

## **Armenia : Making The Best Of A Difficult Neighborhood**

Reworked diamonds, crayfish, and brandy do not sound like the ingredients of a successful export economy. Yet, appearances can be deceptive - and in Armenia's case they often are. These three products sustain an economy that last year expanded by 14 percent according to the World Bank - faster than any other non-oil sector in the Commonwealth of Independent States (CIS). The country's information-technology sector is also growing fast and attracting Western investors.

Politically, Armenia - caught between Russia and the West - is trying to achieve a balancing act. 'Complementarity'

Deputy Foreign Minister Armen Baiburtian describes this as a "policy of complementarity." "As far as the interests of Russia are concerned, and its relationship with, [and its] attitude vis-a-vis Armenia's policy of European integration [is concerned], let me say that Armenia is conducting a policy of complementarity," Baiburtian says. "And if you would like me to mention the substance of this policy of complementarity, this is that Armenia, taking into consideration the interests of the major players in the region, attaches special importance to its policy priority of softening the angles of contradiction between these powers."

For instance, Baiburtian says, Armenia's good relations with Russia are complemented by strong links to the United States.

Apart from both countries' interests in the region, both are home to large Armenian diasporas. Each year, Armenian expatriates send home \$1.5 billion, which equals the government's annual budget.

The diaspora is likely to keep growing. In a recent survey, 65 percent of interviewees said they see "no future" for their children in Armenia.

Understandable, perhaps, in a country that in recent years has backpedaled somewhat on democracy. Armenia's elections are seen as less and less free, while the country has slipped to 102nd place in the Reporters Without Borders media-freedom ranking. Armenia is losing ground in corruption indices, too -- although on both counts it still beats Azerbaijan and Russia, among others.

Armenia is also struggling to keep up with its oil-rich neighbor, Azerbaijan.

The two countries are still technically at war over the breakaway enclave of Nagorno-Karabakh. And while Baku can afford to spend \$1 billion on defense this year, Armenia must make do with barely one-quarter of that.

Deputy Minister Baiburtian appears unfazed by the disparity: "Armenia will do what is necessary," he says. He also hints at "other sources" of aid -- a possible reference to Russian backing.

### **Energy Concerns**

Armenia's greatest security concern is energy. Nearly all of its energy infrastructure - the Medzamor nuclear plant, thermal power plants, and the electricity-distribution networks - is now owned by Russia.

This is where the "policy of complementarity" becomes visibly stretched. Baiburtian says that Armenia is trying to diversify sources, pointing to a gas pipeline from Iran that should become operational by the end of the year.

However, Western officials say this will mean little as long as the power plants using the gas remain in Russian hands. One diplomat notes that Russia's commercial dominance could prove "more dangerous" than its all-pervasive military presence in Armenia.

The Soviet-made Medzamor power plant perhaps illustrates well the shortcomings of the "complementarity" approach. The European Union has said the plant is dangerous and has pressed Armenia for years to decommission it.

The European Commission's deputy head of mission in Tbilisi, Robin Liddell, who is responsible for relations with Yerevan, says decommissioning Medzamor is a key element in the European Neighborhood Policy (ENP) action plans the EU has just signed with Armenia.

"Medzamor is one of the priorities in the new action plan with Armenia," Liddel says. "This encompasses both a new energy strategy and decommissioning strategy. This has been a long-term priority for the European Commission and the European Union. The ENP action plan gives us the political commitment of the Armenian government to this activity."

Armenian officials counter that Medzamor is safe. They've gradually pushed back the decommissioning date and the EU now believes it won't happen before 2016.

Armenia would like to replace Medzamor with a modern nuclear facility, but the EU, while keen to support the decommissioning of old reactors, is not keen to bankroll the new venture.

In its energy-diversification efforts, Yerevan is building up a network of new thermal and hydroelectric power stations.

#### Alternative Sources

The gas pipeline from Iran is central to these efforts. Sarmen Baghdassarian, head of the policy planning department in the Armenian Foreign Ministry, showcases the project as another success of the "policy of complementarity" -- this time balancing the United States and Iran.

"It's hard to find in the world a country that has excellent relations with Russia, with the United States, with the European Union, and with Iran," Baghdassarian says. "When, two years ago, we were talking about the Armenia-Iran gas pipeline, everybody was saying to us that it's a dream.

But the pipeline is, as our deputy minister mentioned, after two months, it will be operating."

There is, however, one regional power and neighbor whose relations with Armenia have yet to benefit from the policy. Armenia still has no diplomatic relations with Turkey. The border between the two countries remains closed and the "Mother Armenia" statue in Yerevan is still surrounded by military hardware pointing grimly towards the mountains where Turkish territory begins.