



**RSC MONTHLY BRIEFING NOTES
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In order to provide a current assessment of developments in Armenia and the wider South Caucasus, the Regional Studies Center (RSC) offers a regular series of monthly online briefings. The latest briefing, held in separate sessions on 21 and 22 October 2021, offered an assessment focusing on three main areas: domestic Armenian politics; economic developments; and trends in post-war regional security. The following are the presentation notes from the briefings:

I. Armenian Political Developments

Despite the reelection of the Pashinyan government in June's early parliamentary election, there are several disturbing trends in Armenian domestic politics, with growing concern over the implementation of democratic reforms. Nevertheless, the free and fair conduct of the multiparty election this past June endows the Armenian government with a rare degree of legitimacy. Yet the political environment is tainted by an emerging pattern of political revenge and retribution.

“Vendetta Politics.” One of the more notable signs of the government's tendency to engage in political revenge of retribution against both opponents and critics is seen in the parliament's adoption of new measures imposing harsh punishment in cases of “grave insults” and related incidents of criticism of public officials. With the threat of heavy fines and prison terms of up to three months, this erosion of the freedoms of speech, expression and press reimposes a distressing criminalization of defamation and slander that was previously done away with in 2010. This measure to criminalize public, press and online criticism also follows an earlier set of restrictions on the media imposed on their coverage of parliament, issues related to national security and cases of disinformation, especially regarding distorted reporting on the COVID pandemic.¹

The first criminal case initiated on the basis of these new laws came in late September, with a police investigation targeting a social media user for posting an “offensive comment” under a photograph of Pashinyan on the prime minister's Facebook page.² More generally, this retreat from a more open space for media and civil liberties also stems from the particular “sensitivities” of the Pashinyan government to criticism, both within the government and from society at large.

¹ Zargaryan, Robert, “Վերջին ամիսներին լրատվամիջոցների նկատմամբ կիրառված նոր սահմանափակումները մտահոգիչ են” (“The new restrictions imposed on the media in recent months are worrying”), Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 22 October 2021. <https://www.azatutyun.am/a/31524450.html>

² “U.S. Watchdog Deplores Degradation of Democratic Norms in Armenia,” Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 28 September 2021. <https://www.azatutyun.am/a/31482461.html>

Another case of the Pashinyan government's low tolerance for criticism is evident in the moves to curtail the independence of the Armenian human rights ombudsman, Arman Tatoyan, including measures seeking to restrict the staff and budget of the ombudsman's office. This move against the ombudsman is largely a reaction to its emergence as an effective informal check on the power of the prime minister and his party's dominance in the parliament.

Local Elections. In the first major elections since the June contest, local elections in the southern Syunik region, including a mayoral race in the town of Goris, and the election of the mayor of Gyumri, Armenia's second-largest city, resulted in a seemingly surprise defeat of the ruling "Civil Contract" party. In those local elections, the opposition largely swept the pro-government party, with Arush Arushanyan, affiliated with the opposition "Armenia" bloc of former President Robert Kocharian, winning election as Goris mayor, and outgoing Gyumri Mayor Samvel Balasanyan's chosen successor defeating his government-backed challenger. As important or as dramatic as these local elections seem, the results are not necessarily significant verdicts of the government, for two main reasons.

First, on a local and regional level, voters are generally tired of politics and were left underwhelmed by a lackluster campaign conducted by both the opposition and pro-government parties. As the campaign discourse demonstrated, these local elections were defined by local issues and were neither presented nor conducted as a national contest. And although voters were driven by local concerns, these elections were marked by low turnout, general public apathy and disinterest in campaigns that offered little new in terms of policies or initiatives. This was also evident in the campaign platforms and discourse of all candidates and parties, which was defined by little more than a repeat of the now stale political positions of the national parliamentary election in June. And for another example, even in the Gyumri mayoral contest, which was conducted in a traditionally politically aware and engaged constituency in the country's second-largest city, voter turnout was a meager 24 percent.

A second reason for these local elections lacking a national context or consequence was evident in another aspect of the conduct of the local campaign and contest. Reflecting a combination of both complacency and arrogance, neither the government nor the opposition invested much energy or many resources in these elections. In the town of Goris, for example, supporters of the opposition candidate were forced to forge their own local campaign with little direct support from the national "Armenia" bloc led by former President Kocharian. Rather, the overwhelming victory of the opposition mayoral candidate, Arushanyan, was due to his own efforts to capitalize on the unique insecurity and public fear over months of border tension and incursions of the Azerbaijani military in the region. His victory was further bolstered by his own prominence as an opposition "martyr," as he remained in police custody since his arrest with three other community officials in Syunik on charges of voting crimes in the June parliamentary election.³

The election of candidates from the party list backed by outgoing Mayor Samvel Balasanyan in Gyumri was also a case of the efficacy of a focus on local over national campaign issues, also demonstrating the incumbent's advantage of his previous nine-year tenure as the city's mayor. But even the defeat of a government-backed "Civil Contract" party candidate was not a sweeping victory, as the bloc's 36.6 percent of votes was diminished by the 30 percent for their opponent in a ballot with only 24 percent of eligible voters participating.⁴

³ Nalbandian, Naira, "Arrests of Armenian Opposition Mayors Continue," Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 16 July 2021. <https://www.azatutyun.am/a/31362652.html>

⁴ Although the incumbent Gyumri Mayor, Samvel Balasanyan, did not run for another term in office, the party list of candidates of his new party was topped by his relative Vardges Sanosyan.

II. Economic Developments

Economic Growth. Armenia continues to enjoy a rather unexpected economic recovery in recent months, especially important after a significant downturn last year that saw a 7.6 percent decline in Armenian GDP. This recovery triggered an update to economic projections for Armenia from both the World Bank and the International Monetary Fund (IMF). According to these new projections, the World Bank forecasts a 6.1 percent increase in Armenian GDP expected for 2021, while the IMF foresees GDP growth of 6.5 percent for this year.

Deeper & Lingering Concerns. Although both new projections offer more positive figures for estimated growth, with substantial upward revisions from previous estimates of Armenia GDP, there are three lingering concerns over the outlook for the Armenian economy. The first concern was expressed by both the World Bank and the IMF, each of which have also expressed concern over both “downside risks” and an expected return to more meager growth next year, with GDP for 2022 likely to post only a 4.8 percent increase. Further, according to senior IMF official Nathan Porter, “downside risks remain elevated, including from geopolitical tensions, a slowdown in external demand, and heightened global financial market volatility.”⁵

Second, a widening discrepancy between government policies and economic realities reveal another factor of concern for the Armenian economy. More specifically, the Armenian government’s state budget, and its planned 15 percent increase in spending, totaling \$4.5 billion, are predicated on a 7 percent increase in GDP for 2021, as well as an especially ambitious 25 percent improvement in tax collection. That rather unsubstantiated optimism, compounded with other additional increases in social spending and allocations to the defense budget, will present a rather dangerous contradiction between state planning and less substantial economic growth.

The third concern stems from deeper and unresolved structural challenges, ranging from the need for a new model of economic growth to address poverty and widening disparities in wealth and income to the burden of mounting public debt, now estimated to about \$8.65 billion. This latter factor, mounting debt, is demonstrated by its continuing upward trend, having surged by more than \$1 billion since the onset of the pandemic and surpassed the target ceiling of a 60 percent debt-to-GDP ratio, and now expected to reach a 70 percent debt-to-GDP ratio by the end of this year.⁶ In early 2021, the government issued the country’s fourth Eurobond sale, valued at \$750 million, to accommodate the increased debt and budget deficit. At the same time, the government’s 2020 budget deficit more than doubled its initial projection, reaching nearly \$660 million.

Renewed Public Health Crisis. The combination of a renewed surge in new cases of COVID-19 with a dismal vaccination rate has triggered the start of a new crisis that threatens to overwhelm the beleaguered Armenian health sector. This month witnessed the largest single-day surge in new cases since the start of the year, with 2603 new cases of COVID-19 reported on 21 October, and Armenia. And as of 10 October, only about 11.6 percent of the population, or 403,000 people, have been vaccinated, of which a mere 185,000 have been fully vaccinated, representing a roughly 6 percent full vaccination rate. In response, the government has imposed a new round of restrictions, with appropriate new requirements for civil servants and teachers that is being expanded for private sector employees. These new restrictions include requirements for proof of vaccination or regular negative testing, as well as tightened social distancing and mask wearing.

⁵ “World Bank Ups Armenian Growth Forecast,” Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 8 October 2021. <https://www.azatutyun.am/a/31500020.html>

⁶ The government is now committed to reducing debt and restoring the upper limit of 60 percent of GDP by 2027.

III. Post-War Security: The Regional Context

Drivers of Post-War Instability. Despite the acceptance of the Russian-imposed ceasefire agreement in November 2020 that ended the 44-day war for Nagorno Karabakh, post-war stability and security have been undermined by three factors. First, and more broadly, the absence of diplomatic negotiations and the very limited engagement between Armenia and Azerbaijan have fostered an environment of insecurity and uncertainty. The failure to resume diplomatic negotiations also exacerbates the fragility of the Russian-imposed ceasefire agreement and poses a significant obstacle to the transformation of the ceasefire into a more lasting and durable peace agreement. In turn, this only compounded the underlying uncertainty that stems from the vague and incomplete terms of the ceasefire that is neither a peace deal nor a resolution to the conflict.

A second factor contributing to post-war instability is the tenuous position of Nagorno Karabakh and the physical security of the Armenian population of Karabakh, which is overwhelmingly dependent on the presence of Russian peacekeepers. The lack of a diplomatic process focusing on the Karabakh conflict and a delay in the resumption of mediation by the OSCE Minsk Group also compound the inherent vulnerability and insecurity of Karabakh. Moreover, this reliance on the presence of the Russian peacekeeping force in Karabakh is tenuous, especially given Russia's self-imposed five-year deadline for its peacekeeping deployment.

The third factor of instability stems from the lingering burden of Armenian prisoners of war (POWs) and civilian hostages still in Azerbaijani captivity. Despite the November 2020 ceasefire agreement's provision calling for the exchange of all POWs and prisoners, Azerbaijan has repeatedly resisted, offering only one-time partial releases of small numbers of Armenians. These transactional moves were largely attempts to extract concessions from the Armenian government.

Escalating Confrontation & Insecurity. Against that backdrop of post-war instability, there is also a more recent crisis of insecurity. This crisis was triggered in May 2021 with an escalating confrontation between Azerbaijan and Armenia consisting of border disputes and a series of border incursions by Azerbaijani units into Armenian territory (see graphic below).



This crisis also triggered a Russian military buildup in southern Armenia and at strategic points along the Armenian side of the border with Azerbaijan. Although separate and distinct from the Russian peacekeeping operation in Nagorno Karabakh, this expansion of a Russian military presence secures the Russian role to control and manage the potential restoration of regional trade and transport links, including the planned establishment of road and railway links between Azerbaijan and its exclave Nakhichevan through southern Armenia.

In addition, the recent Russian military buildup also suggests a subsequent acquisition of the Armenian border with Azerbaijan by Russian border guards, a development with strategic implications, as an inherent threat to Armenian sovereignty and independence given existing Russian control over two of Armenia's four external borders: complete control over the Armenian-Turkish border and supervisory control and oversight of Armenia's border with Iran.

Recent Developments: Two Areas of Progress

A Return to Diplomacy. Despite the several months of post-war tension and insecurity, there were two important recent breakthroughs. The first of these breakthroughs came in September 2021 with a meeting of the Armenian and Azerbaijani foreign ministers on the sidelines of the United Nations General Assembly meeting in New York. With the OSCE Minsk Group co-chairmen, this meeting marked an important return to diplomacy between Armenia and Azerbaijan. This resumption of diplomacy, which includes a planned visit to the region by the OSCE Minsk Group, is further crucial to widen post-war security in the wake of border tension and Azerbaijani incursions since May 2021.

Such diplomatic re-engagement also offers more than a reliance on negotiations over force of arms but lessens the risk of resumed hostilities and paves the way for a resumption of the return of Armenian prisoners from Azerbaijani captivity.⁷ The latter issue is especially important as Azerbaijan's failure to return all Armenian prisoners of war (POWs) and non-combatants is an emotional element contributing into the Armenian perspective of an ongoing war. This issue is also a case of Azerbaijan's open defiance of the terms of the Russian-imposed ceasefire agreement in November 2020, thereby adding to an atmosphere of mistrust, especially as the Armenian side returned all Azerbaijani prisoners immediately after accepting the ceasefire agreement.

The Restoration of Regional Trade and Transport. A second breakthrough came in the resumption of the meetings of the tripartite working group on regional trade and transport. After a suspension of meetings by the Armenian side in response to Azerbaijani border incursions in May and due to Baku's intransigence over the return of prisoners, Armenian Deputy Prime Minister Mher Grigoryan reported significant progress in these talks. More specifically, the working group's negotiations resulted in an important preliminary agreement that reiterated and reaffirmed Armenian sovereignty over any and all road and railway links between Azerbaijan and its exclave Nakhichevan through southern Armenia. It also confirmed unilateral Russian control and supervision of road and rail traffic, including legal provisions for customs control and access.⁸ The successful agreement over the restoration of regional trade and transport is limited to the links between Azerbaijan and Nakhichevan as the first stage, however, with the planned reconstruction of the Soviet-era railway link and the construction of a highway⁹ (see map below).

⁷ According to Armenian government sources, Azerbaijan has returned 114 Armenian POWs and civilian non-combatants to date, but still holds 62 Armenian POWs in captivity.

⁸ These legal provisions reportedly consist of some 300 documents derived from the Commonwealth of Independent States (CIS) Legal Framework and the Eurasian Economic Union (EaEU).

⁹ The rather ambitious terms of the agreement envision road construction and railway restoration over a period of 2-2.5 years, with an additional lack of clarity over financing.



The broader second stage of regional trade and transport encompasses a more expansive (and significantly more expensive) strategy that includes the reopening of the closed border between Turkey and Armenia, and the restoration of the Soviet-era railway line between Kars and Gyumri, as well as the eventual extension of the Azerbaijani railway network to allow Armenian rolling stock from southern Armenia in a north-eastern direction through Baku and on to southern Russian (see maps below).



Discussions in this tripartite working group also include a Russian pledge to provide a new gas pipeline “spur” running through Azerbaijan to provide Russian natural gas to Armenia, in part as an alternative to Armenian dependence on the sole gas pipeline from Russia through Georgia.

