

2010

# Selling its Future Short: Armenia's Economic and Security Relations with Russia

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## Recommended Citation

McGinnity, Ian J., "Selling its Future Short: Armenia's Economic and Security Relations with Russia" (2010). *CMC Senior Theses*. Paper 58.  
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**CLAREMONT McKENNA COLLEGE**  
**SELLING ITS FUTURE SHORT: ARMENIA'S ECONOMIC AND SECURITY**  
**RELATIONS WITH RUSSIA.**

SUBMITTED TO  
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FOR  
SENIOR THESIS  
FALL/2010  
30/11/2010

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## **INTRODUCTION**

It is necessary and desirable for Armenia to retain close relations with Russia in both the short and long term. However, recent concessions to Russia for good relations in the short term may have potentially harmful repercussions for Armenia in the future. These concessions have in part resulted in the Russian dominance in the economic sector, overdependence on Russia for Armenia's energy needs, and the perpetuation of Armenian submissiveness to Russian interests. Armenia should, therefore, maintain good relations with Russia while simultaneously securing long-term paths that focus on actual strategic partnership and not dependence. In short, Armenia should return to a foreign policy of complementarism, which was first enacted under the Republic of Armenia's first president, Levon Ter-Petrossian.

Complementarism stresses the importance of pursuing Armenia's best interest through the adoption of balanced policies and through minimal involvement or identification within regional blocs. The leveraging of Armenia's long-term interests for close relations with Russia is possibly best exemplified in the state of Armenia's economy. Like many former Soviet republics, the collapse of entangled Soviet trading patterns and the legacy of its centrally-planned economy still have negative implications for Armenian industry and trade.

## **CHAPTER 1: ARMENIAN-RUSSIAN ECONOMIC RELATIONS**

## 1.1 Overview of the Armenian Economy

Landlocked and in possession of few natural resources, Armenia has relied heavily on service, industrial, and agricultural-based industries. Further complicating its economic status is the reality of its double-blockaded borders with neighboring Turkey and Azerbaijan. In place since 1993, the blockades have had two main effects on Armenia's economy. First, it has pointedly heightened Armenia's reliance on Russia for trade and energy. The largest crude oil pipeline in the region, the Baku-Tbilisi-Ceyhan line, which runs from Azerbaijan to Georgia and ends in Turkey, purposefully bypasses Armenia, excluding it from a lucrative share in the exportation of Caspian oil to Europe.. Primarily, Armenia's source of crude oil comes from Russia, via the North Caucasus-Transcaucasus pipeline and the smaller Mozdok-Tbilisi pipeline. The Tabriz-Yersakh natural gas pipeline, which runs between Iran and southern Armenia, had the potential to supply almost twice the amount of Armenia's yearly natural gas consumption and showed great promise in decreasing Armenia's energy dependence on Russia. However, this dependence was not realized due to concessions by the Armenian government in exchange for the continuation of subsidized prices for Russian oil.<sup>1</sup> Because of the Armenian submissiveness that lead to these concessions, Russia now holds the majority stake in the Tabriz-Yersakh pipeline as well, crushing Armenian hopes to curtail dependence on Russia for Armenia's energy needs.

Secondly, the blockades have increased transportation costs of Armenian goods.

Excluding Turkey and Azerbaijan, Armenia shares its wide, mountainous, northern

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<sup>1</sup> Socor, Vladimir. "Armenia's Giveaways to Russia: From Property-For-Debt to Property-For-Gas." *Eurasia Daily Monitor*. Volume: 3. Issue: 76. 19 April. 2006. Web. 09 Nov. 2010.  
[http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=31599](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=31599)

border with Georgia and a small but strategic 20 mile border with Iran in the south. Armenia's primary export partners are Germany, Russia, and Ireland, and this necessitates the transit of Armenian goods through relatively underdeveloped land routes in Georgia until the goods reach the Black Sea ports of Batumi and Poti, from where they will be shipped to Europe. Because Armenia's transportation options are severely limited, premiums on shipping costs usually reach 35 percent more than competitively-driven shipping costs.<sup>2</sup> The Armenian government estimates that the perpetuation of the blockade costs Armenian businesses hundreds of millions of dollars per year in increased transportation fees.<sup>3</sup> This places undue financial burdens on existing Armenian businesses and industry while discouraging investors from growing existing businesses and starting new ones, which further contributes to the plight of the Armenian economy.

Although main sectors of its economy also include mining, agriculture, and the manufacturing of machine parts, Armenia's economy is largely service-based, revolving heavily around construction and tourism industries. While these sectors enjoyed promising growth as Armenia experienced double-digit percentage increases in GDP from 2004 through 2008, they proved to be highly volatile to the sway of international markets and experienced serious financial and human capital losses as a result of the global economic crisis. The construction sector, which relies heavily on Russian investment, witnessed a sharp reduction in investment in 2009 and 2010, resulting in the loss of several thousands of jobs, further exacerbating socioeconomic tensions.

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<sup>2</sup> "Cargo Transportation to Georgian Poti Costs \$1200, to U.S. - 800." News.Am: The Shortest Way to Know. 1 Nov. 2010. Web. 29 Nov. 2010. <<http://news.am/eng/news/36579>>.

<sup>3</sup> Ibid.

Optimistic government forecasts predict that GDP growth in 2011 will exceed 4.6 percent; however, given the expected 15 percent decrease in GDP in 2010, Armenia is unlikely to see broad, impacting results as a result of this growth.<sup>4</sup> Meanwhile, Russia's GDP is expected to fall 8% in 2010; the fact that an 8% drop in Russian GDP causes a 15% drop in Armenian GDP starkly denotes Armenia's economic dependence on Russia.<sup>5</sup> Regardless of the predicted growth in GDP in 2011 for both nations, GDP increases during the 2000s only made marginal improvements in the overall quality of life for Armenians. GDP growth in the 2010s is expected to have a similarly feeble effect on the average Armenian.<sup>6</sup>

The paradox of almost a decade of double-digit GDP growth having little effect on the population at large can be explained by Armenia's commodity-based monopolies, which are run by a set of oligarchs who resemble less powerful versions of the Russian oligarchs of the 1990s. Projections estimate that over 55 percent of the GDP is controlled by just 44 families.<sup>7</sup> This figure sheds light on the reality of Armenian economic growth: only the top 8 percent of Armenians reaped the benefits of increases in GDP in the 2000s.<sup>8</sup> As construction investments halt, as industrial plants temporarily freeze production until demand increases, and as farmers worry about self-sustainment during the winter as a result of widespread damages to crops due to unseasonable

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<sup>4</sup> "Tigran Sargsyan: GDP growth to make 4.6% in Armenia in 2011." *PanArmenian.net*. 18 Oct. 2010. Web. 09 Nov. 2010. <http://www.panarmenian.net/eng/economy/news/55418/>.

<sup>5</sup> "Russia's GDP Decrease in 2009 to Exceed Predicted 8.5% -- Kudrin | Business." *RIA Novosti*. 2 Dec. 2009. Web. 29 Nov. 2010. <<http://en.rian.ru/business/20091202/157073600>>.

<sup>6</sup> "Armenian GDP Drops in 2009, But No Decline in Living Standards." *Armenians.net*. 01 Jan. 2010. Web. 09 Nov. 2010. <http://www.armnews.com/view/article/1597/>.

<sup>7</sup> Khachatrian, Haroutiun. "Competitive Edge: The pitfalls of monopolies, and the challenges of a business-influenced parliament." *ArmeniaNow.com*. 04 Jan. 2008. Web. 09 Nov. 2010. [http://www.armenianow.com/special\\_issues/agbumag/8033/competitive\\_edge\\_the\\_pitfalls\\_of\\_m](http://www.armenianow.com/special_issues/agbumag/8033/competitive_edge_the_pitfalls_of_m).

<sup>8</sup> Griffin, Kieth, Thomas Kelley, Terry McKinley, Bargat Asatryan, Levon Barkhudaryan, and Armen Yeghriazarian. *Growth, Poverty, and Inequality in Armenia*. Rep. United Nations Development Programme, 2002. Print.

weather, it is the majority of Armenians that feels the pressure of the global financial crisis. According to the Armenian government, about one-third of Armenians live in poverty.<sup>9</sup> World Bank estimates put the number closer to 50 percent.<sup>10</sup>

The global financial crisis has also sharply decreased the amount of remittances that Armenians receive from family members working abroad. Due to lack of economic development and opportunity, approximately one-fifth of Armenians lives and works abroad, predominantly in Russia. Remittances account for approximately 30 percent of the GDP, with 70 percent of these coming from Armenians working in Russia.<sup>11</sup>

## **1.2: The 2003 Equity-for-Debt Deal**

The stark condition of the Armenian economy underscores the serious flaws in the Armenian government's logic of making short-term concessions to Russia that curtail Armenia's long term economic freedom. These concessions have occurred for several reasons, including the general lack of a foreign policy process, the consolidation of power at the top of the Armenian government, submission to substantial Russian pressure, and dismal domestic economic conditions. Since former president Robert Kocharyan took office in an election marred by fraud in 1998, large concessions have resulted in Russian dominance of the economy, placing Russian interests in control of Armenia's transportation, telecommunication, banking, mining, and energy sectors.

The first and most pointed example of Armenian concessions in response to Russian pressure is the 2003 Equity-for-Debt deal. Russia has implemented the strategy of buying another nation's debt to Russia in exchange for Russian ownership in

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<sup>9</sup> Ibid.

<sup>10</sup> "Armenia | Data." *Data | The World Bank*. Web. 29 Nov. 2010. <<http://data.worldbank.org/country/armenia>>.

<sup>11</sup> "Volume of Individual Remittances to Armenia from Russia and other Countries this Year to Reduce by 30%." *ArmBanks.am/en*. 11 Nov. 2009. Web. 09 Nov. 2010. <http://www.armbanks.am/en/2009/11/11/3668/>.



that nation's key enterprises since the early 2000s. In addition to applying this tactic to Armenia, Russia has also brokered similar deals in Central Asia, with to applying this tactic to Armenia, Russia has also brokered similar deals in Central Asia, with countries such as Tajikistan and Kyrgyzstan, in order to gain key regional energy assets.<sup>12</sup> In Armenia's case, however, the debt owed by Armenia totaled only 93 million dollars. This is a relatively small amount by international standards, especially considering that US aid to Armenia totaled over \$1.6 billion from 1992-2005 alone.<sup>13</sup>

In 2003, the Russian government demanded repayment of this debt. When the Armenian government did not immediately pay, it instead handed over five major Armenian assets to Russia. With no foreign policy process to speak of, the decision to do so was made largely by Kocharyan and his Defense Minister Serzh Sargsyan without communicating to other members of the government or Armenian citizens the terms of the deal. Only after the exchange did Armenians begin to protest explicitly handing over essentials of the Armenian state to Russia. Additionally, Kocharyan and Sargsyan were criticized for not even attempting to renegotiate the loan payments or find other alternatives. Other countries, such as Georgia and Ukraine, also had acquired national debts to Russia that totaled in the hundreds of millions in the early 2000s. Unlike Armenia, both Georgia and Ukraine negotiated a harder line with the Russians and were able to reschedule their debt payments.<sup>14</sup>

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<sup>12</sup> Gleason, Gregory. "Russian Companies Propose Debt-Equality Swap in Central Asia." *The Eurasia Daily Monitor*. Volume: 1 Issue: 103. 11 Oct. 2004. Web. 09 Nov. 2010.

<sup>13</sup> Mainville, By Michael. "Second-Largest Recipients of U.S. Aid, Armenians Fight To Get Ahead - August 9, 2005." *The New York Sun*. 9 Aug. 2005. Web. 13 Sept. 2010. <<http://www.nysun.com/foreign/second-largest-recipients-of-us-aid-armenians/18286/>>.

<sup>14</sup> Danielyan, Emily. "Russia Tightens Grip on Armenia with Debt Agreements." *Headlines I Eurasianet.org*. 6 May 2003. Web. 09 Nov. 2010. <http://www.eurasianet.org/departments/business/articles/eav050703.shtml>.

It is not surprising, however, that Kocharyan would attempt to drive a hard line with the Russians. President Putin was the first foreign head of state to recognize Kocharyan's electoral victory in 1998 at a time when most Western countries were lambasting him for the fraudulent, skewed, and at times, repressive manner in which the elections were conducted. If a hard line with Russia was not an option, then Kocharyan was also criticized for not exploring other options, such as repaying the loan with smaller, low-interest loans borrowed from European countries which would serve as much softer creditors than Russia. The Armenian government could have also borrowed money from the Armenian Federal Reserve, which at the time totaled \$450 million.<sup>15</sup> Even though this option would have hurt Armenia's credibility in trading and borrowing, it is arguable that doing so would have been preferable to handing over its major energy assets. Regardless, the time frame in which the deal was made and the staunch advocacy of the deal by the Kocharyan and Sargsyan suggest that other alternatives were not seriously considered.

The five major assets traded in the Equity-for-Debt deal include key energy, research and development, and manufacturing facilities. To begin, Russia acquired ownership of the Metzamor nuclear power plant, which supplies Armenia with about 40 percent of its domestic energy.<sup>16</sup> Prior to this trade, the plant's operations were invariably dependent on Russia for providing it with nuclear fuel. In fact, the plant was traded specifically to satisfy a 32 million dollar debt accrued from the purchase of this fuel.

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<sup>15</sup> Danielyan, Emily. "Russia Tightens Grip on Armenia with Debt Agreements." *Headlines | Eurasianet.org*. 6 May 2003. Web. 09 Nov. 2010. <http://www.eurasianet.org/departments/business/articles/eav050703.shtml>.

<sup>16</sup> Socor, Vladimir. "Armenia's Energy Sector, Other Industrial Assets Passing Under Russia's Control." *Institute for Advanced Strategic and Political Studies*. Institute for Advanced Strategic and Political Studies, 13 Nov. 2002. Web. 09 Nov. 2010. <http://www.iasps.org/strategic/socor12.htm>.

The logical flaws of Kocharyan's decision to trade Metzamor to repay a minuscule debt are compounded when taking into account his willingness to turn a blind eye towards the endemic corruption in the energy sector. According to one estimate, over 50 million dollars a year are lost due to unhampered corruption and mismanagement. For example, prior to the Equity-for-Debt deal, the Metzamor plant could not account for 120 million dollars that it was supposed to have been repaid by domestic power distributors.<sup>17</sup> Had corruption in just the energy sector been curtailed by the Kocharyan Administration, the government would not have found itself in such a fiscal bind and would perhaps not have folded so willingly to Russian pressure. This, however, was not the case. In fact, the endemic corruption within the Armenian society and the incestuous relationship between government and business in Armenia point to rife corruption within the Kocharyan Administration. If Kocharyan was receiving a cut of embezzled money or if he was supported by those who were, he had a direct disincentive to curb corruption.<sup>18</sup>

In addition to the Metzamor facility, the Russian state-owned Unified Energy System (RAO UES) gained control of six of Armenia's nine hydroelectric facilities. These hydroelectric facilities account for about 33 percent of Armenian energy.<sup>19</sup> Russia also gained the Hrazdan thermoelectric plant, which remains the largest source of thermoelectric energy in Armenia, as well as Mars electronic and robotics plant in Yerevan, a research and development facility for both military and civilian production,

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<sup>17</sup> Socor, Vladimir. "Armenia's Energy Sector, Other Industrial Assets Passing Under Russia's Control." *Institute for Advanced Strategic and Political Studies*. Institute for Advanced Strategic and Political Studies, 13 Nov. 2002. Web. 09 Nov. 2010. <http://www.iasps.org/strategic/socor12.htm>.

<sup>18</sup> "Robert Kocharian." *New Internationalist: First Stop for Global Justice*. Web. 29 Nov. 2010. <<http://www.newint.org/columns/worldbeaters/2006/12/01/worldbeaters/>>.

<sup>19</sup> "Armenia: Metsamor Nuclear Power Plant." *Nuclear Threat Initiative: Home Page*. 6 Aug. 2003. Web. 29 Nov. 2010. <<http://www.nti.org/db/nisprofs/armenia/powerrea.htm>>.

which was one of the first of its kind during the Soviet era. Lastly, ownership of the largest cement factory in the Caucasus, located in Hrazdan, was transferred to Russia in place of 10 million dollars of gas debt. This swap gave Russia control over the manufacturing of a raw material essential to the Armenian construction industry. When the deal was finalized, Russia was left in control of over 90 percent of the energy sector and dominated key production industries.<sup>20</sup>

### **1.3: Russian Management of Armenian Assets**

Although the questionable deal caused some dissent in Parliament, even among those who were typically more pro-Russian, not all were so pessimistic about the trade. In fact, many believed in Kocharyan's argument that Russian control of these assets would create high-paying jobs, increase productivity, and, with the whole of debt to Russia off of its shoulders, strengthen the economy and increase prosperity in Armenia. This unfounded trust in Russian capabilities stems from the prevailing notion that Russia will act in Armenia's best interest. Historical legacies, both real and reified, between the two countries of Russian protection of the Armenian people undoubtedly contribute heavily to this presupposition. Nevertheless, Russian control of Armenia's strategic assets has neither created high-paying jobs, nor substantially improved the condition of the Armenian economy. This is most evidently seen in Russian stewardship of the Mars electronics and robotics plant and of the Metzamor nuclear plant.

The Mars plant struggled to operate effectively during the years after Armenian independence and operated below its full output capacity. Its mediocre performance and failure to substantially produce was largely the result of mismanagement, a lack of

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<sup>20</sup> Peterson, Alexandros. "Russia May Score Final Coup in Energy Battle." *Atlantic Council*. 15 Jul. 2009. Web. 09 Nov. 2010. [http://www.acus.org/new\\_atlanticist/russia-may-score-final-coup-energy-battle](http://www.acus.org/new_atlanticist/russia-may-score-final-coup-energy-battle).

funding, and the shallowness of innovation due to the massive brain drain that occurred during the 1990s. Nevertheless, there was a great potential for the actual facility to once more become a flagship for research and development, especially in Armenia's budding information and communication technology sector. When it was made public that the plant would fall under Russian control, there was good reason for those frustrated with its performance to believe that Russian management of the facility would increase performance and productivity, transforming the plant into a modern enterprise capable of employing hundreds of Armenians with advanced technical training. They were to be disappointed. Seven years after its acquisition, the plant has created virtually no new jobs and runs at a dismal ten percent of its total capacity.<sup>21</sup>

Russian management of Metzamor is distinctly more troubling than its management of Mars. While Metzamor continues to supply Armenia with nearly half of its electricity, the IAEA deemed it the most unstable and unsafe of nuclear plants worldwide.<sup>22</sup> Metzamor has a sporadic track record since its construction in the 1970s, during the economic stagnation of the Brezhnev period. Construction in Armenia during the 1970s was particularly shoddy, inadvertently resulting in the deaths of over 25,000 Armenians during the 1988 earthquake in Spitak. During the 6.9 quake, structures built during the 1970s crumbled and collapsed on top of their poorly built foundations. Meanwhile, structures built before the 1970s were largely left standing. Following the

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<sup>21</sup> Yeghisabet, Vorskanian. "No Specific Development Program for Armenian "Mars" Plant Available." *Armenian News for Diaspora*. 6 Nov. 2005. Web. 29 Nov. 2010. <<http://www.armeniandiaspora.com/showthread.php?29781-No-Specific-Development-Program-for-Armenian-Mars-Plant-Available>>.

<sup>22</sup> Alkhazashvili, M. "TBILISI: IAEA Chief Visits Armenian Nuclear Power Plant Metsamor." *Armenian News for Diaspora*. 3 Aug. 2005. Web. 09 Nov. 2010. <http://www.armeniandiaspora.com/showthread.php?33864-TBILISI-IAEA-chief-visits-Armenian-nuclear-power-plant-Metsamor>.

earthquake, Metzamor was shut down indefinitely due to its structural and operational instability.

However, economic desperation during the early 1990s necessitated the reopening of the plant with Russian financial assistance. Since then, Metzamor has closed and reopened multiple times for repairs. Following an IAEA inspection during the late 1990s, Armenian officials agreed to permanently close the plant by 2004. After management of the plant had been transferred to ROA UES, the date was pushed back to 2008. Recently ROA UES once again delayed the date for cessation of activity until 2016.<sup>23</sup>

The decision taken by the Russians to continue operations of the most unstable nuclear plant for another eight years presents a high risk to the Armenian people and the Southern Caucasus in general. Strikingly, despite the risks involved, the Armenian government has remained compliant with the delays, demonstrating yet again a willingness to submit to Russian plans at the possible expense of Armenia's future. Another troubling matter regarding Metzamor is the storage and transportation of nuclear waste. During the Soviet era, nuclear waste was transported by ground from Armenia to Russia via Georgia. Since the dissolution of the Soviet Union, however, Georgian officials deny having any contractual agreement with Russia regarding the transit of dangerous nuclear material through its borders. Despite being accused of transporting nuclear material through Georgia without permits, Russia claims, albeit dubiously, that it no longer uses land routes to transport nuclear material to and from Armenia and, instead, transports fuel across Georgia using Russian cargo planes.

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<sup>23</sup> Page, Jeremy. "Experts Fear Armenian Chernobyl." *The Times*. 16 Nov. 2004. Web. 09 Nov. 2010. <http://www.timesonline.co.uk/tol/news/world/article1077078.ece>.

Georgian officials have likened this method to “flying around a potential nuclear bomb.”<sup>24</sup> While this is certainly an exaggerated position, it is clear that Russia is not being forthcoming about the whereabouts and methods of transporting fuel and nuclear waste to and from Armenia.

Perhaps at the behest of the Russian government to alleviate transit costs, Armenian Minister of Energy Armen Movsisyan proposed a law that was passed by Parliament in 2005 that allowed for the creation of a nuclear waste storage facility on Armenian soil that would hold a certain amount of spent fuel for up to 50 years. However, many in Armenia, including Richard Giragosian, director of the Armenian Center for National and International Studies in Yerevan, are worried that the necessary precautions are not being taken to build this storage facility. Possible corruption, mishandling of funds, and lack of experience in building the facility could lead to cutting corners and shoddy workmanship. If not properly constructed, Giragosian argues, there is a high chance that the nuclear waste could seep through the foundation, into the soil and, eventually, into one of Armenia’s few natural resources: its vast network of aquifers. Because these aquifers weave throughout the Caucasus, contamination by nuclear waste would be devastating not only to Armenia, but to the Caucasus and the Middle East as well. Greater transparency on behalf of the Armenian government about the storage facility and increased international involvement is necessary to assure Armenia’s citizens and neighbors that it is not gambling with regional security in order to solve problems in the short term.<sup>25</sup>

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<sup>24</sup> Alkhazashvili, M. "TBILISI: IAEA Chief Visits Armenian Nuclear Power Plant Metsamor." *Armenian News for Diaspora*. 8 Mar. 2005. Web. 29 Nov. 2010. <<http://www.armeniandiaspora.com/showthread.php?33864-TBILISI-IAEA-chief-visits-Armenian-nuclear-power-plant-Metsamor>>.

<sup>25</sup> ACNIS Closed-Briefing with Ambassadors. 30 June, 2010. Yerevan.

With regard to constructing a new nuclear power plant to replace Metzamor, the Armenian government once again acted against its own interests in order to demonstrate its willingness to cooperate with Russia. Although it received considerable offers from France and Japan to build the new plant, the bidding process, in reality, was a sham; the Armenian government never had any intent to grant the contract to a non-Russian company. While Russia will almost certainly build a reliable and profitable nuclear power plant, its pricing was higher than those of Japan or France.<sup>26</sup> Furthermore, while Armenia already claims close political, economic, and cultural ties to Russia, it missed an important opportunity to expand its economic dealings with countries outside of the former Soviet Bloc, an opportunity that would be in Armenia's long term interests.

#### **1.4: Energy as a Means of Control**

Russia's acquisition of Metzamor, the Hrazdon plant, and several other key energy assets fits into the widely discussed topic of Russia's use of energy resources as a foreign policy tool. In Armenia's case, the acquisition of these assets was the result of the government's willingness to submissively concede to Russian pressure, although the leverage applied by Russia did not overtly pertain to energy; instead, it seems that individual pressure was applied specifically to Kocharyan and Sargsyan, who were eager to comply without a protest. However, there are two specific examples of Russia flexing its energy muscles as a means to force concessions from Armenian officials and to further entrench its economic and political control in Armenia.

The first example of Russia's use of energy as a foreign policy tool can be seen in its dealings with Armenia during the construction of the Tabriz-Yersakh natural gas

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<sup>26</sup> ACNIS Closed-Briefing with Ambassadors. 30 June, 2010. Yerevan.



pipeline. The pipeline runs for about 25 miles between the cities of Tabriz in Iran to Yersakh in southern Armenia. Contracted in 2004, the planned diameter for the pipeline was 1,420 millimeters, which would have been capable of transporting nearly double the amount of Iranian natural gas needed to meet Armenia's demands.<sup>27</sup> In exchange for the natural gas, Armenia would contractually export electricity to Iran for a period of 20 years.<sup>28</sup> This pipeline was meant as a first step towards building an oil refinery on Armenian territory, thereby relieving, albeit marginally, Armenian dependence on Russia for energy resources. It seemed that the Armenian government was, in a rarely seen moment, taking constructive, forward-looking steps towards securing Armenia's future interests.

Russia had no interest in entertaining the idea of an Armenia with decreased dependence on Russian energy. The Tabriz-Yersakh pipeline represented not only a loss in profits for the Russian state-owned gas companies, but potentially represented a loss in its political and economic influence over Armenia. Moscow acted quickly. It announced in 2006 that it would end the gas subsidies that had been in place since Armenian independence, which cut the cost of gas imported from Russia to about one-third of the price that European countries pay. This tactic had been used against Ukraine and Georgia in the years following the Color Revolutions to demonstrate Russia's ability to punish both nations for strengthening ties to NATO and the West.

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<sup>27</sup> Socor, Vladimir. "IRAN-ARMENIA GAS PIPELINE: FAR MORE THAN MEETS THE EYE." Iran-Armenia Gas Pipeline: Far More than Meets the Eye. The Jamestown Foundation, 21 Mar. 2007. Web. 13 Sept. 2010. <[http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=32607](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=32607)

<sup>28</sup> Socor, Vladimir. "IRAN-ARMENIA GAS PIPELINE: FAR MORE THAN MEETS THE EYE." Iran-Armenia Gas Pipeline: Far More than Meets the Eye. The Jamestown Foundation, 21 Mar. 2007. Web. 13 Sept. 2010. <[http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=32607](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=32607)

As a long-proclaimed strategic partner of Russia, however, the majority of Armenians were outraged at the sudden price increase. The effects from ending heavily subsidized oil from Russia rippled throughout the entire Armenian economy, increasing prices and squeezing the already struggling Armenian consumer. Further frustrating the Armenian government and people, Russia claimed that it had not acted in poor faith; after all, Putin explained, Russia was simply normalizing oil prices to meet market demand. Armenia, he made clear, would receive no special treatment.<sup>29</sup>

In a knee-jerk response to Russia's economic pressure, the Armenian government brashly brokered several deals with Russia that left the latter solely in control of Armenia's energy grid. In exchange for mild gas subsidies (the price of gas still doubled from \$54 per 1000 cubic meters of gas to \$110<sup>30</sup>) to be continued from 2006 to 2009, the Armenian government allowed for the sale of the fifth and final power bloc of the Hrazdon power plant, which was the only bloc that Russia did not receive after the 2003 Equity-for-Debt deal. Gazprom, Russia's state-owned gas company, also gained control of the first section of the Tabriz-Yersakh pipeline, which runs between the southernmost Armenian cities, Meghri and Kajaran, allowing it to regulate Armenian access to Iranian gas. Moreover, the purchase of these assets resulted in the Gazprom ownership of 92 percent of ArmRosGaz, the Armenian-owned gas company.<sup>31</sup>

After acquiring the majority share in ArmRosGaz, Gazprom quickly sabotaged the possibility of an energy-independent Armenia in the future. Instead of the original

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<sup>29</sup> Demourian, Avet. "Price for Russian Gas Doubles in Armenia, Talks Continue." *AP Worldstream*. 01 April. 2006. Web. 09 Nov. 2010. <http://www.armeniandiaspora.com/showthread.php?43573-Price-for-Russian-gas-doubles-in-Armenia-talks-continue>.

<sup>30</sup> Ibid.

<sup>31</sup> Socor, Vladimir. "Armenia's Giveaways to Russia: From Property-For-Debt to Property-For-Gas." *Eurasia Daily Monitor*. Volume: 3. Issue: 76. 19 April. 2006. Web. 09 Nov. 2010. [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=31599](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=31599)

1,420 millimeter diameter planned for the Tabriz-Yersakh pipeline, the diameter was slashed to 250 millimeters. Much to the displeasure of the Iranians and Armenians in opposition to the Kocharyan Administration, this move handedly decreased the future strategic importance of the pipeline. Currently, it is only marginally utilized, with gas being pumped from Iran to Armenia at less than 300 million cubic meters per day, or less than half of Russia's daily gas exports.<sup>32</sup> The Armenian government diverts criticism for underutilizing the pipeline by stating that it makes more fiscal sense to purchase subsidized Russian gas. Subsidies, they explain, bolster the Armenian economy by keeping costs of transportation and production down, thereby helping the average Armenian.<sup>33</sup>

Indeed, these subsidies may offer short-term relief for the one in two Armenians estimated to be living in poverty. In the long term, however, this relief has come at a hefty cost for Armenia's aspirations for a more balanced approach to energy independence. Furthermore, the government's concessions that allowed for the purchase of energy assets key to its economic security were counterproductive at best and crippling at worst.

While Russian subsidies may aid the Armenian economy at the moment, continued reliance on these subsidies increases Russia's economic and political control of Armenia. Instead of folding to Russian pressure, the Armenian government should have realized the strategic importance of the Tabriz-Yersakh pipeline, kept it under Armenian control, and used it as a first step towards diversifying its energy resources.

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<sup>32</sup> Melkumyan, Naira. "Asia Times Online :: Central Asian News and Current Affairs, Russia, Afghanistan, Uzbekistan." *Asia Times Online :: Asian News Hub Providing the Latest News and Analysis from Asia*. 23 Feb. 2010. Web. 29 Nov. 2010. <[http://www.atimes.com/atimes/Central\\_Asia/LB23Ag01.html](http://www.atimes.com/atimes/Central_Asia/LB23Ag01.html)>.

<sup>33</sup> Ibid.

Likewise, the Kocharyan Administration should have realized that Moscow was leveraging its control over Armenian energy in an attempt to bend Armenia's will toward its own. Having come to this realization, the government should then have done everything it could to prevent the acquisition of the Tabriz-Yersakh pipeline, which gave Russia full leverage over its energy sector. Lastly, it should have focused less on the importance of keeping Russian subsidies and more on disbaring corruption and creating economic incentives. Doing so could have lessened the need for gas subsidies in the first place, diminishing Russia's ability to leverage them against Armenia.

The second example of Russia using its energy resources to influence foreign policy is seen in its role in encouraging normalization of relations between Turkey and Armenia. In this case, Russia's interests in the normalization of relations correlates with Armenia's interests; thus, current Russian pressure acts in Armenia's favor, for now. Unlike the Armenian government, the Turkish and Russian governments have economic contingency plans in the event of Turkey reopening its border with Armenia. Russia and Turkey have discussed and agreed upon the sale of RAO UES electricity from Armenia to Eastern Turkey and the mass shipment of Turkish goods to Armenian markets using preexisting railways. Because Russia has an economic incentive for the normalization of relations, it has been instrumental in calling for a return of official diplomacy between the two nations.

Russia also has great political interest in enticing Turkey towards Moscow and away from NATO and the US. Slighted by the EU and disillusioned by NATO's international role after the US-led wars in Iraq and Afghanistan, Turkey is seeking to reestablish itself as a leading global power. Its attempt to co-create a plan for the

Iranian nuclear program with Brazil showed a willingness to deviate from Western methods of dealing with Iran. Another significant deviation from the US and the West occurred in the summer of 2010 when Turkey supported several attempts to break the Israeli-enforced blockade of the Gaza Strip. Although historically a competitor with Turkey for power in the Caucasus, Russia sees an important opportunity to exacerbate tensions within NATO by warming relations with Ankara. By selling electricity to eastern Turkey, Russia could also expand its ability to leverage its energy resources in a country traditionally its rival.

Armenia, too, stands to gain economically from normalization of relations with Turkey. Transportation costs would decrease, opening up markets for more competition. Inexpensive Turkish goods would ease Armenian consumers' stark budgets. Interestingly enough, economists predict that Armenian GDP would not see an increase in the short-term, were Turkey to open its border.<sup>34</sup> This speaks to the poor development of Armenian industry and the lack of preparedness of the Armenian government for such an event. Nevertheless, in the long run, after a period of about 10 years, the Armenian GDP would see an increase as a direct result of trade with Turkey.<sup>35</sup>

Instead of pursuing greater economic trade with the West, Armenia, it seems, is bound to have further economic and military entanglements with Russia. As mentioned previously, Russia is seen by the majority of Armenian people not only as a protector, but also as a land of opportunity. Because Russia offers thousands of Armenians the

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<sup>34</sup> Manasserian, Tatoul. "Intellectual Property Protection and Economic Priorities in Transitioning Economies: The Case of Armenia." *ACNIS at 15: The Power of New Ideas*. Yerevan: Armenian Center for National and International Studies, 2009. 229-42. Print.

<sup>35</sup> Ibid.

chance of an improved life, because it is one of Armenia's biggest trading partners, and because the majority of remittances come from Russia, it is in Armenia's interest for Armenia to maintain high levels of economic interaction with Russia. However, it is also in Armenia's best interest to diversify its economy and deepen ties, at least economically, with the EU and the US. Regardless of Armenia's need to strengthen its economic partnership with Europe or the US, Armenia received a 500 million dollar loan from Russia as a result of the global economic crisis and its crippling effect on Armenia's service-based economy. The terms of this loan remain murky; however, it is certain that Russian influence in the region will become further entrenched.<sup>36</sup>

The loan process in itself shows a disparity of relations between Russia and Armenia, relative to other CIS countries. For example, the Armenian government originally requested a loan package amounting to 1.2 billion dollars.<sup>37</sup> Central Asian nations such as Kyrgyzstan and Tajikistan also requested loans in the billions of dollars from Russia. The discrepancy between the two requests is that the Central Asian countries received near the full amount of assistance for which they asked, Armenia received less than half. Taking into account Russia's preference for equity-for-debt deals, it could be that Russia is hoping to gain substantial energy resources in Central Asia if countries like Kyrgyzstan default on their loans. It could be, then, that Russia did not grant the full amount of assistance to Armenia because it is already in control of its energy sector and is dominant in its transportation, banking, and telecommunications

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<sup>36</sup> Babayan, Aza. "Armenia Confirms \$500 Million Loan From Russia - Radio Free Europe / Radio Liberty © 2010." Radio Free Europe / Radio Liberty - Free Media in Unfree Societies. 6 Feb. 2009. Web. 13 Sept. 2010. <[http://www.rferl.org/content/Armenia\\_Confirms\\_Loan\\_From\\_Russia/1380318.html](http://www.rferl.org/content/Armenia_Confirms_Loan_From_Russia/1380318.html)>.

<sup>37</sup> Ibid.

sector as well. Thus, if Armenia were to default on a billion dollar loan, Russia would have few Armenian assets left to acquire.

That being said, it is troubling to think of what the Armenian government would relinquish in the event that it defaulted on the 500 million dollar loan given the key assets handed over to Russia to satisfy 93 million dollars of debt. Even more troubling is the fact that almost no terms or conditions of the loan have been disclosed; in yet another display of individualism trumping a foreign policy process, current president Serzh Sargsyan negotiated the loan behind closed doors. All that is known is that the Armenian government must repay the loan within fifteen years, with a four year grace period. Very rarely does Russian assistance come without strings attached. Several experts believe that the hazy terms of the loan include the inclusion of Armenia into a ruble zone. Others believe that the terms of the loan will strengthen ties between Russian and Armenian militaries, possibly even integrating the two.<sup>38</sup> Although the government has not commented specifically on what Armenia may concede to Russia, Vartan Ayvazian, Chairmen of the Economics Committee, ominously confirmed that the loan would “increase Russia’s political influence in Armenia.”<sup>39</sup>

## **CHAPTER 2: ARMENIAN-RUSSIAN SECURITY RELATIONS**

### **2.1: Armenia and the Collective Security Treaty Organization**

Armenian submissiveness, perpetuated by Armenians’ insecurities over the 1915 genocide perpetrated by the Ottoman Empire, has allowed for concessions that place

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<sup>38</sup> Giragosian, Richard. "Is Armenia Russia's Partner Or Pawn? - Radio Free Europe / Radio Liberty © 2010." Radio Free Europe / Radio Liberty - Free Media in Unfree Societies. 03 Sept. 2010. Web. 13 Sept. 2010.

<[http://www.rferl.org/content/Commentary\\_Is\\_Armenia\\_Russias\\_Partner\\_Or\\_Pawn/2147689.html](http://www.rferl.org/content/Commentary_Is_Armenia_Russias_Partner_Or_Pawn/2147689.html)

<sup>39</sup> Babayan, Aza. "Armenia Confirms \$500 Million Loan From Russia - Radio Free Europe / Radio Liberty © 2010." Radio Free Europe / Radio Liberty - Free Media in Unfree Societies. 6 Feb. 2009. Web. 13 Sept. 2010.

<[http://www.rferl.org/content/Armenia\\_Confirms\\_Loan\\_From\\_Russia/1380318.html](http://www.rferl.org/content/Armenia_Confirms_Loan_From_Russia/1380318.html)>.

Russia in a position of military dominance in security agreements. These agreements underscore the inequality with which Russia interacts with Armenia, relative to the former's dealings with other CIS countries.

Unlike many of the former soviet republics, Armenia never severed security cooperation with Russia in the years following its independence. In fact, Armenia was one of the original signatories of the 1994 Collective Security Treaty (CST), along with Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, and Tajikistan. Formed shortly after the dissolution of the Soviet Union, the short-lived CST encountered fundamental internal problems. As strong nationalist feelings emerged within the former Soviet Union, many newly-independent nations' governments were hesitant entering into a military agreement with Russia, believing Moscow's aim to be consolidation of military control over the region.<sup>40</sup>

Furthermore, many member states remained wary that the treaty acted solely to protect Russian interest and territorial integrity. General distrust among member-states and the widespread economic woes of shock therapy laid a shoddy foundation for the security agreement. The CST was unable to prevent war between Armenia and Azerbaijan over Nagorno-Karabagh War at a time when both were members of the CST. Likewise, the CST failed to respond to political upheaval in Tajikistan that resulted in the deaths of thousands and the displacement of hundreds of thousands. During both of these events, the CST failed to mobilize a substantial collective response, proving ineffective with dealing with the crises.

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<sup>40</sup> Weinstein, Adam. "Russian Phoenix: The Collective Security Treaty Organization." *The Whitehead Journal of Diplomacy and International Relations* VIII.1 (2007): 167-80. *Archived Issues*. The Whitehead Journal of Diplomacy and International Relations. Web. 28 Nov. 2010. <<http://blogs.shu.edu/diplomacy/archived-issues/>>.



The collapse of such a collective security treaty is predictable given its proximity to the collapse of the Soviet Union and the strong nationalist feelings that arose within the independent statehoods. John Mearsheimer, a contemporary scholar of neorealism, argues that collective security institutions are plagued by pervasive undercurrents of member-states' narrow self-interest. This self-interest prevents the institution from acting effectively and within its original purpose of hampering the threat of either internal or external aggression against its members.<sup>41</sup> Collective security, therefore, can be seen as a convenient construct for bandwagoning, which occurs when smaller, weaker states join larger, more powerful states to lessen the threat of an external entity or state. For example, the Armenian government feared invasion by Turkey following the collapse of the Soviet Union, and not unrightfully so. Indeed, in 1993 the Turkish government strongly considered concrete plans for military aggression against a weakened Armenia, which was tangled in the throes of the Nagorno-Karabagh War. Because Armenia retained strong ties with Russia, however, it was able to leverage its association with Moscow to stave off the threat of Turkish attack from the west while focusing on defeating Azerbaijan in the east during the Nagorno-Karabagh War.

Deterring Turkish hostility was not in any part the result of the CST, but rather, a matter of bilateral security agreements with Russia. Although Armenia is presently a member of the revitalized Collective Security Treaty Organization (CSTO) which includes Belarus, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, the flaws in collective security treaty, as delineated by Mearsheimer still apply. Thus, in order to evaluate inequalities and concessions within Armenian-Russian security relations, it is

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<sup>41</sup> Mearsheimer, John J. "The False Promise of International Institutions." *International Security* 19.3 (1994/95): 5-49. Print.

necessary to do so solely on a bilateral basis, rather than within a collective security construct.

## **2.2: The Armenian-Russian Security Pact: 1995 -2010**

Stemming from the 1915 genocide, Armenia's sense of insecurity permeates its foreign policy and security rationale, causing the Armenian government to make willful concessions to the Russian in security arrangements. These concessions are based on former realities that no longer exist nor pertain to Armenia. Not only do Armenia's submissive security agreements with Russia not fully guarantee Russian support in the event of open hostilities with Azerbaijan, but they also curtail Armenia's ability to act in its own interest and expose the inequality inherent in Armenian-Russian relations.

The conditions surrounding the presence of a Russian military base in Gyumri, Armenia's second most populous city, best exemplify the consequences of the Armenian government's negotiating security arrangements from a position of insecurity. Although Armenia achieved decisive victory over Azerbaijan resulting in the retention of Nagorno-Karabagh, prolonged warfare and the severance of vital trade relations with Turkey and Azerbaijan sharply deteriorated Armenia's economy and military. The fragility of the Armenian state and Turkey's 1993 plan to invade Armenia's western borders amplified Armenian insecurities about the genocide and the magnified the existential threat posed by Turkey. In 1995, the Armenian government petitioned the Russian government to station Russian troops in Gyumri and along Armenia's border with Turkey and Iran. By August, Russia had approximately 4,300 troops, 80 tanks, and

over 100 pieces of artillery in Armenia – a relatively small figure that proved to be mostly symbolic of Russia’s guardianship.<sup>42</sup>

Given the precarious economic and military positioning of Armenia following the Nagorno-Karabagh conflict, reinforcing its security ties with Russia made sound strategic sense, especially in lieu of the probability of Turkish aggression. It was not the principle of commissioning Russian bases in Armenia that constituted a concession on behalf of the Armenian government, but rather, it was the financial specifics of the agreement which exposed relational inequalities between the two “strategic partners:” conditions of the agreement stipulated that Armenia would bear the financial responsibility of hosting the Russian base, including covering basic but substantial costs such as utilities and upkeep of the grounds.

During diplomatic discourse regarding the presence of Russian troops stationed in Armenia, Russia looked towards its own interest and took advantage of the weakness and insecurity of the Armenian government. The Russian government sensed an opportunity to expand its influence and reestablish a military presence in the Caucasus at almost no cost to itself. Because protection from Turkey was Armenia’s biggest security priority following the Nagorno-Karabagh War, the Armenian government was willing to financially support Russian troops in exchange for national peace of mind.

Given Turkey’s intended belligerence just three years prior to the agreement, it can be argued that the Armenian government was right to make this concession. The

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<sup>42</sup> Tchantouridze, Lasha. "The Three Colors of War: Russian, Turkish, and Iranian Military Threat to Teh South Caucasus." *Caucasian Review of International Affairs* 2.1 (2008): 2-10. *CRIA-online*. Caucasian Review of International Affairs. Web. 28 Nov. 2010. <[cria-online.org/.../The%20three%20colours%20of%20war-Russian,%20Turkish%20and%20Iranian%20threat%20to%20Caucasus%20by%20L...>](http://cria-online.org/.../The%20three%20colours%20of%20war-Russian,%20Turkish%20and%20Iranian%20threat%20to%20Caucasus%20by%20L...).

terms of the lease on the Gyumri base last for twenty-five years, necessitating its renegotiation in 2020, at which point it was expected that the Armenian government would adjust the lease's terms of agreement to account for changes in the regional political climate over the past twenty-five years. These adjustments may have included demanding Russian financial responsibility over the base.<sup>43</sup>

In a move that shocked political opponents of Armenian President Serzh Sargsyan, the lease on the Gyumri base was unexpectedly extended until 2044 in a military pact signed by Armenia and Russia in August 2010. Both the situation surrounding the signing of the agreement and its specifics once again reveal the tendency of the Armenian government to complacently make concessions to Russia without properly analyzing their long-term effects.

According to the conditions in the new military pact, the Russian government will continue not to pay for the base's upkeep and its utilities, despite the base's growing strategic significance to Russia. Conversely, the Armenian government will continue to take on the full financial responsibilities of the base. This arrangement is highly unusual, as global powers such as the US or Russia usually offer lucrative contracts to station their troops on foreign soil.

For example, Russia maintains military bases in Kyrgyzstan, Tajikistan, and Ukraine as well as radar stations in Kazakhstan, Belarus, and Azerbaijan. In addition to fitting Russia with the bill for utilities, all of these countries receive compensation totaling

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<sup>43</sup> Giragosian, Richard. "Is Armenia Russia's Partner Or Pawn? - Radio Free Europe / Radio Liberty © 2010." Radio Free Europe / Radio Liberty - Free Media in Unfree Societies. 03 Sept. 2010. Web. 13 Sept. 2010. <[http://www.rferl.org/content/Commentary\\_Is\\_Armenia\\_Russias\\_Partner\\_Or\\_Pawn/2147689.html](http://www.rferl.org/content/Commentary_Is_Armenia_Russias_Partner_Or_Pawn/2147689.html)

in the hundreds of millions of dollars per year just for granting Russia the permit to station troops within its territorial jurisdiction. Azerbaijan, for instance, receives \$7 million a year for Russian control over the Soviet-era Qabala Radar Station which hosts around 900 Russian soldiers.<sup>44</sup> Likewise, the pro-Moscow Yanukovich Administration in Ukraine controversially renewed its \$98 million per-year contract to host Russia's Black Sea Naval Fleet, consisting of about 13,000 men and 42 ships.<sup>45</sup> In comparison with other former Soviet republics with which Russia has made security agreements, Armenia is the clear loser.

The fact that the lease was extended ten years before consideration for such a move was even necessary exposes two facets of Armenian-Russian relations. The first is that Moscow applied pressure on the Sargsyan Administration in Yerevan to ensure its strategic positioning in the Caucasus for the next half a century. Such actions by the Medvedev Administration constitute major strides in accomplishing one of Russia's main foreign policy goals: the consolidation of Russian power in its traditional spheres of influence. The extension of the lease of the Gyumri base until 2044 and the Ukrainian Sevastopol port in the Black Sea until 2053 are the two most notable of such moves, although Russia's interest in securing vital energy sectors in Central Asia the Caucasus also attest to the pursuit of such a policy.<sup>46</sup>

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<sup>44</sup> Heurlin, Beurtel (2005-08-24). *Missile Defence: International, Regional and National Implications*. Routledge. pp. 84–111.

<sup>45</sup> Dyomkin, Denis. "Russia Hopes to Keep Naval Base in Ukraine | Reuters." *Business News - Indian Stock Market, Stock Market News, Business & Finance, Market Statistics | Reuters India*. 14 July 2009. Web. 29 Nov. 2010. <<http://in.reuters.com/article/idINIndia-41034920090714?sp=true>>.

<sup>46</sup> Kazantsev, Andrey. "The Crisis of Gazprom as the Crisis of Russia's "Energy Super-State" Policy towards Europe and the Former Soviet Union." *Caucasian Review of International Affairs* 4.3 (2010): 271-84. Print.

Secondly, the early extension of the lease indicates that the priorities of the Sargsyan Administration fall more closely in line with rapidly satisfying Russian demands rather than weighing such demands within the context of Armenian interests. Certainly, it is in Armenia's interest to maintain strong security relations with Russia. Likewise, prolonging the presence of Russian troops on Armenian soil may still serve a strategic purpose; however, by rashly extending the lease on the Gyumri base, Sargsyan displayed a disappointing deficit of analysis within his administration, resulting in yet another missed opportunity for Armenia in the long run.

Sargsyan failed to account for current regional realities, such as Armenia's secure defensive posturing and clear military advantage in the Caucasus and the unlikely threat of Turkish aggression. As a result, Sargsyan entered Armenia into a military agreement that ignores regional political developments over the past fifteen years, solidifies Armenia's position of inequality relative to Russia's relations with other members of CIS for the next three decades, and disservices the Armenian people by perpetuating the pervasive notion of Armenian submissiveness to and dependence on Russia.

### **2.3: Stipulations of and Reactions to the Pact**

Concretely, the pact offers nothing new to Armenia besides reassurances of Russian protection, including equipping the Armenian military with "modern compatible weaponry and special military hardware."<sup>47</sup> Nevertheless, in response to a barrage of questions about the pact, Russian Defense Minister Sergei Lavrov admitted that the

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<sup>47</sup> Giragosian, Richard. "Is Armenia Russia's Partner Or Pawn? - Radio Free Europe / Radio Liberty © 2010." Radio Free Europe / Radio Liberty - Free Media in Unfree Societies. 03 Sept. 2010. Web. 13 Sept. 2010. <[http://www.rferl.org/content/Commentary\\_Is\\_Armenia\\_Russias\\_Partner\\_Or\\_Pawn/2147689.html](http://www.rferl.org/content/Commentary_Is_Armenia_Russias_Partner_Or_Pawn/2147689.html)

agreement brought “no real or functional change” to the Russian mission in Armenia. Not only does the unequal security relationship between Armenia and Russia remain the same, but as Richard Giragosian argues, the defense pact “offers Armenia little in the way of any clear military advantage.”<sup>48</sup>

A security pact that offers no assurances of military advantages for Armenia is unacceptable, especially considering the increasingly bellicose rhetoric from Azerbaijan’s President Ilham Aliiev. During the spring and summer of 2010, the Nagorno-Karabagh Republic Defense Army (NKR) witnessed a sharp spike in Azerbaijani violations of the Russian-brokered 1994 ceasefire. The most severe of the violations consisted of several successful offensive probes past the front lines of the NKR Defense Army guided by unmanned flying drones purchased from Israel. These drones gave Azerbaijan a military advantage that it could previously not claim: the Azerbaijani armed forces were now able to receive real-time updates on Armenian and NKR forces’ positioning and movements.<sup>49</sup> While the NKR Armed Forces still retain a strong military advantage over Azerbaijani forces that will be discussed more in detail later, the use of this new technology has resulted in the deaths of several Armenian servicemen and an escalation of tension over the volatile Armenian exclave.

The ample record of Azerbaijani violations of the ceasefire demonstrates that neither Armenia’s membership in the CSTO nor its “strategic partnership” with Russia serve as an effective deterrent for Azerbaijani aggression. In signing the military accord with Russia amidst ongoing Azerbaijani-initiated skirmishes, the Armenian government

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<sup>48</sup> Ibid.

<sup>49</sup> ACNIS Closed-Briefing with Ambassadors. 30 June, 2010. Yerevan.

hoped to send a clear message to Azerbaijan that a military solution to Nagorno-Karabagh is not an option.<sup>50</sup> However, on September 1<sup>st</sup>, 2010 just two weeks after the signing of the pact and one day before President Medvedev's diplomatic trip to Yerevan, Azerbaijan launched yet another probe into NKR defensive lines resulting in the deaths of three Armenian and two Azerbaijani soldiers.

The timing was not a coincidence; the attacks were in blatant defiance of and in response to Armenia's purported confidence in Russian military support. In response to the military pact, Azeri Defense Ministry press agent, Eldar Sabiroglu, reacted incredulously, stating that "protocol can neither stop nor curb the Azerbaijani army."<sup>51</sup> More importantly, the aggression demonstrated a confidence on behalf of the Aliev regime that Russia would not interfere on Armenia's behalf, were the conflict in Nagorno-Karabagh to spill over into larger aggression against the Armenian state. This confidence is not completely unfounded, given Russia's tepid denouncements of the attacks and the general lack of pressure placed on Azerbaijan. Additionally, the terms of the military pact do not explicitly assure Russian intervention in the event of full-scale war between Armenia and Azerbaijan.

Moreover, the sale of Russian S-300 surface-to-air missiles to Azerbaijan sends mixed messages to the Armenian government about the sincerity of Russia's security

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<sup>50</sup> Danielyan, Emil. "Moscow Pushes New Armenian-Azerbaijani Peace Deal." *Eurasia Daily Monitor* 7.203 (2010). *Moscow Pushes New Armenian-Azerbaijani Peace Deal*. The Jamestown Foundation, 9 Nov. 2010. Web. 28 Nov. 2010. <[http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[swords\]=8fd5893941d69d0be3f378576261ae3e&tx\\_ttnews\[any\\_of\\_the\\_words\]=armenia%20mars&tx\\_ttnews\[tt\\_news\]=37151&tx\\_ttnews\[backPid\]=7&cHash=be63f7aa19](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[swords]=8fd5893941d69d0be3f378576261ae3e&tx_ttnews[any_of_the_words]=armenia%20mars&tx_ttnews[tt_news]=37151&tx_ttnews[backPid]=7&cHash=be63f7aa19)>.

<sup>51</sup> "Azeri Defense Ministry Responds to Russian-Armenian Defense Pact | Asbarez Armenian News." *Asbarez Armenian News | Grassroots Media Bringing News & Views From Armenia, the Diaspora and Around the World*. 27 Aug. 2010. Web. 29 Nov. 2010. <<http://asbarez.com/84604/azeri-defense-ministry-responds-to-russian-armenian-defense-pact/>>.



assurances. Although the timing for Azerbaijan's reception of the missiles remains unknown, the August 2010 deal would provide Azerbaijan with \$300 million in defensive missiles designed to destroy aircraft and other missiles.<sup>52</sup> Russian Defense Minister Sergei Lavrov brushed off Armenian outcry and feelings of betrayal by coolly stating that these missiles are "defensive weapons designed to protect a territory from external missiles."<sup>53</sup> However, at the 2008 Plenary Session of the Conference on Disarmament in Geneva, Lavrov stated that, "[i]t is well known that there is inseparable relationship between strategic offensive and defensive armaments, and it is impossible not to take that fact into account in the future military planning."<sup>54</sup>

This sort of blatant double standard undermines Russia's credibility and should have caused the Sargsyan Administration to approach the security agreement more cautiously. At least, the Armenian government could have tried to leverage its position as Russia's only ally in the Caucasus by refusing to consider renewing the pact until it had gained Russian assurances that the purchase would not take place. Despite the controversy surrounding the arms deal, no such attempt was made by the Sargsyan Administration. Considering that Armenia's main security concern remains the prevention of Azerbaijani designs to militarily retake Nagorno-Karabagh and other surrounding territories currently controlled by Armenia, Russia's non-committal

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<sup>52</sup> "Armenian News - RUSSIA VAGUE ON MISSILE SALE TO AZERBAIJAN." *Armenian News - Latest News from Armenia and Nagorno Karabagh Republic (NKR)*. 2 Aug. 2010. Web. 29 Nov. 2010. <<http://www.armtown.com/news/en/rfe/20100802/2116739/>>.

<sup>53</sup> Giragosian, Richard. "Is Armenia Russia's Partner Or Pawn? - Radio Free Europe / Radio Liberty © 2010." Radio Free Europe / Radio Liberty - Free Media in Unfree Societies. 03 Sept. 2010. Web. 13 Sept. 2010. <[http://www.rferl.org/content/Commentary\\_Is\\_Armenia\\_Russias\\_Partner\\_Or\\_Pawn/2147689.html](http://www.rferl.org/content/Commentary_Is_Armenia_Russias_Partner_Or_Pawn/2147689.html)>

<sup>54</sup> Lavrov, Sergei. "We Favor Setting up an Open Collective Security System." Remarks by Minister of Foreign Affairs of the Russian Federation at the Plenary Session of the Conference on Disarmament, Geneva. 12 Feb, 2008.

posturing and actions contradictory to the idea of strategic partnership such substantial sell of weapons to Azerbaijan raises questions about the actual utility of the military pact. Additionally, the unilateral decision by Sargsyan to agree to a military pact that ignores Armenia's present military advantage in the Caucasus and its potential strategic significance to Russia warrants harsh criticism for its paltry ineptness and the rapidity with which the Armenian government is willing to satisfy Russian desires at the expense of the Armenian people.

#### **2.4: Leveraging Points: Armenia's Military Superiority in the Caucasus**

Had the agreement clearly delineated stipulations for Russian military involvement in Armenia and had Russia not considered selling the S-300s to Azerbaijan, the Armenian government's acceptance of the pact as it currently stands would have still constituted a concession. Currently, Armenia enjoys military dominance over Georgia and Azerbaijan, making it the leading military power in the Caucasus. In fact, the Nagorno-Karabagh Armed Forces have consistently been ranked as the most militarily superior out of any other former Soviet Republic. As such, the Armenian government should have realized Armenia's own strategic importance to Russia and renegotiated the conditions of the pact to match current realities, instead of relegating Armenia to almost four more decades of bearing the financial burden of Russian military presence, the terms of which were established in the desperation of the mid-1990s.

Regardless, by placing Russian interests over Armenian interests, Sargsyan's decision further perpetuated the concept of Armenian inferiority relative to Russia instead of leveraging Armenia's position of relative strength in the Caucasus. In order to

demonstrate the ability of Armenia to leverage its strong military posturing in the Caucasus, it is necessary to briefly address the balance of power within the Caucasus.

### **2.41: Georgia**

Militarily, Georgia poses no threat to Armenia in the short to mid future. Destroyed in the brief but destructive war between Russia and Georgia in August 2008, Georgia's military infrastructure remains largely in a state of disrepair. Furthermore, it is now highly unlikely that Georgia will become a NATO member in the near to mid future; concretely, this translates into fewer dollars of military and economic aid to Georgia.<sup>55</sup> Acutely feeling the squeeze of the global economic crisis, the Georgian government has neither funding nor the popular backing to divert already sparse funds to the vast project of rebuilding its military.

In fact, the Georgian government was so desperate to immediately flush money into the economy that it very nearly sold its segment of the North-South gas pipeline, which transports Russian natural gas to Armenia via Georgia.<sup>56</sup> The decreased funds for military expansion, the stale row with the Russians about the breakaway regions of Abkhazia and South Ossetia, and the overall decline in economic conditions ensure that Georgia will not reclaim its place as the military leader in the Caucasus in the near future.

### **2.42: Azerbaijan**

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<sup>55</sup> Giragosian, Richard. "The Military Balance of Power in the South Caucasus." *ACNIS at 15: The Power of New Ideas*. Yerevan: Armenian Center for National and International Studies, 2009. 415-419. Print.

<sup>56</sup> "Georgia Not to Sell North-South Gas Pipeline | Armenia News - NEWS.am." *News.Am: The Shortest Way to Know*. 16 Nov. 2010. Web. 29 Nov. 2010. <<http://news.am/eng/news/38311.html>>.

With President Aliev's continuous threats to retake Nagorno-Karabagh by means of military force and increasing violence on the front lines of the territories, Azerbaijan poses by far the biggest threat to Armenian military dominance in the region. In terms of manpower, the Azerbaijani military claims around 72,000 soldiers, outmanning Armenia by almost half. Likewise, Azerbaijan possesses approximately 600 tanks to Armenia's 100, and 200 fighter jets to Armenia's 39.<sup>57</sup>

Even more troubling for the Armenian government is Azerbaijan's sharp increase in military spending from 2004 to 2009. In just six years, Azerbaijan has increased its military spending fourteen-fold, from \$175 million in 2004 to \$2.46 billion in 2009.<sup>58</sup> Unlike Armenia and Georgia, Azerbaijan's economy was not as severely affected by the economic crisis due mainly to its reliance on lucrative exports of Caspian oil and natural gas to Europe, allowing it to freely pump more and more millions of dollars into its military budget. For example, the Azerbaijani government announced in October 2010 that it would increase its defense spending up to \$3.1 billion in 2011. Armenia's total budget for 2011, in comparison, is only \$2.8 billion.<sup>59</sup> The drastic speed at which Azerbaijan is allocating funds towards its military seems to legitimize its threats of retaking Nagorno-Karabagh militarily.

As evidenced by the November 2010 Astrakhan Summit in which Russia brokered agreements between Armenia and Azerbaijan regarding the exchange of prisoners of war, Moscow has become more active as of late in trying to increase

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<sup>57</sup> Giragosian, Richard. "The Military Balance of Power in the South Caucasus." *ACNIS at 15: The Power of New Ideas*. Yerevan: Armenian Center for National and International Studies, 2009. 415-419. Print.

<sup>58</sup> Ibid.

<sup>59</sup> "Aliyev: Azerbaijan's Defense Spending Tops Armenia Budget." *European Dialogue*. 30 June 2010. Web. 29 Nov. 2010. <<http://eurodialogue.org/Aliyev-Azerbaijan-defense-spending-tops-Armenia-budget>>.

diplomatic dialogue and push a peace agreement between Azerbaijan and Armenia over Nagorno-Karabagh. However, Azerbaijan's unhalted aggression on the front lines of Nagorno-Karabagh, the increased use of militant rhetoric from its leaders, and its plans to expand its already-bloated military spending suggest that Azerbaijan does not intend to resolve the conflict through diplomatic means. In light of this fact, it is inappropriate for Russia to withhold security assurances from Armenia, a long-vetted "strategic partner," specifically pertaining to Azerbaijani aggression.

Regardless of Russia's ambiguity towards its security obligations to Armenia, Armenia is not in a position of military weakness relative to Azerbaijan. The billions of dollars that Azerbaijan pumps into its military spending per year is misleading; much of the money is wasted or lost due to the staggering levels of corruption within the Azerbaijani government and military.

For example, in 2007 \$30 million was allotted for an arms deal with Ukraine that would provide Azerbaijan with premium artillery and tank rounds. Due to the rampant corruption within the military, a large portion of the budget set aside to make this purchase was pocketed by various Azerbaijani officials who used the leftover funds to purchase large numbers of tank rounds that dated back to the 1950s from Belarus. This almost 60 year old ammunition was mixed in with stockpiles of advanced, modern ammunition in order to conceal the corruption. Indeed, the corruption went unnoticed until an antiquated round backfired in an Azerbaijani T-55 tank during training exercises,

killing all four personnel inside. Recurring incidents like this contribute to the pervasive low morale of Azerbaijani soldiers.<sup>60</sup>

Ubiquitous low morale within the Azerbaijani army is also caused by exceedingly poor living conditions, especially for those on the front lines of the disputed territory. Every year, there are cases of ill-equipped Azerbaijani servicemen freezing to death in the regions harsh winters. Poorly equipped and devoid of effective leadership, there is a high-rate of suicide, murder, and drug use among Azerbaijani enlisted soldiers, the prevalence of which further exacerbates problems of low morale.<sup>61</sup>

More central to Azerbaijan's military woes is the desperate need for reform of the actual military institution. Heydar Aliev, former Azerbaijani President and father to current President Ilham Aliev feared usurpation of his power by military coup following Azerbaijan's independence from the Soviet Union in 1991. As such, he purposefully neutralized the strength of the Azerbaijani army in order to dispense of the greatest threat to his consolidation of power. Upon transferring power to his son in 2003 in grossly fraudulent elections, Heydar Aliev imparted to Ilham Aliev the need to keep Azerbaijan's military strength marginalized.

For this reason, Ilham Aliev kept Safar Abiyev as Defense Minister, who is known for his unequivocal loyalty to Aliev and his toleration of the endemic corruption of the armed forces. The selection of Abiyev, who had served as Defense Minister since 1995 under Heydar Aliev, ensured the subservience of high-ranking military commanders and the continuation of internal military weakness. As long as Aliev retains

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<sup>60</sup> ACNIS Roundtable Presentation: Azerbaijani Armed Forces. 6 July, 2010. Yerevan.

<sup>61</sup> ACNIS Roundtable Presentation: Azerbaijani Armed Forces. 6 July, 2010. Yerevan.

his paranoia of military coup and refuses to implement serious military reforms, the Azerbaijani armed forces will remain in a state of weakness, regardless of the acquisition of advanced technology or the ballooning of the defense budget.<sup>62</sup>

In light of the Azerbaijani's army's internal weakness, its endemic corruption, and its prevalent morale issues, Russia's sale of the S-300 missiles seems irrelevant from a strategic perspective even if it does raise crucial questions about Russia's military commitment to Armenia's security. Nevertheless, it is estimated that were Aliiev to begin implementing serious and impacting military reform, it would take only eight years for Azerbaijan to be able to claim military dominance over Armenia and in the Caucasus.<sup>63</sup> Eight years is a brief amount of time in terms of national security strategy and preparation; however, a change in the regional balance of power possesses the potential for negative, long-term implications for Armenia.

The failure of the Sargsyan Administration to sufficiently vocalize dissatisfaction over the arms deal is indicative of the entrenched submissiveness to and reliance on Russia, which has impinged the Armenian government's overall ability to conduct diplomacy in accordance with its own interests. The willingness of Sargsyan to agree to the terms of an outdated military agreement with Russia that disadvantages Armenia in the future while Russia simultaneously sold S-300 missiles to Azerbaijan underlines the blatant and deplorable flaws in the logic of the Armenian government.

## **2.5: Leveraging Points: Turkey's Emergence as a Global Power**

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<sup>62</sup> Ibid.

<sup>63</sup> Giragosian, Richard. "The Military Balance of Power in the South Caucasus." *ACNIS at 15: The Power of New Ideas*. Yerevan: Armenian Center for National and International Studies, 2009. 415-419. Print.

Claiming traditionally close cultural and historical ties, Azerbaijan and Turkey have maintained fraternal relations following the former's independence from the Soviet Union. "One nation, two states" is a frequently-used phrase describing the intimacy of their relationship. Although Russian pressure halted Turkey's plan to interfere in the Nagorno-Karabagh War in the early 1990s, Turkey has played an active role in ensuring Azerbaijan's security, including assuming military responsibility for the protection of the Azerbaijani exclave, Nakhchivan. These traditionally close ties would seem to be a cause for concern for Armenians, especially given Azerbaijan's increasingly militant posturing. As the actuality of Russian military action on Armenia's behalf remains obscure despite its professed security assurances for Armenia, the possibility of aggression by both Azerbaijan and Turkey poses a threat to the survival of the Armenian state.

However, as Turkey attempts to reemerge as a global power, it has begun to distance itself from its traditionally close ties with Azerbaijan, causing a divergence from the concept of "one nation, two states." The harder Turkey pursues its goal of becoming a world leader, the less likely Turkish aggression against Armenia becomes.

Turkey's deal with Iran about the transfer of nuclear fuel, its involvement in the Gaza flotilla, and its increased, unofficial diplomatic dealings with Armenia are just three actions that signify changes in the status quo of Turkey's foreign policy. Snubbed by the EU after years of petitioning for membership, such assertive attempts to redefine Turkish policy are attempts to redefine Turkey itself. The May 2010 deal between Turkey, Brazil, and Iran, which involved the trade of Iranian low-enriched uranium (LEU) for Turkish nuclear fuel, upset members of the international community, such as EU and



the US, primarily because Turkey arranged the deal outside of international institutions like the UN. Other such deals involving trading nuclear fuel for Iranian LEU had been proposed through the UN; however, neither Turkey nor Brazil had played a role in these trades which were ultimately rejected by Iran.<sup>64</sup> Turkey's desire to involve itself on the forefront of a main international issue by diverging from the approaches of the world leaders like China, the US, the EU and Russia highlights a reemergence in Turkish confidence that coincides with Turkey's rising international status.

Turkey's newly found assertiveness in the international community once again resurfaced in the summer of 2010 during the Israeli blockade of Gaza. Despite Turkey's membership in NATO and Israel's intimate security relations with the United States, Turkey acted as a home base for the Gaza Freedom Flotilla, the goal of which is to "to raise international awareness about the prison-like closure of the Gaza Strip and pressure the international community to review its sanctions policy and end its support for continued Israeli occupation."<sup>65</sup> After Israeli commandos boarded the boats which were laden with humanitarian supplies, they were met with resistance and reacted with excessive force, killing eight Turks and one Turkish-American. Although this resulted in the straining of typically strong Turkish-Israeli relations, the drive to act assertively and to do so without the permission of the international community once again revealed Turkey's desire to be recognized as a leading power.

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<sup>64</sup> Hafezi, Parisa. "Turkey, Brazil Seal Deal on Iran Nuclear Fuel Swap | Reuters." *Business & Financial News, Breaking US & International News | Reuters.com*. 16 May 2010. Web. 29 Nov. 2010. <<http://www.reuters.com/article/idUSTRE64F29P20100516>>.

<sup>65</sup> "Freegaza - Our Mission." *Freegaza - News Section*. 30 Jan. 2009. Web. 29 Nov. 2010. <<http://www.freegaza.org/en/about-us/mission>>.

A result of Turkey's shifting international positioning has been a warming of relations with Armenia, at least relative to the frigid and tense relations of the 1990s. As such, Turkey has made a public and private effort to begin normalization of relations with Armenia. In September 2010, the Turkish government announced that it would allow Armenians to worship in an Armenian church that had decayed over one hundred years of neglect. As a gesture of goodwill, the Turkish government contracted the renovation of the church and plans to do the same with other Armenian churches within Turkey.<sup>66</sup>

Privately, the Turkish government and various elements of civil society have been meeting with their Armenian counterparts in the spirit of keeping an undercurrent of diplomacy alive. For example, a group of ten Turks and ten Armenians, each drawing from governmental ministries, national think tanks, and civil society groups, met for a week in the Italian village of Laglio in August 2010 to discuss factors involved in normalizing relations, including configurations on opening the border. Likewise, a group of about fifteen Turkish journalists, including Hande Kolçak Köstendil, a CNN Turk correspondent, visited Yerevan in June 2010 as part of a cultural exchange program that is designed to mental borders between the two nations before the physical borders are opened.<sup>67</sup> Although Turkey does not recognize the genocide, the group astoundingly visited the Tsitsernakaberd, the genocide memorial in Yerevan.

These sorts of cultural visits, something that was unthinkable even ten years ago, are becoming increasingly common. The fact that secret diplomacy and cultural

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<sup>66</sup> "Renovation of Armenian Tashoron Church Launched in Turkey | Armenia News - NEWS.am." *News.Am: The Shortest Way to Know*. 10 Nov. 2010. Web. 29 Nov. 2010. <<http://news.am/eng/news/37628.html>>.

<sup>67</sup> ACNIS Meeting with Turkish Journalists. June 2010. Yerevan.

exchanges are being conducted is important to note, as it shows that both Armenia and Turkey, in direct contrast to the belligerency of Azerbaijan, are taking small but serious steps towards restoring diplomacy. Not only do these steps decrease the possibility of Turkish aggression in the future, but they also diverge from the rigid, uncompromising posturing of Azerbaijan, discrediting its viability as a means of resolving its disputes with Armenia.

Armenia's current military dominance in the Caucasus and the decreased threat of Turkish aggression present a vastly different geopolitical reality than when it made its security agreements with Russia during the mid-1990s. In the short term, Armenia holds strategic economic significance to Russia, as a reestablishment of relations between Turkey and Armenia would present an opportunity for Russia to export its energy resources to Turkey via Armenia. In the long term, the plausibility of a powerful, re-emergent Turkey underscores the strategic importance to Russia for keeping a military presence in Armenia, as the two have historically vied for power and influence in Eurasia. Russia would also be wise to recognize Armenia's role as its only ally in the Caucasus.

All of these factors lead should have been taken into account by the Armenian government and used as leverage in order to gain a more favorable security agreement with the Russians. Instead, the Sargsyan Administration, in a magnificent display of submissiveness, sold Armenia's future short by failing to push even for a normalization of security relations with Russia, much less desperately-needed economic compensation. Unlike the economic concessions that the Armenian government made in order to pay off its debt, Sargsyan seems to have gained nothing in return from this

security concession, except perhaps personal peace of mind stemming from the fact that he satisfied Russia's wishes, thereby remaining in favor with Moscow.

## **CONCLUSION**

The Armenian government's dealings with Russia since the inauguration of the Kocharyan Administration have veered away from the policy of complementarity, which was enacted by the Ter-Petrosian Administration following Armenia's independence in 1991. Instead of making policy decisions based on Armenia's best interests, the Armenian government has adhered to a policy of submissiveness to Russia, which has led to the brokering of bad deals with Russia, in which Armenian concessions for short-term gain result in negative repercussions for Armenia in the future. As demonstrated, Armenia's economic and security relations with Russia sharply highlight these submissive trends in Armenian policy. Specifically, these concessions have resulted in Russian dominance of Armenia's economy, particularly within the energy sector, Armenia's unhealthy economic reliance on Russia, and the perpetuation of Armenian inequality within security agreements. In order to effectively better the lives of the Armenian people, to assertively promote Armenian interests in the international realm, and to bolster its latitude in making wise policy decisions, the Armenian government must return to a foreign policy of balanced complementarity and it must do so while it still has the opportunity to leverage its strengths.

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