



**RSC MONTHLY BRIEFING NOTES
FOLLOW-UP ANALYSIS
22 & 24 December 2020**

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Given the scale and scope of developments in Armenia in December 2020, the RSC convened two separate rounds of monthly briefings to provide an updated assessment of current developments. These monthly briefings, convened in an online format, included an initial round of analytical briefings in early December, with follow-up briefings held on 22 and 24 December 2020. Each of these online briefing sessions conformed to our usual format of an assessment of trends and developments in three main areas: domestic Armenian politics; economic developments; and trends in foreign policy. The following are the presentation notes from the second round of these monthly briefings on 22 and 24 December.

I. Armenia's Post-War Political Crisis

Three Underlying Factors Exacerbating the Lingering Political Crisis

No Preparation for the Scale of the Defeat. The first factor contributing to the lingering domestic political crisis was the Armenian government's failure to prepare society for the sheer scale and severity of the defeat in the war for Karabakh. This failure only exacerbated the shock of the military losses and deepened the scope of the crisis, especially after weeks of dangerously over-confident statements by officials and government spokespeople.

Inadequate Consultation & a Deficient Decision-Making Process. A second serious factor that led to a "crisis of confidence" in the government was the inadequate consultation and a deficient decision-making process. Most evident in the failure to include the Armenian President and other ministers in any substantive consultations, this breakdown in the decision-making process was only compounded by the absence of any inter-agency or inter-ministerial coordination. At the same time, the lack of any initiative or even basic activity by the Armenian parliament was an especially serious problem and was particularly acute as an institutional failure by a formal parliamentary democracy. The result, therefore, was to only centralize more responsibility in the position and the person of Prime Minister, with little or no sharing of responsibility or accountability with other state institutions.

No Communications Strategy. For a government at war for six weeks, there was a surprising lack of any real communications strategy, with no attempt to define and defend policy decisions. While this lack of information only promoted misinformation, the lack of a coherent communications strategy further contributed to a perception of an Armenian leadership prone to emotional and impulsive decisions, thereby solidifying a public (and external) view of a reckless government.

A Desperate Opposition. Despite the frustration and shock over Armenia’s defeat in the war, the political opposition remains deeply unpopular and widely discredited. In a display of desperation over determination, the opposition’s attempts to leverage dissent and discontent into street protests have failed, both in terms of much fewer demonstrators and with a lack of any alternative policy position. The opposition’s stubborn reliance on outdated tactics and maximalist demands for the resignation of the democratically elected government and the appointment of a transitional government that was selected by the opposition are impractical and implausible. Against that backdrop, even the need for a new election is not enough to either satisfy the opposition or to salvage their unpopularity. Many still see the disparate opposition as driven more by its own self-interest than any defense of national interest, pursuing a campaign to regain power.

Demonstrating Deeper Political Deficiencies. Beyond the marginal role of the political opposition, the ongoing domestic crisis does demonstrate deeper political deficiencies, however. The crisis reveals the inherent limitations in a system that is dominated by an overly centralized, virtual one-man government endowed with a compliant one-party majority in parliament.¹

Government’s Response. Although determined to resist demands for his resignation, Prime Minister Nikol Pashinyan has sought to diffuse the crisis. His initial response, consisting of a sweeping dismissal of six cabinet ministers followed by the presentation of a six-month “action plan” of policy measures, was largely dismissed as doing little to demonstrate accountability. As the crisis continued, however, the Pashinyan government slowly began to accept the need for a snap election. This belated acknowledgement of the necessity for a new election to reflect the new political reality was first expressed through both public statements by government officials and more covert attempts to open negotiations with the other political parties.

A New Election. And as the new election seems likely for later in 2021, the government is likely to win a fresh mandate, and is expected to secure a reduced, but still working majority of seats in the new parliament, while the opposition will be challenged to garner any significant number of seats given their lack of popular standing and their failure to articulate any alternative policies. In that context, the strength of the government’s position is driven as much by the lack of any credible rival or political alternative than by any deep appeal or support, however.

II. Economic Developments

Serious Economic Decline. In addition to the political crisis, the Armenian government also faces serious economic problems. Confirmed by a recent report from the International Monetary Fund (IMF), the Armenian economy has now posted a severe decline, projected at a 7.3 percent decline in GDP for 2020.² This downturn is rooted in the negative impact from the earlier onset of the COVID-19 pandemic in March 2020, which was only deepened by the current second wave of infections, and as a result of the recent war over Karabakh. This decline is especially serious, as it stands as a stark reversal of the 7.6 percent GDP increase in 2019. At the same time, the outlook for a crucial economic recovery from the COVID-19 crisis remains rather bleak, with the IMF forecasting a coming year of anemic growth of a mere 1-3 percent of GDP for 2021.

¹ For more, see the presentation notes from our previous briefing: “RSC Monthly Analytical Briefing for December 2020,” Regional Studies Center (RSC), 3-4 December 2020. <https://www.regional-studies.org/news/events/briefings/041220>

² “The IMF Executive Board Completes Third Review Under the Stand-By Arrangement for the Republic of Armenia and Approves US\$36.9 Million Disbursement,” International Monetary Fund (IMF) press release No. 20/371, 11 December 2020. <https://www.imf.org/en/News/Articles/2020/12/11/pr20371-armenia-imf-execboard-completes-3rd-review-under-sba-and-approves-us-36-9m-disbursement>

The severity of the economic crisis is revealed in the latest statistics contained in the IMF report. Beyond the dramatic 7.3 decline in GDP, Armenia also suffered by a steep fall in trade in 2020, with a 33.5 decrease in exports and a 28.1 percent fall in imports. Foreign direct investment (FDI) also declined, totaling an estimated \$178 million for 2020, representing a sharp fall from the \$397 million level for 2019. At the same time, previous improvements in the labor market, as seen in the reduction of unemployment from the 2018 level of 20.5 percent to 18.9 percent in 2019, were erased as unemployment expanded to 24.1 percent for 2020.

The Government's Policy Response. The Armenian government's response to the economic crisis has focused on effort to bolster the healthcare system while providing "anti-crisis measures" to contain the pandemic while protecting vulnerable groups. An \$300 million economic stimulus package was also enacted, aimed at ensuring macroeconomic and financial stability, but also financing bank-administered preferential loans, subsidies, tax incentives and credits. As a result of the unforeseen economic crisis, the governments' response is expected to increase the budget deficit to an estimated \$946 million, or about 7.4 percent of GDP for 2020 (up from about 5 percent last year), with debt increasing to approximately 63 percent of GDP.

The government has benefitted from pandemic-related aid and budget support from several countries, including a 92 million aid package from the EU that was approved in April. According to Armenian Finance Minister Atom Janjughazyan, the government is also planning on seeking another \$200 million in aid from the World Bank and the Asian Development Bank (ADB), as well as raising another \$500 million in fresh loans from international markets.

Economic Policy Priorities Imperiled. Against that backdrop, there are also justified concerns over several areas of economic reform and policy, however. For example, the slowdown and near suspension of several criminal cases has seriously impeded the government's pursuit of its anti-corruption campaign. And in terms of budget priorities, there is additional concern over a sharp rise in defense spending in the latter months of 2020. In this case, while a surge in the defense budget is a reflexive response to the defeat in the war, the sudden allocation of \$82 million in new defense spending through a supplementary budget adopted in October, representing a 13 percent increase in the now more than \$700 million in defense spending for 2020, raises concerns. More specifically, any new defense spending should logically only come after necessary modifications to defense reform and force posture and strategy are reassessed.

Five Larger Economic Concerns. Looking forward into 2021, there are five significant economic concerns for Armenia, posing a significant challenge to the outlook for stability and security:

Public Health. While no country was prepared for the unexpected onset of the COVID-19 pandemic, and very few effectively managing the coronavirus, Armenia faces a looming public health crisis in much of the coming year. This crisis stems from the challenge of vaccine acquisition, distribution and application or treatment. Burdened by an already limited social safety net and strained hospital capacity, the Armenian government will have to finance and implement a rigorous vaccination program, while overcoming public doubt and apathy rooted in the "exceptionalism" and lack of discipline that many Armenians dangerously demonstrated during the height of the pandemic.

Post-COVID Economic Recovery. A related challenge stems from the necessity to ensure an economic recovery from the pandemic. With a steep economic decline in 2020, the meager economic rebound in 2021 will not be enough to correct the already pronounced widening of disparities in wealth and income, exacerbating a deep undercurrent of socioeconomic instability and injustice.

A Poor Investment Climate. Even prior to the onset of the coronavirus and the lost war, the Armenian investment climate was beset by a serious degree of uncertainty and a lack of investor confidence. Despite demonstrable gains in the government's earlier efforts to combat corruption in 2019, a failure to resolve the continued closure of the Amulsar gold mine fostered doubts over contract enforcement, the rule of law and both the sanctity and security of foreign investment.³ And given the strategic importance of the mining sector as a driver of export revenue, a source of tax collection and as an indicator of investment risk, the government's lack of political will continued to damage the country's overall investment climate.

Inattention to Poverty Reduction. With nearly every third Armenian living in official poverty, one of the more glaring weaknesses of the government's economic program has been its lack of policies or even targets for national poverty reduction. Despite an election campaign promise to reduce the official poverty rate from around 30 percent by at least 10 percentage points in the next five years, there has been little political attention and even less legislation to meet this goal. Beyond some measures to provide subsidies for utility process for the poorest strata of society, the government has also neglected the broader imperative of formulating a new growth model capable of more effectively reducing national poverty.

The Risk of Missed Opportunities. Even in the devastating defeat in the war for Karabakh, the terms of the 9/10 November Russian-imposed ceasefire agreement offered significant opportunities for both Armenia and Nagorno Karabakh. More specifically, the agreement to halt the war, which salvaged the remnants of Karabakh and saved the Karabakh Armenian population, remains unclear and undefined over the "status," sovereignty and legal standing of Karabakh. And as the terms of the post-war agreement now require a return to diplomacy for more detailed negotiations within the existing OSCE Minsk Group format, there is an opportunity for both Armenia and Karabakh to salvage the situation and mitigate their losses from the war. Yet this opportunity requires the formulation of a new, more practical diplomatic strategy, based on the new reality of territorial loss and a fragile and temporary security guarantee provided by the presence of Russian "peacekeepers." Unfortunately, there is little sign of the development of such a new modified diplomatic strategy, however, as both time and patience are rapidly eroding.

A second opportunity inherent in the new post-war reality is the agreement's planned restoration of trade and transport links throughout the region. For isolated and landlocked Armenia, any regional reintegration of such infrastructure offers substantial benefits, with Armenia potentially emerging as more of a "transit state" as closed borders reopen and the strategic promise of transit fees for Armenia become both practical and possible. Yet here too, this is an opportunity that can only be leveraged through a prudent policy seeking trade and transit over protectionism and import substitution.

³ The Amulsar gold mine has been forcibly closed by environmental protesters since May 2018, in open defiance of court rulings ordering the reopening of the mine and the unfettered resumption of its operations; Khulian, Artak, "Environmental Activists Renew Protests Over Amulsar," Radio Free Europe/Radio Liberty's (RFE/RL) Armenian Service, 20 August 2020. <https://www.azatutyun.am/a/30794277.html>

III. Foreign Policy

A Lingering “State of War.” Despite the suspension of hostilities after the imposition of the Russian-brokered ceasefire agreement, several factors contribute to a lingering state of war. First, even after 45 days of fighting, post-war tension remains high, largely as the pressing issue of prisoner exchange and the return of those killed in action from the battlefield has not been conducted as rapidly as expected. A related second factor that has only exacerbated a lingering “state of war” has been the sporadic but continued posting and dissemination of “atrocities videos” on social media, with footage of the execution, torture and general mistreatment of Armenian prisoners of war and even civilian hostages by uniformed Azerbaijani soldiers. Post-war tension has also been enhanced by the process of border demarcation and delineation, driven by the return of territory to Azerbaijani forces. These territorial adjustments have heightened insecurity for several areas in southern Armenia, which have abruptly been transformed into border regions, often with villages and roads either on the Azerbaijani side of the “new” border or in exposed and vulnerable positions in close proximity to newly encamped Azerbaijani military units.

A Return to Diplomacy. Armenia remains dangerously ill-prepared for the restart of diplomatic negotiations over Nagorno Karabakh. Any chance to seize diplomatic opportunities to salvage what remains of Karabakh may be lost, as neither Armenia nor Karabakh have a diplomatic strategy. And there is a related absence of any “end state” objective for Karabakh. Sadly, with no diplomatic strategy or even any clear end state goal, Armenia and Karabakh are going into diplomatic battle unarmed and unaware. And as several other important post-war considerations are not included in the agreement, the imperative for diplomatic negotiations between Armenia, Karabakh and Azerbaijan will be essential. This only demonstrates the temporary and limited nature of the agreement, which is more than an agreement for the cessation of hostilities but is substantially less than a comprehensive peace deal.

The OSCE Minsk Group Under Threat. At the same time, this diplomatic battlefield also pits the OSCE Minsk Group mediators against Azerbaijan and Turkey. As military victors, both Azerbaijan and Turkey are eager to minimize or even marginalize the Minsk Group. And faced with new questions over the mission and mandate of the OSCE Minsk Group in this new post-war reality, the very future of the mediating body as a diplomatic entity is under threat. But ironically, it may be Russia that saves the Minsk Group, and rescues the French and American co-chairs.

Such a Russian move would serve two distinct Russian objectives. First, by restoring the OSCE Minsk Group, Russia would consolidate its role as the diplomatic driver and holder of the initiative while garnering diplomatic dividends from the West, as the French and American co-chairs would be forced to follow Moscow’s lead. Second, such a Russian invitation for the Americans and French to rejoin the diplomatic process over post-war Karabakh would legitimize Russia’s unilateral deployment of peacekeeper to the region. Such legitimacy for the Russian military presence would overcome the cost of past Russian actions in annexing Crimea. And this would also offer Moscow the utility of “burden sharing,” where the resurrection of the OSCE Minsk Group would further pave the way for the EU, the UN and a larger OSCE donors’ conference to pay the cost of post-war stability and reconstruction.

Nagorno Karabakh: An Uncertain Future. Unless Armenia moves quickly to devise a new diplomatic strategy, the future for Karabakh will remain uncertain. If not, there will be two likely outcomes for Karabakh: a best-case scenario of becoming a Russian protectorate, similar to South Ossetia or Abkhazia, but little more than a small, vulnerable Russian garrison state, or, in a worst case scenario, Karabakh becomes the new Nakhichevan, a territory that was “once Armenian” but now under Azerbaijani control and subordination.