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**MA Dissertation: “POLITICAL AND ECONOMIC RELATIONS
BETWEEN ARMENIA AND EU: PERSPECTIVES”**

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List of Abbreviations

AA	Association Agreement
AP	Action Plan
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CSP	Country Strategy Paper
CSTO	Collective Security Treaty Organization
DCFTA	Deep and Comprehensive Free Trade Areas
ECHO	European Community Humanitarian Aid
EEAS	European External Action Service
ENP	European Neighbourhood Policy
EaP	Eastern Partnership
EU	European Union
EUSR	European Union Special Representative
FDI	Foreign Direct Investments
GSP+	Generalized System of Preferences
INOGATE	Interstate Oil and Gas Transport to Europe
NGO	Non-Governmental Organization
NK	Nagorno-Karabakh
OSCE	Organization for Security and Co-operation in Europe
PCA	Partnership and Cooperation Agreement
SC	South Caucasus
TASIC	Technical Assistance to Commonwealth of Independent States
TRACECA	Transport Corridor Europe-Caucasus-Asia
WTO	World Trade Organization

POLITICAL AND ECONOMIC RELATIONS BETWEEN ARMENIA AND EU: PERSPECTIVES

Abstract

The Eastern Enlargement of the European Union (EU) in 2004 and in 2007 increased the importance of the EU's political and economic relations with the South Caucasus (SC) countries. The three countries located in the SC were invited to participate in the European Neighbourhood Policy (ENP) and in the Eastern Partnership (EaP). At the same time, the relations of these countries with the EU are strongly influenced by their relations with Russia. In order to examine the developing cooperation between EU and SC in the case of Armenia, the current thesis aims to analyze the political and economic relations between Armenia and EU and to examine the impeding factors for a closer cooperation. This thesis argues that for the closer cooperation the EU needs to enhance its influence in the region and by using available tools and mechanisms, to contribute to the gradual removal of those factors, which prevent the development of relations.

Introduction

SC, including Armenia, became an object of interests of EU after the collapse of Soviet Union. In the decade following the collapse of the Soviet Union, in 1991 the EU started its activities in the SC to help post-Soviet republics to overcome their political and economic instability through different projects. Armenia and the EU first established formal relations in 1996 through their Partnership and Cooperation Agreement (PCA), which entered into force in 1999. This agreement formalized relations between Armenia and EU in the areas of political dialogue, trade, investment, economics, legislative, and cultural cooperation leading to democratization.

With the Eastern Enlargement of the EU in 2004 and 2007, the borders of organization has pushed ever closer to SC countries, thus, increasing the importance of the EU's economic and political relations with these countries. The security threats, including frozen conflicts, make the region of vital importance for EU. What is more, the SC region plays an important role both in supplying energy to the EU and as a transit route for it. Considering all these factors, good relations with all three SC countries are very important for the EU.

As a result of Eastern Enlargement, in 2004, the European Council decided to incorporate the countries of the SC into the framework of the ENP. Subsequently, in November 2006, the ENP 5-year Action Plan (AP) containing concrete goals and actions to be achieved in the short and medium term was signed. Another step for a closer cooperation between Armenia and EU was the EaP program initiated by EU in 2009, aiming to bring the EU contribution to the region's prosperity, stability and security.

On the other hand, the relations of all three countries of SC with the EU are also significantly influenced by their relations with Russia. The ‘Russian aspect’ has always been present, although its importance varies from country to country. Armenia is the most influenced in this respect. However, Armenia’s integration into European structures since the very first days of independence has been and remains a foreign policy priority for this country.

The aim of the present thesis is to analyse the political and economic cooperation between Armenia and EU and its perspectives and to discuss those factors, which impede the deepening of Armenia-EU relationship. It is argued that for the further development of a closer cooperation, the EU should get more involved into ongoing processes in the region. More specifically, in the case of Armenia, the EU should get more involved in the process of resolution of the Nagorno-Karabakh (NK) conflict, normalization of Armenia-Turkey relations and counterbalance the influence of Russia in the country.

In order to accomplish the aim of the present thesis ,different methods such as text analyses, a wide range of information on the topic available on line, such as analytical articles, official statements, press releases, policy briefs and chapter of books written on the topic will be used.

Structurally, this thesis consists of three chapters. In the first chapter, the frameworks of main agreements which lay the basis for Armenia-EU relations will be examined and analyse. In the second chapter, the economic relations between Armenia and EU will be examined. The third chapter will concentrate upon the main three factors, which hinder the closer cooperation between Armenia and EU. And, finally, the existing Armenia-EU relations and perspectives of their further development are summarized.

Chapter 1. Underlying Agreements between Armenia and EU

The cooperation between EU and Armenia has been established with the collapse of Soviet Union. Since the independence of Armenia, the EU has launched several projects in Armenia and provided the country with humanitarian aid and technical assistance. The first legal basis for the Armenia-EU bilateral relations was the PCA which was signed in 1996 and entered into force in 1999.

In this chapter, we will present and discuss the programs launched and funded by EU in Armenia after gaining of its independence starting from Technical Assistance to Commonwealth of Independent States (TACIS) to ENP and EaP and the main agreements on the basis of which the relations between Armenia and EU are funded.

1.1. From TACIS to Partnership and Cooperation Agreement

The relations between Armenia and EU were initiated in the framework of TACIS program with the assistance of EU sent to Armenia in 1991.

At the Rome Summit in December 1990, the EU launched the TACIS program to sustain the economic reform and development process in the CIS (Commonwealth of Independent States) countries and to support their integration to the world economy (TACIS www.eu.external). The TACIS program has been contributing to Armenia's transition towards market economy by assistance in the field of legal and regulatory reform, the approximation of Armenian legislation to that of EU's and support for Armenia's accession to World Trade Organization (WTO). TACIS has also provided assistance to the implementation of Armenia's Poverty Reduction Strategy (Armenia Country Strategy Paper, 2007-2013).

After the summits held in Luxemburg on 28-29 June 1991, 9-10 December 1991 in Maastricht, and 25-27 June 1992 in Lisbon, more emphasis was put on the development of relations with the former Soviet republics. In this context, Armenia also participated in TACIS Regional Programs with projects such as TRACECA (Transport Corridor Europe-Caucasus-Asia) and INOGATE (Interstate Oil and Gas Transport to Europe) (for further information, see the following websites: www.traceca.org and www.inogate.org). TRACECA, launched in 1993, aimed at facilitating the countries' access to the world markets by developing a transport and transit corridor. INOGATE, launched in 1995, aimed to create a favorable environment for attracting private investment in the field of oil and gas and facilitating their transportation through the provision of technical assistance. A special emphasis was put on the rehabilitation of existing infrastructure (INOGATE, 1999).

Apart from TACIS, the EU has been implementing a number of other projects in Armenia: e.g. the Food Security Program, which was launched in 1996, the EU has been providing budgetary support to key agriculture and social sectors in Armenia; the European Community Humanitarian Aid program (ECHO) has been introduced to Armenia in 1992. Armenia has also benefited from EC Macro-Financial Assistance; the assistance has been conditioned to good macro-economic performance and structural reforms in the country (www.delarm.cec.eu.programme).

Since 1992, the EU has provided just over millions of euro in assistance to Armenia distributed through a range of programs as described above. From 1991-2000, the EU allocated 280.33 million in grants to Armenia (Armenia Strategy Paper, 2002-2006; National Indicative Programme 2002-2003).

It becomes obvious that assistance has been the major instrument of EU activity in Armenia in the decade following the collapse of the USSR. The new

contractual framework PCA signed in 1996, indeed, entered into force at the end of the decade, in 1999. Therefore, until the end of 1990s, the relations between Armenia and EU were developing in the context of the above mentioned programs and there was no legal framework between Armenia and EU. The EU established first contractual relations with Armenia in 1996 through PCA, which entered into force in July 1999; the PCA became the first legal basis for bilateral relations. What is more, after the collapse of the Soviet Union, by the PCA the EU offered the CIS a new instrument to replace the 1989 agreement regulating trade with the Soviet Union.

Since 1999, the European Parliament actively sought to bring Armenia onto the agenda of the EU. (Sundström, 2004). The signature of the PCA 13 with the three SC states (including Armenia) on 22 June 1999 in Luxembourg officially represented a qualitative breakthrough in Armenia-EU relations. (Witterbrood, 2000). The PCA provided a basis for economic, social, financial, industrial and cultural cooperation and promoted activities of joint interest.

The objectives of all PCAs were: to establish a new trade regime with CIS, to institutionalize political relations in order to address relevant issues and provide for improving and expanding cooperation and to ensure conditionality of cooperation with and assistance from the EU upon the progress in political and economic transformation of the countries concerned. PCAs offered neither a prospective membership nor any sort of association with the EU; the ultimate option to consider was to develop free trade with the EU. In this way, the PCA was clearly different from the European agreements, such as the Stabilization and Association agreements were considered for the western Balkan. The EU technical assistance to the CIS, was supposed to support goals of the PCAs and help the transformation of the societies and the economies of the countries concerned. Thus the EU became the largest

provider of external assistance to those countries over the last decade, with hope of the conditionality support within the PCA framework.

For the first time, with this agreement issues such as political dialogue and cultural cooperation were emphasized in addition to issues related to trade and economy. This agreement has remained the fundamental contractual basis of Armenian-EU relations.

Notwithstanding the development of these initiatives, the EU remained a low-profile player in the region until the development of the ENP. Despite the signature of PCA and increase in interactions between the Armenia and EU, Armenia and the wider SC have remained largely peripheral to the EU's geopolitical sphere of interest (up until 2004).

Subsequently, the original draft of the ENP did not include the SC states despite the importance of the region geopolitically. Only after the Rose Revolution in Georgia, and the consolidation of the pro-European Saakashvili in power, did the EU make the necessary amendments to the ENP to include the three SC states of Georgia, Azerbaijan and Armenia.

1.2. From ENP to Eastern Partnership

1.2.1. General Background

The formation of the ENP starts since April 2002, when the General Affairs Council requested the Commission and the High Representative for Common Foreign and Security Policy (CFSP) to think about EU's relations with its neighbors. Then, in a chronological order there is a reference made by Commission President Romano

Prodi about the EU's need for a 'ring of friends': " We have to be prepared to offer more than partnership and less than membership, without precluding the latter" (Prodi, 2002). Later on in March 2003, the Commission presented its Communication "Wider Europe – Neighbourhood: A new Framework for relations with our Eastern and Southern Neighbors" (COM, 104 final, 2003), and then the same year in July, presented another Communication "Paving the Way for New Neighbourhood Instrument" (COM, 393 final, 2003) and established a Wider Europe Task Force and a Wider Europe Inter-Service Group. In May 2004, the Commission presented Strategy Reports and later in 2004 bilateral AP was set out with the EN countries.

The ENP, as identified by many authors, was shaped by path dependency and was modeled on the enlargement policy, with the same logic and based on the same principles. According to Kelly (2006), it is the outcome of a combination of institutional learning and organizational adaptation by the Commission as a response to the changed post-enlargement environment (Kelly, 2006).

ENP is also an expansion of the Commission's active role in forming the enlargement. Indeed, the Commission considers the 2004 enlargement as the EU's most successful foreign policy and with the connection to the enlargement process it started to conceive itself as an important foreign policy actor. As the Commission administered the enlargement policies, it also conceptualized the ENP and was the body to implement and to follow it up. This new policy helped the Commission to continue playing a strong role in external affairs: "The Commission's strengths are its executive powers based on EU internal laws and policies, whereas it has very limited room for maneuver in traditional foreign policy, which the member states and Council jealously keep out of the Commission's hands" (Emerson, 2005).

The similarities between the ENP and enlargement policy are explained firstly by the fact that the task to design the ENP was given to the Enlargement Directorate General, and secondly by the fact that the top task force officials of the ENP all have enlargement background. As a result, what was produced was based on the enlargement policy with some “direct mechanical borrowing” from the later, and based on the same accession model with the same list of chapters. Some early drafts of the action plans were even directly modeled on the accession agreements. Labeling the ENP as a "new wine in old wineskins". Kelly gives a range of examples of learning and adaptation in the policy; however, the most prominent are the use of conditionality and socialization.

The ENP is among the top foreign policy priorities of the EU. The ENP includes group of states that currently do not have EU membership potential. It covers six states in the east (Ukraine, Moldova, Belarus and South Caucasus countries Armenia, Azerbaijan and Georgia) and ten Mediterranean states in the south.

The ENP was launched in 2004 “with the objective of avoiding the emergence of new dividing lines between the enlarged EU and our neighbors and instead strengthening the prosperity, stability and security of all concerned (www.ec.europa.eu/world/enp/policy_en.htm).

From this it is clear that the ENP was mainly created out of security consideration, and therefore should be understood within the European Security Strategy: “Our task is to promote a ring of well governed countries to the East of the EU and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations” (Smith, Karen: 2005). The ENP expresses the following security related concerns of the EU: firstly, a concern for political stability on the EU borders; secondly, the inclination to counter negative implications of the recent

rounds of enlargement for the “outsiders”, as the idea behind ENP is that “The Union remains determined to avoid new dividing lines in Europe and to promote stability and prosperity within and beyond the new borders of the Union” (Council of the European Union, 15917/02, p. 6.), and thirdly ENP is an attempt to define an attractive alternative to EU membership.

To increase European security, stability and prosperity, the ENP aims to promote political, economic and institutional reforms in the targeted countries. Through all these development strategies, the EU is also actively promoting democracy, human rights and the rule of law, so while EU takes ENP mostly from security perspective, it also tries to diffuse its norms and values through the ENP: “the development of the ENP depends very substantially on the will of the neighboring states and their peoples to share the same values as those on which the European Union is based” (European Parliament resolution on the ENP, 19/01/06).

As evident the ENP is based on shared values and commitments between the EU and the neighboring countries, and within these values security and stability plays a central role. So it can be said that with the development of the ENP, the EU obtained new tool to promote stability and security to EU countries.

1.2.2. Limitations and Achievements of ENP

Although theoretically ENP can be perceived as a unified policy with a comprehensive framework, the implementation of the ENP highlights several weaknesses. The EU has not introduced a strong regional component in the ENP, being considered a policy based on strengthening bilateral ties between the EU and each neighbor; a policy of neighbors, rather than a neighborhood policy. The umbrella

of the ENP includes a large geographical area in the same policy; more precisely, two different sides: South and East. Consequently, the ENP has been often accused of lack of consistency by including eastern and southern neighbors of the EU in the same framework, countries which had nothing in common other than being neighbors of the EU and which were located in totally different geo-strategic regions. Due to these major differences between them, these Southern/Eastern neighbors have particularities and problems which do not resemble, that require different resolutions as well as the use of different instruments in order to overcome them.

What is more, the absence of a regional component of the ENP as well as the existence of different interests of the member states in the neighborhood area, the new policy is also criticized for the lack of attractiveness, limited resources or its conditionality which brings into perspective a hegemonic behavior on the behalf of the EU. The fact that ENP does not contain the promise of membership reduces its attractiveness for the neighbors. Without the prospect of membership, the countries are less excited to adopt to the reforms offered by EU (Grabbe, 2004).

Contrary to its ambitious objectives, the ENP has extremely limited resources. Due to this inconsistency, the credibility, efficiency and success of this policy are questionable as they all directly depend on the resources destined to its proper management. The financial perspective for the 2007-2013 ENP budget highlights very modest sums, only € 11.967 billion (down from € 14.929 billion initially proposed) (Bordeianu, 2007).

Despite all the inconsistencies mentioned above, since 2004, the EU has gradually increased its presence in its Eastern neighborhood, namely: Ukraine, Moldova, Georgia, Belarus, Armenia and Azerbaijan. The trade between EU and its

Eastern neighbors has considerably increased and the EU is moving towards free trade agreements with most of its eastern neighbors.

Since the launch of the ENP, the EU and its Member States have intensified and improved diplomatic relations with these countries. The number of Delegations in the region increased from two to six, so now the EU is represented in each of the six EaP countries.

In addition, the EU has become more involved in managing conflicts in its eastern neighborhood. The EU is a mediator in negotiations between Moldova and its breakaway Transnistria region, starting the EU Border Assistant Mission in Ukraine and Moldova. EU also has developed a monitoring mission in Georgia and acts as a mediator in the talks in Geneva between Russia and Georgia (including Abkhazia and South Ossetia). Unfortunately, the involvement of the EU in NK conflict is very limited.

1.2.3. ENP-Armenia

On 14 June 2004, the European Council decided to include Armenia in the ENP. Benita Ferrero-Waldner, the commissioner for External Relations and ENP, commented: “The European Neighbourhood Policy gives us an opportunity to take relations with Armenia up a gear. I very much hope that the Council will give the go ahead to negotiate an AP, so that we can work out a joint agenda for action in the coming years. Progress in our relationship will reflect the efforts and success of the country itself” (Recommendation from the European Commission IP/05/23, 2005).

In March 2005, the Armenian Country Report assessing the progress in Armenia towards political and economic reform was published and on the basis of it

on 14 November 2006, the Commission and the Armenian government adopted the ENP AP, which serves as a primary agenda-setting instrument for the ENP countries and encourages the governments to implement reforms.

In addition, the main EU cooperation objectives, policy responses and priority fields are found in the Country Strategy Paper (CSP) 2007-2013. The CSP covers the EC financial assistance to Armenia under the European Neighbourhood and Partnership Instrument (ENPI) as well as National Indicative Programme (NIP) for 2007-2010, with the indicative total sum of € 98,4 million for that period (www.ec.europa.eu/external_relations/armenia/index_en.htm). The bulk of EU's financial support to Armenia is based on ENPI. Besides, Armenia also benefits from the regional ENPI and Black Sea Programme.

Therefore, the AP will be taken a closer look at, as on one hand, it serves as a framework for evaluating the progress made in the country and on the other, it provides insights in what the EU expects in terms of policy reforms and what is meant by “shared values”. Armenia's Action Plan is based on bilateral and differentiated approach and the basis for the cooperation is a commitment to shared values and regional collaboration (COM, 373, 2004). The ENP AP specifies eight high-priority areas for cooperation between Armenia and the EU, of which only the seventh and eighth concern regional relations and conflict resolution. The others focus on (1) democratic structures, the rule of law, judicial reforms and combating corruption, (2) respect for human rights and fundamental freedoms, (3) economic development and poverty reduction issues, environmental protection, (4) improvement of investment climate, (5) the convergence of economic legislation and administrative practices, (6) the development of energy strategy, (7) contribution to peaceful solution of the NK

conflict, and (8) enhancement of efforts in the field of regional cooperation (http://ec.europa.eu/world/enp/pdf/action_plans/armenia_enp_ap_final_en.pdf).

The internal development of Armenia in accordance with a democratic and free-market spirit is, therefore, considered to be the cornerstone of the ENP AP. The ENP is seen by the Armenian Ministry of Foreign Affairs as a ‘useful anchor for reforms’ (Economist Intelligence Unit 2006: 17).

However, when analyzing cost benefit for EU’s Eastern neighbours, Kratochvil (2007) divides the countries into two groups and puts Armenia in the group where the ENP is viewed with suspicion and where the “Europeanization drive is less palpable” (Kratochvil & Lippert 2007, p.1). In fact, the political elites in Armenia have doubts about the cost-benefit balance of the ENP’s conditionality.

The problem is that the ENP does not answer Armenia’s security considerations, which is the priority area for the government. The ENP does not offer a credible solution for the NK conflict, thus leaving Russia to be the most significant security anchor. In Kratochvil’s words on Armenia, “the ENP’s carrots are politically not conducive enough to make the ENP the centrepiece of their (domestic and foreign) policies”(Kratochvil & Lippert, 2007, p.1). Similar to many other ENP states, where size of the rewards is a constant problem, in Armenia as well the EU cannot compensate hard domestic reforms in a sufficient way.

Adoption costs: The adoption costs in ENP countries are high. Armenia is a vivid example. First factor to state is that Armenian government is highly pro-Russian and closer ties with EU can harm the relations with Russia, on which Armenia is highly dependent both politically and economically. The pro-Russian political forces often express unwillingness to implement EU-led reforms, particularly economic ones, since these reforms are often incompatible with Armenia’s participation in the

Common Economic Space or Eurasian Economic Community, which are Russian led (Kratochwil, 2007). And secondly, of course, there are the security considerations, as Russia is actively involved in the resolution of the NK conflict.

Another problem is that many oligarchs in Armenia are high governmental officials at the same time. In order to conduct their profitable business these oligarchs are in favor of less transparency and less strict juridical system.

It is worthy to mention that although the AP signed with Armenia in 2006 contain a host of joint commitments to promoting democratic reforms, rule of law and combating corruption, the democracy performance of Armenia during the period 2005–2008 actually deteriorated (see Table 1).

Table 1. Dynamics of democratic performance of countries in 2005–2008

Country	Democracy (overall)	Electoral process	Civil society	Independent media	National Democratic Governance	Local Democratic Governance	Judiciary	Corruption
Armenia	↓	0	↓	↓	↓	0	↓	↑

(Source: Freedom House, 2006, 2007, 2008, 2009)

↓ - Deteriorated; ↑ - improved; 0 – no change

Thus the ENP AP, the main instruments to implement the ENP objectives, have not been successful tools for neither promoting democratic reforms in Armenia nor for peaceful resolution of NK conflict.

1.3. Eastern Partnership: The Last Platform

1.3.1. Eastern Partnership - Background

The last platform for Armenia-EU cooperation is the EaP. In order to further enhance the EU's relationship with the countries of Eastern Europe and the SC and address the

rampant security challenges in the region, the EaP initiative was endorsed in Prague in 2009, based on a Polish-Swedish proposal (Council of the European Union, Joint Declaration, 2009). The EaP includes six countries -Belarus, Moldova, Ukraine, Armenia, Georgia and Azerbaijan. It aims to promote further integration between these countries and the EU, in order to assure European security and stability. For that purpose, the EaP promotes new frameworks for these countries to come into gradual integration with the EU economy and fosters political reforms to reduce socio-economic imbalances. The need to offer further differentiation, ownership and a more ambitious partnership between the EU and its Eastern neighbours, suggesting a greater role for the EU in the region, is at the core of this initiative (COM, 823, 2008). For that purpose, it provides a dual-track approach combining the traditional bilateral relations between the EU and its neighbouring countries – that foresees their political association with and economic integration into EU – with a multilateral track that supports regional cooperation and the development of closer ties among the EaP partners (Council of the European Union, Joint Declaration, 2009).

At the bilateral level, the EaP's main goals are “to create a closer relationship between the EU and each of the partner countries to foster their stability and prosperity in our mutual interests” – are to be implemented through Association Agreements (AAs), which will supersede the PCAs as the legal basis for EU relations with its Eastern neighbours, Deep and Comprehensive Free Trade Areas (DCFTA), visa liberalization, enhanced cooperation in the field of energy security and support to reforms in the EU's partner countries (COM, 823, 2008). Conditionality remains the main instrument to promote transformation in the region.

What is more, the multilateral track, run by the European External Action Service (EEAS), is the main novelty of the EaP. Based upon the principle of

differentiation, the multilateral dimension is regarded as one of the main strengths of the EaP providing for high-level political support and a number of experts meetings, which may have the potential to ensure its practical impact. Furthermore, it opens a number of channels for socialization and social learning that can impact positively on the EU's approach towards the Eastern neighbourhood and represent an improvement over the original ENP framework (Shapovalova, 2010).

According to the Joint Declaration of the Prague Eastern Partnership Summit held in 2009: "it will provide a forum to share information and experience on the partner countries steps towards transition, reform and modernization and give the EU an additional instrument to accompany these processes. It will facilitate the development of common positions and joint activities" (Council of the European Union, 2009, 8435/09).

There are four thematic platforms: 1. democracy, good governance and stability 2. economic integration and convergence with EU policies 3. energy security 4. and contacts between people and five flagship initiatives outlined within this track but funded by the private sector (COM, 823, 2008).

Another very important step that the EaP took consists in promoting the involvement of civil society. Previously, the relations with the governments of the former Soviet republics were privileged at the expense of civil society cooperation, the EaP, in contrast, aims to redress the balance. NGOs are key actors in promoting democratic reforms and a vibrant civil society is an obstacle to authoritarianism. Thus, the EaP offers a more efficient support for the civil society development by establishing a Civil Societies Forum in order to help civil society organizations to develop their "advocacy" and to enhance their ability to monitor the reforms. In addition, it will focus on developing "people-to-people" actions such as increasing

funds destined for the development of students' exchanges together with other legitimate measures which facilitate the mobility of persons within the EU, while guarding the security of its citizens.

However, the EU's approach eastwards is by no means consensual among member states. Given the historical past and memory of many of the EU's new members, these countries tend to favour a stronger rapprochement towards the East and the inclusion of membership in the frameworks for relations with the Eastern neighbourhood. That position is not shared by France and Germany, which fear that any rapprochement to the East might jeopardize their relations with Russia and thus are reluctant to strengthen the Eastern dimension of the ENP or include a membership perspective within the EaP (Nitoiu, 2011).

It is perceived as a program whose objectives will upset Moscow's plans to achieve a unique economic space with the former Soviet republics.

The EaP has been praised as a step towards further differentiation between Southern and Eastern neighbours within the ENP and a timely initiative to reinforce the ENP's Eastern dimension, however it has been criticized as having not much potential for East-European countries, such as Ukraine in terms of democracy and aligning with the EU (Transitional Governments or Hybrid Regimes (4.39 on a scale of 1–7, where 1 represents the highest level of democratic progress and 7 the lowest), and too much to those with less political reforms, such as Armenia (5.39 and under semiconsolidated authoritarian rule).

Notwithstanding these critiques, the EU's own evaluation on its neighbouring policies has been rather positive. As stated in the EaP Warsaw Summit: "much has been achieved already. Political and economic reforms have been implemented in partner countries and relations between the EU and its Eastern European partners have

deepened significantly. There is more trade and economic interaction between the EU and the Eastern European partners than ever before” (Council of the European Union, Joint Declaration, 2011). According to the EU, significant bilateral and multilateral progresses were made in implementing the EaP. Civil Society Forum platforms have been established in all EaP countries and there has been substantial progress in negotiations on AAs, including DCFTA.

In addition, Financial assistance to the EaP partners has also increased considerably in order to support reforms in these countries (COM, 4, 2013).

1.3.2. EaP – Armenia

Armenia is reported to be the only EaP country to benefit pragmatically from what is on offer from the EU (technical assistance and aid) without complaining that the EU is not doing enough, i.e. advancing towards accession (as Georgia, Moldova, and Ukraine often do). This may speak of Armenia’s real ambitions vis-à-vis the EU.

The Armenian political elite is divided on the issue of European integration. The EaP is positively perceived because the country has moderate ambitions on developing its relations with the union. Armenia believes that European institutions must be balanced against its strategic partnership with Russia. As a result, Armenia-EU relations have not been developing as positively as relations with Moldova or Georgia.

Armenia's location between Azerbaijan and Turkey makes it a reliable ally for Russia in the region, but also a very isolated country. The EaP is therefore seen as a way out of regional isolation, as well as a way of obtaining new funds to modernize the country. In this respect, Armenia received from EU macro-financial assistance

totaling 100 million Euros (65 million as a loan and 35 as a subsidy) (Boostra and Shapovalova, 2010).

The Armenian government declared its interest in visa liberalization as well as in the creation of a free trade zone with the EU. Armenia also hopes that the EU could play an important role in stabilizing the troubled Caucasus region. The European Commission together with Armenia has already started the negotiations for an AA which will replace the present PCA.

EU Advisory Group started to work with the Armenia administration in order to prepare negotiations on the future Armenia-EU AA, which were launched in July 2010. Preparations for developing an Armenia-EU Mobility Partnership are also currently taking place (Meeting doc., 319/09, 2009). Progress on energy cooperation has been noteworthy and Armenia now has an observer status in the European Energy Community (Meeting doc. 336/10, 2010). The EU stresses the fact that Armenia has acted only on some of the key recommendations under the ENP and EaP frameworks, even though it praises the country for the adoption of a roadmap to improve the electoral processes and a set of other measures aiming at improving the human rights situation in the country and to fight corruption and organized crime (COM, 4, 2013).

Overall the EaP is a very good platform for Armenia-EU cooperation. With its emphases on deeper bilateral and multilateral cooperation frameworks the EaP is the most ambitious EU program implemented in the region and particularly, in Armenia.

Chapter 2. Economic Relations between Armenia and EU

As presented above, Armenia - EU relations are grounded on the PCA signed in 1996. Afterwards, Armenia was included in the EU Neighborhood Policy, as a part of which a five-year Armenia - EU joint action plan was developed and approved in 2007. Under this program, Armenia was obliged to implement legislative and administrative reforms regulating the areas of trade and the economy. Armenia has been included in the EU's comprehensive Generalized System of Preferences (GSP+), which allows all goods of Armenian origin, except weaponry, to be imported into EU territory with either zero or a preferential customs duty.

Moreover, as already mentioned, after its inclusion in the EU's EaP program, Armenia received the opportunity to negotiate and sign an AA with the EU, which also assumes the signing of an Armenia - EU DCFTA.

In this chapter, the trade relations between Armenia and EU and the perspectives of economic and trade relations in the framework of DCFTA will be examined and discussed.

2.1. Trade Relations between Armenia and EU

The EU is one of the world's largest single markets with over 500 million high income customers. As in most developing countries, Armenia's economy is small, and negotiations with the EU will encourage and enable the country to establish larger markets, more attractive for investors in a wider range of sectors.

It is a common knowledge that there has always been an imbalance between the volumes of the exports and imports of the Armenian goods. The percentage of the

imports to Armenia exceeds the percentage of the exports. According to the statistics of the WTO, the total US dollar amount of exports in 2011 was 1.3bln, whereas the imports were 4bln dollars (Statistical Yearbooks of Armenia 2011). Thus, it becomes obvious that there is a large gap between the exports and imports of the Armenian goods, which hinders the development of the economy of Armenia. Exports are the impetus for long-term development, especially for countries that have a limited domestic market, such as Armenia.

2.1.1. Export toward EU

The European market absorbs a large share of exports from developing countries and these countries in their turn receive huge volumes of imports from the EU market. The EU is the number one destination for Armenian exports. Armenian exports to the EU have been reporting a consistent growth over the last decade (overall, exports have grown by 7.6 times from 1997). In 2008, its share had arrived about 54%, but due to economic crisis its share decreased to 39.2% in 2012. (Statistical Yearbooks of Armenia 2008-2012).

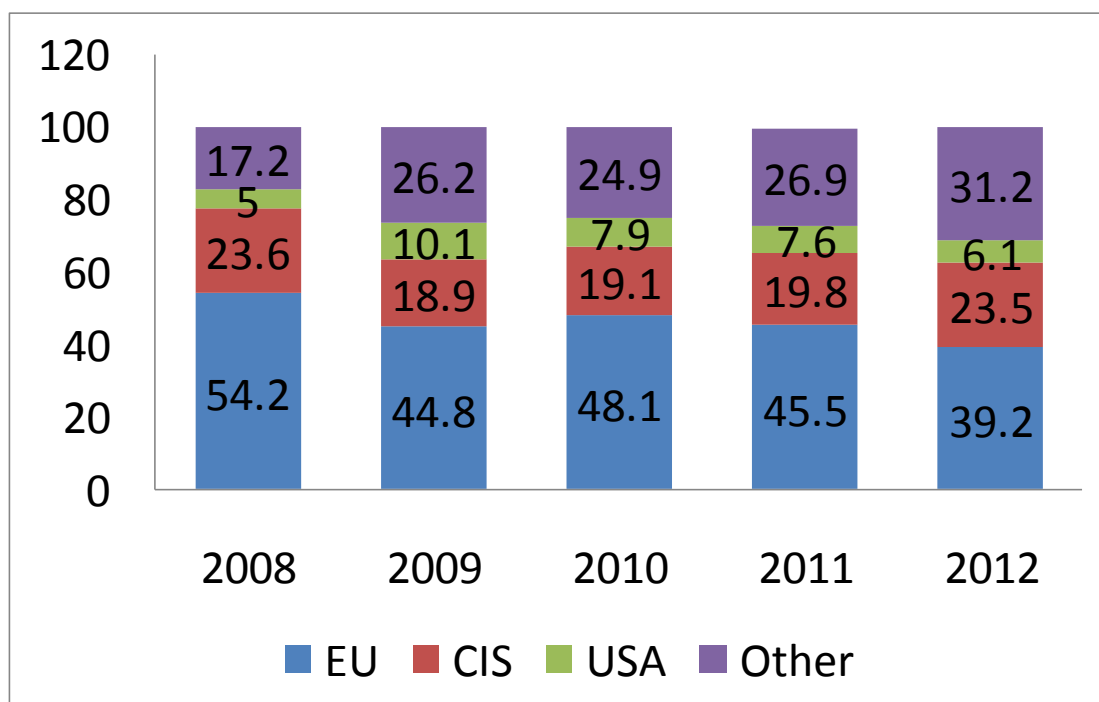


Table 2: Export toward EU (Source: Statistical Yearbooks of Armenia 2008-2012)

Belgium, Netherlands, Germany and Bulgaria are the main EU countries where Armenia exports goods. Therefore, Armenia has a potential to extend its geographical distribution of exports in EU (Statistical Yearbook of Armenia 2007).

The geographical structure of Armenia's exports has undergone significant changes over the last decade. Armenia has been developing its trade with the EU and other non-CIS countries, while reorienting it from its traditional CIS partners. The weight of the CIS bloc has decreased from 36.6% in 1997 to 25% in 2001 and to 20.1% in 2006. The share of exports to Russia has also significantly dropped by about 2 times as compared to 1997 (www.armstat.am). However, Russia still remains the key destination market for Armenia's traditional exports, first of all, beverages, spirits and agricultural products.

In contrast, with reference to EU's exports destination to Armenia, the share is very small. For example, in 2012 its share was about 0.0% with 272 million euro,

ranked the 106th between EU's export partner countries (Eurostat, 2013). Furthermore, as mentioned above, starting from 2009 Armenia has been benefiting from preferential access to the EU market through the EU GSP+ (www.eeas.europa.eu/delegations/armenia/eu_armenia/trade_relation/pref_reg_gsp/index_en.htm). This means that existing import duties are already very low, so the benefits of the future deep and comprehensive free trade area lie predominantly behind the border, in the regulatory area.

With regard to export structures by commodities, Armenian exports to the EU are highly concentrated by product sections, being mainly based on exports of natural resources. The year 2008 marked the highest rate of Armenian export to EU. In 2008, base metals and articles of base metal section made 53% of Armenian total exports to the EU, mineral products 20%, natural or cultured pearls, precious or semi-precious stones, precious metals, metals – 15%, textiles and textile articles – 6%, etc. In 2008, the first three product sections made 88% of Armenia's total exports to the EU. However, there was a strong decline of the shares of the first and the second section products compared to 2004. In 2004, the first product section had a share of 42% and the second – of 11% (Armenia Country Strategy 2011-2014).

Mineral products in 2008 had a 20% share in Armenian exports to the EU, whereas only 17% of the exports of this product belong to the world. The picture is different in the case of prepared foodstuffs, beverages, spirits and vinegar, tobacco and manufactured tobacco substitutes. This product group had a 17% share in Armenia's total exports to the world in 2008, but to the EU it is only 3% and the main products from this group exported to the EU are beverages, spirits and vinegar. Thus, it becomes obvious that mainly raw materials are exported from Armenia to EU.

2.1.2. Import from EU

The EU is the most important trade partner of Armenia on the imports side accounting for about one third of Armenia's imports. The EU imports to Armenia have expanded by 3.5 times since 1997, the EU totaled 26.6% in 2008 and it remained almost the same until 2012 coming second after the CIS countries (Statistical Yearbooks of Armenia 2008-2012).

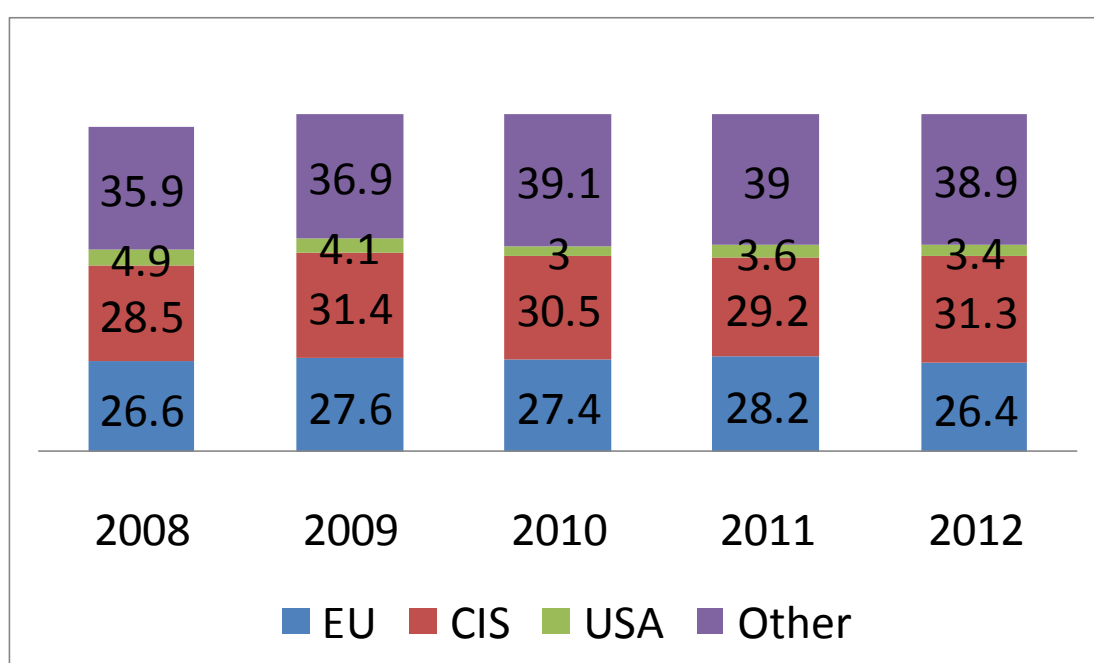


Table 3: import from EU (Source: Statistical Yearbooks of Armenia 2008-2012)

Overall, Armenia's imports from the EU are dominated by machinery (34%), precious stones (14%), agricultural products (13%) and chemicals (11%). With regard to the imports of agricultural products from the EU, there has been a huge decline since 1997: from 37.2% of total imports from the EU in 1997 to 8.7% in 2006. The two major commodity groups of agricultural imports from the EU in 2006 included tobacco products (1.8% of total imports from the EU) and preparations of vegetables,

(0.8%), while in 1997 – products of the milling industry, (10.1%) and cereals, (8.5%) (www.armstat.am).

Despite the fact that EU is Armenia's main import partner, the share of EU export to Armenia is very little near 0.0% with 678 million euro and ranked 101th as an export partner for EU in 2012 (Eurostat, 2013).

Thus, Armenia is a net importer of the European products with 406 million euro negative trade balance. Overall, Armenia's trade turnover with the EU has grown by 4.5 times since 1997; as a result, the share of the EU in Armenia's total trade has risen by over 10 percentage points over the last decade (from 27.1% in 1997). On the contrary, the role of trade with Russia has declined substantially during the past years (from 25% in 1997 to 13.5% in 2006); still Russia has preserved its second largest partner position.

2.2. DCFTA between Armenia and EU: Its Perspectives

The EU has been negotiating an AA with Armenia since July 2010 in the framework of the EaP. The future DCFTA Area will be part of this Agreement. In 2012, the EU announced its readiness to start its first negotiations of a DCFTA with Armenia. The EU officials in Brussels and Yerevan affirmed that Armenia had necessary capacity buildings and legal approximations to start the negotiations. The first round of negotiations was held in Brussels on June 19-20, 2012. This meeting gave the Armenian side the overall picture of the expectations of the EU from different spheres; it as well showed the EU that Armenia is ready to continue the process. In October 2012, the second round of the negotiations took place in Armenia. The sides discussed the legal texts of the agreement in trade in goods, competition, technical

barriers to trade, customs issues, sustainable development, transparency, protection of trade, sanitary and phyto-sanitary facilities (European Friends of Armenia, 2012). In consequence, on November 2013 the signature of DCFTA was scheduled.

A deep and comprehensive free trade area entails a closer economic integration, including:

- Complete elimination of customs duties - so that products can enter duty free and result in lower prices of goods to the benefit of consumers
- Improvement of customs procedures - bringing the partners' legislation closer to the E U one to unify procedures for imports
- Increased protection of intellectual property - to improve in particular enforcement of legislation and bring the level of IP protection on a par with that in the EU
- Application of EU sanitary and phytosanitary rules – to increase the level of food safety protection within the countries and, thus, allow exports of products of animal origin to the EU
- Upgrade rules on public procurement and competition - thereby creating a transparent and predictable regime for economic operators both in private and public commercial transactions
- Removal of technical obstacles to trade - to facilitate trade in industrial products but also, by upgrading infrastructure and conformity assessment procedures, to gradually increase competitiveness of their industries (www.eufoa.org/uploads/Documents/DCFTA_negotiations_launch.pdf).

Therefore, it can be concluded that the DCFTA will have important impact on the Armenian trade and incomes. The liberalization of services will provide a welfare

gain for Armenia. It is assumed that the barriers against EU multinational service providers will be reduced.

What is more, the DCFTA with the EU will reduce the production costs of imports from and exports to the EU. Jensen and Tarr (2012) suggest that the main source of gains from the DCFTA with the EU is due to the reduction of the costs of the trade transport on imports and exports not only from Europe but also from non-EU countries only with a smaller percentage. In spite of the large gains from the reduced border costs, Armenia's benefits from the harmonization with EU standards as part of the DCFTA are relatively low. Cost reduction will be seen in the exports from Armenian firms, agriculture and manufacturing sectors. These sectors and the firms need to adapt to the EU standards and develop National Quality Infrastructure (Jesper & Tarr, 2012).

The DCFTA will benefit to Armenia's integration with the EU Internal Market to the fullest possible extent. Armenian producers and exporters will be offered free access to an EU market. Moreover, it is expected that DCFTA will have a significant positive effect on Foreign Direct Investments (FDI) inflows into the country. Following a reduction in trade barriers, FDI flows are expected to take off due to the increased market size of the area (i.e. access to the EU markets). What is more, liberalization of internal tariffs should open a door for FDI seeking lower costs of production. Consequently, an overall improvement in the country's economic effectiveness following a DCFTA should also contribute to Armenia's improved attractiveness as an FDI destination.

In addition, inward direct investment into a country increases following an Free Trade Agreement, as outsider Multinational Companies take advantage of the increased market size of the area (Buckley, 2001). Another reason for an increase in

FDI following a DCFTA is related to the fact that Multinational Companies are likely to divert production from more efficient, non-member countries to less efficient fellow regional integration agreement member countries to take advantage of the lowered trade barriers following integration (Globerman and Shapiro, 1999). The major sources of FDIs in the Armenian economy are the Russian Federation (\$3,170 million USD), followed by France (\$727 million USD), Greece (\$479 million USD), United States (\$378 million USD), Lebanon (\$365 million USD), Germany (\$357 million USD) and Argentina (\$334 million USD) according to the National Statistical Service of Armenia (www.armstat.am/en/?nid=82).

From the above discussion it becomes clear that DCFTA with the EU is likely to have a substantial impact on FDI inflows into Armenia. If economic, institutional and political reforms are entrenched and enhanced, the country will enjoy a sizeable increase in FDI inflows (that will result in Armenia's moving in its transition towards the level of advanced CEE countries). DCFTA with the EU can become one of the triggers for these reforms. Thus, the final signature of this agreement will be very beneficiary for Armenian economic development; it is a very good opportunity not only to increase Armenia's export toward EU but also to attract more FDI into Armenia.

Chapter 3. The Main Factors Impeding Armenia-EU Cooperation

Despite the deepening cooperation between Armenia and EU, there are some factors impeding the further development of Armenia-EU cooperation and Armenian integration within the EU.

The main factor impeding Armenia-EU relations first of all is its political and economic overdependence on Russia. The other factor is the NK conflict between Armenia and Azerbaijan. Problematic relations between Armenia and Turkey are yet another factor which hampers Armenia-EU cooperation. In this chapter all these three factors will be examined and discussed separately.

3.1. Armenia between EU and Russia

The first factor impeding Armenian – EU cooperation is its political, military and economic overdependence on Russia. Russia accounts for the greatest share of investment in Armenia: telecommunication companies, the banking system, energy plants and gas suppliers, the metal (foil) industry, and the railway system all are completely or partially under Russian control. (www.arka.am/eng/economy/2008/09/17/11200.html.g).

Russian investments in Armenia total are 3,170 million US Dollar. Except for this, Russia is one of Armenia's biggest source of exported goods. Armenian export to Russia is relatively more diversified than to other main trade partners (which are mainly the EU countries). More than half of Armenian export to Russia presents one product group "Beverages, spirits and vinegar"; and about 16% is "Pearls, precious stones, metals, coins (Statistical Yearbook of Armenia 2007). Therefore, Armenian export flows to Russia are comparatively more diversified than to EU. One of the reasons that Armenian export flows to Russia are relatively more diversified is relatively weak competition, as well the presence of the cultural and historical similarities.

Notwithstanding the fact that the Armenian Diaspora is quite widespread, 70 percent of remittances sent to Armenia are from Russia (IMF 2007). Hundreds of thousands of Armenians work in Russia and send remittances to their relatives living at home. Remittances from abroad are an important component of Armenian economy. According to the Central Bank of Armenia, in 2007, cash remittances sent back to Armenia by Armenians working abroad rose by 37 percent to a record-high level of 1.32 billion US Dollar (Danielyan 2008).

Apart from strong economic ties with Russia, due to the NK conflict with Azerbaijan, and the tense Armenian-Turkish relations, Armenia has been dependent on Russian military support as well. Armenia is a founding member of the Collective Security Treaty Organization (CSTO), founded in 2002, and currently including members are Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan. Like NATO's Article 5, the CSTO has security guarantees to its members against external threats. Russia is thus a security guarantor of Armenia: Armenian-Turkish borders are kept by Russian military forces.

In August 2010, the Kremlin has extended a lease for a Military Base in Gyumri (the second biggest city in Armenia) until 2044 on terms most favourable to Russia. According to the conditions in the new military pact, the Russian government will continue not to pay for the base's upkeep and its utilities, despite the base's growing strategic significance to Russia. Conversely, the Armenian government will continue to take on the full financial responsibilities of the base. This arrangement is highly unusual, as global powers such as the USA or Russia usually offer lucrative contracts to station their troops on foreign soil.

Therefore, in recent years, Armenia has become Russia's primary and strongest foothold in the SC. Following the war with Georgia in August 2008,

Moscow began increasing its influence in the SC, primarily through Armenia. Russian influence in Armenia is immense – not only political and economic, but also military.

Meanwhile, the Kremlin has been pressuring Yerevan to join the Russia-dominated Customs Union with Belarus and Kazakhstan (Danielyan, 2013). Established in January 2010, the Customs Union is a precursor to the EU, which Russian president Vladimir Putin hopes will be a counterweight to the EU. According to many experts, it is an attempt to re-create the Soviet Union.

It should be pointed out, however, that Russia's Customs Union and European DCFTA are mutually exclusive. Legally, a country cannot be party to both because a Customs Union has a common external trade policy, depriving each individual member-state of sovereign control of this policy within its borders (Coalson, 2013). Once a country joins the Customs Union, the EU cannot conclude a DCFTA with only one country but with the entire union, all its members, because countries within the Customs Union have a unified trade regime towards non-Union countries (Van der Loo, 2011).

“The EU cannot sign a DCFTA with a country that is a member of Russia-initiated Customs Union,” said Elmar Brok Chairman of the European Parliament Committee on Foreign Affairs and Vice-Chairman of the European People's Party, in March 2013 talking to Armenia's Radio Free Europe/Radio Liberty (A1Plus, 2013). In the same vein, the Russian Foreign Ministry official Aleksandr Gorban said on 1 January 2013: “You cannot be a little bit pregnant.”(He was referring with frustration to Ukraine's attempts to simultaneously pursue DCFTA and Russia's Customs Union but that same frustration would apply to Armenia) (Coalson, 2013).

As Brussels and Moscow are both pressuring Armenia, the President of Armenia S. Sargsyan will have to make such a choice soon – either join Custom

Union or to develop the cooperation with EU signing the DCFTA as part of AA between Armenia and EU. As a consequence, in Moscow on 3 September 2013, S. Sargsyan proclaimed the will to join the Custom Union. Thus, the signature of AA scheduled on November 2013 has become endangered, because as mentioned above a simultaneous integration into two different economic unions is impossible, which was announced and reaffirmed by EU Commissioner for Enlargement and Neighbourhood Policy Stefan Fule as an immediate response to Sargsyan's announcement (<http://www.azatutyun.am/search/?k=stefan%20fule#article>).

It should be underlined that Armenia's choice to join the Custom Union was, in a sense, imposed because apart from the fact that Russia is security guarantor of Armenia, Russia also offers thousands of Armenians the chance of an improved life, it is one of Armenia's biggest trading partners, and the majority of remittances come from Russia. Therefore, it is in Armenia's interest to maintain high levels of economic interaction with Russia. Nevertheless, it is also in Armenia's best interest to diversify its economy and deepen ties, at least economically, with the EU.

3.2. Nagorno-Karabakh Conflict as an Obstacle for EU Integration

The second external factor impeding regional integration is the NK conflict, the war of people for self-determination and independence, and Armenia's support to the ethnic Armenians of NK. This prolonged, as yet unresolved conflict is the most significant obstacle to peace and stability in the SC. Nineteen years after the declaration of a ceasefire, the parties have failed to take any tangible steps towards a settlement despite the efforts of international mediators. The conflict took over 20,000

lives, and today there is neither war nor peace (International Crisis Group Report, 2007).

In 1992, the Organization for Security and Co-operation in Europe (OSCE) Minsk Group was formed to resolve the NK conflict. OSCE Minsk group became the mediator in the negotiations (with Co-Chairs USA, Russia and France) (Balayan, 2004). Starting from 1994 the negotiations continued under the mediation of the Co-Chairs of the OSCE Minsk Group. The Budapest summit of CSCE in December 1994, instructed the Minsk Group to conduct negotiations with all the parties to the conflict: Azerbaijan, NK and Armenia. During the past 20 years the Co-Chairs have submitted numerous recommendations to the parties. It is worthy to mention that Russia has the biggest share of involvement in resolving of this conflict.

The potential for this conflict existed throughout the Soviet period. Yet there have been arguments that the quasi democratization of the Soviet Union was instrumental in triggering a full-fledged war. Although today, the conflict is an obstacle to democratization and regional integration, the resolution of the conflict in the long run also rests with successful democratization in the region (Mkrtchyan 2007). The Europeans acknowledge the urgency of this matter. For example, Peter Semneby, EU Special Representative's (EUSR) to the SC, after addressing the Permanent Council of the OSCE behind closed doors, said that "without stability, without a consensus around the rules of the game in terms of democratic institutions, elections, and so on, there will not be a basis for a mutually beneficial relationship based on mutual trust and common values with the EU. (...) Only by having legitimate, strong governments will it be possible to make the difficult decisions that will have to be made in overcoming those conflict situations" (Peuch, 2008).

Because of the conflict, Azerbaijan has acted to exclude Armenia from a number of important regional projects. These include oil and gas pipelines such as the Baku-Tbilisi-Ceyhan oil pipeline, the Baku-Tbilisi-Erzurum (or SC) gas pipeline, the Baku-Supsa oil pipeline and the planned TANAP pipeline. Projects of construction of a new railway (the Kars-Akhalkalaki-Tbilisi- Baku) have circumvented Armenia, despite the existing railway linking Armenia and Turkey (the Kars-Gyumri-Tbilisi railway, which was absolutely ignored by Turkey, Georgia and Azerbaijan). What is more, petroleum revenues helped Azerbaijan boost its military budget from 175 million US Dollar in 2004 to 1.3 billion US Dollar in 2008, ostensibly getting prepared for war against the people of NK to place them forcibly under Azerbaijani territorial sovereignty. Armenian officials assert that Baku's purchase of powerful weaponry in 2005 and 2006 violated the terms of the Conventional Armed Forces in Europe Treaty (International Crisis Group Report, 2007).

Notwithstanding the danger posed by a restoration of this conflict, current EU involvement in the resolution of the NK dispute is very limited. EU is not directly involved in conflict resolution and prevention mechanisms, choosing instead to support actively the ongoing political dialogue between the three parties, as well as the activities of the OSCE Minsk Group. This support is provided largely by the EUSR, whose mandate covers precisely this area.

This kind of support from the EU is a start, but more needs to be done to break the negotiating deadlock. The EU's official position is that it would consider contributing to peacekeeping forces in the region, if there was agreement between the parties on the deployment of such forces, a highly unlikely prospect (Popescu, 2007). The organisation's determination to maintain a neutral position means that its policy towards the conflict is often incoherent and contradictory. This can be seen most

clearly in APs for Armenia and Azerbaijan. The Azerbaijan Plan supports the country's territorial integrity, whilst the Armenia Plan supports the contradictory 'principle of self-determination of peoples' (www.ec.europa.eu/world/enp).

In recent years, there have been suggestions from inside the EU that it should engage directly with NK's de facto authorities, helping to jump-start democratization (or support and further foster the democratization processes which the area has been experiencing in the last thirteen years) and legal reform projects (Freizer 2006). The existence of NK could be internationally regularized, and the de facto government there brought into the scope of the international system. NK remains the only entity in the entire SC region where the EU has invested no resources for economic rehabilitation projects (Mkrtchyan 2007). Therefore, it would be useful for the EUSR to the SC to become more active in the conflict resolution process. This might include observing the Minsk process, supporting direct contacts with all parties (including NK), travelling to NK, and assessing conflict-related needs. Yet the EU has refrained from committing itself to participating in NK conflict resolution efforts. Realization of ENP plans with Armenia and Azerbaijan will be difficult unless the NK conflict is resolved peacefully as soon as possible.

This conflict has implications not only for stability in the SC region, but also for EU and the wider international community. As the EU seeks to expand their borders, it is becoming more important to focus on conflict resolution on the periphery, where the presence of weak or unstable states poses a threat to the stability of member states. Thus, resolution of these disputes has become more critical and the EU needs to use its not-inconsiderable influence to play a more active role in the search for a negotiated settlement, rather than waiting for other actors to negotiate a solution.

3.3. Problematic Relations between Armenia and Turkey

The third external impediment to successful cooperation between Armenia and EU and in the wider SC region is the closed borders and the lack of diplomatic relations between Armenia and Turkey. As the NK war proceeded, and as the Karabakhi Armenian forces captured areas surrounding NK in 1993, Turkey sealed its land borders with Armenia (the air borders were and are open, with regular flights between Yerevan and Istanbul), and declined to establish diplomatic relations with Armenia (although Turkey had been one of the first nations to recognize the independence of Armenia in 1991, it had delayed the process of establishment of official diplomatic relations).

It should be mentioned that Armenian governments have often reiterated that they support the establishment of relations with Turkey without any preconditions. For instance, Armenia's first president Levon Ter-Petrossian (1991–1998) lowered the priority placed on the campaign to win international recognition for the issue of the Armenian genocide, removing it from the country's foreign policy agenda. Under his successor, Robert Kocharyan (1998–2008), the campaign became a cornerstone of Armenian foreign policy. Nevertheless, the recognition of the Armenian genocide by Turkey has never been presented as a precondition for establishing relations with Turkey, nor have any Armenian presidents argued that Armenia has any territorial claims toward Turkey, as Turkish officials often used to cite. Despite the fact that the position of Armenian Diaspora differs and they claim that the recognition of Armenian genocide becomes precondition for Turkey's membership to EU, Armenian authorities do not object to Turkish regional initiatives or Turkish-EU membership.

However, Turkey had made the resolution of the NK conflict within a framework of Azerbaijani “territorial integrity” a necessary precondition for establishing relations and opening borders with Armenia. Today, Turkey does not allow transit through its territory for any goods destined for Armenia. The UN Convention on Transit Trade of Landlocked States (passed July 8, 1965), which Turkey joined in 1968, states in article 2 that “Freedom of transit shall be granted under the terms of this convention for traffic in transit and means of transport. (...) Consistent with the terms of this convention, no discrimination based on the place of origin, departure, entry, exit or destination or on any circumstances relating to the ownership of the goods or the ownership, place of registration or flag of vessels, land vehicles or other means of transport used shall be exercised. Turkey, therefore, violates this convention vis-à-vis Armenia.

Turkey’s preconditions towards Armenia have been changing. At various times, they have included the withdrawal of Armenian forces from NK and the surrounding Azerbaijani territories; the return of Shushi (a city in NK); recognition of Turkish and Azerbaijani territorial integrity and borders; provision of a communication corridor for Azerbaijan and Turkey via Meghri (a city in Armenia), reconfirmation of the 1921 treaties of Kars and Moscow; deletion of references to the Armenian Genocide and “Western Armenia” from Armenia’s Declaration of Independence; an end to the international campaign for recognition of the Armenian Genocide, and the establishment of a specialist committee (consisted of historians) to study the genocide (Mkrtchyan, 2007).

After S. Sargsyan became president of Armenia, the relations and talks between the Armenian and Turkish officials became more occasional even though S. Sargsyan had stated that the international recognition and condemnation of the

Armenian genocide would remain in his foreign political agenda. The Turkish President A. Gül joined Armenian President S. Sarkissian to watch a match in Yerevan which was the first time a Turkish President visited Armenia. EU leaders such as Javier Solana and French President Nicolas Sarkozy welcomed this initiative. Both before and after that meeting, Armenian and Turkish diplomats have held secret negotiations. The most peak point of this process was steps by foreign ministers of Armenia and Turkey to sign a five-point agreement under the mediation of Switzerland in October 2009. The agreement emphasized on the normalization of relations. It was decided that the protocols, after signature, would be sent to respective parliaments and would be executable once approved by legislative bodies. However, Turkey avoids approving these two protocols in parliament and the process has been frozen.

It appears that both sides will benefit from an Armenian-Turkish reappointment

From the viewpoint of Armenia, as the country is landlocked, it will be able to establish its connection with the Black Sea, i.e. is with Europe through Turkey. In other words, one of the most effective ways for Armenia to solve its economic problems and become open to the EU is through a rapprochement with Turkey. This is the most secure, cheapest and shortest way out for Armenia. The country's full independence from Russia and its close relations with the EU will be possible due to the normalization of relations with Turkey. As for Turkey, it will be able to establish connections with Central Asia, to minimize the growing pressure of the Armenian Diaspora in the global arena, and to draw closer their dream of membership of the EU. From the point of view of EU interests, the development of Yerevan-Ankara ties means shortening of space for Russia in the SC especially in the field of energy. The

Armenia-Turkey ties could provide suitable ground for EU influence in the SC equation as a counterbalance to the influence of Russia in the region.

Conclusion

In synopsis it can be stated that Armenian-EU relations have undergone continuous progress during the past 20 years, reaching the EaP stage. Until very recently, SC countries did not belong to the first ring of EU neighbours and their economic importance as potential partners of the EU was very limited. This situation began to change with the Eastern Enlargements of the EU, which were completed in 2007. The SC countries moved geographically from the second to the first ring of neighbors.

With respect to the development of Armenia-EU relations, it can be mentioned that assistance has been the major instrument of EU activity in Armenia in the decade following the independence of Armenia until the end of 1990s. The relations between Armenia and EU were developing in the context of above mentioned assistance programs and there was no legal framework between Armenia and EU, subsequently, the PCA in 1999 became the first legal basis for bilateral relations.

In 2004, by including Armenia in the ENP the relations between Armenia and EU in general became more comprehensive and increased the presence of EU in Armenia. But unfortunately the ENP AP, the main instruments to implement the ENP objectives, have not been successful tools for promoting democratic reforms in Armenia. The EU needs to develop clear and feasible objectives and take concrete actions and carry out active monitoring of the implementation. The costs of reforms promoted by the EU in neighbouring countries have been too high, while the incentives provided have been too weak (Borzel, 2009).

What is more, it seems that with the EaP EU wants to bring closer to it the partner countries. This is the most comprehensive political-economic social program package that the EU had ever concluded with Armenia and the rest countries concerned with attractive incentives for Armenia: the DCFTA and the visa facilitation or even a visa free regime with the EU, which could play an important role in

mobilizing the population and political elites for reforms and rule adoption. The EaP addresses some of ENP weaknesses and it also significantly strengthens the EU's offer to SC countries.

As already mentioned, since 2010 in the framework of EaP the AA including the DCFTA was being negotiated which aims at closely associating Armenia to the EU both in economic and political terms, in line with the EaP objectives. With regard to economic relations the EU has become the main trade partner for Armenia. On the other hand, Armenia plays only a marginal role in EU's trade relations. As a consequence of this asymmetric relationship the effects of DCFTA between the Armenia and EU would have asymmetric effects on the EU and Armenia. The impact of DCFTA would be more pronounced for Armenia and rather marginal for the EU.

As presented in 2.1.2, Armenia's export to EU is less diversified and Armenia has perspectives to diversify its export and simultaneously to extend its geographical distribution of exports in EU. The DCFTA could be a boosting factor in this direction and in changing of the Armenia's negative trade balance with EU. Moreover, it could also become an incentive for attracting more FDI's into Armenia. Overall, it will have positive effect in Armenian economy.

Nevertheless, a deeper cooperation between Armenia and EU is hampered by those factors discussed in detail in Chapter 3. When we combine security dependence with the economic overdependence on Russia, we understand that Armenia has relatively limited manoeuvring room with respect to involvement in regional initiatives, or to diversifying its economic and political preferences. As a result, Armenia's president has recently announced about the Armenia's decision for joining in the Custom Union, which endangers the signing of the AA between Armenia and EU.

Apart from overdependence on Russia, the other two factors (NK conflict and Armenia-Turkey relations) as well have their negative impact on Armenia-EU deeper cooperation. Despite the fact that the conflict resolution is the priority area in the Armenian ENP AP, the EU has not carried out any tangible involvement in the NK conflict. In fact, this is the conflict the EU is the least involved in the region.

As it has been discussed above, the conflict over NK was one of the causes of closed borders with Turkey, considerably hindering Armenia's both economic and democratic development. In this as well the EU is less involved in actively pushing for the establishment of diplomatic relations between Armenia and Turkey and the opening of the last closed border of the "iron curtain", the Armenian-Turkish border. Turkey is a state aspiring to join the EU and Armenia is an EU partner country. Hence, the European platform could serve as the best arena for normalization of relations.

Thus, by getting more involved and contributing in normalization of relations between Armenia and Turkey and in solution of NK conflict, the EU can bring Armenia closer to it and as a result of which, Armenia's dependence on Russia will be significantly diminished. And consequently, Armenia will be given the opportunity to diversify its economic and political relations and to develop a deeper cooperation with EU. Overall, security and stability in the region is in EU's own interests.

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