

# **ECONOMIC DRIVERS OF POLITICAL CHANGE: ARMENIA BETWEEN THE PAST AND THE FUTURE**

**Tatoul MANASSERIAN**

PhD, Doctor of Science, Professor

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## ***Introduction***

While the Armenian government has been taking some steps to isolate the country from post-soviet area, the high level of economic dependence from Russia and other former allies clearly shows the hardships generated on this way of attempts to detach from reality. Armenia's move to formally freeze cooperation with the organization of collective security treaty (OCST) [Armenpress, 2024] was more or less comprehended due to the fact that it did not react properly to Azerbaijan invasion to the sovereign territory of Armenia after the occupation and ethnic cleansing of Artsakh in 2020 - 2023. However, no tangible resources are mobilized to ensure human and economic resilience of the nation on this long journey to shift from one geo-political and geo-economic polar to another. It is not our intention to justify the membership of Armenia in Eurasian Economic Union or the strategic partnership with Russia, but rather to clarify what better match the national interests of Armenia.

## ***Methodology and literature review***

This paper examines the real consequences of changing the foreign political path and possible alternatives to current economic drivers while making this transition. Therefore, collecting statistic data, analysis of economic indicators and constructing statistic lanes are used as key methods of study. In addition, the method of comparative analysis is widely utilized to examine the benefits of Armenia as a member of Eurasian Economic Union, as well as the risks, associated with the possible scenario of withdrawing the membership from mentioned regional organization. In addition, the method of economic forecast allowed to foresee some trends based on current economic drivers for the observable future. No scholarly articles were found on this topic due to the fact that the attempts of the Armenian government to shift the visions of country's further development and the entire strategy are still a subject for political and public debates. Moreover, our study is the first attempt to understand the real grounds of current trends, as well as to draw the differences between the illusions and expectations of the decision makers and the precise conditions surrounding the nation.

## ***Analysis***

It is worth paying attention to the fact that the centuries-old relations between Armenia and Russia continued to develop even under the new socio-political structure and market

relations after the collapse of the former political system. However, social, political and humanitarian relations in the nineties, in a sense, outpaced the growth rate in the foreign economic sphere. In particular, the goal was to raise the gross volume of trade turnover between the two countries to the level of one billion US dollars. This task was not solved even at the beginning of the new millennium. It is noteworthy that as of the first half of 2024, when in a difficult geopolitical situation there is a more dynamic development of economic relations compared to foreign policy realities, the foreign trade turnover of the two countries exceeds seven billion US dollars. And this figure continues to grow as Armenia has increased trade with the Eurasian Economic Union by 14 times. This indicator has no analogues in world practice<sup>1</sup>.

Also key for the country is the “Crossroads of Peace” project, which will help the country to become the logistics center of the region. It is also planned to implement an import substitution strategy in the EAEU, so it is important to find out what goods are exported from Armenia today and how, for example, agreements on the creation of a free trade zone with Iran, Serbia, Singapore and Vietnam will affect economic growth when there is a tendency to expand the geography of cooperation.

*“Membership in the EAEU currently has no alternative for Armenia and has made it possible to achieve great success.” Membership in the EAEU has a positive effect for Armenia. Over the past few years, Armenia, as a member of the EAEU, has achieved great economic success. And Armenia achieved all this as a result of activities within the EAEU. According to the data of the EAEU statistical yearbook for 2023 of the Eurasian Economic Commission, the growth of the Armenian economy was the highest among the countries of the Eurasian Economic Union (EAEU). Despite the difficulties, membership in the EAEU, namely the absence of customs, a barrier-free environment, the free movement of capital and labor, access to the large EAEU market - all this gives a tremendous advantage to Armenia and is the reason for the economic leap that the country is experiencing today<sup>3</sup>.*

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<sup>1</sup> The Eurasian Union today occupies a leading position globally in oil and gas production and agricultural production. It is making a new bid with the Greater Eurasian Partnership project.

<sup>2</sup> This was stated by Vagharshak Hakobyan, a deputy from the ruling Civil Contract faction, deputy chairman of the Standing Commission on Regional Issues and Eurasian Integration Issues. [https://arka.am/ru/news/armeniya\\_v\\_eaes/chlenstvo\\_v\\_eaes\\_na\\_dannyy\\_moment\\_ne\\_imeet\\_altern](https://arka.am/ru/news/armeniya_v_eaes/chlenstvo_v_eaes_na_dannyy_moment_ne_imeet_altern)

<sup>3</sup> The Prime Minister of the Republic of Armenia, during a meeting of the Supreme Eurasian Economic Council in the Kremlin, and at a meeting of the Eurasian Intergovernmental Council in Sochi, unequivocally stated that Russia is the main trading partner of Armenia and the main reason for the rapid economic growth of the country.

Despite the political tension between Yerevan and Moscow [Le Monde, 2024], the parties are recording positive dynamics in the economic sphere. It is worthy to examine how did the Russian factor affect the economy of the Republic of Armenia and how does membership in the EAEU affect the economy of Armenia?

To assess the current results of participation in the organization, it is necessary to take into account that for Armenia the EAEU is the undisputed leader among Armenia's trading partners. In 2023 alone, trade turnover between Armenia and the EAEU countries increased by 43% and in absolute terms amounted to \$7 billion 615 million US dollars [Yearbook, 2023]. Armenia, with 3%, is in second place in terms of industrial production growth in the EAEU. Russia and Armenia closely cooperate in all areas:

- *Banking sector.* Russian capital has the largest share in the banking system
- *Transfers.* On average, up to 15% of the population of Armenia to one degree or another depends on transfers from the Russian Federation. only in 2022 The volume of transfers to Armenia from Russia exceeded \$5 billion, which is almost 25% of Armenia's GDP. The same amount was received in January - October 2023.
- *Energy.* Armenia and Russia closely cooperate in this area in almost all areas: nuclear power plants, hydroelectric power plants, thermal power plants, etc. Several attempts are made to extend the life of the Armenian nuclear power plant in cooperation with the Russian Federation.
- *Labor migrants.* Temporarily free labor has the opportunity to go to work in Russia and help their families in Armenia. From 2022 The opposite picture is also observed. Many Russians not only work in Armenia, but also open their own businesses.
- *Agriculture.* Every year, Armenia increases the volume of agricultural products to Russia and in 2023. alone among the EAEU countries showed an increase in grain collection - by 21.3% The Republic of Armenia and the Russian Federation also closely cooperate in various fields of industry, tourism, services, high technology, joint development, and also implement joint investment projects. The volume of foreign direct investment in Armenia at the end of 2022 has increased significantly and amounts to approximately \$1 billion, which is more than 20% more than the previous year. The ratio of investment to GDP may soon be increased to 25% and this is seen as a structural change in the economy. Currently this figure is in the range of 17.7-18%.

Even the current growth of the Armenian economy is due to Western sanctions against Russia, because Armenia, without falling under sanctions, actually avoids sanctions and, by and large, provides transit between Russia and the West, thereby trying to help Russia circumvent Western sanctions.

Moscow supports the implementation of Armenia's "Crossroads of Peace" project. Russia is financing the construction of the fourth tranche of the North-South road cor-

ridor using funds from the Eurasian Fund for Stabilization and Development. The amount of support in this direction now amounts to \$150 million.

Today, the favorable situation for economic development is not only maintained, but also improved. As a result of positive trends, some spillover benefits also emerge. The average salary in Armenia was increased by 13.7%. Work is underway to develop a transport corridor from India to Armenia through Iran. There is a noticeable high rate of development of solar energy, and sources of renewable energy are also intensively used. At the same time, work continues in 2024 to extend the life of the Armenian NPP. According to some estimates, last year about 10 billion US dollars came to Armenia from Russia alone in the form of private transfers (officially more than 5 billion US dollars were transferred through banks). This is almost half of Armenia's GDP. The national currency of Armenia has risen in price by another 20%.

Despite the positive trends, there are also certain challenges in the development of the EAEU and in the relations between Russia and Armenia in the economic sphere. Among them, sanctions of the collective West, as well as the negative impact of foreign policy tensions on the economy of Armenia play significant role. First, the ruble has depreciated against the dollar and the euro. And the devaluation of the ruble creates problems for the export of Armenian goods. The devaluation of the Russian ruble means that the purchasing power of the Russian population will significantly decrease, i.e. Russians will be able to buy almost two to one and a half times fewer goods for the same amount. Naturally, the export volumes of goods from Armenia to the Russian market are decreasing, and due to the devaluation of the ruble, Armenian products have become uncompetitive on the Russian market. The Armenian dram was revalued against the Russian ruble and the Ukrainian hryvnia, which means that prices for exported products have increased, and the demand for goods exported from Armenia in these markets will decrease. A reduction in private remittances will lead to a decrease in the purchasing power of the population. This will also have a negative impact, since 10-12% of the Armenian population lives on remittances from Russia. It will lead to a certain increase in the poverty level, which will reduce consumption in Armenia.

One of the global paradoxes is that, on one hand, the western countries impose sanctions against Russia, and from the other hand continue to deal with the same country: the US buy uranium [Johnson, 2024], the United Kingdom and EU countries continue to import oil [Evading the sanctions: UK imports EUR 660 mln of oil products made from Russian crude. Figures from the Eurostat statistics office show imports grew from under 120 million euros (\$130m) in 2020 to 290 million euros (\$314m) in 2021 and 440 million euros (\$477m) in 2023. Last year, Russia exported 4.2 million tons of cereals and related agricultural products to the EU worth 1.3 billion euros (\$1.4bn). This represented about 1 percent of the EU market [Al Jazeera, 2024].

The participation of Russian capital in the Armenian economy is quite large. And in such a situation, investments will also decrease, because in the event of such sanctions, Russia will not be able to implement investment programs in Armenia at the same pace. Russian capital also has a large share in the banking system, so problems may arise here as well. And if the sanctions continue for a long time, the problems may increase. The West is also suffering damage: companies from many American and European countries were doing quite successful business in the Russian market therefore, the losses are not one-sided. The negative consequences of a sharp tightening of Western sanctions against Russia due to the military operation in Ukraine will also be painfully felt by other EAEU states. This is natural, since the main economic force of the Eurasian Economic Union is Russia, which, due to sanctions, has become a source of shock. Meanwhile, from the economic war declared on Russia, the seizure of its dollar assets and property in the West, not only Moscow, but also Western countries will suffer due to the weakening of confidence in the dollar as a reliable currency for storing reserves.

The foreign policy tensions have a negative impact on the Armenian economy. Despite a slight increase in industrial production compared to 2022, today there is a decline also due to a reduction in electricity generation. In addition to economic reasons, these trends are also negatively affected by foreign policy factors. In particular, due to shelling and then the seizure of part of the territories of the sovereign Republic of Armenia by military forces of Azerbaijan, work in the mining industry in Sotk ceased. And recently, Zangezur Copper-Molybdenum Combine CJSC experienced shocks in the Armenian mining industry. Today, the mining assets of Armenia, working in permanent conditions of crisis challenges, are directing serious investment funds to increase productivity and maintain the competitiveness of production. Azerbaijan's actions could lead to a loss of 10-20% of Armenia's economic growth due to processes that leave a negative impact on the mining industry. Azerbaijan uses all means of hybrid warfare. The situation is worsening in the Armenian mining industry from the point of view of environmental risk management due to speculation by Azerbaijani "ecologists". At the same time, the Ministry of Nature Protection of the Republic of Armenia denied the statement of the Azerbaijanis about the environmental threat due to mining companies in the Republic of Armenia. All of these factors reduce the growth of economic activity in Armenian industry.

### ***Conclusions***

Armenia is currently in a turbulent situation of transition. A clear strategy is needed to coordinate the efforts of the state, private sector and the civil society to design a long term strategy for economic and political development. While a closer cooperation with the European Union and the United States remain desirable, it will be harmful for the nation to cut the ties with the existing trading partners leading to a regional and global Isolation with no clear alternative. Complimentarism in foreign politics and foreign trade

looks more beneficial for Armenia during this complicated period of recovering from the war with Azerbaijan and growing uncertainty. Therefore, it is vital to explore and utilize national competitive advantages using different formats of regional and broader economic integration. Moreover, utilizing cooperative advantages with neighboring countries, including Georgia and Iran, as well as EAEU member states may be considered as an added value to the nation and its further progress both economically and politically.

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### **Tatoul MANASSERIAN**

#### **Economic drivers of political change: Armenia between the past and the future**

*Key words: cultural diplomacy, national brand, competitiveness, peace, security*

Currently the Armenian government is trying to change the foreign policy vision and make a shift from strategic partnership with Russia to a partnership with the European Union and the United States. However, this political move contradicts to economic trends and existing drivers of economic growth in Armenia. The impressive economic growth of last decade clearly indicates the growing dependence of Armenia from economic integration in the Eurasian Economic Union. According to many leaders of today's political elite in Armenia, there is no alternative to the strategic partnership with Russia to ensure economic security, economic growth and to the improvement of social welfare in Armenia. In addition, no concrete resources are generated to maintain the same path of growth and economic resilience of the nation while making a transition to the partnership with the West. Thus, we may conclude that the national interests of Armenia require gradual diversification of economic and political partners, not an overnight shift from one polar to another. Also, contemporary tools and methods of economic diplomacy might be extremely demanded to coordinate existing human, financial and other resources of the nation to improve the level of competitiveness of the Armenian economy and ensure proper level of economic security.