

CRS Report for Congress

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Armenia Update

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Summary

Armenia has experienced domestic political turmoil since independence. Since political assassinations in October 1999, President Robert Kocharian has outmaneuvered his opponents and secured his March 2003 re-election amid accusations of electoral irregularities. The economy is rebounding, except a majority of the people remain poor. A cease fire holds in the war with Azerbaijan over the region of Nagorno-Karabakh. In general, Armenia relies on Russia for security and on the United States for economic aid. Its relations with neighboring Iran are good, but those with Turkey are troubled. Congress has been generous to Armenia. This report will be updated as developments warrant. See also CRS Issue Brief IB95024, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, by (name redacted), updated regularly.

Politics

Armenia's first decade of independence was turbulent, and the late 1990s were especially unsettled. In February 1998, President Levon Ter-Petrosyan resigned. His Prime Minister, Defense Minister, and National Security Adviser reportedly forced him to leave over his willingness to compromise with Azerbaijan over the Nagorno-Karabakh conflict. Power politics, personal differences, clan rivalries, and/or mercenary interests also may have prompted his departure in less transparent ways. Prime Minister Robert Kocharian succeeded Ter-Petrosyan and won election as president in March 1998.

For the May 1999 parliamentary election, strongman Defense Minister Vazgen Sarkisian and charismatic former Soviet-era Communist Party boss Karen Demirchian allied as the Unity bloc and won a plurality of seats. Sarkisian became Prime Minister and Demirchian, Speaker of Parliament. These two large personalities were expected to neutralize Kocharian's power. That possibility was lost in October 1999, however, when Sarkisian, Demirchian, and six others were assassinated.

By May 2000, Kocharian reassertively appointed several Armenian Revolutionary Federation (ARF/Dashnaks) cabinet members and named Republican Party leader

Andranik Markarian as Prime Minister.¹ Antipathy to cooperating with Kocharian, whom some opponents blame for the 1999 assassinations, fractionalized parties and contributed to the dissolution of the Unity bloc. New parties or alliances developed from those splits and from mergers of parties or parliamentary groups.

There was no common opposition candidate in the February 19, 2003, presidential election. People's Party of Armenia leader Stepan Demirchian (Karen's son), National Unity Party leader Artashes Geghamian, and several others ran against Kocharian. The president won a March 5 run-off against Demirchian. International observers found that both rounds "fell short of international standards" for democratic elections.² The opposition protested between the two rounds of votes, and activists were arrested; more demonstrations and arrests followed the run-off. Several opposition parties formed the Justice Alliance to compete in the May 25 parliamentary election. Pro-Kocharian parties ran independently and won a majority of the seats. Observers found that the "elections show improvement over the presidential voting, nevertheless, they fail to meet international standards." The Prime Minister Markarian of the Republican Party formed a coalition government with the ARF and Country of Law parties.

The weak, ineffective, hydra-headed opposition has held peaceful protest rallies and is boycotting parliament to demand a national referendum of confidence in Kocharian. It has no other distinct political program. In response to rallies in April 2004, the authorities moved against the opposition with administrative detentions, raids on party offices, prosecutions, road restrictions, attacks on journalists, and use of force to disperse protesters. The Parliamentary Assembly of the Council of Europe, the Organization for Security and Cooperation in Europe (OSCE), and international human rights groups sharply criticized these actions. In February, the U.S. State Department's annual human rights report had observed that the government's record remained poor.³ After the April events, the opposition appeared to lose steam.

Kocharian is from Nagorno-Karabakh and has no personal political base in Armenia. His closest ally is Defense Minister Serzh Sarkisian, also from Karabakh; together they hold the real power in the country and exercise it outside of political institutions. They possess a monopoly of physical force and control of much of the broadcast media.⁴

Economic and Social Conditions

Armenia has made substantial progress in the transition from a Soviet-era planned economy to a market economy. The government has privatized many state industries

¹ Founded in 1890, the ARF/Dashnaks led independent Armenia from 1918-20 and, during the Soviet era, became a major presence in the Armenian diaspora. It is an international as well as domestic organization and presumably has pretensions to lead Armenia once again.

² International Election Observation Mission, *Statements of Preliminary Findings and Conclusions*, [<http://www.osce.org/odihr>].

³ U.S. State Department, *Country Reports on Human Rights Practices, Armenia*, February 2004, [<http://www.state.gov/g/drl/rls/hrrpt/2003/27823.htm>].

⁴ The lack of broadcasting diversity and limits on freedom of expression arouse concern. "OSCE Chairmanship Concerned about Media Situation in Armenia," *ArmenPress*, July 28, 2003.

despite political opposition and weak demand. Some sales have been controversial, such as those of the national cognac factory to a French company for a questionable price, of 90% of the national telephone company with a 15-year monopoly over the telecommunications market to the Greek OTE, of the national power grid to a little known, British-registered offshore company, and of much of the country's power-generating capacity to Russia's state-owned power utility.⁵

In 1994, the government launched an economic reform program with the aid of the International Monetary Fund (IMF) that resulted in positive growth from 1995 to 1998, but political instability contributed to declines in 1999 and 2000. There has been decisive recovery since 2001, and the gross domestic product (GDP) is expected to reach pre-independence levels by 2005. Economic growth has primarily benefitted a privileged minority, and about 50% of the people remain below the poverty line. Hopelessness and apathy have prompted very high emigration and a decline in population.⁶

The IMF and World Bank are emphasizing poverty reduction, social programs, reforms in the tax structure, and combating corruption. Government expenditures routinely exceed revenues by about 40%. As a result, Armenia depends on foreign aid, remittances from Armenians abroad, and donations from the Armenian diaspora.

Armenia has a cumbersome government bureaucracy, deficiencies in rule of law, and endemic corruption,⁷ which discourage investment. In addition, during the height of the Karabakh conflict, Turkey and Azerbaijan imposed blockades. To mitigate the effects of the blockades, Armenia emphasizes industries that depend less on transport, such as high technology and diamond cutting, and relies on outlets via Iran and Georgia.

Basic Facts

Population:	3.2 million (2001)*
GDP growth rate:	13.9% (2003 est.)
GDP per capita:	\$3900 (2003 est.)
Inflation:	4.3% (2003)
Unemployment:	(official) 20% (2001)
External Debt:	\$905 million (2002)
Imports/Partners:	natural gas, petroleum, tobacco products, foodstuffs/U.S., Russia, Belgium, Israel, Iran
Exports/Partners:	diamonds, mineral products, foodstuffs, energy/Belgium, Israel, Russia, Iran, U.S.
Sources: CIA, <i>The World Factbook 2003</i> , Armenian government; *see footnote 6 below.	

⁵ "Government Seals Power Grid Sale, Upsets Western Donors," *RFE/RL Armenia Report*, August 26, 2002; "Armenian Opposition Slams Energy Privatization," *RFE/RL Armenia Report*, August 28, 2002; Anna Hakobyan, "Russia: Armenia's Light and Protection," *Transitions On Line*, November 7, 2003.

⁶ Since 1991, one million people have emigrated from Armenia, according to the chief of Armenia's Department of Migration and Refugees, *PanArmenian.Net*, December 27, 2003. This decline is not reflected official population figures, which observers suggest are inflated to prevent a drop in aid. Kim Iskyan, "East of the Oder: Why Can't Armenia Be More Like Georgia," *Wall Street Journal Europe*, February 20, 2004.

⁷ Armenia ranks 78 out of 133 countries on Transparency International's corruption perceptions index issued on October 7, 2003.

Security

War with Azerbaijan. The combat stage of the conflict over the sovereignty of the predominantly Armenian-inhabited Nagorno-Karabakh region of Azerbaijan ended in a May 1994 cease fire, with Armenians in control of Nagorno-Karabakh and a large swath of adjacent Azerbaijani territory. Azerbaijan claims that Armenians occupy 20% of its territory. The OSCE's "Minsk Group" has sought to resolve the conflict peacefully. In June 2001, U.S., French, and Russian Minsk Group co-chairs charged that the Armenian and Azeri publics had not been prepared for the compromises needed for a settlement. For example, all parties and groups in the Armenian parliament endorsed an April 27, 2001, statement of principles calling for the unification of Armenia with Karabakh or international confirmation of the latter's independent status; the participation of Karabakh authorities in drafting the final settlement; and a sufficient common border of Armenia and Karabakh to guarantee the security of Karabakh. The Minsk Group mediators visit the region for consultations, and the Armenian and Azeri presidents and foreign ministers hold apparently cordial discussions. Yet, no progress toward a settlement has been made.

Relations with Russia. Armenia has generally relied on Russia for security assistance and on the United States for economic aid, although the distinction is diminishing. Armenia signed the Commonwealth of Independent States (CIS) Security Treaty with other former Soviet republics and joined NATO's Partnership for Peace (PfP). On August 29, 1997, Armenia and Russia signed a Treaty of Friendship and Cooperation, which both governments characterized as a strategic partnership, and then President Ter-Petrosyan said provided "elements of an alliance." Russia has 12,000 to 15,000 troops at two military bases in Armenia, where it deploys 18 to 20 MiG-29 fighter planes and S-300 ground-to-air missiles. Russia and Armenia formed a joint air defense system on Armenia's borders with Turkey and Iran and joint army units to counter common regional security threats and terrorism. Armenian and Russian officials insist that their cooperation is not directed against any third party. However, the Commander in Chief of the Russian Air Force said that the S-300s were in Armenia to protect it and the CIS from Turkey and NATO, and Armenian officials have repeatedly stated that Russian troops are needed because of a Turkish threat.⁸

Russia is very active in the Armenian economy. In September 2001, Russia and Armenia signed a 10-year economic cooperation agreement, which both sides said could lead to the economic integration of their countries. To this end, Russia forgave Armenia's post-Soviet debt of \$98 million in exchange for five Armenian state-owned military-industrial enterprises. Armenia receives 80% of its energy resources, mainly nuclear fuel and natural gas, from Russia. In 2003, Russia took over financial management of the Metsamor nuclear power station, and Armenia transferred six hydroelectric plants to Russia to pay Metsamor's debts to Russian fuel suppliers.⁹

⁸ "Russian Border Guards Will Stay in Armenia as long as Turkish Threat not Eliminated," *Azg Daily*, January 29, 2001. Address of Foreign Minister Oskanian to the Yale Conference on the New Silk Road, September 19, 2002.

⁹ The European Union has offered Armenia \$100 million to close the reactor, which it views as unsafe. Yerevan will not agree until it secures an alternative source for cheap energy.

Other Foreign Policy Issues

Armenia has good relations with Iran, relying on its neighbor for a transportation outlet and as a major trading partner. The two countries have plans for a tunnel and bridge, a natural gas pipeline, and a hydroelectric power station. Armenia also has good relations with Georgia, with which it signed a Treaty of Friendship, Cooperation, and Mutual Security in October 2001 and through which it sends 90% of its trade. Armenia is concerned about Georgia's military ties to Turkey and wants it to reopen the rail line between Armenia and Russia via Abkhazia, while Georgia mistrusts Armenia's ties with Russia. Some ARF members demand autonomy for Georgia's largely Armenia-populated Javakhetia province, but Kocharian agrees with the Georgian government that problems there would best be solved by improving socioeconomic conditions.

Armenia's relations with Turkey are uneasy. Turkey recognized Armenia's independence, but never established diplomatic relations. Turkey sympathizes with Azerbaijan, an ethnic Turkic ally, in the dispute over Nagorno-Karabakh and calls for Armenia's withdrawal from Azeri territory before establishing ties. Turkey also wants Armenia to abandon its campaign for international recognition of what Armenians say was their national genocide at the hands of the Ottoman Empire in the early part of the 20th century. Moreover, Turkey insists that Armenia disavow claims to territory promised to it under the never ratified 1919 Treaty of Sevres and "lost lands" ceded by Russia to the Ottoman Empire in 1921. Armenia calls for relations with Turkey to be established "without preconditions," i.e., without regard to other issues. Some efforts have been made to improve relations. An independent, unofficial Turkish-Armenian Reconciliation Commission (TARC) formed in July 2001 promoted mutual understanding and goodwill, but some diaspora Armenians argued that it undermined their efforts to gain recognition of the genocide, and TARC disbanded in April 2004. Armenia has a diplomat accredited to the Black Sea Economic Cooperation Group in Turkey; the two countries' foreign ministers meet occasionally; and Turkish soldiers participated in a NATO exercise in Armenia. However, Kocharian did not attend the June 2004 NATO summit in Istanbul because progress toward normalization of relations has not been made. Foreign Minister Oskanian calls for opening border trade and railroads even without diplomatic relations. The issue divides the government: the ARF objects to dialogue with Turkey before it acknowledges the genocide, while its coalition partners see economic benefits from opening the border.

U.S. Policy

The United States recognized Armenia's independence in December 1991, and rapidly established diplomatic relations. U.S. interests in Armenia include security, economic and political reform, and regional stability.¹⁰ The State Department expressed disappointment in the March 2003 presidential election and criticized the Armenian authorities' heavy-handed treatment of the opposition in April 2004, calling on all sides to prevent violence. Since 1997, the United States has co-chaired the OSCE Minsk Group mediating the Karabakh conflict. A U.S. Special Envoy for the Newly Independent States and Nagorno-Karabakh fulfills U.S. responsibilities as part of the Group. The

¹⁰ Assistant Secretary of State for European Affairs Elizabeth Jones statement to an Armenian-American conference, April 19, 2004.

United States has sought to reconcile Armenia and Turkey by, among other efforts, supporting the TARC and favoring the opening of the land border. In October 2003, Armenia offered to send military doctors, demining specialists, and trucks to Iraq; deployment may take place this year.

Congress has granted approximately \$1.55 billion in economic aid to Armenia from 1992-2003.¹¹ P.L. 108-199 (H.R. 2800), January 23, 2004, provided \$75 million in economic aid, \$2.5 million in military aid, and \$900,000 in military education funding for Armenia. H.R. 4818, the Foreign Operations Appropriations Act for FY2005, passed in the House on July 15, 2004, would provide \$75 million in economic aid for Armenia. The accompanying H.Rept. 109-599, July 13, 2004, recommends that Armenia receive \$5 million in military aid equal to that for Azerbaijan. Armenia also has been selected for the Millennium Challenge program.¹² A U.S.-Armenia Task Force meets semiannually to ensure better use of U.S. aid and to improve commercial ties.

Armenia and Armenian-Americans support Section 907 of the FREEDOM Support Act (P.L. 102-511, October 24, 1992) to restrict aid to Azerbaijan until it takes demonstrable steps to lift blockades on Armenia and Nagorno-Karabakh. Section 907 has been in all succeeding foreign operations appropriations bills. P.L. 107-115, January 10, 2002 provided the President authority to waive 907 in the interest of national security, and he has exercised the authority twice, with U.S. officials maintaining that the waiver has cleared the way to deepen security cooperation with Armenia. The United States funded a demining center in Armenia and is helping it to develop professional military education, upgrade communication facilities, and expand peacekeeping capabilities. In February 2004, 34 Armenian soldiers joined a Greek battalion in the NATO-led Kosovo Force (KFOR) as the first Armenian peacekeeping deployment.

The United States understands the reasons for Armenia's good relations with Iran, but wants Armenia to help deny Iran the means to acquire weapons of mass destruction (WMD). On May 9, 2002, the Administration imposed sanctions under the Iran Nonproliferation Act of 2000, P.L. 106-178, March 14, 2000, on an Armenian company and its owner for transferring controlled items to Iran that could benefit its development of WMD. The sanctions do not extend to the Armenian government.

Members have repeatedly introduced resolutions to recognize the Armenian genocide. H.Res. 193 (H.Rept. 108-130, May 22, 2003) and S.Res. 164 (introduced on June 10, 2003) would reaffirm support for the Genocide Convention, noting the importance of ensuring that lessons of past genocides, including the Armenian, be used to prevent future genocides. The Administration opposes the reference to the Armenian genocide because it could complicate U.S. efforts in the Caucasus and to bring about Turkish-Armenian reconciliation. House Republican leaders have said that H.Res. 193 will not reach the floor. H.R. 3323, introduced on October 16, 2003, and S. 2344, introduced on April 4, 2004, the Armenian Victims Insurance Fairness Act, would require insurance companies to reveal details of policies of individuals domiciled in the territory and at the time of the Armenian genocide. Neither bill has been considered in committee.

¹¹ For details about assistance programs, see [<http://www.usa.am/assistance>].

¹² For more on this program, see CRS Report RL32427, *Millennium Challenge Account: Implications of a New U.S. Foreign Aid Initiative*, by (name redacted).

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