasus: EU increasingly targeting Georgia over conflict-stricken Armenia, Azerbaijan", RFE/RL, 15 June 2004, www.rferl.org.
[241] Traceca (Transport Corridor Europe Caucasus Asia) is an EU initiative started in 1993 and aimed at developing easier transportation from Europe to China via the Black Sea, the Caucasus and Central Asia. Because of Nagorno-Karabakh, Armenia is not included. For more see www.traceca.
[242] This initiative was led by Russia. Emil Danielyan, Armen Zakarian, "OSCE accused of meddling in Armenia's affairs", RFE/RL, 9 July 2004, www.rferl.org.
[243] Russia, the U.S. and France -- the three co-chairs of the Minsk Group -- have the largest Armenian diaspora communities, each of which is very effective at lobbying its respective government.
[244] See www.anca.org.
[245] "U.S. envoy urges Turkey to open border with Armenia", Arminfo, 15 September 2004, www.arminfo.am.
[246] The U.S. is also providing $5 million of humanitarian aid to Nagorno-Karabakh.
[247] The MCC is a U.S. government corporation designed to administer funds from the Millennium Challenge Account for the development of poor countries. Its budget for fiscal year 2004 is $1 billion.
[248] ICG interview with U.S. engineer, August 2004.

decision in January 2002 to lift the waiver of Section 907 of the Freedom Support Act that blocked technical aid to Azerbaijan and military assistance to Armenia.[249] Cooperation was brought to a higher level in July 2004 when the U.S. Congress approved a parity policy allowing $5 million of annual military aid each for Armenia and Azerbaijan.[250] In one example of its new programs, the U.S. opened a de-mining centre to train Armenian soldiers.[251]

Armenian public opinion is divided over the local U.S. military role. Many fear it could antagonise Russia. Yerevan is only 750 km. from Baghdad, and the recent decision to send 50 Armenian doctors, drivers and de-miners to Iraq is causing debate within the public, which fears it could put in danger the 20,000 ethnic Armenians there.[252] This explains why Armenia, which joined NATO's Partnership for Peace Program in 1995, maintains a more distant relation with the alliance than Georgia and Azerbaijan. President Kocharian did not participate in the NATO June 2004 summit in Istanbul.

C. TURKEY: CHANGES AHEAD?

Armenian-Turkish relations are shaped by twentieth century history that heavily influences the official perception both countries have of each other. The 1915 genocide, as well as territorial claims over Eastern Turkey that certain Armenian political forces continue to maintain, are serious obstacles to normal bilateral relations. There are no diplomatic ties, primarily because of Nagorno-Karabakh. Yet, there are signs of possible rapprochement, spurred by economic and political factors. Both countries belong to the Black Sea Economic Cooperation Organisation.[253]

The first positive gesture could be opening of the border. Its economic importance is evident. It would both assist the traditionally underdeveloped eastern parts of Turkey and provide new markets in the Caucasus for Turkish goods. As already noted, Armenia's export costs to Europe would be cut by 30 to 50 per cent and dependence on Georgia and Iran diminished.[254] Increasing bilateral trade -- now $50 million yearly[255] -- the success of charter flights, and the flow of Armenian seasonal workers and tourists indicate that public opinions are ready. Residents of Giumri told ICG: "The Turkish border is twenty minutes from here. We remember very well it was open in 1991-1992, and everyone here is for the opening of the border; it would create new economic opportunities for Turks and for us".[256]

Politically, Ankara is torn between allegiance to Baku -- "one nation, two countries"[257] is an Azeri slogan -- and EU pressures to normalise relations with all its neighbours. The European argument is now being used also by Yerevan, which in July 2004 announced it would veto Turkish chairmanship of the OSCE in 2007.[258] Armenia insists it has no preconditions for diplomatic ties, and the ball is in Ankara's court.[259]

There are real prospects for a border opening and normalisation of relations but they require co-ordinated support from Russia and the West.

D. IRAN

Iran and Armenia share a long history that is still part of collective memory. Until the nineteenth century, the territory of modern Armenia was a province of the Iranian Empire. There is a large Armenian diaspora in Iran, which enjoys legal and economic privileges.[260] Despite the discrepancy in size and population,[261] Armenia and Iran share close interests in two areas: energy and transportation. In May 2004 they signed

[249] The prohibition was enacted into law in 1992 as a consequence of the Nagorno-Karabakh war.
[250] "Congress votes to restore Armenia-Azerbaijan military aid parity", *Armenia This Week*, 19 July 2004.
[251] Peter Magdashian, "Armenia and U.S. begin military cooperation", IWPR, March 2002, www.iwpr.net.
[252] Until then Armenian troops had only been sent to Kosovo.
[253] The organisation was founded in 1992 and is aimed at developing regional integration, mostly in business and education. See its website at www. bsec-organization.org.
[254] Emil Danielyan, "Armenia frustrated as ties with Turkey remain strained", www.eurasianet.org, 28 May 2004.
[255] Ibid.
[256] ICG interview with residents of Giumri, July 2004.
[257] Azerbaijan's leadership has coined the slogan to mark its privileged ties with Turkey and what it considers Ankara's moral obligation towards Baku.
[258] "Armenian FM reaffirms plans to veto Turkey's OSCE chairmanship", *ArmenPress*, 9 July 2004. Armenia argued Turkey should not chair an organisation with one of whose members it did not have diplomatic ties. Turkey withdrew its candidacy.
[259] The Dashnaktsutiun Party, a member of the ruling collation and supported by most of the diaspora in Europe and the U.S., is strongly opposed to any normalisation before Turkey publicly acknowledges its responsibility in the 1915 Genocide.
[260] There are 100,000 ethnic Armenians in Iran. ICG interviews in Tehran and Isfahan, Iran, August 2004.
[261] Iran has a population of more than 60 million.

an agreement to construct a 140-km. gas pipeline to deliver Iranian gas to Armenia. Tehran has started construction on its 100-km. segment and envisions completion by January 2007. Yerevan has obtained a $30 million loan from Iran for its 40-km stretch.[262] Once completed, the pipeline will provide around 1 billion cubic metres of gas -- one third of Armenia's needs. For Yerevan, this is the first credible alternative to dependence on Russian gas via Georgia. Armenians vividly remember that during the 1992-1994 war, many of their towns survived on gas cylinders, kerosene stoves, and food from Iran.

Bilateral co-operation also extends to electricity, which is exchanged depending on seasonal changes. A second electricity line is planned, as well as a shared hydroelectric power station along the border on the Arax River. An Iranian diplomat said: "Not only do we cooperate, but we also invest in Armenia, at a level of $15 million, and mostly in the energy sector".[263]

For Armenia, the border represents 20 per cent of its land trade and, again, the only alternative to the northern outlet via Georgia. For Tehran, Armenia is a strategic corridor to Europe via Georgia and the Black Sea. Given the situation in Iraq and complicated relations with Turkey, an open border is attractive. Iran's former ambassador told ICG: "this region is crucial for Iran as a Christian corridor of Armenia and Georgia to Europe. We have to maintain this window open, as it creates a balance with Turkey, Azerbaijan and Russia in the Caucasus".[264] Tehran hopes to convince Georgia to extend the pipeline beyond Armenia and thus reach Ukraine and Europe via Georgian Black Sea ports. Russia and Washington oppose these ambitions. Nevertheless, a new tunnel in the southern region of Kajaran is scheduled to increase bilateral trade, which grew to $140 million in 2003**.** According to projections that include the gas pipeline but not the above proposed extensions, it should reach $10 billion in twenty years.[265]

Iran came late to modern Armenian politics but its role is growing rapidly. Yerevan supports Tehran's watchful policy toward its substantial Azeri minority,[266] which regularly agitates for independence or reunification with Azerbaijan. Armenians in Iran are too few and dispersed to threaten Iranian unity; thus it is natural for Tehran to side with Armenia, the only Caucasian country where Turkey is absent.[267]

Some Armenians view the rapprochement with Iran as a crucial diplomatic factor:

> Armenia must cultivate its very particular relationship towards Iran. After Iraq, it is very clear that we have to talk about Iran as the leader of 80 million Shiites in the region. Teheran will become the most important interlocutor for the West in the Muslim world, and this is where Armenia has to play a vital role of intermediary because of our long historical relationship with Iran.[268]

Others are opposed to closer relations. A politician interviewed by ICG said, "I am very worried, because Armenia is becoming a trafficking corridor in the region, and I expect any day an international scandal with illegal goods -- nuclear, drugs, other -- to be caught at the Iranian-Armenian border. This is extremely bad for the future of Armenia and could put us on a black list of countries at any time".[269]

While opinions diverge, Tehran has clearly set its focus on the South Caucasus. President Mohammad Khatami visited Azerbaijan in August 2004 and Armenia in September, repeating Iran's willingness to facilitate a Nagorno-Karabakh settlement. Tehran has also asked the OSCE to be linked to the Minsk Group.

E. GEORGIA: KEY BUT UNSTABLE PARTNER

Despite a shared Christian heritage, Armenians and Georgians have somewhat strained relations. Bilateral trade is less than $50 million, and there are only 25

[262] The total cost is estimated at $140 million, part of which may be picked up by the Russian company Gazprom.
[263] ICG interview with Iranian diplomat, Yerevan, July 2004.
[264] ICG interview with former Iranian Ambassador Koleimi, Yerevan, May 2004.
[265] "Iran-Armenia gas, electricity trade to reach $10 billion", Interfax, 18 June 2004.
[266] See ICG Report, *Azerbaijan*, op. cit.
[267] Ankara has very close ties with Azerbaijan, where it is in open competition with Iran, which seeks to represent Shiite co-religionists. Turkey's presence in Georgia is mostly in Ajara and business-oriented.
[268] ICG interview with leader of opposition party, Yerevan, May 2004.
[269] ICG interview with leader of opposition party, Yerevan, July 2004.

joint ventures.[270] Armenia is nevertheless dependant on Georgia for much of its road and rail access to the outside world.

Georgia has a significant Armenian minority, estimated at 10 percent of the population and 90 per cent in southern Javakhetia, where it is mostly concentrated.[271] The region's poverty creates tensions that are regularly manipulated by Georgians and Armenians alike and used for bilateral leverage. An Armenian organisation, Javakh, in the past sought for Javakhetia the status of an autonomous region within Georgia. A Russian military base, which Georgia wishes to close, is in Akhalkalaki, one of the region's main towns. Some Armenians living nearby have strong feelings about this: "People in Javakhk are very frustrated. The Russian base is the only employer and guarantor of their security. If the Russians leave as Tbilisi wants, what will happen to the 90 percent Armenian population there? Some of them openly ask for reunification with Armenia, and we understand them very well". [272]

F. AZERBAIJAN

Relations with Azerbaijan remain the most sensitive foreign policy issue because of Nagorno-Karabakh and the occupation by Armenian troops of nearly 14 per cent[273] of Azerbaijan's territory

The conflict cannot be understood without mentioning history and its interpretations by both sides. During the 1980s, unofficial historians developed their own interpretations quite different from the Soviet "friendship of nations" theory. By using sources selectively, they projected their version of historical truth into pro-independence politics in the early 1990s. As these intellectuals gained political power, their myths became publicly accepted. Thus, in Armenia, the Azeris were seen as inheritors of Ottoman hegemonic policies; in Azerbaijan, the Armenians were seen as agents of expansionist Russia fighting for an historical Greater Armenia.[274] Reducing the conflict to the principles of territorial integrity or self-determination serves political elites in Baku and Yerevan but is an opportunistic simplification that ignores the middle ground that could be found if both sides broke with the policy of secret negotiations and involved public opinion. Many Armenians express private distaste for the conflict and say they would not fight against Azerbaijan a second time:

> We are still traumatised by the war, and today we understand how stupid and artificial this was. My father personally drove a family of his best Azeri friends, who lived here, to the border to save their lives. Here you can see the picture of my best friend, who was killed during the war. This is such nonsense that we had to fight.[275]

The international community -- including Russia, the EU, the U.S., Iran, Turkey, and Kazakhstan -- have taken multiple initiatives to bring peace. The main vehicle is the OSCE's Minsk Group, which started negotiations in March 1992. In late 1996, France became the third co-chair, with Russia and the U.S. The Group -- and to an extent Azerbaijan -- favour a step-by-step solution involving gradual withdrawal of Armenian troops from occupied territories. Armenia and Nagorno-Karabakh want a package solution guaranteeing the security of an independent Nagorno-Karabakh and including a land corridor in Lachin joining it to Armenia.

The June 2004 round of OSCE high-level visits to the region confirmed the frozen state of the conflict. Nagorno-Karabakh, supported by Armenia, insists it must be part of any negotiations. Baku refuses any status for a Nagorno-Karabakh delegation, fearing it could amount to recognition. On the ground, the situation remains volatile, with regular exchanges of fire.

---

[270] "Armenian-Georgian intergovernmental economic cooperation commission opens meeting in Tbilisi", Arminfo, 26 July 2004, www.arminfo.am.

[271] Khatchik DerGhoukassian, Richard Giragosian "Georgia in transition: implications for Armenia and Javakhk", Groong/Armenia News Network, 22 January 2004, www.groong.usc.edu.

[272] ICG interview with civil society, Giumri, July 2004.

[273] De Waal, *Black Garden*, op. cit., p.286.

[274] For a detailed description of the role played by historians, see ibid.

[275] ICG interview, Vanadzor, July 2004.

VII. CONCLUSION

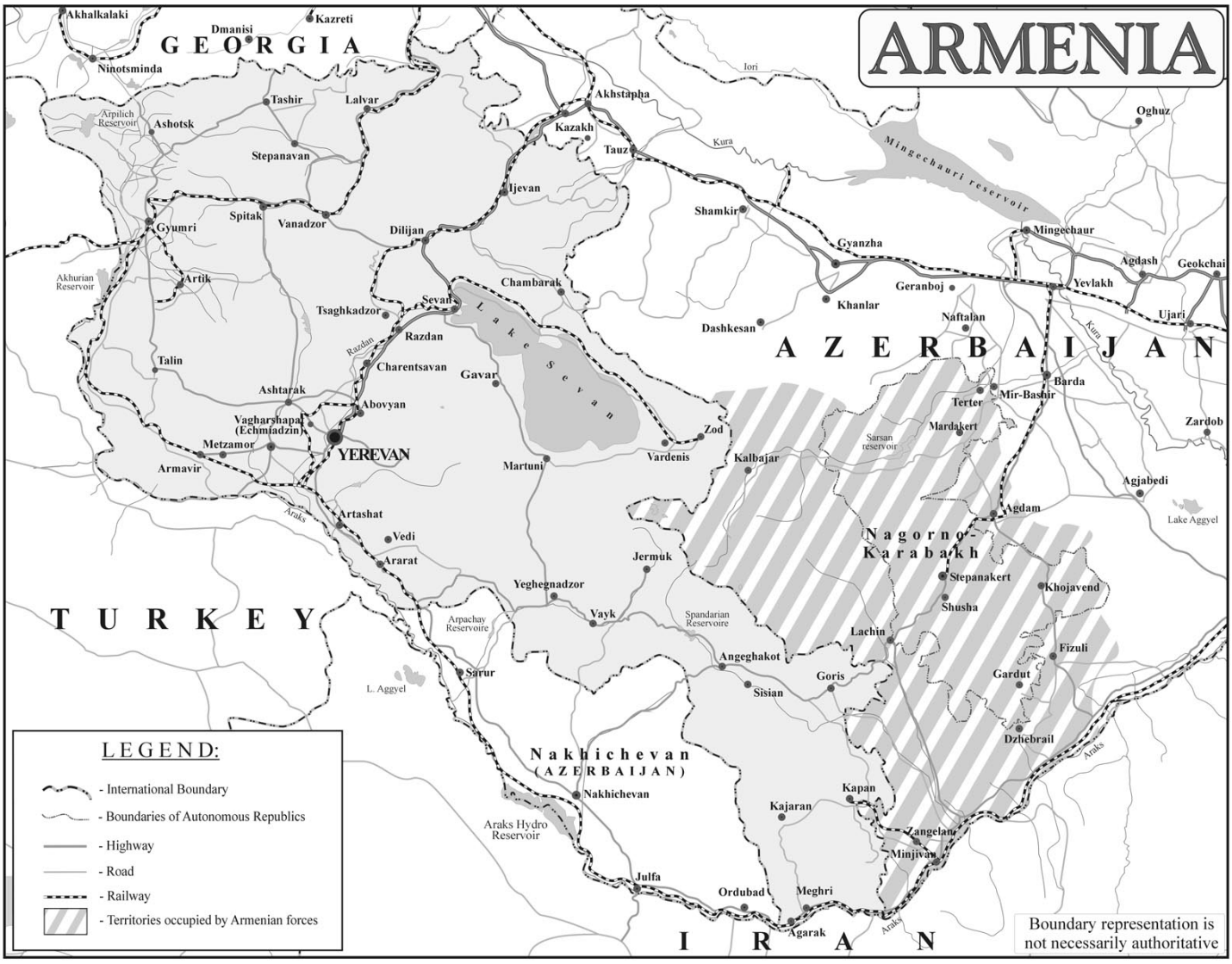
Armenia is at a crossroads. It has improved its macro economic situation but deep inequalities between rich and poor remain. It has developed new industries around diamond processing, tourism, and construction but it has large foreign debts, has sold substantial resources to foreign investors, and large segments of the population are dependant on remittances from abroad. To secure continued growth, Armenia desperately needs to be better integrated economically and politically with its neighbours. Despite rhetoric, Armenians acknowledge they share many experiences and interests with other Caucasian nations. They know the future can improve only if old relations with Azerbaijan -- which means addressing the Nagorno-Karabakh issue realistically -- and Georgia are renewed.

The country also needs to make progress on democratisation and securing the rule of law. The ruling parties and the opposition are deeply divided. As long as the latter boycotts the Parliament and elections are falsified, many citizens will not trust the democratic system. They know their ability to hold officials accountable and to participate in decisions is compromised. With few chances to express themselves through legal institutions, a small group of activists has resorted to violence. The number of persons ready to act outside the law to advance political aims is likely to grow if the government continues to repress peaceful protests violently and rig elections -- especially should a charismatic leader appear on the scene.

Yerevan/Brussels, 18 October 2004

APPENDIX A

MAP OF ARMENIA



APPENDIX B

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 100 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers. ICG also publishes *CrisisWatch*, a 12-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.icg.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are in Brussels, with advocacy offices in Washington DC, New York, London and Moscow. The organisation currently operates nineteen field offices (in Amman, Belgrade, Bogotá, Cairo, Dakar, Dushanbe, Islamabad, Jakarta, Kabul, Nairobi, Osh, Port-au-Prince, Pretoria, Pristina, Quito, Sarajevo, Seoul, Skopje and Tbilisi) with analysts working in over 40 crisis-affected countries and territories across four continents. In Africa, those countries include Angola, Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Liberia, Rwanda, Sierra Leone, Somalia, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Kashmir, Kazakhstan, Kyrgyzstan, Indonesia, Myanmar/Burma, Nepal, Pakistan, Tajikistan, Turkmenistan and Uzbekistan; in Europe, Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro and Serbia; in the Middle East, the whole region from North Africa to Iran; and in Latin America, Colombia and the Andean region.

ICG raises funds from governments, charitable foundations, companies and individual donors. The following governmental departments and agencies currently provide funding: the Agence Intergouvernementale de la francophonie, the Australian Agency for International Development, the Austrian Federal Ministry of Foreign Affairs, the Canadian Department of Foreign Affairs and International Trade, the Canadian International Development Agency, the Dutch Ministry of Foreign Affairs, the Finnish Ministry of Foreign Affairs, the French Ministry of Foreign Affairs, the German Foreign Office, the Irish Department of Foreign Affairs, the Japanese International Cooperation Agency, the Luxembourgian Ministry of Foreign Affairs, the New Zealand Agency for International Development, the Republic of China Ministry of Foreign Affairs (Taiwan), the Royal Danish Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the Swedish Ministry for Foreign Affairs, the Swiss Federal Department of Foreign Affairs, the Turkish Ministry of Foreign Affairs, the United Kingdom Foreign and Commonwealth Office, the United Kingdom Department for International Development, the U.S. Agency for International Development.

Foundation and private sector donors include Atlantic Philanthropies, Carnegie Corporation of New York, Ford Foundation, Bill & Melinda Gates Foundation, William & Flora Hewlett Foundation, Henry Luce Foundation Inc., John D. & Catherine T. MacArthur Foundation, John Merck Fund, Charles Stewart Mott Foundation, Open Society Institute, Ploughshares Fund, Sigrid Rausing Trust, Sasakawa Peace Foundation, Sarlo Foundation of the Jewish Community Endowment Fund, the United States Institute of Peace and the Fundação Oriente.

October 2004

APPENDIX C

ICG REPORTS AND BRIEFINGS ON EUROPE* SINCE 2001

BALKANS

Religion in Kosovo, Balkans Report N°105, 31 January 2001

Turning Strife to Advantage: A Blueprint to Integrate the Croats in Bosnia and Herzegovina, Balkans Report N°106, 15 March 2001

Montenegro: Settling for Independence? Balkans Report N°107, 28 March 2001

The Macedonian Question: Reform or Rebellion, Balkans Report N°109, 5 April 2001

Montenegro: Time to Decide, a Pre-Election Briefing, Balkans Briefing, 18 April 2001

After Milosevic: A Practical Agenda for Lasting Balkans Peace, Balkans Report N°108, 26 April 2001

No Early Exit: NATO's Continuing Challenge in Bosnia, Balkans Report N°110, 22 May 2001

Albania: The State of the Nation 2001, Balkans Report Nº111, 25 May 2001

A Fair Exchange: Aid to Yugoslavia for Regional Stability, Balkans Report N°112, 15 June 2001

Macedonia: The Last Chance for Peace, Balkans Report N°113, 20 June 2001

Milosevic in The Hague: What it Means for Yugoslavia and the Region, Balkans Briefing, 6 July 2001

Macedonia: Still Sliding, Balkans Briefing, 27 July 2001

Montenegro: Resolving the Independence Deadlock, Balkans Report N°114, 1 August 2001

Bosnia's Precarious Economy: Still Not Open for Business; Balkans Report N°115, 7 August 2001

Peace in Presevo: Quick Fix or Long-Term Solution? Balkans Report N°116, 10 August 2001

Macedonia: War on Hold, Balkans Briefing, 15 August 2001

Albania's Parliamentary Elections 2001, Balkans Briefing, 23 August 2001

Macedonia: Filling the Security Vacuum, Balkans Briefing, 8 September 2001

Serbia's Transition: Reforms Under Siege, Balkans Report N°117, 21 September 2001 (also available in Serbian)

The Wages of Sin: Confronting Bosnia's Republika Srpska, Balkans Report N°118, 8 October 2001 (also available in Bosnian)

Facing Up to War Crimes, Balkans Briefing, 16 October 2001

Bin Laden and the Balkans: The Politics of Anti-Terrorism, Balkans Report N°119, 9 November 2001

Kosovo: Landmark Election, Balkans Report N°120, 21 November 2001 (also available in Albanian and Serbian)

Bosnia: Reshaping the International Machinery, Balkans Report N°121, 29 November 2001 (also available in Bosnian)

Macedonia's Name: Why the Dispute Matters and How to Resolve It, Balkans Report N°122, 10 December 2001 (also available in Macedonian)

Kosovo: A Strategy for Economic Development, Balkans Report N°123, 19 December 2001 (also available in Albanian)

A Kosovo Roadmap: I. Addressing Final Status, Balkans Report N°124, 28 February 2002 (also available in Albanian and Serbian)

A Kosovo Roadmap: II. Internal Benchmarks, Balkans Report N°125, 1 March 2002 (also available in Albanian and Serbian)

Belgrade's Lagging Reform: Cause for International Concern, Balkans Report N°126, 7 March 2002 (also available in Serbian)

Courting Disaster: The Misrule of Law in Bosnia & Herzegovina, Balkans Report N°127, 26 March 2002 (also available in Bosnian)

Serbia: Military Intervention Threatens Democratic Reform, Balkans Briefing, 28 March 2002 (also available in Serbian)

Implementing Equality: The "Constituent Peoples" Decision in Bosnia & Herzegovina, Balkans Report N°128, 16 April 2002 (also available in Bosnian)

Still Buying Time: Montenegro, Serbia and the European Union, Balkans Report N°129, 7 May 2002 (also available in Serbian)

Policing the Police in Bosnia: A Further Reform Agenda, Balkans Report N°130, 10 May 2002 (also available in Bosnian)

UNMIK's Kosovo Albatross: Tackling Division in Mitrovica, Balkans Report N°131, 3 June 2002 (also available in Albanian and Serbian)

Fighting to Control Yugoslavia's Military, Balkans Briefing, 12 July 2002

Bosnia's Alliance for (Smallish) Change, Balkans Report N°132, 2 August 2002 (also available in Bosnian)

Macedonia's Public Secret: How Corruption Drags the Country Down, Balkans Report N°133, 14 August 2002 (also available in Macedonian)

Finding the Balance: The Scales of Justice in Kosovo, Balkans Report N°134, 12 September 2002

Moving Macedonia Toward Self-Sufficiency: A New Security Approach for NATO and the EU, Balkans Report N°135, 15 November 2002 (also available in Macedonian)

Arming Saddam: The Yugoslav Connection, Balkans Report N°136, 3 December 2002 (also available in Serbian)

The Continuing Challenge of Refugee Return in Bosnia & Herzegovina, Balkans Report N°137, 13 December 2002 (also available in Bosnian)

A Half-Hearted Welcome: Refugee Return to Croatia, Balkans Report N°138, 13 December 2002 (also available in Croatian)

Return to Uncertainty: Kosovo's Internally Displaced and the Return Process, Balkans Report N°139, 13 December 2002 (also available in Albanian and Serbian)

Albania: State of the Nation 2003, Balkans Report N°140, 11 March 2003

Serbia after Djindjic, Balkans Report N°141, 18 March 2003

A Marriage of Inconvenience: Montenegro 2003, Balkans Report N°142, 16 April 2003

Kosovo's Ethnic Dilemma: The Need for a Civic Contract, Balkans Report N°143, 28 May 2003 (also available in Albanian and Serbian)

Bosnia's BRCKO: Getting In, Getting On and Getting Out, Balkans Report N°144, 2 June 2003

Thessaloniki and After I: The EU's Balkan Agenda, Europe Briefing, 20 June 2003

Thessaloniki and After II: The EU and Bosnia, Europe Briefing, 20 June 2003

Thessaloniki and After III: The EU, Serbia, Montenegro and Kosovo, Europe Briefing, 20 June 2003

Serbian Reform Stalls Again, Balkans Report N°145, 17 July 2003 (also available in Serbian).

Bosnia's Nationalist Governments: Paddy Ashdown and the Paradoxes of State Building, Balkans Report N°146, 22 July 2003

Two to Tango: An Agenda for the New Kosovo SRSG, Europe Report N°148, 3 September 2003 (also available in Serbian)

Macedonia: No Time for Complacency, Europe Report N°149, 23 October 2003 (also available in Macedonian)

Building Bridges in Mostar, Europe Report N°150, 20 November 2003 (also available in Bosnian)

Southern Serbia's Fragile Peace, Europe Report N°I52, 9 December 2003

Monitoring the Northern Ireland Ceasefires: Lessons from the Balkans, Europe Briefing, 23 January 2004

Pan-Albanianism: How Big a Threat to Balkan Stability?, Europe Report N°153, 25 February 2004 (also available in Albanian and Serbian)

Serbia's U-Turn, Europe Report N°I54, 26 March 2004

Collapse in Kosovo, Europe Report N°155, 22 April 2004 (also available in Serbian and Albanian)

EUFORIA: Changing Bosnia's Security Arrangements, Europe Briefing, 29 June 2004 (also available in Bosnian)

Serbia's Changing Political Landscape, Europe Briefing, 22 July 2004

Macedonia: Make or Break, Europe Briefing, 3 August 2004

CAUCASUS

Georgia: What Now?, Europe Report N°I51, 3 December 2003

Azerbaijan: Turning Over A New Leaf?, Europe Report N°156, 13 May 2004

Saakashvili's Ajara Success: Repeatable Elsewhere in Georgia?, Europe Briefing, 18 August 2004

Armenia's Internal Stability: Trouble Ahead, Europe Report N°158, 18 October 2004

MOLDOVA

Moldova: No Quick Fix, Europe Report N°147, 12 August 2003

Moldova: Regional Tensions over Transdniestria, Europe Report Nº157, 17 June 2004

OTHER REPORTS AND BRIEFINGS

For ICG reports and briefings on:

- Asia
- Africa
- Latin America
- Middle East and North Africa
- Thematic Issues
- *CrisisWatch*

please visit our website www.icg.org

APPENDIX D

ICG BOARD OF TRUSTEES