



## **RSC MONTHLY CLOSED BRIEFING NOTES**

**29 January 2020**

### **Analytical Notes**

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The following are the summary notes from our most recent monthly Closed Briefing, which was held on 29 January 2020. As an independent “think tank,” the Regional Studies Center (RSC) offers a regular monthly series of “Closed Briefings” to provide a concise analytical presentation of the most significant political, economic and military/security developments in Armenia and the broader region over the previous month. For the January 2020 briefing, RSC Director Richard Giragosian focused on three main areas:

- (1) an updated analysis of political developments in Armenia, an assessment of political polarization and the politics of confrontation, as well as an overview of the “court crisis” and the course of judicial reform;
- (2) an assessment of recent economic developments, including efforts to combat corruption, the broader investment climate, and projections regarding economic growth, as well as developments in the telecommunications sector;
- (3) a review of core issues in Armenian foreign policy, including an analysis of the implications of recent developments in Iran, including the confrontation between the U.S. and Iran, and developments related to Armenia-Turkey “normalization.”

In accordance with our standard format, this briefing featured an informal “off-the-record,” closed discussion. And as the target audience is the diplomatic community and international organizations in Armenia, our aim is to provide an alternative source of objective analysis and information on a regular basis.

## RSC MONTHLY CLOSED BRIEFING 29 January 2020

### ANALYTICAL NOTES

#### I. Domestic Political Developments

##### *Political Polarization & Politics of Confrontation*

After several months of mounting political tension, with a small but aggressively vocal group opposed to the Armenian government, two specific incidents in January marked the onset of outright political violence. The first such incident, on 23 January, was a rather bizarre two-hour hostage situation at the Erebuni Plaza business center, where a lone gunman, 32-year-old Artur Torosyan, entered the office building before eventually surrendering peacefully. Although the incident had political implications, given Torosyan's targeting of the office of former President Robert Kocharian (who also owns the building), the incident was more significant for the unusual resolution of the standoff.

More specifically, the acting police chief, Arman Sargsyan, came to the scene to personally lead the negotiations, eventually convincing the gunman to surrender and hand over his weapon. But the suspect was taken from the scene in the private vehicle of the policy chief, without handcuffs, and transported to a police station. This unorthodox treatment of the suspect by the policy chief, however, only contributed to the perception that certain acts of violence can be excused or treated differently if the criminal act and/or the target has political significance, in this case, with the targeting of Kocharian's office; a dangerous and disturbing message indeed.

The second incident, coming just days later, on the 28 January "Army Day" holiday in Armenia, involved a coordinated police crackdown and arrest of several "activists" notorious for their vehement and vindictive protests and social media campaigns targeting Prime Minister Nikol Pashinyan, his government and even his family members. Although the police sweep did not lead to any significant period of detention, the legal grounds and "probable cause" given for the arrests were both weak and inflammatory, including justifications of suspected illegal weapons or drug possession, more reminiscent of Soviet-era police practices than of the expected police behavior in this new period of a "New Armenia," as often hailed since the "Velvet Revolution."

##### *The Rise of the "Radical Right"*

At the same time, the arrests of the "activists," most prominent among them being Narek Malyan, the leader of the "Veto" group, and Artur Danielyan and Konstanin Ter-Nakalyan, leaders of the "Adekvad movement," were widely seen as a message and warning to the increasingly aggressive opposition "activists."<sup>1</sup> This group, whose campaign against the Pashinyan government has been largely defined by their reliance on militant, nationalist and extremist rhetoric, has also escalated its activities in recent months to include protests and actions targeting and intimidating several pro-government figures and supporters and civil society groups, such as the George Soros-affiliated Open Society Foundations (OSF) Armenia. The targeting of the OSF has also been marked by a pattern of physical intimidation and harassment of OSI staff, partners and visitors.

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<sup>1</sup> Zagarian, Robert, "Anti-Government Activists Detained in Armenia," Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 28 January 2020. <https://www.azatutyun.am/a/30402648.html>

While the emergence of such radical opposition groups like “Veto” and “Adekvad” represent a symptom of the country’s political polarization, they are also a cause for the further deepening of the political divide in Armenia. Nevertheless, beyond their crude and aggressive protest posture, they still represent only a marginal “radical right” fringe, with meager popular support. Beyond the paucity of support and limited standing, these groups have aligned in a loose political coalition with more traditional political partners, however, including many leading figures from the former ruling Republican Party, the nationalist Armenian Revolutionary Federation (ARF-Dashnaksutiun) party, and have recruited assorted political figures, such as former Karabakh Human Rights Ombudsman Ruben Melikyan and Narek Samsonyan, the head of the Civic Awareness NGO.

One potential recruit to watch may be Artur Vanetsyan, the former National Security Service (NSS) director who was promoted and then ousted by Prime Minister Pashinyan in September 2020. After the ouster of the security chief triggered a public “war of words” with the prime minister, Vanetsyan announced plans to form his own opposition political party, although his lack of political experience or personal popularity suggests that, at best, he will become a secondary, subordinate figure and not a political force in his own right.<sup>2</sup>

### *A Marginal Threat*

This opposition political alliance is not a significant threat over the long-term, however, for two main reasons. First, the unity of this disparate political coalition is tenuous, united only in opposition to the Pashinyan government and support for former President Robert Kocharian as a figurehead and rallying point, and devoid of any coherent ideology. Interestingly, despite the leading role of many former Republican Party parliamentarians, there is a notable lack of support for Kocharian’s successor, former President Serzh Sargsyan. This is particularly curious given Sargsyan’s current leadership of the once-dominant Republican Party. His lack of support not only undermines any possible return to political relevance by him or his Republican Party, but also magnifies divisions within the formerly cohesive Republicans, as its senior members have drifted either into political passivity or have defected to this new opposition grouping.

A second factor that diminishes the potential threat from this political alliance stems from the reality that each of these political parties and groups remains seriously discredited and gravely unpopular beyond a very small base of like-minded supporters. Both factors, therefore, tend to demonstrate that the reactionary political posture of this coalition is unsustainable, and rooted more from desperation and weakness than from confidence and political potency.

Moreover, despite a confrontational discourse amplified by media outlets linked to the former government,<sup>3</sup> they have only been successful in three isolated areas: (1) participating in demonstrations supporting imprisoned former President Kocharian; (2) organizing small but angry anti-Soros protests against the Open Society Foundations (OSF); and (3) utilizing social media to both exaggerate their influence and magnify their “hate speech” messaging, while also disseminating primitive “fake news” against the government.

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<sup>2</sup> For more on Vanetsyan, see: Sahakyan, Nane, “Former Armenian Security Chief to Set Up Party,” Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 7 February 2020. <https://www.azatutyun.am/a/30422495.html>

<sup>3</sup> These media outlets linked to the previous government include ArmNews TV, the News.am and Tert.am websites, and two radio stations, Love Radio and Radio 107 FM. Controlled by the “Quarter Media” (Qaryak Media) group, which was established in 2019 by former Republican Party parliamentarians Samvel Farmanyan, Karen Bekaryan, Mihran Hakobyan, and Arman Saghatlyan, these outlets serve as active platforms for many Pashinyan opponents and government critics.

### ***Pandering to Russia***

Although these groups tend to mimic the message and tactics of other far-right groups in the West, they also embrace a Russian narrative that targets European values, disparages democracy and forges a false narrative regarding the West and Ukraine, for some notable examples. It is important to note, however, that none of these groups have received direct Russian funding or support. Thus, their activities are less a result of Russian direction and more of a bid to solicit Russian backing. But if these groups are able to maintain momentum, driven perhaps by the likely court conviction of former President Kocharian, for example, their utility as pressure points targeting the Pashinyan government may attract Russian support at some point.

### ***Judicial Reform and the “Court Crisis”***

Since Armenia’s “Velvet Revolution” of 2018, the Pashinyan government has embarked on a largely successful campaign to deepen and drive economic and political reform. This was most visible in the government’s initial flurry of activity across several reform areas and with the launch of a determined campaign against corruption. Yet there were few policy ideas and even less in terms of legislative initiatives focusing on judicial reform and addressing the lack of an independent judiciary. The result was a hold-over judiciary inherited from the previous government, was generally left untouched and unaddressed, with the government demonstrating neither the political will nor the same priority as other reforms areas.

And despite the momentum in broader reform areas, the judicial system stood out as one of the more prominent institutional legacies from the old system of governance. Moreover, this benign neglect of legal and judicial reform during the early period of the Pashinyan government deprived the government of a critical legal foundation necessary to strengthen and sustain efforts to combat corruption and implement other crucial reforms.

The obvious lack of an independent or even reform-minded judiciary should have been a much higher priority for the government, especially given the government’s belated launch of a “transitional justice” initiative that was never clearly defined or defended. The concept of transitional justice was also hindered by the government’s premature shift away from a priority focus on economic crimes of corruption to the overtly political transgressions of previous governments, as evident in the charges against former President Robert Kocharian and other former officials for their culpability in the violent post-election crisis in March 2008.

Thus, the failure to address the lack of an independent judiciary sooner was a weakness for the government that presented an opportunity for government opponents to regroup and regain momentum. And against that backdrop of demonstrable policy neglect, the legacy Constitutional Court has recently emerged as the key battleground between the current leadership and a disparate but determined group of “old guard” loyalists of the former government.

The government’s preferred approach to implementing judicial reform has largely been defined by an overly obvious attempt at pressure, seeking to force the resignation or replacement of judges and officials deemed to be “too close to the previous leadership” or “insufficiently committed” to reforms. This attempt was unsuccessful and was marked by an escalating confrontation with the Constitutional Court that was widely perceived as a personal attack by Prime Minister Pashinyan on Court Constitutional Chairman Hrayr Tovmasyan and six other justices of the nine-member Court.

### *Amending the Constitution (Again)*

The government's strategy for judicial reform was recently modified, through an executive order issued on 30 December 2019 that called for the creation of a new 15-member governmental commission<sup>4</sup> empowered to formulate a new set of constitutional amendments designed to reform both the judiciary and electoral system.<sup>5</sup> The planned constitutional amendments are expected to specifically target the Constitutional Court by removing seven justices, each of whom were appointed by the previous government, while also introducing as yet undefined measures to create and empower and more independent court system.

After a previous attempt to pressure the Constitutional Court judges to resign, the government tried a new strategy based on positive persuasion, with offers of a "golden parachute" or "buy-out" to induce their retirement. As both efforts failed, this new strategy is a stark reversal, whereas the previous "top-down" approach sought to reform the composition of the Constitutional Court by removing individual justices, this new "bottom-up" move seeks to alter the institutional foundation of the court in order to remove the individual judges. Therefore, although the process remains both legally and constitutionally problematic, the efficacy and equity of such a repeated amending of the constitution is dependent on the validity and wisdom of the specific measures that have yet to be proposed. And the implications from this process are serious and may very well undermine the institutional legitimacy and rule of law that are essential for the success and sustainability of reforms over the longer term.

## **II. Economic Developments**

### *The "Good Fortune" of Armenia's Economic Growth*

Since the very beginning of the launch of a non-violent movement that came to be known as Armenia's 2018 "Velvet Revolution," one of the most consistent characteristics of Prime Minister Nikol Pashinyan has been his impressive combination of luck and good fortune. Given the looming threat of dangerously high expectations, which may threaten his continued popularity and public support, Prime Minister Pashinyan is once again benefiting from the luck and good fortune of an ever-improving economy. And because tangible economic growth and demonstrable dividends from reforms usually take time to materialize, the recent upturn in the Armenian economy only reinforces his reputation for luck and good fortune.

While the government remains committed to ambitious reforms, including efforts to combat corruption, the outlook for meeting already high popular expectations has been greatly improved by preliminary estimates reporting Armenian GDP growth of 7.5 percent for 2019. Most notably, this impressive level of economic expansion has been driven by significant increases in industrial output, trade and other services. And as this growth has surpassed lower expectations calculated by both the IMF and World Bank, the achievement also provides more credibility to the government's rather optimistic projections of continued growth of between 6.5-7 percent for 2020, despite the expected global slowdown in growth due to the impact from the trade war between the U.S. and China and a prolonged deceleration of productivity expansion.

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<sup>4</sup> The new commission is composed of Justice Minister Rustam Badasyan, human rights ombudsman Arman Tatoyan, the government's representative to the European Court of Human Rights (ECHR), Yeghishe Kirakosyan, two members chosen from civil society, a representative of the country's judges, three members designated by each of the three political forces represented in parliament, and six legal scholars selected by the Justice Ministry.

<sup>5</sup> Bedevian, Astghik, "Armenian Government Pressing Ahead with Constitutional Changes," Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 14 January 2020. <https://www.azatutyun.am/a/30376827.html>

This upward trajectory in Armenian GDP growth is also important in terms of the country's longer-term economic recovery, as the 7.5 percent growth rate for 2019 may finally end several years of slow growth in the wake of the 2008-2009 global financial crisis. For example, this may be solid evidence of a broader trend of a stronger Armenian economy, which posted a growth rate of 5.2 percent in 2018, after an expansion of 7.5 percent in real terms in 2017, thereby marking a recovery from an anemic 0.2 percent increase in GDP for 2016.

Additionally, since the World Bank upgraded Armenia's status from a "lower middle income" to an "upper middle income" country in 2018, Armenian GDP per capita has also improved dramatically, and is now set to increase from \$4,530 in 2019 to \$4,760 for 2020, overtaking both neighboring Georgia this year and Azerbaijan next year. This improvement in GDP per capita is also due in large part to Armenia's sound monetary policy and currency/exchange rate stability, each of which is expected to continue over the short- to medium-term.

### ***Broader Concerns***

Despite these positive economic achievements, however, there are concerns over the sustainability for such economic growth. For example, according to Yulia Ustyugova, the IMF Resident Representative for Armenia, growth is largely driven by private consumption, rather than rising investments or exports. From that perspective, there is an imperative for finding a new model for economic growth, which is essential due to the combination of demographic weakness and structural economic fragility. Such weakness is evident in the lack of economic diversification, an over-reliance on rudimentary agriculture and on the mining sector for primary exports, an over-dependence on remittances, and a long-standing vulnerability to spill-over and external shock from an economic downturn in the Russian economy.

But the need for a new growth model, based on a more inclusive approach, remains a challenge. For the Armenian government, job creation is an essential metric, with a need for greater emphasis on addressing employment (and under-employment), deeper diversification of sectoral growth and more effective policies to leverage technology and the gains from the Armenian IT sector. Moreover, job creation is not only a path to sustaining popular support by meeting expectations but is also key to offering greater opportunities for youth, women and other more vulnerable and under-served segments of Armenian society. And although reforms in education and labor market policies are also important for growth, the nature of those reforms must be based on a combination of strategic goals, with political returns generally too distant and longer-term than job creation, and tactical objectives, such as job training and labor reforms capable of creating a more modern, flexible and innovative workforce.

At the same time, job creation must also focus on creating the right kind of jobs, and should be linked more to opportunities in the IT and technology-related area, with an interesting potential benefit from science and technology that can leverage the synergy of defense-related R&D coupled with academic-based science and technological research, which has been starved of funding and investment. Related challenges of political economy are also crucial, not only for leveling the playing field by dismantling commodity-based cartels through regulatory anti-trust enforcement, but also for fostering greater competition in the marketplace and removing the obstacle of the oligarchic commodity-based concerns as barriers to entry and firm competition.

Other concerns relate to the country's expanding debt, with public debt for 2020 set to reach \$6.94 billion, or greater than 50 percent of GDP, yet lower than the 2018 level of 51.3 percent. International reserves have also improved, totaling nearly \$2.85 billion at the end of 2019, for a 26 percent or \$590 million increase over 2018.

### *Assessing the Government's Reform Program*

Despite a lackluster presentation of its initial government program in February 2019, the government continues to demonstrate a significant degree of political will to both accelerate and deepen meaningful reform. Yet there is still a lingering lack of depth in the formulation of public policy, with insufficient attention to poverty reduction and more inclusive growth, especially given the country's widening disparities in wealth and income. Fortunately, the government remains committed to ensuring the independence of the Central Bank and there has been no indication of interference with the Ministry of Finance's continuation of sound fiscal policy. Additionally, there has been a notable recognition of the need for the institutionalization of anti-corruption efforts and the development of public-private partnerships as elements of longer-term strategy. Nevertheless, developments in 2018-2019 in the mining sector have harmed the overall investment climate, and despite the government's promised reopening of the controversial Amulsar gold mine, investor confidence still needs to be further reassured.

### *A Looming Change to the Telecom Sector*

There was another economic development, related to the telecommunications sector, which may trigger a significant change to the telecom market with the possible sale of the Beeline mobile phone network to rival UCOM. In a request submitted to Armenian anti-trust regulators in late December 2019,<sup>6</sup> the Amsterdam-based VEON telecommunications company (formerly VimpelCom) sought official permission to sell its Armenian subsidiary, Beeline, which is both the country's second largest wireless operator and also owns the main fixed-line phone network.

Both prospective seller and buyer have a notable history. The VEON company, originally named VimpelCom was founded in 1992 in Moscow as one of the very first mobile carriers in Russia. In 1996, VimpelCom became the first Russian company to list its shares on the New York Stock Exchange. VEON's primary shareholders include Telenor, a Norwegian telecom conglomerate, and Alfa Group, an investment vehicle of Russian oligarch Mikhail Friedman.

For its part, UCOM has been a fast-growing mobile network operator and internet service provider in Armenia. Since its founding in 2007 as an internet service provider, UCOM has quickly expanded into the mobile phone market, bolstered by its 2015 acquisition of Orange Armenia, the Armenian subsidiary of the French mobile network operator. UCOM is managed by the Galaxy Group of Companies, a holding company linked to Gagik Khachatrian, the former head of the Armenian State Revenue Committee (SRC) from 2008-2014 and finance minister from 2014-2016. Khachatrian who arrested in August 2019 and faces a pending trial on criminal charges of abuse of power and the misuse of public funds.

Careful to avoid direct control of UCOM, which would be a violation of previous and current ethics regulations for government officials, Khachatrian's majority control of UCOM is held through relatives, with nephew Aram Khachatryan holding 25.98 percent of the shares and sons Gurgun and Artyom owning another 12.71 percent of shares each. Another 11.21 percent of shares are held by the Tashir Group, a Russian construction and real estate group owned by Armenian businessman Samvel Karapetyan through his Russia-based Fora Bank, with another 3.17 percent of shares each owned by UCOM executives Hayk and Aleksandr Yesayan.<sup>7</sup>

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<sup>6</sup> The request was submitted to the State Commission for the Protection of Economic Competition.

<sup>7</sup> Aghalaryan, Kristine and Edik Baghdasaryan, "The Khachatryan Family's Shady Offshore Transactions and the Mysterious Death of an Armenian Businessman," *Hetq*, 9 January 2019. <https://hetq.am/en/article/99319>

The implications of the possible sale of Beeline would be significant, resulting in a consolidation of the market position held by UCOM. Following the earlier acquisition of Orange, the potential purchase of Beeline would greatly improve UCOM's overall market share, making it second only to the VivaCell network owned by Russia's MTS and reinforcing its place as the leading Internet Service Provider (ISP), in terms of both broadband Internet and Cable TV.<sup>8</sup> In addition, the sale must also be approved by another regulatory body, the Public Services Regulatory Commission (PRSC), as well as the National Security Service (NSS), with final confirmation by the Armenian government before it can be completed.<sup>9</sup>

### III. Foreign Policy

For this period, there were significant developments in three key areas of Armenian foreign policy. The first was a sudden, but short-lived crisis stemming from the sudden escalation of tension between Iran and the United States after the U.S. acknowledged the assassination of a senior Iranian military leader of the Islamic Revolution Guard Corps (IRGC). The second major development was the two-day meeting of the Armenian and Azerbaijani foreign ministers in Geneva, as the latest round of mediation of the Nagorno Karabakh (Artsakh) conflict. And the third development was related to Armenia-Turkey and the state of "normalization" efforts.

#### *Possible Spillover of Iran-U.S. Tension*

From the necessity to conform to Western sanctions on Iran to security and proliferation concerns over the possible re-activation of Iran's nuclear program, Armenia has always been especially cautious in managing bilateral relations with Iran. Such concern was exacerbated by the U.S. assassination of General Qassem Soleimani, the head of the foreign arm of the Islamic Revolution Guard Corps (IRGC), Iran's elite military force, in a targeted drone strike in Baghdad in early January 2020. The immediate concern was over possible "spillover" from that assassination, based on possible Iranian retribution, through asymmetric warfare and terrorist attacks targeting U.S. and Western interests in Armenia and the wider South Caucasus region.

In response, Armenian Prime Minister Pashinyan convened a crisis meeting with senior Armenian officials, including Foreign Minister Zohrab Mnatsakanian, Defense Minister Davit Tonoyan and Army Chief of Staff Lieutenant-General Artak Davtyan. Following the meeting, the Armenian government reiterated its stated policy of neutrality, but refrained from following Russia in condemning the assassination outright.<sup>10</sup>

Fortunately, the likelihood of such a scenario faded quickly, as the Iranian military response, involving a rocket attack against two U.S. military facilities in Iraq, was surprisingly both more moderate and less extensive than expected. Moreover, the Iranian attack reportedly was preceded by a warning to the U.S. delivered through diplomatic "back channel" communications facilitated by the Swiss, thereby greatly lessening both the loss of life and potential damage. That warning not only resulted in no loss of life in the attack, but further eased tension and allowed for a rapid de-escalation of the crisis between Washington and Tehran.

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<sup>8</sup> Khulian, Artak, "Russian-Owned Firm Moves to Sell Armenian Phone Network," Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 30 December 2019. <https://www.azatutyun.am/a/30352937.html>

<sup>9</sup> Given the lack of official permission, the terms of the sale are not yet publicly available.

<sup>10</sup> "Armenia Reaffirms Neutrality on U.S.-Iran Standoff," Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 8 January 2020. <https://www.azatutyun.am/a/30366323.html>

*Update on Armenia-Turkey*

While the outlook for a return to the past period of diplomatic engagement seeking “normalization” between Armenia and Turkey remains remote, efforts to maintain the momentum in people-to-people contacts continue. On this issue, there were two significant developments for this period. First, the suspension of direct air links between Yerevan and Istanbul is a serious setback, especially as the direct connection was an important achievement beyond the closed land border and in the face of an absence of bilateral diplomatic relations.

The suspension of the Yerevan-Istanbul route, however, was not related to any political decision or policy shift by either side. Rather, the financial difficulties of the private Turkish carrier AtlasJet was the sole reason for the loss of the flights. According to sources in the Turkey and confirmed by AtlasJet, the “temporary suspension” of the flights, as announced, will most likely be permanent, as the private carrier was unable to acquire state support or attract an investor to save the company. Although the route was profitable, with a consistently high passenger demand in both directions, the airline is on the verge of bankruptcy. In recognition of the strategic importance of the Yerevan-Istanbul flights, however, the Turkish side is exploring the possibility of encouraging the entry of another Turkish low-cost carrier, Pegasus Airlines, while the Armenian side has suggested an alternative whereby Armenian Airways acquires the route.<sup>11</sup>

The second recent development related to Armenia-Turkey was the earthquake that struck eastern Turkey on 24 January. In what can be criticized as a missed opportunity for a gesture of goodwill and an exercise in “earthquake diplomacy” by Armenia, a message of condolences from the Armenian side took over 20 hours to be issued and breaking with precedent, was not accompanied by any offer of aid or assistance.<sup>12</sup> As the absence of any offer of aid was not a policy decision, and given the importance of the location of the earthquake – in Elazig (Kharpert)-- in recent Armenian history, the mismanagement of this situation deprived the Armenian government of a chance to garner diplomatic dividends and demonstrate goodwill.

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<sup>11</sup> Armenia Airways may not yet be ready to handle the Yerevan-Istanbul route, as it only flies to two destinations (Russia and Iran), and only has two aircraft in operation (an Airbus A310-300 and a British Aerospace 146, or BAE 146-300).

<sup>12</sup> The Armenian message of condolences to the earthquake, which struck at 21:55 on 24 January, was not issued until 19:00 on 25 January.