
Armenia And The EU : When Economics Trump Politics

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During the month of October, Armenian President Robert Kocharian has successively preserved his country's European orientation and good strategic relations with Russia. While these two "orientations" are usually seen as mutually exclusive in the post-Soviet space, Armenia's attendance at the Dushanbe CIS summit and Kocharian's working visit to Brussels show Yerevan's determination to prove the theory wrong.

>From October 5-7 Armenian President Kocharian attended the Dushanbe summit of the Commonwealth of Independent States (CIS), where the gathering of former Soviet republics approved the organisation's new development concept. Following the CIS summit, Kocharian attended a related summit of the CIS Collective Security Treaty Organization (CSTO), where Russian President Vladimir Putin declared that CSTO member countries will be able to purchase Russian arms at the same reduced prices available within Russia. A long-time active member in both post-Soviet organisations, Kocharian confirmed once again that Armenia remains a political and military ally of Russia.

Almost immediately following the Dushanbe summits, however, Kocharian left for Brussels for a four-day working visit with top European Union officials including Jose Manuel Barroso and Xavier Solana.

European media has given the talks a positive assessment and Armenia was praised for the successful implementation of its commitments under the European Neighbourhood Policy (ENP) Action Plan.

What are these orientations about?

Armenia has never officially declared its intention to join the European Union (EU). However, "Eurointegration" remains one of the country's official priorities. Armenia's EU orientation is a priori an economic imperative, rather than a political claim of an Armenian European identity. As a small country with few natural resources, Armenia has no other option for successful economic development than a liberal foreign trade regime. As a member of the CSTO, Armenia cannot use NATO as a sort of "gateway" to closer ties with the European Union the way some other CIS members, such as the Ukraine and Georgia, are attempting.

Thus, economic reforms are perhaps the only way for Armenia to achieve "Eurointegration". And the EU has supported Yerevan's efforts, first within the Partnership and Co-operation Agreement (PCA) signed in 1999, then under the ENP Action Plan signed at the end of 2006. Both the EU and other Western donors in Armenia have always linked their support to Armenia to the success of its reforms, based on the premise that economic reforms go hand in hand with political ones and a free market economy will open the way for the country's democratisation.

Unlike the EU, the CIS does not create any political or economic pre-conditions for its members. According to the Development Concept adopted at the Dushanbe summit, the CIS will focus mainly on the former Soviet countries' common problems, particularly migration. In addition, Armenia has never been a member of the Eurasian Economy Commonwealth (EurAsEC), the group of CIS members led and promoted by Russia with the goal of creating a Customs Union. The Eurasian Economy Commonwealth also held a summit in Dushanbe, and Armenia attended as an observer. Thus Armenia appears unwilling to commit to any economic obligations which are not compatible with EU requirements.

As a CSTO member, however, Armenia does co-operate with NATO, in the framework of an Individual Partnership Action Plan, which includes actions such as joint war games and efforts to ensure civilian control over the military. Russia co-operates with NATO in the same way, and maintains close military ties with Greece, Romania and others in an effort to reduce the chance of conflicts between the two military blocs.

The European path

Armenia's economy has improved since the mid-1990s, and now sends approximately 60 percent of its exports to the EU and other Western countries. Under pressure from the EU and the Council of Europe, the country has implemented a number of political reforms, including changes to the constitution in 2005 which marked a move towards restricting presidential powers and increasing the judiciary's independence. The actual implementation of the adopted legislation, however, remains problematic. President Kocharian, who has been in office since 1998, and the ruling Republican Party have often used authoritarian methods of rule, raising concerns both domestically and internationally. Armenia has continuously underperformed in decreasing corruption and securing freedom of speech and judicial independence.

Armenia's ENP Action Plan calls for the further elimination of trade barriers and Yerevan has declared its intention to reach a free trade agreement with the EU by 2010. Any such agreement is subject however to ENP conditions that Armenia implement European standards of production, a process which has been under way since the early 2000s.

The ENP Action Plan also names the consolidation of judicial power and progress in fighting corruption as means for further improving the country's investment climate.

Kocharian's recent official visit to Brussels and the EU-Armenia Co-operation Council's eighth meeting the following week in Luxembourg showed both partners' satisfaction with the progress thus far. In addition, during a visit to Yerevan on October 18, Steffen Reiche, head of the German Bundestag's German-South Caucasus parliamentary group delegation, declared that among the three South Caucasus countries, Armenia has taken the lead in implementing its ENP Action Plan.

Trade: a remedy to diverging geopolitical orientations in the South Caucasus?

Armenia's East-West orientation could be a factor in preventing possible tensions in the South Caucasus between Russia and the CIS and the EU, NATO and the CSTO. Recent developments in Armenian-Georgian relations also illustrate the importance of the trade factor in the region and the role it can play in appeasing geopolitical tensions. During his visit to Armenia on October 15-16, Georgian Prime Minister Zurab Nogaideli suggested creating a "joint investment space" in the two countries, and both governments have reportedly begun working on the project.

If the joint investment space were to become a reality, Armenia and Georgia would take the original step of jointly applying to foreign donors such as the World Bank to provide funding for joint projects.

More importantly, the "common" or "joint" investment space is expected to attract investors interested in the larger market the project would form. The immediate direct outcome would be an increase in bilateral trade between Armenia and Georgia, which would benefit from projects in Armenia, particularly from Russian investors, who are scant in Georgia due to poor relations between Tbilisi and Moscow.

Georgia may also benefit from the growing Armenian Stock Exchange, which will be taken over by Stockholm-based OMX later this year with the aim of creating a regional capital market. The takeover is OMX's first investment in the CIS, although it operates the stock exchanges in Stockholm, Copenhagen, Helsinki, Reykjavik, Riga and Vilnius. Of course, Armenia will also benefit from investments in Georgia, whose reform-minded government has earned a great deal of praise and investment from the West.

Georgia, with its stated intention to join NATO and the EU, and with its relationship with Russia currently at a low point, can see some benefits in good relations with Armenia. The prospect of strengthened economic relations between Georgia and Armenia may spark hopes that the trade factor could help blur the geopolitical line that has begun to define the two countries' relations with the East and West.

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