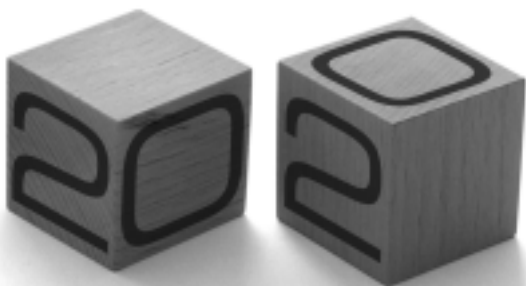




# SCENARIOS BOOK







YEREVAN, 2004

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# CONTENTS

ARMENIA 2020 SCENARIOS BOOK	5
FROM RUSSIA WITH LOVE – REPUBLIC OF ARMENIA DEVELOPMENT SCENARIO SUMMARY FOR 2003 – 2020	7
COMING HOME: ARMENIA AND THE EUROPEAN UNION	44
DARE TO EXCEL: SURVIVAL TO PROSPERITY	72
SENTENCED TO THIRTY YEARS WITH CORRESPONDENCE	113



# ARMENIA SCENARIOS BOOK



## FOREWORD

Developing a vision for the future and a plan to achieve that vision are critical components of any country's development process. The last decade has seen a proliferation of national programs around the world that strive to do just that. Many have used the conveniently approaching year "2020" as a target for their visions, coining the term "Vision 2020". While some of these programs are efforts encouraged and even led by international organizations, others are homegrown. Such a homegrown effort is underway in Armenia, supported and encouraged by the Armenia 2020 Project.

Founded in 2001, the Armenia 2020 Project is an organized network of individuals committed to building a better future for Armenia. Participants include Armenians from around the world, supported by other action-oriented professionals, researchers, experts and problem-solvers. The group has purposefully engaged individuals with widely differing backgrounds and views. To date, thousands of Armenians have participated in the project's research, surveys, discussion groups, interviews, and conferences, all directed toward understanding and shaping Armenia's future.

As an independent state and the historic homeland of all Armenians, Armenia presents a number of challenges to those striving to create better, more prosperous lives for themselves and their families. Armenians have spent the last decade struggling to regain economic, political and social footing following independence from the Soviet Union. During this time, lack of work and economic opportunity fueled a steady out migration, and real incomes plunged to half of what they were at the start of independence. By the turn of the millennium, the initial optimism of Armenians at home and abroad had faded as they confronted challenges, including an ineffective and corrupt public sector, a private sector ill-prepared for global competition, and strained relations with neighboring countries.

Despite the challenges, Armenians have hopes and dreams for their future. Among its activities, the Armenia 2020 Project surveyed 1000 Armenians in Armenia and 500 in the Diaspora about a variety of issues, including their visions for Armenia's future. The results are unequivocal. Armenians across the globe desire a much more prosperous Armenia. Some representative dreams include:



"To raise the GDP per capita to \$15,000." (Businessperson, Gyumri)



"A society that doesn't worry about tomorrow's food." (Academic, Yeghegnadzor)



"To be on the list of the 10 most developed countries of the world." (Student, Yerevan)



"A legitimate government based on the rule of law where citizens can aspire to live in an economically and politically secure country." (Diaspora)



"A thriving economy and a hub for the Caucasus region and possibly Central Asia." (Diaspora)



"I would like to see people over there have real jobs with no desire to leave the country, with me living there." (Diaspora)

Considering where Armenia is today and the long, difficult road required to realize these ambitious hopes and dreams, the real beneficiaries will likely be Armenia's children and future generations. With this in mind, even the children of Armenia were asked about their hopes and dreams for Armenia's future. Through a contest sponsored by the Armenia 2020 Project, Armenian children submitted drawings depicting their own renditions of the Armenia they desire in the future. Their drawings are found as illustrations throughout this book.

While Armenia cannot control all aspects of its environment, particularly the global context in which it operates, its future is by no means predetermined. It will be shaped and influenced by decisions taken now and over the next several years. Depending on the choices that Armenians make, the scenarios that could unfold are many and varied. Understanding the spectrum of these possible scenarios and the potential implications of certain decisions and actions taken over the next several years can help the country move toward a desired state. As a step in this process, the Armenia 2020 Project has developed a series of possible future scenarios as inputs into a national dialogue about Armenia's desired future.

This book explores four very different scenarios that could evolve over the next two decades in Armenia. The scenarios are, by design, very different in tone and structure, as well as content. The purpose is neither to advocate one scenario or another, nor to predict Armenia's future. Rather, the purpose is to present a range of possible scenarios and formats, from a set of highly personal interviews describing an extremely bleak and pessimistic future state, to an anecdotal, highly rosy and optimistic account of potential events and results over the next two decades. In reading the scenarios, it is hoped that readers will gain an appreciation for the vast array of choices, decisions and possible events and outcomes over the next two decades that can shape the future of Armenia. It is also hoped that the scenarios presented will inspire readers to discuss, debate and ultimately define their own shared vision for Armenia's future.

The four scenarios emerged from a lengthy process of research, discussion and synthesis involving thousands of Armenians around the world. As part of the process, Armenia 2020 commissioned extensive research on critical dimensions of Armenia's future development including: The Role of and Potential for Public-Private Cooperation in Armenia, Diaspora-Homeland Issue Paper, Armenia2020: Geopolitical Outlook, Education in Armenia: Present and Perspectives, How to Reverse Emigration?, Armenia: Already Globalized Nation or Still Broken World?, Oligarchs in Armenia, Report on Mono-Nationality, The Life of Non-Armenians in Armenia, Cultural Issue Paper, Education and Small Armenia in the Big World, Perspectives of Modernization In the Light of Corruption and Public Administration, Key Levers for Productivity Improvement in Armenia.

It is hoped that this impressive body of research will also be considered by those thinking about Armenia's future vision.

The central purpose of this book is to engage more and more Armenians in the design of a shared desired future. It is one input into a much broader movement that is underway in Armenia to improve the lives of its people. Toward this end, the four scenarios in this book are not meant to be the only choices that Armenia is destined to follow, nor are they meant to be the most likely scenarios for the future. Rather, they are meant to stimulate an increasingly broader discussion of what Armenians would like their future to be, and not to be. They are also meant to inspire a process in which Armenians take their future into their own hands, define a shared vision, and build the country that they desire.

*Armenia 2020 Project  
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# FROM RUSSIA WITH LOVE – REPUBLIC OF ARMENIA DEVELOPMENT SCENARIO SUMMARY FOR 2003 – 2020







## SYNOPSIS

Thinking about the task of planning the “history of the Future” in Armenia, we have to consider at least two important factors.

First of all, we need to correlate this scenario with the **global international processes**, which, of course, we cannot fully research and describe.

Secondly, this scenario must anticipate **reformatting of elite groups** (both in the mother state and in the Diaspora), which would make them operands placed on the same scale with the unfolding events.

Joint evolution of Russia and Armenia considered in this scenario dictates the following scenario extensions:

-  Armenia returning or not returning into the Russian language environment;
-  Armenia being or not being prepared to sweep part of its property as debt repayment;
-  Armenia being or not being prepared to become an off shore banking zone;
-  Active-passive position of the Diaspora in the framework of the process of emergence of new Armenian elite;
-  Resource-based and innovative nature of the development path in Russia;
-  Integrative or disintegrative position of the Russian Federation in the post-Soviet environment impacting the scale of different forms of cooperation.

This scenario framework dictates two key stages, the first of which implies circumstances of a crisis, and the second one secures a solution to the crisis by implementing a set of related constructive initiatives.

### STAGE 1 (2004–2009)

Modern internal political life in Armenia is built upon the struggle of two strategic lines. The first one correlates with the **military national development vector**, a possible logic of this vector is presented in the “Gendarme of Transcaucasia”<sup>1</sup> scenario.

The second line does not carry a projection component, therefore it automatically becomes an embodiment of the “Sea and Mountains” scenario, implying transition to **criminal forms of traditional agrarian economy**.

The first vector, of course, is more acceptable for the local elite. At the same time, according to a large number of the Armenian elite tutes and growing dependence on financial and military assistance from Russia. In the extreme versirepresentatives, the country will pay for the first scenario by deterioration of the role of democratic instion **the existing institutes in Armenia might be replaced (or substituted) with authoritarian regime**, and struggle with this regime might become one of the motivating forces behind unfolding of the key process in the ten-year perspective.

For the local Armenian elite the main task at this stage is **to resolve the issue of energy safety** and to build a system of constructive cooperation with Russia by sweeping a part of its property as debt repayment.

The process of property transfer will create a conflict between “military progressivists” and

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<sup>1</sup> The “Gendarme of Transcaucasia” scenario, along with the «Sea and Mountains», «Front-Asian Transportation Ring», and «Armenian World» scenarios, being a part of a set of scenarios «Small Armenia in a Big World», was presented at the meeting of the Armenia 2020 Club in May of 2003. The initial assumption of the “Gendarme of Transcaucasia” scenario is that an emerging crisis will become the base context for Armenia during the first ten years of the 21<sup>st</sup> century.

“civil traditionalists” within Armenia, this conflict will take on an acute form and in 2007-2009 will be accompanied by political disturbances.

During this period Armenia is lagging 5-7 years behind Russia in the process of creating a number of markets and their infrastructures, such as the foodstuffs and agriculture market, real estate market etc. Certain representatives of the Diaspora, especially of its Russian part, appear to be more prepared to be included in this development vector, they return to their mother state and start investing their financial resources into the newly emerging markets. This process lays the ground for emergence and expansion of a conflict between the **military elite in Armenian mother country and liberal business-elite of the Armenian Diaspora**.

The aforementioned events are happening against the background of several local conflicts leading to the US returning to the Monroe Doctrine.

At the same time Turkey is struggling with internal conflicts initiated by Germany, who does not want Turkey to be accepted into the EU. Despite this circumstance, as well as the on-going Islamic tendencies, Turkey decides to **admit the fact of Armenian genocide**. This makes possible the emergence of processes drawing Armenia closer to Turkey.

While resolving the problems of the future economic growth and having been faced with system-based limitations in the process of doubling its GNP, Russia is forced to restore both cooperative links and general markets in the framework of its traditional geopolitical and geo-economical presence. This stimulates development of different organizational forms in the post-Soviet territory, such as the “foursome” (Byelorussia, Kazakhstan, Russia and Ukraine), ideally fit for interacting with Europe and China, and the CIS project, with its mostly Southern development vector and direction towards Middle Asia and Transcaucasia. During this process, Russia is building relationships with all the countries in the region, including Georgia and Kazakhstan.

Development of Russian-Armenian relationships is determined mostly by the power ratio between **attainability of the natural resources project** in the country and **the national program of innovational development**, in other words, by the struggle between the already existing elite groups having “Soviet roots”, and the newly emerging elite groups. The “resource elite” is rather indifferent about Armenia, while for the “informational elite” temporarily hiding under the guise of industrial politics, Armenia is a natural way towards the new regional market.

On the brink of the first ten years of the 21<sup>st</sup> century, Russia, the US, and certain Diaspora representatives manage to convert the persisting conflicts into a **new group of regional projects**. A hypothesis regarding the possibility of creating a **transportation ring** and an integrating structure as an alternative to the EU is voiced for the first time due to Russia’s intensive efforts in the process of creating a **new package of Eurasian infrastructures**.

UES Russia (and its affiliated structures) becomes an active “player” in the “From Russia with Love” scenario. The project of creating a **single Eurasian energy network** emerges within RAO.

With the start of implementation of the new set of projects, the level of Armenia’s investment attractiveness starts growing, which leads to appearance of an anthropological flow Diaspora-mother country, which is small in numbers, but notable in terms of capital resources that it controls. Several Diaspora leaders return to Armenia about 2008 to play an active role in its political life in the future.

## **STAGE 2 (2010–2020)**

In Russia reforms lead to a sharp increase in the role of financial capital and financial management methods. Resources accumulated in this zone are comparable with turnover in the natural resource sector. Key financial sphere participants are looking for a new field of activities. The

Armenian Diaspora is expanding its influence over Russian politics through participating in the process of building new financial institutions. Thus starts the expansion of the Russian-Armenian capital and venture investing process in Transcaucasia. The newly emerging regional market contour **gains certain financial substance.**

Russia is working on an innovation project and experiences more and more need for an offshore banking zone. Its own financial system is too slow and gets in the way of the capital flow. After the Eastern European countries have joined the EU, Russian businessmen cannot work with their traditional partners, such as Parex-Bank.

**Armenia takes up the newly vacant place of a Russian offshore.** On one hand, this causes concern among international organizations, on the other hand, this situation dramatically improves the level of Armenia's investment attractiveness. The anthropological flow between the Diaspora and mother country is increasing.

In the future, in the course of international restructuring, the four main currencies are gaining more and more importance: US Dollar, Euro, APR Mark and the Islam Dinar. Due to the structural specifics of the regional market, Armenia, just as Russia, turns out to be in the zone of inter-currency exchange.

Diaspora representatives having in their possession substantial capital resources and returning to their historical motherland - the so-called "New Armenians" - are becoming a more and more influential group. Their interests are not limited by Armenia: they are investing their income from insurance and offshore activities into **creating and developing the transportation ring infrastructure and regional market institutes.**

In terms of development and the scale of implementing a great number of humanitarian technologies, Armenia is far ahead of Russia, and first of all this is true regarding education. The necessary conditions are being shaped for **determining the main competitive advantages of Armenian culture during the post-industrial period.** These advantages include the **experience of Diaspora style of life and intercultural cooperation.**

By 2010 the efforts aimed at creating elements of the Russian innovative project in Armenia start producing certain results. During the next period Armenia becomes a **"show-case", a "business card" of the Russian post-industrial project** (just as at some point the Baltic region used to be a "business card" of the Soviet economy). Social structure of the country is changed, politically the Diaspora becomes a part of the mother country, and economically it becomes an instrument of influence on the international regional markets.

By the end of the first 20 years of the 21st century Armenia is positioned in the world as an important element of the Middle East economy (Yerevan becoming the largest stock market in the region), and, at the same time, as an innovative module of the Russian innovative system.

## **CHAPTER 1**

### **“GENDARME OF TRANSCAUCASIA”: ALTERNATIVE STRATEGIES FOR REPUBLIC OF ARMENIA**

*(From a thesis by Major Leon Ter-Oganesyan, senior year student at Military College, presented on June 26, 2010).*

At the end of the 20<sup>th</sup> - start of the 21<sup>st</sup> century the Republic of Armenia came face to face with the fact that a won war really stimulates national development, but only by the sheer virtue of challenges created by this war – challenges, addressed to the nation, to the people, military, political, cultural and entrepreneurial elite.

The war for Nagorno Karabakh facilitated consolidation of the Armenian people, including the Armenian Diaspora, and growth of national self-conscience. By winning this war, Armenia certainly has improved its international status. In a certain sense, only after having achieved this victory, Armenia was accepted both in the world and in the Big Caucuses macro region, as a “real state”, capable of surviving and reaching its goals.

At the same time the victories created several problems that are hard to resolve.

First of all, the Armenian mother country actually found itself in a center of a hostile circle. Obviously, Azerbaijan never conceded to the loss of territories, and thus it became clear that any anti-Armenian coalition would gain its support. The military success of Armenia strengthened the natural understanding between Azerbaijan and Turkey (both are Sunni Muslim countries). Due to a number of reasons, not the last one of which is fear of Armenia’s military strength, Georgia has been diplomatically and economically acting against Armenia. Armenia-Iran relationships have been developing more favorably, but even now it is important to remember that Iran is a Muslim state, furthermore, it considers itself “the business card of the Islamic world”. It would be politically naive to expect that Iran would under all circumstances support the Christian Armenia.

First of all, this negative stance of the neighbors led to the after-war infrastructure blockade of Armenia that has had a tremendous negative impact on development of the economy in the Republic. Actually, the infrastructural deficiency of the country at the turn of the centuries was the main factor in the basis of any promising national strategy.

Third, this victory led to emergence of the Nagorno-Karabakh Republic. This political and administrative formation can exist only in close genetic, organizational, and financial connection with Armenia, therefore Armenia is forced to create mechanisms of cooperation with NKR. In the meanwhile, the entire experience of geographically separated countries (Germany in 1918-1939, Pakistan in 1948-1973 etc.) demonstrates how costly and unstable such political configurations are. A substantial share of the already limited resources of Armenian mother country is by definition spent on sustaining this cooperation with NKR.

Fourth, this victory has brought serious complications into the internal political life in the country, leading to growth of the military influence in state affairs. The internal political situation within Armenia has lost stability - maybe not to the extent it has in Azerbaijan, Georgia or in Turkey, but this is still quite palpable.

In these complicated conditions the national administration was trying to resolve the fundamental issue of the Armenian “development vector”. The fight of strategies unfolding at the turn of centuries was also a struggle between the elite groups. Starting out from the priority of national safety, the military leaders of the country were rooting for closer relationships with Russia. They were

opposed by the state and administrative circles leaning towards independence and viewing Russia as a neighbor that is too big and too closely located. Representatives of Armenian Diaspora were rather skeptical about the idea of a union with Russia (especially those residing in the Western countries). EU direction was presented as an alternative.

Finally, all entrepreneurial groups were actively discussing the subject of accelerated post-industrial development of Armenia based on its own powers. These strategies were prescribed as the “Irish” and “Singapore” development scenarios.

At the end of 2003 the national governing institutions accepted the utmost important strategic principle of **projective coherence**: the index of sustaining reality (economics, procuring, electric energy, transportation) must be naturally correlated with the index of changing reality - with searching activity. In essence this implied the need to sign an agreement about “special relationships” with Russia.

Intellectual and military elite of Armenia arrived at this conclusion rather fast. This relative consensus of the elite groups was also facilitated by the lack of large-scale project initiatives designed by the state authorities, the concept of which would lead to implementation of the criminal-agrarian scenario of Armenian development (*“Mountains and sea”*).

The key factor in the task of building a new type of relationship with Russia was the position taken by its elite groups. At the turn of the century Russia, one might suppose, was rather interested in political and economic promotion in Transcaucasia. According to this logic, Russia needed Armenia to be its outpost in the Muslim South. However, it looks like this need was hardly appreciated by the Russian elite groups at the time.

The only exception was the position taken by UES. CEOs of this natural monopoly developed a long-term development concept, implying movement of the Russian electric energy to the East - to North Korea, to the South, to Armenia and to Iran. In **February 2003** Defense Minister of the Republic of Armenia S.Sarkysian discussed the issue of the Russian-Armenian cooperation in the energy sector with the Minister of Science and Technologies I. Klebanov: “On the agenda of the meeting, which will last for three days, we can see a number of issues involving cooperation in the energy sector, electronics industry and military and technical areas”. In Yerevan the plan is to discuss the course of implementing an agreement that was signed two months ago, according to which Russia is getting five Armenian companies as a form of debt settlement. The two countries are also planning to approve a program of long-term economic cooperation for 2004-2010. In his speech at the airport, Mr. Klebanov said the agenda of Yerevan negotiations is to include restoration of railroads between Armenia and Russia. He stressed that lately there have occurred “positive factors, since Georgia is relieving its position on the issue of resuming movement on Abkhaz Road.”

The list of questions to be discussed demonstrates the “military” nature of the meeting. It looks like the beginning of 2003 was the time when the Ministry of Defense developed the concept of Armenian Development, later known as the Gendarme of the Transcaucasus.

The key in this concept is a cooperation zone between Russia and Armenia through control over the Caucasus and Transcaucasia. For both countries this control was viewed through the prism of safety, which means that it was discussed on the level of power authorities, first of all, at the Defense Ministries.

Agreements that were reached by the end of 2003 included opening a long-term credit line in the framework of which the Armenian army would have been supplied with spare parts and military vehicles. Russia was also taking upon itself political support of Armenia.

In its turn, the Republic of Armenia was supposed to use its authority for “bringing order” to the Caucasus. The idea was that for the people of the Caucasus Armenia is a traditional hero accepted as “one of us”, having proved its force and determination in the Karabakh war. Thus

Armenia had a credit of trust among the mountain peoples and could become the most influential political and military structure in the Caucasus.

In the fall of 2003 the congress of the International Armenian Organization was founded. In his speech at this forum RF President V. Putin said: *“Our modern partnership satisfies the fundamental national interests of both countries, increases safety and facilitates growth of their international authority, stability and economic progress in our countries. (...) Benefits of joint efforts aimed at strengthening the CIS are becoming more and more obvious - mutual cooperation from joint participation in international and regional processes, for example, in the framework of such regional organizations as the Agreement on Collective Safety and Europe-Asian Economic Community. Together we are effectively struggling with new threats, working on improving the inter-ethnic peace and agreement in our countries and cooperating in such strategically important regions as the Caucasus”*<sup>2</sup>.

During the year 2004 cooperation between the military forces of Armenia and Russia allowed solving one of the most complicated issues of energy safety of the Republic, i.e. the restoration of the pipelines, destroyed in the course of never-ending conflicts in the Northern Caucasus.

The conflict between the military and liberal elite groups in Armenia is becoming more and more intense as the Russian-Armenian cooperation accelerates. The international situation is deteriorating as well. Despite all the achievements of the international integration process (Eastern European countries joining the EU in 2004, merging of the transportation and energy networks in North Korea, South Korea, Russia and Japan in 2005), the world is obviously changing course from development of globalization to the traditional system of national states. Turkey is becoming visibly more aggressive at the Armenian borders. Under these circumstances the US invades Iran (the 2006 conflict known as the Third Gulf War).

Reaction of the Armenian leadership on Russia’s retreat from the Middle East region that by 2007 in reality became the US occupational zone was paradoxical but rather active.

In the wake of an extremely severe political crisis of 2007 Armenia undertakes a “quiet” reform of military command and sets up a **Development Council** headed by the Armenian President. Already in the next year the Council would concentrate in its hands the main analytical and project activities, including military and civil issues, becoming the first internationally recognized “thought factory” in Transcaucasia. At the same time the Gendarme of Transcaucasia strategy finally becomes institutionalized, the newly established Military College becomes the center of martial, technical, political, economic and psychological training for the future military elite of the Caucasus, Transcaucasia, countries of the Middle East. While waiting for the crisis and getting ready for the upcoming “staff revolution”, Armenia is training military personnel “capable of at least speaking with each other without hysteria.”<sup>3</sup>

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<sup>2</sup> “Rusbusinessconsulting”, 7 October 2003

<sup>3</sup> This phrase is cited from the apocryphal document, which describes number of “Development Council” sessions that is why its originality may be doubtful. But it is clear, that the phrase expressed the position of Armenian neo-liberals in 2004–2007.

## CHAPTER 2

### CRISIS OF 2008<sup>4</sup>

(From “The First Ten Years” by A. Petrosyan<sup>5</sup>)

The general idea is that the 2007-2008 crisis was mostly an external event for Armenia. Although in reality the crisis was about revolutionary events within the country, these events changed the image of Armenia so much that it impacted the entire region, if not the rest of the world.

By the year 2006 the Gendarmerie of the Transcaucasia strategy had caused a severe crisis. This concept facilitated solving a number of immediate problems in the infrastructure, stimulated growth of national self-esteem, initiated establishment of such important institutions as the Military College and Development Council, but from the standpoint of long-term interests of the country this turned out to be a dead-end road. Under the conditions that existed in 2006-2007, when nearly all the Armenian neighbors were under strong American influence, the pro-Russian and militarized Armenia was becoming almost an outcast. In the meanwhile Russia faced unforeseen difficulties with its community housing and natural monopolies reform deteriorating due to a drop in the international oil prices, and reduced its military and financial help to Armenia.

Under the new conditions cooperation between the countries took a turn for market style and began primarily along the UES line.

**On April 10, 2007 Yerevan Nuclear Power Station was transferred to UES of Russian as a part of debt settlement.**

Actually, nothing important has happened, as the actual situation upon mutual agreement of the parties became a de jure situation, and the problem of sustaining operations of the station smoothly moved from being a political issue to being a business issue. Upgrading of old equipment was started in May 2007. At a joint press-conference with the Chairman of the Board of UES RF and the Armenian Energy Minister officially stated that the station will continue operating, moreover, it is going to launch the first energy bloc. *“After the year 2015 the NPS will be commissioned, but no sooner than equivalent facilities start operating”.*

In the summer of 2007 the energy networks of Armenia, the Russian Big Four, and Georgia and at the end of the summer Azerbaijan also joins the Energy Safety Agreement.

Regardless of all the importance of these events for Armenia, they sometimes caused displeasure with a part of state employees that viewed the transfers of property for debts as “selling your country”. The smoldering conflict between the state employees and the military aggressors flamed and this flame would burn down several lives and many careers.

The actual problem was the fight for leadership in the country. At the end of 2007 Armenia suffered a number of political turmoils. In these complicated conditions the only thing that could save the situation was a third object of action, alternative to the first (Army) and to the second - administrative power.

Russia, USA and a number of representatives of the Armenian Diaspora joined their efforts and managed to convert the inevitable escalation of violence in the new regional group.

For the first time on a practical level there was a hypothesis about the **transport ring** and integration structure alternative to the EC. In reaching agreement between the elite groups an important role was also played by Russia's activities targeted at establishing a new package of Eurasian infrastructures (the “North-South Corridor”).

<sup>4</sup> This chapter describes the crisis of 2008 in Armenia. See disappointments of the crises in Turkey, Israel, and USA in Annexes 1-3.

<sup>5</sup> A. Petrosyan “First Decade” M. – СПб, 2024, “Library of Cognitive Period” series.



With the start of implementation of the new group of projects the level of Armenia's investment attractiveness started to improve, leading to emerging of a small number of members but notable in terms of controlled capital anthropological flow from Diaspora to the Mother State.

During this period Armenia was lagging 5-7 years behind Russia in the continuing process of setting up a number of markets and their infrastructures, such as the foodstuffs and agriculture market, real estate market etc. A number of representatives of Diaspora, first of all its Russian part, turned out to be more prepared for participating in the aforementioned development vector, returned to the mother state and started investing their funds in the emerging markets. The conflict between **military elite of the Armenian mother state and liberal business elite of the Armenian Diaspora** become more and more intensive. De facto Diaspora representatives occupied important positions in the Armenian establishment. De jure they are nobody – and have no citizenship. Discussions of the citizenship issues took up the entire “hot summer of 2008”, pushing out from the newspaper and magazine pages even the news from Turkey and Israel.

Much later, around 2020, events that happened during this period would be called the “paper revolution”. This revolution brought about substantial changes in the citizenship institute, as well as adoption of the “double citizenship” concept. This step strengthened the ties between mother state and Diaspora, but put the local elite groups in a dependent position. Arguments about the “Russian” and “non-Russian” development paths were becoming more and more heated.

In the end the mechanism of cooperation between the mother state and Diaspora was built on the concept of **double citizenship**, maintaining the basic principle of democracy: “**No obligations without representation**”.

For this purpose Armenia set up a special **ministry** including a number of special functional departments (Repatriation, Planning and Coordination, Information, Interaction with Diaspora) and seven regional divisions.

The Ministry was charged with governing such issues as exchange of information between all Diaspora, as well as between the Diaspora and mother state, generation of a common position on important issues, lobbying these positions, public representation of Armenia, improving its international image. Furthermore, the Ministry organized participation of Diaspora in the elections.

In 2012 the Diaspora was granted the right to elect its representatives to the Armenian Parliament (with the right of deliberative vote), as well as representatives to the Presidential **Diaspora Council** with the right of deciding vote.

The Council's jurisdiction includes issues of citizenship, repatriation, cultural and economic cooperation, protection and attraction of investments, and lobbying of interests.

## CHAPTER 3

### OFF-SHORE ZONE

*(“From Ruble to Dinar” by T. Sarkisyan<sup>6</sup>)*

The “Military period” of Armenian development, i.e. 2003-2007, led, as we should have expected, to growth of inflation. The Dram that has never been a “strong currency” anyway, lost about 40% of its weight during this period, and the infrastructural inadequacy of the country did not allow Armenia to use the inflation to its benefit by expanding export volumes.

In the spring of 2007 the situation in the Central Bank of Armenia was rather gloomy. That year they could not count on substantial financial help from Russia (although, despite all the difficulties, the Bank diligently repaid the most urgent European debts). This meant that the Republic could not fully fulfill the 2007 budget. Thus the conflict between state supporters, military groups and new liberals was taken from political to a financial level.

Oil to the fire was added by the handover of Yerevan NPS to Russia as debt repayment. The nuclear power station was handed over to the twice reorganized and expanded UES of Russia. This deal was processed at the Central Bank, so we got our share of accusations in “selling the Motherland”

The start of negotiations in including Armenia in the Russian reform of municipal management though creating a single insurance mechanism became the first sign of the new joint Russian-Armenian financial policy.

The Russian side was very positive in evaluating results of the 2004-2006 reforms. *“There was a great temptation to take it slowly, to thoroughly evaluate the social consequences and act only on certainty, but in essence that would have meant to stretch the process for many years. There are reforms that need to be passed quickly, even if this leads to shock. We have several hard years ahead of us, even more so considering that the international oil prices are at a historical low, but after that the situation will rapidly start improving. We have accomplished the main task –municipal property is being sold in the market, which is clearly registered by the insurance companies”.*

We came to the conclusion that reforms in Russia lead to a substantial strengthening of the role of financial business. For the first time in new Russian history this sector managed to accumulate in its hands the resources comparable to the volumes of natural resources business. The largest financial companies started searching for new fields of activity.

Another important factor was that capital for the most part was Russian-Armenian, and the key figures of the Armenian Diaspora played an important role in its consolidation.

Financial infusions in the framework of the emerging cooperation were not very significant, but during the critical moments of the summer of 2007 they supported the stability of the national currency and, perhaps, helped the government to remain in power.

In the autumn of 2007 in the “Armenian world” was introduced the “Transcaucasian Insurance Market”, a single strategic program of property insurance (in the mother state it has the status of one of the strategic programs directly supervised by the President of the Republic). A rather malicious critical article (in fact inspired by the Development Council) suggested renaming this economic structure as the “Oriental Bazaar”. This apt name was taken up and became the first Armenian brand of regional, if not international importance.

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During this period the international and domestic situation was tremendously complicated and

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<sup>6</sup> T. Sarkisyan “From Ruble to Dinar: History of the Central Bank of Armenia in the First Quarter of XXI Century”, Yerevan 2031.

very indefinite. On January 1, 2008 Islamic Turkey announced its withdrawal from NATO. Armenia continued investigating a series of political assassinations, and the question “who is next?” was clearly present in the official statements of investigative authorities, in comments of the speakers and in conversations among common citizens. The campaign for creating an Islamic Republic and Dzhamaheria with Turkey intensified. In Georgia the smoldering Abkhaz conflict again came to the agenda. Any careless move of one of the parties could lead to unpredictable and far-reaching consequences.

The financial situation in Armenia improved substantially during the last part of the year. This can be attributed both to the big amounts of insurance money deposited in our correspondent accounts, and to the assets related to maintaining a number of deals brought about by the Energy Safety Agreement between Russia, Kazakhstan, Ukraine, Byelorussia, Armenia, Georgia and Azerbaijan. The obtained results, however, could hardly be called stable.

During that period relationships between mother state and Diaspora were institutionalized through a system of special bank accounts and trust operations. In 2008 the Armenian economy saw the first substantial inflow of investment capital.

The year 2009 was devoted to attempts to resolve in advance the great number of technical problems that were inevitably to appear due to emergence of the international Islamic currency and the subsequently expected devaluation of the US Dollar.

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In 2009 the efforts aimed at creating an Armenian offshore zone were at their peak. This zone is now usually called the Caucasian Switzerland.

Probably every financier feels an instinctive disgust towards all forms of activities facilitating money laundering and tax evasion. By allowing or giving way to respective operations, a bank leaves the profitable zone of respectable financial business and turns into a suspicious shop<sup>7</sup> serving the interests of criminal structures. Obviously, such activities are not safe and, in the end, not so effective financially.

In this case the idea was to use the state authority in order to cover such activities.

On the other hand, the world was obviously becoming the stage for changing the format of all types of financial activities, necessitated both by emergence of a third (after US Dollar and Euro) general currency, as well as by the US withdrawal from the Eurasian arena, which already was becoming rather clear. Obviously, in the current conditions, after having declared ownership of a certain financial market segment, this sector can be monopolized.

Actually, this was the only opportunity to use the fact that we are not only outside of the European Union, but, unlike Switzerland, are not within the EU economic market zone, and therefore we are free to act as we please.

In 2008-2009 the Russian economy was demonstrating stable growth. Obviously Russia, creating its own innovation project, urgently needed an offshore banking zone. Its own financial system was too bulky and prevented free flow of capital. After the Eastern European countries had joined the EU, Russian businessmen could not any longer work with their traditional partners like Parex-bank.

This set the ground for the idea that Armenia could take the newly vacant place of a “privileged Russian offshore” in the market. On one hand this inevitably caused tension among several international organizations, on the other hand it was supposed to sharply increase the level of Armenia’s investment attractiveness.

Obviously, even though the concept of an offshore country was first of all oriented on Russia

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<sup>7</sup> Reminding that the word “bank” preliminary meant “bench”.

and on other countries of the post-Soviet zone, it was not limited to those states. In the following years from 40 to 70 percent of Armenia's offshore turnover was related to the Euro zone.

Organizationally the offshore country concept was implemented through a system of accounts payable to bearer, similar to the ones that have already been functioning for a while in order to support the mother country-Diaspora flow. By a governmental decree such accounts were announced untouchable: funds from these accounts could be withdrawn only by holders of a special card. Accounts payable to bearer provided financial immunity, including the event of a court ruling.

Of course, this required introducing a number of measures requiring a certain level of security. Actually, Armenia had to create an efficient financial intelligence charged with determining the origin of the funds. Actually we have never worked with drug trafficking and with criminal money, but we allowed ourselves to deal with funds owned by politicians and businessmen.




As the offshore program was expanding, the Armenian banking network was developing as well. New Armenians – representatives of the Diaspora, holding substantial capital amounts and coming back to their historical Motherland – were becoming a more and more influential social group. By the end of 2010 their interests were not limited by Armenia. Income from the insurance and offshore activities was invested in setting up and developing the Transportation Ring infrastructure, as well as into the Oriental Bazaar institutes.

## CHAPTER 4

### ORIENTAL BAZAAR

***(Based on materials of international network government discussion: “An Alternative to the EU? Possible Formats of Macro Regional Politics” 2003 – 2020).***

Like many other paradoxical geo-economical projects, the process of establishing the Oriental Bazaar went through the following stages:

-  “This cannot be because it cannot be possible”;
-  “This success is of situational nature and does not prove anything”;
-  “Success of this endeavor was predetermined from the very beginning, tactically many things could have been done better”.

The essence of this project was to create in the Front Asia and in Transcaucasia a macro regional market comparable in volume and turnover with the European and Asian Market. Sometimes it is considered that the Oriental Bazaar had been initiated by the European integrative processes. In reality, if the European experience was considered at all, it was mainly negative. Ethnic, confessional, geographic and resource diversity of the region, numerous military and political conflicts, did not leave any chance for a slow unification policy based on the principle “first dispute resolution, then integration”.

The designers of the Oriental Bazaar were also displeased with the EU’s striving for uniform living formats, in the framework of the general globalization tendencies. From the very beginning the slogan has been “integration without unification”. The Front Asian Unity was created on a purely economic basis, without a political component, without forcing the states to lose their uniqueness/sovereignty.

The essence of the integration process used the regional conflicts as the moving power behind unification. This unification, in its turn, was viewed as a conflict resolution method. In a certain sense the idea was to set up an economic union of hostile and in some cases even belligerent states. *“In any country there are three categories of people. Some are looking for a good reason for a winning war for the glory of their motherland. Others – also for the glory of their motherland – start negotiations with the enemy. And yet the third group sees this enemy as a future ally and look for ways of cooperation. In a properly organized society these three categories act without interfering with each other”.* These words, said by the President of Azerbaijan during the review of joint drills between CIS and Turkey in the Caspian Sea in March 2008, deeply impressed the regional leaders.

The following factors can be considered trigger mechanisms of the unification process:

-  Understanding by the Russian political elite of the need to create macro-regional unions (viewed as the mechanisms of realizing the Russian economic strategy);
-  Tight union between Russia and Armenia, guaranteeing certain stability in the region;
-  Establishment of a number of project institutes (“Development Council” at the RA President, Russian strategic administration);
-  Coming to power of a new generation of managing elites of the “Big Five”<sup>8</sup>, their small total numbers – thin management layer;
-  Common interest of the business circles of the “Big Five” to the problems of tourism and safety (first of all, energy safety).

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<sup>8</sup> Georgia, Armenia, Azerbaijan, Iran, Turkey.

There are five main stages in the process of establishing Oriental Bazaar.

In 2003-2005 the process was about creating a single system of security in the tourism business. Successful activities in this direction, as well as the availability of communication facilities set up by the Russian side, led to understanding that the elite groups of the “Big Five” may have common interests in the “big world out there”.

The starting point of the integration process is considered to be the Agreement on Energy Safety, signed in Moscow in March 2004 between Armenia and Russia. Actually, under this Agreement Armenia was joining the single energy system covering Russia, Ukraine, Byelorussia and Kazakhstan. The agreement had an open nature<sup>9</sup>.

In 2005-2008 cooperation between members of the “Big Five” was developing gradually. However, the US-Iran conflict landed a hard blow on international tourism in the region, and the events of 2007 in Turkey and in 2008 in Israel<sup>10</sup> in effect wiped off “global tourism” from the agenda. However, cooperation in the area of security gained tremendous importance. The regional program of mutual assistance in the event of natural emergencies and technogenic catastrophes in 2007-2008 transformed into a program of mutual assistance of international elite groups against the threat of terrorist acts and social emergencies.

During this period the first steps were taken for creating a macro-regional capital market, and setting up the Inter-regional Informational Bureau for servicing this market.

A “Framework” regional economic legislation was developed, and transnational corporations were granted legal rights.

The integration process developed mostly through Russia. In January 2009 was signed the Russian-Armenian Agreement on Mutual Use of Economic Space. Kazakhstan and Georgia joined the agreement within one month, later on Ukraine and Byelorussia follow the lead. The “Big Four” officially became the “Big Six”, and Azerbaijan became an associate member of this international club. This process turned into a deep economic integration, but without unification of legal and state mechanisms.

In December of the same year, on the anniversary of establishment of the Soviet Union, countries of the “Big Six” signed a “Golden Circle” Agreement, regulating a reciprocal non-visa status, guaranteeing free passage of people and goods (but not services and capitals) inside the joint economic space.

In January 2011 the Development Council stated that Armenia is substantially ahead in terms of labor productivity and capital productivity not only of the Transcaucasian Five, but also the “Golden Circle” countries. “In essence, the country has established a pilot version of the Russian innovative economy”, - stated the Council in its report. “The circumstances facilitate growth of capitalization on the territory of Armenia, which can be reached by forming a regional market”.

In March 2011 Armenia initiated signing an Agreement with Russia and Iran, which from then on was a member of the Euro-Asian Transportation Union.

The year 2012 was also noted for another success achieved by Armenia. For the first time throughout the entire post-Soviet period the number of people that entered the country was greater than the number of those who left in search for a better place. The world saw Armenia as a safe country.

This stage ended in the summer of 2014, when the Conference in Beijing made a decision on setting up a single “zone” currency in the Asia-Pacific Region. The world finally started functioning along the regional economic system, and every region was serviced with a separate currency with

<sup>9</sup> European integration at some point started with creation of the French-German Steel and Coal Commission.

<sup>10</sup> See Attachments 1 and 2 for more details about the 2007-2008 events in Turkey, Israel and Iran.

all signs of international currency. This system, still existing today (although somewhat modified) was named “quadrometallism”, although, naturally, it does not use metal at all.

During the next period 2015 – 2028 – the participants removed internal customs barriers and completed the process of establishing the Eurasian Market.

In May 2015 in Stepanakert, in the capital of Nagorno Karabakh, officials signed an agreement on setting up a single economic space for the six Transcaucasian countries: Georgia, Armenia, Nagorno Karabakh, Azerbaijan, Iran and Turkey. Georgia, Nagorno Karabakh and Azerbaijan also entered the Russian “Gold Circle”. In September of the same year Oriental Bazaar finally became an economic and political reality. The “Big Six” was joined by Iraq, Lebanon, Syria, Jordan, Palestine, Israel and Pakistan. The countries-participants signed a Transportation Ring Agreement stipulating free movement of people and goods (but, the same as in the Golden Circle Agreements, not capitals and not all services).

By 2020 Armenia became a significant economic and political power in the Eurasian continent. It was positioned in the world as the most important element of the Middle Eastern economy and one of the largest financial and stock markets in the region.

At the beginning of the next decade Armenia strengthened its relationships with Russia, passing a law according to which Russian is the second official language in the state. This law was accepted by all subjects of the Gold Circle. The importance of this step was fully understood when the International Conference in Karachi (2022) approved the Russian Ruble as the Eurasian Intermarket settlement unit.

By this period only a few states managed to maintain a unique currency as a real means of settlements (although a number of countries continued to mint anniversary and collection negotiable coins). In Russia the situation was even more complicated because due to its geographical position the country was adjacent with the “Euro zone”, with the “Dinar zone”, and with the Asian-Pacific currency zone, and US Dollar was the traditional reserve currency in the country. Thus the discussion on the subject of “what currency should Russia use” stretched out for several years. By the beginning of the third decade of the 21<sup>st</sup> century it turned out that the four regional settlement currencies, circulating in their specific markets, needed an exchange unit. The Ruble turned out to be a convenient world currency, although, unlike the US Dollar, in the 1940-2000s it remained only a means of inter-regional payments and was not used as a treasury unit.

## CHAPTER 5

### TRANSCAUCASIAN TRANSPORTATION RING

*(Based on materials in RJD-Partner Magazine<sup>11</sup>)*

As the economic history of the world has shown many times, **infrastructural development determines economic development rather than is determined by it**. This means that transportation networks (and equally, communication systems etc.) are not supposed to be profitable on their own. Any infrastructurally insufficient territory functions as a resource pipeline – it throws resources to the area where capital can work – in the areas with surplus infrastructure.

Thus infrastructural projects should be evaluated not from the formally economic point of view, but also from the geo-economic perspective. Financially the "Great Pacific Railway" was unprofitable, at least until the end of the 19<sup>th</sup> century. Geo-economically it served as the basis of the reconstruction program that turned the North-American United States into a powerful industrial empire.

We should not be afraid that the rail roads, bridges, tunnels, air and marine lines projected today will end up transporting empty air. **In reality, all communications "transport" unity of the territory and potential of its economics for capitalization, they support or create territorial and local markets.**

Usually, economy follows the infrastructures. In other words, if there is a road, sooner or later there will appear a commodity that is feasible to be transported along this road.

Today the industrial infrastructure of territories must resolve two tasks, mutually exclusive at the first sight. First of all, for any territory transportation structures are in essence mechanism sustaining economic and cultural unity of a certain territory, and maintaining its leading identities. In other words, infrastructure defines the unity of economic mechanism (through specialization and cooperation) and economics (through establishing an appropriate market, population and culture).

Second, communications are combined into a generalized system of exchange of goods, technologies, meanings among the civilizations/cultures/ethnic groups. Transportation "corridors" are in essence vectors of movement of **ethnic-cultural plates** conditioning the political history.

Two tasks correspond with two different forms of communication networks.

In order to maintain the economic and cultural mechanism, the most adequate are the closed ring structures with comparatively short radial branches cutting through them (the "wheel and spokes" model). The ring structure functions as a whole: every section carries identities, goods, people, finances, but in the absence of outgoing "corridors" the aggregate transported amount equals to zero. **The ring exchanges (equivalently) goods, labor, meanings, acting as the material basis of the respective territorial market.**

Transportation rings are connected with linear "bridges", and these bridges are the carriers of inter-civilization and inter-cultural interaction. While exchange within the ring is always equivalent, exchange between the rings is always not equivalent, civilizations interact and destroy each other's identities, exploiting each other's economy. This unequal exchange implies difference in potentials – military, economic or semantic. Sooner or later the potentials even out. In this respect the following statement is correct: every "bridge" is striving to become a link in the ring<sup>12</sup>. Another question is that such processes happen at the typical speed of movement of the ethnic-cultural plates, i.e. historically slow.

<sup>11</sup> V. Beldey, S. Pereslegin, K. Rakhimov, A. Sobyenin. Transportation Integrity in Russia. RJD-Partner, 2003, # 3. A. Stavsky, A. Nazaretyan "Transcaucasian Transportation Ring", RJD-Partner, 2025, #12..

<sup>12</sup> Historically, all the modern rings were set up on the basis of the system of linear corridors.



Experience shows that linear “bridges” are geographically oriented along the parallels and meridians, “diagonal” transportation corridors are very rare. Optimal continental infrastructure is determined by the location of these ethno-cultural plates and the corresponding transportation rings.

The Eurasian geo-economical map today includes six independent transportation rings (including the newly set up Mediterranean Ring), and it is amazing that at the beginning of the century only one of them was functioning properly.

Such a “historically established” ring is the **Central European Ring (1)**, including in its orbit the former EU countries. This ring is connected to the world trade system through the largest terminal of Rotterdam-Europort.

The European industrial, cultural, and financial wealth is so great that the European market cannot be sustained by one transportation ring, even if it is legally, politically and organizationally registered (in the years when EU was prospering).

Unfortunately, the **Mediterranean Transportation Ring (2)**, connecting Italy, Spain, Portugal, Morocco, Algeria, Libya, Egypt, and the Levant countries, still should be viewed as a weakly structured combination of separate sections<sup>13</sup>. Today this ring or semi-ring is tightly connected with the Central European Ring through Madrid, Barcelona, Marcel, Milan, and Zagreb, and ties into the world trade system through the Gibraltar and Suez.

**Baltic Transportation Ring (3)** unites the infrastructures of Denmark, Sweden, Norway, Finland, Russian North-West, the Baltic States, Kaliningrad Region, Northern Poland, and Northern Germany. Russia has contributed great efforts to creating this infrastructure and to building a common “Northern” identity, because Russia is interested in turnover of goods and meanings around the Baltic Sea.

The Baltic Ring is connected to the Central European Ring through Kil and Gdansk. This ring is connected to the world trade system through the remote terminal port in the mouth of the Gulf of Finland, which is the northern departure point of the Southern Corridor.

**Transcaucasian (Front Asian) Transportation Ring (4)**, built around the political and economic structure of the Five Seas (Azerbaijan, Armenia, Georgia, Iran, Asian Turkey, Iraq, Syria, Lebanon), was probably the first ring infrastructure created on Earth during the known historical period. It has not been operating for several centuries, which has to do with high political tension in the region. At the beginning of the 21<sup>st</sup> century the interested parties saw an opportunity to revive this ancient transportation system and build an adequate regional market, now known as the Oriental Bazaar. The Front Asian ring is connected to the world trade network through Beirut, Alexandria, Suez and the Persian Gulf ports.


Emergence of a new ethnic and cultural plate in Central Asia brought to the agenda the issue of **Caspian Transportation Ring (5)** and of an appropriate market (first of all, an energy transmission market). This ring crosses with the Front Asian ring and covers the territories of Southern Russia, Azerbaijan, Armenia, Georgia, Iran, Afghanistan, Tajikistan, Kyrgyzstan, and Kazakhstan. This ring is joined with the world trade network through Astrakhan-Aktay.


Finally, on the Eastern outskirts of the continent it became possible to untie the extremely complicated knot of geopolitical tension, by drafting a project, building and launching operations of the single **Eastern Ring (6)**, connecting both Koreas, East China, Manchzhuria, Russian Primorie, Sakhalin, and Japan.


This system of transportation rings forms the basis of the following communicative structure:


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<sup>13</sup> The reason for this is the shift of North Africa to the zone of influence of the Muslim Civilization. Today the Mediterranean region is a place of clash of two ethnical and cultural plates: The Afro-Asian plate is crawling over the European one, moving towards the North-West. Naturally, under these conditions it does not seem possible to create a single transportation ring.

 **Transsib – BAM (1-6)**, a latitudinal “corridor” connecting the Central European and the newly built Eastern Ring. Main terminals – Berlin, Warsaw, Minsk, Moscow, Kazan, Yekaterinburg, Novosibirsk, Irkutsk, Sovetskaya Gavan;

 **Sevmorput (3-6)**, the shortest transportation artery connecting North Europe (the Baltic Ring) and Far East, including the Belomor-Baltic Channel and remote Russian seas. Main terminals – Saint-Petersburg outer harbor in the Gulf of Finland, Petrozavodsk, Archangelsk, Igarka, Dickson, Pevek, Providenie and further to Kamchatka, Vladivostok, Aleut Islands, Alaska.

 **Caspian-Pacific Corridor (5-6)**, connecting the Caspian Ring and the Asian-Pacific Coast. This main plays the leading role in the process of including China in the single Eurasian trading system.

 Special attention is paid to the meridian **South Transportation Corridor (3-5)**, connecting the North Sea Way (cross-point – Petrozavodsk), Baltic ring (St. Pete and its outer harbor), Transsib (Kazan), Mediterranean Ring (through the Volga-Don), Caspian Ring (Olya, Aktay), TRASEKA. The corridor goes further to the south, “connecting” to the single Eurasian communicating network African Asia (through Iraq and Iran) and the Indian subcontinent (final terminal – Bombay).

Practically, all the Euro-Asian transportation structures either pass through the Russian territory, or cross in this territory. In a certain sense, Russia is in itself a transportation corridor opened both from the North to the South (the historical “From Varangians to the Greeks” way), and from the West to the East.

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Historically the works involved in building the Front-Asian Transportation Ring were always closely connected with the Russian infrastructural concept “North-South Corridor”. Actually, constructing this transportation corridor, Russia was challenged by the flexible CIS structure and made vulnerable the newly formed strategic unity of the “Big Four”. This geopolitical sacrifice could be made only in expectation of a big win in the form of restructuring of the strategically and economically important Transcaucasian macro region. Here the interests of Russia and Armenia were completely the same, which, probably, strengthened the Russian-Armenian ties.

Political decision regarding the corridor was made in 2001, when the additional infrastructural project was developed, including setting up an outer harbor in the Gulf of Finland, reanimation of the Russian internal water ways and increasing the volumes of navigation in the Caspian Sea. Promotion of this version of the project started in the summer of 2003.

**August 9, 2003.** *“The Great Volga Path International Conference today opened in Iran. According to IRNA, in the work of the Forum conducted under the auspices of the UN is participating the Russian delegation headed by Viktor Kaluzhny, Deputy RF Minister of Foreign Affairs, special RF President representative on resolving the Caspian issues. On Friday, August 8, the Russian delegation with more than 100 members conducted negotiations with the leaders of Iran province of Gilain.*

*In the course of the conference the participants are planning to discuss the issues of Volga-Caspian water way in transporting freight from Asia to Europe, as well as to improve its economic efficiency. The participants are also planning to discuss the issue of unsettled status of the Caspian Sea.”*

**August 31, 2003.** *“Guard Missile Ship Tatarstan is officially assigned to the Red Banner Caspian Fleet that is to become its flag ship, announced the Russia Channel.*

Currently “Tatarstan” is equipped with the newest missile and artillery systems, as well as with special anti-diversion equipment.

Furthermore, the ship is equipped with active rolling stabilizers, as well as with a special device of hydro-acoustic suppression. If necessary, a helicopter can become air-borne from the deck of the ship. The crew of “Tatarstan” includes more than 100 members.

*Guard Ship “Tatarstan” is charged with carrying the monitoring duty, as well as with guarding the marine state border. The task of the future flag ship is to search, follow and destroy the opponent. According to marines, it is mostly “intended for fighting only with naval and airborne targets”.*

In the history of naval military art “Tatarstan” is occupying just as honored position as “Geben” that at one point made Turkey participate in the war on the side of the Central states<sup>14</sup>. Since due to particularly geographic specifics not a single country, including the great states, could launch in the Caspian Sea forces that could be comparable in their capabilities to one “Tatarstan”, for a whole generation Russia has secured excessive control over this extremely important water basin, and thus created a real opportunity to continue works in the North-South Corridor, Transcaucasian and Caspian Rings.

Nevertheless, in the next few years the works were going very slowly, which had to do both with the problems that Russia had to face in implementing the 2004-2007 reforms, and with the growth of political tension in the region – Pakistan and Iran crises.

The situation changed in the next ten years: Oriental Bazaar, existing more in the virtual world rather than in the real economic environment, nevertheless, stimulated the infrastructural reconstruction in the region. And the auxiliary Protocol to the Yerevan Agreement between Russia, Armenia and Iran stated the desire of all the parties to immediately expedite the works on creating a corridor Saint-Petersburg-Moscow – Kazan – Aktay - Caspian Sea-Persian Gulf.

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Practical works on creating the Transcaucasian ring started after 2015, when several sections of it, particularly the former Transcaucasian Rail Road, began functioning properly.

First of all, the main between Kuraisi, Tiflis and Gumri was expanded, and the Yerevan-Nakhichevan-Baku link was restored. From Gumri the main went down to Erzurum, Elazig, Diarbakir, Rakku, Aleppo, Damask, Tel-Aviv, Alexandria, Cairo, Suez, forming the Western Branch of the Ring.

The Eastern branch went along the territory of Iran: Baku-Astara-and further down the Southern Caspian coast to Babol, turning South to Tehran, Kum, Horrembad, Disful, Akhvaz and Basra.

The Southern branch was connecting Iran, Iraq, Jordan and Egypt: Basra, Baghdad, Rusba-Amman-Suez.

The Transcaucasian Ring, the most complicated of the Eurasian transportation systems, both in terms of political and topographic and climate conditions, was finally completed in December 2020. Creating radial axes and finalizing the infrastructure lasted for approximately four more years.

In January 2025 was completed the first circular tour of the tourist “Oriental Express”, combining 19<sup>th</sup> century luxury with 21<sup>st</sup> century comfort”.

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<sup>14</sup> This broke up the direct transport connection between Russia and its allies in Antanta and indirectly provoked the 1917 October Revolution in Russia.

## CHAPTER 6

### POSTINDUSTRIAL ARMENIA

*(From non-published book Deformations of the Post-Soviet Zone)*

“During the period from 2001 to 2020 the world went through the first stage of the post-industrial crisis.

In general the modern geopolitical structure resembles the world of the “zero years” that I remember very well, however, a little over-exaggerated. The basis of Oykumena includes several ethno-cultural plates, and each of them is locked on an independent market and is serviced by its own transportation ring.

There is a single American super-continent with the main accretion centers in New York, San Francisco, Montreal, Vancouver, Mexico, Rio-de-Janeiro, and San-Paolo. The only integrative structure for this continent is AFTA, and US dollar is the official currency in the Zone.

The Dollar zone also includes Great Britain, Greenland, Caribbean Islands, the islands of Oceania.

Europe remains united from the economic stand point, but politically it has returned to the structure that somewhat remained France in 1919: France, Germany, the “small EU” including eight states of Eastern Europe, and “the rest”. Europe is in the problem zone, and the majority of them have to do with the wariness of the energy and structural infrastructure, overloading of such terminal points as Europort, as well as with the progressively dropping of the quality of human capital. The Euro zone is a little bit wider than the European ethno-cultural plate: Euro is used in the basins of the Mediterranean, Black, Azov and Baltic seas.

The Asian-Pacific region has spread its influence all the way to Australia and New Zealand: the zone of regional currency suspiciously reminds of the “external perimeter” of the Japanese defense zone in WWII. In Malaysia and Indonesia this currency is competing with Dinar, and looks like it is losing this competition.

External flourishing of the Asian Pacific region representatives is masking rather substantial conflicts among its members: China, Russia and Japan are implementing independent, and to a substantial extent, competing projects. The three are ruling collectively, but the crisis of the Chinese economy accompanied by strong central-targeted processes, leaves Russia and Japan to be competitors. In this direction there is no strategic clarity, and the leading country has not been determined yet.

The Oriental Bazaar countries of course cannot compete with the states of European or Asian market in terms of overall GNP, but in terms with the average production level and quality of life Armenia is comparable with Ratin or Portugal.

On a number of issues of the post-industrial development, Armenia is ahead of Russia. Sadring in the project “Revolving Doors” from mid 2020 works in the opposite direction, proposing highly qualified specialists to Russia.

Russia maintained its multiple strategies, as well as its uniqueness, as Ruble is the currency of inter-market transfer. However, the efforts invested in implementing the innovative project in the country brought about certain fatigue: just like Germany, in the 2020s Russia is in the crossway and is again setting its priorities. As it was correctly noted by Professor V.Glazychyev: “*Russia needs to be discovered every 20 years*”.

Among the states that have not joined any of the integrative systems is India. As communicative environments are progressing, India is getting closer to Japan, which is a lone-star country, even though it is in the structure of the APR.

The Persian Gulf countries organized their own resource market headed by Saudi Arabia. With time the vector of their trade becomes more and more inclined towards the “Oriental Bazaar”.







The structure-setting basis of the “world 2020” is competition of post-industrial projects that have entered into their decisive stages. Actually, every candidate country has built its element of the Future, but so far none of them is capable of bringing a system to this future.

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The majority of the Armenian project initiatives were related to the Russian innovative movement that from the very beginning had a post-industrial nature. In essence, the Republic of Armenia quickly turned not only into one of the most important external partners of the Russian Federal Innovation System, but also into a sort of “business card” of this system. Just like the Baltic States at some point demonstrated to the world a somewhat exaggerated image of the Soviet industrial Empire, Armenia was acting as a show-case promoting success of CIS countries/“big Four”/“big Six” in the future model of the world. By the 2010s Armenia was substantially ahead of Russia in implementing such humanitarian technologies as “humanization of communication environments” and “intercultural non-linear training”<sup>15</sup>.

In May 2003 participants of a scientific conference in Athens laid the grounds of educational standards, called the “image of a New Armenian”. Requirements that are in the basis of this document are rather standard, if we can say so. However, unlike many of the similar programs, the educational module suggested at the conference correlates with the national psychology, and, particularly, with the traditionally high prestige of education in Armenia. *“What are you talking about, during the entrance exams Rector of Yerevan University has much more real power than the Prime Minister, and maybe even than the President”*.

Conference participants wanted to see the new Armenians as:







-  People with psychology of winners, not victims;
-  People used to living not according to adaptations (not to confuse with traditions); but following the highest Christian values – freedom, development, creativity, honor, self-esteem;
-  People speaking in several languages and not limiting their horizons with Armenian borders;
-  People creative, competitive and, consequently, valued in the world;
-  People equally well familiar with arts and sciences;
-  Healthy people.

And suggested the following traditional but effective means:

-  Raise prestige of the teaching profession (by 2010);
-  Computerize schools (including Internet access<sup>16</sup>);
-  Rejuvenate the faculty in schools and universities;
-  Attract members of Diaspora for teaching, organize work-shops (work can be started now, system to reach project capacity by 2012);

<sup>15</sup> We must remember that the Armenian clanship turned out to be even more adapted to the project demands than the famous Russian domain style.

<sup>16</sup> Now this sounds rather naive. In the meanwhile, at the beginning of the century 70% of the Armenian population was not using the World Wide Web services. This had to do with a number of factors, but first of all with the monopolizing of the Internet-services market.

-  Create youth camps (for Diaspora as well);
-  Create coordinated educational programs (and textbooks) in the mother state and in Diaspora, adjust the Armenian grammar and the language itself (up to 2020 );
-  Take all gifted children under the patronage of the state (mother state or Diaspora Council);
-  Get rid of the “Islamic” birthmarks, but not of the knowledge brought by Islam culture (change the name of Armenia in Armenian language);
-  Include Sever Agreement in the high school history curriculum;
-  Create a system of regional post-graduate education.

This program, and even to a greater extent the results of express-testing of Armenian high school graduates<sup>17</sup>, initiated in the Armenian society a wide discussion on educational issues. The Diaspora participated in discussing these issues and quickly switched from theoretical debates to project grounds. Within a period of 2004-2006 was created **a network of educational centers “Little Armenia in the Big World”**.

These centers played an important role both in preparing new national/macoregional elite, as in the decision of the Parliament and of the Ministry of Education to move to the Tunisian three-language standard: elementary school in Armenian, middle school in Russian, and higher education in English. It is interesting that this educational standard was already accepted in 2007, while the political decision that equates the Armenian and Russian language in the territory of Armenia appeared only in 2019.

A very interesting project that was also suggested by Israel was opening of the Fund of Support of Armenian Leaders in 2004. Institutionally this fund played the main role in formatting the relationships between the mother state and Diaspora until the Law on citizenship came into force (2012).

Diaspora was distributing humanitarian aid through the Fund, the Fund was charged with general management of a system of private educational centers “Little Armenia”, the Fund also created a series of Olympic Games modeled after the Soviet competitions, taking up the entire educational field from a single school to international level. An interesting detail about the Olympics was their focus on team work rather than on individual achievements. Actually, the idea was to foster the ability to work in a creative, cognitive, active team for some participants, and to establish a “leadership school”, where one could learn to take responsibility for those around him/her and for the final result – for a few others. Armenia at the beginning of the 21<sup>st</sup> century was, in essence, a country without a subject (despite the fact that 80% of its citizens considered that they could easily act as President). In modern Armenia, just as in any other country implementing a post-industrial project or participating in such a project, great importance is played by deeply rooted personal, subjective factors.

In the end, people, and not cities and roads, are the main cornerstones of civilization.

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<sup>17</sup> Only 3% of 10<sup>th</sup> grade students managed to write the formula of sulfuric acid, and only one out of the four could name the states that have a common border with Armenia.

## CONCLUSION

We need to mention upfront, that in the scenario approach the main trends are usually determined correctly, while an event-related error can be tremendous.

In our case we were talking mostly not about a scenario, but about a complicated scenario trajectory containing several dynamic plots<sup>18</sup>. Each of these plots triggers its own system of bright rapid events, and these events interact in a very complicated manner.

Monitoring the homeostatic forces acting in Reality would lead to a certain smoothing of the sharp resonance event peaks: flow of history probably would be smoother than it is predicted in the model.

We can also suppose that in Reality these events would be unfolding much slower, and the scenario that you see above will take 20 to 25 years instead of 20. This theory would hardly change the course of events and will have little or no impact on Armenia, but it would expand the area of humanitarian catastrophe, including Pakistan and maybe even Indonesia.

For further transparency of the scenario it was supposed that subjects of the game would be acting either “naturally” or “correct”. Applied to Armenia, this means that the decision-making procedure would be immediately and certainly separated from the zone of political struggle. There are reasons to assume that this judgment is correct. In this case, there is no principal need to analyze the internal life of the country, and the ups and downs of the political struggle on their own are of no interest.

Under any circumstances we have to agree with the opinion of Gore Nakhapetyan regarding the changes in the role of women in “projected Armenia”, but this trend is so obvious that it doesn’t make sense to describe it in detail. On the opposite, describing cultural changes in the country that has accomplished “humanizing the communicative means” is extremely interesting, but it would take us too far away from the contents of the scenario.

In conclusion I have to say that the “From Russia with Love” scenario is the most promising for Armenia, because even Russia cannot exist in a global world without a global project, therefore, Armenia is in the scope of this project. Going a little bit further, I can say that in the long term perspective, crisis and a drop in production level together with Russia is more beneficial for Armenia than a 5% annual economic growth under the Singapore Version without Russia.

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<sup>18</sup> Republic of Armenia “History of the Future”, “Competition of the Post-Industrial Projects”, “Postindustrial Catastrophe”, “Triumph and Fall of the European Union”, “New Left Project” etc.

## **ATTACHMENT 1**

### **CRISIS OF 2008: TURKEY**

**(Based on materials published in Zarubezhnoye Voennoye Obozrenie, Economic Strategies, Wall Street Journal)**




The crisis that broke out at the end of 2007-beginning of 2008 in the Middle East, had its roots in Europe. Economic and political advantages of the united Europe are conditioned by continuity of the integration process: just like a bicycle, EU must be on the move all the time.

Eastern European countries joined the EU in 2004 (Poland, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Slovakia and Hungary). This substantially expanded the borders of the union, and at the same time demonstrated its heterogeneity. Very important was the fact that the “new” EU members strongly disagreed with the “old” ones on the subject of the 2003 war in Iraq: by supporting the US, the Eastern European countries entered the path of confrontation with the core of EU, and particularly with Germany. The conflict became even more intense in relation to the military action in Iran (October 2006-March 2007).

By the middle of 2007 Germany found itself in a tough spot. Bureaucratic structure of the European Union almost did not leave any chances of preventing Turkey from joining the EU: being formally accepted as a “candidate” and having fulfilled a just as formal set of requirements, in 2008 Turkey would have automatically become a member of the Union. This meant that all the measures undertaken by Germany in order to limit the Turkish immigration would immediately lose any effect. Demographic calculations demonstrated that in this event in a few years Turkish immigrants would become the voting majority in Germany.

German “National Corporation” could not allow such a turn of events to happen – both for the reasons of self-preservation, and due to the very likely nationalistic uprisings in the country.

During the period from 2004 to 2007 the German government was pressing Ankara and Brussels to look into the following issues:

-  The Greece-Turkey conflict around Cyprus;
-  Turkey admitting the Armenian genocide in 19-20<sup>th</sup> centuries;
-  Treatment of Kurds in the Turkish state

When it became clear that either Turkey would settle these problems, or Brussels ignore them, the German diplomacy was faced with the need to use its unofficial channels, i.e. the former East Germany secret service (Shtazi), having a long history of relationships with Turkey.

There is no doubt that these seeds fell to a well-prepared soil. German agents were acting in Turkey in the spirit of modern scenario thinking: they did not stand in the way of natural social processes and did not inspire them, but only gave a certain shape to the existing trends.

Turkey became a secular European-type state under the influence of a catastrophic military defeat in 1918, and remained as such only at the price of tremendous efforts. “Muslim renaissance” of the 1990-2000s woke up Turkish fundamentalism, which is no less radical than its equivalent Arabic. Discussions around the EU made the situation even tenser, and one spark could cause a social explosion.

This spark became the government’s admittance of Turkey’s responsibility for the genocide of 1915, which implied that Turkey would pay to Armenia substantial compensations.

In September 2007 in Turkey was started an Islamic Revolution, generally developing along the Iran model. The Islamic Republic of Turkey was proclaimed in November 2007, and this event was



gladly welcomed by all Muslim countries.

In the next few months the US was trying to restore democracy in Turkey on the basis of the NATO military machine. In response government of the Islamic Republic terminated diplomatic relationships with the US and expelled from the country all the American military councilors. In January 2008 Turkey officially announced its withdrawal from NATO.

This closed the issue of Turkish membership in the EU.

The military situation in the Transcaucasian Region was deteriorating rapidly. Shiit Iran and Armenia united against the Sunni Turkey, Turkey was joined by the “new democratic post-Saddam Iraq” and Pakistan. In Azerbaijan the growing threat of “inductive” Islam revolution was prevented by coordinated actions of Azerbaijan and Russian special services. The situation around Nagorny Karabakh again became salient, and there was a smell of a new Transcaucasian War in the air again.

In March 2008 Russia, Iran and Kazakhstan conducted drills in the Caspian Sea, thus demonstrating military capabilities of the Russian Caspian Marine Fleet led by the Tatarstan Frigate. On March 26 the President of Azerbaijan, supported by the “big Four” in case of internal conflicts, made a clear statement, according to which *“the conflict regarding Nagorno Karabakh can be resolved and will be resolved only by peaceful means, just as the centuries-old French-German fight for Elzas and Lotharingia”*.

Political struggle in Turkey continued, and now the special services of US and the West were acting in agreement. In the summer the new Kemalist Government of National Pacification came to power. A whole number of court proceedings end with execution of active Islamists. The total number of executed reaches several hundred, and the total number of deaths during the Islam Revolution exceeds five thousand, including foreign citizens.

Among these “foreign citizens” – the four Armenians who put up the Armenian flag on Mount Ararat on February 15, 2008, and were shot by the “defenders of the Islam Revolution”. Attempts of the Turkish government to conceal this fact lead to international isolation of the country. The 6<sup>th</sup> US Fleet came up to the Turkish shore. According to opinions of a number of observers, the “Armenian incident” facilitated a rather peaceful transfer of power into the hands of the “government of national pacification”.

In July 2008 Turkey confirmed that it admits the genocide of 1915.

In August 2008 the Armenian government officially supported declaration of the President of Azerbaijan, giving up all its claims to the territory of Turkey. Yerevan officially relinquished its rights to compensation that could be paid to Armenia as a victim of genocide. This was met with full understanding in the Armenian Diaspora and a rather predictable displeasure inside the country.

In the light of further events this decision of the Armenian government should be accepted to be correct if not the only possible one. By sacrificing the monetary compensation that the Turkish government could hardly have been able to pay in any reasonable time period, Armenia managed to secure a certain modus vivendi with its Southern neighbor. This means a new and important step in development of the Transcaucasian regional projection.

The meaning of the feeble understanding that was established between the Transcaucasian states became completely clear in the autumn of that year.

## ATTACHMENT 2

### CRISIS OF 2008: ISRAEL

On Tuesday, October 7, 2008, approximately about 12:00 European time, occurred the largest terrorist act in the history of humanity. On this day a car blew up in the middle of Jerusalem, close to the Jerusalem Wall. During the explosion several people died, including the suicide-bomber. Within 30 minutes of this event another two explosions were heard, but this time without victims and substantial damages. In the past several years the world got used to such terrorist acts, “useless and merciless”.

At 15:00 the Tel-Aviv University registered an increased radiation level. At 18:30 increasing radiation alarm signals were received at the Physics Center in Damascus, at 21:00 excessive radiation was registered in Nicosia, Beirut, Amman and Cairo. By 22:00 Explorer-X, an American military satellite, detected in Jerusalem a source of radiation contamination comparable with Chernobyl.

Evacuation of Jerusalem started only in the evening of October 8<sup>th</sup>. A day of delay turned out to be a tragedy, because for twelve hours the city residents were breathing contaminated air, drinking contaminated water, eating contaminated food. Even though in the next few days all the wounded received medical help, and in liquidation of the consequences of the catastrophe participated Russian and American specialists with Chernobyl experience, human losses were tremendous. According to the Doctors against Nuclear War Organization, until the end of 2009 about 10,000 people died, and the total losses would probably exceed this number twice.

“We simply were not ready to such a scale of contamination. Nothing like this has ever happened – neither in Chernobyl, nor in Sapporo or in Niece. Maybe in Hiroshima...”

By the end of October 8<sup>th</sup> it turned out that at the time when the car exploded about three tons of finely dispersed fissile matter went into the air. The volume of radioactive material did not exceed 15% of contamination after the Chernobyl Nuclear Plant explosion, but this time the epicenter of the explosion turned out to be a heavily populated industrial area.

Origins of this terrorist act remained a mystery. It was implemented by a Palestinian suicide-bomber, utilizing the used nuclear fuel from the recently closed Ingolinsk NPS in Lithuania. Fuel was brought in through Byelorussia, Russia, Chechnya, Jordan. A thorough investigation undertaken by MOSSAD and the CIA took all suspicions over the German and Russian special services. According to experts, the Palestinian resistance is not capable of inventing such a simple and perfect radiation device, even if they’ve got their hands on fissile materials. Furthermore, according to Mossad, Palestinians could not have avoided an information leak.

The official responsibility was traditionally placed with Al-Qaida, and of course no one in the world took this seriously. Perhaps the Russian analysts were closer to the truth than anybody, as they viewed the terrorist act in Jerusalem as a form of technogenic catastrophe, caused by excessive complexity of the modern civilization. *“Nobody made this bomb. Or, if you wish, we all made it. The modern civilization. The modern world”.*

Obviously, the Palestinian Autonomy did not expect such a devastating effect from the October 7 explosions. In any case, Palestinians were not ready for the Israeli response. Before the end of October Mossad wiped out all relatives of the terrorists that died in the explosion, not sparing even the two teen-age students studying in Europe. At the same time an action was undertaken to destroy the administration of the Palestinian Autonomy. All the US efforts aimed at stabilizing the situation brought no results. On November 1 the Knesset passed the Law on Collective Responsibility, and on November 4 started a massive Palestinian “pacification”. Strong protests voiced by the

American and European rights activists were ignored by the Israeli military administration.

In January of 2009 Israel bombed several objects in the territory of Jordan, Syria, and Lebanon, and accused these countries in preparing the terrorist act on October 7<sup>th</sup>. This marked the start of a wide-scale Middle East War, involving Iraq and Egypt as well. Turkey and Iran announced their neutrality and stated that they are ready to accept refugees from the military zones.

The course of war confirms that the Israel mega-project is in a phase of severe decay. The short period of military enthusiasm was replaced by general apathy. More and more men of drafting age are leaving Israel because they have no desire to shed their blood for nothing. The advantages of the Israeli military technologies allowed Israel to gain the advantage in the air, but total domination is out of the question. After two passenger planes have been shot down by the mobile missile facilities with an interval of one day, the Ben Gurion airport was blocked, and all international communications of the country are made from Haifa.

A change of US administration led to the essential abortion of military help to Israel, the 6<sup>th</sup> Fleet withdrew to the central Mediterranean. Under these conditions the war is dragged out, even though the Israeli tank brigades headed by officers with Russian origin and Chechnya military experience are still capable of winning impressive victories.

Absence of practical support from the leading states (ironically, in these months Russia was the only country on the Israeli side, sending humanitarian aid, military equipment and volunteers) quickly brought the Israel economy to the brink of a catastrophe. This "European country" in non-European environment became an extremely expensive project even for the rich Jewish Diaspora. Additionally, the end of Jerusalem for the Orthodox Jews would have meant the "end of Israel".

In the fall of 2009 a peace conference was started in Potsdam devoted to the post-war arrangements in the Middle East. Israel remained in the international political map, but for a price of tremendous internal political concessions. This marks the start of "Israel perestroika", which in essence and in design is similar to the events in the USSR and in South Africa. Emigration from Israel sharply increases.

### ATTACHMENT 3

## CRISIS OF 2008: THE ENTIRE WORLD

(From: “Without USA” by T. Redfort<sup>19</sup>)

Elections of 2008 did not interest anybody outside of the US borders. The world was closely following the events in the Middle East and in Russia on their TV screens and computer monitors. The most economically and military powerful country in the world was left to its own devices. Somehow it turned out that nothing depends on us.

Right after the American people expressed their will and granted the highest power in the world to the democratic candidate, the leading analysts of a number of American Think Tanks got together at the Constellation in San Francisco. They gathered in order to discuss the tragic situation in the country that emerged right after the terms of Bush.

If the Afghanistan and Iraq campaigns could at least be called victorious (even though from the economic standpoint these wars could not stand any criticism), the events in Iran fully demonstrated a complete crash of Bush’s military doctrine. After having suffered a bloody failure (covered up with official relations and packaged in a neat glossy cover of the after-war peaceful arrangements), the Pentagon could not risk a full-scale military attack on Turkey. Consequently Turkey dropped its NATO membership, and this event clearly positioned Germany as a competitor and an opponent of the US.

In the next few months our influence on the events in Europe continued to decrease, and the Middle East situation was also rapidly deteriorating. We could foresee important events in this region related to the elections and changes in administration, but of course nobody could have predicted a humanitarian catastrophe of this level.

The financial situation deteriorated substantially. In 2008 the Dollar was the *second* international currency; the projected establishment of “Dinar zone” ruled by Shariat banking laws, could have become a mortal blow to the system of financial flows aimed at Wall Street.

The original task of the experts that gathered at the Constellation Hotel was to search for new, efficient forms of political and military intervention of the US in the affairs of the Middle East and Europe. A speech made by the Chairman of the US Federal Reserve System sounded in sharp dissonance to a number of expensive proposals. The leading national financial analyst announced that by lagging behind Japan and a number of European countries in terms of labor efficiency, being inferior to the South-East Asia countries and even to Russia in terms of capital efficiency, and constantly increasing the budget deficit “*might be incapable of not only maintaining its leadership in the world markets, but even the markets in the American continent*”. To say that this announcement had the effect of a bomb would be telling a lie. Actually, all those present at the meeting had a creepy feeling of death breathing over their shoulders.

Experts from Rand Corporation noted that the US is just as overloaded with liabilities in different parts of the world as Great Britain in 1939. “*Just as Great Britain back then, we are wasting our capital trying to reach many purposes at once, and many of them are completely useless for the United States anyway*”.

To say that this particular meeting laid the grounds for what subsequently would be called the “2008 Doctrine” that allowed the US to sustain the world leadership at least for one generation, would be an exaggeration. But in any case at that meeting two fundamental concepts were developed that became the cornerstones of the doctrine – devaluation of the US Dollar and leaving

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<sup>19</sup> T.Redford “Without USA” NY, 2024.

Europe, Asia and Africa to their own means. *“The world does not like to exist under American control? Leave it without the US for a while!”*

With full approval of the Congress, the US did not participate in the Middle East War in 2009. During this year the US troops were evacuated from Afghanistan, Iran, Iraq, Georgia, Poland, Latvia, and the number of military bases in Europe and in the Far East sharply decreased. The national expenses went down, the 2009 and 2010 budgets were in the black. Due to these circumstances, the September Kuala-Lumpur conference that projected the Dinar Zone, landed a much softer blow to the Dollar than had been expected, even though during the entire 2009 the NASDAQ Dow-Jones indices were slowly going down.

In response to the newly established Dinar Zone the US suspended its WTO membership.

In January 2010 the US President announced devaluation of the Dollar. This was probably the worst New Year present that Americans have ever received, but in any case the American economy finally became competitive and the export volumes substantially increased.

Revival of the US economy was confirmed at the Montreal Conference in May of 2010, where the West hemisphere announced the “exclusive Dollar zone” starting from January 1, 2011.

The Montreal Conference led to substantial changes in the economic map of the world. First of all, NAFTA and MERCUSOR came to agreement on their legal and administrative norms, which opened the way to a new integration level. In May 2010 the economic basis for uniting the American continent – AFTA, was created and the main positions of the “American commercial law” were developed.

The next several years proved this economic policy to be correct. The US revitalized its economy, paying the price by losing a number of positions in Europe and nearly all its positions in Asia. However, giving up the world leadership, it preserved and strengthened this leadership. In the second half of the second decade the US influence in the world became stronger than ever.

“Future Planet”, Astghik Babayan, 9 years.



“Planet”, Sophia Babayan, 8 years.





Razmik Niigoyan, 10 years



"City", Razmik Niigoyan, 10 years



“City”, Elen Khanoyan, 5 years

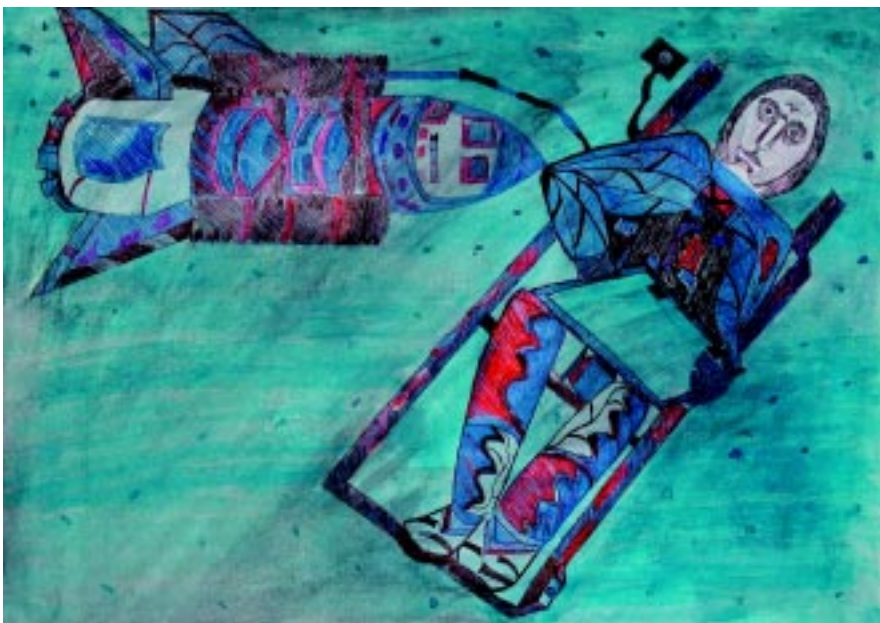


“My feeling: loving birds”, Satenik Valesyan, 10 years.





“My universe”, Hakob Kannoyan, 14 years.



“Time” Astghik Babayan, 10 years.



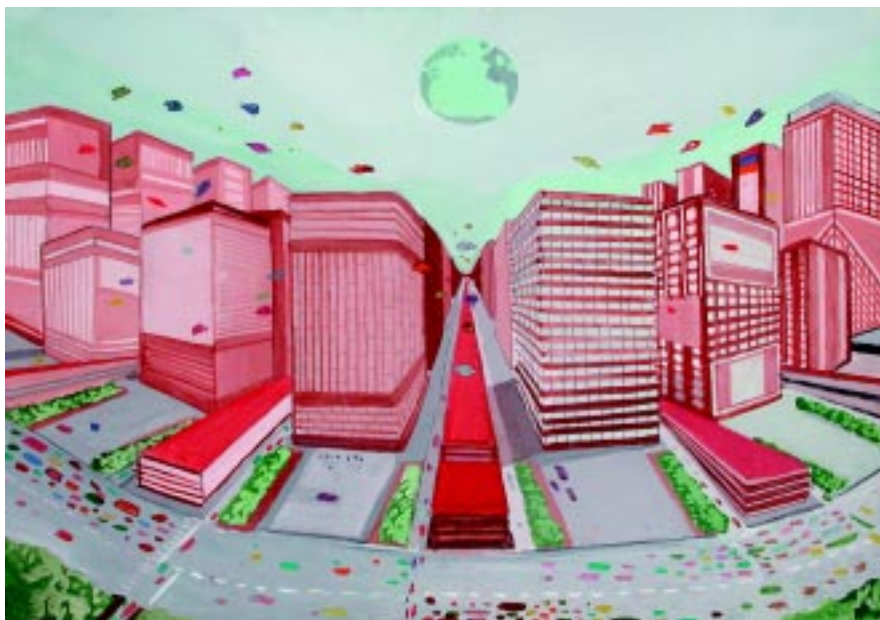
Shogher Khachatryan, 10 years.



Karen Tsaturyan, 9 years.







"New Planet", Hayk Hovsepyan, 9 years.



"New cafe", Shoghner Khachatryan, 10 years.

Armen Aghajanyan, 8 years



"Me in the future", Lilit Ghazaryan, 12 years.



Author: Tony Halpin



# COMING HOME: ARMENIA AND THE EUROPEAN UNION



This paper examines one simple question: should the Republic of Armenia seek to become a member of the European Union?

From that premise flow many complex issues, centered on how Armenia pursues economic, foreign policy, and domestic social ambitions. Fundamentally, however, the decision about Europe is one of attitude. How does Armenia see itself in the world? Where does it belong, geopolitically, historically, and culturally? Where does it want to be in 2020?

It is difficult for a society to contemplate its long-term future when it is still locked in the throes of the struggle to build an independent state from the wreckage of a failed empire. There are too many things that require attention today, now, on important family questions, for people to have time to consider tomorrow. Putting food on the table, worrying about your child's education, working out how to pay for medical treatment, these are all real and pressing daily concerns for a majority of people in Armenia. When the World Bank estimates that half of the population lives below the poverty line on less than \$1 per day, it seems absurd even to raise the question of joining a political union whose member states enjoy an average per capita income of \$20,000 per annum. The two appear to exist on different planets.

Yet it is the responsibility of those who influence, formulate, and promote policy to consider the long term and to work out how to get there from here. The issues of immediate concern to the people of Armenia are also linked in many ways with the choices made about the future direction of the country. The large-scale emigration from Armenia in the past decade, which some estimates put as high as a third of the population, or one million people, has been fuelled largely by an absence of hope that life in the country will improve. Talents that could have been used to develop social and business ideas for a better life at home have instead contributed to the well being of Russia, the United States, and various European countries as migrants have taken their skills and energy to those economies. These people need a reason to return to Armenia, just as those who remain need a reason to be persuaded not to follow them out of the country. Reversing Armenia's spiral of decline – economic collapse provoking emigration leading to further economic collapse – that has led to the present condition of widespread poverty requires public engagement in an inspiring vision of a better tomorrow, one that people find realistic and can help to build.

It follows that Armenians cannot simply concern themselves with local development, putting off engagement with wider issues until a certain level of material success has been achieved. Planning for the future must coexist with thinking about day-to-day survival if the latter is to become easier over time. The process offers all Armenians an opportunity to extend their horizons and to feel a greater sense of control over their destiny.

To return to the questions posed above: How does Armenia see itself in the world? An engagement with Europe presupposes that Armenia feels a sense of kinship with it, that Europe and not other geopolitical states of mind most easily suits Armenia's outlook and temperament. Sitting as it does on the geographical crossroads of Europe and Asia, between the Christian and Muslim worlds, the issue of Armenian orientation has long been debated. Is it Asia or Europe? A Russian satellite? An outpost of Christianity that must find a *modus vivendi* with Islam? All of these things or none, a people with an exceptional status involving a mission to recover lost lands and grandeur? It is possible to find serious proponents of all of these arguments among Armenians both in the Republic and the global Diaspora. The Armenian experience has been so diverse as a result of the cards dealt out by 20<sup>th</sup> Century history, both through the Genocide and 70 years of Soviet communism, that it is difficult to reach any settled agreement on Armenia's identity.

If that diversity felt at times like a curse in the past, it is fast becoming one of Armenia's prime assets in the globalized culture of the 21<sup>st</sup> Century. Armenians have experience of living and working – very often with extraordinary success – in most of the major cultures of the modern world. That

knowledge will be critical in helping Armenia to embed itself in the world market as a conduit for cultural and economic exchange between emerging trade blocs of Europe, Central Eurasia, and the Islamic world. But first Armenia must harness that knowledge and experience for its own development by engaging the Diaspora in a vision of its future possibilities.

After a period, during the early years of independence, when Armenia sought to face in all directions at once, the political leadership of the state had already set out a clear European orientation through its pursuit of membership in the Council of Europe and active engagement in the Organization for Security and Cooperation in Europe. Both President Robert Kocharyan and Foreign Minister Vartan Oskanian have stated that entry to the European Union is a policy goal of Armenia. President Kocharyan declared during a visit to Bulgaria in September 2003 that Armenia's economy was improving so rapidly that it would be in a position to seek membership by 2015.

This is not to say that Armenia does not maintain relations on a variety of levels with its neighbors and former Soviet brethren. Russia in particular enjoys elevated economic, political and military influence in Armenia. Yet the reality of Russia as a reduced economic power makes it impossible for Armenia to ignore the gravitational pull of Europe.

There are other reasons why Armenia has turned its face towards Europe. As an entity, Europe represents an ideal of civilized existence, one where the rule of law predominates, where individual liberty is respected, and where political and economic freedoms maintain stable and prosperous democracies. For Armenia, after 70 years of totalitarianism preceded by centuries of subjugation, Europe is the model of the way the country wants to live, now that its citizens finally have the choice. A glance at the examples presented by neighboring states only strengthens their conviction to look beyond the immediate region for inspiration. Georgia's political fragility threatens constantly to plunge it into a terminal crisis, Azerbaijan is in a state of suspended war with Armenia and its political culture has descended into nepotism, relations with Turkey remain frozen in historical enmity, and Iran is an Islamic theocracy showing signs of renewed popular discontent and instability.

Efforts are being made to build regional associations of nations, but each is fraught with difficulty. Members of the Black Sea Economic Union appear only to have geography in common and even that is questionable in Armenia's case. While anything that promotes cooperation across the region is desirable, there are no obvious grounds for economic integration, and some considerable obstacles to achieving it. Turkey's pre-eminent political position in the organization also presents clear problems for Armenia, and there remain question marks too over the extent of Turkish commitment to the development of the Black Sea grouping given its declared intention to achieve membership of the European Union, which dominates its economic and political agenda.

The Commonwealth of Independent States presents a more comfortable association for Armenia, given its historic echoes of the Soviet Union. The largest members of Russia, Belarus, Kazakhstan and Ukraine recently agreed to form a customs union, prompting Ukraine to announce that it would no longer seek EU membership. But its economic reality pales in comparison with the EU's present strength and there is little evidence to date that nostalgia presents a basis for substantial future development. Beyond Russian engagement discussed below, there is also no sign that CIS countries regard economic integration with Armenia as important.

Even assuming the political difficulties could be overcome, the potential of a south Caucasian regional framework involving cooperation with Azerbaijan and Georgia presents very limited economic opportunities in a market of just 15 million people and a total gross domestic product of \$10 billion – equivalent to 3 per cent of the GDP of Holland, itself one of the smaller economies of the European Union. (UNDP concept paper on sustainable economic development policy for Armenia)

The imperative and opportunity for Armenia is to develop an open, tolerant democracy that turns it into a beacon of hope in a troubled region and invests the country with added importance



for major powers by offering the possibility of contributing to stability among its neighbours. For that, it must look to Europe, whose interests in promoting regional democracy and stability in the region coincide with Armenia's, particularly as the Caucasus will one day border the EU. The EU has appointed the Finnish diplomat Heikki Talvetie as a special envoy to the South Caucasus countries of Georgia, Armenia and Azerbaijan. On his first visit to Yerevan in July, Mr Talvetie characterized his role as to "try to formulate EU interest in the region".

If pragmatic modern concerns point the way to Europe, so too do cultural and historical roots. Armenians can trace their ancestral lineage in Europe equally as well as modern Greeks or Italians, descendants of ancient Athena and Rome. From Byzantium through to the Crusaders of England, the Doges of Venice down to the Sultans of Ottoman Turkey, Armenia and Armenians have been intimately involved with many of the significant developments of European history, leaving their mark on each major period. Its status as the world's first Christian nation places Armenia firmly within the evolution of Europe's Judeo-Christian traditions of law, philosophy, art and architecture. The Vatican archives contain copious evidence of relations down the centuries between the religious authorities of Rome and Etchmiadzin. The Armenian language belongs, like English, to the Indo-European family. Visitors from Western Europe today feel an instant cultural affinity with Armenia that transcends geography and would not be evident, for example, to travellers in next-door Azerbaijan. For their part, Armenians display an openness and tolerance of other cultures that is decidedly European, and Western, in its pluralist live-and-let-live outlook even if the population itself is remarkably homogenous.

While the cultural and philosophical roots that connect Armenia to Europe are strong, so too are the bonds of kinship. The presence of the Mkhitarian Fathers in Venice is well-known and longstanding, the Gulbenkian Foundation is arguably Portugal's most famous cultural institution, Armenians are among the dominant traders in Antwerp's diamond market in Belgium, and the French-Armenian community is more than half a million strong. Armenians and Greeks enjoy a long-established friendship based on shared history and religious outlook, and live together peacefully in Cyprus. Citizens of the Republic of Armenia could point to similarly close ties of kinship with communities in Turkey, Georgia, Iran, and Russia, particularly Krasnodar and Moscow. But only Europe offers the combination of historical links, democratic stability, and economic power. The centrality of cultural pluralism in the workings of both the Council of Europe and the European Union also provides a guarantee of freedom from persecution that minorities in none of the other examples enjoy.

This question of pluralism is important. Modern Armenia is a tiny country whose people have constantly had to battle down the centuries to maintain their ethnic and cultural identity against waves of invaders. Was the European Union to represent a cultural melting pot, from which "new European man" was expected to emerge, rather like Soviet man before him, and then it is likely that no economic or political argument could convince Armenians to join such a grouping. Having clung with such determination and for so long to their "Armenianness", nothing could persuade them to see advantage in giving it up. But in fact Europe represents a safeguarding of national identity, even the restoration of it, as Catalans, Scots, Bretons, and Flemish could testify. By preventing the political and economic dominance of any one nation state, while encouraging devolution of power to the regions through a process of "subsidiarity", the EU creates space for smaller peoples to retain their cultural uniqueness and to thrive, particularly against a backdrop of legal concern to prevent cultural, political, and economic discrimination against minorities. Paradoxically, the most powerful economic-political unit on the Continent is simultaneously the guarantor of the survival of the weakest and most vulnerable cultural identities.

Given these circumstances it is not difficult to see why Armenia's leadership has opted to place the country firmly on a course towards Europe. The route to the east, across the Caspian to Central

Asia, was always closed geographically and economically by Azerbaijan as a result of the conflict over Nagorno Karabakh, but also culturally. The states of Central Asia have all evolved models of governance based on the dominance of a single authoritarian leader, and at its most extreme on a personality cult. As in parts of the southern Caucasus, some are unstable entities riven by political and religious conflicts. There are no obvious cultural affinities or political advantages for Armenia in aligning itself with this region. The routes south, to Iran, and north, towards Russia, are important for Armenia's trade development but offer no political advantages beyond those already established.

Bilateral relations with Iran are good and have been vitally important in enabling Armenia to overcome the effects of the trade blockade by Azerbaijan and Turkey. But neither side sees any gain beyond those normally associated with a mutually respectful bilateral relationship between independent states; there is no rationale for coordinated actions in particular fields or a pooling of sovereignty. Indeed, given strained relations between the United States and Iran, and Armenia's continued dependence on American financial aid, it would be positively counter-productive for Armenia to move closer to its southern neighbor.

The view to the north is rather different. Russia has an increasingly important stake in Armenia's economy, particularly in the energy sphere, as a result of the debt-for-equity deal agreed in 2002 to pay off Yerevan's financial obligations to Moscow. This necessarily brings increased political influence in Armenia's affairs, something that is welcome to a significant proportion of the population and viewed with suspicion by almost as many. Historically, Russia's role in the region has been as colonial master, albeit one whose presence has served as a security umbrella for Armenians faced with the threat of Turkish persecution. The presence of a large Russian military base in Armenia, in parallel with an extensive network of cooperation at all levels between the two armies, continues to provide reassurance for Armenians. But the power relationship between the countries is so unequal that a deepening of contacts runs the risk of turning Armenia into a client state, effectively surrendering its independence in return for security guarantees. Some within Armenia regard this as an acceptable trade-off, believing Armenia can never assure its survival on its own in a hostile and unpredictable environment. But effectively reconstructing the relationship that existed between Moscow and Yerevan during Soviet times, albeit in more modern clothing, hardly makes sense to those who struggled for and believe in Armenia's independence. So the freedom of Armenia to control its destiny depends on the degree to which it seeks to place limits on its relationship with Russia. History and a common outlook may promote very close friendship, much as Britain enjoys with the United States or indeed Armenia with France, but any formal interlocking of relations inevitably leads to the dominance of interests of the larger partner. Armenia already has very little leverage and would have even less in the future as Russia regained some of its former economic strength.

The panorama of possibilities is greatest in Europe. Armenia measures itself against Europe because it sees itself as of Europe, something that distinguishes it from all of its former Soviet allies to the east, who clearly belong in Asia. It reaches this conclusion even when, as some leading members of President Robert Kocharyan's administration sought to do after the much-criticized 2003 elections, it attempts to distinguish between a European and an Armenian mentality. That particular assertion, made under criticism from the OSCE and Council of Europe for failings in the electoral process, was an admission that Armenia remained far from its desired condition as a civilized European state rather than an outright rejection of European norms of behavior and thought. Indeed, one of the most striking aspects of Armenia's political culture is the broad consensus that already exists on the need for a European orientation when no such consensus exists on almost any other subject. No serious political party or aspiring leader sees short-term popular advantage in rejecting this consensus and arguing either for a policy of national isolation or closer union with

Russia. At the 2003 parliamentary elections, the Communist party, which did argue for joining a political union with Russia and Belarus, failed to win any seats for the first time since Armenia's independence. The message has not been lost on other political parties, all of which state clearly that they favor closer relations with Europe.

But there are other scenarios that may force themselves upon Armenia, regardless of its wishes, modifying or nullifying its desire for a relationship with Europe. The Russian option bears further examination. In these circumstances, Armenia becomes increasingly dependent on Moscow, on the "center" to use Soviet parlance, and gradually loses the ability to make independent political, foreign policy, and economic decisions while remaining nominally a sovereign state. Independence is given up for survival. Association with Russia also offers an opportunity for greater reflected importance in the world. Being "with Russia" means being taken seriously, being part of a bigger entity in world diplomacy instead of being largely ignored as one of many small and relatively insignificant countries. This has a certain emotional appeal among those who hanker for the grand old days of the Soviet superpower, but also some practical significance in bargaining at the international negotiating table.

Those with a pessimistic - they might say realistic - view of international relations argue that only Russia has a clear strategic interest in defending the integrity of Armenia's borders. Georgia under Eduard Shevardnadze had made escape from Russian influence a central policy objective, a desire intensified by the decade-long conflict over Abkhazia. Azerbaijan's clear allegiance, politically and emotionally, is with Turkey, something that underlines Armenia's sense of its own insecurity on two flanks. The United States has established a strategic presence in Central Asia in the wake of the war in Afghanistan and, given the \$40 billion of investments made by US oil companies in Baku, has a strong economic interest in securing the flow of oil from Azerbaijan to western markets. However, it is not clear that the US considers Armenia, particularly in the wake of the 2003 presidential elections in Yerevan, as an asset in this regard. Its primary interest is the maintenance of stability in the region, and thereby the resolution of the Nagorno Karabakh conflict. But this may place the US in opposition to Armenian national interests if the desire to secure the oil supply from Baku leads Washington to tilt policy in favor of Azerbaijan. The long-standing American interest in good relations with Turkey, potentially more important given US involvement in Iraq, also makes official Yerevan suspicious that its interests would not be secured by too great a dependence on the United States. It is highly unlikely too in any circumstances of renewed conflict over Karabakh, that US troops would ever be deployed in the region in defense of Armenian sovereignty.

The same cannot be said for Russia, which has signed a mutual defense pact with Yerevan and, as noted, already maintains a substantial garrison in Armenia. This has acquired added significance for Moscow now that the government in Tbilisi has compelled it to close bases on Georgian soil. Russian border guards patrol Armenia's frontiers with Turkey and Russian military supplies and intelligence were instrumental in tipping the balance in the Armenians' favor in the 1994 offensive that allowed them to recapture virtually all of Karabakh plus a vast swathe of Azerbaijan. In short, Russia has put its muscle where its national interests are and more often than not so far they have coincided with Armenia's.

Another plausible, if far bleaker, vision of the future has Armenia existing in a state of siege, in perpetual conflict with neighbors who themselves occupy a zone of constant instability. On this model, Armenia's sole policy objective is survival through armed defense of borders and all economic and political/diplomatic endeavors are subservient to this task.

The model assumes that the conflict over Nagorno Karabakh remains insoluble and that, thanks to oil, a decade or more of increasing Azeri affluence has produced resurgence in military

activity with weaponry even more sophisticated than before. Armenia, backed by its Diaspora and with discreet Russian support, maintains a deadly stalemate with a well-equipped Azeri army that gradually saps the strength from the republic's economy. Foreign investors have been scared off, Yerevan fights a constant internal battle to stem the tide of emigration, particularly of young men eligible for military service, and international organizations seek only to limit the scope of regional instability while regarding both parties as intransigent lost causes.

The model further assumes that relations between Armenia and Turkey not only fail to develop but deteriorate to the point where the closed border becomes a preferable option to an open conflict that has the potential of dragging Russian forces into a confrontation with a member state of NATO. Conflict constantly threatens with Nakhichevan. Meanwhile, Georgia descends into a cycle of repression and internal rebellion that threatens to drag Armenia into further military action to protect ethnic kin in the Akhalkalak region across its northern border. Further north, Chechnya, North Ossetia, and Ingushetia remain hotspots of ethnic and national conflict that force Russian forces to engage in prolonged and costly guerrilla war to retain Moscow's grip. To the south, Iran veers between reform and religious fundamentalism, with agitation in the Azeri-populated north adding to the regional instability.

In many ways, this scenario is the antithesis of the European vision, the one in which everything that can go wrong has gone wrong, leaving Armenia isolated from the rest of the international community rather than taking its place within it. Armenia's efforts to engage with Europe can be read as direct attempts to evade just such a future, which becomes more or less credible to the extent that the republic fails to build bridges beyond the Caucasus and into the European family. The OSCE monitors the ceasefire that continues to hold in Karabakh and sponsors efforts to resolve the conflict peacefully through the Minsk process. The Council of Europe admitted both Armenia and Azerbaijan in 2001, despite the unresolved conflict and evidence that neither state fully complied with the terms of membership, in an effort to stabilize the region. Through its Traseca program, whose secretary generalship has just been assumed by Armenia, the EU seeks to promote open borders for transport and trade in order to bind the southern Caucasus more closely together and counteract the tendency towards splintering in a region with 28 distinct ethnic groups. The centripetal forces of commonalities of interest are applied from outside to counter the centrifugal forces of narrow national and ethnic identity that constantly threaten anarchy from within.

Armenia does not simply choose Europe, therefore, because it is the best future or because it has no other choice. It chooses Europe also as a means to escape the worst option, of siege and destruction, which remains an all too realistic possibility given both its own historical experiences and post-Soviet developments in the Caucasus region. Chaos is a plausible scenario in 2020 if Armenia cannot embrace the security offered by European institutions. Security is offered by Europe but also sought: the nightmare vision for policymakers in Brussels is of a European Union besieged by the people of failed states all along its eastern and southern borders. Stabilizing its neighbors offers the best prospect for the EU of maintaining peace and social cohesion inside the union itself.

The use of the term 'European institutions' clearly implies a number of relationship choices available to Armenia. In the defense arena, Armenia has established a relationship with NATO through the Partnership for Peace program and recently gained considerable appreciation for the manner in which it hosted the first NATO military exercise on Armenian soil. The extraordinary sight of Turkish troops parading in Yerevan's Republic Square was only one of a number of historic firsts recorded during those exercises.

Armenia already enjoys the benefits and responsibilities of membership of the OSCE and Council of Europe, and has a representation in the Parliamentary Assembly of the Council of Europe.

It is fully integrated into these forums of European diplomacy without having to sacrifice any part of its sovereignty. Membership has, however, brought considerable outside scrutiny to procedures of government and standards of public life in Armenia, often at considerable discomfort to the authorities. Armenia has committed itself to adopt all the protocols of membership of the Council of Europe, including abolition of the death penalty, respect for religious and civil pluralism, acceptance of homosexuality, reform of the police and prisons services, the upholding of human rights, with ultimate appeal to the European Court of Human Rights, and free and transparent elections. Many of these issues are difficult to absorb for cultural and political reasons in a country still adjusting to life after 70 years of being cut off from mainstream thought. Abolition of the death penalty, in particular, has generated considerable controversy in the wake of the October 1999 killings of eight senior politicians in a terrorist attack on the Parliament in Yerevan.

The political establishment understood however that failure to abolish the death penalty, never mind allowing it to be applied in such a high-profile case, carried the certainty of suspension from the Council of Europe. This illustrates as much as any single example the depth of official commitment in Armenia to European integration: defiance of Europe and satisfaction of a public desire for revenge would earn an unscrupulous political leader immense short-term respect with many voters, yet none seek this easy route to popularity because the long-term cost for the country is perceived to be too great.

Neither the OSCE nor the Council of Europe has pretensions as an organization of economic integration. The first, as its name implies, is concerned primarily with the enhancement of security and the development of means to defuse tensions on the continent. The founding principles of the Council of Europe were concerned with protecting human rights, promoting the rule of law, and safeguarding fundamental freedoms. Established as a grouping of 10 nations of Western Europe in 1949, it now comprises 45 member states embracing a pan-European population of 700 million. Its remit stretches from culture and sport to health, education, media freedoms, legal reform and the environment. A Plan of Action adopted in 1997 set out the council's key themes for the early 21<sup>st</sup> Century: democracy and human rights; social cohesion; security for citizens; and education for democracy and cultural diversity.

Armenia's accession to membership of the Council of Europe on January 25, 2001 was an important landmark in its progress towards European norms of democracy and human rights. Without this achievement, consideration of EU membership would be out of the question. The relatively swift process also bodes well for the envisaged timescale of EU accession: Armenia was granted special guest status at the Council of Europe's Parliamentary Assembly in January 1996 and applied for full membership two months later, gaining endorsement from the Assembly in June 2000.

Membership did not come without conditions: almost the first decision taken by the Council in regard to both Armenia and Azerbaijan was to establish programs of cooperation primarily "to monitor their democratic development following their accession". What the Council of Europe provides, therefore, is a ratchet towards standards in the developed world across all spheres of activity and a mechanism of accountability for failure to make sufficient progress. The 2003 presidential elections in Armenia provide a good example of this accountability in action, when Council of Europe monitors were highly critical of the extent of abuses they recorded. This was in marked contrast to the previous elections in 1998, when the monitoring delegation expressed "no doubt about the legitimacy of the election" and praised the "careful and proper way in which things were done". Armenia by this yardstick had regressed in its democratic development and criticism was the entire sharper because it had been seen to fail against commitments that it had freely entered into.

The Council's provision for partial agreements, so-called "variable geometry", also offers scope for resolving some of the difficulties of relations in the southern Caucasus. The presidents of the parliaments of Georgia, Armenia, and Azerbaijan met in May 2000, for example, under the auspices of Lord Russell-Johnston, President of the Parliamentary Assembly of the Council of Europe, to establish a permanent working group of the three parliaments to deal with human rights issues of common concern to the south Caucasus states. In a statement, the presidents declared that the ability to foster inter-parliamentary cooperation in the region through the Council of Europe had "contributed greatly to building confidence and good relations in the region".

The Council of Europe, then, provides escape from a totalitarian past, security against a totalitarian future, and the prospect of greater cooperation to defuse tensions between neighboring states. But it does not offer a route to the prosperity that economic integration brings. Only the European Union is driven primarily by economic concerns, although increasingly and necessarily these involve political decisions about the nature of relations between member states and of the relationship between individual members and the Union as a dominant entity.

The EU is the largest economic market in the world, accounting for 19 per cent of world exports and 18 per cent of imports excluding internal trade between the 15 member states. Its 375 million consumers will swell to nearly 500 million when the eight candidate countries from central and eastern Europe plus Cyprus and become full EU members. These new members present a particular challenge to what has been perceived until now as a club of rich countries. While their populations increase the size of the EU by 20 per cent, the new member countries' gross national product (GNP) is only around 6 per cent of the GNP of the 15 current EU states.

Equally, the per capita GDP of most of the new members is far below the EU average and well below that seen during previous phases of European expansion when, for example, Ireland, Greece, Spain and Portugal acceded to membership. Poland, the largest of the new members, has a GDP per capita that is 40 per cent of the EU average of \$20,000. Latvia, at 2.5 million people the closest in size to Armenia, has a GDP per capita that is only around 27 per cent of the EU average, the lowest of any of the new EU states.

It is clear that being poor is not by itself a barrier to membership in the EU. Armenia, however, has a GDP per capita of about \$3,850 according to International Monetary Fund estimates (though other studies put it nearer to \$3,000). This places it at about two-thirds of the level of Latvia. If Latvia can be considered a baseline below which the EU would be unlikely to entertain an application for membership, then Armenia faces the challenge of doubling its present GDP simply to put itself in contention a decade from now.

This is a formidable but not insuperable challenge. Armenia experienced an economic contraction of unprecedented severity following the collapse of the Soviet Union, when its economy shrank by 40 per cent in 1993 alone. Even in 1999, after several years of growth, the republic's GDP was only 42 per cent of its 1989 level. The country has experienced successive years of growth since 1994 and registered a record 12.2 per cent expansion in GDP in 2002. Average growth between 1994 and 2001 was 6 per cent per annum, which would double present GDP levels to between \$6,000 and \$7,500 per capita by 2013 if maintained. Since growth has accelerated into double figures in the past two years, it is reasonable to speculate that average annual growth rate could increase to 8 per cent and achieve that goal within a decade. Armenia could therefore be in a similar economic position by 2011 as Latvia is on the eve of its entry to the EU. Of course, the EU will have moved on too, though at a slower trend rate, requiring Armenia to continue to produce increases in GDP of at least six per cent per capita over the rest of the period to 2020 to narrow the gap further. Armenia would therefore need to aim at a development model akin to Singapore's or Ireland's (though the increase in the latter's growth curve was assisted considerably by EU member-

ship) in order to achieve this rate of growth. Experts have already expressed concern that the present expansion in Armenia is driven largely by import substitution and the absorption of informal external income in a construction boom. An economic program aimed at fostering sustainable and robust economic growth is therefore an essential prerequisite of any determined campaign to secure EU membership.

But is membership available in any case? Some analysts have concluded that its expansion is already complete, that the only remaining countries with a prospect of membership in future are those on the mainland of Europe, Bulgaria, Romania and the states of the former Yugoslavia. The states of ex-Yugoslavia have already been offered the possibility of accession to the EU, with assistance in support of that goal, through the union's Stability and Association process. It is possible therefore that the earliest the EU may be willing to contemplate Armenia's membership would be at the enlargement after next, which raises questions about how far into the future this will be, if at all.

The extent of the enlargement has also brought into focus the whole "Europe" issue: where does Europe end and Asia begin?

This debate has been triggered most sharply over Turkey's efforts to secure approval for its application to join the EU. Apart from its sheer size – at 60 million it would immediately become the second or third largest member state – arguments have raged over whether Turkey can properly be considered "European" because of its Muslim culture, and geographical location in Asia Minor. This is not a purely academic matter for Armenia. If Turkey is not Europe, then it becomes all the harder for countries further east to make a convincing case that they are. Arguments based on religion would be dangerous and erroneous: several existing member states have substantial Muslim minorities and the EU has already extended the possibility of eventual membership to Bosnia Herzegovina, which has a majority Muslim population. The EU is not a Christian club, though its dominant heritage may be.

In fairness, the EU has promised Turkey a path to membership on the same basis as other candidate states, making clear that neither religion nor geography represent insuperable barriers as long as obligations on human rights and democracy can be met. Turkey established a customs union with the EU in 1995 providing for the reciprocal abolition of duties on manufactured goods, and in March 2001 signed an accession partnership setting out the road map to membership. Since 2001, the EU has allotted annual financial aid to Turkey at 15 per cent of total spending through its Mediterranean assistance program, plus 50 million Euros annually for structural reforms and institution strengthening, and a 600 million Euro loan package through the European Investment Bank for reconstruction of areas damaged after the 1999 earthquake (an issue of particular import for Armenia).

Given their history, it is ironic that Armenia's future prospects for EU membership may depend on Turkish success in demonstrating that the union has not reached some imagined limit of geography. Again, the EU has never prescribed for itself any limitations on its future size though the debate about the borders of Europe can be expected to sharpen the further east and south goes its expansion.

The EU's terms of membership are deceptively simple. Article 49 of the Treaty on European Union states that "any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union". Article 6(1) declares: "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law, principles which are common to the Member States."

Armenia could, and perhaps should, lodge an immediate application for membership on this basis. It would not expect to pass the test at present but the declaration of intent to measure itself



against these standards now and into the future would have a galvanising effect on public opinion and could effect a cleansing process on public life. A formal declaration in 2004 could be the starting point of this narrative.

The 1993 Copenhagen Summit stated that accession takes place when a country is “able to assume the obligations of membership by satisfying the economic and political conditions required”. It then set out the criteria by which applicants from central and eastern Europe would be judged: stability of institutions, guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; and the ability to take on obligations of membership including adherence to the aims of political, economic and monetary union.

This presents a formidable agenda for Armenia. But a declaration of intent would provoke consideration of the policies and practices necessary to clear these hurdles over the years 2004 to 2020. Serious political forces would have to prepare manifesto programs for the 2008 presidential elections that placed this aspiration at the heart of their social and economic policies. A healthy and inclusive public debate about the EU would be weaved into the fabric of Armenia’s everyday politics, from street corner cafes to the highest offices of state. The result would be the election of a pro-EU President, with a mandate to pursue the Copenhagen criteria, regardless of the candidate elected.

The Madrid Summit of 1995 went further and obliged candidate countries to ensure that their administrative structures are brought into line with the requirements of EU legislation so that the legislation could be implemented effectively at all appropriate internal administrative and judicial levels. This was considered a “prerequisite of the mutual trust required by EU membership”.

A pro-EU presidency and government in Armenia would commit itself to a five-year program from 2008 to 2013 of compliance. This would require thoroughgoing modernisation of Armenia’s state structures through adoption of the 31 chapters of EU rules known as the “*acquis communautaire*” – basically, the standards achieved by the member states over the 45 years since the establishment of the European Economic Community in 1958. Again, the objective is ambitious, but it provides Armenia with a golden opportunity to woo back both Diaspora and native-born Armenians with the skills required to achieve it – and to energize them by the promise of involvement in an undertaking of truly historic significance.

The areas covered by the *acquis* make plain the extent of the commitment required. They are: free movement of goods; freedom of movement for persons; freedom to provide services; free movement of capital; company law; competition policy; agriculture; fisheries; transport policy; taxation; economic and monetary union (including acceptance of the Euro); statistics; social policy and employment; energy; industrial policy; small and medium-sized undertakings; science and research; education and training; telecommunications and information technology; culture and audiovisual policy; regional policy and coordination of structural instruments; environment; consumer and health protection; cooperation in justice and home affairs; customs union; external relations; common foreign and security policy; financial control; financial and budgetary provisions; institutions; and finally “other”, a catch-all area for specific issues of concern.

If all that wasn’t daunting enough, the 1999 Helsinki Summit added three important riders. It declared that candidate countries “must share the values and objectives of the European Union as set out in the Treaties”, a requirement that was seen in some quarters as directed more towards Turkey’s record on human rights and the rule of law as an obstacle to its membership aspirations. It further stated that countries should resolve any outstanding border disputes and emphasized the importance of meeting high standards of safety at nuclear power installations.

Armenia has already come under pressure from the European Union to close the Medzamor nuclear station, which provides 40 per cent of the republic’s electricity supply and is crucial to its



economic security in conditions where Turkey and Azerbaijan continue their illegal blockades of its borders. Armenia has refused to consider closure without assurance of a secure replacement, although the EU is pressing for a commitment to decommission Medzamor by 2008 and has offered \$100 million as an inducement. Clearly, an early declaration by Armenia to seek EU membership implies a firm commitment to close Medzamor, which would require large-scale investment in both decommissioning and the creation of alternative energy sources. The EU has stated its willingness to establish a fund with other potential donors to support Armenia in this task. Handled correctly, Armenia's application for EU membership could be the catalyst for an immediate and substantial boost to its economy from the activity required to replace Medzamor, thereby associating the EU reform program with improved prosperity.

The question of resolving border disputes is more serious, since it implies that the Karabakh dispute with Azerbaijan must be resolved before the EU will give consideration to Armenian membership (or for that matter Azerbaijan's). The EU's decision to admit Cyprus without resolution of the illegal division of the island and the ending of the Turkish occupation of the north would contradict this, though progress in recent talks between the two sides and the opening of the Green Line for the first time in 30 years were directly related to EU pressure for a settlement. Arguably, the Karabakh issue is much more complex and potentially more explosive, given the history of serious military conflict in the past decade. The Council of Europe made a point of admitting both Armenia and Azerbaijan simultaneously in order to avoid accusations of partisanship on this issue. The EU would not contemplate any such compromise because open borders and the free movement of people and goods are key obligations of membership. It seems unavoidable therefore that resolution of the Karabakh conflict is a condition of any serious bid by Armenia for EU membership. Looked at differently, however, the prospect of EU membership could open up new ways of finding a solution: were Armenia and Azerbaijan to enter negotiations for membership simultaneously, then the guarantees of protection of minority rights would provide added reassurance while border markings would lose much of their present potency.

The Karabakh conflict may well be viewed within this broader context by the time of the presidential elections of 2013, when the present stalemate, if it holds, will have been in existence for 20 years. Will there still be any constituency in Azerbaijan for military action to re-occupy Karabakh when the youngest of its former inhabitants with any memories of life there will be in their mid-30s? It is impossible to forecast developments even over the next few months, but the likelihood is that Karabakh will cease to be an obstacle to EU membership well before the desired date of 2020. The contrary argument that the issue has proved insoluble in the 15 years since the emergence of the Karabakh Movement lends itself to the bleak view outlined earlier that Armenia is destined for a future under siege.

The elections of 2013 provide the platform for the opening of formal negotiations for accession to EU membership. Having achieved implementation of the *acquis* over the previous term, the president and his/her team are re-elected on a platform of completing the job. By now, the seriousness of the enterprise has sparked an investment boom led by Diaspora business figures determined to establish a strong presence in what is increasingly seen as the gateway between Europe and an increasingly prosperous Central Asia. Armenia's historic sense of itself as a bridge between two worlds is given fresh meaning for the 21<sup>st</sup> Century and Armenians from around the globe are drawn into the enterprise of building that bridge.

Like most former Soviet republics, Armenia has a relationship already with the EU through a Partnership and Cooperation Agreement signed in July 1999. This includes annual meetings through the cooperation council between EU and Armenian officials. Foreign Minister Oskanian reiterated Armenia's intentions to seek membership at the meeting in September 2003, though he gave no

indication of when an application would be made.

The European Commission adopted its Armenia Country Strategy Paper in December 2001, setting out the EU's framework of assistance programs between 2002 and 2006.

Its summary of Armenia's condition provides an accurate measure, if hardly a ringing endorsement, of the republic's present standing in Brussels: "Armenia's political condition is stable but fragile and influenced by an unstable regional context. . . . Armenia's respect for democracy, the rule of law, and human rights is not particularly alarming."

This is the context that an early application for membership would be designed to change. The assistance framework itself, however, is not concerned with questions of eventual Armenian entry into the EU. Instead, it declares that the EU "has an interest in Armenia developing in the context of a politically stable and economically prosperous southern Caucasus". Assistance is concerned primarily with poverty reduction, food security, and the transition to a democratic market economy. Through its Tacis program, which had a budget in Armenia of 10 million Euros in 2002/03, the EU is also offering support for institutional, legal and administrative reforms in areas such as education and training, and the development of information technology.

The EU's policy objectives in the bilateral relationship are couched in the necessity of establishing a stable region not least because it acknowledges that the enlargement process currently under way will bring the EU frontier closer to Armenia. This interest in stability is real and pressing. The logic of the EU's decision to agree an accession partnership with Turkey is that the EU will border Armenia in the not too distant future, perhaps even as early as the end of the decade. The strategy paper acknowledges too that Armenia's main foreign policy objective is "progressive integration into EU models and standards".

Perhaps the greatest fillip to the cause of Armenian membership would be if the EU did indeed border the republic. Apart from the economic benefits, it would sharpen the EU's security concerns in relation to the southern Caucasus and compel much greater engagement with the states of the region, including Armenia. Security on its southern flank becomes a key argument for the EU in its perception of the need to embrace Armenia as an anchor of stability.

As things stand, with a population of 3 million and a nominal GDP of approximately \$2.5 billion, Armenia's absorption into the EU could occur without registering even the smallest blip on economic and social indicators in Brussels. Neither the local market nor the workforce skills available present much added value for the EU, while the potential bill involved in assisting Armenia to achieve European standards of social and business life would leave a strongly negative balance sheet overall.

What distinguishes EU membership from all other development scenarios is that, in offering access to the world's wealthiest single market, it stimulates rapid expansion in poorer states to bring them more closely into line with living standards in the richest nations. This has been the experience most spectacularly of Ireland, but also of Spain, Portugal, and Greece and is the expectation shared by all of the new candidate countries. Between 1950 and 1990, disparities in wealth between EU member countries declined by two-thirds despite the absorption of these relatively poorer countries during the enlargements of that era. Membership was the catalyst for accelerated growth rates among the new states that were well above the average for the EU as a whole.

There is a trade-off here that counters the arguments of those who say the EU has no interest in tiny Armenia. The EU's interest in security can best be achieved by ensuring that Armenia becomes more prosperous, which itself is best achieved by absorption of Armenia within the single market. The EU can accept Armenian membership, indeed would encourage it, as the means of achieving its own interests.

Here two major obstacles for Armenia must be frankly acknowledged. Armenia's present state structure is inefficient, dominated by clan interest groups and an over-mighty security apparatus,

and riddled with corruption. It lacks the democratic legitimacy necessary to marshal public support for the long-term commitment that EU membership involves. In short, the political and administrative leadership of the country is not up to the job. A study by McKinsey and Co found that the dominant coalition of power groups “have vested interests in the status quo” and therefore no interest in promoting necessary reform.

It concluded starkly: “Unless those interests are counterbalanced through improved electoral processes and broader civil participation, the country will not be able to formulate and execute a comprehensive economic reform strategy.”

Armenia’s executive authority was “incapable to serve as a backbone for growth-oriented strategy execution”. Its judiciary was open to political influence and lacked the personnel qualified to enforce modern commercial law.

Short of a revolution (something hardly likely to engender confidence in Armenia either as a stable democracy or a good bet for investment), the situation looks bleak. Lack of confidence in Armenia’s authorities is the major reason for Diaspora disengagement with the republic and reluctance to commit investment to its economy. Although Armenia’s general policy direction is towards integration with Europe, there is no sense of urgency at the top, never mind demonstrated political will to achieve EU membership by a set date. This brings us to the second major obstacle, the absence of any grassroots constituency creating political pressure for a commitment to EU membership. With no leadership from the top or groundswell of support from below, the case could appear hopeless.

In fact, it presents a potentially unique opportunity to break through the present political inertia and create a new more positive paradigm. It requires simply that a sufficient number of people request and require the present leadership to live up to its own statements. The challenge facing Armenia 2020 and its partners is precisely to nurture a grassroots organization able to take on the task of public campaigning and persuasion.

In the longer term, this grassroots effort, which should seek common cause with all business and social groups interested in Europe, will foster the emergence of a political leadership that acquires its legitimacy from widespread public support. This new political generation will be capable of challenging the present ruling clique to take seriously the requirements of Europe, and ultimately of supplanting it on the basis of electoral support for a better future. This is a truly revolutionary undertaking, amounting to nothing less than the establishment of a functioning civil society with a responsive political culture. No other scenario for Armenia’s development contains within it the seeds of the country’s political, social, and economic regeneration.

The starting point for EU membership will be with the engaged citizenry of Armenia, through the establishment of a coalition of non-governmental organizations, environmental groups, and social campaigns under the umbrella structure of Armenia 2020 and the slogan of “The EU is Good for You”. The aim should be a simple one: to promote awareness of the potential benefits of association with and eventual membership of the EU and to develop positive public attitudes towards the union. The coalition would be non-partisan in its politics but seek the endorsement of its aims by existing and new political forces. At elections, it should promote support for candidates and parties whose platforms contain an explicit program of action for seeking EU membership by 2020.

The broad-based but non-party political nature of the campaign would inject novelty and freshness into civil life in Armenia, generating excitement and motivating people of talent to re-engage with the struggle to form the country’s future after abstaining from active life in disgust at the present state of affairs. Armenia 2020 should seek to establish affiliated branches in major Diaspora centers, again to engage the great mass of Diaspora who are not affiliated with individual political

parties and to restore interest in the country's development among people jaded by stories of corruption.

Simultaneous with the campaign for public opinion, a determined effort should be undertaken by wealthy Diaspora figures to formulate a credible economic development plan for Armenia. This would aim to engage the present leadership of Armenia in enacting reforms to achieve clear economic objectives, with Diaspora investment made conditional on a declared willingness not only to seek EU membership but also to enact the reforms necessary to achieve it. The goal is rapid growth on the basis that Armenia's government must engage in measures to reduce poverty and boost employment or face a loss of credibility at home and abroad.

A number of scenarios for Armenia's rapid development have centered on its potential in information technologies, a sector that the government declared a priority in December 2000. The notion of a becoming a Singapore of the Caucasus, with an economy built around a centrally-directed development plan with IT companies at its heart, has attracted considerable interest in sections of the Armenian Diaspora. Under this scenario, Armenia and its Diaspora would pour their energies into support for education and the infrastructure necessary to support the establishment of companies geared towards servicing the global technology market. Armenia's confidence about the IT sector is justified by the existence of a large pool of highly qualified specialists and investment by around 100 foreign and domestic companies operating in the local economy. This is supplemented by the resource of a number of Diaspora IT companies, some of them already engaged in the republic, with both the expertise and investment capability to help Armenia raise its standards to a globally competitive level.

McKinsey's analysis of the potential of Armenia's software and IT industry concluded that, although fragmented, the sector delivered relatively high levels of value in terms of productivity per employee. While average labor productivity, adjusted for purchasing power parity differences, was just 11.5 per cent of US levels, it was 23 per cent in the IT sector and rising. The examples of Israel and Ireland showed the potential impact on the living standards of a small country of a flourishing IT sector, which has the further advantage of being largely unaffected by the transport difficulties that have impeded growth in other parts of Armenia's economy.

The high levels of demand in Armenia for people with IT skills, evidenced for example by the decision of the US company Leda Systems to invest \$25 million in a new training facility at Yerevan State University, shows the potential of the sector for job creation and poverty reduction. While unemployment levels across Armenia's economy are variously estimated at between 11 and 32 per cent, it is nil to negligible in the software and IT sector.

All of this makes Armenia appear very promising as a high-tech hub, able to offer considerable added value to European, American and Japanese companies that invest in IT services. A declared commitment to seek EU membership would stimulate further investment through the promise of a greatly expanded internal market, since the small local market for products and services requires export-oriented growth if Armenia is to capitalize on its other strengths. Armenia could also make itself attractive as an outsource location for companies in EU member states provided high productivity was combined with low labor costs. India has already achieved considerable success in this regard, but Armenia's proximity to Europe may make it a preferable location for companies, particularly if the broader legal and administrative environment is brought up to EU standards.

However, the McKinsey study identified several major preconditions for success. Top of the list was increased government support for education, an issue that has also been identified by the EU as an urgent priority area. Armenia's high-tech inheritance from the Soviet era must be built upon through improved modern education standards if the legacy is to be renewed for the future.

The EU's country strategy paper highlighted education as the most fragile sector of Armenia's

infrastructure. Expenditure in 2000 was just 3 per cent of the state budget and only 0.7 per cent of GDP, hopelessly inadequate to the task of developing an educated populace capable of responding to changing economic circumstances.

“Very weak employment growth and the inadequacy of the education system to respond to the changing needs of the labor market are the major reason for the high level of (new) poverty,” its report stated.

Reforms are now being implemented to consolidate schools and make better use of public investment, and targets have been set to increase spending on education to 16 per cent of the state budget by 2005. But the EU noted that this would still raise expenditure on education to only 1.5 per cent of GDP, compared to 7.2 per cent in 1991. Higher education accounted for only around an eighth of expenditure, though there has also been a considerable shift towards payment of fees by students and their families and the consequent development of private university institutions alongside state provision.

McKinsey's report also identified tourism, jewelry and diamonds, banking, and health care as areas of potentially double-digit growth over the rest of this decade, provided Armenia developed clear strategic initiatives for each sector and demonstrated the commitment to see them through to fruition. In each case, the growth of these sectors would bind Armenia more tightly into prime European markets.

This presents clear opportunities for Armenia and Diaspora to forge a partnership around an agreed plan for economic development sector by sector. This is already the case in diamonds, where a thriving cutting industry has grown up through investment by Armenian Diaspora figures prominent in the Antwerp diamond market. Combined with a residual Soviet legacy in Armenia of diamond cutting and jewellery production, this has helped to create a \$200 million industry connecting Armenia to Belgium and to Russia. Armenia competes very well on price and quality with more established diamond-processing centers and is already 12<sup>th</sup> by volume of stones cut in world rankings and rising. However, it remains only a small fraction of the potential available market.

The Second Armenia Diaspora Conference in Yerevan in 2002 identified the establishment of a regional health care facility as a key goal for cooperation (and also projects to connect Armenia's schools to the Internet). The transfer of medical expertise and equipment from Armenian-American doctors to Yerevan has been taking place for some considerable time on an informal and ad-hoc basis, helping to make available surgical procedures that are not possible in neighboring states. But a fully-formed program to establish Armenia as a center of medical excellence has yet to be worked out.

The IT sector, as mentioned, is already the focus of considerable Diaspora attention, though again a clear plan of action to draw together all the potential resources has yet to be attempted. Discussion at the second Armenia 2020 gathering focused on the possibility of attracting a key global player to Armenia to raise its profile on the global IT map. This has clear attractions but also carries the risk of squeezing out other players, including domestic companies, while making Armenia's industry dependent on a single company's decision-making processes.

The tourism industry, not least aimed at serving the estimated six to eight million Diaspora, is still in its infancy. As a destination rich in heritage and natural beauty, allied to a welcoming culture, Armenia has huge potential. Much will depend on the investment being directed into upgrading the country's airport and road infrastructures by key Diaspora Armenian business investors, but the secondary investment in hotels and restaurants has made impressive strides in range and quality particularly since the celebrations in 2001 marking the 1,700<sup>th</sup> anniversary of Armenian Christianity.

What all of these sectors have in common is a reliance on high levels of individual talent and personal relationships, characteristics that seem to sit well with the Armenian temperament. They

also offer the opportunity for substantial involvement of Diaspora financial and human resources. Even taking account of the concerns expressed about the competence of the present administration, healthcare, tourism, IT, and education are unifying themes around which the disparate Diaspora entities can find common ground with the people and government of the republic, since they transcend individual political ambitions to create a “national” ideal of improvement.

The different Diaspora communities have already proved critical in sustaining the republic during the tumultuous early years of independence, when it was forced to cope simultaneously with war, economic collapse and the consequences of an earthquake that killed 25,000 and devastated Armenia's second city. (In comparative terms, the equivalent population loss in the United States would be in excess of 2.3 million people.)

Yet the one thing that virtually all commentators agree on is that the full resources of the Diaspora have not been effectively marshalled in support of a clear program of recovery for Armenia. The establishment of the Armenia-Diaspora conference, two of which have taken place, represents an attempt to create mechanisms for joint action on specific projects. But these have had only limited success in galvanising Diaspora enthusiasm. Something more ambitious is required to inspire engagement over the long-term.

The European Union is the one political-economic entity that does not generate hostility on the part of different elements in the Diaspora and Republic. Seeking to emulate – or emigrate to – the United States divides opinion in Armenia itself and alienates the large and increasingly influential Russian Armenian community. Likewise, Armenian-Americans find little reason to commit time and money in a project whose intention is to draw Armenia into closer orbit with Russia. To the contrary, they may actively abstain from devoting their energies to assisting Armenia through less vigorous lobbying of the US Congress for financial aid.

Official American policy, at least until the recent spat over Iraq, has been to promote closer cooperation between the countries of Europe. US policy ought therefore to look kindly on a program that unites Republic and Diaspora in pursuit of EU membership. Russia has its own agenda for cooperation with the EU and is unlikely to place serious obstacles in the way of Armenia, particularly if such actions were to lead to perceptions in Brussels of bullying behavior by Moscow. There is nothing, either, in the pursuit of EU membership that threatens Armenia's bilateral relationship with Russia (though the existence of a military base on EU soil belonging to a non-member state may become an issue).

The aspiration for EU membership threatens no-one and could be the catalyst for the wide-ranging relationship that has so far eluded Armenia and its Diaspora. The timescale is perfectly reasonable. Estonia presented its application for EU membership in November 1995 and will have completed the journey from Soviet Union to European Union in only a dozen years with its membership this year.

Demand for a third Armenia-Diaspora conference in 2005 should accompany the push for a declaration of intent on EU membership. The conference would be held within the context of this announcement and form the ideal forum for discussions on the economic reforms necessary to achieve eligibility, complete with an agreed timetable for the five years ahead. The Armenian-Diaspora Conference should agree to meet every two years, alternately in Yerevan and a major capital of the Diaspora, with the express intention to review progress towards these goals. It follows that available resources of money and expertise would be concentrated on agreed defined goals. A standing commission of Armenia-Diaspora representatives would be established to monitor the program of action between conferences and ensure financial support for particular projects. The current Armenia Fund structure could be adapted for this task.

Concurrently, the Armenian Government would take responsibility for drawing up sector in-

vestment plans with interested Diaspora businesses for the development of each of the five key areas of economic activity identified as having rapid growth potential. Tax incentives would be approved for investment in businesses related to IT, tourism, jewellery, banking, and health care, with the aim of creating a critical mass of activity, targeted at making Armenia a center of at least regional and potentially global excellence. State administrative structures would be streamlined to assist in the speedy establishment of facilities and the promotion of Armenia internationally as the best place in Europe to do business in these spheres. The Armenian Development Agency would be reoriented to concentrate on servicing these economic sectors, headed by a minister with an unimpeachable reputation and empowered to direct all necessary legislative and administrative reforms to woo major international investors to the country. There will be only one criterion for success: robust and sustained economic growth in future-oriented industries making maximum use of Armenia's human capital. The President of Armenia will be expected to make himself personally accountable for progress with annual state-of-the-nation reports on the achievement of investment and employment goals agreed between ministers and Diaspora representatives responsible for each of the sectors.

It is apparent that Armenia has already set itself on a course to satisfy the fundamental elements of EU membership, namely the creation of a functioning democracy with free markets, the rule of law, and respect for human rights. Nobody would claim that it had achieved those goals, but there are notable milestones. Armenia acceded to membership of the World Trade Organization in 2002 and is repeatedly cited in surveys as the most liberalized and open economy of all the CIS states. Membership of the Council of Europe, as noted, provides an essential gauge on human rights standards and the establishment of the rule of law through reforms of the legal-judicial process. Disturbing evidence of authoritarianism and corruption remain in the political system, yet the forms of democracy are adhered to and criticism of failings openly voiced in the press and on street demonstrations.

The EU has a clear framework of progression for countries seeking membership. Following a declaration of intent to seek membership, Armenia's first diplomatic task is to secure an Association Agreement setting out a formal bilateral program with Brussels on everything from trade issues to political dialogue. For Diaspora concerned about corruption in Armenian public life, the setting of targets to achieve clearly specified goals would provide reassurance that investment was being used to the benefit of the country. Those same goals would also strengthen the hand of clean elements within the state structures who would gain strength from the reform program to marginalize and ultimately exclude corrupt officials and politicians at the lower levels. An invitation to EU officials to monitor progress against the *acquis* provides additional safeguards while building a relationship of trust that would later open the door to financial assistance from Brussels for candidate countries. A free trade agreement between Armenia and the EU acts as a stimulus to growth while compelling domestic companies to improve productivity and raise the quality of goods produced to meet European standards.

The Association Agreement triggers a process of annual reporting by the EU Commission to the EU's Council of Ministers on the progress made by candidate countries across the range of the *acquis*. This is used as the basis for decisions about the pace of negotiations on membership, but also acts as external audit to bolster Diaspora and domestic Armenian confidence in the progress of their plans. Again, the critical task for the country in setting out on the road to membership is an appreciation of the consistent long-term commitment necessary for success. With five-year electoral cycles, and individual presidents limited to a maximum of two terms, the political leadership that dedicates Armenia to seeking EU membership knows it will not be the one that reaps the electoral dividends. The early stages of the reform process will be painful for many, without immediate



prospect of reward. The Armenian public must be prepared psychologically for the task and convinced of the merits of patience through ownership of the process and the opportunity of involvement in the grassroots campaign. The leadership that emerges from this campaign will have popular legitimacy and therefore the strength to maintain public support for the enterprise at difficult times. A population wearied by a decade of upheaval and grown cynical about their politicians will take some convincing about the sincerity of this project, which makes openness and accountability all the more necessary. But once they are convinced that the project is serious, the EU membership campaign has the capacity to revive enthusiasm about Armenians' capacity to improve life for themselves and their children.

As economic growth intensifies over the decade from 2004 to 2013, Armenia is able to provide more of the material resources for reform on its own, in partnership with funding from Brussels, leaving the Diaspora to contribute to investment in private sector business. A revived political effort to reform the Constitution and permit dual citizenship is put to the electorate in 2008 and gains popular backing from Armenians eager to reward their Diaspora kin with a stake in the future success of the country. Combined with the EU project, this serves as a powerful magnet of migration, encouraging a repopulation of Armenia by citizens who had previously left the country and Diaspora convinced that they can and must contribute to a better future for the country.

Diaspora gain the double benefit not only of citizenship of their ancestral homeland, thus helping to heal the wounds inflicted by the 20<sup>th</sup> Century Genocide, but also potentially of the rights of residence and employment within the entire European Union. Their commitment to the EU project is intensified and the settlement of increasing numbers of Diaspora in Armenia strengthens the domestic constituency for membership as well as enlarging the pool of talent able to deliver the necessary reforms. Thus a virtuous circle of civic engagement sets in, replacing the cycle of decline and detachment that dogged Armenia's development in the first decade of independence. The capacity to tap into a broader constituency of highly-educated and successful potential citizens from the Diaspora improves the attractiveness of Armenia to the EU, whose aging population particularly in the core member states is failing to renew itself without immigration.

Armenia moves next to the stage of pre-accession assistance from the EU through the Phare program, specifically targeting the institution building needed to shoulder the rights and responsibilities of EU membership. Investment in environmental improvement, transport links, and agricultural development run alongside twinning arrangements between experts from existing member states and individual Armenian ministries to assist with administrative reforms. Armenia is invited to take part in EU programs on an associate basis to provide shadow experience of membership and enmesh the country into future initiatives.

As evidence mounts from reports of Armenia's increasing readiness to meet EU criteria for membership, the political leadership at ministerial level is invited to open accession negotiations with the EU Council of Ministers at around 2015. Experience from the present round of enlargement suggests a five-year process of negotiations and preparation. Further intensified macroeconomic reforms are made to prepare Armenia for adoption of the Euro, increased transparency of the banking system, and the pressure of open market competition on manufacturers and services. VAT and other tax systems are fully harmonised with EU expectations, while issues of border security with non-member states are resolved to provide guarantees on immigration and smuggling.

Armenia, with other candidate countries, possibly from the southern Caucasus, is represented at the European Conference during this period. This brings together ministers from member and applicant countries to discuss issues of common concern relating to foreign and security issues, domestic policy reforms, and regional cooperation. Political and public life in the republic becomes



accustomed to working within a pan-European framework of laws and regulations.

The presidential election of 2018 becomes a referendum on popular approval for entry to membership in 2020. With a booming economy attracting record investment and rapidly rising living standards, the election is a vote of confidence in Armenia's ability to thrive in the larger context of the EU. The winning candidate and her team reap the rewards of leading the grassroots drive for membership back in 2004.

The next two years are marked by intensive final preparations that include the phasing out of the Dram in favor of the Euro, whose value it has shadowed for several years already. Its civic life renewed by the engagement with Europe, Armenia has passed the torch of leadership to a new generation of politicians schooled in the practices and habits of open, responsive, consensual democracy.

They are supported by a broad spectrum of Diaspora organizations whose own confidence has been bolstered by the success of the Armenia 2020 campaign. They see in Armenia a homeland they can be proud of and whose social, political, and economic life they are free to participate in at whatever level of engagement they choose.

The existing member states vote formally to approve Armenia's membership as the EU's 30<sup>th</sup> member state within months of the 2018 election. The date for accession is set at January 13, 2020 – a respectful nod to Armenia's tradition of celebrating the New Year according to the old calendar. The President declares a week of celebrations, extending Armenia's usual New Year revelries. January 20 is declared a national holiday marking EU membership.

Armenia's economy, like those of poorer accession states before them, receives a substantial boost in GDP trend growth as a result of access to the wider EU market and continuing financial assistance from wealthier members. This sets it on a trajectory to catch up with average living standards in the EU and eventually, like Ireland, to emerge into an era of unparalleled prosperity with incomes 50 per cent above the EU mean.

Three decades after the struggle to establish sovereignty over their own homeland, and then to secure its survival in an unstable and volatile region, Armenians have embraced their destiny as Europeans and guaranteed their future physical and economic security by escaping the limitations of their geography once and for all. Armenia has come home.

“My future president”, Hasiko, 9 years.



"My future president", Emma Ter-Avetsyan, 12 years.



“Connection with aliens”, Daniel Grigoryan, 14 years.





“Cloned people”, Anush Ayyazyan, 14 years.



“Future food court”, Mariam Svasyan, 11 years.





Ani Aghajanyan, 10 years.



“Future electronics defend schools, houses, shops etc.,”  
Neil Sargsyan, 10 years.



Grigor Danielyan, 11 years.









# DARE TO EXCEL: SURVIVAL TO PROSPERITY

## CONTENTS

- I. The Prosperity Vision: Armenia in 2020
- II. Challenges and Hope: Armenia in 2003
- III. Realizing the Vision: Armenia's Change Process
  - a. Phase I, 2004-2008: New Partnerships for Growth
  - b. Phase II, 2009-2013: Rapid Clusterization
  - c. Phase III, 2014-2020: Globalizing Nation

*Armenia in the year 2020 . . .*

*"A GDP per capita of US\$15,000"*  
*(Armenian businessperson, Gyumri)*

*"A society that doesn't worry about tomorrow's food"*  
*(Armenian academic, Yeghegnadzor)*

*"One of the ten most developed countries of the world"*  
*(Armenian student, Yerevan)*

## I. THE PROSPERITY VISION: ARMENIA IN 2020

Fireworks, a military parade, a flyover by the Armenian Air Force, and musical performances by national choirs and orchestral groups entertained the tens of thousands of Armenian citizens gathered in the National Stadium in the spring of 2021. As the opening festivities came to a close, the crowds waited excitedly for their hosts to approach the dais. It was only a few minutes before thunderous applause greeted the country's president and the leaders of the national economic development team as they climbed the stage at Armenia's celebration of 30 years of independence following Soviet rule.

"We have come this far starting with very little," the president boomed into the microphone with pride. Without doubt, the prosperity of the citizens and the small country had seemed unimaginable less than 20 years ago when the beleaguered country embarked on its "Vision 2020: Dare to Excel" program. The program began in 2004, after more than a decade of struggling to regain economic, political and social footing following independence, when lack of work and lack of economic opportunities were fueling a steady out migration.<sup>1</sup>

By 2021, Armenia, now a country of 3.3 million people<sup>2</sup> on land covering less than 30,000 square kilometers, had attained its success against myriad obstacles: a lack of natural resources, a dilapidated infrastructure, a population ill-trained for an open market economy, lack of private sector skills, a corrupt and inefficient political structure dominated by a few powerful oligarchs,<sup>3</sup> and a national populace focused on day-to-day survival and a desire to leave the country behind.

Yet since the introduction of the national economic development program Dare to Excel in 2004, Armenia had turned in some of the most consistently high rates of growth in the world. Per-capita gross domestic product, adjusted for purchasing power had risen from US\$3,850 in 2002 to US\$11,200 in 2020, an impressive average of 6.1% annually.<sup>4</sup>

Standing on the dais with the president was the group largely responsible for this success. The group was comprised of leaders from a wide array of private sector companies and associations, community groups, government agencies and the Diaspora, who had labored together, through often trying times over the last two decades, to achieve the goals they had set out in 2004. The institutions they represented had coordinated and led the program through three major phases of growth: New Partnerships for Growth (2004-2008), Rapid Clusterization (2008-2013), and Globalizing Nation (2013-2020). The current president had worked closely with this cross-section of leaders since his first election in 2013, and through re-election in 2018, to guide the most recent phase, and he was using the occasion of the 30<sup>th</sup> anniversary of national independence to take stock of the country's achievements, and build commitment to the future vision for the next 20 years.

Also on the dais with the current group of leaders were several of the original visionaries who had initiated and guided the now 17-year old Dare to Excel program. In a scene unimaginable less than twenty years earlier, the illustrious group included each of the president's own predecessors, including former President Robert Kocharian during whose administration the Dare to Excel program had been conceived and initiated, and some of the original visionaries from the Armenia 2020 program, including businesspeople, government officials, community leaders, and Diaspora. Behind them in the stands were honorary guests, including many of the world's luminaries on

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<sup>1</sup> Research: migration

<sup>2</sup> Research: migration


<sup>3</sup> Research: oligarchs


<sup>4</sup> Research: productivity


economic development, some of whom had provided input and guidance along the way, and all of whom had watched the country's progress with great interest.


The president continued his speech, "Just two short decades ago things looked bleak. After ten years of independence, few gains had been made, corruption and government bureaucracy were rampant, there were few jobs and economic opportunities, and some people were beginning to yearn for the old days of Soviet rule. Outsiders had virtually written our country off. But the pride, ambition and desire for prosperity<sup>5</sup> among you, the citizens of Armenia, kept this country's dreams alive. And because of great leadership from all parts of our society over the last two decades, many of those dreams have been realized."

The president went on to describe some of the most notable achievements:


 **Economic development** is now our most prominent national agenda item and institutionalized at all levels of government. Key institutions have been created including the President's **Economic Development Council** and the private sector and Diaspora-run **Armenian Economic Development Group**. Together these institutions set national economic development priorities, manage the ongoing **Dare to Excel** program, and coordinate the investment of all funding targeted toward economic development, including funds from the Diaspora and other external sources.

 Armenia has moved from a dismal rank of 78 on Transparency International's worldwide **Corruption Perception Ratings** in 2003 behind Turkey, Morocco, and Syria, all the way to a rank of 10 in 2020, just behind Singapore and the Scandinavian countries, and ahead of several of our neighbors. This is a result of our relentless focus on **transparency and e-government**. Almost all dealings with the government are now able to be transacted online, and all government policies, tax codes, judicial and legislative agendas and decisions are accessible and searchable online.

 Government has moved from being one of the largest and most inefficient employers in 2003 to one of the smallest and most effective. **Government jobs are extremely competitive** and salaries are comparable to top private sector jobs. We regularly attract top university graduates into public service.


 Armenia has gone from having virtually no internationally recognized industry clusters in 2003, to being recognized for our global success in dozens of **specialized industries** in the software/IT cluster, tourism, specialized high-end processed food, unique jewelry and diamonds, several medical specialties in the health care industry, metals, electronics and precision equipment, telecommunications, banking, and others. Multinational companies are active in most clusters, encouraged by our tax and trade regime, but more importantly they are attracted to our strong business environment which includes one of the most talented and motivated labor forces in the region.


 Armenians are recognized as having the **highest work ethic** and spirit of continuous innovation in the region, and we have won Europe's prestigious annual award in this area for the last three years running.


 Tri-lingual education (Armenian, English, Russian) is now occurring at all education levels and Armenia's universities are among the best in the region. **Elite schools for gifted students** are attracting top talent from abroad, particularly in the sciences and health care fields.


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<sup>5</sup> Research: Survey

 Our ***living standards have risen*** dramatically. Families today have the opportunity to do things they only dreamed about 20 years ago: own beautiful homes, work in good jobs, enjoy our impressive cultural offerings, provide their children with their own cultural exposure, take regular family vacations abroad, and many other things.

 We have a ***neutral and peaceful co-existence*** with our neighbors which have enabled ***regional free trade*** to flourish. We also continue to maintain a strong and diverse trade portfolio comprising Russia, the former Soviet states, Europe, US, the Middle East, and Asia.

 We have been praised for our clean elections, rule of law, and our transformation of the military into a defensive military which inspires young people and builds useful skills. Our government has an ongoing, constructive and supportive ***dialogue and relationship with private sector*** businesspeople.

 Our churches rose to the challenges when we began our transformation in 2004 and serve as the glue that holds Armenians worldwide together. Their initial role as a ***social safety net***, and their forward-looking, ***active moral leadership*** have made them an integral player in our economic development process.

“But our work is not done,” the president continued. He went on to talk about the Dare to Excel Vision 2040, and urged the audience’s participation and support for that important and ongoing process.

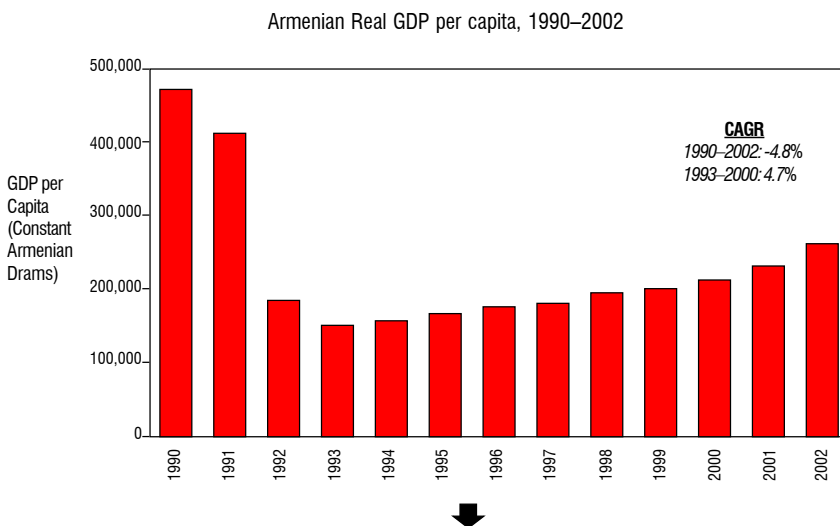
The crowd roared its approval as the president sat down, and the ceremony’s festivities continued. As the music emanating from the voices and instruments of the Armenian performers floated up to the dais, the president reflected on how far Armenia had come, and the challenging change process the country had undergone over the last two decades. He shook his head in wonder at both the accomplishments, and frequent setbacks, in what had been a long and arduous process of transformation.

## II. CHALLENGES AND HOPE: ARMENIA IN 2003

### ECONOMIC CHALLENGES

In 2003, the situation in Armenia looked bleak, and hardly the stage for the high prosperity levels the country would achieve by 2020. Despite compound annual growth rates of 6.6% from 1997 to 2001, Armenia's official GDP per capita was only US\$800 per year, or about half of where it was in 1990 in real terms. This was the equivalent of about US\$3,800 when measured in purchasing power parity.

### ARMENIAN PROSPERITY



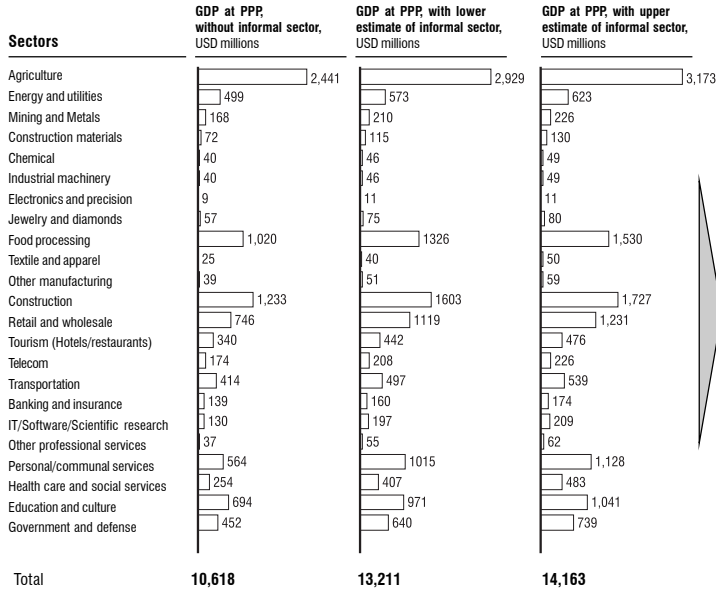
Although Armenians are worse off now than they were in 1990, since 1993 real GDP/capita has been increasing almost 5% annually.

Note: CAGR represents Compound Annual Growth Rate  
Source: IMF World Economic Outlook April 2003

The economy was dominated by a handful of basic sectors, including agriculture, energy, food processing, construction, and retail. The growth from 1997–2001 had been driven mainly by a few services sectors: construction, retail and wholesale, and other services. Tradable and higher value-added services sectors which tend to generate the most wealth in an economy, including agriculture and industry sectors, were generally weak.<sup>6</sup>

<sup>6</sup> Research: productivity

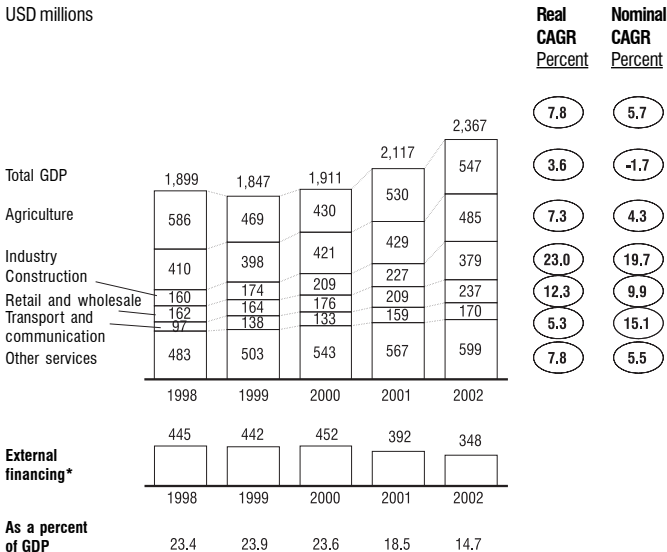
## COMPOSITION OF ARMENIAN PPP GDP, 2001



- Armenian economy is heavily dominated by six basic sectors: agriculture, energy, food processing, construction, retail and personal services.
- Tradable and higher value-added services sectors are weak, which results in lower quality of total output and limited wealth creation.
- For the same reason, pricing level in economy is depressed: real economy, at PPP prices, is estimated to be 5 times larger than the nominal one: without structural improvements, the discount will persist in the foreseeable future.

## ARMENIA'S RECENT ECONOMIC PERFORMANCE

USD millions



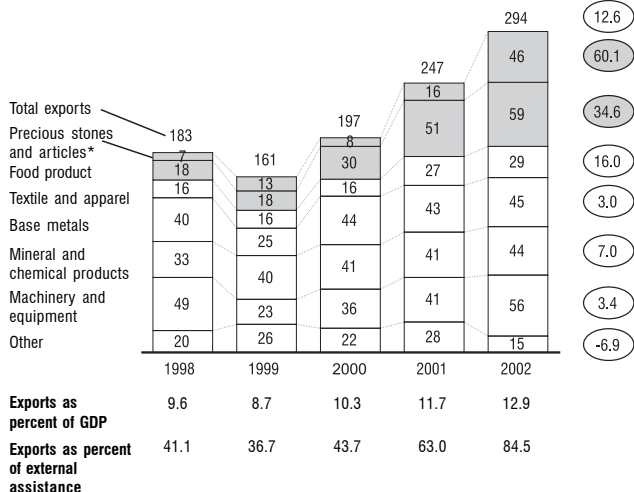
- Armenia experienced robust growth, which was driven by construction, retail and services largely boosted through generous external financing.
- Armenia's tradable sectors performed worse than the average economy, with price deterioration resulting in almost no nominal gains in four years.

\* Without FDI, includes remittance, grants, concessionary lending and limited capital transfers

## ARMENIA'S RECENT EXPORT PERFORMANCE

USD millions

Nominal  
CAGR  
Percent



- Armenia's export sector outperformed the rest of the economy; however its share is still rather small
- 2 segments diamond and food processing accounted for more than 70% of export growth since 1998
- In terms of impact on economy, export revenues, although growing, are still behind external financial assistance

\* On a net basis, given that the industry performs only intermediate processing  
Source: IMF/Armenia National Statistics Service, 2002

## A POOR MICROECONOMIC ENVIRONMENT FOR BUSINESS

At first glance, macroeconomic indicators, including growth, inflation, and exports, appeared fairly strong, but the indicators belied a weak micro-economy underneath. For example, exports were relatively high and growing faster than GDP. However, only two segments, diamonds and food processing, accounted for over 70% of export growth,<sup>7</sup> and most of the diamond exports resulted from diamond imports re-exported to Europe with minimal processing and minimal job and wealth creation locally.

Additionally, the recent growth was largely fueled by foreign aid and remittances, a non-sustainable growth model.<sup>8</sup> The vast majority of Armenians and Diaspora agreed that the money received from the Diaspora constituted a valuable source of growth and prosperity for the country.<sup>9</sup> However, to ensure continued growth, the funds received needed to be channeled to productive uses.

Productivity in Armenia was extremely low. Labor productivity numbers ranged from US\$400 per year per employee in the education sector to approximately US\$15,000 per employee in software and IT,<sup>10</sup> but most people were having a hard time finding any work and unemployment levels were extremely high. Jobs and the economy were cited most often as Armenia's top challenges in a nationwide survey in 2003. One typical survey respondent noted, "The main problem for Armenia is to create jobs and eliminate unemployment," while another summed it up saying, "There is no clear, intelligently thought, balanced economic development strategy."<sup>11</sup>

<sup>7</sup> Research: productivity

<sup>8</sup> Research: productivity

<sup>9</sup> Research: survey

<sup>10</sup> Research: productivity

<sup>11</sup> Research: survey



To make matters worse, the macro-economic progress was not broad-based and there was an overwhelming sense of unfairness throughout the country. In most industries there was a highly concentrated industry ownership structure dominated by a few Armenian oligarchs, or members of local mafias, who gained “competitive advantage” through personal contacts with influential government officials, and protected their self-interests through personal contacts in the law enforcement power structures.<sup>12</sup> Nine out of ten Armenians were not happy with the situation and believed that some companies were making too much profit.<sup>13</sup>

**One of the primary factors contributing to Armenia’s poor economic situation in 2003 was a poor business environment. Years of under-investment had yielded an infrastructure and human capital base insufficient to support a growing, open economy. Inefficient utilities, inadequate transportation infrastructure, and a lack of skilled workers and managers were just some of the substandard inputs businesses in Armenia were confronting.<sup>14</sup>**

## **UNSKILLED PRIVATE SECTOR**

**Substandard business skills were a serious issue. Only half of those surveyed nationally agreed that businesspeople had the right skills for creating prosperity. Even fewer Armenians in the Diaspora believed this about the homeland.<sup>15</sup> Additionally, most business decisions were driven by short-term thinking. This was the likely result of a lack of certainty about future policies and events, an inability to set a long-term market-driven strategy, as well as a long history of “surviving” the various challenges the country had encountered in its long and troubled past.**

**The education system was antiquated, a holdover from the Soviet days. The system was not producing a skilled labor force ready to become entrepreneurs or operate in a free market economy. While science and technical training remained relatively strong, teaching methods tended to focus on memorization as opposed to individual thinking, and individualism as opposed to teamwork.<sup>16</sup>**

**As a result, Armenian companies struggled to compete. Skilled talent was rare and hard to retain. In general, despite oligarchic concentration of company ownership and special privileges, companies were achieving below average economies of scale<sup>17</sup> and cooperative relationships among companies in related and supporting industries were not strong. Armenia was not known for having strong, internationally competitive industry clusters.**

## **INEFFECTIVE PUBLIC SECTOR**

**Challenges in the business environment were compounded by ineffective government. Since independence from the Soviet Union in 1991, democratic institutions had been emerging, but government bureaucracy and institutions remained inefficient and largely ineffective. In fact, nine out of ten respondents in the 2003 national survey agreed that too much bureaucracy and confusion over law, coupled with corruption, were the main reasons Armenia was not prosperous.<sup>18</sup>**

**Leadership from the government on national economic development and growth strategy was lacking, and the controversial and widely criticized presidential elections of 2003 did not give the president credibility or a clear mandate. Furthermore, geopolitical issues in the**

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<sup>12</sup> Research: oligarchs

<sup>13</sup> Research: survey

<sup>14</sup> Research: PPCs

<sup>15</sup> Research: survey

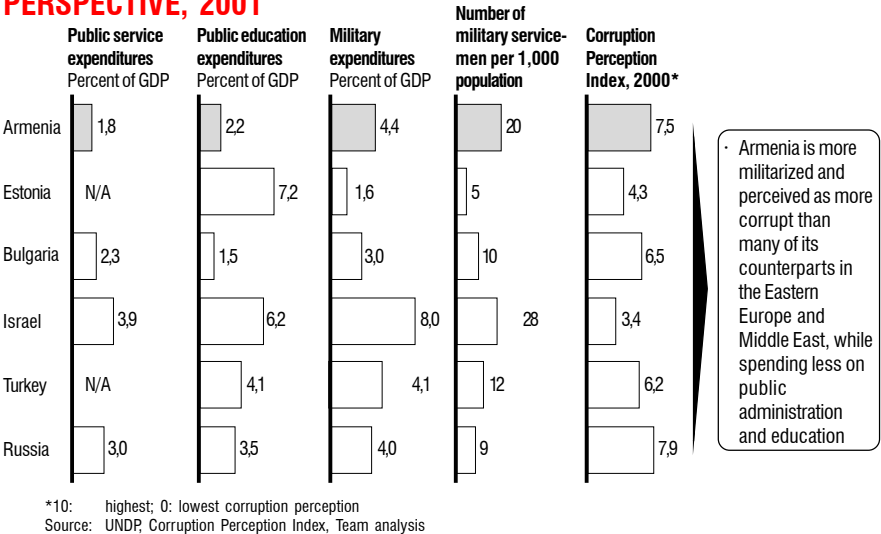
<sup>16</sup> Research: education

<sup>17</sup> Research: productivity

<sup>18</sup> Research: survey

region, including relations with Russia, the Nagorno-Karabakh issue, and Turkey's lack of recognition of the genocide, seemed to occupy the vast majority of the government's attention, leaving little room for developing a strategy for building prosperity. International organizations and external donors were filling the gap with an uncoordinated set of disparate programs and projects, for which it was difficult to find talented Armenian capacity to lead. The Diaspora, initially energized to help the country at the outset of independence had become increasingly cynical and reluctant to get involved as the lack of visible progress persisted.

## ARMENIA'S PUBLIC ADMINISTRATION IN COMPARATIVE PERSPECTIVE, 2001



The size of the government in Armenia was high relative to other Soviet transition economies, reports of corruption rampant, and an excessive bureaucracy and a confusing web of laws and regulations contributed to a poor investment climate and kept both domestic and foreign investment abysmally low. Additionally, trust between private and public sectors was very low and businesspeople had adopted a wait-and-see approach instead of investing in search of profits. It seemed on the surface that the citizens of Armenia, having survived centuries of domination by various cultures, were hunkering down once again to “survive” this latest national transition.







There had been some attempts to improve the private-public relationship and a desire to take the “politicking” out of economic activities. In 2001 a few episodic meetings of the president with business leaders were held. They had a rather formal nature. As one businessperson described it: *“There were 50-60 persons present there, but the only one who speaks is the large and authoritative oligarch. In general I sit and I am silent.”*<sup>19</sup>

Respondents in the national survey were particularly harsh when it came to assessing the government and its relationship with the private sector. Only 4 out of 10 agreed that the government officials in Armenia had the necessary skills to do their part to increase the prosperity of Armenia; only 3 out of 10 agreed that, in general, the government involved and consulted enough with the private sector before making economic decisions; and only 2 out of 10 agreed that the public sector and the private sector in Armenia trusted each other enough to cooperate to achieve the country’s objectives.

<sup>19</sup> Research 10

## RECOGNITION OF THE CHALLENGES

Armenians across the country were well aware of the dire situation the country was in and had identified for themselves many of the nation's challenges discussed above. When asked about the top challenges, representative comments included:







-  *"The main problem for Armenia is to **create jobs** and eliminate unemployment."*
-  *"There is no clear, intelligently thought, balanced economic development strategy."*
-  *"Overcoming poverty through creating industry."*
-  *"Building and growing an economy which will foster a significant improvement in the standard of living."*
-  *"Corruption which discourages economic growth because people are reluctant to start anything due to the presence of corrupt policies."*
-  *"A crisis of confidence in the authorities from the president of the country to the rest of the government."*

## SEEDS OF HOPE: ASPIRATIONS AND COMMITMENT TO A PROSPEROUS FUTURE

Despite the many challenges in front of them, and the tendency of some to give up and hunker down into the survival mode to which they had become accustomed, there was a surprising number of Armenians ready to take control of their destiny and build the prosperous society they desired. Many people in Armenia were not content to just survive and see what the world delivered to them. They had high aspirations for themselves and their country and they were beginning to assert their views and commit themselves to a process for realizing their dreams.

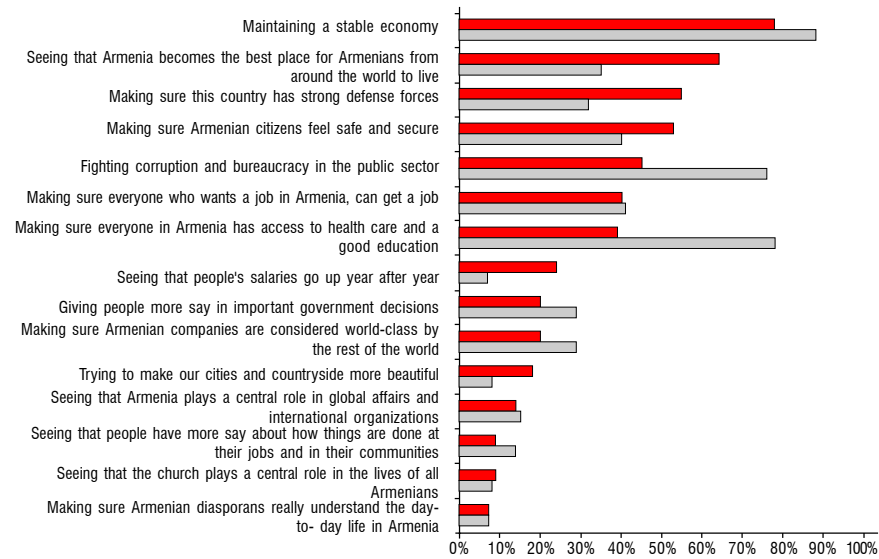
Among the groups that had begun to assert their views for a more prosperous future was the Armenia 2020 group, which had formed with the objective of laying out some potential scenarios for Armenia's future. The group, formed initially by a few Armenian Diaspora in 2001, had widened to hundreds of supporters and participants both inside the country and in the Diaspora, and through the group's efforts, thousands of Armenians around the world had expressed interest and support in taking control of Armenia's future.

One of the things the group did was to involve 1,000 Armenians in Armenia and 500 in the Diaspora in surveys and focus groups to discuss their visions for Armenia's future. The results were unequivocal. Armenians across the globe desired a much more prosperous Armenia. Representative comments included:

-  *"To raise the GDP per capita to \$15,000." (Businessperson, Gyumri)*
-  *"A society that doesn't worry about tomorrow's food." (Academic, Yeghnednador)*
-  *"To be on the list of the 10 most developed countries of the world." (Student, Yerevan)*
-  *"A legitimate government based on the rule of law where citizens can aspire to live a life in an economically and politically secure country." (Diaspora)*
-  *"A thriving economy and a hub for the Caucasus region and possibly Central Asia." (Diaspora)*
-  *"I would like to see people over there have real jobs with no desire to leave the country, with me living there." (Diaspora)*

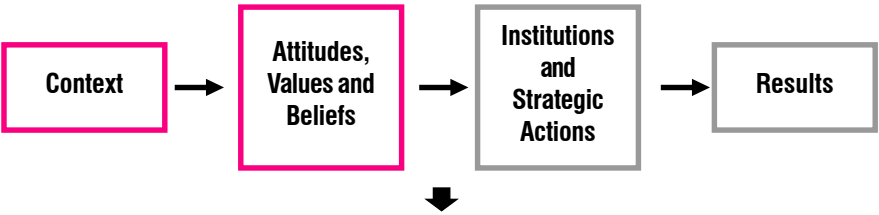
Respondents were then given a list of national priorities and asked to choose the top five priorities for Armenia. While the economy continued to be the number one priority, an interesting divergence between those in Armenia and those in the Diaspora occurred. Those in Armenia ranked security issues and making Armenia a great place to live much higher than those in the Diaspora, while the Diaspora ranked access to health care and education, and fighting corruption as top priorities behind the economy, but by and large there was general agreement that these were among the nation's top priorities.

NATIONAL GOALS FOR ARMENIA



Armenians clearly wanted better results than they were getting in 2003. A framework for changing national results is depicted below.

DRIVERS OF NATIONAL RESULTS



The fundamental objective of a prosperous Armenia in the year 2020 will be achieved by focusing on both the institutions and strategies of Armenia, as well as the underlying attitudes, values and beliefs that will shape and determine those strategies and institutions. The global context in which Armenia is operating will also impact the results and must be taken into account.

Basically, according to the system depicted above, results were going to be driven by the institutions and strategic choices made by the nation, as well as the underlying attitudes, values and beliefs of the leaders and citizens shaping and determining those strategies and institutions. The global context in which Armenia operated would also impact the results and had to be taken into account, although Armenia had the least leverage to impact global and regional context, as opposed to its own attitudes, strategies and institutions.

Since Armenia was not achieving its desired results, it had to examine and change various drivers of those results, namely its institutions, strategic actions and attitudes, with economic prosperity the desired result. Increasing prosperity would require increasing productivity. Any nation's prosperity is determined by the productivity with which it uses its human capital and natural resources. Productivity sets a nation's standard of living (wages, returns to capital, returns to natural resource endowments). Building productivity requires building competitive companies.

While international context can have some influence on productivity, most of the decisions that Armenia would need to make to be productive were totally within the country's control. A sound macroeconomic, political, legal and social context, including effective institutions for development, had to be in place for prosperity to occur, but was not sufficient. Also required was a strong microeconomic context that included a high quality environment for doing business, as well as sophisticated local companies and competition.

Although most in Armenia were ready to take charge of their future, some groups preferred to focus on resolving geopolitical issues first, essentially putting Armenia's future in the hands of others. For example, half of those surveyed in Armenia believed the country couldn't move forward until the Nagorno-Karabakh conflict was resolved. These groups would need to be brought along in the national change process, but could not be permitted to slow down the process of building prosperity.

While the aspirations were expressed primarily in economic terms, there is no inherent conflict between economic policies and social policies. In fact, sound social policies had to be aligned with productivity in the economy to prepare and motivate citizens to succeed in an open market system. The productive and growing economy that Armenians desired in the future would require upgraded social policies related to: rising skill levels of all citizens; safe working conditions; healthy workers who live in decent housing in safe neighborhoods; a sense of equal opportunity; assimilation of underemployed citizens into the productive workforce; and low levels of pollution since pollution is a sign of unproductive use of physical resources.

Prosperity is not something a nation is born with, rather it is a choice. The power to achieve it lies with the people. The question was, would it be Armenia's choice? Indicators in Armenia in 2003 were strong. Armenians were ready to move forward. In their own words they said:



*"Put this work into action!"*



*"Implement real projects."*



*"May the Armenia 2020 project bear results and the public's wishes be realized as much as possible?"*



*"I would like to see similar activities and more contact between the organizers of this project and the people."*



*"May God grant that this effort realizes our aspirations!"*



*"I hope that this project is implemented to benefit the prosperity and unity of the Armenian people."*

## ATTITUDES, VALUES AND BELIEFS IN ARMENIA

We've already seen that in 2003 there was surprising consensus about how to change a number of strategies and institutions to drive better results for Armenia. How, if at all, were predominant attitudes, values and beliefs in Armenia aligned with the desired results? What attitudes, values and beliefs needed to be cultivated to achieve the desired results?

*International Links:* In 2003, Armenians in Armenia believed that international links were important and improving. For example, the vast majority believed that international trade was a positive force for change in Armenia, and that Armenia should aggressively pursue membership in the European Union. A somewhat smaller majority (6 of 10) believed that globalization was a positive force for change in the world. Only 1 out of 10 believed that in five years Armenia will be more isolated from the world than it is today. In fact, 7 of 10 acknowledged that relations with neighboring countries had improved in the last 5 years, and 8 of 10 believed that Russia's power and influence over Armenia has increased. International linkages and trade with a variety of countries and regions was clearly something that Armenians believed should be part of Armenia's future vision.

The importance of international links carried over into the Armenians' views on business. Seven of 10 believed that Armenians would not be prosperous until the country had more successful export-oriented companies. However, they also believed that government should intervene directly to help companies prosper. Eight of 10 believed that without government support, Armenian industries couldn't compete successfully in world markets and that government policies should protect sensitive industries from foreign competition, while an astounding 9 of 10 believed the government should own or directly control certain companies. Clearly predominant views supported the focus on building competitive companies. However, there was a need to shift attitudes to reduce the expectation that government would play a dominant role running companies in the private sector.

*Government Leadership:* Not only did Armenians believe that the government should intervene directly in Armenian businesses, but the vast majority believed the government had to take the lead role in ensuring economic prosperity for its citizens. Nine of 10 believed the government should first focus on the basics—roads, water, health and electricity, and 8 of 10 believed that government policies should aggressively promote the country with the goal of attracting foreign investors. Eight of 10 believed that the government should guarantee a job for anyone who couldn't find one. Some highly visible role by the government, not in running companies, but in supporting private sector development was expected by virtually all Armenians. They would be unlikely to have confidence in a change process in which the government did NOT play a prominent role.

Although they view the government as the leader in the economy, and that the president, the government and even the large companies should be more powerful than they are, they see many problems with government. Nine of 10 believe that corruption and too much bureaucracy and confusion over laws are the main reasons Armenia is not prosperous today, and that some companies in Armenia are making too many profits. They believe the government does not consult enough with the private sector before making decisions, yet do not believe that the two trust each other enough to cooperate to achieve the country's objectives. Less than half believe the government can be trusted and that the government officials know what is best for the country.

Interestingly, while only 4 of 10 of the private sector believe that the government can be trusted and that the government officials know what is best for the country, even when it comes to the public officials themselves, only 5 of 10 believe that the government can be trusted and knows best!

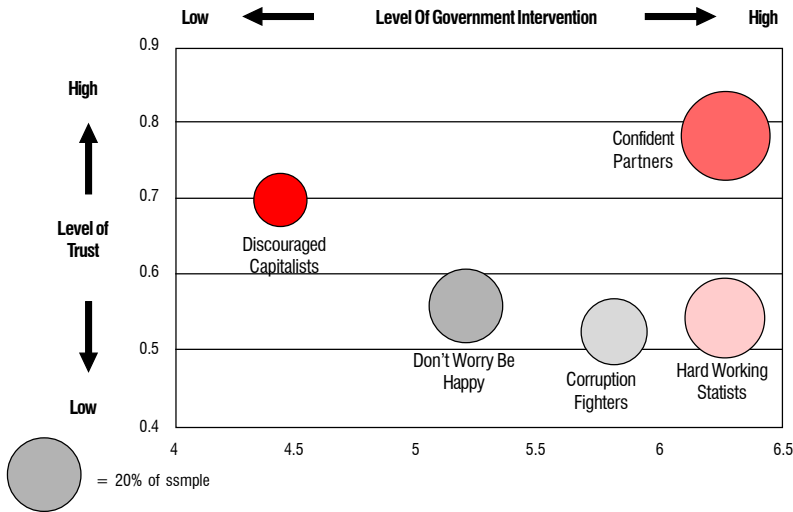
However, on the bright side, a majority of all respondents in Armenia (6 of 10) believe the leaders in the country are open to change and new ideas and 7 of 10 believe the majority of Armenians are open to change and new ideas.

*Reducing Oligarch Control:* Surprisingly, even some of the oligarchs interviewed expressed a desire for change. Among oligarchs interviewed, there are solid supporters of separation of politics from the economy and the establishment of civilized relations between business and government. This change, in their view, should be begun by the state. One young, well-known oligarch lamented, “I am forced to be engaged in politics, forced to go to the parliament in order to get things done. [If I had my preference] I would be engaged exclusively in business and would not be digressed by policies.”

COMPETING PARADIGMS AND VIEWS IN ARMENIA

Some groups in Armenia were more ready for a change process and for a competitive market-based economy in Armenia. These were the perfect groups to start with in building consensus around Armenia’s long-term vision. An analysis of the 2003 national survey by the Armenia 2020 group identified five distinct groups defined by their attitudes and beliefs about issues including the role of the government and private sector, readiness for change and levels of trust. An overview of the five groups is depicted in the graph below, followed by a brief prose description of each group. Understanding these groups would enable a more focused strategy for building consensus around a specific long-term vision and process for achieving it. It would prove to be a fundamental input during the first phase of Armenia’s implementation plan.

THE FIVE CLUSTERS IN ARMENIA: TRUST AND GOVERNMENT



Source: Aslan Global Survey of Armenians in Armenia and the Diaspora, February-April 2003



**Confident Partners:** At 30%, the largest group is the “Confident Partners.” Although they are the least happy, and least proud of all the groups, the Confident Partners have the strongest sense of control over their future, are the most trusting, and are the most ready for change. They are not satisfied with the way things are, always striving for better. They see the private sector as skilled and the government as a capable and caring partner. Building international links is important and they are willing to work hard to achieve their goals. They are the most optimistic of the groups and have the strongest views on the positive contribution the Diaspora can make.

**Hard-working Statists:** At 23%, the second largest group is the “Hard-working Statisticians.” This group believes more than any other group that, although the government is not that capable, it should take the lead in the economy and focus on building international links. They are less likely to view corruption as the primary obstacle. They do not think people in Armenia are open to change or know what’s best for the country. They are neutral on whether the Diaspora understands or cares. They are willing to work hard to support the state-led economy, but have relatively low levels of trust and are not optimistic about the future of Armenia.

**Don’t Worry, Be Happy:** At 20%, the next group is the “Don’t Worry, Be Happy” group. This group is distinguished by overwhelming levels of happiness and pride in being Armenian. Of all groups, they place the lowest value on hard work and relative to other groups do not feel they have much control over their lives. They don’t really have strong views on much of anything else relative to the other four groups, including whether or not the government should take a lead role in the economy, whether government is capable or not, whether the Diaspora understands and cares and whether corruption and bureaucracy really present that much of a challenge.

**Corruption Fighters:** At 16%, the next group is the “Corruption Fighters.” They believe most strongly that corruption and bureaucracy are the primary obstacles to prosperity in Armenia and are least proud to be Armenian. They are not fans of developing international links, and more than any other group they don’t believe the Diaspora really understands what is going on in Armenia. If corruption can be beat, they believe that the private sector should take the lead in the economy but do not feel the skills are there.

**Discouraged Capitalists:** The smallest group, at 11%, is the “Discouraged Capitalists.” They have basically given up and see no way out of Armenia’s current problems. They’re convinced that government shouldn’t lead the economy but don’t think the private sector is ready for change. They don’t think businesspeople have the necessary skills, that citizens know what is best for the country, or even that the Diaspora understands and cares about what is going on. They don’t value international links and are the least optimistic about Armenia’s future.

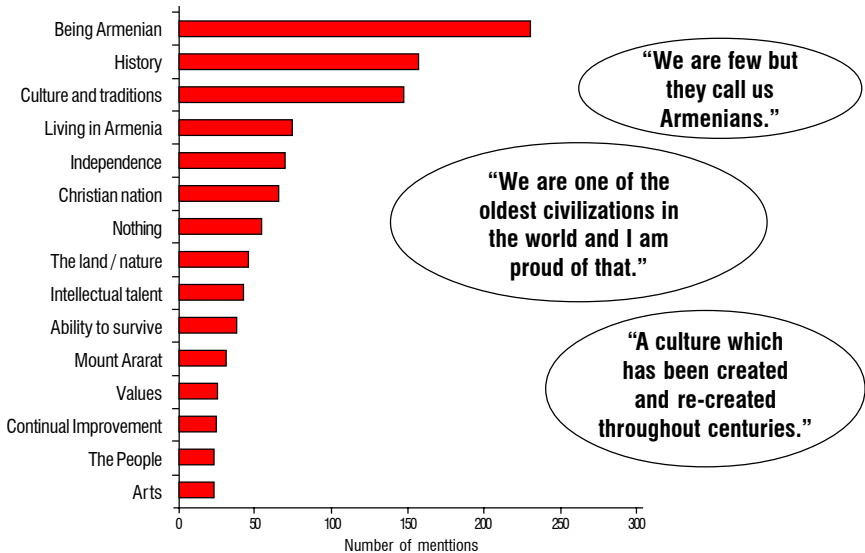
## FOUNDATION OF SHARED VISION AND VALUES

Despite the differences among the five groups described above, underlying the differences was a foundation of shared views and values. This foundation was another indicator which suggested a readiness and commitment to long-term development and change. With the right strategy, the differences could be bridged and consensus built around Armenia’s future vision. There are views and values that, no matter what the demographic background or even the belief system about how the world works, are solidly shared by all respondents and can be thought of as elements of the evolving Armenian identity.

At some level, the vast majority of all respondents throughout the worldwide Armenian nation, are proud to be Armenian and agree that the most important characteristic defining who is Armenian is that he/she believes in the future of the country of Armenia. Some of the typical open-ended responses from Armenia and from the Diaspora cite the history, the culture, the perseverance and very existence of the Armenian nation as sources of pride. Responses are illustrated below.

WHAT MAKES YOU MOST PROUD ABOUT ARMENIA?

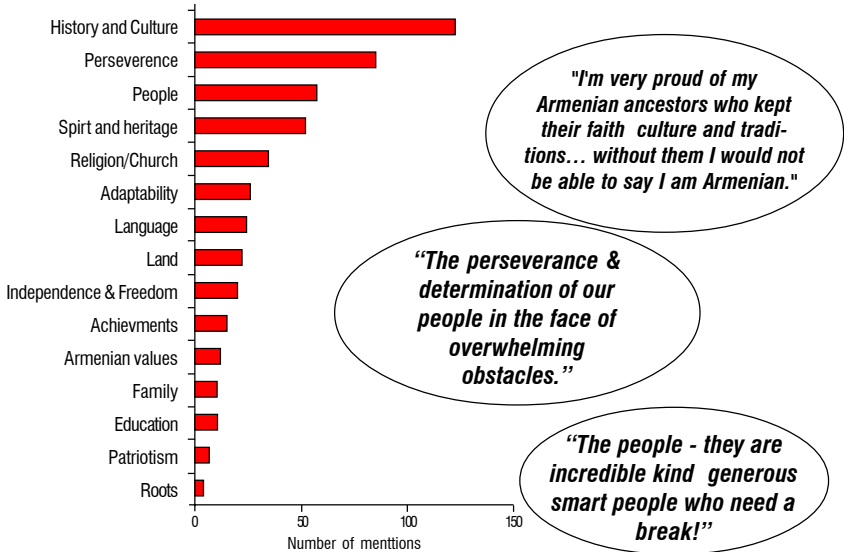
OPEN-ENDED VIEWS FROM ARMENIA



Source: Asian Global Survey of Armenians in Armenia and the Diaspora, February-April 2003

WHAT MAKES YOU MOST PROUD ABOUT ARMENIA?

OPEN-ENDED VIEWS FROM THE DIASPORA



Source: Asian Global Survey of Armenians in Armenia and the Diaspora, February-April 2003

The vast majority also agree on the most important qualities that children can be encouraged to learn at home: a feeling of responsibility, tolerance and respect for other people, hard work, and determination and perseverance. In general, Armenians value hard work and family. Most tend to have a sense of control over the way their lives turn out and are not fatalistic. Armenians around the world are not a very trusting people, believe you have to be very careful in dealing with people, and that most people would take advantage of you if they got a chance.

Interestingly, all five clusters in Armenia ranked almost identical national priorities in their top five, boding well for a process of building consensus. Even the Diaspora shared the same basic priorities in their future vision for the country.

## TOP PRIORITIES: SEGMENTS AND DIASPORA

### Discouraged Capitalists

- Maintaining a stable economy
- Armenia becomes the best place for Armenians around the world to live
- Making sure Armenian citizens feel safe and secure
- Making sure the country has strong defense forces
- **Making sure everyone who wants a job in Armenia, can get a job**

### Confident Partners

- Maintaining a stable economy
- Armenia becomes the best place for Armenians around the world to live
- Making sure the country has strong defense forces
- Making sure Armenian citizens feel safe and secure
- **Fighting corruption and bureaucracy in the public sector**

### Corruption Fighters

- Maintaining a stable economy
- Armenia becomes the best place for Armenians around the world to live
- Making sure Armenian citizens feel safe and secure
- Making sure the country has strong defense forces
- **Making sure everyone who wants a job in Armenia, can get a job**

### Don't Worry, Be Happy

- Maintaining a stable economy
- Armenia becomes the best place for Armenians around the world to live
- Making sure Armenian citizens feel safe and secure
- Making sure the country has strong defense forces
- **Fighting corruption and bureaucracy in the public sector**

### Hard Working Statists

- Maintaining a stable economy
- Armenia becomes the best place for Armenians around the world to live
- Making sure the country has strong defense forces
- Making sure Armenian citizens feel safe and secure
- **Fighting corruption and bureaucracy in the public sector**

### Diaspora

- Maintaining a stable economy
- **Making sure everyone has access to health care and a good education**
- **Fighting corruption and bureaucracy in the public sector**
- Making sure Armenian citizens feel safe and secure
- **Making sure everyone who wants a job in Armenia, can get a job**

Source: Asian Global Survey of Armenians in Armenia and the Diaspora, February-April 2003

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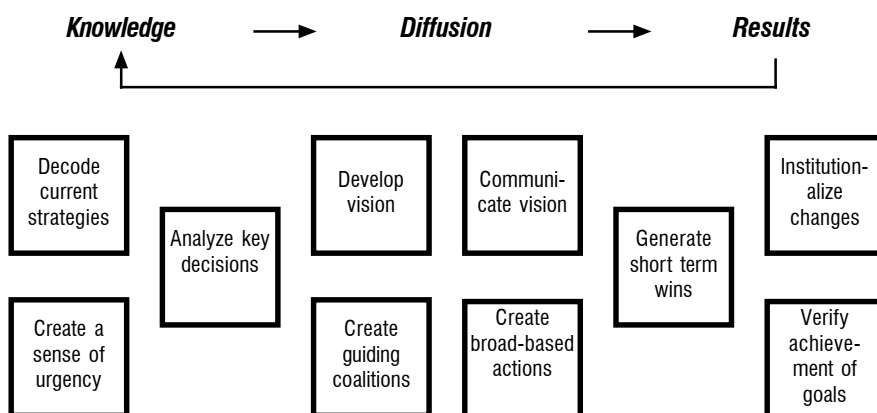
### III. REALIZING THE VISION: ARMENIA'S CHANGE PROCESS

#### A PROCESS FOR CREATING LONG-TERM NATIONAL CHANGE

Given the increasing desire for creating a prosperous Armenia, the country was ready, in 2004, to embark on a long-term process for getting there. But what were the elements of a national process for the creation of prosperity?

While there is no one recipe for success, there are some general guidelines that countries can follow in efforts to create significant, long-lasting change. These guidelines are pictured in the 10-step diagram below and involve three key phases: Knowledge Creation, Diffusion, and Results.

#### ELEMENTS OF A LONG TERM NATIONAL CHANGE PROCESS



In the Knowledge Creation Phase for creating prosperity in a nation, the first step, “Decode Current Strategies,” involves reverse-engineering the current prosperity-creation strategies, such as understanding both macroeconomic management as well as support for firms, analyzing historical and current export patterns, and understanding in further detail the predominant attitudes and beliefs about prosperity among government leaders, private sector leaders and civil society. Most importantly, it involves creating a climate free of blame, focused on understanding the logic and data used to support the current strategy, as well as the root causes of current prosperity levels in order to address them productively. Nations do not change unless its citizens feel a sense of urgency to change. Establishing this “sense of urgency” involves creating “useful tension” while managing the feelings of uncertainty that this may create. Finally, the Knowledge Creation Phase involves analyzing and prioritizing the key choices that must be made.








Phase II, Diffusion is about developing a specific shared vision around objectives and a strategy for achieving those objectives, and most importantly, creating a process of communication and broad-based participation and leadership to ensure that the vision is shared by all groups throughout the country. A guiding coalition must be created that is action-oriented, understands

the definition of the word “strategy,” and who can gain the commitment from other key groups. The vision must be communicated by respected leaders in many different groups who convey to others the rationale for change and emphasize the consistency among various initiatives by constantly linking them to the vision. For example, government officials must explain how specific government policies will contribute to the vision of creating a high and rising standard of living for all Armenians. In the Diffusion Phase, as much responsibility as possible should be pushed down and delegated to a large array of groups and individuals in order to create broad-based leadership.

Phase III, Results, is perhaps the most critical. For people to remain committed to a long-term change process, such as the process for realizing dramatic leaps in productivity through innovation and competitiveness, they must be able to see progress, or “short term wins.” Additionally, as results are achieved and small changes occur, they must be consolidated and institutionalized to ensure continued progress. Performance must be monitored, and clearly linked to the vision and moral purpose behind the change process. Learning from successes and failures must be shared on an ongoing basis. The process for creating prosperity requires a continual and relentless pursuit of innovation. Thus the guidelines described above must be constantly reconsidered and the entire process must become continual. One can think of the eleventh step in the 10-step process as returning to step one and starting all over again. The better a country like Armenia can get at moving through the process, the quicker it can achieve its objective of high and rising prosperity for its citizens.

## A. PHASE I 2004-2008: NEW PARTNERSHIPS FOR GROWTH

In 2003, the Armenia 2020 group leaders began to design a detailed implementation plan for achieving the country's ambitious aspirations. Based on all the discussions, research, and learning the group had done over the previous two years the leaders laid out the following guiding principles for their own long-term change process:

-  The **economy and jobs** had to be the focal point of any future scenario for Armenia
-  Armenians in Armenia had to **actively participate** in the design of the scenarios and broad consensus had to be achieved across different groups in society, particularly those perceived as not having enough influence, according to the survey. The vast majority of those in Armenia agreed that all groups should agree on the vision before the country moved forward and this view needed to be incorporated into the plan.
-  The research, learning and ideas for scenarios had to be diffused throughout the country. Communication and listening to ideas through town meetings and use of the media would be critical.
-  **Short term wins** were key to build commitment and motivation
-  Messages needed to be tailored to different groups, starting with the most receptive two groups, **Confident Partners and Hard-working Statisticians**. The Don't Worries and Corruption Fighters needed to be brought along with different, highly targeted messages. The Discouraged Capitalists wouldn't be a focus.
-  The **roles of the public and private sectors** need to be sorted out, in both the visioning process and the economic development
  - Government, ideally the president had to be actively involved. Expectations for leadership were high and credibility and confidence in the government's abilities needed to be developed.
  - The Diaspora needed to continue to play a visible role in the process, ideally by focusing on business development (i.e. investing, importing, etc.)
-  The widely shared attitudes, values and beliefs needed to be cultivated and incorporated into the vision and communication of the process and plan. This included existing consensus around national objectives, pride in being Armenian, and agreement that the most important characteristic of "Armenian" is belief in the future of Armenia.

The work of the Armenia 2020 group meant that Armenia's change process was already well underway. The research that the group had conducted had helped to analyze the current situation and strategies, as well as identify some of the key decisions that would have to be made going forward if Armenia was going to achieve its ambitious aspirations. In fact, in the 10-step framework for change above, the first phase, Knowledge Creation, was completed enough to move to the Diffusion Phase.

## NATIONAL ROAD SHOW WITH GOVERNMENT PARTICIPATION












The leaders of Armenia 2020 focused first on bringing the President on board. The President was impressed with the extensive research and commitment of the diverse Armenia 2020 group. His genuine interest as well as the potential political advantages in bolstering his popular support convinced him to put some resources toward the effort and he named several key advisors to participate along with him in the proposed 2004 National Road Show.

With that key achievement, the Armenia 2020 leaders worked with a broad network of community and business leaders across the country who had participated in the national survey to plan and host a series of town meetings around the country. The consensus-building process had begun. Dozens of town meetings were planned and initially led by Armenia 2020 participants, the local community leaders, and national government officials. Eventually, additional hosts came forward to offer their services as the campaign gained momentum. The Armenia media covered the campaign which helped it spread even more quickly.

## THE DARE TO EXCEL PROGRAM IS CREATED

The receptivity the leaders encountered during the town meetings was overwhelming and during the first 6 months it became clear that there was a broad mandate to embark on a formal program to build the country's productivity and achieve the country's high aspirations. The "Dare to Excel: Survival to Prosperity" Program was created. It became the steering committee for implementing the vision and was overseen by a broad-based New Partnership including representatives from the Church, Armenia 2020, The President, national and local government officials, businesspeople, community leaders and academics. While unwieldy at times, the broad representation and the foundation of shared vision upon which the group rested helped maintain the group's effectiveness.

The Dare to Excel leaders began to consolidate and articulate key elements of the Vision 2020. The high aspirations for the future were rapidly consolidated into a clearly articulated vision, and a document created which was circulated nationally. The vision's main theme was productivity growth. A GDP per capita level, adjusted for purchasing power, of \$11,200 was set as the overriding objective as well as several other objectives including:

-  The institutionalization of economic growth and prosperity as the top national priority and the creation of an effective private-public organization to manage external funds targeted toward Armenia's economic development strategy.
-  A simple, transparent and effective tax regime and legislative and judicial process.
-  A small, efficient, corruption free government that relies heavily on e-governance and is staffed by top university graduates.
-  A diverse array of internationally recognized, competitive, export-oriented industry clusters, with enough attractive employment opportunities so that all those who want a job can have a job.
-  International recognition of Armenia's high work ethic and spirit of continuous innovation.
-  A trilingual nation (Russian, Armenian, and English) in which foreigners and Armenians live and work together productively.
-  Internationally recognized institutions of higher education, with a specialization in sciences and health care.
-  High and rising standard of living (PPP of US\$11,200).
-  Neutral and peaceful co-existence with neighbors and strong regional trade flows.
-  Clean elections, rule of law, and a defensive military focused on leadership and skill development.
-  An ongoing and constructive dialogue between government officials and businesspeople.



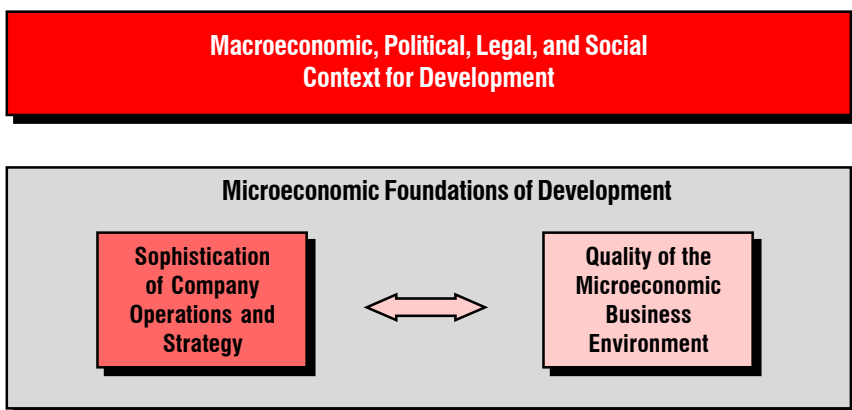


A Church system that is forward-looking and exercises active moral leadership, and holds the worldwide Armenian nation together.

While many voiced skepticism and cynicism that such ambitious goals could ever be achieved and called the program unachievable, the spirit of hope and optimism of others outweighed the naysayers and kept commitment to the program strong.

With the shared vision in hand, the leaders of the Dare to Excel Program then sought help and training from world-renowned luminaries in the economic development field to design a plan to achieve their goals. Key areas of focus were identified: Microeconomic foundations, including quality of the business environment and sophistication of company operations and strategy became the centerpiece of the program, supported by sound macroeconomic, political, legal and social policies.

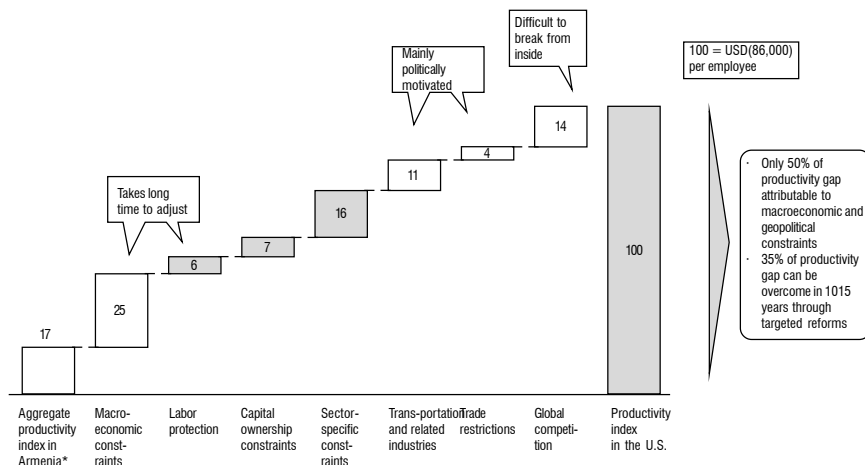
## DETERMINANTS OF PRODUCTIVITY AND PRODUCTIVITY GROWTH



- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Competitiveness ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local companies and local competition**

Armenia 2020 research conducted by the prestigious global consulting firm McKinsey provided specific assessments and recommendations in these five areas (microeconomic, macroeconomic, legal, political and social) and provided a foundation for the Dare to Excel program's implementation plan. The government's supporting role would have to be significant and the president institutionalized the government activities of the Dare to Excel program within the Office of the President under his new National Development Strategy team to ensure immediate and ongoing implementation. Because the areas of priority were great and the government's initial focus was primarily economic, the president called on the Church to involve them in the process, playing the role of discussant of moral values, and more urgently, provider of social safety net services.

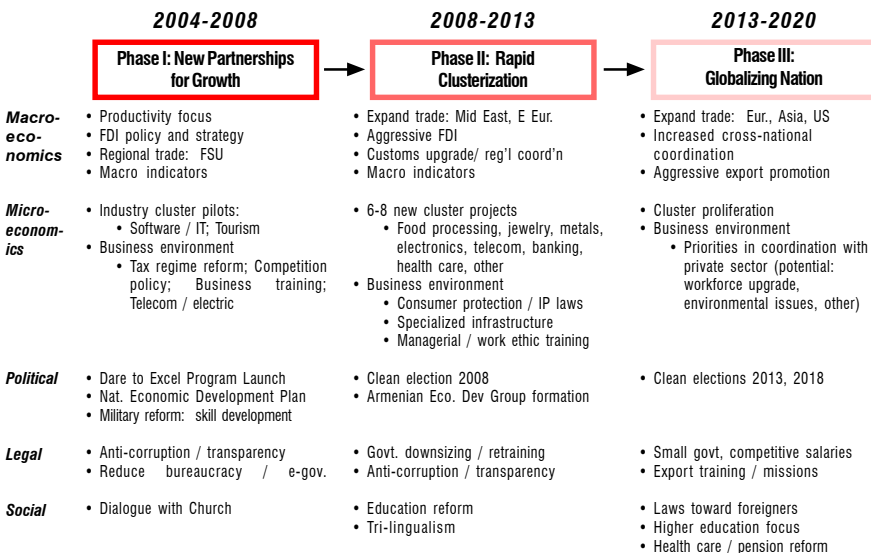
# ESTIMATED IMPACT OF DIFFERENT PRODUCTIVITY CONSTRAINTS ON ARMENIA'S INDUSTRY



\* Compared with similar sector aggregate in the U.S., does not include power and utilities  
Source: Team analysis

Initial strategies and specific actions for the Dare to Excel program were mapped out in three phases:

## THE “DARE TO EXCEL” PROGRAM PHASES AND ACTIVITY HIGHLIGHTS



## KEY ELEMENTS OF PHASE I: NEW PARTNERSHIPS FOR GROWTH

Although the support for the Dare to Excel Program was overwhelming, the activities that had been mapped out for the next 17 years were going to be costly. Armenia's economic situation, although improving, was still very weak and most of the disparate economic development efforts to-date had been funded through external sources.

With their vision, strategic plan, and diverse coalition of supporters, the Dare to Excel program leaders approached the various multi-lateral and bilateral donors, as well as wealthy Diaspora, to garner financial support for the program. It was a long and difficult process but the leaders persevered, doing what they could in the program in the meantime. When the external donors saw this dogged commitment, they stepped up and began funding different elements of the program. Occasionally they wanted to fund elements that the Armenians had not included in the program, but the Dare to Excel program leaders insisted on maintaining their relentless focus on productivity and turned down funds for programs which did not fit strategically in their framework for change.

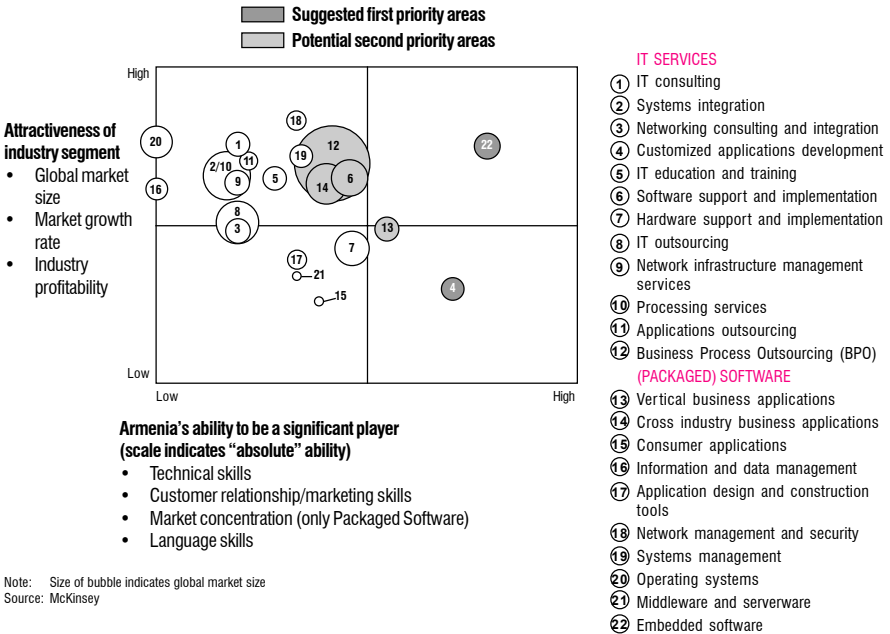
The program leaders secured funding from external sources for two industry cluster projects. Based on the Armenia 2020 research, the program leaders chose two industries which showed great potential for increased productivity, and initiated the projects based on guiding principles from international cluster development experts.

## CLUSTER DEVELOPMENT IN EMERGING ECONOMIES SOME PRINCIPLES

-  Improving the general business environment is essential, but **cluster development** is needed to attain middle-income levels
-  Developing economies should **upgrade traditional clusters** including agriculture, never abandon them
-  Recruitment of **foreign direct investment** should focus on existing and emerging clusters, not generalized appeals
  - Incentives should be weighted toward training, infrastructure, and other areas that upgrade the cluster versus general subsidies and tax holidays
-  **Existing MNCs** can become nodes for cluster development
  - The best way to retain companies is to make them part of a cluster to support higher local productivity
-  **Free trade zones** should be organized around clusters, and regulations designed to encourage **linkages** with the local economy
-  A formal **structure for cluster development** is an important component of economic development
  - Private sector led
  - Government convening and participation
  - Seed funding for cluster assessment and the formation of cluster-based industry groups

Cluster working groups comprised of business and government leaders and relevant supporting institutions such as industry associations, research institutes and others, met regularly to map out a strategic plan for boosting productivity in the clusters. The funding permitted the cluster working groups to involve experts as needed in the process and to implement the recommendations that the group developed throughout the process. The software/IT cluster working group got a headstart through some of the preliminary research conducted as part of Armenia 2020's efforts with McKinsey.

# STRATEGIC POSITIONING IN GLOBAL EXPORT MARKET



## PRIORITY AREAS FOR EXPORT MARKET







	Description	Rationale
<b>First priority</b>		
<b>1 Customized application development</b>	<ul style="list-style-type: none"><li>Export customized application development services</li></ul>	<ul style="list-style-type: none"><li>Substantial portion can be offshored, trend continues</li><li>Armenian firms are able to offer high quality services at low co</li><li>Proven by previous experience</li></ul>
<b>2 Embedded software</b>	<ul style="list-style-type: none"><li>Export embedded software (non-PC software to run chips in electronic products, focus on application development)</li></ul>	<ul style="list-style-type: none"><li>Fast growth due to decreasing costs and higher functionality of chips</li><li>Market still in nascent phase, however other countries also target this opportunity, e.g. China with close link to manufacturing</li><li>Need to link with hardware manufacturers</li></ul>
<b>Second priority</b>		
<b>3 Offshored business process</b>	<ul style="list-style-type: none"><li>Attract Russian (and Western European) to offshore business processes to Armenia</li></ul>	<ul style="list-style-type: none"><li>Global trend to offshore / outsource</li><li>Armenia has capabilities given low cost base, language capabilities (Russia)</li><li>Issues of telecom infrastructure might obstruct opportunities</li></ul>
<b>4 Software support and implementation</b>	<ul style="list-style-type: none"><li>Offer software support over telephone or on-site</li></ul>	<ul style="list-style-type: none"><li>Growing market in Eastern Europe and Middle East will require sufficient support capabilities (Armenia in good starting position)</li></ul>
<b>5 Vertical business applications</b>	<ul style="list-style-type: none"><li>Offer (packaged) software for specific industries</li></ul>	<ul style="list-style-type: none"><li>Growing market in Eastern Europe and Middle East will require software solutions (Armenia in good starting position, e.g. Banking)</li></ul>
<b>6 Cross industry applications</b>	<ul style="list-style-type: none"><li>Offer (packaged) software for common industry processes</li></ul>	<ul style="list-style-type: none"><li>Growing market in Eastern Europe and Middle East will require software solutions (Armenia in good starting position, e.g. Supply Chain)</li></ul>

Source: IDC; McKinsey analysis

The government, although an active participant in the cluster process, was really there to support the private-sector driven efforts. While the businesspeople discussed strategy, the government officials did what they could to invest in a better business environment for ALL clusters. They started with the tax regime.







Tax reform was critical for improving Armenia's productivity and was included as one of the highest priorities in improving the business environment in the first phase of the Dare to Excel program. Research by consultants from McKinsey organized by Armenia 2020 reviewed the challenges and provided an initial blueprint for the public-private task force formed to address the issues. The issues were vast, but addressable.

## **ARMENIA'S TAX POLICY CHALLENGES AND RECOMMENDATIONS**

-  Armenia's heavy reliance on VAT for fiscal revenue generation, coupled with weak institutional capacity for enforcement and politically motivated privileges for certain taxpayers, results in gross distortions of the competitive field, massive informality, low profitability of law-abiding businesses and thus deters new entry both in domestic and export oriented sectors. VAT should be gradually reduced to more sustainable levels (10-15%) for domestic sectors, eliminated on hotels, and strictly refunded to all export-oriented segments, together with measures to improve voluntary compliance
-  Corporate profit taxes in Armenia, although nominally not very high, due to obsolete legislation, inadequate enforcement capacity and easy access to off shores result in widespread transfer pricing, depress exports and investments in intangible assets, and deter Armenia's faster integration into regional financial markets. Given the low level of profit tax collection, it should be reduced further (even if temporary), while the legislation should be upgraded to help position Armenia as a favorable base for foreign companies' operations
-  High level of payroll taxes, coupled with the outdated distributive model of state social security provision, artificially raises labor costs for businesses and contributes towards the extent of informality, while failing to solve the problem of adequate pension provision. The state should gradually move towards accumulating a system of pensions, while expanding the taxation base from salaries to all types of personal income.
-  Very low level of property and natural resource taxes results in sustenance of inefficient ownership in many sectors of the economy, deprives the local governments from means to develop infrastructure, while surrendering substantial fiscal revenues to powerful interests controlling the bulk of productive property in the country. Property taxes should be raised, especially on commercial and expensive residential property, while the base should be expanded to include expensive durables, luxury goods and private leisure facilities.
-  Armenia should establish infrastructure fees for usage of highways and tunnels for commercial traffic to secure funds for their independent upgrade and maintenance, as well as higher fees for usage of urban land and natural resources.
-  Finally, Armenia can consider raising personal income taxes to 30% on higher income bracket as well as custom duties on all consumption goods to 15% to compensate for initial shortfall in tax revenues due to VAT reductions

Another priority area for the government to upgrade the business environment in this first phase of transformation was in facilitating access to business and managerial training for the private sector.


## BUSINESS SKILLS AND MANAGEMENT CAPABILITIES


-  In the absence of domestic institutional investors and limited foreign interest, the majority of state assets was privatized at a negligible price, mainly to insiders or politically powerful yet unsophisticated groups. While few of them had adequate resources to affect a thorough restructuring and transformation of businesses, large chunks of assets, especially in technologically advanced sectors, under-performed, degraded or simply sold out as scrap. To reverse the past without major upheavals, Armenia needs a major state-sponsored yet voluntary industrial restructuring program to identify, consolidate, and rationalize and resale the non-performing assets to qualified investors.
-  Low level of property taxes, ineffectual bankruptcy legislation, as well as implicit subsidies in forms of utility and wage arrears deter restructuring of under-performing assets and their passage to more efficient owners. Armenia should raise property taxes on industrial assets, including equipment (with grace period for new investments), streamline bankruptcy legislation, legislate maximal allowable limits on wage arrears, as well as consider establishing specialized bankruptcy courts for fast-track proceedings.
-  High and often politically motivated economic concentration in many product segments destroys the very sense of honest competition, requires excessive effort for dealing with politics, encourages rent-seeking behavior and hinders development of professional management. Armenia should vest its largely ineffectual competitive authority with real powers to break up powerful quasi-monopolies, while upgrading the legislation to eliminate many current loopholes for abuse and collusion.
-  The absence of institutional investment and corporate control markets limits opportunities for development of professional management and makes restructuring highly problematic. Armenia should enact new legislation on mutual and private pension funds, improve protection of minority shareholders through better legislation and tax incentives, and consider legislation on larger stakeholder participation in corporate management. Given the lack of proven internal capability, Armenia should proactively seek and attract qualified foreign mutual/pension fund management companies to jump start the market.
-  Social coherence/clan mentality and poor business ethics hinders inclusion of otherwise qualified outsiders into decision-making bodies of existing business groups: ownership and management are concentrated in single hands, and management boards are lacking. Armenia can stipulate inclusion of independent directors in company boards, however, development of corporate governance and business ethics should largely happen within the walls of corporations themselves. In that sense, attracting a few leading foreign corporations into Armenia can create a spillover effect for the market.
-  Middle management is also often selected based on social connections rather than professional merit; market for management talent is lacking, and poor organizational policies and lack of meritocracy further hamper the structured professional and career development of managers. Armenia can institute mandatory qualification requirements for managerial professions (similar to law or medicine), however, largely this is a responsibility of businesses, not the state. In that sense, Armenian companies need to focus on developing their human resources, while the state and donors can initially assist in providing managerial training programs to qualified private-sector employees.


A third key priority area for Phase I was public sector reform. Priorities included reducing government bureaucracy and corruption, increasing transparency, eliminating special privileges for oligarchs, improving telecommunications and electric utility services, and developing a clear and fair competition policy. Much thinking had already been done on the topic of public sector reform (see McKinsey recommendations below) and the government formed task forces to address each of these areas with funding from external sources.


There was some concern among Dare to Excel program participants that Armenia was becoming even more dependent on external donor financing, and in the short term, this was true. However, the difference versus previous uses of external donor financing was that this time each and every project was linked to increasing productivity, which would mean increased self-generated sources of revenue over the medium to long term.


## ARMENIA'S PUBLIC SECTOR EFFICIENCY AND REFORM PRIORITIES

 Armenia's political system (presidency and legislature) is dominated by coalition of power groups, representing the interests of security apparatus and mainly domestically oriented labor and natural resource intensive businesses. These groups have vested interests in the status-quo, since the large foreign investment and new domestic entry in a longer-term may erode their economic and political power base, while the weak electoral mechanisms so far deterred the emergence of alternative policy. Unless those interests are counterbalanced through improved electoral processes and broader civil participation, the country will not be able to formulate and execute a comprehensive economic reform strategy.

 Armenia's central executive authority is overstaffed, poorly funded, and is not focused on business-oriented policies. Recent years have seen certain progress in reforming the executive authority, however, it is still incapable to serve as a backbone for growth-oriented strategy execution. The executive should be further downsized and methodically streamlined to focus on business-oriented activities, and specifically, on priority growth sectors, while substantial effort should be spent to improve institutional capacity of the executive and to attract higher quality professionals.

 Armenia's judiciary is highly dependent on political influences, is not well qualified to enforce modern commercial law, and is believed to be far from impartial. Some reform is underway to upgrade the Court's institutional capacity, however, limiting the arbitrariness and political influences on court decisions should be viewed as first priority, together with staffing the economic courts with the best professionals.

 Armenia's economic and business legislation is not idiosyncratic, being affected by foreign influences rather than the country's genuine needs, has many conflicting clauses, gaps as well as some redundancies, and is being too frequently changed. The country's legislative authority so far has shown little initiative in drafting legislation, while the civil society counterparts are almost completely detached from the legislative process. Armenia should thoroughly harmonize its legislation, and establish more transparent and participative process of its development.

 Armenia maintains one of the highest levels of security forces in the world per capita. While it is partially predetermined by the complicated security situation of the country, their obsolete design, mismanagement and a compulsory two-year drafting result in unjustifiably high security spending and cause a vast drain on the country's human and economic resources. Armenia needs to gradually migrate its security forces to contract basis, streamline their composition and improve management to free up resources for the country's economic development.



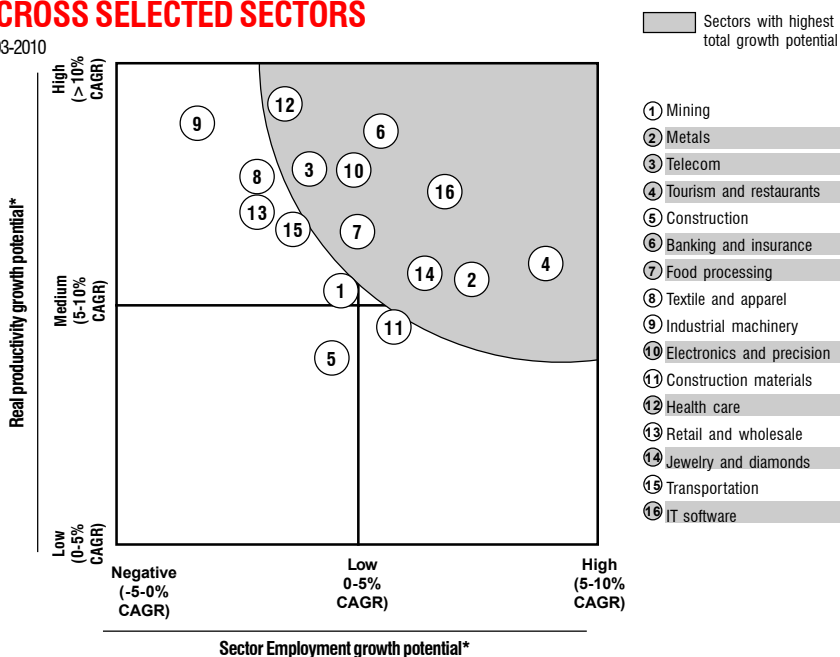
Phase One was not exactly smooth sailing. Arguments about priorities and what activities should come in Phase One versus Phase Two or three were common. Hard choices had to be made and not everyone was happy. Tangible results took longer than expected and some were beginning to wonder if the vision really was unachievable. It was a rocky start, but by the time the run-up to the 2008 elections started, support was on the rise. While not perfectly smooth, the elections were clean and because of the excitement around the Dare to Excel program, the population elected a successor named by the president, to ensure continuity. This time there was a real mandate for change and Armenia was entering the second phase of the program. Above average growth rates were needed during this phase to stay on track, given the somewhat slow start and set-up efforts required in the first phase. Without stopping for a break, immediately after the election the team redoubled their efforts and dove into Phase Two: Rapid Clusterization.

## B. PHASE II 2009-2013: RAPID CLUSTERIZATION

Based on information gained from the first two cluster projects which were still underway, and because even higher productivity growth rates would need to be achieved in the second phase of the vision implementation, Rapid Clusterization became the central focus of the Dare to Excel program. Based on the Armenia 2020 research results (see chart below) the program leaders invited several clusters with high productivity potential to apply to become part of the program. They had learned that a cluster's ability to organize itself was highly correlated with its success during the cluster project, and wanted to ensure that only those clusters who were "ready" for the program participated. They received applications from over a dozen clusters and selected the 7 that seemed to offer the best chances at success for themselves as well as for the nation overall. Those clusters were: food processing, jewelry / diamonds, metals, electronics and precision equipment, telecom, banking and insurance, and health care. Because of the success with the first two pilot clusters, international agencies were ready to fund this next round of clusters as well.

### ESTIMATED EMPLOYMENT/PRODUCTIVITY GROWTH POTENTIAL ACROSS SELECTED SECTORS

2003-2010



\* Compared to current employment/productivity in the sector

Source: Team analysis; World Bank; UNDP

The new president had high levels of support from the Diaspora and was determined to use that support in this second phase. Based on consultations he had been having with key Diaspora leaders for the last several years, together they launched the Armenian Economic Development Group. For the first time in history there was a single group that would coordinate external funds coming into the country. The benefits in terms of strategic focus were extremely high. Donors felt better about putting money into an existing, successful, coherent strategy and the investments—particularly from Diaspora—began to increase. The investors were extremely demanding in terms of seeing results and performance measurement improved dramatically as a result.

With 7 new clusters under development, opportunities to focus on expanding trade beyond the immediate region increased. Trade flows with the Middle East and with Eastern Europe were on the rise.

Business environment upgrades focused on consumer protection laws to increase the overall quality of Armenia's products and services. Not only were local consumers better off, but the products had a better chance of competing effectively abroad. Armenia was beginning to get a reputation for quality in the immediate region.

Government reforms continued during this phase, with an additional focus on government downsizing, retooling, and work ethic sensitization training. Armenian citizens were shocked at the new customer service attitude which seemed to permeate through the government. Armenia's rank in Transparency International's annual corruption perception rankings was improving steadily.

The private sector was taking more and more responsibility for its own success and relying less and less on the government. This allowed the government to turn its attention to education, to ensure a long-term improvement in the country's human capital base. Language training was introduced at every level to develop trilingualism (Russian, Armenian, and English). This gave Armenia a unique set of advantages, particularly in conducting business internationally. The pool of foreign investors and partners increased dramatically as a result and Armenia was able to position itself as an attractive business partner to both the Russian orthodox east and the American and European west.

## C. PHASE III 2014-2020: GLOBALIZING NATION

Although the results from the second phase were ahead of targeted results, there was beginning to be a backlash from the general population who were not participating on a day to day basis in the cluster projects and in the Dare to Excel program. While jobs were more plentiful than in 2003, employees were starting to demand more from their employers; not just in salaries but in social services. Although those who were well-off had relatively easy access to excellent health care and education, these services were still below average for the vast majority of the population. Additionally, work benefits such as disability insurance, unemployment insurance and retirement pensions were woefully underdeveloped. Furthermore, with so many new businesses, waste was on the rise and a culture of conservation, recycling and environmental protection just didn't exist in any broad sense. The government had put such a heavy emphasis on the purely economic dimensions of productivity, that the related social issues had been somewhat ignored.

The widespread demand for more emphasis on the social dimensions of Armenia's dramatic transformation left the president vulnerable in the 2013 elections. By this time, the opposition was getting savvy and saw that support for the productivity agenda was here to stay. They adopted most of that agenda and added an emphasis on some of the social issues that were top of mind to the average Armenian in 2013 and managed to squeak by in an extremely tight race. There was deep concern about whether the Dare to Excel program would continue, but because there were so many non-governmental constituencies involved and because so many activities were underway, it had almost taken on a life of its own. It continued but the new president put his own mark on the program by creating a series of Dare to Excel social policies.

Previous administrations were also criticized for almost completely ignoring relations with neighbors, except in terms of increasing exports to them and the neighboring countries were starting to get restless. They also saw the great success that Armenia was enjoying and wanted to play off that success to help their own economies. So the new president took the Dare to Excel program international and initiated a regional program to coordinate business environment upgrades, cluster activities, and key government agencies, such as customs operations, with neighboring countries. The chart below illustrates the issues that the regional presidents would consider at their quarterly meetings. The new regionalism spurred coordination and improvement in laws treating foreign nationals in all the countries and laws addressing treatment of foreigners, long mistreated in a highly homogeneous Armenia, improved dramatically. Flows of human capital across borders became easier and experiences for foreign nationals in Armenia improved dramatically.

# CROSS-NATIONAL ECONOMIC COORDINATION

## ILLUSTRATIVE POLICY AREAS

Factor (Input) Conditions	Context for Strategy and Rivalry	Demand Conditions	Related and Supporting Industries	Regional Governance
<ul style="list-style-type: none"> <li>• Improve regional <b>transportation infrastructure</b></li> <li>• Create an efficient <b>energy</b> network</li> <li>• Upgrade/link regional <b>communications</b></li> <li>• Upgrade/link <b>financial markets</b></li> <li>• Upgrade <b>higher education</b> through facilitating specialization and student exchanges</li> <li>• Expand cross-border business and financial <b>information access and sharing</b></li> <li>• Coordinate activities to ensure <b>personal safety</b></li> </ul>	<ul style="list-style-type: none"> <li>• Coordinate <b>macroeconomic</b> policies</li> <li>• Eliminate <b>trade and investment barriers</b> within the region</li> <li>• Simplify <b>cross-border</b> regulations and paperwork</li> <li>• Guarantee minimum basic <b>investor protections</b></li> <li>• Agree on <b>foreign investment promotion guidelines</b> to limit forms of investment promotion that do not enhance productivity</li> <li>• Coordinated <b>competition policy</b></li> </ul>	<ul style="list-style-type: none"> <li>• Set minimum <b>environmental standards</b></li> <li>• Set minimum <b>safety standards</b></li> <li>• Establish reciprocal <b>consumer protection laws</b></li> </ul>	<ul style="list-style-type: none"> <li>• Establish ongoing <b>upgrading process in clusters that cross national borders</b>, e.g. <ul style="list-style-type: none"> <li>– Tourism</li> <li>– Agribusiness</li> <li>– Textiles and Apparel</li> <li>– Information Technology</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Share <b>best practices</b> in government operations</li> <li>• Improve regional <b>institutions</b> <ul style="list-style-type: none"> <li>– Regional development bank</li> <li>– Dispute resolution mechanisms</li> <li>– Policy coordination body</li> </ul> </li> <li>• Develop a regional <b>marketing strategy</b></li> </ul>

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In addition to the new focus on social and regional issues, new clusters were initiated. Only this time the president insisted on giving equal opportunities for small but dynamic clusters whose impact on national productivity was by definition small, but whose success impacted thousands of families. Agriculture, handicrafts and some of the other industries found primarily in rural areas of the country received attention for really the first time in the Cluster program. Cluster development methodology was so advanced by this time that these traditional clusters were able to improve at a much more rapid rate and innovation through new connections with other clusters, such as software/IT and tourism, helped innovate the mix of products offered, and also increased the sophistication of the offerings.

It was a tough choice to involve smaller industries in the process. Exponential growth rates of Phase II came back down. However, the president maintained his support base through the 2018 elections and set the stage for the opening scene at the National Stadium, the 30<sup>th</sup> anniversary of Armenia's independence.



"My feeling", Lilit Hakobian, 14 years.

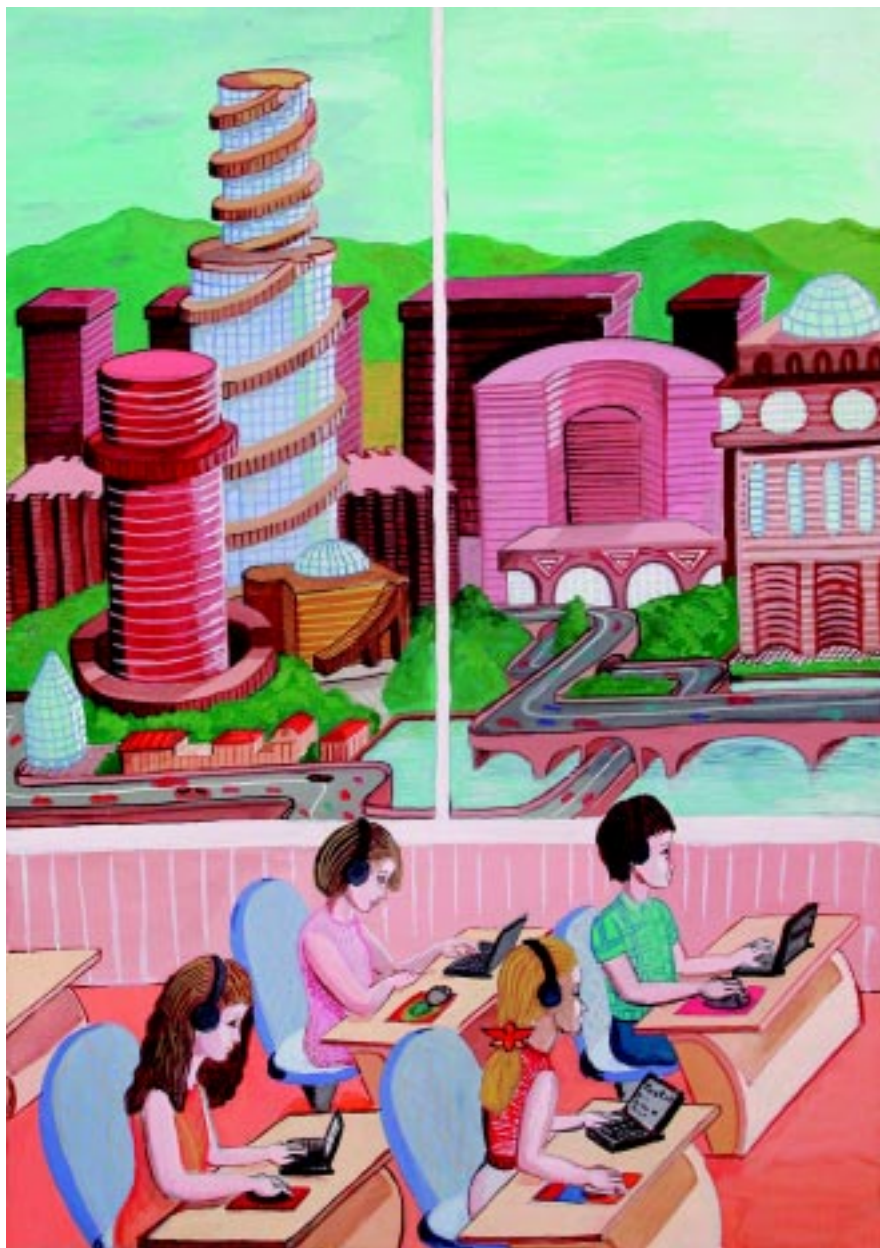




“Future President of Armenia”, Tatevik Ghazanchyan, 10 years.



"My Armenia", Anahit Hovhannisyan, 13 years.



“Pyramids leave the Earth”, Ashot Sargsyan, 15 years.





“My thought”, Tatevik Simonyan, 14 years.



“Freedom”, Tatevik Simonyan, 14 years.



“Future President of Armenia”, Liit Meliqyan, 13 years.



Author: Vardan Grigoryan  
Translation: Aram Ohanian



# SENTENCED TO THIRTY YEARS WITH CORRESPONDENCE



## FOREWORD

Let me assure the reader that this is not a literary treatment of my reports from Armenia which made me more or less famous, somewhat rich and even won me a journalism award.

At the same time, I won't conceal, this was actually the initial idea and I rejected it not out of arrogance but due to impressions and reflections not printed on newspaper pages. Because the motto of the Editor and myself was "Do not harm"; for I had to rediscover Armenia for the Russian public two centuries since Alexander Pushkin and one century since Valery Brusov (please, do not take this for immodesty), because Armenia, due to destiny and politicians, has distanced itself from us immensely.

It's a noble cause since the three-million strong Armenian community residing north of the Caucasus has great expectations from the improvement of Russian-Armenian relations. Although this community has not lived to see its own or the Russian Harriet Beecher Stowe depicting Uncle Khachik's Cabin, on the whole it lived decently all throughout these years, virtually alienated from the historical homeland, however, entitled to correspondence...

It is common knowledge that Armenia's history is rather dramatic, if not tragic. However, the events of the three recent decades have clearly evidenced the significant dependence of historical processes and cataclysms on the peculiar features of the national mentality and, particularly, the behavior of the ruling and intellectual elite.

According to their own admission, the Armenians apparently decided to demonstrate to the world how NOT to govern a state and a society, if one does not want to be marginalized in the global civilization.

Moreover, according to some international research centers, this country's government has voluntarily turned it into a test-field for experimenting with the most unfavorable scenarios forecasted for the all of mankind, namely: energy, water and food crises, de-industrialization with subsequent degradation toward subsistence agriculture, destruction of social security mechanisms, etc.

Here is a paradox, one out of many: the population accepted this guinea-pigging submissively, even with somewhat masochistic humility, according to many eye-witnesses... Naturally, the reports never mentioned and could not mention all that, since the Editor's pre-conditions did exist, although not as a taboo, however, it was required to exercise utmost political tolerance. Hence, one could conclude that the political echelons contemplate the "return" to Armenia, "bridging the gaps", etc. In short, the reports were reserved, and to be honest, rather subservient, no matter how favorably they were received, I was dissatisfied with them because of forced constraints. That is why this book has come into being...

*Yours truly,  
Valery Grigoriev*

## CHAPTER I

### FIRST APPROXIMATION

... In olden times, similar works would begin with a description of nature. The latter, however, did not inspire me, since, I was told, I have arrived in a gloomy season, at the end of the winter, when the sky is bleak, not a single leaf or blade of grass, brown soil, dejecting landscape. Even the mountains were not visible. The cars, including very prestigious ones, were smudged with gray mud which is useless to wash since it is pointless anyway.

A young and long-unshaven driver who requested an acceptable amount and hence obviously annoyed his colleagues took me to Yerevan by a narrow but otherwise decent road in a thirty-year old Russian Volga. On both sides of the highway, illuminated with advertising lights, the dens of iniquity stretched endlessly, which, as I heard later, the law prohibited within city limits. We drove slowly, apparently because every mile or two a traffic policeman loomed in the twilight with the phosphorescent baton. However, I failed to start a conversation, since the driver's Russian word stock was confined to interjections, although he probably understood my questions.

Upon arrival at the hotel with a very Armenian name, recommended to me back in Petersburg when I obtained my visa, and lodging in an inexpensive cozy room, I unpacked my suitcase and started to categorize everything I knew about Armenia and its populace. Not much, as it turned out, and mainly reference data. It is a country with an ancient history and culture; population, three million, with a predominantly poorly developed agriculture and local crafts, has been through all stages typical for the political "evolution" of a banana republic, or to be more exact, an apricot republic: from adhococracy through administrative and financial oligarchy (successively) to military bureaucracy. Ranked as an economically unpromising and undemocratic country. However, not branded as a "pariah" state, thanks to the mediation of the large and influential Diaspora, residing in the USA, Russia, France, Iran, etc. What else? Ah, yes, it has a relatively large army, well equipped with modern weaponry, quite efficient and combat-ready, and hence deserving the status of the "Gendarme of Transcaucasia" which, of course, irritates its closest neighbors. Nevertheless, Iran and the Arab world approve of the Armenian ambitions.

A country with virtually a stagnant economy, GDP/capita under \$4,500, i.e., one of the lowest worldwide, and a strong army, is of course, a paradox, but that is so. Another paradoxical phenomenon is high respect to education, and higher education in particular, amongst a population living at 90% below poverty level. I will get back to that later.

And now let me tell you about my first impressions which can not be described as positive. Street beggars were especially obnoxious; they surrounded you immediately at the hotel exit and, generally, you bumped into them all the time, all of them, regardless of sex and age, in unimaginably filthy clothes, extremely unkempt and insistent, not begging but demanding. Clearly, a whole begging industry was involved.

Foreigners are easily discerned even in the crowd by their bright clothing and carefree looks. Local men and women wear dark, armor-like clothes (probably, seasonal) and their faces are fixed and sullen.

Means of transportation are exclusively private, mainly minibuses. Public transport does not exist at all, only the metro which is very expensive. Cars are abundant, of any brand and age; the traffic in downtown Yerevan is dense, even jamming. However, beyond city limits, the flow of cars is shrinking, mile after mile, and the highways are virtually empty. The destinations of suburban journeys (for those who have means, reasons and resources to travel) are quite revealing: highlifters drive 20-30 kilometers from the capital to suburban casinos and prestigious restaurants. The latter,

as well as bars and cafés, are plenty in Yerevan too, especially, downtown, and strangely enough, given the low income of the population, they are never short of customers. These establishments have neither Oriental, nor Caucasian flavor; only European, sometimes, exotic style, good, clean service, abundance of young women amongst the frequenters, who deliberately display their emancipation and laxity. And all this is in Yerevan. As soon as you are out of town, with rare exceptions, most public catering establishments look like inns with very basic food and service. The situation with hotels is similar: one or two decent ones at Lake Sevan, and that's all. Refined tourists will never be attracted by such service, whereas the connoisseurs of virgin nature will hardly be lured by the sight of rusty agricultural machinery in ditches along roads, dilapidated houses in alpine villages, uprooted forests and other unappetizing fruits of Armenia's de-industrialization. On the whole, the concentration of civilization in the capital is unprecedented. Hence, the exorbitant prices on real estate, whereas just some 20 kilometers away, real estate is sold at dumping prices. I was stunned when I learned that one square meter in the so called Minor Center of Yerevan is worth as much as in downtown Moscow. I was told that foreigners buy much, and not only Armenians. What for? I thought, something must be wrong here, and by the end of my stay I realized that the reason was the exceptional liberalism of Armenian authorities with respect to wealthy fat cats, no matter in what disguise. Even petty crime is forgiven to them as long as they pay to the aggrieved party for the financial and especially moral damage. Of course, foreigners do not make an uproar often due to law-abiding upbringing. But the local money-bags and their offspring like noisy and unpunished debauchery followed with compensation.

It should be admitted that life in Armenia for a well-to-do person is full of pleasure in the absence of problems: no racketeering (except by the state), no organized or even street crime. The prices on services and entertainment are much lower than worldwide...

... Despite my anxiety, the official registration in the Foreign Ministry was without complications. At least the atmosphere here was drastically different from the nightmare at the airport when passing border and customs control. Nevertheless, at the diplomatic office, I could feel suspicious and vigilant stares fixed on me, but that I ascribed to their official duty.

The officials provided me with abundant information, about the desirable improvement of political relations and the expansion of economic ones, about the increased domestic tensions because of the forthcoming elections, about objectivity of coverage, etc.

I assured them, that I would do my best, etc. and they let me go. Business as usual.

The unusual began afterwards, during meetings with my local colleagues, officials, intellectuals, entrepreneurs, and rank-and-file people. What impressed me most was that most of my interlocutors were not just well versed in the intricacies of world politics, but also avoided the discussion of current geo-political reality which cornered Armenia into a civilization impasse and labeled it as a "hopeless country". However, they were rather self-critical when assessing the situation, blaming neither the neighbors, nor the great powers as much as their own rulers whose response to the challenges of time, processes and events was inadequate or even irresponsible. At the same time, they would refer to the past, a hundred or thousand years back, with expert knowledge and bitterness. It was then when I heard one of them utter a sacramental and dispirited phrase: "Our troubles are rooted in our gene stock". I will get back to it below. In the meantime, I will confine myself to the following statement: I realized that the biased (entirely negative) information, mainly from unofficial Armenian sources, originated not out of the informants' opposition but out of the public attitude...

This brought up a question that I asked myself and have not gotten the answer yet despite all my efforts: how the society whose educated and cultured representatives have historical thinking,

political insight, and an ability to make serious generalizations let this country slide down into this stalemate?

I am afraid there is no answer, since common references to post-totalitarian immaturity and wide-spread marginalization of the population, conformist intellectuals, irresponsible and selfish ruling elite do not account for it. Any way, the way of life, values and behavior stereotypes of the Diaspora Armenians are drastically different from the ones of Armenia's Armenians, even though the largest foreign Armenian communities, the American and the Russian, have been energized from Armenia over the last 30 years, and almost doubled their population. According to estimates, 2 million people emigrated and the exodus is going on!

Even the emigrants from the latest wave manage to integrate into the structure of alien life painlessly, and sometimes quite successfully. Hence, the "genetic" explanation is below criticism. In reality, in Russia, France, America and Moslem Oriental countries Armenians are, as a rule, law-abiding, hard-working, enterprising, inclined to intellectual spheres, ready to help each other, and when needed, even politically organized.

By virtue of the above, Armenians achieve rather high living standards, by all accounts! In Armenia proper, it is all vice versa: social unrest, economic collapse, political intrigues, cabinet reshuffles, financial and criminal scandals. Plus enormous polarization of income. Only the upper ten thousand, or several hundreds of families, enjoy decent living standards. To be more exact, they live in luxury.

However, at the turn of the century, there were all prerequisites to become a hi-tech oasis in the Middle East, to develop state-of-the-art, science-driven products, a banking system, and services with 1.5 million jobs.

Where did all this potential go?

Partially it emigrated, partially it ended up in the oligarchs' hands as dead capital. So I was told. I actually saw this "dead capital". There are gigantic idle facilities of former plants and factories. Only in Yerevan, there are more than three hundred of them and about 1,500 nationwide. They are completely abandoned and not even guarded since only concrete frames have survived, sometimes without roofs; the rest was looted by the owners, as far back as twenty-five years ago. These former industrial monsters are beyond repair, and, despite cheap labor, no one would care to invest into obviously unprofitable enterprises, due to high taxation and predominance of fiscal institutions. Services, restaurant and hotel business, traditionally in the shadow by two thirds, are more attractive for investors.

Hundreds of large industrial enterprises privatized in the past at dumping prices served as the source of numerous fortunes. I was told that till the late 1990s, millions of tons of quite good and even advanced equipment were sold mainly to Iran under the disguise (and at the price) of scrap metal. According to experts, at that time this amounted to \$1.5 billion, or one sixth of the national property. Impressing figures! The foundations of the current monstrous property and, hence, social polarization in Armenia were laid at that time.

At present, less than 0.5% of the population own three fourths of all moveable and immovable property in this country. The remaining property belongs to the rest of population, mainly real estate (houses, 40-50 year old apartments, farm land) which is hard to sell when needed, even dirt-cheap. The rural population is into subsistence farming, the urban population, is into day-labor and work as street vendors, which does not always provide the minimum cost of living. Whereas the tycoons, high-ranking officials and generals are followed by convoys of expensive "jeeps", full of beefy bodyguards.

Significant remittances (about 0.5 billion Euro) transferred annually to Armenia from other countries by private channels, and the demonstrative paternalism of large and even small employers,

who pay for unjustified jobs, save this country from serious social upheavals. However, regular emigration of the most active and creative part of the population, especially the young, stabilizes social tensions best of all.

According to official statistics, 50% of the urban population is unemployed, but in reality, 70%. The rest mainly work in services, in small workshops, bakeries, garages and in trade.

In Armenia, I often heard: "People are our main potential." I would interpret this as the acknowledgement of unparalleled adaptability of ordinary people to any conditions. In this country, craftsmen are exceptionally resourceful: any commodity more or less in demand, is immediately reproduced using improvised materials and proves by no means worse, e.g.: clothes, shoes or car parts. At least, motorists prefer the services of local craftsmen capable of manufacturing any sophisticated part rather than buy it at a triple price in specialized shops. The times when consumer markets were inundated with cheap and low-quality Chinese, Turkish and Middle-Eastern goods are gone for good. Everything except luxury items is produced domestically and readily purchased, because of its quality and taste. Thus only raw materials are imported, but just a few commodities are exported: only food preserves, jewelry (using imported raw materials) and information technologies are competitive abroad. IT, by the way, is oftentimes purchased together with the producers. The employees in these prosperous sectors and in the energy sector and utilities are paid relatively well and can provide the minimal cost of living for their families.

Employment in international organizations is considered very prestigious, but there are only a few left, since this country is weakly connected with world and regional markets.

Small and medium officials in state agencies and municipalities occupy privileged position. If the officials at the highest posts are envied by the public, the ones in lower echelons are thoroughly hated.

The bribe is the only incentive to occupy these low-paid jobs, gained with great efforts, protectionism and bribes. As a result of this devilish selection, a breed of humans has evolved who do not wish and do not want to perform their direct duties at work, other than for a bribe, which is immediately suggested by the applicants.

The system of bribes penetrates into all executive structures from top to bottom, and public opinion is so used to it that it is considered natural and inevitable. Sometimes anti-corruption is recalled on the eve of elections, mainly by the most corrupt.

The highest ruling echelon has of course other sources of income and much larger, from monopolistic supplies of food and consumer goods, large-scale banking manipulations, distribution of budget resources state procurements, tenders, contracts, etc.

The notions of civil service and big business are so closely interwoven that any reshuffle usually causes a radical redistribution of property and economic spheres of influence. Such regular reshuffles are determined by the fact that high-ranking administrative, judiciary, police and army officials are owners of banks and other for-profit enterprises, monopolistic exporters, tycoons, while their protégés are their suppliers and contractors.

An interesting tradition: the ones who have been deprived of posts and big business only rarely have problems with the law and are exceptionally rarely subjected to complete expropriation. This decade-long mutual cover-up resulted in the continuous multiplication of the new rich who then sagely settle at warm sea coasts and pauperize of the country and its population.

Political life has been entirely profaned and reduced to primitivism. At least 50 officially registered parties exist only on paper at the Ministry of Justice. They are extremely small, deprived of ideology, unstructured and remind about themselves only on the eve of elections, hoping that some money-bag striving for the parliament would like to head their party ticket and thus would finance

their campaign. Even parliamentary and so called traditional parties have become exclusive clubs for a couple of political string pullers and dozens of functionaries who do not conceal their complete dependence on executive power. The latter ultimately determines (by loyalty principle) who would be represented at the legislature, forges percentages during elections in accordance with predetermined quotas and approves candidates and nominations of the majoritarians. The service of political technologies is not in demand here!

The population has time and again convinced itself that nothing depends on the expression of its will and treats the elections quite pragmatically as traditional re-distribution of wealth, a social mechanism of rewarding for the execution of one's civil duty.

Needless to say, the lion's share of the significant funds spent during elections is channeled to target bribing of voters. The TV, press and printers get much less. And it should be noted that the parties to voting collusion, as a rule, respect its terms.

But once upon a time Armenia was regarded as the oasis of democracy in the southern post-soviet flank; Armenia's candidacy was seriously considered for membership in the European Union, Armenia served as a model and example for others for its reforms, parameters and rates of human and economic development!

Thus, the first approximation is as follows.

Quite stable and democratic development of Armenia characterized by high economic and humanitarian indicators was disrupted circa 2004-2005. The systemic crisis that struck Armenia was the outcome of short-sighted domestic and foreign policy on the one hand, and unfavorable geopolitical situation worldwide, on the other. The immediate cause of the crisis was the termination of external financial aid to the ruling regime due to its departure from democratic standards. It was followed by political obstruction of Armenia by leading powers, this time for its tough stance in the settlement of the Karabakh problem. This is the approximation. As for details, I was enlightened by a political scientist and my namesake Valery Sureniants, a sworn oppositioner and radical, despite his venerable age.

#### INTERVIEW WITH A POLITICAL SCIENTIST (COMMENTED BY THE AUTHOR)

- As far back as at the turn of the century Russian-Armenian relations were justly described as allied, friendly, dynamic, etc. and then, suddenly, the freezing. What happened?

- The developments fitted the geopolitical pattern of re-tailoring of the Middle East, which started with the fall of the clerical regime in Iran in the autumn of 2004. The declarative "strategic axis Moscow-Teheran" to which Yerevan was promised to join, ceased to exist. The new Iranian authorities facing the real threat of dismembering of the country decided not to argue with the Americans and reject geopolitical fancies. Armenians could not afford to follow suit, since that would be tantamount to the surrender of Karabakh to Azerbaijan even only de jure, as the Americans assured them, after twenty years of struggle. Needless to say, the authorities, in their reluctance, relied on Moscow's support, whose regional interests by 2005 coincided with ours. And then the notorious "democratic nightmare" began: the US declared the ruling regime in Armenia illegitimate, although they could have done it two years earlier, seven years earlier and started to exert pressure and destabilize the country politically and economically, after their own fashion. Then Armenia was ranked as a pariah state.

- What did Russia do?

- Russia naturally conceded, to the detriment of its own interests in the region but avoided a confrontation with the US. Pragmatically, one has to admit, this was a justified decision, whereas no one cared about the Armenians' disappointment. Large-scale energy and transportation projects were high on the agenda of international politics, in which Russia could be engaged, but, of course,

with the approval of America, which was the world's leader at the time. These considerations outweighed the rest. While the Armenians lost the last illusions about Russia's "special role" in the South Caucasus...

- But the Russian military bases stayed for another decade, didn't they?

- Only symbolically, as a moral guarantee from external aggression, although the threat of such aggression did not exist. Strategically, Armenian territory was not attractive for international or regional powers: no mineral resources and little transit capacity. You see, transport and economic corridors from the Caspian to the Mediterranean circumvent Armenia in the south and north, running through Georgia and Iran. Armenia looks squeezed in the claws of a crab, or in a strategic impasse, since there is no North-South corridor. That's the geopolitical reality.

- Therefore, Armenia was left alone, which is not so bad.

- In geopolitical terms, yes. No debate is going on about Armenia. However, our domestic situation, as the powers believe, serves as a bad example to others. They are persistently trying to "improve" Armenia. So, in reality, Armenia was not and is not left alone. You know, we are accused of absence of democracy, authoritarianism, excessive monopolization, criminal sources of capital, etc.

- Isn't that so?

- Unfortunately, it is, and even worse. But in addition to that, it is the result of external pressure, gross interference into domestic affairs under the guise of best intentions. This frighteningly frequent change of regimes (which has become a good national tradition) will not improve our democracy, our oligarchs won't get less cruel or greedy, our parliamentarians appointed by authorities won't become less corrupt and cynical.

These coups are all inspired, financed and overtly organized abroad; all parties, press and TV channels are funded by foreign political circles, and serve the latter, of course... In other words, they don't let the muddy water settle down.

- So it's only the fault of external forces?

- On no account: they only avail themselves of the unhealthy political and disastrous socio-economic situation. I'd dare say, they are experimenting, modeling options, and it seems, they do that out of sheer curiosity, since the subject of research is too "responsive"...

It is the ruling elite to be blamed for the total crisis leading to degradation...

- It may seem, they are not elected by the population...

- Exactly. Election as such took place about thirty years ago, at the dawn of independence and, unfortunately, it turned out typically ad hoc. The ruling regime matched it well, and before long transformed into an oligarchy of all forms: first, bureaucratic, then financial, now military... Regime, essentially, never changed, it reproduced itself, only mimicking, mutating, if you wish, under internal and mostly external circumstances.

- What exactly should it be blamed for?

- First of all, for absolute spontaneity of action, i.e., inability and, probably, unwillingness to design a state and society development policy for the more or less remote future. Secondly, for the lack of political will to uproot endemic corruption. Thirdly, for promotion of monopolization in economy and clan fragmentation, purposeful destruction of industry, science, culture and education... Lastly, for criminal perversion of all strata of population, cultivation of irresponsibility and favoritism, after the fashion of medieval nomads, who grabbed power, booty and fled abroad.

- Five presidents, eighteen prime ministers have been changed in Armenia over the years of independence, plus hundreds if not thousands came to power. Hasn't there been a single honest person, responsible and just patriotic?



- If such a person was ever let into this pack of wolves, he either dissolved in it, or disappeared somewhere.

- Don't you think this vicious circle could be broken down by democratic mechanisms?

- Under no circumstances. Money has always made everything go round. Besides, the mechanisms are gone for good. Any elections are profanation, in fact appointment and self-appointment is what works, plus coups are the mechanism whereby various clans replace each other...

- How about opposition?..

- It is fed from the hands of authorities. That's all there is to say.

- A gloomy picture. What's the main reason for that: Fate, Destiny or gene stock? I heard about genes too...

- Rubbish. The reasons are as follows:

- a) lack of the tradition of the mentality of statehood and protection of rights in the society;
- b) predominant conformism of the intellectuals who reconcile with any disgraceful practice;
- c) age-long inclination of the most proactive segment of the population to emigration which drains the country's conscience, intellect, labor and reduces social tensions. Hence, it is encouraged by the authorities.

I'd recommend you to talk to ethno-psychologists. They have a different opinion, as far as I know...

The opinions expressed above, I'd say, are very typical for the modern Armenian establishment. Criticism and extreme disappointment with the current state of affairs and especially one's own situation dominate society.

At the same time, I was surprised, to put it mildly, by the absence of an organized resistance movement of any kind. Everybody, even in the highest echelons, realized that living like that is impossible, but no one suggested anything concrete to get out of the stalemate.

This seemed strange, especially when the most decisive opponents of the regime ultimately referred to the Armenian Destiny.

This quite intrigued me...

## CHAPTER II

### ARMENIAN DESTINY

Paul Valerie once observed that “history is the most dangerous by-product of intellectual chemistry”. Apparently, Armenians have been poisoned with this by-product most of all.

As a rule, an Armenian is always ready to comment on any period of Armenian history and draw parallels with the present. However, he would readily admit that Armenians are incapable of learning lessons from their own history, which is a distinctive national feature always detrimental to the nation, especially, nowadays.

The most reasonable explanation to that paradox (one more!) is as follows: the historical thinking of many generations of Armenians was shaped based on the traditional, medieval, historiography and historical novels of the 19-20<sup>th</sup> centuries. Both historiographers and novelists leaned on myths and morality rather than facts. Hence, the consciousness of many people is full of pseudo-historical clichés which have nothing in common with the actual past which prevents them from adequately assessing the past, let alone, learning lessons.

Key events of ancient times (adoption of Christianity, the battle at Avarair with the Persians) and modern history (Armenian Genocide in the Ottoman Empire, the rise and fall of the First Republic) were mythologized, the former under the influence of the Church, the latter, obviously, out of political considerations. One can surely conclude that the abundance of references to the national Fate is the result of the conscious or unconscious refusal to cast a critical glance on the past. In other words, the classical Armenian history textbook needs a supplement, “Notes on the margin”...

The history of the current Third Republic is in stark contrast with the above; its history has not been described in detail yet, and it evolved in the presence of eyewitnesses, hence, there has been no myth created around it. It is not ruled out that the history of the Third Republic will share the common destiny. But so far, the critical approach is dominating, although it is still perceived with a great deal of fatalism.

During the first and most promising period of establishment of independent statehood (1990-1996) national Destiny was incarnated in adhoc persons promoted by the velvet revolution: all of them casual, incompetent, often illiterate, absolutely deprived of state or even political thinking. This group, unanimously believed to be deprived of any morality, began cruel and somewhat sadistic destruction and looting of the industrial and agricultural potential of this country, reducing it to the most severe economic and energy crisis and causing a humanitarian catastrophe. During the rule of this elite, over a million people left Armenia. Thus, having deserved collective hatred of the populace, the authorities had to retire from the political arena.

The advent of real power as represented by the law enforcement, national security and army, somewhat ennobled with elections, took place in early 1998, headed by the then Defense Minister Vazgen Sarkisian, who later became Prime Minister. However, in 1.5 years he was treacherously assassinated in the Parliament, as it transpired later, by order of a group of oligarchs, discontented with his ruling methods. In essence, through a coup d'état, the events of the late 1999 brought to power a regime of clans and oligarchs, which survived until 2005, formally, and until 2008, actually. The following took place: as a result of dramatic deterioration of the economic situation, and (mainly) under US pressure, yet another president chose to resign in the autumn of 2005, according to official sources, to save the country from political and economic sanctions.

At the following extraordinary elections, the ruling regime retaining all administrative posts, nominated and passed a faceless figure, previously unknown to the public, for president through ubiquitous forgery, which aggravated anxiety in society.

The situation further deteriorated when during the incessant court trial some prominent figures (who disappeared) were exposed as accessories to the assassination of the Prime Minister and the Speaker of the Parliament in 1999. This led to anti-governmental sentiments, particularly, amongst army officers who united into an “Alliance for National Salvation” and in early 2008 demanded from the authorities to clear the political field to run free parliamentary and presidential elections. No one dared to ignore the military because the situation was too volatile; the political field was cleared, elections were held but nothing really improved. The political system, administration and judiciary were too corrupt, the criminalized economy was too monopolized. Besides, the public did not quite trust the military for fear of a dictatorship, and took a wait-and-see stance. These feelings were redoubled by foreign propaganda which continued its crusade against Armenia. In other words, the Chilean scenario didn't work here and couldn't: the external pressures were too strong, and Armenia was too unprotected from them. Besides, the potential dictator, capable of pulling the country out of the abyss, was liquidated by the external forces jointly with local oligarchs and politicians at the very beginning of his career.

Much to their credit, the military were not going to impose a dictatorship. However, having realized that the rusty state governance mechanism was impossible to reform and optimize, they started to appoint the military in plain clothes to the key administrative posts. They were not terribly successful at that, since, according to the official press, these new officials oftentimes “degenerated”. Several demonstrative trials against oligarchs and corrupt officials initiated by the military also did not improve the prestige of the military. In response, an ordered and well paid campaign was launched against “arbitrary trials” and the “outrages of military junta”. The military were not well versed in political intrigues and decided to keep a low profile, feeling the danger of a united “civil” front against them. As a result, at the next presidential elections in 2013, the stooge of the oligarchs won again, but now he became the hostage of the bureaucratic apparatus staffed mainly with former army officers, and only two years later he had to resign. The military avenged themselves and this time they did not act liberal with political opponents, and declared them the “fifth column”, threatening the Armenian statehood. There was no fear of flight of capital: over the past two years, not only capital was exported but some movable property too.

This is a brief account of the domestic political events which naturally developed not in isolation from the external ones. In any case, the activism of the Armenian military in 2005, their actual advent to power in 2008 and the final one in 2015 was greatly determined by successive deterioration of the military and political situation in the region and the growth of internal tensions.

It was the military who successfully persuaded the public in 2005 that the so called “peace-keeping ultimatum” which followed the political obstruction was a bluff and, hence, the international community had no plans to tame the disobeying Armenia.

It was at that time when the western investors finally lost interest in the almost finished Baku-Ceyhan pipeline due to its dubious safety and low efficiency, because the Caspian oil had already gone west via Iran. The Armenian military can quite take credit for the actual failure of the “project of (last) century”.

The situation in early 2008 was just as tense when the regime in Azerbaijan decided to declare war on Armenia and under the pretext of war to postpone indefinitely the presidential elections, to maintain their rule. However, their designs failed: the first bloody border battles caused a political crisis in Baku and the Aliyev clan fled the country for good.

In 2014 when the crucial events unfolded in the USA and the world order established by America started to fall apart, the significance of the Armenian army rose dramatically: the resumption of annexationist intentions of Turkey threatened with the redrawing of regional borders. No secret, too, that the self-proclaimed Kurdistan and Ajaria managed to defend their borders also

thanks to the Armenian military advisors. A year earlier, Armenia made a similar favor to Georgia dislodging the military formations of the Caucasian Federation from the western provinces and thus preventing the annexation of large territory from Georgia.

Nevertheless, Armenia did not enjoy political or economic benefits from these heroic exploits. The European powers and Russia, by inertia, continued to demand from Armenia territorial concessions to Azerbaijan, and Iran, demanded unconditional recognition of Nakhijevan as integral part of Iranian territory. Transport routes in all directions continued to remain blocked. According to political scientists, at that time, the Armenian politicians and diplomats, as usual in their history, failed to avail themselves of the favorable political situation and secure unhindered access to the Black Sea.

Probably, this is accounted for by the unwillingness of the ruling elite to even partially lift the blockade: since this would undermine the trade monopoly of several influential oligarchic clans, hence, the reduction of their super profits.


Despite the apparent absurdity of this hypothesis, nothing can explain the thirty-year long existence of Armenia in economic self-sufficiency but criminal sabotage of the authorities against the national and state interests in favor of trade Mafia. The Armenian society, at least, has no doubt about that.


I asked myself whether all this disgrace can be explained merely by Destiny? Actually, yes, and, paradoxically, this attitude is supported nowadays by the public opinion of the Diaspora, including the one in Russia. The dominant influential figures and estate owners in the Diaspora, have long ceased discussing the developments in the old country, gave up attempts to civilize their compatriots in the parent state, and even stopped financing culture and education projects.


The Diaspora became disappointed in Armenia, lost faith in its civilized future and nowadays is prophesying humbleness and submission to Fate. To be honest, one should admit there is some mystery in the Diaspora-Armenia relations, although it would be easier and appropriate to consider them in terms of financial and other tangible interests.

Let's begin with mutual grievances which overshadowed the Diaspora-Armenia relations at the turn of decades.


The Diaspora:


 Armenian authorities acted to the detriment of national interests when they rejected (after long hesitance) dual citizenship for their foreign compatriots. Naturally, they did so out of their own selfish interests, for fear of increased Diaspora influence in Armenia's political life. Thus, however, they undermined a global strategic project, "United Separated Nation", which envisaged economic and even partially political integration of all Armenians.


 Armenian authorities betrayed the interests of all Armenians worldwide and the memory of the innocently slaughtered ancestors by internationally rejecting territorial and financial claims to Turkey for compensation of damages suffered by the Armenian people during the Great Genocide.


 From the very outset, the public opinion of Armenia was inclined to regard the Diaspora as a milk cow, obliged to feed the population of the old country without compensation, i.e., barred from participation in the political and even economic life of this country.

Armenia, in its turn, was also discontented:

 Diaspora leaders press Armenia for radicalism in foreign policy and confrontation with neighbors, first of all with Turkey, ignoring that we are a sovereign state obliged to comply with generally accepted norms of international ethics and care first of all about our own security.

 International recognition of the Genocide for which we struggled many years and finally achieved, exclusively, for the triumph of historical justice, is used by some Diaspora groups for the propaganda of *revanche* which is extremely negatively appraised by the international community and hence inflicts irreversible damage to the Republic of Armenia and all Armenians.

 Over the years of independence the Diaspora financed several non-large-scale humanitarian and construction projects, mainly thanks to the resources of our individual compatriots but not by joint efforts of all Armenians. This state of affairs matches the consumer's attitude of the Diaspora to Armenia, from which capital and human resources can be continuously drained, but whose industry is undesirable to develop.

 Any plans to integrate Armenians economically, let alone politically, are not realistic as long as we fail to overcome the disunion of the Armenian Apostolic Church which is pointless after independence. Once upon a time, this disconnection was, probably, motivated politically, however, it is harmful both spiritually and politically. Nevertheless, to all proposals of Armenia, the spiritual and public figures of the Diaspora respond with dead silence, at best.

As we can see, the grievances are rather serious, however, it is easy to see that the dispute is between the high echelons, whereas ordinary Armenians have maintained very warm relations despite thousands of miles between them. The Russian Armenian families from the last wave of emigration spend every summer in Armenia; they preserved their apartments and even summer houses, the food here is much cheaper and more natural.

The "Americans" and "Europeans" have never visited Armenia frequently or regularly, but their itineraries are more condensed and costly. Thankful for attention and sizable donations, the local relatives serve abundant food and drinks; and they leave full of touching remembrances and overburdened with excessive calories to be burned. But happy.

Since the fall of the oligarchic regime apparently, upsetting the Diaspora leaders, the differences between the Diaspora and Armenia have significantly settled and are not tackled, but, naturally, they have not disappeared. Simply, the parties agreed to reconcile with each other's peculiarities for the sake of ethnic solidarity. The differences are psychological, cultural, even domestic and household, have been not just maintained but became even more pronounced, due to the seclusion of Armenia.

However, experts, particularly ethno-psychologists, do not see anything dangerous in this phenomenon for the future of the nation. According to them, in the 18-19<sup>th</sup> centuries, isolation, and hence, differences between the western and eastern Armenians were deeper; the education, literature and culture of the two communities living in two hostile empires (Russia and Turkey) developed autonomously and at the same time formed a single national education, literature and culture. Nowadays, when there is a regular flow of people between Armenia and the Diaspora, developed education and cultural contacts, the differences between the two can not be irrecoverable.

Generally, ethno-psychologists, in contrast with the representatives of other disciplines, irradiated optimism. Any way, the conversation with the relatively young Henry Svasian, popular in scholarly and student circles, impressed me much, if not shocked, in the positive sense.

#### INTERVIEW WITH AN ETHNO-PSYCHOLOGIST, WITHOUT COMMENT

- I'll start with the question which angered my previous interviewee, a famous political scientist. This question is understood by everyone in this country and is reduced to the notions of Fate, Destiny or...?

- Indeed, everything is clear. That's why I can surely answer: it's neither, nor... it's the INSTINCT of SELF-PRESERVATION.

- ???

- In general terms, we are dealing with the defense mechanisms of a nation triggered in critical moments of history to preserve its deep gene stock and geo-cultural uniqueness.

- And this requires degradation of society, retreat to subsistence economy, semi-feudal relations...?

- There is no degradation. One can catch up with technology, particularly, with modern education methods, appropriate training can be achieved in 10-15 years, i.e., within one generation. We retreat into ourselves, we are stewing in our own juices, politically, economically and, partially, culturally, which is a blessing in terms of national prospects, despite inevitable negative outcomes. Judge for yourself.

All global and regional cataclysms have bypassed us over the last 15 years: the geo-political re-division of the Middle East which upset the neighboring countries, the world financial crisis; we escaped westernization of the society accompanied with total criminalization, drug abuse and dissolution of the traditional family. Whereas Georgia, which voluntarily and readily opted for becoming a show-case of the West, is facing a catastrophe caused by the loss of national identity. Moreover, our demographic and environmental situation has improved dramatically thanks to de-industrialization. By the way, as you know, we preserved and increased our capacity in the field of hi-tech. By the way, as you know, our potential in the hi tech sphere during these years we could have not only preserved but multiplied and it says a lot.

- Yes, I know. However, I'd like to know where do you see the manifestation of this national know-how?

- In the inadequate behavior of both public at large and the elite, in the unpredictability and elemental spontaneity of political and public life, this is dejecting the political scientists so much.

I'll try to explain my point. The population votes only passively, by "show of feet", migrating to more prosperous countries, thus protesting against plummeting living standards. Whereby, on the one hand the threat of internal upheavals undermining the Armenian statehood is reduced, on the other hand, part of the gene stock is preserved in more favorable conditions; lastly, emerges a new source of remittances to Armenia. In turn, the authorities directly and indirectly bolster this exodus, apparently detrimental to the national interests and security. In reality, their actions or inaction help to solve national strategic problems on a global level.

- Don't you find it paradoxical?

- I do, our history is rich in such paradoxes. Thus, twice in our history, we transferred the territory of this country, which is impossible for a crop-producing culture. Or, in the 13-14<sup>th</sup> centuries, after the departure of Mongols and until the invasion of Tamerlane, i.e., nearly 140 years, the enemy didn't set foot on the soil of historical Armenia. And neither nobility, nor the Church did anything to create a centralized state, which a process that had already been under way in Europe and Russia. Armenians preferred to face Tamerlane's hordes (as well as Ottomans later, and Seljuks previously) disjointedly rather than in unison. However, thus they escaped a nationwide disaster and saved our gene stock, since neither the size of territory, nor human resources could enable them to efficiently resist the new type of aggressor who not just eliminated the elite, but the whole population of the conquered country.

- Thus, inadequacy and spontaneity serve as a panacea from fatal mistakes?

- Something like that, and on all levels. In the early 21<sup>st</sup> century, foreign experts noted with surprise that project wise Armenia is empty, meaning that the country is not covered with global and regional post-industrial projects.

This phenomenon stemmed from the lack of interest on the side of the superpowers and from obvious passivity of the national authorities. Armenia, by the way, is still empty in this respect: the rulers instinctively fear topical and beneficial decisions, since the reaction of the public can be, suddenly, very negative. And this will be also a manifestation of the defense mechanism: who can guarantee that a success for one or two generations won't be catastrophic for posterity.

- Examples?

- Over the last 25 years, all settlement options for the so called "Karabakh problem" proposed by the peacekeepers were accompanied with very attractive promises, apparently enabling us to achieve the Armenian economic miracle. Given the obedient parliament, powerful police and loyal army generals, the authorities could secure the unhindered formal and practical implementation of any option, however, the authorities were unwilling to take the responsibility. Every new head of state who came to power on the wave of "popular indignation" by this or that settlement plan, faced with yet another similar indignation, preferred to accuse the opponents of speculations (of which his predecessor accused him) and... to arrogantly take his leave. Thus, it is easy to see that any peacekeeping initiative was torpedoed, since, objectively, the national strategic interests required the maintenance of the status quo established in the mid 1990s.

- Let's get back to the exodus problem. Although many reject the Armenians' genetic predisposition to exodus, the facts, apparently, attest to the opposite.

- If you insist... There is a concept by Arthur Shahnazarian, a historian-*cum*-esoterist, known to a narrow circle of specialists. I am far from sharing it but I must take it into account. According to his theory, more or less large migration waves, about a dozen in the Armenian history, were the outcome not of wars, incursions or other cataclysms, but the result of a struggle between two gene types coexisting within one nation. The carriers of the Arian, individualistic and creative gene, are gifted, hard working and mobile, always migrated from the historical motherland unable to compete with the non-*and*-pre-Arian gene which in contrast with the Indo-European one, possesses powerful gregarious solidarity aimed mainly at destruction.

I admit, this theory accounts for some facts, particularly, the phenomenon of Diaspora, characterized with exceptional adaptability, especially in countries with Western civilization.

However, if we follow this logic, nowadays only the carriers of the so called destructive gene should have survived in Armenia which is, of course, not so. Otherwise, Armenia would have long been a reservation secluded from the civilized world.

- Many of your authoritative compatriots say that!

- Believe me, they overestimate. Politically, partially, economically, I agree, there is seclusion, and not only due to objective reasons. And I have already said that, ultimately, this is a positive phenomenon. But mind you, how intensive the human exchange between Armenia and the Diaspora is; and, despite many gloomy forecasts, this flow of people became closed: as many arrive in Armenia as leave it. Given the Diaspora's snobbery, especially, the "old" ones, it can't help admitting that without Armenia the Diaspora would have long withered and assimilated: the very purpose of ethnic unity would disappear under alien skies. In addition, regular replenishment with compatriots from the historical motherland is an influx of new blood enabling to preserve the gene stock and mental abilities.

At the same time, without the Diaspora, Armenia would have long collapsed, it would have turned into a noumenon, a thing in itself, unknown to the outer world and hence not called for. However, this will never happen: the Diaspora, fortunately, is an open organism, a conduit of Armenian uniqueness (oftentimes, paradoxical, too)...

... No comment, as promised.



## CHAPTER III

### Armenian World

Naturally, it's colorful, multifaceted, contrastive, diverse and unfathomable just as the people inhabiting it.

Armenians claim that judging by behavior and elementary reactions (let alone accent) of their compatriots, they can easily identify their native province. Just as we can tell a descendant of Siberia from a citizen of Petersburg, a northerner from a mid-Russian, a Muscovite from others, etc. However, there is an incredible number of sub-types of Armenians residing in a territory of 30-odd thousand square kilometers, dramatically differing from each other, say, mountaineers from inhabitants of valleys, and villagers from villages only hundreds of meters apart.

Armenians are convinced that they are workaholics and any of them is capable of working day and night to provide for one's family. And having seen how much people work in Russia, I did not doubt that it was true.

But what I saw in Armenia disappointed me. Both towns and villages were idle, crowds of young, middle and elderly age, quite capable, hanging around in yards and squares, entertaining themselves with lazy conversations in the midst of a working day, were depressing. They didn't look well-off, rather, hopelessly fatigued with chronic loitering. They hardly care to look for jobs: they believe it is pointless due to tiny salaries.

The women are different: they are business, concerned with household work and walking in the streets burdened with bags full of food. In rural areas, women traditionally maintain the household: the kitchen-garden, cattle, food barter, etc., in towns, they provide the minimal subsistence for the family, doing any menial job. By the way, in relatively young age groups (40-45) women exceed men by about 25%, the outcome of regular mass labor migration of men abroad. Since the income is not much higher than in this country (i.e., seasonal farming in the Middle East and Southern Europe), one shall suspect, young people tend to go there mainly for new impressions. But this is far from emigration (which will be discussed below), depriving the country of highly skilled labor force and intellect.

That Armenians are fond of their children that is a proven fact. Selflessly, to the point of self-torture, they care for their offspring as much as age and health enable them. They worry about their 40-year old son, belated from work, as if he were a 14-year old grandson late from a party. On the one hand, such attitude teaches the young to be responsible, on the other, deprives them of initiative, even, spoils them and breeds dependence. General aspiration of the young for higher education is an evidence of that; it is determined not as much by the desire to acquire a profession that is in demand, but rather to enjoy prestigious student life. Given the high cost of education (by local standards) and the abundance of colleges providing professions not supplied with jobs, one can imagine how much money the population wastes in vain. Hence extremely high unemployment rate amongst college graduates, and, at the same time, a rather high cultural and educational level of the populace.

Most Armenians are awfully haughty, full of ambition. They hardly ever admit the superiority of their compatriots over themselves, neither in intellectual, nor in business sphere, let alone administration, and only sometimes, in arts.

Nearly all Armenians are convinced that they could rule the country better than anyone else. The other one is a parvenu, a pet of fortune, to whom he (HE!) has to obey for the sake of daily bread by an odd whim of destiny.

According to psychologists, this sweeping nihilism is the outcome of an extremely high level

of pretentiousness in most Armenians. The famous formula of Leo Tolstoy depicts the personality in the form of a "fraction" where the numerator is what man actually is, and the denominator, what man thinks of him. This psycho-mathematical test with respect to Armenians would demonstrate that Armenians are exclusively significant people: their pretension approaches infinity whereas the numerator, naturally, remains common to all mankind. Hence, unfortunately, values tending to zero would be derived...

However, it should be admitted that this phenomenon bears both negative and positive driving forces: it generates endless dissatisfaction with one's status, at the same time aiming at success in any environment and society, i.e., serves as stimulus for development and career growth.

That is why representatives of other ethnic groups are hardly promoted to high-ranking positions in Armenia, or, to be more exact, are not promoted at all. And vice versa, Armenians frequently occur in the intellectual, business and professional elite of any country they reside in.

Administratively, Armenia is divided into ten provinces headed by appointed governors. The latter are not as much officials, as barons squeezing taxes out of the controlled territory, supervising local authorities, law enforcement and judiciary. Local natives (as a rule), successfully combine civil service with big biz, being the largest owners of real estate and capital. However, it is not quite clear what the priority is for them: the post or the wealth. Strangely enough, given their power and actual autonomy, no governor ever attempted to offer resistance to national authorities.

The capital, Yerevan, is singled out as a separate administrative unit, headed by a mayor, also appointed by the supreme authorities.

Practically all industrial capacities are concentrated in the capital and its environs: two dozen medium-size industrial plants and just as many food-preserve factories and wineries. The rest are cheese factories in all provinces working on local raw material and marketing their produce in the capital. Mining and processing plants in the North and South, revitalized at the turn of the century, remain cut off from the outer markets due to high customs duties and transportation tariffs.

Due to lack of state support and draconian taxation policy, the revival of chemical industry failed, which could work on natural gas imported from Russia and Iran.

Armenia exports: jewelry accounting for nearly 70% of all export revenue, information technologies (12%), food preserves (about 10%), alcoholic beverages (about 5%). All above export items, except IT, are controlled by large financial groups which until recently operated on rather privileged tax and customs conditions. IT business, employing up to 10,000 people, is estimated as more profitable than jewelry production and is twice as large in terms of output (total of \$300 million compared with \$150 million). However, due to certain reasons, by four fifths it remains in the shadow sector. Its development was badly hindered by a national communications operator monopoly until 2008, which was later eliminated. At present, the authorities take unprecedented measures to pull IT out of the shadow which would enable to significantly increase budget revenue (about 10%).

I just mentioned the high prestige of education in Armenia and mass attraction of the young people to education, also approved by the parents.

At the same time, according to experts, both foreign and local, Armenia's education system is cumbersome, over-centralized and for that reason can not ensure quality needed to promote societal progress and solve the problem of social adaptation of the personality to the current system of social relations. I apologize for excessive scholarly phraseology, but this is a quotation from an expert conclusion, although not a literal one. However, without such verdicts high and higher education in Armenia is much criticized by the society..

Intellectuals are quite justifiably concerned about a lack of modern educational technologies

oriented to the development of self-teaching skills and application thereof in practice. The education system, they believe, exploits memory and abilities to precisely reproduce the acquired knowledge and its application. Only IT courses in high schools and fundamental disciplines in colleges are organized on high state-of-the-art level. In other spheres dogmatic teaching prevails which makes school and university graduates not competitive abroad.

People have all reasons to be unhappy with the fact that the government imposed on them most expenditures on high-school maintenance. The state finances the school by one third, i.e., the teachers' payroll. The rest: maintenance and repairs of buildings, equipment, culture and rearing, are funded by the students, or rather their parents, whose regular and heavy taxation has been made nearly legitimate by the state.

Public opinion believes:

- school education is closed, works for itself and provides merely a formal possibility of education and its continuation;

- secondary vocational education and particularly higher education are in many respects fictitious, inflated in favor of relatively rich groups of population and does not ensure employment to the graduates, providing them with a certificate rather than knowledge.

Thus the verdict is apparently final and dejecting.

However, the most interesting things start here.

Professionals from Armenia: energy and gas engineers, bankers, military men, civil engineers and craftsmen are much in demand in Russia, Ukraine, Kazakhstan and Middle East.

European and American universities are hunting for Armenian chemists, programmers, etc. Over the last 15 years, the Germans have been successfully implementing a state program for enticing programmers, chemists and biologists from Armenia, as early as during student years.

Russian universities are very proud of their 1,500 Armenian students, and the most promising ones are readily granted citizenship and employed. Brain and labor drain is obvious, but Armenia does not resist it and even encourages, rightly believing that this human capital will ultimately work for Armenia.

The demand for this capital Armenians account for natural capabilities and resourcefulness, and the inclination of the elder generation to invest in education of children.

Apparently, in conditions of extreme property disproportion, the children from poor families are barred from education and science. Just the opposite: patronage of education (and sports) amongst Armenians oligarchs and high-ranking officials has become quite common. As a rule, they realistically appraise the intellectual capacity of their own offspring and are not afraid of competition, paying for the education of gifted students. Moreover, this activity has become a matter of honor for any governor, tycoon or administrator. Thanks to their generosity, and not the small donations of foreign sponsors, nearly all educational institutions, especially schools, have been completely computerized with modern equipment.

But strangely enough, the rich ignore art and no financial assistance is offered to culture in general. That's another paradox, given, with minimal support, Armenian art could be quite convertible and competitive, thanks to a rich legacy, incorporating elements of various civilizations, from the antique to modern West European.

Tiny state subsidies enable only to support two to three museums on a show-case level, and as many theaters, including Opera and Ballet, and a few folk troupes. Other cultural institutions and troupes survive on attenuating enthusiasm.

The small size of the culture market in Armenia proper and the recent indifference of the Diaspora to cultural values account for the lack of cinematography, the decline of theater, classical music, opera and ballet, really expensive genres. However, it is impossible to explain and justify the

crisis of generation change in all spheres: Armenian traditions in painting, music, choreography, architecture, literature, cinema and theater are in danger of extinction because of extreme decline of all schools, and thus, impossibility for the new generation to learn from them. Even show business is on the decline, at least powerful Western, Russian and Oriental influences have left nothing national in it.

The developments in Armenian culture are driven by a number of factors, such as:

- most Diaspora Armenians are bi-cultural and even multi-cultural, which promotes their departure from national sources and preference to globalized standardized culture crushing the national one;

- the Armenian Church is inert and even passive in providing the population with access to genuine cultural values. Being the safe-keeper of these values over centuries, the Church should have implemented a more proactive cultural policy amongst the secular community, particularly, when funds were available for that;

- gradual depletion of the cultural elite of the nation, due to the impossibility to maintain the succession of traditions between generations;

- general commercialization of culture, leading to abundance of mass culture surrogates and to increased competition inside cultural elite proper for markets and sponsors.

However, on the whole, as students of culture believe, given the modern technical capacities, everything or nearly everything is possible to revive and develop shortly, in 5-6 years with minimal subsidies, from the state or private sources. Maecenas, patrons of art, where are you?

They are here, they are relatively few, about a hundred, and according to them, they are deadly tired people. On every corner, the only thing they hear is “Pay!” relatives, the state, neighbors, compatriots, beggars only want money, indifferent to the difficulty with which the money efforts was earned. In addition to various donations, they must spend money on luxurious cars, mansions, guards, nocturnal parties and casinos, these expenses are mandatory components of the life and ritual of an oligarch. However, this imposed image, irrelevant to the true values, such as service to one’s Fatherland, worthy future of the family and real masculine friendship.

Listening to the confessions of a young (second generation) oligarch, I, of course, realized that he was not sincere, and had the uneasy feeling that my interlocutor is not acting naturally. And that was not far from the truth.

The owners of large estates have always been the hostages of the ruling regime, no matter what relations they have. To be more exact, their relations are always the same: the relations of a wealthy slave and a cunning master, who, first, allows the slave to get fat on monopolistic pastures and then shakes the money tree. Surely, the primary reason for such relations is, usually, the illegal, if not criminal, origination of these estates, generated under the supervision of the regime and with its approval. The rulers use the oligarchs to do dubious deals, launder and export enormous amounts, but at the same time, the authorities hold them in leash, threatening in case of misbehavior to hand them over to law enforcement agencies.

That is why not only during regime changes, but also in between, large-caliber Armenian tycoons may be deprived of their property, or some of it, and first of all, they may lose their monopoly, gained by lobbying and bribes. All throughout the conscious life of just one generation, i.e., 20-25 years, at least three generations of big entrepreneurs appeared and disappeared in Armenia. Indeed, some are in oblivion, others, in the US and in the Emirates. Only the most discrete bankers demonstrated relative resistance to upheavals and a dozen of wise industrialists, who managed to go whichever way the wind blows and make the right bets. However, they, too, as the recent surveys show, are tired of such life in an “uncertain and dangerous environment”, they feel the “need for stability and predictability”, i.e. rule of law.

No doubt, they are sick and tired of political reshuffles, they do not want to be afraid of the authorities; neither personal connections, nor family ties with the highest echelons, or parliamentary immunity, financial support of influential political figures and statesmen and their parties, do not safeguard the oligarchs from disgrace and disfavor, ruin and even prosecution. But they are not honest in their dreams to make their financial and economic sphere and their activities transparent, i.e., to be regulated by law. They do not want and are incapable of wanting that, since the system of economic, political and social relations wherein they operate in the post-Soviet Armenia will immediately collapse.

Independent surveys have long proclaimed the verdict to this system: "...Merger of power and big business in Armenia is so organic that can not be categorized in traditional terms, like 'capture of the state' or 'capture of business'. Actually, big business can not exist outside patrimonial political systems, while the politicians are indivisible from the clientele systems of big business".

The outcome is well known: clan and monopolistic nature of economy preventing the modernization of labor force and efficient reform of state governance, hence, the development of the society on the whole; in addition, the oligarchs are unwilling to turn the accumulated resources into genuine capital which would work and create values. Hence the lack of strategic planning or business vision in Armenian oligarchs for 5-10 years ahead.

In Armenia, there is no capita turnover. There is spending of megabucks in the form of redistribution from oligarchic and power structures to officials and employees of services.

Those who do not fit into this model look for their fortune abroad.

I have already mentioned about the proportions of emigration: over the last thirty years, 2 million people left Armenia and settled elsewhere. This, however, does not mean that the Diaspora has been replenished by just as many people. Given the average growth rate of Armenian families and the fact that the second generation born abroad has reached the reproductive age, the number of Armenians, at the expense of the recent ("independence") emigration, has increased by 3 million. Hence, Armenia lost just as many citizens.

The geography of the current Armenian exodus is very diverse, however, Russia has always been the most attractive place: over these years, Russia received about 70% of all emigrants from Armenia. Then comes Western Europe (12%) and the US (10%). Armenians are less interested in Eastern Europe and Arab countries as permanent residence; people go there only for temporary employment and come back as a rule. This amount on average makes to 20-30,000 annually.

The attractiveness of Russia (Belarus and Ukraine) is explained by two centuries of historical and cultural ties, common religion (Christianity), lack of language barriers which enable Armenians to easily integrate into the information and education framework, to make good money thanks to booming economies of these states, and due to the presence of a major Armenian community in Russia, which assists its compatriots. In contrast, the American Armenian community this does not welcome the newcomers.

I also mentioned that Armenian authorities did not oppose mass emigration regarding it as a means of defusing social tensions and an endless source of remittances. As for temporary or seasonal migration, it has been encouraged up to-date. According to one Western expert, the authorities of Armenia successfully "produce" and export with profit the most expensive commodity in the world, human beings!

God forgive them...

In reality, this specific and mutually profitable "business" annually yields nearly \$500 million to the population of Armenia, through private channels, or over 10% of GDP (officially, 20%).

Another paradox: in the late 1990s, a major reason for emigration was to evade service in the

Armenian army; however, for many years, people tend to arrange Armenian citizenship for their sons so that they, having served in the Armenian army, would not be drafted to the Russian army as foreigners! Service in the Armenian army is safer, and most importantly, there is no abuse of servicemen's rights by the old-timers, as in the Russian army.

Going a little bit ahead, to prove my point, I will tell you the following. The General I had the privilege to meet and talk with for a long time, suddenly suggested to me to visit any military unit he is supervising. I emphasize, supervising, not commanding. I placed my finger on a remote military base, 200 kilometers from Yerevan. We reached the destination in the evening. The officers were ordered to gather at the HQ to familiarize with some document, while I was allowed to walk around unescorted and entitled to talk to any soldier. The first one I met was a beefy guy washing the cement stair case in the barracks. A rookie, I thought immediately and asked him how long he had been serving. His answer surprised me: "I am going to be discharged from the Army in three months". "And you're washing the stair case?" "Why, it's my turn" was the answer. I even felt ashamed.

The façade of the barracks was adorned with a simple canvass: an elderly woman stretches her hands to a brave officer. The gist was in the inscription which read: "Save my child from trouble, so God would save yours ". I was very much touched.

The motives for emigration are mainly economic: lack of jobs or low compensation. An old Soviet tradition. In the mid-1970s, under the pretext of "reunification of families" a significant flow of Armenians went abroad, mainly to the US. The Kremlin would proudly proclaim that they emigrated for economic reasons, not for political, as the Jews.

At the same time, the insufficient social and legal protection also contributes to the exodus, as well as uncertain development prospects of the country. Otherwise, how can it be explained that the average rate of emigration has not decreased even in relatively rich years (1995-1998, 2002-2005, 2012-2015), when statistically real income of the population had grown.

And more: the highest emigration rates took place in the early 1990s and... in 2015-2018. At that time, it was determined by the socio-economic disaster, i.e., internal factors, nowadays, by increased demands for professionals and skilled manpower in Europe and Russia, i.e. external factors. The latter are very topical for Armenia due to strong dependence on decisions taken beyond this country...

INTERVIEW WITH GENERAL

*No COMMENTS NEEDED*

- The Armenian army and even its highest commanders is described with respect and positively, which looks strange on the general background of discontent in the society. Do you agree?

- Nothing strange, this is only flattering. Thus the merits of the national army are recognized not only as the guarantor of national security but also, domestic stability.

- In other words, you do not deny that the military plays a significant role in the political life of Armenia?

- Why would I deny the obvious: even great powers with established civil institutions do not conceal that the military are out of politics. Let alone this country, struggling for survival.

- According to foreign experts, despite scarce resources, the Armenian army is disproportionately large and well armed by modern standards ...

- As for the size of the armed forces, I can say, it hardly meets our defense needs, so foreign experts should not judge us. We remember well what happened with Israel which under international pressure agreed to scale down its army.

As for equipment, I agree, it's high quality is much to the credit of our people who channel a

lion's share of national wealth to the defense needs.

- However, according to experts, the real defense expenses nearly exceed the state budget. Admit it, this can be possible only with the help of supernatural forces! Or shadow sources...

- You make me open secrets... Well... There are 10 million Armenians with a vested interest in the existence of Armenia as a gravitation center for the nation. There are rich compatriots possessing real estate in Armenia, big business and other serious concerns, and willingly financing the army. Finally, there are forces and countries sympathizing with Armenia, and secretly, not only out of altruism, regularly supporting the army. I believe that's enough about sources. By the way, shadow money also comes from the people.

- Nowadays, Armenia is called a militarized country. Is this an exaggeration?

- Let's not soften definitions, we are often labeled as a "militarist" country and not without reason. However, this is not our fault. For 4,000 years Armenians have never been aggressors. We were compelled to take arms and turn into a sharp-toothed entity which is dangerous to trifle with. Otherwise, Armenia would be erased from the political map, as it had happened before. Or Armenia would become a vassal state. All Armenians understand that and our current "militarized" image is not only the outcome of state policy but the dream of the people. Young people, en masse, tend to serve in the army, and the adults encourage them. Twenty years ago, nine out of ten young people wished to become lawyers or economists, but now, programmers and army officers. If we wished, we could have made our army professional long ago. But we won't do that. All male population must serve in the army. This is a security imperative.

- It is hard to achieve by propaganda only.

- Exactly. A number of important economic, social, ideological and psychological factors work here.

Who founded the army? Undernourished, ragged, poorly armed volunteers, sometimes describing themselves as kamikazes for they faced death all the time. They had lofty SPIRIT which, fortunately, was later shared by the whole army and enabled it to stay a sound entity.

In addition, at present this is the only established, well structured system, ensuring stable and high income and promotion, i.e., success in life.

Finally, Armenian officers who have good military education and served in the best army in the region are much in demand in friendly states.

These are the components of the prestige of the military profession.

- Let's get back to the army's and military men's role in the life of the society. It is generally agreed that its role not just increased but has become dominating!

- And it couldn't be otherwise, since national interests required that as well as public attitudes. You see, people are tired of cheap political speculations, lies and demagoguery, looting and cynical embezzlement, coups and democratic farce. The people dream of stability, confidence in the future, and don't want the sinful and greedy rascals, and illiterate new rich to rule the country, but the people want responsible figures really caring about the future of the nation, and find such people oftentimes amongst the military.

- High-ranking, military, mind you ...

- Before they became high-ranking, they, in contrast with plutocrats, were middle and low level officers, i.e., they had been through a **school**!

- However, they haven't changed much: the same economic hopelessness, corruption, and mass emigration...

- To stop emigration by administrative and enforcement methods is tantamount to doom three fourths of the population to mass cultivation of narcotic plants and emulate Afghanistan and Columbia. We can't allow this to happen, at least in terms of health, let alone other considerations.



As for corruption, we failed in the first phase of struggle against corruption. Unfortunately, it depended not only on the political will of the authorities, but on the moral atmosphere in society. Radical and rapid changes are possible only by “undemocratic” methods, including strict control over mass media. This will be immediately regarded abroad as “dictatorship” and will be used for political pressure. The same concerns the improvement of the economic climate. In other words, the fifth column, staffed by plutocrats and oligarchs, enjoying external support, is still stronger. But this won't last long...

## CHAPTER IV

### ... AND AROUND KARABAKH

Armenians complain that they have never had good neighbors. Maybe Parthia in ancient times, when Armenia was ruled by a branch of the Parthian dynasty and Rome under Nero when relations were goodneighborly indeed. In all following epochs, the remote and nearby neighbors regarded Armenia only as a delicious morsel they coveted to grab. And grab they did: Persians, the Byzantine, Arabs, Turks, Russians... However, the attitude to the latter is special. It is believed that with the advent of Russia, Armenians were freed from the constant threat of physical elimination and dispersion, they settled on the current territories (north-eastern, poorer and less fertile part of historical Armenia) and regained their statehood. In addition, Moscow assisted the Third Republic during the hard years of establishment (1992-1995), particularly, in the creation of a modern army. This, of course, in the public opinion outweighs many past and current political and economic grievances. The latter, as it is known, were mutual, like the demarche of the Armenian government which nationalized nearly the whole energy system in 2007, and stripped Russian investors of \$100 million. And since previously the Russian oil barons had been barred from the development of Caspian shelf oil, the Russian economic presence in the region was reduced to zero.

Local observers tend to see the "hand of Washington" in these developments, which finally forced Moscow out of the South Caucasus. In reality, our politicians and diplomats who didn't work out (and implement) a strategy meeting the Russian interests in the South were to blame for that. As a result, first Georgia, then Azerbaijan departed from the sphere of Russian influence wherein they stayed for over 200 years and the Russian-Armenian relations found themselves in a deep crisis. Armenian political scientists describe this period as follows: "Russia lost its last mainstay in the Transcaucasia, but we in turn are deprived of its nuclear umbrella which was pregnant with consequences". Public at large in Armenia realized the danger and it was the tumultuous negative reaction of the public to the anti-Russian policy that encouraged the military to intervention. Let me note, the intervention was rather rough, and long-term, which ultimately, caused the decline and fall of the oligarchic regime in Armenia.

With the advent of the military to power, energy enterprises started operation on the basis of a provisional consensus; demands for withdrawal of Russian bases were revoked unconditionally. However, there could be no talk of the return of the past "strategic partnership". People changed; the generation brought up in the Soviet, Russian-language cultural and educational information and political framework disappeared. In the Armenian and Russian society, other standards of mentality and behavior dominated, compared with the early 1990s, which was not based on emotions in politics and business. The epoch of unmotivated civilization patronage and clientele in foreign affairs based on nostalgia had gone for good.

However, it was the US which shaped this new fashion in politics. Having broken into the Middle Eastern environment, formed after World War II, the US unceremoniously built a drastically new reality suitable for America. They reconsidered their own fundamental principles and declared "the precarious, maximalist policy of Israel" the main reason for America's trouble and instability in the region. One would think the Israelis urged them to invade Afghanistan and Iraq which resulted in an incessant guerilla war, to destroy Iran's industrial infrastructure, and thus counterpoised themselves to the Islamic world and provoked an abrupt rise in radicalism in the Near and Middle East.

True, as far back as 2005, George W. Bush, reelected for the second term, tried to apply the same method, first, to Armenia, and Armenian authorities. Neither could the Diaspora could do

anything to avoid the political obstruction of official Yerevan. It was then, when a prophetic joke was coined: an old dying Jew instructs his offspring, "Take care of Armenians! When they finish with them, they will start hunting for us".

Fortunately, they couldn't finish with Armenians; it was a demonstrative campaign, demonstrating the American religious impartiality, aimed at the pacification of Islamic masses.

However, they targeted Israel in earnest and not demonstratively, for obvious political and economic reasons. That is why the consequences of the Middle Eastern redrawing were more severe for Israel than for Armenia. By the way, according to one version, it was the powerful American Jewish lobby that was interested in the weakening of Israel and making it less attractive for international Jewry worldwide. Although the Israelis disagree, they do not comment on the mysterious behavior of their compatriots overseas.

Let's get back to Armenian affairs, however.

By the end of the first decade of the 21<sup>st</sup> century, the US managed to solve a crucial strategic problem, i.e. to control ALL Middle Eastern and Caspian oil reserves. To this end, they redrew the political map of the region (including South Caucasus) and forced out all potential rivals, and first of all, Russia, something the Armenian public opinion feared for many years. And for a good reason: according to the general opinion, with the withdrawal of Russians, Transcaucasia automatically fell under the Turkish influence (if not occupation).

Much to America's credit, they proved they were not going to share influence with anybody, let alone the Turks. However, other interesting things surfaced. First, the Americans not only did not deter but actually encouraged the expansionism of self-proclaimed Kurdistan against Turkey. With the establishment of a secular regime in Iran, the US lost interest in Baku-Ceyhan pipeline (via Georgia) and labeled "Turkic" the start of a new pipeline from Pehlevi (Iranian coast of the Caspian) via Kirkuk (Kurdistan), Akaba (Jordan, the Red Sea). Thus the economic unfeasibility of the northern route was confirmed, which experts initially noted, as well as their unwillingness to see Turkey as an exporter of Caspian oil. The Baku-Ceyhan pipeline was completed in 2009, three years later than planned, exclusively at the expense of Turkey's geopolitical ambitions, and started to function without yielding even a fraction of the expected dividends. Most Caspian oil, including Kazakhstani, went to the West via the southern, Iranian pipeline.

But most surprisingly, the US having imposed its control over the region, had no intention to upset the status quo, established around the Karabakh problem since 1994! Otherwise stated, they inherited the strategy of Russia and Iran aimed at the prevention of the creation of a Turkic belt from Bosphorus to the Caspian.

Armenian politicians probably had no illusions on that matter. They realized that they made the wrong geopolitical stake on maneuvering between Russia's and America's regional interests, pompously called "complimentary policy". Thus they lost the hope for acquisition of a beneficial niche on the boundary of these interests, i.e., turning into an important geopolitical regional nexus. It turned out that these designs were based on obsolete geopolitical views. Now they had to urgently adjust to new niches occupied by more farsighted neighbors. In other words, Armenia's long-standing impasse situation is the outcome not only of unfavorable geopolitical circumstances, unfriendly neighborhood and intent of world powers, but the result of serious mistakes of its authorities.

Amongst such mistakes, first of all, we should mention the deterioration of relations with Russia 2005-2008, and with Iran, which had a negative effect on Armenia's economy. Armenian authorities were not ready psychologically to build relations with these countries without linking them with geopolitical priorities! They would go from one extreme to another, trusting the Turkish promises to lift the blockade, and were, of course deceived.

Neither Americans, nor Europeans succeeded in civilizing Turkey. Although its accession to the EU was conditioned by improvement of relations with Armenia and recognition of the Genocide, the Turks did not fulfill even the first, apparently mildest, condition. First of all, that was detrimental to Turkey, but Armenia also suffered. Yerevan's flirtation with Ankara damaged Iranian-Armenian relations, especially, economic ones. Suffice it to say, in three years the trade turnover between Iran and Armenia decreased by two thirds.

The development of economic relations with Russia were similar, however, Russia manifested a tough stance, stopped natural gas supplies in the same notorious year 2007 (in response to the actions of Armenian authorities) and shut down the nuclear plant, which was Russian property. This might result in an energy disaster, unless the ruling regime didn't change in Armenia.

Probably, Moscow wouldn't be so tough with Armenia, if it didn't want to teach the neighboring Georgia a lesson. Extremely ambitious if not challenging behavior of the Georgian political elite, had long irritated Russia, and the moment was opportune to punish the Georgians together with Armenians: Russia transported gas to Armenia via Georgian territory, whence Georgia obtained about 70% of its power.

This punitive act, however, was in vain: the Georgians grew even more anti-Russian and insisted that the European Community would come and save them from Russia's "neo-imperialist" designs. The energy crisis did not contribute to the consolidation of Armenia and Georgia: the latter imagined itself in the EU, pretending a show-case of the West, and did not want to be associated with Armenia.

Europe, indeed, helped Georgia a great deal, for nearly 20 years since independence, Georgia had lived on grants and humanitarian aid. However, no prosperity was achieved. The Georgian economy was in stagnation, the population became impoverished. Due to the failure of institutional reform, Georgian society plunged into anarchy, and, lastly, by 2015, the country faced the real prospect of being fragmented into feudal principalities. The centrifugal process was frozen by cruel punitive measures, however, not overcome. As for Abkhazia, South Ossetia and Ajaria, they probably escaped the control of Tbilisi for good.

Nevertheless, even in these conditions, Georgia still refuses to operate the railway linking Transcaucasia with Russia, preventing the development of the region, especially, of Armenia. In response to reproaches, Georgians claim that Armenia blocks the Gumri-Kars railway, the shortest route from Transcaucasia and Europe via Turkey. Although they realize that nothing depends on Armenia, it is the Turks who put forward preconditions.

Anyway, a large rich region has been deprived of railway communication with the outer world, since the route via Azerbaijan to Russia running through Chechnya is too risky due to certain reasons. But for Armenia, this route would be blocked anyway. Baku and Yerevan even negotiated on this issue: Armenia committed to unblock the railway to Nakhijevan, in turn, Azerbaijan committed to allow cargo from Russia to Armenia, and back. However, these negotiations were fruitless.

I consciously avoid mentioning the domestic reasons for sustaining the blockade of Armenia; nevertheless, they exist and play a serious role. But the main reason is still the unsettled political relations between the Transcaucasian states and the outer world.

At the same time, in terms of communications, Georgia and Azerbaijan over the past thirty years have had considerable advantages compared with the landlocked Armenia, and were considered more promising from the geopolitical point of view. Anyway, both the US and Europe became "disappointed" in them much later than in Armenia. This was not determined by their compliance with some "democratic standards", but by geopolitical factors. By means of Georgia and Azerbaijan, the US created a barrier against Russia's and Germany's penetration into the Middle East. In turn, France and Germany hoped to turn Georgia into a bulwark of western influence in Transcaucasia.

These plans were doomed however. Until 2013 Georgia and Azerbaijan received generous aid for “reforms” and “democratization”, whereas Armenia was deprived of it in 2008. True, in the same year, the West stopped financing similar projects in the Baltic states and Ukraine, but for opposite reasons: they were recognized as democratic states with a stable market economy hence they were not subject to reforming any longer.

But the abrupt decrease and termination of external financial aid had not only negative effects on Armenia, but positive too. Armenia acquired a greater freedom of political maneuvering, particularly, in the Karabakh settlement. Besides, the EU had never been generous: over 17 years after Armenian independence, this country received grants worth about 350 million Euros, mainly during the worst years and in the form of food.

The termination of US aid affected Armenia much more. This country used to be the largest per capita recipient of US aid in the post-Soviet countries and the third worldwide, until the above mentioned events of 2005. The Armenian lobby, naturally, considered that its merit. But, probably, before and after the intervention into the Middle East, the US had geopolitical designs about Armenia. Anyway, having considerably cut official subsidizing, the US does not prevent private financing, and in some cases, encourages American investment in some sectors, like IT and real estate.

Political scientists do not know whether these designs were aimed at the limitation of Turkey’s influence in the region, or the Russian and Iranian factors. It is not ruled out that the US regards Armenia as a bridge to the public opinion of some Arab countries, like Syria and Lebanon, where Armenian communities are still influential.

Thus the geopolitical impasse is not so hopeless.

Indeed, Armenia lost the status of Russia’s stronghold south of the Caucasus, however, it remains a conduit of Russia’s interests in the region, due to objective coincidence of Russian interests and Armenian. The same is true for relations with Iran, but only with respect to resistance to the Turkic factor in the Transcaucasia; in other aspects Iran preoccupied with radical refurbishment of political institutions and management infrastructure, prefers an expectancy tactic. In addition to Russian-Armenian relations, against the background of Georgia’s “westernization” and Azerbaijan’s “orientalization”, Armenia maintains stable bearings on Russia’s information and cultural framework, and education standards. Nowadays Armenia successfully trains and educates students from Iran and Arab countries for further study in Russia.

Armenian-Georgian relations have always been uneven and nervous; over the last decades these relations have been developing in an atmosphere of suspicion and mutual reproaches. Nevertheless, Armenia, being not interested in the final fragmenting of Georgia, willingly or unwillingly, plays a stabilizing role in Georgia’s tumultuous southern regions, preventing centripetal inclinations of the predominantly Armenian Javakhk and adjacent Azeri-populated districts. This takes place, of course, at the request of official Tbilisi and by approval of the European Parliament. Based on this unexpected coincidence of geopolitical interests, European leaders have grown more tolerant towards Armenia.

Relations with Turkey are entirely determined by the 40-year old Armenian-Azeri confrontation. Rejecting any bilateral relations with Armenia, the Turks act to their detriment, and are exposed to political criticism by the international community. However, they insist on their political course, apparently, not out of sheer solidarity with Azerbaijan. Probably, they do not want to see Armenia engaged in regional economic structures, which can energize Armenia’s development.

The flip-side of this unwillingness is also well known: Armenia remains a large hindrance to trade turnover between Turkey and Azerbaijan, and as such suits Iranians, Russians, Kurds and

Arabs. With the latter, Armenians have long had firm and sympathetic relations, based on historical ties and solidarity with the Arab world, demonstrated by Armenian leaders in the international arena. The high-way communication between Armenia and Syria (via Iran and Kurdistan) allows forecasting significant expansion of economic relations and improvement of political ones with the Near Eastern Arab countries.

The EU treats Armenia and Transcaucasia as a troublesome and cumbersome burden. However, Europe is unwilling to concede this region to the geopolitical rival, i.e., the US. True, the US also has realized that the numerous Caucasian problems can not be solved by generally accepted methods and are not eager to carry this load. That is why the current geopolitical rivalry in the region has taken the shape of positional struggle, aimed at the maintenance of the equilibrium of forces in the region. Hence, parity in approaches to various situations, striking by its absurdity, but in reality representing an ordinary time biding. Western politicians hope the next generation of Transcaucasian leaders would recognize the need for regional economic integration, unrelated to political differences and confrontations. Turkey's example, though, suggests that such hopes can remain utopian.

In the meantime, based on the same parity principle, Europe and America try to keep Georgia, Armenia and Azerbaijan in isolation from serious geopolitical processes, let alone, the European Community. The unrecognized (four) Transcaucasian political and administrative entities, naturally, do not participate in any political processes on their own, however, they are inevitably represented in all economic initiatives and projects. In diplomatic language it reads: "existing *realia* are taken into account ". Sounds reassuring...

#### SOME MORE GEOPOLITICS (INSTEAD OF EPILOGUE)

...In the Armenian socio-political discourse, there are old scores to be settled with geopolitics. According to popular opinion, the geopolitical upheavals taking place in various epochs have always caused dramatic situations if not tragedies for Armenia. There is abundant evidence of that, from the times of Alexander the Great until now, marked with yet another clash of civilizations and the new redrawing of the geopolitical patterns established for centuries.

Isn't geopolitics tied with the frequent reference to Fate and Destiny by Armenians? Apparently, yes. However, such rationale belongs to the domain of lyrics. There must be a reasonable, scientifically grounded original cause, I kept repeating to myself. And, it seems, I found it. The **lack of civilized self-identification**, this is the main feature of the modern Armenian world, which does not fit either into the Western, or Orthodox, Eastern, let alone other worlds. And, obviously, this was so in the past, this has always been, and every time confused the Armenian national elite, when it faced a geopolitical choice.

This fanciful, even incompatible coexistence of various life patterns and mentalities, supplementing each other, and at the same time mutually negating each other is the most impressive phenomenon one can come across in Armenia.

The famous Kipling's "Oh, East is East, and West is West, and never the twain shall meet" is not applicable to Armenia. Here East and West have met organically, as well as North and South. Everything is in stark contrast here: mean summer temperatures reach +30-35° C, winter temperatures, -10-15. The outward appearance of the population, as well as behavior style, is quite European, the stereotypes of mentality, Oriental. The ruling elite are always receptive to innovation, both technical and ideological, since for the last 2,500 years, the West has played the leading role in these spheres. Once upon a time, even religion was readily emulated, e.g., the Hellenistic pantheon. Or

Christianity, which came to Armenia not from the original source, not from the South, but from the West, from the Byzantine Empire. However, in Armenia, Christianity was subjected to much modification, in terms of ritual and content, and is in contrast with the Greek Orthodoxy. Armenians believe that this was a form of self-defense from an alien culture, from spiritual expansion.

Something like that, apparently, took place nowadays: democratic institutions have been transformed on the Armenian soil into fiction, however, this saved the country from adhococracy and barred the marginalized and clustered from gaining power, as many believe here.

Eternally on the boundary of civilizations and fault-lines, Armenia has never managed to determine its choice, since a single-minded choice would contradict Armenia's nature. The current trials and tribulations are undoubtedly hard, but not the most severe: as one political scientist you met above put it: "Armenia is used to taking a vertical position in a horizontal world" and then waiting to see when the rest of the world will follow suit, but doing nothing to attain this goal....

*Armenia 2020*





Paintings were chosen from  
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