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# Privatization, State Militarization through War, and Durable Social Exclusion in Post-Soviet Armenia

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Privatization, State Militarization through War, and Durable Social Exclusion  
in Post-Soviet Armenia

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July 11, 2014

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## **LIST OF ABBREVIATIONS**

Armenian Development Agency (ADA)  
Armenian Constitutional Legal Protection Centre (ACPRC)  
Armenian Dram (AMD)  
Armenian National Movement (ANM)  
Armenian Revolutionary Federation (ARF)  
Azerbaijani Popular Front Party (APF)  
Broadcasting Board of Governors (BBG)  
Central and South Eastern Countries and the Baltic States (CSB)  
Commission on Security and Cooperation in Europe (CSCE)  
Commonwealth of Independent States (CIS)  
Department for International Development (DFID)  
Department of Economic and Social Affairs (DESA)  
Economic and Social Council (ECOSOC)  
Europe and Central Asia (ECA)  
European Bank of Reconstruction and Development (EBRD)  
European Union (EU)  
Foreign Direct Investment (FDI)  
FSU (Former Soviet Union)  
Gross Domestic Product (GDP)  
Gross National Product (GNP)  
Internally Displaced Person (IDP)  
International Center for Human Development (ICHD)  
International Displaced Monitoring Center (IDMC)  
International Federation for Human Rights (FIDH)  
International Labor Organization (ILO)  
International Monetary Fund (IMF)  
Management and Employee Buyout (MEBO)  
Millennium Challenge Corporation (MCC)  
Moral Underclass Discourse (MUD)  
Nagorno-Karabakh Autonomous Oblast (NKAO)  
Nagorno-Karabakh Republic (NKR)  
National Democratic Union (NDU)  
National Security Service (NSS)  
Organization for Security and Cooperation in Europe (OSCE)  
Purchasing Power Parity (PPP)  
Radio Free Europe / Radio Liberty (RFE/RL)  
Redistributionist discourse (RED)  
Republic of Armenia (RA)  
Social Exclusion Knowledge Network (SEKN)  
Social integrationist discourse (SID)  
Stockholm International Peace Research Institute (SIPRI)  
Union for National Self Determination (UNSD)  
Union of Soviet Socialist Republics (USSR)  
United Nations Children's Fund (UNICEF)  
United Nations Development Program (UNDP)

United Nations United Nations High Commissioner for Refugees (UNHCR)  
United States Dollar (USD)  
United States Agency for International Development (USAID)  
World Bank (WB)  
World Economic Forum (WEF)  
World Health Organization (WHO)

## ABSTRACT

In the literature focusing on various aspects of the twin transitions from socialism, development and social well-being are mainly analyzed with respect to privatization process (Stark and Bruszt 1998, Applegate 1994); economic growth and institutional design (North 1990; Elster, Offe, and Preuss 1998; Kolodko 1999; Norgaard 2000); party and election politics, the development of social networks and deliberative associations (Stark and Bruszt 1998); and the bargaining power of labor (Bandelj and Mahutga 2005). While the importance of these factors is not underestimated, this study addresses a significantly understudied theme – social exclusion as a consequence of overweening state power. The problem of social exclusion cuts to the core of the distribution of power in society; and in most of the post-Soviet societies, there has occurred predominantly negative change in societal power after 1990s, with vast power concentrated in the hands of governing elites. In the case of Armenia, the problem is specifically striking.

This dissertation centers around durable social exclusion in post-Soviet Armenia generated as a consequence of the twin transition and explores the conditions that explain the high degree of social exclusion in contemporary Armenian society. It aims to answer the following research question: what factors contributed to the development of durable social exclusion in post-Soviet Armenia from 1988-2008?

As an exploratory case study based on the examination of recent socio-economic and, more notably, political developments of post-Soviet Armenian state, this dissertation generates new hypotheses to study social exclusion. Appending to the mainstream literature that focuses on primarily the socio-economic drivers of social exclusion, I emphasize that not only consequences of economic reform affect the level of social exclusion, but also, and more significantly, the historic trajectory of the society. I argue that privatization was an important but not a sufficient factor in the emergence of social exclusion in post-Soviet Armenia. State militarization through war was another necessary and largely overlooked condition for the persistence of social exclusion in Armenia. The assessment of these hypotheses provides evidence that allows a test of whether privatization and militarization are plausible factors for the persistence of social exclusion in other developing countries.





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I am also grateful to each member of my dissertation committee – Dr. Eduardo Silva, Dr. Jean-Germain Gros, Dr. Kenny Thomas, and Dr. Gerard Libaridian – not only for their time and great patience, but for their intellectual contributions to my professional development. Dr. Silva's role goes back to the earliest stages of this dissertation, when he was my advisor for three years before leaving UMSL for professorship at Tulane University. He was very supportive and offered insightful advice and criticism during the first stages of my research, when I was still struggling with shaping the research question and the theoretical framework. Also, without the appreciation, excitement and passion inspired by the comparative courses on Latin America that Dr. Silva taught I may not have ever pursued the topic of this dissertation – social exclusion as a result of power relations, domination and hegemony.

I am indebted to Dr. Gros, who was my Master thesis advisor in 2002. Dr. Gros believed in me, recommended me for the political science Ph.D. program and offered me a welcome perspective even before I arrived at the program.

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I am grateful to each and every one of the interviewees that agreed to discuss and share with me their opinions on economic and political affairs of post-Soviet Armenia. Amidst their busy schedules, some of them have talked to me for more than two hours. Those interviews equipped me with useful facts, details and circumstances on the economic and socio-political developments of post-Soviet Armenia. Without those precious sources of information this dissertation would have been incomplete.

The information that I collected from the student questionnaires were no less important. Special thanks go to all the students who completed the survey. I would also like to thank my professors, friends and relatives, who helped me with the distribution and collection of the student surveys in Yerevan, Vanadzor and Gyumri.

I am thankful to the staff of the Vanadzor Public Library, especially the mass media department, for allowing me to use their resources. Access to the library's newspaper archives was necessary in order to complete the newspaper content analysis.

My research had just finished and the writing had barely started when I gave birth in 2011. After a year of parental leave, I returned to the duties of a doctoral student. The first five chapters were completed, when my second child was born in 2013. I had to halt again to rededicate myself to motherhood chores. My son Arthur and daughter Ellen have been birthed and raised together with and through this dissertation, and while their care has at times hindered and postponed my work, by and large, Arthur and Ellen have greatly motivated me to finish this project. This dissertation is dedicated to my kids, Arthur and Ellen, with the anticipation that as they grow they will learn to care about Armenia and the Armenian people. I also hope that when they grow and read this work, they will find it a useful piece describing the realities of Armenia as a newly-independent state.

The development of this dissertation has been a major part of my life for the last six years. And it would have been impossible to complete this work without the love and ongoing support of my husband, Vachagan, who I am grateful for all his patience during my PhD program. He has shared with me the ups and downs of writing a dissertation together with caring and bringing up our two little ones and much more besides. Thank you.

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## CHAPTER 1

### Introduction

#### 1.1 Why Is the Study of Durable Social Exclusion Important?

At the 2011 World Economic Forum (WEF) in Davos, income inequality and corruption were singled out as the two most serious challenges facing the world.<sup>1</sup>As Zhu Min, a special adviser of the International Monetary Fund (IMF), stated at the WEF 2011, “the increase in inequality is the most serious challenge for the world” (Aldrick 2011). Worldwide increase in inequality in its turn feeds another societal problem – social exclusion. “Social exclusion is a multidimensional process of progressive social rupture, detaching groups and individuals from social relations and institutions and preventing them from full participation in the normal, normatively prescribed activities of the society in which they live” (Silver 2007:15). A major global issue, the problem of exclusion has become the focus of worldwide concern. Not only have practitioners attempted to find a panacea to the issue of exclusion, but recently there has been a remarkable upsurge of academic research focusing on social exclusion.

The phenomenon of social exclusion has a negative impact on development, competitiveness, investment opportunities and allocation of public resources. Most notably, it deprives people of property rights, the right to education and health services, of social welfare and thus, creates social discontent and mass movements.

Comparative evidence from Western Europe suggests a strong link between social exclusion and a variety of socio-economic ills. The problem is chiefly considered to be caused by an interplay of demographic, economic, social and behavioral factors, such as unemployment, ill-health, low educational attainment, and lack of skills. In the sphere of health, for example, high death rates and stress-related illnesses appear to be closely related with high levels of income inequality, which is an element of social exclusion. Low levels of education and violent crime are also correlated with income inequality.

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<sup>1</sup> The Conference Board of Canada, “*World Income Inequality: Is the World Becoming More Unequal?*” <http://www.conferenceboard.ca/hcp/hot-topics/worldinequality.aspx>.

Concerning democratic development, deepening inequalities within and between different groups in society are associated with low levels of social cohesion and participatory citizenship. Social exclusion may hamper democratic consolidation by stimulating social conflict and political instability, and in turn may act as a support for the establishment of authoritarian regimes. The post-Soviet transition literature attributes the rise of inequality and socio-economic stratification chiefly to the increase in wage dispersion and the destruction of old social security and government transfers (Yemelyanau 2011). Yemtsov (2001), for instance, attributes inequality in post-Soviet Georgia to high informal incomes and to significant decline in state transfers. For the problem of inequality in post-Soviet Armenia, Griffin/UNDP (2002) points to the changing wage structure and widening wage differentials. Ganguli and Terrell (2005, 2006) provide a similar argument for post-Soviet Ukraine.

Given the negative consequences of social exclusion for achieving economic growth with equity, studies of durable social exclusion have significant policy implications for problems in democratization, human rights, and socioeconomic development, especially with respect to poverty reduction, the structure of private property rights, and inclusive political participation. Elements of the problem, such as long-term damage to living conditions, lack of social, economic and political participation, poor health and educational status, emotional and physical insecurity coupled with feelings of estrangement, isolation and unhealthy lifestyles require special attention.

The study of social exclusion becomes more critical, considering the fact that the problem is expressed in different countries of the world in different forms and severity. Whereas the problem of inequality and exclusion is growing in the US and Europe, it is even worse in other regions of the world.<sup>2</sup> The problem of social exclusion is more severe in South America and Southern Africa, where countries with extremely high inequalities are clustered. For decades, Latin America had the world's worst income inequality. With the breakup of the

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<sup>2</sup> For example, the Gini coefficient, a standard measure of income inequality that ranges from 0 (minimal income inequality) to 1 (maximum income inequality), stood at an average of 0.29 in OECD (Organization for Economic Co-operation and Development) countries in the mid-1980s. By the late 2000s, however, it had increased by almost 10% to 0.316. OECD (2011) stresses that it rose in 17 of the 22 OECD countries for which long-term data series are available, climbing by more than 4 percentage points in Finland, Germany, Israel, Luxembourg, New Zealand, Sweden, and the United States. Only Turkey, Greece, France, Hungary, and Belgium recorded no increase or small declines in their Gini coefficients. (OECD 2011:2)

USSR, post-Soviet space became another region with high levels of social inequality, and polarization. A few of the post-Soviet countries had income inequalities similar to the most unequal countries in Latin America.

By far, it is clear that social exclusion —an outcome and a reflection of a country's social, economic, cultural and political institutions —has negative implications and consequences for the development of egalitarian societies. Nonetheless, little is known for certain about what exactly determines the extent and duration of social exclusion, let alone about definitive measures to combat it or to construct more inclusive states and societies. What is more important, wider causes and consequences of social exclusion —those beyond poverty and deprivation —are not thoroughly researched either in Western societies or, particularly, in developing countries.

Although an extensive body of literature exists on the question of social exclusion, it does not provide adequate theoretical tools to explain the development of durable exclusion in the case of Armenia. Nearly all of the recent literature on social exclusion interprets it as a new social problem that has arisen as a result of the economic restructuring of advanced capitalist democracies (Silver 1994, Atkinson 1998). Furthermore, focusing primarily on the socio-economic and behavioral causes, it largely disregards the political, cultural, and historical sources of social exclusion. It particularly overlooks the political conditions that cause high levels of social exclusion to persist over time, such as key critical junctures that affect state formation.

This dissertation is an attempt to fill this gap. It contributes to the existing literature on social exclusion by examining the underlying sources of social exclusion in the context of post-Soviet states, focusing primarily on the case of post-Soviet Armenia. Against a background of rising inequalities, social exclusion, and continued waves of massive protest, understanding the causes and consequences of social exclusion in this tiny country is a central agenda of this study.

## 1.2 The Puzzle of Durable Social Exclusion in Post-Soviet Societies

Within the wave of democratization that started around two decades ago, the transformation of the socialist system and the transition to capitalism have become most remarkable elements of research. Although the fullest coverage of international democratization in the Third World has been devoted to Latin America, starting from 1990s scholarly attention slightly shifted to the post-communist world, focusing to the transformation of the socialist political systems. The mainstream transition literature has been positive and optimistic about the rupture of the post-Soviet countries from the USSR, the disavowal of the Marxist-Leninist ideology by the latter, as well as the speed and quality of the neoliberal adjustments taking place parallel with the reinvention of politics and institutions in the region. While in Latin American democratization literature there have been strong challenges and confrontations of several aspects of the democratization, the post-Soviet literature hardly ever contests problems of the twin transition in a systematic manner.

The twin transition to democracy and market capitalism in the transition from socialism was expected to produce prosperous and socially inclusive societies. Contrary to this prediction, social exclusion has been a widespread problem in most of the post-socialist republics. The official dismantling of Soviet ideology, coupled with liberalization and reinvention of politics, throughout the former Soviet bloc did not produce significant progress towards a liberal-democratic order. The economic, political and social transformations of the twin transition in the post-Soviet societies, forecasted to enhance the speeding up of development and the reduction of poverty, had huge negative effects on these societies. There was a sharp and continuous decline in production and a rise in inflation. The economic transformations of the post-Soviet societies have also had massive political consequences, particularly in regard to power distribution and the use of power for self-interest.

This paradox of the democratization evolution and the failed process of inclusion pose a problem for the literature on twin transitions from socialism. The range of distributional outcomes evidenced in the region was not expected at all. Economic theory assumed that, after an initial increase, socioeconomic exclusion and inequality would



decrease over time (Kuznets 1995). Democratic theory reinforced this assumption. It posited that newly-gained democracy would open ample opportunity for political inclusion, which would permit the excluded people to organize in favor of their interests and influence policy making (Dahl 1971, Mainwaring 1992, Huntington 1991).

After a difficult beginning some post-Soviet countries began to approach the ideal market systems advocated by the western specialists. Some of them managed to simultaneously accomplish the task of capitalist transformation and maintenance of socially egalitarian societies. A few countries, such as formerly Soviet Ukraine, Georgia and Kyrgyzstan, changed their exclusionary ruling regimes through social mobilization and, thus, opened new opportunities for political expression and economic redistribution.<sup>3</sup> However, others have moved in the opposite direction, not being able to counteract authoritarian states and prevent growing social exclusion.

In conjunction with these developments, scholars of the post-Soviet transitions have identified different factors that caused massive undesirable societal developments. For example, the policy-oriented literature on inequality and exclusion, chiefly stemming from the World Bank initiatives, suggests that post-communist countries that implemented slower and less consistent pro-market reforms also witnessed the largest increases in overall inequality. The empirical evidence from a few of those countries, however, confirm the contrary. Belarus and Armenia are good examples.

Belarus, which had the lowest level of Gini coefficient of 0.24 during the Soviet period (in 1988), maintained social equality after its independence from the USSR (Alexeev and Gaddy 1993; Yemelyanau 2011).<sup>4</sup> According to Yemelyanau (2011), the inequality evolution in post-Soviet Belarus was similar to those of the Czech Republic and Hungary,

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<sup>3</sup> Many authors of ““colored revolutions”” are hesitant to draw conclusions from the experiences of Georgia, Ukraine and particularly Kyrgyzstan for the future of ““color revolutions””, specifically in terms of consequences. It is often argued that these movements, although successful in overthrowing their regimes, did not improve the lives of ordinary people. They, however, provided ordinary people in these countries with confidence and strength to effectively challenge and oust any regime that would endanger their rights and opportunities. This, if not creating greater social inclusion, at least opens a window of opportunity for excluded masses to try new options, new leaders and new elites that might and will finally be in favor of better policies for their citizens. This is, certainly, a feature and objective of any successful social movement.

<sup>4</sup>The Gini coefficient shows the inequality of income distribution among the population. The closer this coefficient is to 1, the higher is the degree of income polarization of the population.

transition countries that had experienced rapid and significant pro-market reforms, at the same time maintaining their high levels of income equality and good social support systems. Belarus avoided mass privatization and maintained many of the Soviet social security features (Yemelyanau 2009:1).

Similar to Belarus, Soviet Armenia had a low Gini coefficient of 0.28 in 1988 (Alexeev and Gaddy 1993). But unlike Belarus, Armenia experienced significant pro-market reforms, including mass privatization. Despite these reforms, unlike Belarus or the Czech Republic and Hungary, post-Soviet Armenia did not manage to prevent largest increases in inequality and high levels of Gini coefficients varying from 0.56 in 1996 to 0.31 in 2007.<sup>5</sup> This discrepancy in the evolution of the Gini coefficients, especially since the mentioned countries inherited similar political and economic legacy and possessed comparable institutions, contradicts the scholarly assumption suggesting that countries with a slow pace of pro-market reforms experienced the largest increases in inequality.

Social exclusion, including income and wealth inequality, has been particularly harsh in some of the Central Asian countries and South Caucasus countries, especially in Armenia and Azerbaijan. There we see the development of durable social exclusion, that is, the persistence of high levels of exclusion over time. The unexpected development and persistence of social exclusion in post-Soviet Armenia, as compared to some other post-Soviet states with similar Soviet legacy, makes the analysis of the problem critical.

This dissertation focuses on the South Caucasus case of Armenia in the post-Soviet region to address the problem of durable social exclusion. More precisely, this dissertation asks the following question. What are the factors that explain the emergence of durable social exclusion in post-Soviet Armenia's transition to free-market capitalism between 1988 and 2008? Armenia offers an interesting benchmark case for studying social exclusion. The case is significant for three reasons. Armenia has among the highest levels of social exclusion that have persisted for more than two decades since the beginning of the twin transition from

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<sup>5</sup> The main source for these numbers is the World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments. For more information and methodology, please see PovcalNet (<http://iresearch.worldbank.org/PovcalNet/index.htm>).

socialism.<sup>6</sup> It has not changed course despite even stronger civil society opposition than comparable cases where the trend was reversed. The second reason for the case of Armenia to be a good laboratory for research on the theme is due to the fact that Armenia has earned the title of the 'Caucasian Tiger' among post-Soviet republics in the Caucasus region, but at the same time, acquired a status of a non-egalitarian society.<sup>7</sup> Thus, opposite to the dominant view within the social exclusion literature that high economic growth is linked with inclusive societies, Armenia— a Caucasian tiger with a stellar growth —, is characterized with high degrees of social exclusion. Armenia's growth, which was not economically and politically inclusive, is, thus, paradoxical and requires special deliberation in regard to its consequences on social segregation. Finally, as already discussed in the above paragraphs, Armenia initiated very rapid structural reforms predicted to decrease inequality, which as a matter of fact did not hinder the formation of social exclusion.

Based on the Armenian case, I hypothesize that the privatization of public enterprises and state militarization through war were key necessary factors in the emergence and persistence of social exclusion in the country. They promoted exclusionary policies and contained mobilization that demanded greater social equity and political reform. There may be many other reasons for social inequality and prevailing poverty in Armenia, such as its disadvantaged geopolitical setting, its diplomatic isolation by neighboring countries, and lack of transportation links and routes (being bypassed in the developing oil economy of the region). But these overlook the very significant impact of policy in the distribution of income and life chances, in particular the effect of capital and coercion in the policymaking process,

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<sup>6</sup> The situation on social exclusion in post-Soviet Armenia is thoroughly discussed in Chapter 3. There I dwell more specifically on the economic, political and social dimensions of social exclusion, stressing that most of their elements are present in severe forms in Armenia as compared to other post-communist republics. Moreover, the Gini coefficient has been one of the highest in Armenia during mid 1990s. This high level of inequality has somehow decreased throughout 2000s, but the decrease is estimated to be chiefly due to remittances from abroad, rather than redistributive policies. In any case, there are no reliable and consistent data on inequality in Armenia for the studied years of transition in Armenia, therefore, my conclusions are based on the existing ones found in the World Bank and UN reports only.

The high level of social exclusion in Armenia is also presented in Chapter 4, where I evaluate Armenian students' self-perceptions of economic, social and political exclusion.

<sup>7</sup> Armenia has been bestowed with the title 'Caucasian Tiger' for its rapid economic growth record at the beginning of 2000s. The term derives from and is reminiscent of the popular term 'Asian Tigers' or 'Asian Dragons', used in reference to the high-growth east Asian economies of Hong Kong, Singapore, South Korea, and Taiwan. Those four Asian tigers consistently maintained high levels of economic growth since the 1960s, fueled by exports and rapid industrialization, which enabled these economies to join the ranks of the world's richest nations.

which my research suggests are critical. My argument is that privatization of firms and social services coupled with state militarization through war are the most significant factors explaining the formation and persistence of social exclusion in post-Soviet Armenia. The privatization process created large-scale private capital and business interests that support crony laissez faire capitalism, while militarization is intimately intertwined with state coercive capacity.

Militarization distorted the Armenian state, retarded the development of domestic institutions that would protect social equity, and contributed to a process of privatization that de-industrialized Armenia and left most of its people excluded from the economy while a few prospered. After the Karabakh war was finished, the Armenian state militarization became an instrument for safeguarding established interests of the new class of state elites and oligarchs, several of who rose to leadership due to the war, a matter of imposing and maintaining their power.

In those circumstances, market reforms had several implications for the politics of inequality in post-Soviet Armenia. Most significantly, the market restructuring, particularly the privatization process, altered the regional class structure by shifting employment from the formal to the informal sector of the economy and by creating a new class of oligarchs with monopolistic control over resources. The privatization process, with its rent-seeking nature, accelerated the concentration of wealth into the hands of a few. It provided more advantageous economic opportunities for the powerful groups of the society, including government representatives, Karabakh military and para-military who were already promoted to political positions, and enterprise managers and directors to prosper. Powerful in both economic and political affairs of the newly independent country, networks of these elites persistently restricted other citizens' access to resources and opportunities, making social exclusion durable in post-Soviet Armenia.

These alterations in the labor market generated new challenges for labor unions and consequently, impediments for collective action. Finally, the weakening of class-based collective action protected the newly ascended oligarchs and neoliberal technocrats from social pressure and allowed them to use the new system in their own benefit. Meanwhile, the

legal system, the judicial system and the armed forces, all corrupted and co-opted by the state leaders and their oligarchic networks, have made "opportunity hoarding" unpunished and voracious.

### **1.3 Organization of the Study**

This dissertation engages two main themes with regard to social exclusion in post-Soviet Armenia. The first argument stresses that the role of the privatization process during the neoliberal adjustment is a necessary condition for the emergence of social exclusion in Armenia. The privatization process largely affected the unequal distribution of economic resources and social opportunities. The second argument highlights the idea that privatization of firms and social services is not a sufficient condition for the persistence of social exclusion: state militarization is another key and necessary factor for the explanation of durable social exclusion in the case of Armenia. With the militarization of the Armenian state, the Armenian citizens, beyond their economic and social exclusion, became also politically marginalized.

The study consists of nine chapters and is organized as follows. Having outlined the scope of the study in this chapter, the second chapter provides the analysis of the central concept of the study – durable social exclusion. It provides an overview of social exclusion and its definitions, analyses the three key dimensions of social exclusion, explores its various forms and causes, and presents available methods of measuring the problem. A major section of the chapter examines causes of social exclusion in post-Soviet societies. With the analysis of the drivers of social exclusion, I simultaneously construct the theoretical framework of the study. This chapter also explains what the term ‘durable social exclusion’ means and why it is so essential to examine it in the case of Armenia.

Chapter Three is concerned with the problem of social exclusion in the case of Armenia. The historical events of Soviet disintegration that led to deepening social exclusion in the newly independent Armenian republic as a social consequence of the transformation and liberalization process is briefly analyzed. The chapter further discusses the problem by separately analyzing its economic, social and political dimensions in great detail.

Chapter Four turns to the description of the method and the hypotheses. It specifies the research method, followed by the formulation of the hypotheses. Each of the two main hypotheses is explained more thoroughly. The first hypothesis stresses that within the neoliberal change specifically the privatization of firms and services in Armenia is important. The second hypothesis deals with the central concept of state militarization and why it is found to be yet another and even more vital factor in sustaining social inequalities within Armenian society. The chapter is concluded with the operationalization of central concepts.

An adequate understanding of the exceptionally complex theoretical issue of durable exclusion and domination of certain groups of a society by others requires not only the description of the nature of the economic and political changes occurring in the country, but also how ordinary people feel about their own situation. Learning people's own feelings and experiences makes the story of social exclusion more complete, as well as convincing that it is an essential problem to draw academics' and policy-makers' attention to. Thus, in Chapter Five, a quantitative examination of a student survey is conducted with the aim of presenting public perceptions of social exclusion. The results of the quantitative analysis in some way complement the qualitative part of this dissertation.

In efforts to demonstrate the uniqueness of the Armenian case in terms of state militarization, Chapter Six shares a comparative perspective of state coercion in terms of containment of social movements in Ukraine, Georgia, Kyrgyzstan, Azerbaijan and Armenia. The chapter situates the five country cases in an intellectual framework of state militarization generated in chapter two and highlights some of the principal themes we addressed in the state militarization and coercion hypothesis. The investigation of the various outcomes of success and failure of these similar post-Soviet cases confirms the militarization hypothesis.

Chapters Seven and Eight apply the social exclusion framework to the Armenian case. These chapters include the analysis of policies and historical developments that have had their impact on social exclusion in Armenia. Chapter Seven reviews the Karabakh war and the peace process after the cease-fire, stressing that this war was a catalyst for the post-war militaristic activism. Initial elements of Armenian state militarization began to develop due to the Karabakh war. This is the chapter that highlights how mechanisms of maintaining

coercive power of the state is essential in containing opposition movements, further leaving the discontented masses excluded and unhappy. Whereas state militarization during war can be strongly connected to the economic dimension of social exclusion, post-war militarization focuses more on the political exclusion facilitated during the post-war regimes.

Chapter Eight discusses the main mechanisms and avenues through which industrial privatization and privatization of services in Armenia affected economic exclusion of ordinary citizens, as well as small entrepreneurs.

The concluding chapter, Chapter Nine, discusses the key theoretical contributions of the dissertation. The shortcomings of the study are acknowledged with an emphasis on future research. The chapter ends the conclusion with a brief note on the prospects of greater social inclusion in Armenia.

#### **1.4 Conclusion**

Although some policy-oriented literature offers insights for the general problem of social exclusion in advanced capitalist societies, little is known about the political economy of persistent social exclusion in post-Soviet transitions. This study contributes to that knowledge. Concretely, my dissertation contributes to the knowledge of social exclusion in two areas. It develops the concept of durable social exclusion, highlighting the severity of the problem in post-Soviet Armenia. It then assesses durable social exclusion through not only the socio-economic perspective, but also through the lens of political processes that contain social movements in favor of more inclusionary forms of citizenship and democratic practices.

My main contention throughout this dissertation is that privatization of firms and social services coupled with state militarization through war are the most significant factors explaining the formation and persistence of social exclusion in post-Soviet Armenia. The privatization process created large-scale private capital and business interests that support crony laissez faire capitalism, while militarization is intimately intertwined with state coercive capacity. In particular, the Armenian state militarization after the Karabakh war

promoted exclusionary policies and contained mobilization that demanded greater social equity and political reform. This is an original contribution to the social exclusion literature.

Indeed, one of the few instances that treated the relationship between state militarization and social polarization claimed it was a positive one.<sup>8</sup> Stanislav Andreski (1968:30) argued that higher military participation ratios decreased social stratification. Regarding Andreski's statement that the existence of external threat eliminates or decreases social stratification, based on the repressive practices of post-Soviet Armenian and Azerbaijani states regularly exercised against their societies, I contend that external threat does not decrease stratification.<sup>9</sup> It might create a powerful sense of nationalism and strong national cohesion among the lower strata of the population. But for the higher ranks of the government, this threat serves as a motive for keeping their coercive organization powerful in place, regardless of whether that force will be used for maintaining their domestic supremacy or for an external war. My study, then, is a direct challenge to the generally accepted assertion that high military participation ratios flatten social stratification. Consequently, advancing the scholarship on social exclusion will be useful for policy debates concerning the tolerable boundaries of militarized and repressive democratic states and its consequences on economic redistribution and socio-political fairness.

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<sup>8</sup> See Andreski (1968). There will be a more detailed analysis on the relation of state militarization to social exclusion in Chapter Two and Chapter Four.

<sup>9</sup> Both of these countries face external threat even after the cease-fire of 1994. The hazard of re-starting a war with each other is constantly in the air. For instance, still in 2006, Azeri president Aliyev threatened Armenia by stating that the overall budget of Azerbaijan was 500% bigger than the budget of Armenia and the military budget of Azerbaijan equaled the overall budget of Armenia (for reference, see <http://www.armeniandiaspora.com/showthread.php?74757-Ilkham-Aliyev-Threatens-Armenians>). In 2008, he threatened Armenia again, now with deeper isolation (for reference, see <http://www.panarmenian.net/eng/world/news/27233>). Yet again, the article entitled "*Aliyev again Threatens Military Action*" in the August 11, 2010 issue of [www.asbarez.com](http://www.asbarez.com) reports Aliyev's speech: "The war is continuing. We must be ready and we are ready to liberate our lands from occupiers at any moment. I want to once again state that this primarily requires a military might. We have for the most part created that might and this process is successfully continuing." These types of military and isolationist threats by the Azerbaijani side have been often repeated tactics during the recent 15 years after the war ended. Moreover, shootings are common between the Armenian and Azerbaijani forces that are spread across a cease-fire line in and around Nagorno-Karabakh and often face each other at close range. There have been tens of soldiers, as well as civilians, shot dead by both Armenian and Azerbaijani forces near the de-facto border of Nagorno-Karabakh. The most significant breach of the cease-fire occurred in Martakert on March 8, 2008, where sixteen soldiers were killed. Both sides accused the other of starting the shootings.



There may be many other reasons for social inequality and poverty in Armenia, such as its disadvantaged geopolitical setting, its diplomatic isolation by neighboring countries, and lack of transportation links and routes (being bypassed in the developing oil economy of the region). But these overlook the very significant impact of politics in the distribution of income and life chances, in particular the effect of capital and coercion in the policymaking process, which my research suggests are critical.

The production of persuasive evidence and exploration of causal mechanisms of the problem are critical for reevaluating state-society relationships, power distribution patterns within a society, and for fostering collective awareness, willingness, and strategies to redress injustices at the domestic level and within international communities. Given these theoretical and empirical contributions, and given the lack of literature that sufficiently covers the relationship introduced in this dissertation, this project is essential for comparative political science, particularly for the analysis and understanding of the dynamics of exclusionary states. Its findings will help to identify policy instruments to prevent or control the development of durable social exclusion. Thus, it will play a part in the search for policies capable of promoting market-driven economic growth with equity in this region of the world.

On a more general note, this study is also significant, because as Asbed Kotchikyan (2006) mentions, the scholarship on post-Soviet Armenia has been limited to the topics of conflict resolution and nationalism. This limitation of themes in post-Soviet Armenian literature concerning economic and socio-political issues shaping the process of state-making is due to the fact that very few scholars try to utilize various disciplines to study the South Caucasus. Another limitation of the research on Armenia is that most studies tend to apply existing theories instead of proposing new theories and approaches. This said, my dissertation is an effort to devise a new approach for studying social exclusion and to contribute to the larger field of social exclusion study, at the same time introducing a new perspective of social exclusion based on the case of post-Soviet Armenia.

## CHAPTER 2

### **Durable Social Exclusion: A Theoretical Framework**

#### **2.1 Introduction**

This chapter is devoted to the analysis of social exclusion. It presents the history and common definitions of the phenomenon, examines economic, social and political dimensions of exclusion, and explores its causes and forms. The chapter starts with definitions and main features of social exclusion. Because social exclusion is frequently equated with poverty, in this section I provide the main distinctions between poverty and social exclusion. Having defined social exclusion, this chapter further deals with the drivers of social exclusion widely presented in literature. As a multidimensional phenomenon that is studied by various intellectual disciplines, such as political science, sociology, economics, and psychology, social exclusion has numerous causes discussed in literature. Particularly, its causes and consequences vary greatly in developed and developing countries.

Stressing the multidimensional nature of social exclusion in the first sections of this chapter, next I proceed to survey the mainstream literature that underscores institutional and non-institutional sources in explaining social exclusion. Agreeing that institutional factors affecting social exclusion are important, I further argue that in the post-communist region, similar to Latin America, institutions are not autonomous, and that, as Przeworski put it, certain "conditions shape institutions" (Przeworski 2004:529). In the case of post-Soviet Armenia, those conditions are predominantly embedded in the nature of the state. Therefore, in the examination of social exclusion, the role of institutions alone is not sufficient. Beyond institutions, the specific features of state elites, conditions that shape those features and, most essentially, the interrelationship of institutions with the state are important. Contrary to the industrialized and developed part of the world, this premise is principally valid for the analysis of social exclusion in the developing and underdeveloped countries.

Owing to the lack of social exclusion theories regarding post-Soviet democratization and considering the strong link between democratic consolidation and social inclusion, in the next section, I examine theories of democratic consolidation that may be related to the study

of social exclusion in the post-Soviet societies. In a separate section, the main theories of political power emphasize the relation of state militarization to the defeat of social movements— social efforts to achieve greater inclusion. This section emphasizes the usefulness of the social closure and opportunity hoarding theories for the exploration of social exclusion in transitioning countries, in this case — Armenia.

## **2.2 History, Definitions, and Durability of Social Exclusion**

The notion of social exclusion covers a remarkably wide range of social and economic issues. Coined and developed by French sociologists, social exclusion refers to “a process of ‘social disqualification’ (Paugam, 1993) or ‘social disaffiliation’ (Castel, 1995) leading to a breakdown of the relationship between society and the individual” (Bhala and Laperye, 2004:5).<sup>10</sup> It concerns social divisions and inequalities between certain groups of people along economic, social, cultural and political opportunities. The concept of social exclusion has a relatively recent origin, but it has managed to gain substantial academic and policy-oriented attention. While the concept originated in discussions concerning economic and social inequalities in European contexts, the problem of social exclusion spans geographic and political boundaries and reflects universal social dynamics. The topic of social exclusion fuels a growing apprehension of distributive fairness of social services, employment and income patterns globally.

The use of the term initially related to widespread European unemployment in mid-1970s that provoked criticism of welfare systems’ failure to protect people from prolonged unemployment and states’ role in promoting social cohesion. Exclusion was closely linked to diminishing labor market participation and declining welfare provision. The concept’s historical roots can be traced back to Aristotle; nonetheless, according to Sen (2000:1), the expression and notion of ‘social exclusion’, in its modern form, was first coined by René Lenoir, the former French Secretary of State for Social Action. The socially excluded, in Lenoir’s reference, were groups of people, who were excluded from state social protection

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<sup>10</sup> Castel (1995) defines social disaffiliation as “the particular way in which social bonds are dissolved”, which is characteristic of modern poverty: “To be in an area of integration means to possess guarantees of permanent employment and an ability to rely on the support of firm relationships; in the area of vulnerability the precarious tenure of employment is doubled by weakened social supports; the situation of disaffiliation combines unemployment with social isolation”.

systems. Further, French sociologists extended the implication of the term to include people, who were socially and/or economically isolated. Later, in 1980s, the concept quickly spread beyond France to the United Kingdom, the European Union (EU) and Northern America, highlighting the need of adequate universal social protection policies. Social exclusion became a subject of interest in EU mainly due to its concern and involvement in anti-poverty policies. In EU anti-poverty programs, the naming of the phenomenon of interest shifted from 'poverty' to 'exclusion'. Still currently, social exclusion is a fundamental focus of EU social policies.

The phenomenon of social exclusion gained magnitude particularly after the World Summit for Social Development (WSSD) in Copenhagen in 1995. At the Summit, a large gathering of 117 world leaders, a consensus was reached on the need to put people's well-being at the center of development. The consensus pledged to make the conquest of poverty, the goal of full employment and the fostering of safe, equal and fair societies overriding objectives of development (UN, Department of Economic and Social Affairs (DESA) – Economic and Social Council (ECOSOC)).<sup>11</sup>

Social exclusion is often perceived as poverty or deprivation; however, these are not the same. Poverty is often an element of social exclusion. Social exclusion is a multidimensional concept, and it should be studied as a result of dynamic causal factors. The process includes economic marginalization, social disintegration and political polarization (Parkin 1979; Collins 1974; Collins 1979; Bourdieu 1984; Murphy 1988; Silver 1995; Beall and Piron 2005).

In fact, we have a better understanding of social exclusion when it is compared to poverty and/or deprivation. Most comparisons of the two phenomena suggest that the primary difference between social exclusion and poverty concerns their time perspectives (Abrahamson 2001; Barnes 2002 & 2005; Estvill 2003; Todman 2004). Poverty is a static condition, while social exclusion is a dynamic process. In a more figurative language, "if poverty is a photograph, exclusion is a film" (Estvill 2003:21).

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<sup>11</sup> UN, Department of Economic and Social Affairs (DESA) – Economic and Social Council (ECOSOC), <http://social.un.org/index/Home/WSSD1995.aspx>, last access on November 21, 2011

There are other distinctions between the two concepts in terms of the situations where they occur, their causes, the forms of social stratification they address, their prevailing policy prescriptions, and the key disciplinary approaches used in their analyses. Based on Table 2.1, which Abrahamson (2001) developed, the primary cause of poverty is unmet needs, and the main cause of social exclusion is discrimination and denial of access to institutions of social integration. The situation in which poverty typically arises is characterized by insufficient resources, while the situation that characterizes social exclusion is the inability to exercise rights. Abrahamson describes the form of stratification in the case of poverty as vertical, between the wealthy and the poor classes. The form of stratification in the case of social exclusion is horizontal, between the outsiders and the insiders. The core policy prescription for poverty reduction is income generation through employment and social welfare transfers. The core policy prescription for social exclusion is enabling access to important social service delivery systems and institutions. Finally, while poverty is a widely studied topic, mainly in economics, the major disciplinary approach of social exclusion analysis is sociology. Because social exclusion is focused not only on lack of sufficient resources and material needs, but also societal participation, and it addresses not only distributional issues (economic issues), but also relational issues, it is natural that economics alone cannot sufficiently examine the phenomenon. Sociology and political science are the disciplines that more accurately study social exclusion as a multi-dimensional process.

**Table 2.1:** Main Distinctions between Poverty and Social Exclusion

	<i>Poverty</i>	<i>Social Exclusion</i>
<i>Time Perspective</i>	Static condition	Dynamic process
<i>Situation</i>	Insufficient resources	Denial of ability to exercise rights
<i>Cause</i>	Unmet needs	Discrimination/denial of access to institutions of social integration
<i>Form of Stratification</i>	Vertical (e.g., lower vs. upper classes)	Horizontal (e.g., outsiders vs. insiders)
<i>Policy Prescription</i>	Social transfers (e.g., minimum income guarantees)	Social services (e.g., activation measures to ensure access to service delivery institutions)
<i>Discipline</i>	Economics	Sociology, Political Science

Source: Adapted from Abrahamson (2001).

Social exclusion theories have evolved over time, giving birth to a number of definitions that are closely related to theories and definitions of poverty and deprivation, as well as theories of societal disintegration. These definitions and theories provide multiple ways of analyzing diverse forms of social disadvantage in respect to economic, social and political understanding of societies. Some definitions of social exclusion challenge the popular versions of “the underclass” argument and refer to notions of both social structures and implications of agency<sup>12</sup>. They suggest that the people who are located at the other side of the relationship – the people who gain – have their say in the process of exclusion. These people “might be shaping the character of economic and social arrangements, the very stuff of social politics, to their own advantage and to the disadvantage of others” (Byrne 2005:2). Social exclusion [is] a more comprehensive formulation which refers to the dynamic process of being shut out, fully or partially, from any of the social, economic, political or cultural systems which determine the social integration of a person in society. Social exclusion may, therefore, be seen as the denial (or non-realization) of the civil, political and social rights of citizenship (Walker and Walker 1997: 8).

Definitions and operationalization of social exclusion by many authors are very similar. Bhala and Laperye (2004:1) define it as “the lack of access of a growing number of individuals to a decent job (or simply a job), income, housing, health service or education and a more diffused feeling of insecurity among some portions of the population goes hand in hand with new opportunities for others who can take advantage of the potential for prosperity”. Silver (1995) adds that the material deprivation is accompanied with social deprivation and incomplete participation in main political institutions, which has also been expressed by the DFID (see Figure 2.1). Bhala and Laperye (2004:1) very accurately note that exclusion has two essential processes hampering social integration, those being exclusion from the *productive system* and *social deprivation* (italics added).

Under certain conditions, exclusion becomes durable. Durable social exclusion is a persistent process of disqualification from economic opportunities, from participation in

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<sup>12</sup> These theories argue that exclusionary conditions are self-induced, and that the excluded are responsible for their miserable conditions. According to political theorists of social exclusion it is the fault of “society” as a whole.

political institutions and access to social services that endures over long periods of time, such as from generation to generation. It suggests a condition in which large numbers of citizens are not able to move along boundaries of economic, political and social mobility due to external circumstances rather their own intellectual abilities or moral attributes (Tilly 1998).

Silver (1994), following the Anglo-Saxon tradition and drawing on liberal thinkers like Locke, perceives social actors mainly as individuals, who are able to move across boundaries of social differentiation and economic divisions of labor. When individuals are not able to move along boundaries of economic, political and social differentiation due to external circumstances rather their own intellectual abilities or moral characteristics, they become immobile in a society. Three important paradigms that attribute social exclusion to a different cause and different political philosophy are introduced by Silver (1994). Those paradigms are *solidarity*, *specialization* and *monopoly*. The first paradigm, solidarity, which refers to social relations rather than political or market relations, is considered as social bonds between individuals and the larger society.<sup>13</sup> Social exclusion from the solidarity perspective is viewed as a failure of this relationship because a number of institutions do not provide adequate mechanisms to channel the individual into the society. The second paradigm, specialization, deals with the incapacity of individuals to engage in contractual exchange and overcome barriers. Here exclusion occurs mainly through exclusion from paid work and the job market or imposition of rigid employment regulations.<sup>14</sup> The third paradigm, monopoly or social closure paradigm, is a most essential paradigm in terms of the power relations analysis that will be constructed in this study. It stems from the works of Weber and Marx and emphasizes power relations, examining powerful class and status groups that use social closure to restrict the access of other groups to different resources and opportunities.

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<sup>13</sup> The name 'solidarity' can be traced back to the notion of solidarity by the French Republican State. Social provision in France is founded on the principle of *solidarite* (solidarity), which holds that all citizens face a series of social risks that make them dependent on one another. The commitment to social protection is expressed in the first article of the French Code of Social Security.

<sup>14</sup> Specialization has an Anglo-American origin and is based on liberal-individualism. In contrast to the notion of solidarity, it is more individualist. Here, the emphasis is placed on individual responsibility.

Levitas (1998, 2000, 2005) similarly identifies three discourses of social exclusion: *the redistributionist discourse (RED)*, *the moral underclass discourse (MUD)*, and *the social integrationist discourse (SID)*. The redistributionist discourse (RED), which is similar to Silver's (1994) monopoly or social closure paradigm, emphasizes poverty as a primary cause of social exclusion. Poverty means "something more complex than [what] is colloquially understood by poverty, in that it is dynamic, processual, multidimensional, and relational, and it allows space for the understanding that discriminatory and exclusionary practices may be causes of poverty..." (Levitas 2000:359.) Consequently, the main policy prescription to reduce social exclusion is to decrease poverty by increasing social benefit/welfare levels. RED addresses social, political, cultural and economic citizenships, broadening out into a critique of inequality (Levitas, 2005:14). The moral underclass discourse (MUD) emphasizes cultural rather than material roots of poverty. The focal point of the moral underclass discourse is the behavior of the poor, the moral and cultural characteristics of the excluded. MUD states that moral characteristics of lower class representatives, such as criminality, unemployment, single parenthood, lack of work ethic, and welfare dependency create social exclusion. The discourse argues that welfare benefits are bad for people because they weaken the latter's ability to be self sufficient (Levitas 2005:21). The social integrationist discourse (SID), which is aligned with Silver's solidarity paradigm, explains social exclusion largely in terms of labor market attachment. SID defines social exclusion as nonparticipation in the labor market. In this discourse, social exclusion is argued to be a consequence of unemployment.

Social exclusion is not a uniform concept, and it definitely does not refer to the same thing in different cultures. Although the concept of social exclusion originated in developed countries and, as mentioned earlier, its original meaning was different than its modern meaning, there has been a wide application of the phenomenon to developing countries, both conceptually and empirically. Most elements of social exclusion and deprivation, such as unemployment, problems related to coverage of essential social services, including health care and education, issues of status and social empowerment, are problems of general concern and often do not recognize national boundaries. Today, policies to eradicate social exclusion are popular in most regions of the world, chiefly through the actions of United



Nations agencies, the International Labor Organization (ILO) and developmental programs, such as the Department for International Development (DFID) in the United Kingdom and the United States Agency for International Development (USAID). The problem of exclusion has been specifically studied in Africa, Latin America, and Asia. Studies of social exclusion in those countries include topics, such as exclusion of indigenous people, rural poverty, labor reform (Latin America), social change and exclusion of the poor, specifically children (Africa), unfair provision of social services, etc.

Some key nuances in the nature of social exclusion around the world are highlighted in Social Exclusion Knowledge Network (SEKN). In Sub-Saharan Africa, for example, the leading discourse around social exclusion is focused on poverty, marginalization, vulnerability, and sustainable development. In Latin America the discourse is dominated by the ‘social risk management’ approach, promoted by the World Bank. “The concept repositions the traditional areas of Social Protection (labor market intervention, social insurance and social safety nets) in a framework that includes three strategies to deal with risk (prevention, mitigation and coping), three levels of formality of risk management (informal, market-based, public) and many actors (individuals, households, communities, NGOs, governments at various levels and international organizations) against the background of asymmetric information and different types of risk” (Holzmann and Jørgensen, 2000:1). In south-east Asia, the discussion of social exclusion focuses on primarily poverty and on concepts of capability and resource enhancement. In Europe, the discussion of exclusion is deeply embedded in parallel concepts, such as social cohesion, social capital, social justice, empowerment, emancipation, disaffiliation and marginalization. Discussing the applicability of European literature on social exclusion to developing countries, Sen (2000:27) points out that social understanding involves give and take, stressing that “the absence of “social safety nets” when economic growth falters and lives are battered probably afflicts Asia and Africa more than western Europe because of the protection offered by certain features of the European “welfare state”.”

While we can adapt and apply the European notion of social exclusion to other less developed regions of the world, there are certain limitations and dangers in doing so. Indeed, it is erroneous to apply a concept instituted in industrialized countries with appropriate, well-

developed welfare systems to countries with poor resources, disadvantaged geopolitics, extremely weak governance, and basically non-existent welfare provision. Social Exclusion Knowledge Network (SEKN) points out that there is a “danger that ‘exclusion’ may be used as a screen to hide extreme poverty and as a blaming label to make the poor responsible for their condition” (Popay, et al. 2008:10). Gore and Figueiredo are also concerned about social exclusion becoming a “blaming label”, used to make “the poor responsible for the predicament as had happened with the term “underclass” in the USA” (Gore and Figueiredo 1997:44). Application of the concept of social exclusion fashioned in North America and Western Europe to developing countries is problematic, because exclusion is often a mass phenomenon in many developing countries and not confined to a minority or a categorical boundary. Exclusion and inclusion are theoretical concepts, or as de Haan (1998:28) notes, exclusion and inclusion are a “lens through which people look at reality and not reality itself”. Their operationalization depends on our own methodological perspectives and our political leanings.

The literature emphasizes that while it is normal to address the issue of social exclusion in different regions of the world, one should pay attention to the different nuances of the problem. In Europe and the US exclusion means predominantly prolonged unemployment, loss of rights at work, and loss of social networks. In developing and transitioning countries, exclusion is very much associated with the consequences of labor market formation and transformation. In the latter, exclusion does not refer to only the loss of social ties and affiliations, but also to economic, civil and political marginalization.

Although after the breakup of the USSR, the formation of labor markets and, due to it, transforming employment trends have left millions of people left out of labor market or with extremely low salaries, as well as excluded from social services and social networks, there is extremely little research on social exclusion in this part of the world. There is an abundant literature focusing on poverty and poverty reduction, but not much that is concerned with the problem of social exclusion. The few articles of social exclusion in this region examine the issue in mainly Russia and Ukraine (Tchernina 1996; Round 2004;

Manning, Tikhonova, and George 2004; Rechitsky 2010), leaving ample space for further research and empirical analysis on other post-Soviet states.<sup>15</sup>

### 2.3 Economic, Social, and Political Dimensions of Social Exclusion

The discussion of social exclusion is often emphasized in terms of processes and dynamics rather than as a condition. According to UK Department for International Development (DFID) Social Exclusion Review, social exclusion can be *a condition or an outcome* on one hand, and *a dynamic process* on the other (DFID, 2005:8). In the case of social exclusion as a condition, groups of society are excluded from participation in their society, mainly due to their social identity (race, gender, nationality, religion, sexual orientation, etc.) or social location (remote or rural areas, poor with resources, suffering from war or conflict). As a dynamic process, social exclusion refers to certain relations and barriers that block equal opportunities and citizenship. In this case of exclusion, we deal with social and political relations that hinder access to organizational and institutional sites of power. DFID, thus, provides a good definition of social exclusion in the following way: “Social exclusion is a process and a state that prevents individuals or groups from participation in social, economic and political life and from asserting their rights. It derives from exclusionary relationships based on power”. (DFID, 2005:9)

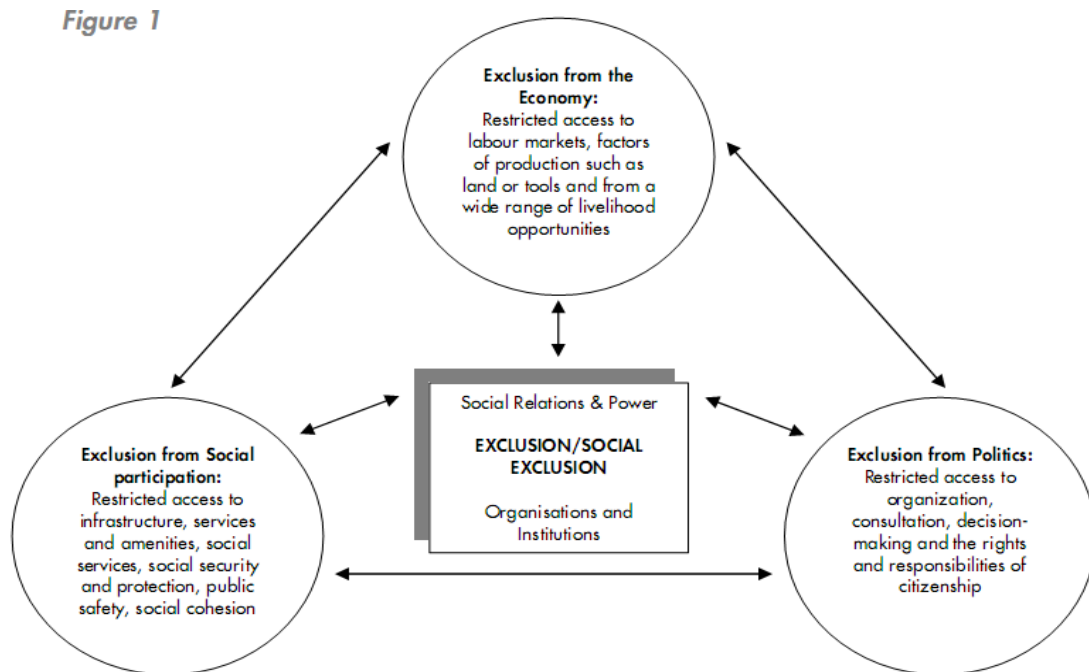
Figure 2.1 presents the three processes that comprise social exclusion. While the three circles of exclusion are important, the central quadrangle that deals with social relations and powers, organizations and institutions is the most interesting part to research. There are theories that examine these relations. Weber’s theory of “social closure” (1958) and Tilly’s theory of “opportunity hoarding” (1998) examine the interaction of groups from the point of view of acquiring resources and power.<sup>16</sup> In both these cases, certain groups of people, most typically powerful elites, exploit and monopolize resources excluding others from sharing with them.

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<sup>15</sup>To the best of my knowledge, Nazim Habibov's "*Self-perceived social stratification in low-income transitional countries: Examining the multi-country survey in Armenia, Azerbaijan, and Georgia*" is one of the first studies concerned with social polarization in the South Caucasus region. The social implications and empirical findings of Habibov's work will be briefly described in Chapter 4, *Public Perceptions of Social Exclusion*.

<sup>16</sup> For a thorough discussion of Weber’s “social closure” theory, see also Collins 1974; Collins 1979; Parkin 1979, Bourdieu 1984; and Murphy 1988.

Figure 2.1: Social, Economic and Political Dimensions of Social Exclusion



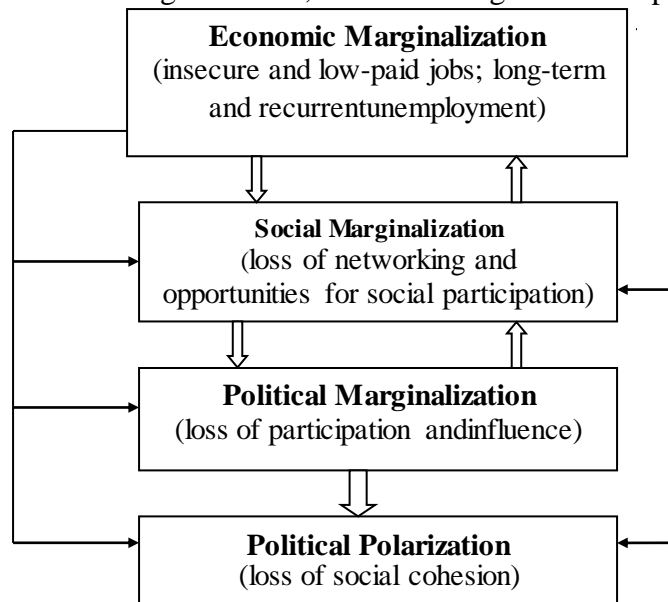
Source: DFID “Social Exclusion Review”, London, 2005, page 9.

Tilly’s exploitation or “opportunity hoarding” is defined as a situation where members of a network “acquire access to a resource ... supportive of network activities” (Tilly 1998:10). To Weber, the idea of closure is related to exploitation based on both property advantages and forms of prestige or status. Not only power and status, but also ethnicity and kinship, as in the case of hoarders, may become sources of exploitation and exclusion. Social closure is a process of subordination, where a group closes opportunities for others, who are accepted as more inferior and ineligible (Murphy, 1988:8).

Similar to DFID, Weber and Tilly, Bhala and Laperye conclude that social exclusion is a multidimensional concept, and that its analysis should be studied as a result of dynamic causal factors (as presented in Figure 2.1 and Figure 2.2). This process embraces economic marginalization, social disintegration and political polarization. Economic exclusion mainly concerns the lack of employment and worsening of income distribution over time. Long periods of unemployment deprive people of not only income, but also social legitimacy, social status, prestige and participation in decision-making. These two dimensions strongly affect the political dimension of exclusion that according to the UNDP (1992:29) includes

personal security, rule of law, freedom of expression, political participation, and equality of opportunity. Exclusion in each dimension increases the risk of exclusion in the other two. However, a person who is economically excluded is not necessarily excluded in one or two of the other two dimensions, and vice versa.

**Figure 2.2:** Economic marginalization, social disintegration and political polarization



Source: Bhala and Laperye, "Poverty and Exclusion in a Global World", Palgrave Macmillan, 2004.

*Exclusion from economic life* is expressed by unequal assets, incomes and employment opportunities. People are economically excluded when they have limited or no access to material resources due to external forces. They are marginalized in the distribution of economic resources. Once this dimension of exclusion marginalizes certain groups of a society, they are likely to be further excluded from the other two dimensions as well. While many major reports on poverty, such as World Bank or UN reports indicate sharp inequalities of incomes between, for example rural and urban areas in developing countries, access to social services and political participation is often not taken into account.

*Exclusion from social services* is expressed by unequal access to various public services. People are socially excluded if they face limited or no access to social services, such as education, health care and medicine, social protection, basic infrastructure and transport, water and energy. Here exclusion refers to not only the availability and quality, but

also to accessibility and affordability of those services. For example, population groups residing in villages or mountainous areas might have worse access to water than those living in urban areas. Another example of social exclusion for the same group may be rare access to internet technologies.

*Exclusion from political life* is expressed by inequalities in political, cultural and civic opportunities, liberty and justice, as well as unfair exercise of power. Political exclusion occurs not only through formal institutions but also may happen due to lack of access to informal structures and opportunities.

There is a popular assertion within the social exclusion literature to attach more weight to the *distributional issues* when dealing with the economic dimension of exclusion. In the case of social and political dimensions, greater attention is paid to *relational issues*. One should not forget, though, that these two are closely correlated. Unemployment not only excludes the individual from having income; it is related to the concept of *entitlement*, which extends beyond the pure economic dimension. Very simply, if an individual does not have income, he/she is likely to be excluded of appropriate social status and social legitimacy. If lack of employment continues for a long period of time, the individual finds himself/herself within a vicious cycle of denial: denial of revenue and output, denial of other economic rights and opportunities, access to various social services and networks, and finally, this process fails to recognize the person's productive role as a human being in a society. All of these significantly affect human ability, desire and inclusion in political engagement. Thus, another social dimension concerns participation of social groups in decision-making. Other indicators of the social aspect of exclusion are increasing violence and crime, and increasing number of prisoners. The most popular indicators of social well-being are related to the quality of health and educational services and whether one can access those services at all.

Bhalla and Lapeyre (1999/2004) conclude three most important aspects of the social aspect of exclusion as follows:

- a) Access to social services, such as health and education;
- b) Access to the labor market; and

- c) Level of social participation reflected in a weakening of social fabric, as measured by greater crime, juvenile delinquency and homelessness, etc.

This summary yet again shows the link between the economic and social dimensions of exclusion; both dimensions are heavily dependent on access to the labor market, health and education.

Bhalla and Laperye (2004) suggest that the distributional problems (the economic dimension) are more predominant in developing countries and relational problems (the social dimension) are more predominant in the industrialized ones. According to them, in developing countries the lack of the welfare state is substituted and ameliorated by social and family ties and kinship networks, and thus serves as risk insurance for the unemployed. The authors argue that the decline of social institutions, such as family and marriage and social support networks, as well as long-term unemployment results from the wealth and appropriate welfare system in the industrialized countries, while in developing countries, despite the newly-emerging industrialization trend, social networks continue to prevail. Here, people fight against exclusion through informal institutional mechanisms to substitute for the formal ones (Bhalla and Laperye, 2004:90-91).

As a theoretical concept, social exclusion does not focus on bounded groups, but stresses social relations and processes through which people are deprived. In social exclusion, as a multi-dimensional concept, people can be excluded from employment, earnings, property, education, health services, personal contacts or respect, freedom of speech, political participation or activism, etc. All of these create a cycle of socio-economic and political disadvantages. A second aspect of the concept, which is less discussed but quite relevant for the theoretical contribution of the concept, considers relations and processes.

There is a clear link between economic and social indicators and weak socio-political participation. Long-term unemployment, for example, has a significant effect on not only material deprivation but also on social marginalization and political polarization, or in other words, on both distributional and relational aspects in societies where employment and workplace is core to not only having income but also social recognition and status. The workplace also provides opportunities for social networks. Employment loss, thus, results in

loss of solidarity networks and a sense of social inferiority, isolation and alienation. This, in its turn, affects the ability and extent of socially isolated and alienated people to political participation. The accumulation of disadvantages on each level aggravates social exclusion, and if this state lasts for a long time, social exclusion becomes durable.

Defining and understanding social exclusion is much easier than measuring it. There have been a few efforts to measure social exclusion or roots of deprivation. Haan (1999:11-12) mentions some sources and methods, such as UNDP's Human Development Index and poverty assessments' 'correlates of poverty', London Research Center's index of deprivation areas that focus on the polarization within British cities, and other 30-40 quantitative measures created by the EU, the French Action Plan for Employment and Britain's New Labor's 'poverty charter'. Paugam (1995) also uses a quantitative analysis of correlations between elements of deprivation in order to examine 'spirals of precariousness' of French deprived neighborhoods.

Employing quantitative analysis is useful in measuring social exclusion, but again it does not sufficiently cover relations. It demonstrates that, for example, an individual or a number of individuals in a society are excluded from, for instance, employment, but it does not lay out the scenarios why the same people are excluded also from politics and policy making.

In this study, social exclusion as an outcome or condition is analyzed through measuring the following phenomena, which are key elements of social exclusion and which include all three dimensions of social exclusion:

- Gini coefficient rates,
- Lack of employment or exclusion from the labor market,
- Lack of access to education to acquire skills,
- Lack of access to health services, and therefore inequalities in health,
- Increasing homelessness;
- Increasing crime rates.
- Increased feeling of insecurity;



- Self-perception of lower-status social identity;<sup>17</sup>
- Decreased freedom of speech;
- Administrative difficulties to run for parliamentary or presidential elections and extremely unequal chances to win in elections by secondary political party members or independent candidates.
- More cases of political arrests and uncovered cases of politicians' and/or politically active citizens' assassination.
- Human rights abuses in general.

## **2.4 Causes of Social Exclusion**

Various interpretations of social exclusion, as well as its multidimensional nature, allow scholars to focus on a variety of causes and multiple origins of social exclusion. Every human being has a set of characteristics that will create a certain threat of social exclusion for him/her. These features may be gender, age, language, religion, norms and values, disability, as well as socio-economic status, such as educational level, employment, wealth, networks. Any of these characteristics alone is not always enough to put a person at risk of marginality; most often social exclusion manifests, when these characteristics interact with other causes of social exclusion related to formal and informal institutions, state elites, and governmental policies.

The causes of social exclusion have been attributed mainly to socio-economic changes of labor markets in free-market economies and to the flaws of government policies and services. Labor markets often foment social exclusion; yet, it would be erroneous to say that social exclusion depends on the deficiencies of labor market alone. A free-market system is basically an arrangement through which people interact and undertake mutually beneficial activities, thus theoretically, it is irrational to blame the market mechanism for social exclusion. Existence of free markets per se does not create inequalities. Exclusionary practices arise when the employment of markets is not done properly: when there are insufficient assets, when there is inadequate preparedness to effectively organize market transactions, a very limited role of the state in the market regulations, unconstrained disguise of information by business leaders, and financial activities that allow the powerful to exclude

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<sup>17</sup> By social identity I mean the devaluation of people based on who they are or rather who they are perceived to be.

others from processes and fruits of markets. This is how in practice a market mechanism becomes a culprit of unfairness and exclusion. The inclusiveness or exclusiveness of a market depends on the conditions in which social opportunities offered by the state and other institutions can be commonly shared instead of being reserved for a limited elite.

Exclusion may also be reinforced by history, religion, traditions and culture of a country, and embedded in dominant social attitudes, behaviors and prejudicial practices. It may be perpetuated by authoritarian and exclusive state leaders and political elites that concentrate power and centralize decision making process. Social exclusion, as a process of discrimination on the basis of economic class, ethnic status, as well as racial and cultural identity, results from policies which are embedded in the formal institutions of the state. Weak civil society is another reason for a society not to be able to become more inclusive. Finally, exogenous factors, such as external shocks, are sometimes important in creating exclusionary practices.

The causes of social exclusion may be systematized into three main groups: 1) causes that are analyzed through the lens of agency, 2) structural/institutional causes, and 3) causes originating from perverse, pathological, antisocial, and self-destructive values and lifestyles. Authors, who focus on agency as a main cause of social exclusion, argue that exclusion arises from discriminatory policies and actions of a state, a consequence of certain actions of a society's political, social, and economic elites, who pursue privileges for themselves, excluding other members of a society. "Powerful class and status groups, which have distinct social and cultural identities as well as institutions, use social closure to restrict the access of outsiders to valued resources (such as jobs, good benefits, education, urban locations, valued patterns of consumption)" (Saraceno 2002:7-8). The disadvantaged groups of the society often do not challenge those elites because they are incapable of enforcing rights that undergird inclusion and/or power to do so.

The second group, which possibly is the most prevalent one, explores the institutional basis of social exclusion and is popular in research analyzing exclusion in Europe.<sup>18</sup> Authors that belong to this school of thought propose that an individual's opportunities within a

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<sup>18</sup> A more detailed account of institutional causes of social exclusion in Europe is presented by Evans (1998).

society chiefly depend on the type of institutions and the way they function. Institutions are key instruments for promotion of social cohesion, and they are responsible for social exclusion, because they limit access to resources and opportunities necessary for inclusion, such as, for instance, adequate training and education, insurance and assistance, legal rights and protection, as well as property rights. It is important to mention that those limitations are sometimes unintended and are beyond the control of a single institution. A legal framework that is discriminatory or inadequate in its implementation, such as a flawed legislation, expands the exclusion of some social groups. Often, particularly in developing countries, informal rules and cultural behavior may be at the root of social exclusion. Certain values and norms are discriminatory against an individual or a social group, such as females in the labor market and/or refugees in political, social and cultural life. Minority ethnic communities may be denied educational opportunities available for some others. Refugees may be denied citizenship. People may be openly discriminated against in the labor market because of their nationality, language, creed, skin color, or just because they are handicapped.

While unfair policies and exclusive attitudes of government authorities (agency as a cause of social exclusion) or bad institutional design (structural drivers of exclusion) are important and predominant drivers of social exclusion, there are individuals or groups of individuals within the society, who are themselves responsible for their own disadvantage. In this case, exclusion is attributed to perverse, pathological and antisocial values and behaviors of those groups. This perspective is equivalent to Levitas's (1998, 2000, 2005) moral underclass discourse of social exclusion, which suggests that the norms, behaviors, values and attitudes of certain individuals or groups lead to their marginality. Those are believed to be low-income, drug and alcohol using people, criminals, single and underage parents, etc.

The institutional drivers of social exclusion include various causes, among which the most commonly mentioned ones are globalization and economic restructuring. These two have a strong impact on labor markets and employment trends and undermine the role of state in regards to provision of welfare and social assistance. Other institutional/structural sources of exclusion include, but are not limited to the following: 1) advancement of the knowledge-based society and technological evolution, which marginalize technologically-

challenged people and people with outdated knowledge and skills; 2) demographic changes, such as immigration, declining birth rates, and increasing ethnic and religious diversity; and 3) territorialism (The European Commission (2000, 2001)).

The 2001 Social Exclusion Unit, UK, indicates two main institutional causes. The first group of causes has economic and social character and includes: 1) economic restructuring; 2) family restructuring; and 3) community polarization with decreased and weak social networks and other support groups. The other group of causes originates from ineffective government policies, working methods, and coordination.

A significant categorization of sources of social exclusion is offered by Atkinson and Davoudi (2000). Their framework includes causes that have been already identified in earlier paragraphs, but the organization is more clearly arranged into four key societal institutions: 1) the legal system; 2) the labor market; 3) the social welfare system; and 4) family and community system. Because social rights are embedded in those institutional systems, social exclusion occurs if any of these institutional subsystems breaks down or becomes discriminatory. Atkinson and Davoudi's framework clearly highlights the multidimensional nature of the phenomenon of social exclusion.

Kaasa (2003) offers another comprehensive overview of factors affecting income inequality as a part of social exclusion. Kaasa organizes all of the factors thought to affect inequality in transition economies into five categories: (1) economic growth and overall development level of a country, (2) macroeconomic factors, (3) demographic factors, (4) political factors, and (5) historical, cultural, and natural factors.

Within the institutional drivers of social exclusion, Keane and Prasad (2001) stress education to be an essential factor affecting income inequality in transition economies. The authors argue that the financial return to education and experience increased dramatically in transitioning societies, increasing labor earnings inequality.

Besides the above-mentioned causes, exclusion is also influenced by the local context, such as for example type of residence (urban vs. rural, the latter of which is often away from industrial centers and employment opportunities, vibrant cultural and political

activities), existence of religious and ethnic diversity, existence of natural resource wealth, etc. Local context may deepen exclusion or, vice versa, promote inclusion.

A myriad of factors that include institutional or non-institutional sources of social exclusion lies within each of the above mentioned categories. Addressing the particular effects of each of these factors lies outside of the scope of this chapter, but a few of them that are deemed in mainstream literature to be particularly significant in determining social exclusion will be addressed below. Among those are privatization and changes in market labor, weak/strong civil society, natural resource abundance, and finally exclusive and militarized state elites.

2.4.1. Globalization, Privatization, and Labor Markets: Economic growth remains at the heart of strategies to decrease or eliminate poverty and social exclusion. Economic and social exclusion, however, persist along with economic expansion. While economic growth, calculated as gross national income (GNI), is strongly correlated with key human development indicators, the chronically poor are the least likely to benefit from growth (Global Chronic Poverty [GCP] 2004-5:37). An argument that economic growth increases inequality, giving rise to higher income poverty for an average GNI per capita, is currently mainstream (Global Chronic Poverty (GCP) 2004-5:37). The post-Soviet literature largely connects economic growth, as well as, issues of inequality, to the nature of the privatization process that post-Soviet republics experienced.

Privatization is broadly defined as “the shifting of a function, either in whole or in part, from the public sector to the private sector” (Butler, in Gormley 1991:17). Privatization increases reliance on the private sector and the market system, and shrinks the role of the state to pursue social goals. The literature on privatization is quite large and a review of it demonstrates that the field touches upon too many areas, and has proponents, skeptics as well as opponents. The theoretical framework behind the idea of privatization is largely dependent on understanding the concept of property rights. In order to develop a market system, people have to effectively deal with transactions. Competitive markets, in which transactions are best handled by market prices, rely heavily on formal, well-defined property rights (Mankiw, 2001). The proponents of privatization also argue that governments have become very large

and quite bureaucratized and thus, are not efficient. They contend that the private sector is more motivated in the maximization of production and output.

Poole (1996), a fervent supporter of privatization, mentions that by increasing the private sector, the government collects taxes from the privatized firms and is able to diminish over-borrowing and continuous national debt. He also argues that privatization provides ownership for a large percentage of the society, which is yet another incentive for underdeveloped or developing countries to take the privatization path. Another advantage of privatization is the emergence and boost of foreign direct investments that affects economic growth.

Many of the privatization opponents would agree to some of the points expressed by the supporters of privatization, specifically, that private firms have a more efficient production and output results. Nonetheless, some of the above-presented assumptions and other aspects of the privatization process have been critiqued. Most essentially, the importance of equitable concerns, such as income distribution, has been ignored to a great extent by the privatization proponents. Even disregarding the issues of equality and social inclusion, there is literature demonstrating that the efficiency implications of private ownership are dubious, and there is a need for government intervention.

In their article "*From State to Market: A survey of Empirical Studies*", Megginson and Netter (2001) survey the rapidly growing literature on privatization and present the promises and perils of privatization as an economic policy in Russia and former Soviet republics. In doing so, the authors suggest that it is difficult to summarize privatization effects in post-Soviet countries, based on four reasons. 1) The transition from socialism to capitalism was a very complicated process in this region, because these republics had experienced the longest communist control, and moreover, this transition coincided with the breakup of the USSR as a whole economic system. 2) The contraction in output that occurred in the FSU was much greater than anywhere else, yet there has been no upturn, making it difficult to document relative performance improvement. 3) Most post-Soviet republics, specifically Russia, experienced worsening economies after 1997, so examining the impact of privatization at different time periods in the same country or region would lead to different

conclusions. And finally, 4) studies on the post-Soviet republics rely on survey data or anecdotal evidence, so the material here for empirical analysis is of much poorer quality than in other regions (Megginson and Netter, 2001:35). Therefore, a conclusion that economic and political merits of private ownership are greater than those of government ownership is flawed, and should not be extrapolated to individual countries or regions. Instead, each country's privatization process has brought its own benefits and perils that should be studied.

Contrary to Megginson and Netter, Nancy Birdsall and John Nellis (2002) in *“Winners and Losers: Assessing the Distributional Impact of Privatization”* conclude that most privatization programs have worsened the distribution of assets and income, at least in the short run. According to them, it has provided opportunities for the enrichment of the agile and corrupt, making the wealthy wealthier and the poor poorer. “The complaint is that, even if privatization contributes to improved efficiency and financial performance (and some contest this as well), it has a negative effect on the distribution of wealth, income and political power” (Birdsall and Nellis, 2002:2). With an overall negative attitude towards privatization, the authors' conclusion, however, is that the distributional effects of privatization depend on initial conditions, the sale event, and the post-privatization political and economic environment of a country.

Other theories of privatization and issues closely related to privatization, such as openness to trade and globalization, help in restricted ways to address but not adequately explain social exclusion in post-Soviet Armenia. Some, opposite to conventional wisdom, say that greater openness to trade has been accompanied with increasing rather than reducing wage inequality (Wood 1997), others relate globalization with less polarization of distribution (Aisbett 2005), while others explain the phenomenon of inequality and exclusion through stages of relative dependence on foreign direct investments (Kentor 1998; Alderson and Nielson 1999). More helpful views, which are closely related to the privatization hypothesis developed in this study, are stated by Branco Milanovich and Stephen Haber. Milanovich (1999) points out that the most important factor driving inequality upwards is increased inequality of wage distribution, which is, indeed, common sense. Haber (2002) examines distribution from quite another angle. He theorizes that crony capitalism (defined as a system, in which those close to the political authorities who make and enforce policies,

receive favors that have large economic value) has negative consequences for the distribution of income. In this system, which is similar to the modern Armenian state, privileged asset holders earn rents on behalf of everyone else in the society.

Privatization typically modifies the institutional framework through which people formulate, mediate and promote their interests. The consequences of this institutional restructuring do not work the same way for all social groups. Some social groups and strata benefit more, as they find their interests more clearly defined and more easily promoted, while others find themselves in more disadvantaged circumstances, as they lack free access to social services previously arranged by the state. Although much of the literature deemphasizes privatization as a political process and analyzes it as “a pragmatic adaptation of well-tested administrative techniques or a necessary exercise in economic adjustment to structural constraints”, privatization should be regarded as an intensely political phenomenon, considering the nature of the-above mentioned consequences (Feigenbaum and Henig, 1994:186).

The literature that connects privatization to social exclusion provides a variety of approaches to modeling social exclusion. It analyzes how different aspects of the privatization process cause or determine social inequalities. In their analysis of social inclusion Barlow, Grimalda, and Meschi (2009) regress Gini coefficient, as a determinant of income inequality, on globalization variables (imports, exports, and foreign direct investment), institutional variables (privatization and price liberalization), control variables, and a time trend on inequality. Their main finding is that price liberalization has the strongest effect on income inequality. Bennett, Estrin, and Urga (2007) similarly argue that voucher privatization significantly increased GDP, at the same time causing growth in inequality. Kornei (2006) offers a more general discussion of how privatization affects levels of income inequality in transition economies. He attributes most of income inequality to structural unemployment, which he deems an inevitable aspect of transition. Whereas a socialist economy typically guaranteed job security for the overwhelming percentage of its society, the post-transition capitalist system created unemployment that most citizens had never experienced. Besides the unemployment increase that the capitalist system created through privatization of firm and companies, people additionally were not knowledgeable about



important issues of the capitalist system, such as vouchers, price fluctuations, interest rates, and floating exchange rates. According to Kornei, the lack of knowledge on these issues most strongly affected income inequality.

Privatization and free trade are associated with sharp increases in relative deprivation and unequal distribution of sources of wealth and prosperity, which are only intensified by reduced state protection (Chua 2003; Storm and Rao 2004: 573–74; Niskanen and Thorbecke 2006). While capitalist relationships perpetuate inequalities and exclusion within a society, the popular idea of globalization incessantly denies capitalism as a “system of power and conflict” (Fine 2004: 586, 588). The logic of globalization chiefly focuses on the ways political economy of capitalism generates wealth, with infrequent assessments of national policies and domestic traditions of distribution of that wealth, and ignores the social irrationality of neoliberal order that brings massive suffering (Robinson 2002:1057, 1062). For example, the socialist economic transition to market economy was accompanied with loss of property and work entitlements for millions (Humphrey 1996-7, in Elyachar 2005, page 30).

Exclusionary practices are thoroughly embedded in the operations of labor markets. A market economy is typically characterized with high rates of unemployment, discriminatory practices, lack of basic legal protection on the job, extremely low wages, long working hours, etc. All these processes solidify social exclusion by creating segregation of underpaid or low-paid workers in poor neighborhoods, social stigma related to poor-quality jobs, low income and pitiable lifestyle. Most notoriously, market economies are also associated with child labor and early school leaving, which have a lifelong impact on opportunities.

In conclusion, the literature identifies three major ways through which labor markets can become agents of social exclusion (Mazza 2004:181). Table 2.2 identifies exclusion features of each of these three forms of social exclusion more specifically.

- Lack of access to jobs (unemployment, severe underemployment)
- Access to only very low wage, (“poverty” employment)
- Lack of access to quality jobs with mobility.

**Table 2.2:** Principal Forms of Labor Market Exclusion

<b>Type of labor market exclusion</b>	<b>Chief labor market characteristic</b>	<b>Exclusion features</b>
<b>Type 1</b> Lack of access to jobs	Open unemployment; Discouraged workers	Discrimination; Family and community isolation
<b>Type 2</b> Access to only low-wage “poverty” employment	Low wage employment or employment under poverty line; High rates of informality; Very low returns to labor	Poverty and associated social exclusion; Long working hours; Lack of benefits; Greater likelihood of unhealthy working conditions; Physical or spatial segregation in poor regions or neighborhoods
<b>Type 3</b> Lack of access to quality jobs with mobility	Underemployment; Poor quality and low productivity work; Low returns to labor	Lack of access to social networks for advancement; Employment trap with little chance of improvement Lack of access to productivity enhancing training

*Source:* Mazza 2004:182.

2.4.2. Civil Society: A strong civil society provides excellent opportunities for people to join groups based on different causes, needs and social features. It, therefore, represents a main protection of rights and is an important safeguard against social exclusion. A civil society with strong foundations and powerful structures may encourage the adoption of more inclusive policies in a country. On the contrary, a weak civil society and its lack of capacity to act as a check on the accountability of leaders creates an environment conducive to inequality in various spheres of society and the persistence of exclusion. Independent and unbiased mass media, non-government organizations with missions oriented at inclusive policies, and strong social movements, specifically youth movements are important elements of vibrant civil society.

Media is an important agent structuring people’s everyday life. Today’s media constructs the image of outer reality. In this capacity, mass media can be either objective or biased sources of dissemination of information. Unbiased media, especially investigative media, can be an essential source of social inclusion in as much as it objectively portrays new policies, discusses their benefits and disadvantages for the society, finds out dishonest

government officials and their actions, uncovers socially outlawed and taboo issues, informs the public about the wrongdoers, and equips people with legal or non-legal ways and methods to deal with them. On the other hand, biased media can contribute to discrimination against members of different social groups or minorities by either publishing or announcing predisposed and unfair information about them or in the least by failing to explicitly deprecate this information. Thus, mass media affects those groups' exclusion from the majority of the society. The same type of biased approach can support certain candidates during elections, thus becoming a political source of discrimination and exclusion for the rest of the candidates, as well as the electorate.

Non-governmental organizations (NGOs) also play a significant role in minimizing social exclusion on all three levels: economic, political and social. They equip marginal groups, which are excluded from employment markets, political participation, social services and networks with knowledge and essential skills to participate in the market-place, in policy-making, and in social networking. Those agencies not only help the excluded groups indirectly by providing a set of skills, but also support those groups directly by providing finances, goods and products essential for survival. There are dozens of examples of the latter. A good example is microcredit programs that have proven to be a particularly successful method to enable people to improve their household situation and lifestyles. Other effective programs are health and education related projects that supply marginal groups in developing countries with medicine and medical equipment, educational materials and equipment. Agricultural projects immensely assist farmers in rural areas, who otherwise would be doomed to unemployment and lack of means to provide for their families.

It is not disputable that the NGO sector, mainly financed and implemented by Western donors, such as the USAID (United States Agency for International Development), different UN (United Nations) agencies, World Vision, World Learning, the World Bank, and the Eurasia Foundation, has had a significant impact in the decrease of social exclusion. While civil society efforts to create socially more inclusive societies in developing countries are important, they do not have a long-term impact on the reduction of social exclusion. It does not affect the intergenerational or durable social exclusion significantly. A popular Chinese proverb follows: *“Give a man a fish and you feed him for a day. Teach a man to fish*

*and you feed him for a lifetime*". Most of the NGOs, for example, whether local or international give the developing societies 'food' for a day or so, but very few teach them to fish.

2.4.3. Natural Resources and Resource Curse: While it is not certain that increased inequality may be a result of natural resource wealth, often termed as the 'oil curse', there is a prevalent assertion that natural resource wealth is related to the rise of authoritarian trends and, consequently, an increase of inequality (Engerman and Sokoloff 2002; Kaasa 2005; Scherbak 2010) The abundance of natural resources is in general associated with a higher concentration of ownership and rent, which in their turn affect the increase of income inequality (Gupta, Davoodi and Alonso-Terme, 2002).

Scherbak (2010) states that based on statistical data in the late 1990s inequality increased in post-Soviet countries that were rich in resources, and it decreased in post-Soviet countries that were poor in resources. This happened because state elites of oil-rich states aim to preserve their control over rents, and to maximize their share of the rent. According to Scherbak, all the successful post-Soviet "color revolutions" occurred in the resource-poor countries, such as Georgia, Ukraine, and Kyrgyzstan. In oil-rich countries – Azerbaijan, Kazakhstan, Turkmenistan, and Russia – any social movements challenging the ruling elites either failed or did not take place at all. "In these countries the governments have more to lose if they lose power, especially with the rally of oil prices on world markets." (Scherbak, 2010:64)

Scherbak is right indicating that natural resources may be related to increase of inequality, but he fails to notice that continued waves of social movements did not succeed in some resource-poor countries as well. Armenia is an example of it. This certainly points to the idea that being blessed with natural resources does not necessarily mean for a country to be highly exclusionary, or vice versa. Armenia does not possess oil or other natural resources, but its society is quite polarized with a high degree of social exclusion for certain classes of the society. Therefore, to reason that natural resource wealth is a resource curse and a source of social exclusion might not be universal. The effect of abundant natural resources on social exclusion should be examined in combination with globalization and

market operations, institutional weaknesses of a country, its state structure and its coercive strength.

2.4.4. Nature of State Elites: Repressive States: A prodigious amount of research is available on the state-society relationship, and how a weak or an exclusive state can impact polarization and marginalization within a society. There are couple of ways a state can induce social exclusion, such as red tape, bureaucracy, insufficient state support related to social welfare and citizens' rights protection through legal system, complete absence of market regulation by the state, and finally through a state leader with authoritarian inclinations and practices. Simply, a state can create or worsen social exclusion through bureaucratic tendencies, monopolization of political power, skewed state policy choices, and coercive practice and human rights violations towards its citizens.

In most post-Soviet countries, for example, state bureaucracy typically revolves around documentation requirements. Public officials are very rigid in creating alternative routes or rules of gaining access to resources, besides the requirement to present certain documentation. Documentation as a means of excluding the poor is commonly cited in reports as a motive for their inability to access resources. Other bureaucratic barriers are the resentment and unfairness that excluded people, particularly single mothers and the elderly, often face. Documentation as a requirement is a device through which certain groups are socially excluded, a device that allows the state to deny services and resources to certain groups. This happens especially in the judicial and the welfare system. Another way to exclude people is asking for bribes in return to access to institutions or services. This is also practiced in most of the post-Soviet countries, where due to lack of money or connections people are discriminated against for nearly any kind of service, resource or life opportunity: a job, health care, social security, pensions, admission to universities, trading licenses, etc.

A weak state is also a means through which social exclusion perpetuates. In this sense, the state does not try or is unable to intervene in unemployment and poverty reduction, equal access to education and health services. When the state does not intervene in reducing poverty, unemployment, and increasing equal access opportunities to education and health services, social exclusion deepens. As the formal state weakens, state elites gain increasing

power and they exercise it arbitrarily and without punishment. Public officials demand bribes without impunity or even threaten brutality by using the police or the security system in general. Poor and powerless citizens in this atmosphere feel unprotected and rejected as compared to fellow citizens who have networks and powerful resources.

Bureaucratic states elites that support policies in favor of certain classes are typical not only in developing countries, but also in Western societies. This tendency, however, is stronger in developing countries, where the level of state elites' power and how they choose to exercise that power may be a substantial means of societal polarization. The exclusion of social groups occurs within a political economy that allocates scarce resources, when power is exerted by state officials, police, contractors, employers or traders to the disadvantage of poor people. It is achieved through the arrangement of formal systems of public policies and laws. In societies with high degrees of social exclusion, the decision making power of the ruling elite is manifest mainly in the skewed targeting of public services.

The nature and extent of state repression is another important factor in explaining levels of social exclusion. State repression and authoritarian tendencies in their turn are typically related to an increase of the size of the coercive apparatus of the state. An authoritarian state with increased militarization is a critical causal mechanism for the rise of inequality and exclusion (Ross 1999, 2001; Torvik 2002; Robinson, Torvik, and Verdier 2006; Mehlum, Moene, and Torvik 2006; Scherbak 2008). Mann defines state militarization as "preparation for war as a normal and desirable social activity" (Mann, 1987:35). Other definitions of the concept are quite similar (Andreski 1954 and 1968, Huntington 1957, Janowitz 1964 and 1977, Dunne and Smith 1990, Bowman 2002).

The foundation of the militarization scholarship is basically rooted in three authors' works: Stanislav Andreski, Samuel Huntington, and Morris Janowitz. Among these founding works on the theme, Andreski's "*Military Organization and Society*" is more appealing for the sake of this dissertation's research question. He notes that war-making can either increase or decrease social stratification depending on the *military participation ratio (MPR)*. The higher this ratio, the less stratification (1968:30). Although there is a similar line between the hypothesis of this study that militarization is a major factor underlying social exclusion and

Andreski's judgment about the relationship between militancy and social stratification, my argument is a direct challenge to Andreski's assertion that a high MPR flattens social stratification.

Andreski re-examined his statement in a second edition noting that a high level of militarism causes less stratification, when there exists an external threat, as the latter heightens national cohesion. Similar to Andreski, Janowitz's *"The Military in the Political Development of New Nations"* (1964) is also positive about the political capacity of military forces. It explains the greater political capacity and power of military institutions and its authorities. The significance of the military in internal political affairs is mainly due to the fact that the military has control over instruments of violence. According to Janowitz, the army is a device for developing a sense of identity, building morale and has the ability to enhance human capital by providing education and training.<sup>19</sup> Later, in 1977, Janowitz reevaluates the control structure of the military in his new book *"Military Institutions and Coercion in the Developing Nations"*. Here, the military structure includes the paramilitary forces. Paramilitary forces are "essentially including the different types of national police forces and those militia personnel who have internal security functions" (Janowitz 1977:29).

Another scholar of the field, Marek Thee, distinguishes between militarization and militarism. Militarism is a set of "such symptoms as rush to armaments, the growing role of our military (understood as the military establishment) in national and international affairs, the use of force as an instrument of supremacy and political power and the increasing influence to civilian affairs". Militarization is "an extension of military influence to civilian spheres, including economic and socio-political life" (Eide and Thee, 1980:15). In the same collection of essays, *"Problems of Contemporary Militarism"*, militarism is defined by Jan Oberg as "merging of major civil and military interests" (page 49). The best exposition, which is very elegant although again broadly expressed, is that "the militarized state-apparatus is the weapon of the whole monopoly" (page 173). At its most extreme, militarization entails subservience of the entire society to the needs of the army, and finally, ideology promoting military ideas (Andreski, 1968:429).

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<sup>19</sup>See Morris Janowitz's "Professional Soldier: A Social and Political Portrait", pages 80-83.

## 2.5 Drivers of Social Exclusion in Post-Soviet Societies

Social inclusion is a critical element of democratic consolidation; thus, existence of social exclusion is a deficiency of democratic consolidation, which results in popular mobilization. Theories of democratic consolidation may interpret durable social exclusion and social unrest, as its consequence, in terms of various factors. Theoretical approaches in regard to the foundations of sustainable democracy with equal rights and opportunities emphasize economic structures (Gourevitch 1986; Rogowski 1989), political institutions (North 1990, Haggard & Kaufman 1992; Stepan and Skach 1993; Tsebelis 1995; Stepan and Skach 1993), international and transnational factors (Pridham, Herring and Sanford 1994 (1997); Zielonka and Pravda 2001), and civil society (Nichols 1996; Diamond 1999; O'Loughlin and Bell, 1999; Henderson 2000; Marsh 2000; Paxton 2002; Kuchukeeva and O'Loughlin 2003). Among political institutions the focus is on party systems, electoral structure, courts and the rule of law. In regard to civil society (associational life), in the 19<sup>th</sup> century Alexis de Tocqueville (1835-1840) referred to the relationship between civil society and democracy. Since then civil society has long been identified as a link to democratic governance (Almond and Verba 1989; Putnam 2000 and 2002).

The most popular insight of the democratic consolidation of post-communist states, specifically the Eastern Europe, rests on the process of institution building. The premise of the institutionalist literature in comparative politics is that democracy depends not only economic and social features of the country, but also on the establishment and design of political institutions. Weak institutions are roots of deficient democracy and mass discontent. Based on the new institutionalism, transitioning states everywhere – Latin America, Eastern Europe, as well as the rest of the post-Soviet states – have had to re-evaluate and re-establish not only their economic institutions, economic markets and economic institutions, but also their political institutions (Haggard and Kaufman 1992; Przeworski 1991; Clague and Rausser 1992; North 1990, Kolodko 1999). In terms of social exclusion, following this premise of the institutionalist scholars and practitioners, revamping institutional insufficiencies would restore greater social inclusion in economic resources and opportunities as well as political participation. Continued strengthening of political institutions would decrease social unrest and demands of better public policy and equal opportunities.



Whereas the widely-advocated institutionalist perspective has potentialities, in many post-Soviet countries its application has not resulted in desired outcomes regarding social inclusion, at least for the first few decades after the USSR's breakup. Eduardo Silva in his analysis of anti-neoliberal mass mobilization in Latin America, contends that “institutions are social constructs that crystallize relations of domination and subordination in society (Mann 1993, 1986; Weber 1978). He further observes, "analysts steeped in this [institutionalist] perspective missed the point that the very institutions they advocated caused inequalities that generated the grievances that drive popular mobilization” (Silva 2009:11).

Przeworski, stressing the importance of endogeneity, notes that, "conditions shape institutions and institutions only transmit the causal effects of these conditions" (Przeworski 2004:529). Institutions that perpetuate the power and domination of the powerful and the exclusion of the powerless are viable under the given circumstances. In the absence of those conditions, the discussion of the role of institutions becomes relatively meaningless. Therefore, "projects of institutional reform must take as their point of departure the actual conditions, not blueprints based on institutions that have been successful elsewhere" (Przeworski 2004:540).<sup>20</sup>

While it is indeed important to examine the post-Soviet Armenian democratization process, and within this process issues of social exclusion in terms of the institutional and structural context, we do need to recognize the political transformations that are specific to the post-Soviet Armenian state, as an agency. In the explanation of durable social exclusion, not only the economic structure and institutional design of a country are focal, but also the political features specific to a state are critical agents. Specifically, the state plays a central role in the processes of commodification of labor and social relations. From this point of view, state-oriented theories of democratic consolidation are worth studying. The role of the state, as an actor and a main generator of processes, becomes important in the discussion of

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<sup>20</sup> In his seminal article "Institutions Matter?", Przeworski (2004) recalls that Guillermo O'Donnell, an adversary of the institutional perspective, once remarked to him: "One cannot stop a coup d'état by an article in the constitution, any article in the constitution" (Przeworski 2004:529). Reckoning on O'Donnell's remark, in a similar vein, I add that any article of the Armenian constitution has not been able to stop state elites from using constitutionally banned coercive methods towards peaceful social movements. Not only was the constitution not able to refrain those in power, but also the actions of a vibrant civil society could not stop the latter. Ironically, both — the Constitution and civil society — are believed to be key institutions able to influence democracy, social participation, and inclusion.

social exclusion, because states often become engines of elimination of a large number of social groups in support of particular classes, or even a small number of individuals and their close networks. This support is typically rationalized and implemented through governmental policies and programs in favor of the latter groups.

The state, other political institutes and social networks become more important when we look at their interrelationships. As Silva argues, “state strength also hinges on the state’s relationship to other organized power networks nationally and internationally, such as the economy, class relations, the military, and ideological production. In other words, state power is relational. It depends, at least in part, on its relationship to these other sources of power in society” (Silva 2009:13). Especially when we try to study social exclusion, it is impossible to look at it from one angle, and the relational approach becomes very useful. Policy-oriented theories of social exclusion that emphasize the multidimensionality of the phenomenon offer a useful first cut into the problem by analyzing dynamic causal factors. These theories stress that social exclusion and its causes have economic, social, and political dimensions. They take a relational approach to social exclusion that focuses not only on who is excluded but also on who is doing the excluding. Moreover, they highlight the institutional structures that serve to include or exclude. This relational approach to the problem directs our attention to crucial issues of process and power relationships that lie at the heart of social exclusion (DFID, 2009; Parkin 1979; Collins 1974; Collins 1979; Bourdieu 1984; Murphy 1988; Silver 1995; Beall and Piron 2005).

These state-centered approaches that are at the same time relational-oriented theories of social exclusion fit well with the central problem of transitions to market capitalism and democracy in post-Soviet states. The twin transition in those cases involved the wholesale restructuring of economies, political regimes, and social relations. These changes also involved a dramatic reconstitution of political and economic power, which had profound effects on patterns of socioeconomic and political exclusion in the post-Soviet nominally democratic regimes.

Theoretical approaches in political economy and in contentious politics offer useful perspectives on the question of power from a relational point of view. The social closure and

opportunity hoarding theories, mentioned before, share a central insight. They examine the interaction of groups in the structuring of inequality from the point of view of acquiring resources and power. In both approaches, powerful elites exploit and monopolize resources to the exclusion of other social groups. Weber draws our attention to a critical factor for the reconstruction of power relationships in the twin transitions from post-Soviet societies. He argues that social closure results from exploitation based on property advantages, as well as from forms of prestige or status. Similarly, as Murphy (1988: 8) proposes, social closure is a process of subordination, where a group closes opportunities for others who are accepted as more inferior and ineligible. Tilly introduces us to another critical dimension of power in the development of social exclusion: networks. Opportunity hoarding involves a situation where the members of a network “acquire access to a resource... supportive of network activities”, which was critical to rebuilding socioeconomic and political power in the twin transitions of post-Soviet societies (Tilly 1998:10).

The central role of property advantages and the constitution of networks to control it to the exclusion of others focuses our attention on the critical part that privatization played in the process of transitions from socialism. The political economy of free-market reforms in Latin America clearly establishes the relationship (Foxley 1983, Vanden and Prevost 2002, Gwynne and Kay 2005). Political leaders in control of the privatization of state enterprises shape the process to benefit specific favored domestic economic interests. This creates a network of powerful supporters for both the general process of market reforms and for incumbent political leaders. Cronyism, sweetheart deals, and generally opaque transactions and rules characterize the resulting power networks.

The vast literature on privatization generally focuses on the evaluation of the process in terms of its contributions to the efficiency of the market economy that replaced the command economy. Some conclude the process in the post-Soviet region has had largely positive outcomes (Poole 1996, Mankiw 2001, Aisbett 2005). Others argue it has not (Wood 1997, Milanovich 1999, Megginson and Netter 2001, Nancy Birdsall and John Nellis 2002). Although many aspects of the privatization process are of great importance, this study is more concerned with the equality issue resulting from the privatization process. The privatization model that directed the post-Soviet transformation vastly ignored the

interrelationship between the economy and politics, as well as economic growth and social inequality. While most technical assessments regard privatization as a success, it remains increasingly and extensively unpopular, largely on the perception that it is fundamentally unfair, both in conception and execution. Thus, a closer examination of the consequences of the privatization process for political institutions is warranted.<sup>21</sup>

Indeed, a growing body of theory, especially related to Latin America, shows a strong connection between the imposition of free-market economic reforms (without adequate social safety nets) and defensive mass mobilization. The contentious politics literature emphasizes that mobilization occurs because excluded social groups lack institutional channels to defend their threatened interests (Tarrow 1998; Tilly 2004; McAdam, Tarrow, and Tilly, 2001). Many studies on radical free-market economic reforms in Latin America have drawn on that insight. They have shown how radical free-market economic reforms increase social inequality, and that when such projects are implemented by nominally democratic governments that effectively shut out opposition from the policy process defensive social movements and mass mobilization ensue (Silver 2003; Yashar 2005; Munck 2007; Silva, 2009). The contentious politics of social movements, however, is typically ineffective in the presence of militarized states.

Other factors affecting social grievances and social protest resulting from deprivation and exclusion are connected with military and authoritarian states. Theories of state formation have established a clear link between war-making and militarization on the development of both the state and the political regimes that link civil society to it (Tilly 1975 and 1978; Centeno, 2002). Of particular concern for the twin transitions in post-Soviet societies is the expansion of military prerogatives. Among others, these include direct control of economic resources, the military's independent participation in domestic politics, and their deployment to suppress protest movements (Stepan 1988; Bowman 2003; Way 2006). In this context, the intertwining of networks of political leaders and military officers can have negative consequences for democratic governance. Militarization can lead to creeping authoritarianism. This closes the political space necessary for the political opposition –

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<sup>21</sup> A detailed examination of the influence of the privatization process on social exclusion in Armenia is conducted in Chapter 8.

including civil society organizations and social movements – to organize and act freely (Yashar 2005). Clearly, such a condition would affect the development of durable social exclusion.

While militarization has been extensively studied in regard to democracy and development in Latin America and the Middle East (Hewedy 1989; Burgess, Davis and Kick 1994; Williams and Walter 1998; Hashim 2003; Bowman 2002; Kick, Davis, Kiefer and Burns, 2006), surprisingly, the role of the state's coercive capacity as a significant force in shaping the path of state-building has received relatively minor attention in the context of the post-Soviet region. The literature on militarization in Latin America and Middle East has an unenthusiastic position concerning the role of the militarized states in the consolidation of democracy, high-quality economic transformation and social inclusion. Considering the experience from those countries in regard to militarization and social development, it is not inaccurate to link the coercive power of the state to social exclusion in post-Soviet societies.

Hewedy (1989), for instance, argues that democracy and “its socio-economic requisites” are the victims of militarization. Militarization threatens not only human survival, but also economic welfare. In the Middle East, “it also causes the increase of illiterate adults, underemployment and unemployment, children who are unable to attend even primary schools, people who suffer from hunger or malnutrition ...” (p. 9). Hewedy further posits that militarization diverts resources from development and “sacrifices citizen’s security in favor of the state’s security or, in fact, the favor of the security of the administration” (p. 113). Bowman (2002) demonstrates that militarization in Latin America has had a particularly evil impact on three key measures of its development: democracy, economic growth, and equity. Hence, he challenges the classical notion that military buildup is good by showing that militarization has had negative consequences on these three aspects in Latin America.

In fact, the examination of theories of political power broadens the scope and understanding of a state's tendency to become militarized during peacetime and its linkage to persistence of social exclusion. In the next section of this chapter, the main schools of power, related to the assessment of military states, the breakdown of social movements and the failure of revolutionary attempts, will be appraised. This is an essential task, because the

corearguments of this dissertation are basically grounded in those theories and approaches, and in the logical progression of this work, I often refer to them.

## **2.6 Theories of State Power, Social exclusion, and Social Movements**

Whereas sometimes power can also be positive and productive, the main theories of political power describe the effects of power in negative terms. Power is often repressive, exclusionary, abstractive, and prohibitive. It typically includes state incumbents' organizational power, specifically how state elites exercise monopoly on violence. In this sense, a militarized state is similar to a Weberian type of state, which maintains a monopoly on violence (Weber 1919).

An influential sociologist and political economist, Weber conceived of power as the capacity of a social actor to achieve a desired outcome even if confronted by resistance. "Power is the chance of a man or a number of men to realize their own will in a social action even against the resistance of others who are participating in the action" (Weber, 1998:21). For militarized states, in the same way, power is the opportunity to achieve their will against opposition, regardless of what this opportunity is based on. A prominent behavioralist view of power was put forth by Robert Dahl, who asserted that "A has power over B to the extent that he can get B to do something that B would not otherwise do." (Dahl 1957:202)

Scholars, such as Anthony Giddens and Barry Barnes, challenged the behavioralist conceptions of power and developed the structural school of political power. They examined structural conditions affecting the exercise of power by certain individuals and groups. Finally, social psychologists who explore the phenomenon of power focused on behavior in interpersonal relations, groups and organizations.

Using those approaches of power, the literature on post-Soviet Union regime change have focused on institutional and constitutional design (Roeder 1993; McFaul 2001; Fish 2005, 2006; Stepan 2005) and social movement theories, among those the theories of resource mobilization, as well as the structure and organization of movements. "colored revolutions" and the failure of protest movements have been explained through opposition

tactics and mobilization (McFaul 2005, Beissinger 2007; Tucker 2007). Levitsky and Way (2010) explain the diverging authoritarian regime trajectories based on the international dimension of democratization, Western linkage and leverage, and the domestic structural variable, that is, the organizational power of incumbents.

There are plenty of explanations concerning the driving forces that lead some states to violently contain mass protests, while other states manage to deal with civil and political oppositions peacefully. Historically, the role of wars and the emergence of centralized bureaucracies has been the key answer. For the modern states, a variety of institutional design explanations have been posited for understanding the differences of states to coerce election-related uprisings and protests resisting exclusionary policies, oppression, dictatorship and military rule (Roeder 2007; Grzymala-Busse 2007). Sjoberg argues that “the capacity of central authorities, the *State*, to coerce and impose its will is crucial, as is the capacity of societal *Elites* to challenge the state. Wherever there is a balance of forces, politics will be competitive” (Sjoberg 2010:1).

In the comparative analysis of post-Soviet states' authoritarianism and its affect on social exclusion, this dissertation dwells on the organizational power of incumbents, focusing specifically on how state elites exercise the monopoly on violence. In this sense, a militarized state is similar to a Weberian type of state which claims a monopoly on violence, which it may therefore elect to delegate as it sees fit (Weber, 1919, “Politics as a Vocation” (*Politik als Beruf*)). The Weberian type of state is fundamental for opportunity hoarding and alterations in the distribution of power. “A strong, coercive apparatus enhances incumbent’s capacity to monitor, intimidate, and when necessary, repress opponents. The greater the incumbents’ capacity to crack down on opposition protest, or to prevent it from emerging in the first place, the greater are the prospects for stable authoritarianism” (Way, 2006:9). While institutions, oppositional elites, coalition building within the state, as well as among challenging societal actors, oppositional tactics, and organizational structure of mobilizations are all significant factors in explaining political power, I argue that to a great extent the

coercive capacity of the state itself is the most significant variable in the examination of protest repressions and "colored revolutions".<sup>22</sup>

Assessing and quantifying political power is not easy. Peter Morriss (1987) noted that “the study of power indices is in a mess: several rival indices are in existence, each with its adherents who want to apply ‘their’ index to every conceivable situation” (Morriss 1987:154)The task becomes even more complicated for the non-democratic countries, such as many of the post-Soviet republics. According to Kramer, “with the partial exception of several scales of presidential power, no indices have yet been proposed to quantify political power in authoritarian or semi-authoritarian countries — the sorts of countries that belong to the CIS.” (Kramer 2010:16)

A good indicator and measurement of state power is perhaps the *monopoly on use of forces* developed as the World Bank Governance Indicators or Bertelsmann Transformation Index (BTI) democracy status. For example, Börzel, Pamuk, and Stahn (2008), as a measurement of statehood, have used the ‘monopoly on use of forces’ to assess the performance of the three South Caucasian states – Armenia, Azerbaijan and Georgia.<sup>23</sup> Based on the 2005 BTI indicators, the authors report that Armenia’s monopoly on use of force is 9, Azerbaijan’s is 6 and Georgia’s is 4. This implies that Armenian state possesses a stronger capacity to deploy coercive power compared to its neighboring states. The country’s disturbing trend toward authoritarian rule is a result of the structural composition of Armenian governance, specifically characterized by a dominant executive, a submissive judiciary, and a powerless parliament. At the same time, political parties are weak and mass media is restricted.

Having an understanding of political power, it is equally imperative to lay out core theories of contentious politics and social revolutions as techniques used by people against durable social exclusion. Contentious politics is the use of disruptive techniques that people have as the only resource against the better-equipped states in the construction and organization of social movements. According to Tarrow, social movements are not just

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<sup>22</sup> This argument is supported in Chapter Six.

<sup>23</sup>The indicator “stateness” is part of the BTI Democracy Status. It includes the sub-indicators monopoly on the use of force, citizenship agreement, no religious dogma, and basic administration.



expressions of deprivation, discontent and violence, but are better defined as “*collective challenges based on common purposes and social solidarities, in sustained interactions with elites, opponents and authorities*” (Tarrow 1998:4). “Contentious politics is triggered when changing political opportunities and constraints create incentives for social actors who lack resources on their own” (Tarrow, 1998:2). Tilly’s and Tarrow’s contentious politics is very distinctive of the collective action process sprouting in many post-Soviet states for the last two decades.

Most scholars define social revolutions as rapid, basic transformation of a society’s state and class structures that are carried through class-based revolts from below (Skocpol 1979:4). Skocpol’s contribution to the theory of revolutions has three distinguishing features: 1) *structuralist*, which identifies the objective conditions necessary for the emergence of revolutionary situation; 2) *internationalist*, which displays how transnational economic relations and the international structure of competing states influence domestic developments; and 3) *statist*, which explores the emergence of revolutionary situations based on the administrative and coercive powers of the state and its relation to classes, particularly the dominant landed class (1979:4). Another author similar to Skocpol in the conceptualization of revolutions, Goodwin, defines social revolution as a fundamental and relatively rapid transformation of a national society’s state structure, economic institutions and/or culture; these changes are initiated and/or achieved, at least in part, by popular mobilizations, including armed movements, strikes or demonstrations (Goodwin 2001:260). He believes that five main points play a significant role in the formation of the revolutionary movement: state’s protection of unpopular economic and social arrangements, as well as cultural institutions; repression and exclusion of mobilized groups from certain resources; state’s violence against mobilized groups or oppositional political powers; weak policing capacities and infrastructure power; and corrupt and arbitrary personalistic rule that alienates, weakens, or divides the counterrevolutionary elites (2001:45-47). Parsa agrees to the state-centrist approach of revolutions and adds to the analysis state repression and exclusion. In cases where strong state repression pertains, it is more difficult to produce a revolution (Parsa 2000).

Further, state-centrist approaches add more insight to the discussion of how social movements, arisen as a consequence of social exclusion, are contained due to strong state militarization. Chandler, similar to the above-stated authors, emphasizes the inclusiveness/exclusiveness of the leadership/government towards opposition or challenge (Chandler 2005:3). Within the analysis of collective action, Tilly discusses "revolutionary" situations" and "revolutionary outcomes". Tilly's analysis accurately captures the moment of power transfers and how revolutions burst out (Tilly 1978:198). For a revolutionary situation to arise there should be: 1) contenders making claims, 2) significant commitment to those claims, and 3) repressive incapacity of the government (1978:202). Another three sets of conditions appear to be causes of revolutionary outcomes or transfers of power: 1) the presence of revolutionary situation, 2) revolutionary coalitions between challengers and members of the polity, and 3) control of substantial force by the revolutionary coalition (1978:212).

## **2.7 Conclusion**

This chapter discussed the phenomenon of social exclusion in great detail, providing its definitions, history, measurement, causes and theories. To fully convey the importance of studying social exclusion as "a breakdown of the relationship between society and the individual", the chapter stressed the negative consequences of social exclusion. It also provided extended sections devoted to the multidimensional nature of social exclusion, highlighting the imperativeness to study exclusion as a result of dynamic causal factors. The process of social exclusion includes economic marginalization, social disintegration, and political polarization. These three dimensions are strongly interrelated. Each of them, however, is a cause and consequence of certain factors and conditions. I further suggest that when these conditions persist over long periods of time, such as from generation to generation, the process of exclusion becomes durable. In the presence of durable social exclusion, large numbers of the society are deprived of economic and social resources, as well as political participation due to external circumstances for more than several years.

Based on the works of Silver (1994) and Levitas (1998, 2004, 2005), the chapter introduced the three paradigms/discourses of social exclusion, those being solidarity,

specialization and monopoly (the social integrationist discourse, the moral underclass discourse, and the redistributionist discourse). Levitas's social integrationist discourse argues that exclusion occurs mainly due to labor markets. The moral underclass discourse blames the poor for their exclusion, stressing the moral and cultural characteristics of the excluded. The redistributionist discourse emphasizes discriminatory and exclusionary practices. Silver's solidarity paradigm suggests that social exclusion occurs because of the insufficiency and inadequate function of certain institutions that fail to channel the individual into the society. Specialization suggests that social exclusion is mainly due to the individual's own inability to engage in contractual exchange. Finally, the monopoly or social closure paradigm implies that social exclusion occurs as a consequence of power relations, in which powerful social groups deprive other groups of resources and opportunities. Whereas one cannot reject the role of the first two paradigms in examining social exclusion, the evidence on the situation of social exclusion in post-Soviet Armenia suggests that the social closure or monopoly paradigm is the central discourse through which durable social exclusion should be examined. In the following chapters of this dissertation, I have followed the social closure theory of social exclusion in analyzing the persistence of the problem in Armenia.

Considering that social exclusion is a set of various economic, political and social processes, theories of social exclusion are vast. Discussing some of the key theories on social exclusion in post-Soviet states, I particularly concentrate on the state-centered perspective, because insights stemming from the basic institutionalist perception have not proved to be valid for Armenia. The state-centered approach is more applicable to understand the social closure and monopoly process theorized by Marx and Weber, Tilly, Silver, Levitas and many others. The state-centered approach is heavily supported in Chapter Seven, where I argue that militarization of the post-Soviet Armenian state has been a critical factor in explaining the durability of social exclusion.

## CHAPTER 3

### Social Exclusion in Armenia

*“Between persons of equal income there is no social distinction except the distinction of merit. Money is nothing: character, conduct, and capacity are everything.*

*... That is why idiots are always in favor of inequality of income (their only chance of eminence), and the really great in favor of equality.”*

George Bernard Shaw

#### 3.1 Introduction

The previous chapter identified theories of social exclusion, emphasizing that there is a gap in the scarce literature examining the problem for the post-Soviet republics. The existing literature focuses on the design of economic and political institutions, mainly ignoring the history and culture of the examined societies, and above all, disregarding the inherent nature of the given state. The aim of this chapter is to show that the case of Armenia is a good example for studying social exclusion. It specifies reasons why examining social exclusion in Armenia is a good way to fill the above-mentioned gap by focusing on the contradictions of the twin transition in Armenia. Whereas most post-Soviet countries experienced economic challenges and problems related to socio-economic inequality after the USSR breakup, some of those countries struggled with the issue of social exclusion even more. Armenia is one of those.

The chapter reveals that although post-Soviet Armenia is considered to be a Caucasian Tiger, termed by WB analysts, it has had one of the highest Gini coefficients in the world throughout the 1990s and in mid 2000s. The inequality levels are higher in Armenia not only compared to other South Caucasian countries (Azerbaijan and Georgia), but also compared to most of the post-Soviet republics. By providing tables and figures, the chapter further stresses that most of the indicators of social exclusion are present in post-Soviet Armenia. Moreover, compared to other Latin American, Eastern and Central European, Central Asian and other former Soviet Union countries, in Armenia those indicators have high levels and are persistent. Income distribution is unequal, access to educational and health services are

not equal for all, political rights are not protected, elections are fraudulent, etc. Therefore, it becomes vital to find out factors that make the case of Armenian social exclusion unprecedented and phenomenal in a negative sense.

This chapter also discusses the problem of exclusion in Armenia by separately analyzing its economic, social and political dimensions. This demarcation of social exclusion here is necessary, because in further chapters we can see that some factors, such as the privatization of firms, have affected more the worsening of economic and social exclusion, while other processes, such as state militarization, have more deeply impacted the exacerbation of political exclusion. In any case, the political lack and unwillingness of powerful elites to distribute assets, resources and opportunities evenly, as well as to allow equal political participation was essential.

### **3.2 Independence and its Challenges: Contradictions of Twin Transition in Armenia**

One of the world's oldest civilizations, Armenia prides itself on being the first nation to formally adopt Christianity (early 4th century). Despite periods of autonomy, over centuries Armenia has been under the reign of various empires including the Roman, Byzantine, Arab, Persian and Ottoman. After the Turkish defeat in World War I, Armenia became independent in 1918, but survived only until 1920, when it was annexed by the Soviet army. In 1922, Georgia, Armenia, and Azerbaijan were joined by the Soviets to form the Transcaucasian Soviet Socialist Republic, which became part of the USSR. In 1936, after reorganization, Armenia became a separate constituent republic of the USSR. Armenia once again declared its independence from the Soviet Union in 1991 and is an independent republic today.

Armenia's Constitution (Chapter 1. Article 1) declares Armenia as a sovereign, democratic, social, constitutional state, where the power belongs to the people.<sup>24</sup> Armenia is, de jure, a presidential representative democratic republic, where executive power is exercised by the government, whereas the legislative power is vested in both the government and parliament. In reality, the executive's power is enormous, with huge influence over the

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<sup>24</sup> Please see the official website of the National Assembly of the Republic of Armenia, [www.parliament.am](http://www.parliament.am), Chapter 1, *The Foundations of Constitutional Order*.

judiciary and the municipal governments. The President, who is elected by the citizens for a five-year term, is the head of State. The President ensures adherence to the Constitution and provides for regular functioning of legislative, executive and judicial authorities. The President also guarantees the sovereignty, territorial integrity and security of the state.

The Government is composed of the Prime Minister and Ministers. The President appoints the Prime Minister, but the parliament (National Assembly) has to express a vote of confidence in a Prime Minister designate. He/she is also responsible for appointing and discharging members of the government on the Prime Minister's proposal. The National Assembly, elected through general elections for a five-year term, is the supreme legislative authority of the Republic of Armenia. It consists of 131 deputies, 90 of which are elected on the basis of proportional representation and 41 on the basis of majority representation. Finally, the judicial power in the Republic of Armenia is represented and administered by the courts in accordance with the Constitution and the laws.<sup>25</sup>

Armenia is engaged in a long conflict with Muslim Azerbaijan over Nagorno-Karabakh, a primarily Armenian-populated region, assigned to Soviet Azerbaijan in the 1920s by Moscow. Armenia and Azerbaijan began fighting over the area in 1988; the struggle escalated into a war after both countries seceded from the Soviet Union in 1991. The war ensued from 1991–1994. Armenia effectively controls the region today, although no formal resolution exists.

Armenia has a territory of 11,506 sq mi (29,800 sq km) with a population of 2,968,586.<sup>26</sup> It is about the size of Maryland. The population is very homogenous; 98% of inhabitants are Armenians. The country is not rich with natural resources. It possesses small deposits of gold, copper, molybdenum, zinc, and bauxite. According to the 2007 estimates, the GDP (purchasing power parity) per capita is \$5,700. The rare sources on the Gini coefficient present a Gini coefficient of 0.59% for the years of 1996-1999 (WB 2000) and 0.45% in 2005 (UNICEF 2011).

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<sup>25</sup> The information is presented in the official website of the Government of Armenia, <http://www.gov.am/en/gov-system/>, last accessed on December 16, 2013).

<sup>26</sup> The population number is an official number; some sources estimate that number to be less than 2.8 million due to labor migration.

**Map 3.1:** Political Map of Armenia that includes the Azerbaijani territories captured by Armenians during the Karabakh war



Source: [http://www.nationsonline.org/oneworld/map/armenia\\_map.htm](http://www.nationsonline.org/oneworld/map/armenia_map.htm), last access December 15, 2013.

As mentioned earlier, Armenia declared its independence in the fall of 1991, following a referendum which took place on September 21, 1991. There was a feeling of happiness and a feeling of insensible pride all around the nation rejoicing over Armenia's secession from the Soviet rule. Everybody was happy; indeed, it was thought that independence opened up new perspectives for sovereign Armenia to engage in collaborative economic relations with other countries that used to be the unreachable abroad and to develop enormous potential for regional economic expansion; indeed, it was supposed that independence encouraged the establishment of a democratic system and statehood.

A year earlier, on August 23 of 1990, Armenia's Parliament adopted the Resolution of Intent to declare independence from the Soviet Union. On that day, Edmond Azadian, one

of the few Armenian leaders from the Diaspora addressed the Parliament, proposing “certain issues of vital importance to our people”, among which was the following: “Independent national statehood is not simply a declaration on paper. It is action and achievement. Therefore, the entire nation must take those actions which will lead our homeland, in successive stages, to the achievement of full independence, politically and economically.” (Azadian 1999:5)

Alas, neither in his book “*History on the Move*”, nor in the mentioned speech, does Azadian elaborate on those actions that would lead Armenia to the achievement of full independence and consolidated democracy. Not only Azadian, but many others in the Armenian political circles have not been able to offer the steps that would encumber the forthcoming perils of independence and facilitate the transition to capitalism.

The winter of the independence was cold and long. Many more winters following that year have been difficult for Armenians to overcome with temporary housing in the regions where the earthquake had struck in 1988, with scarce heating and electricity in the country. The period of transition in Armenia was conditioned not only by some anticipated consequences of the breakdown of the Soviet integrated economy, but it was also marred with the earthquake that left approximately 200,000 people homeless, with the Karabakh war, and with the blockade of the Armenian borders by Turkey and Azerbaijan.

Ignoring the widespread poverty, destitution and inequality in post-Soviet Armenia, most experts of transition consider Armenia's transition from Soviet to a capitalist system as a smooth and positive process resulting in high economic growth. For instance, the 2007 World Bank Publication “*The Caucasian Tiger: Sustaining Economic Growth in Armenia*” recognizes the Republic of Armenia as the Caucasian Tiger.<sup>27</sup> The authors Mitra, Andrew and Kaminski highlight the stellar growth record that has led the country to the analogous label of tiger akin to the Asian, Anatolian, or Baltic tigers noted for maintaining exceptionally high economic growth rates. The publication fails to report, however, that although Armenia has had the highest economic growth rate of any country in the former Soviet Union, more than

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<sup>27</sup> The contradictions of the Armenian case as a Caucasian Tiger are further recounted in Chapter Four, specifically in the section where the main hypotheses are developed.



50% of the population still lives in poverty. It is true that Armenia experienced relatively high rates of macroeconomic growth and positive annual GDP growth rates – average of 5% in 1994-2000, then average of 12% in 2000-2005. Despite economic growth, output in Armenia in 2005 was still only about 65% of its 1990 level and poverty was widespread. While the book mentions economic growth countless times, hardly ever can you find any mention of inequality and/or high rates of Gini coefficient in Armenia. The World Bank experts dub Armenia a “Caucasian Tiger” based on purely quantitative indicators, but they fail and are least interested to discuss the qualitative aspect of this growth.

According to a 2007 policy brief by Armenian International Center for Human Development (ICHHD), Azerbaijan, Armenia and China are the countries that have surprised the world with their economic growth in the years of 2002-2007. In 2006 Armenia ranked fifth in the annual growth rate of GDP. Azerbaijan ranked first. Within the next five years Armenia has ranked fifth and Azerbaijan has ranked first in terms of the same indicator. The economic growth in Azerbaijan and Turkmenistan has been conditioned with their natural resources. Regarding Armenia and China, the economic experts of ICHHD argue that Armenia’s economic growth does not possess the qualitative features China does. Factors accounting for the economic growth of Armenia do not target spheres and directions which would ensure a high level of competitiveness for the country in the context of international economy. On the contrary, Armenia’s current unprecedented economic growth is weakening the country’s competitiveness. The ICHHD policy brief states that Armenia “paradoxically has an uncompetitive economy, uneven distribution of income and a policy (or the lack of it)” (ICHHD 2007:2).

The independence and transition from socialism to capitalism, thus, is characterized by contradictions in Armenia: on one hand it experienced a high economic growth; on the other hand it reinforced social exclusion, which has been durable for about 20 years now.

### **3.3 Social Exclusion in Armenia as an Element of Post-Soviet Transition**

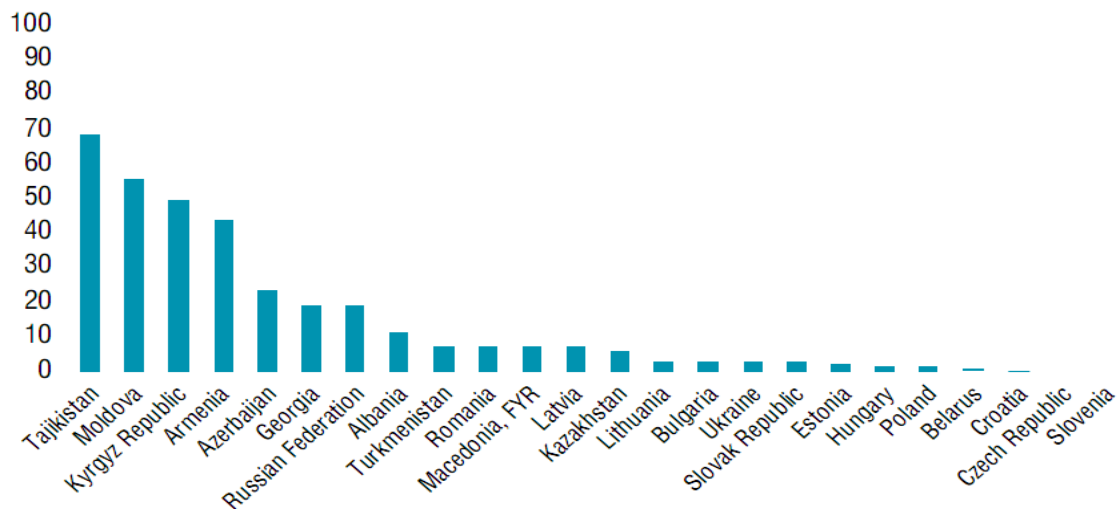
The result of the post-Soviet transition was a total disaster for many states – economically, socially and politically.

In the first year of reform, industrial output collapsed by 26 percent in Russia. Between 1992 and 1995, Russia's GDP fell 42 percent and industrial production fell 46 percent – far worse than the contraction of the U.S. economy during the Great Depression. ... The Russian government, bankrupted by the collapse of economic activity, stopped paying the salaries of millions of employees and dependents. Unemployment soared, particularly among women. By the mid to late nineties, more than forty-four million of Russia's 148 million people were living in poverty (defined as living on less than thirty-two dollars per month [or \$1 a day]); three quarters of the population live on less than one hundred dollars per month.” (Holmstrom and Smith, 2000:3)

The depicted scene characterizes initial years of transition in Russia, but many other republics of Former Soviet Union suffered equally badly, if not more. In the transition countries “the worse aspect of the economic restructuring is the appalling growth in the number of people living in poverty” (ILO 1995:111). Armenia was among the countries with highest percentage of population living in absolute poverty, and in the below figure it ranks fourth in 1996 after Tajikistan, Moldova and Kyrgyzstan.

**Figure 3.1:**Percentage of Population Living in Absolute Poverty in Eastern and Central Asian (ECA) Transition Countries

Headcount index (at \$2.15 per person per day in 1996 PPP)



Source: World Bank, 2000, Making Transition Work for Everyone, Chapter 1, page 4.

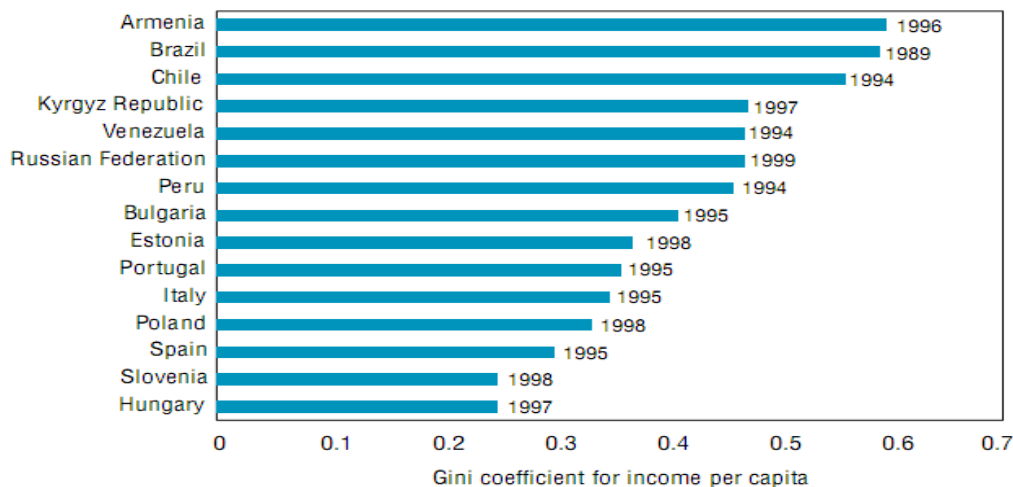
Note: PPP stands for purchasing power parity.

As former USSR countries shifted from state-controlled to market-driven economic systems, the nature of social inequalities in the post-Soviet societies started to undergo major changes that raise new concerns for post-Soviet studies. Income and wealth inequality have dramatically increased in most post-Soviet states. Many of those states are characterized by extremes of poverty and wealth. Access to education, health services and the labor market

has become highly stratified in post-socialist societies. As the market makes access to different services and forms of consumption dependent on individual means, the inability to access those services have become significantly individualized. This process boosts social inequalities that are apparent not only in the mentioned social domains, but also are expressed in the political realm – new forms of political representation and power distribution, as well as how citizens perceive and are able to act upon their exclusion from various forms of economic, social and political opportunities and services.

Even though the transition from planned to market economy would, without doubts, produce changes in income and wealth, the scale and range of the distributional outcomes have been huge and unexpected throughout most of the USSR. A comparison of ECA, Latin American and Southern European Countries shows that while in countries of Central and South Eastern Countries and the Baltic States (CSB) the problems of transition have slowly decreased over time and the distribution remained fairly egalitarian, the former USSR countries, most notably the Commonwealth of Independent States (CIS) have experienced increasing disparities between the rich and the poor – a change of unprecedented magnitude and pace.

**Figure 3.2:**Income Inequality: A Comparison of ECA, Latin American and Southern European Countries



Source: World Bank, 2000, “Making Transition Work for Everyone”, Chapter 4, page 141.

In Russia, Armenia, Moldova, Tajikistan and Turkmenistan, where the Gini coefficient has been around 0.5 or above, inequality can be compared to Gini coefficients

observed in Latin American countries with the most unequal economies. This change has left millions of post-Soviet citizens with a feeling of strong deprivation and exclusion. The picture is even worse if we consider the social distance between the very poor and the very rich. As World Bank reports, the decile ratios for per capita incomes in the CIS states have been extremely high: for example, in Georgia, the top 10 percent earned 7 times more than the top 10 percent. In Kyrgyzstan and Tajikistan this same ratio was 10 and in Armenia it was 19, which is unbelievably high.<sup>28</sup>

In certain circumstances, income inequality is not enough to represent or measure inequality between the rich and the poor. When income measurements are not accurate, it is better to rely on measures of inequality that capture consumption or expenditures rather than incomes. Besides accuracy issues, consumption is less volatile than income, and thus consumption-based measures present a more meaningful picture. According to the World Bank reports, there is a big gap between income-based inequality and consumption-based inequality in some of the CIS countries, which means that, for example Armenia may be the country with highest Gini coefficient based on income measure (0.59), but not a country with as high Gini coefficient if we consider consumption-based measures (0.39).<sup>29</sup>

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<sup>28</sup> Following January-February 2011 events in Tunisia and Egypt and comparing those countries to Armenia, the Armenian government has made statements that Armenia is immune to social unrests and that there is no constituency in Armenia that is not pleased with the state of affairs in the country. In reaction to this evaluation, Policy Forum Armenia (PFA) presents GDP per capita values based on purchasing power parity (PPP, in 2010 US\$) for Tunisia, Egypt, and Armenia. They are as follows:

Tunisia	\$9,488.5
Egypt	\$6,367.4
Armenia	\$5,178.7

These numbers (available in the International Monetary Fund's World Economic Outlook database at [www.imf.org](http://www.imf.org)) show that an average citizen of Armenia is poorer than that of Egypt and Tunisia by a sizable margin. The ordering still holds if one does not account for the purchasing power of the local currency. In that case the numbers are equal to \$4,159.9, \$2,771.4, and \$2,676.5 for Tunisia, Egypt, and Armenia respectively. It is ironic to argue that there is no constituency for social change when the Armenian Statistical Office has recently released social sector data reporting that 214,000 people in Armenia became poor in just one year (2009), raising the total in poverty to 1.1 million (for a country with a population of less than 3 million). And while extremely low per capita GDP alone may not be an indicator of social exclusion and social unrest, it generates public frustration and affects how people deal with it.

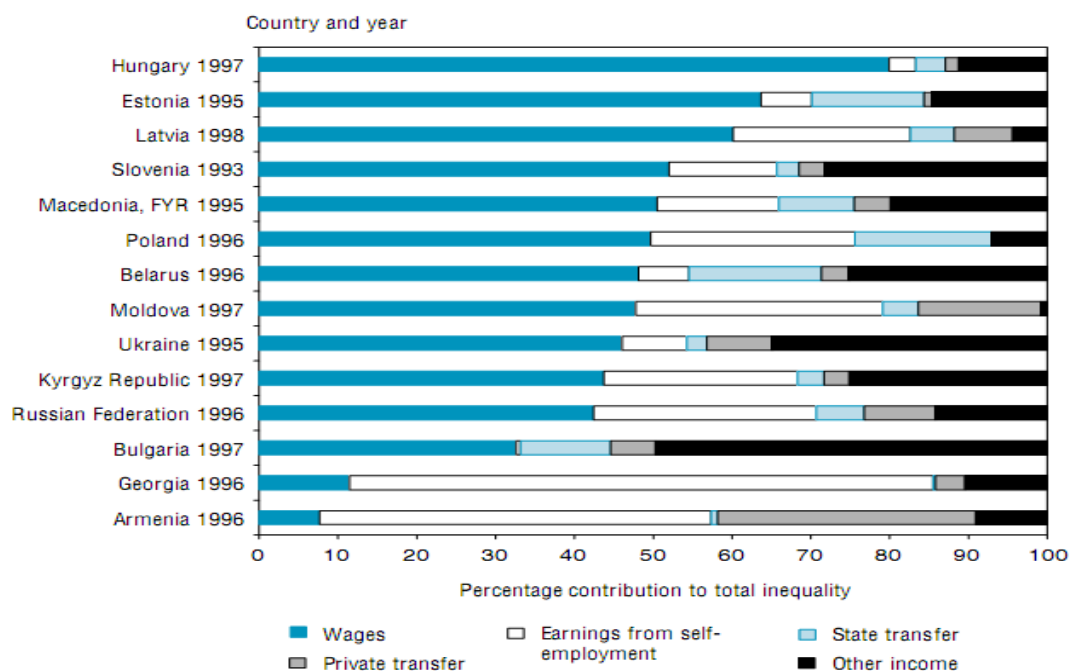
<sup>29</sup> The difference between countries may be explained by the fact that wages represent less than 40 percent of total incomes in CIS countries, and the cases of Armenia and Georgia even less than 15 percent. A second reason is that state transfers represent very little percentage of total incomes in CIS countries, such as, for example, 3 percent in Georgia. Yet another reason is that non-formal sources of labor in CIS states have been easily and often underreported, and thus decreases the total income percentage.

Based on this gap, Milanovich argues that “if our main interest is to understand how changes in distribution affect living standards and poverty, we should rely only on consumption-based measures of distribution” (World Bank 2000:146). While the above suggested explanation sounds reasonable for understanding the gap between the consumption and income-based inequalities in some of the CIS countries, we should not undermine the fact that not only are income-based measures not accurate, neither are the consumption-based measures. If the poor can underreport their earnings, in the same way the wealthy can and do misrepresent their purchases. It is not a secret that in post-Soviet countries, the wealthy habitually register their purchases in the name of a less wealthy relative or friend in order to avoid taxes or for other reasons. Thus, contrary to Milanovich, we can claim that the consumption-based figures of inequality can be considered even more inaccurate in measuring the gap between the poor and the wealthy in countries, such as, for instance, Armenia.

The economic aspect of social exclusion in this dissertation deals with chiefly exclusion from labor market and income. In this sense, increased inequality is explained by earnings from labor. Wage earning and self-employment earnings account for 60 and 80 percent of observed inequality of incomes. As we can see in the figure, earnings from self employment, which generally tend to be more unequally distributed than wages, account for most of the total inequality in Armenia (see Figure 3.3).

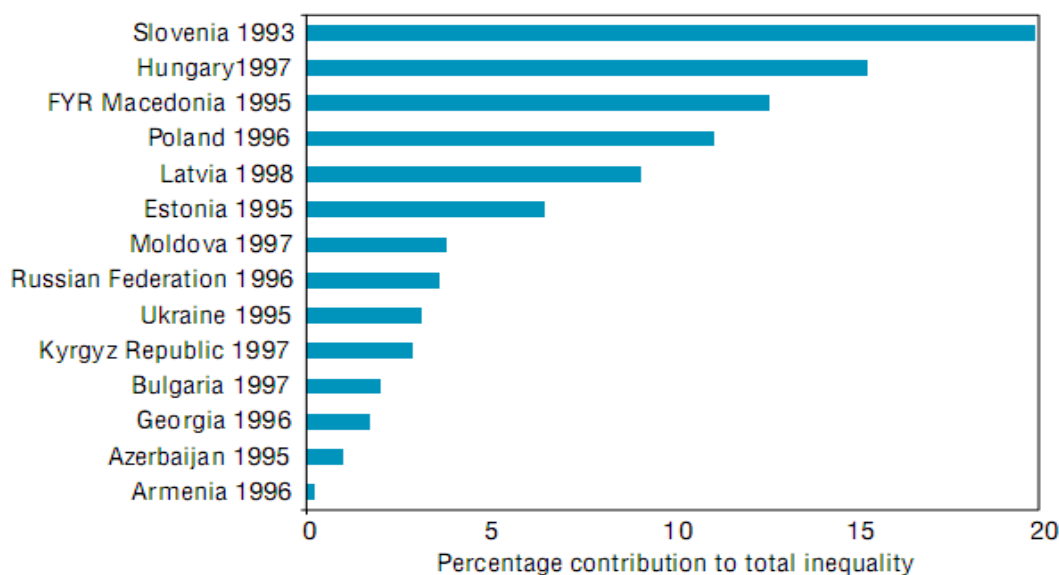
Common sense and empirical evidence suggest that rising educational premiums could have been an important factor explaining increase in income inequality. While this has been true for CBS countries, such as Poland, Hungary, Slovenia, Latvia, Czech and Slovak republics, differences between education groups in CIS countries explain only 2-3 percent of inequality as illustrated in figure 3.4 (Lindauer 1998; Lehman, Wadsworth and Yemtsov 2000; Yemtsov 2001; Alam et al. 2005).

**Figure 3.3:** Income Inequality in Selected ECA Countries, by Income Components, Selected Years, 1993–98



Source: World Bank, 2000, “Making Transition Work for Everyone”, Chapter 4, page 147.

**Figure 3.4:** Percentage of Total Inequality Explained by Differences between Education Levels, Selected ECA Countries, Selected Years, 1993–98



Source: World Bank, 2000, “Making Transition Work for Everyone”, Chapter 4, page 151.

The decline of the formal employment market and the boost of private ownership created more opportunities of self-employment. Income from self-employment formed more than 50 percent in the South Caucasus and Central Asian countries. This self-employment

emergence – a consequence of liberalization and privatization – however did not provide new opportunities or grant advantages to the lower strata of the population. For most of the self-employed it was merely a way of survival and not an opportunity to accrue wealth, with the exception of a few entrepreneurs concentrated at the top of the distribution. Incomes from self-employment are more unequal than wage employment even in well-functioning markets. Thus, in many post-Soviet countries, particularly in the South Caucasus or Central Asian regions, which are new to the market economy functioning and at the same time full of corruption, distorted and often-violated regulations and laws, as well as non-transparent connections playing a huge role in securing business deals, self-employment incomes are highly unequal.

Exclusion from the market labor is critically tied to the emergence of private business as a by-product of transfer of publicly owned assets into private hands. The scale of enterprise privatization and asset transfers in the post-Soviet region was enormous. For example, in 1997 Armenians had privatized 80 percent of housing ownership (World Bank 2000:156). But housing privatization did not have a massive or even the slightest influence on social exclusion of the middle-income or low-income population, because the majority of the citizens were able to privatize their own homes. In this way, the middle or low-income people who used to live in publicly provided housing became owners of their houses. There was no need or opportunity to seize somebody else's house or apartment, because nearly everybody had their own from the Soviet period. In short, housing privatization is estimated to have had progressive distributional impact (Buckley and Gurenko 1997; Milanovich 1998).

Meanwhile, the privatization of enterprises was still in process, and according to Milanovich's estimates in 1997 many CIS republics, among them Armenia, privatized about one-third or more of all medium- and large-scale enterprises and most of the small firms. The privatization hypothesis of this dissertation clearly argues that specifically enterprise privatization influenced the emergence of social exclusion in post-Soviet Armenia. There is little evidence based on quantitative data regarding this supposition, but a plethora of analysis of anecdotal and indirect evidence shows a negative link between privatization and the

distribution of wealth and income (McHale and Pankov 1999; Milanovich 1999; Ivaschenko 2002; Birdsall and Nellis 2003; Milanovich and Ersado 2008).

Aside from the socio-economic consequences of the transition for the majority of the people, particularly the low- and middle-income populations, the restructuring period has also impacted political processes. Thus, economic inequality turned into a bigger evil – social exclusion. Among political processes tax and state transfer policies significantly influenced the distribution of income in post-Soviet countries. The decrease of government's ability to provide essential public services and, in some cases, just lack of political will to do so have disproportionately hurt the poor (Milanovich, 1999).

Certain liberalization and privatization policy trends, such as reducing social expenditures, limiting access to social expenditures through strong selectivity criteria, and the introduction of fee-based access to many social services had a negative impact on socio-economic inequality. As Ivanova (2006) argues, this contributes to inequality's embedded nature in the transforming societies. Other authors (Commander and Lee 1998; Commander, Tolstopiatenko, and Yemtsov 1999) echo the same concern. Commander and Lee (1998), for example, suggest that the share of transfers, specifically through changing concentration of pensions, reaching the upper quintiles of the distribution grew between 1992 and 1996 in the CIS. Milanovich (1999:163) reports that “in most of the high inequality countries in the CIS, taxes and transfers have been at best neutral, and on occasion they have added to high levels of income inequality”.

The analysis of post-Soviet transition literature sums that privatization process in post-Soviet societies has left the major coping mechanisms and the main safety nets for the poor to be family transfers, remittances, humanitarian assistance, and informal sector activities. Apparently, the very poor are the ones who do not benefit from family transfers and private remittances and do not receive revenue from the informal sector.

While it is obvious that social exclusion has been a characteristic element of post-Soviet structural reforms, it is important to discuss the problem in Armenia as a combination of economic, political, and social exclusion.



### 3.4 Economic exclusion in Armenia

The economic aspect of exclusion, that is income inequality, due to lack of proper employment, and worsening of income distribution over time, is a most basic element of social exclusion. It is similar to relative poverty or deprivation and, thus alone is not considered as social exclusion. The economic element of exclusion is concerned with the concept of economic disenfranchisement, more specifically exclusion from the labor market. Sen (1975:5) explicates this concept of economic disenfranchisement in terms of *income*, *production*, and *recognition*.

According to the IMF 2003 country report on Armenia “Poverty Reduction Strategy Paper”, there is a polarization of society to an appalling degree in Armenian. The paper concludes that poverty and inequality in the country may become a reason for numerous hazards and threats with the following consequences, which are all elements of social exclusion:

- Long-term social polarization may deepen the cleavage among various social layers;
- High poverty rates and inequality will become an obstacle for the expansion and flourishing of civil society;
- The poor – a social class of many thousands – continue to lag behind general human development norms, which will hamper the establishment of human capital or will cause its degradation;
- Widespread poverty causes increasing rates of emigration. Furthermore, the emigrant population represents mainly the enterprising and the most educated part of the society;
- Persisting impoverishment enhances passiveness, psychological depression, nihilism and pessimism amongst the vast majority of the population. Consequently, the motivation, initiative, and participation of the population in the social, economic, and socio-cultural life of the country are reduced to a minimum (page 7).

As in most of the Soviet republics, in its last twenty years as part of the Soviet Union, inequality and poverty were not major political or economic problems in Armenia. Before the transition to a market economy, Armenia was a remarkably equitable society (Table 3.1).

**Table 3.1:** Mean Income, Inequality Measures, and Family Size the USSR Republics, 1988

Atkinson indices						
	Mean Income	Gini	A=0.5	A = 2	A = 3	Family Size
1. Tajikistan	78	0.318	0.304	0.459	0.543	6.1
2. Uzbekistan	91	0.306	0.269	0.420	0.503	5.5
3. Kyrgyzstan	101	0.312	0.253	0.414	0.501	4.6
4. Turkmenistan	102	0.316	0.253	0.418	0.506	5.6
5. Azerbaijan	107	0.317	0.246	0.413	0.503	4.7
6. Armenia	<b>125</b>	<b>0.280</b>	<b>0.208</b>	<b>0.347</b>	<b>0.426</b>	<b>5.5</b>
7. Kazakhstan	134	0.291	0.203	0.354	0.438	3.8
8. Moldova	132	0.264	0.194	0.321	0.393	3.1
9. Georgia	141	0.313	0.194	0.368	0.463	3.9
10. Ukraine	142	0.248	0.179	0.294	0.361	3.0
11. Belarus	155	0.242	0.172	0.283	0.348	2.9
12. Russia	159	0.264	0.176	0.305	0.380	2.9
13. Lithuania	164	0.244	0.166	0.278	0.345	2.9
14. Latvia	174	0.250	0.157	0.276	0.347	2.7
15. Estonia	186	0.278	0.161	0.307	0.390	2.6

Source: Michael V. Alexeev and Clifford Gaddy (1993), "Income Distribution in the USSR in the 1980s".

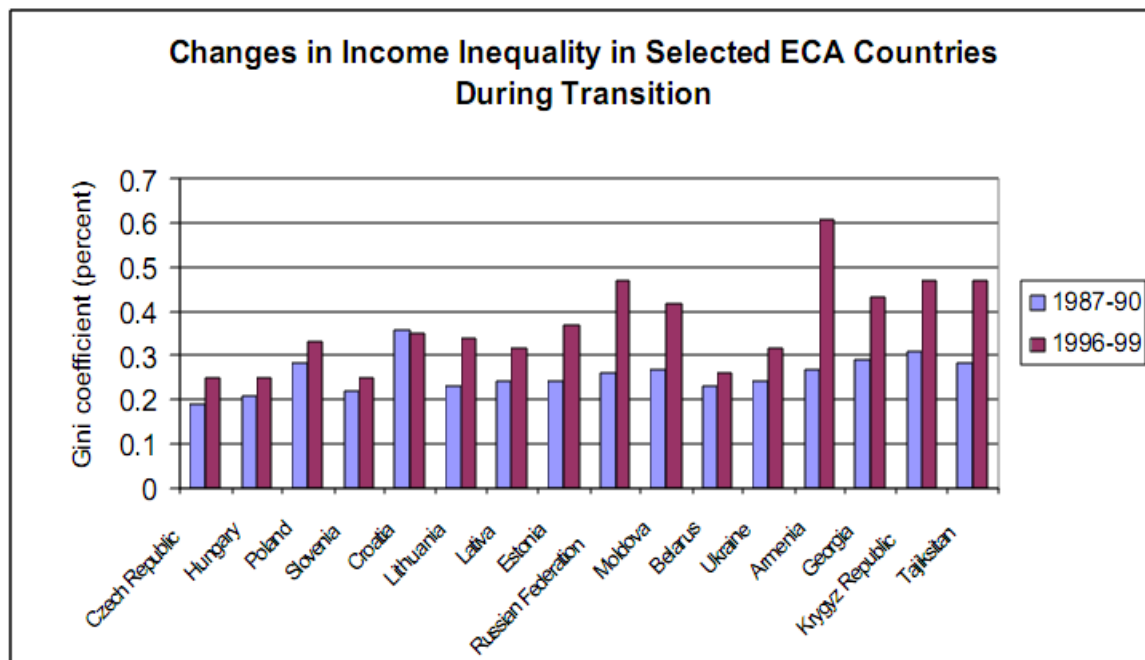
The Gini coefficient for the distribution of income was only 0.28%, which means that Armenia used to be a sufficiently equal and fair society. During the transition from socialism, however, the Gini coefficient soared and is estimated to be 0.59% based on most household surveys. It is the highest among most of the post-Soviet countries, as seen in Table 3.2 and Figure 3.5 below.

**Table 3.2:** Income Inequality in Selected Transition Countries in 1998

	Gini Coefficient for Income	1998 GNP per capita (PPP US\$)
Armenia	0.59	2,074
Azerbaijan	-	2,168
Georgia	0.41	3,429
Kyrgyzstan	0.44	2,247
Moldova	0.41	1,995
Tajikistan	0.47	1,041

Source: World Bank, Armenia Poverty Update, 2002.

**Figure 3.5:** Changes in Inequality: Small in Central Europe, Larger in Former Soviet Union Countries



Source: World Bank, Armenia Poverty Update, 2002.

The IMF country report (2003) states that in 1988 only 20% of Armenians received salaries lower than the poverty threshold. The composition of the income sources was the following: 76% salary, 11% formal transfers, 13% income from agricultural production and sales and other incomes. The expenses constituted: 41% food purchase, 28% non-food products and 9% on services. Although many analysts have argued that inequalities existed during the Soviet reign, considering the nature of the Soviet economic and political system, the inequality level in Soviet Armenia was one of the lowest in the world during 1987-1990 (IMF 2003:16).

There are reports that demonstrate a certain decrease of inequality in Armenia (particularly income inequality) from 1999 to 2001, reporting that the 0.593% of inequality in 1999 has decreased to 0.535 in 2001. First, it should be noted that the income concentration Gini coefficient persists at a socially tense value higher than 0.5 percent. The indicated change is an extremely minor change, and the Gini coefficient is still considered to be very high, indeed one of the highest in the world. Secondly, it is important to mention that according to many reports and accounts, the same years experienced much higher levels of

national wealth (GDP level increased in the republic). This means that while GDP level increased to a great extent, the Gini coefficient decreased by only 0.058%, making the inequality gap even bigger. In terms of social exclusion, this is not an achievement for which to be proud.

At the beginning of the 1990s, Armenia experienced an unprecedented energy crisis. During the following three years, the GDP decreased to less than half, and in 1993 was about 47% of the 1990 level of the GDP. This has been estimated to be the largest decline of GDP in the CIS countries. The deep and systematic economic crisis resulted in approximately 645,000 job losses in the non-agricultural sector of the economy. Meanwhile, the agricultural sector was not prospering as well, significantly decreasing the share of agricultural products for sale (IMF 2003:17).

It is not a surprise that income inequalities increase when there is increased unemployment and decreased social transfers. In post-Soviet Armenia, both income generated from hired employment and social transfers changed in volume, as well as in structure as compared to the Soviet Armenia<sup>30</sup>. Other incomes, such as property and business activity related incomes and informal transfers have also been distributed very unevenly.

“The 1991-1993 period left deep scars in the psychological and historical memory of the part of population that stayed in the country” (IMF 2003:17). These scars have not been imprints of economic exclusion alone. Those have been costs of social legitimacy and social status erosion that are tightly linked to loss of employment and income. Material deprivation and income insecurity have not been the only consequences of the transition process in the post-Soviet region. Resulting from the steady loss of employment and income, health and education systems have deteriorated, increasing social strains. Obviously, high Gini coefficient is not the only indicator of extreme inequality in post-Soviet Armenia. Other social indicators have worsened for significant swaths of the population, on which there are more detailed accounts in the next part of this chapter – the social aspect of exclusion.

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<sup>30</sup> From the point of view of changing volume, absolute terms of wages, pensions and benefits decreased significantly. From the point of view of structure, the unequal distribution of wages increased drastically.

### 3.5 Social Exclusion in Armenia

The social aspect of exclusion is largely dependent on the implementation of social policies within a country. Social change, thus, can be achieved within a framework of people-centered policies and strategies that offer bargaining strength to the poor and ensure social cohesion and solidarity. These types of policies have been rare in post-Soviet Armenia.

The level of public expenditures for health care in Armenia was the lowest in the region and the quality and utilization of the health services deteriorated during 1998-2002. In the 1990s, it ranked lowest among post-Soviet republics in the number of hospital beds per 1,000 persons, and ranked average for the number of doctors per 1,000 persons (Tonoyan, 2004:7). During 1998-2002 the highest indicator of state health budget was 1.4% of GDP (which according to the recommendation of WHO should not be less than 6-9%) and accounted for approximately 25% of total health care expenditure.

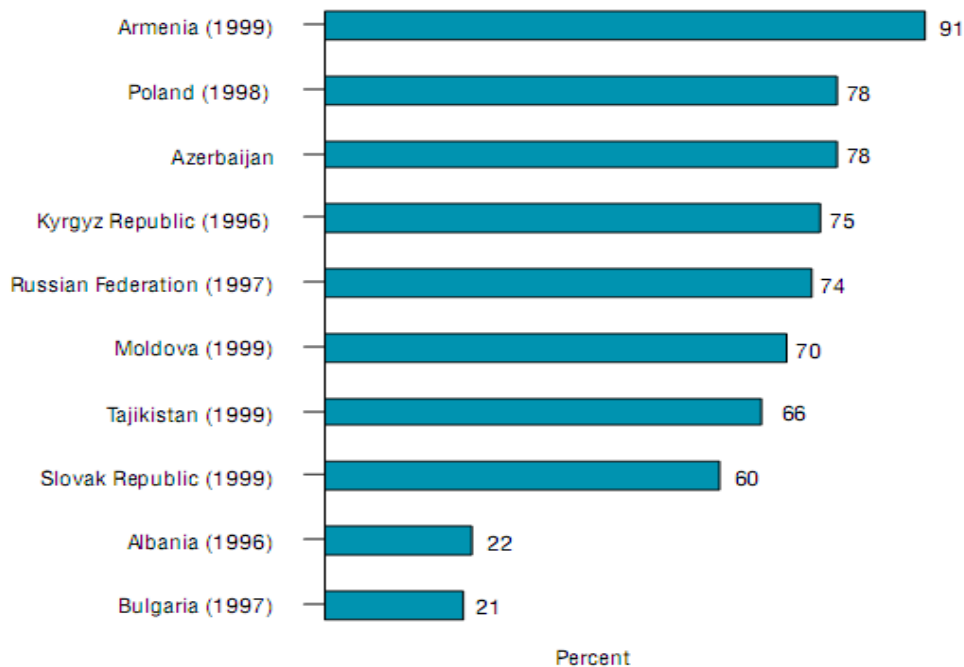
In many developing countries, public health care institutions are typically characterized by what is widely known as 'informal payments'.<sup>31</sup> "By definition, informal payments are those made to individuals or institutions in cash or in kind outside official channels for services that are meant to be covered by the public health care system" (Liu and Sun, 2009:1). The basic motive behind widespread informal payments is that formal healthcare prices do not fully differentiate patients' various needs. Another fundamental cause of informal payments is that health care providers' salaries are very low in developing countries; thus, they seek other avenues of income. Subsequently, patients pay extra in order to get a proper treatment. Conventional wisdom suggests that the groups of the society, who face financial constraints, are in a disadvantaged situation in health systems that do not prohibit or punish the practice of informal payments. Poor patients are systematically eliminated from the process of receiving proper health care. The reliance on direct out-of-pocket payments undermines the principle of equity with respect to both financing and access. In order to have adequate access to health care, a household must be able to afford informal payments to doctors, nurses, and other staff in the hospital.

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<sup>31</sup> Informal payments are literally out-of-pocket payments and they are often called 'out-of-pockets payments'. Contrary to co-payments or out-of-pocket payments - popular practices of the American healthcare/ health insurance system, the out-of-pocket payments are not legal practices of healthcare systems in developing countries.

Informal payments account for more than 85 percent of all expenditures in the health sector for the countries of South Caucasus. Figure 3.6 shows that among selected ECA countries Armenia takes the first place regarding the share of patients making informal payments. It is 91%.

**Figure 3.6:** Share of Patients Making Informal Payments in Selected ECA Countries



Source: World Bank “Making Transitions Work for Everyone”, 2000

Naturally, the poor suffer more in this type of health system, as medical care funded by the state is basically non-existent. The loss of access to free health care previously provided by the state is a significant concern for the poor of the society and creates a sense of vulnerability within this class. The accessibility of the most essential services has become a very serious problem mainly for socially vulnerable groups in the Armenian population. Public spending has also decreased in regard to education (8% of total government spending), housing (4.5%) and transport (2.9%) during 1990-2001 (Griffin/UNDP, 2002:132).

School enrollment in post-Soviet countries has much higher levels than in countries of similar income levels. However, enrollment rates have fallen in some of the poorest CIS countries. The World Bank 2000 report “*Making Transitions Work for Everyone*” notes that

Armenia is among those CIS countries, where the primary school enrollment rate of 90% in 1989 has fallen by about 10 or more percent. There are signs of school attendance declining even further. There is evidence that poor children are the ones who often drop out of school or attend poorly and their parents are the least able to afford school costs for their children, such as clothing, textbooks and transportation (World Bank 2000).

Other problems concerning secondary education in Armenia are the decrease of funds for educational materials, unpaid teachers' wages, and lack of heating and school maintenance. There are also corruption issues prevalent in the school system, such as asking for bribes from parents in order to send their kids to specialized schools, or demands of extra pay for supplemental tutoring after school by teachers, etc. These problems create unequal educational opportunities for children from poor families starting from primary education. For higher education, inequality of opportunities is even worse. Not considering similar issues already described for primary education, there are additional strains for both student and parents within the higher educational system in Armenia.

The decrease or the removal of subsidies and many essential social services, and the erosion of the social safety nets have had severe implications. While at the initial period of the transformation and market restructuring almost everyone suffered from these changes, economically vulnerable social groups, who were well protected through safety nets and welfare programs during the USSR, suffered intolerably after independence. These include low-income social groups, certain groups of women, elderly and pensioners, children, and subaltern social groups in general. Those, who had been the beneficiaries of Soviet egalitarian measures, have suffered the most.<sup>32</sup>

Among vulnerable social groups, children and young adults are increasingly at risk. A growing number of children live on the streets, and youth unemployment is high. Teen pregnancies have increased. The total abortion rate in Armenia is significantly higher than other Eurasian countries (Abrahamyan & Avagyan, 2000). Armenia is primarily a source

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<sup>32</sup> While it is often argued that there was inequality during the Soviet period, inequality was not as widespread. The only group of the wealthy was the Party elites, while the rest of the society was doing equally well, even the social groups mentioned in the text above. At the same time, it should be noted that those who had more money had to hide it, since it was "wrong" and "illegal", while nowadays, wealth and extreme well-being is a means of openly and proudly displaying their status and employing their power.

country for women and girls trafficked to the United Arab Emirates (UAE) and Turkey for the purpose of commercial sexual exploitation; Armenian men and women are trafficked to Turkey and Russia for the purpose of forced labor.<sup>33</sup> Obviously, those trafficked are typically from the poor and the very poor classes; people, who are easily mouse-trapped with promises of making money abroad.

The high crime rates, particularly among the youth, are another indicator of the expansion of poverty, inequality and lack of opportunities for a decent life. Sociological theories on crime suggest there is an association between inequality and crime rates. The feeling of disadvantage, unfairness and exclusion leads the poor to seek retribution and satisfaction by committing crimes. A well-known sociological paradigm on crime, the theory of relative deprivation, argues that inequality breeds social tensions as the poor feel dispossessed when compared with wealthier people.<sup>34</sup> Other authors, among them Bourguignon (1998), Kelly (2000), Fajnzylber, Lederman and Loayza (2002), conclude that income inequality, measured by the Gini index, has a significant and positive effect on the incidence of crime. Braithwaite (1979) states that lower-class people, and people living in lower class areas, have higher official crime rates than other groups. *Crime and Society: A Comparative Criminology Tour of the World* portrays trends in crime in Armenia, reporting that overall crime in 1991 increased 11.5 percent over 1990; then it increased 24.8 percent from 1991 to 1992. ““Major” crimes (murder, robbery, armed robbery, rape, and aggravated assault) increased 3 percent from 1991 to 1992. The largest increases in that category were in murder, robbery, and armed robbery. White-collar crime (bribery and fraud) increased about 2 percent in that time, crimes by juveniles increased about 40 percent, and drug-related crimes increased 240 percent”.<sup>35</sup> The number of economic crimes has increased by 14.8% and constitutes around 6.3% of the overall crimes.<sup>36</sup> A most disturbing fact concerning crime rates is that crime by juveniles has increased.

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<sup>33</sup>Source: *CIA World Factbook*, 18 December 2003 to 18 December 2008

<sup>34</sup> For a more detailed view on the link between inequality and crime, see Steven Stack, *Income Inequality and Property Crime: A Cross-National Analysis of Relative Deprivation Theory*, 22 *Criminology* 229 (1984).

<sup>35</sup> Source: [http://www-rohan.sdsu.edu/faculty/rwinslow/asia\\_pacific/armenia.html](http://www-rohan.sdsu.edu/faculty/rwinslow/asia_pacific/armenia.html)

<sup>36</sup> Source: [http://www.unodc.org/pdf/crime/seventh\\_survey/7sc.pdf](http://www.unodc.org/pdf/crime/seventh_survey/7sc.pdf)



Similar to the association of inequality and crime rates, literature shows that there is a direct link between social exclusion and suicide, and suicide attempts are traceable to experiences of social exclusion, such as loss of employment. Durkheim's (1897/1963) insight proposing suicide rates are highest among people, who are not well integrated into society, is applicable for the case of Armenia. Other sociological findings have continued to support this conclusion (Trout, 1980; Baumeister, 1990; Williams, Cheung, and Choi, 2000). Suicides of young and middle-aged males have increased in Armenia, which may be due to unemployment, financial problems and social isolation. The World Health Organization found that the suicide rate was 3.3% in 1985. It grew to 3.6% in 1992, and increased to 3.9% in 2006.<sup>37</sup> According to the Armenian statistical data, the prevailing percentage of people committing suicide are people at the ages of 35 to 65 years old (50.8%) while people at the age of 18-29 make up 19.3%. Not surprisingly, 48.2% suicides were committed by the unemployed and 19.9% by the retired.

Migration is another major social problem in Armenia. Gevorgyan, Mashuryan, and Gevorgyan (2006) reveal that while teenagers migrate for mainly family re-unions, among the top reasons for migration for older people, such as people in the age groups of 20-49 and of 50 and over, are lack of job vacancies, inability to earn a decent living and unhealthy moral environment. For a small percentage of people the geopolitically unstable situation and difficulties in carrying out entrepreneurship are among other reasons for departure.

The above paragraphs, depicting problems concerning the quality of health and education services, crime and suicides rates, trafficking and migration, convey the decline of social cohesiveness, which is an element of social exclusion. The mentioned problems have weakened the ability of people to participate in informal networks of self-help. Meanwhile the prosperity and wealth of the rich has become more striking, contributing to a bigger gap between the poor and the wealthy and fueling social tensions. The very poor are starving, while the rich "have been plundering everything and eating so much that they cannot carry their own stomachs" (Institute of Philosophy and Sociology 1998:8).

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<sup>37</sup> Source: [http://www.who.int/mental\\_health/prevention/suicide\\_rates/en/](http://www.who.int/mental_health/prevention/suicide_rates/en/)

### 3.6 Political Exclusion in Armenia

The social and political dimensions of exclusion are often interrelated. The political dimension, however, specifically deals with the denial of certain political and human rights to individuals and groups of society. According to UNDP (1992:29), these rights are *personal security, rule of law, freedom of expression, political participation and equality of opportunity*.

Political exclusion concerns the general democratization process. More specifically, Marshall (1964) categorizes political exclusion into: a) *civil rights* (freedom of speech and rule of law), b) *political rights* (right to participate in political decision-making), and c) *socio-economic rights* (personal security and equality of opportunity, right to health care and education, unemployment benefits, etc.). In analyzing political exclusion in this study, I follow Marshall's categorization of political exclusion.

The process of social exclusion is based predominantly on the political process through which certain groups of the society, who formerly used to be well-integrated into the whole society, start facing social and economic vulnerability. The political aspect of social exclusion suggests that the state and the institutional system, both of which grant basic civil rights, serve as vehicles of the dominant classes instead of being either a neutral agency or an agency promoting equal economic opportunities and civil liberties. The state's support for elites is expressed through prevailing policies and programs. Thus, from the perspective of political economy, it can be noted that the role of the state and its redefined framework, under which many of the state functions are replaced by the private sector are highly critical for either producing or preventing social exclusion.

People excluded from the economic and social arenas start challenging traditional hegemonies through using politics as an arena within which such challenge could be exercised. Hegemonic elites, in their turn, are often aware of this potential challenge. The ruling elites begin to close political and decision-making options for others in addition to cornering resources and privileges for themselves. The excluded majority are left with no voice because there is no politically relevant representation of their interests that would make them a political force. Through political exclusion, such as restraining participation and

inhibiting policy influence of the excluded, the state creates “permanently outvoted minorities” (Silver 1997:60). This generates a tendency towards shrinkage rather than inclusion of the excluded. A further polarization within the power structure occurs, where the powerful elites become more and more unwilling to increase the scope of economic and political opportunities through the free and fair game of the political process.

In a similar vein, the unwillingness of the system to create new institutional modes and policies dealing with exclusion has produced a growing gap between the agitated restive masses and the political elites in Armenia during the last 15-20 years. The country has followed a path of state-building and a model of development that has created two 'Armenia's: one Armenia is concerned with power preservation through draining away resources from the poorer masses and fighting opposition, while the other Armenia is left to fend for itself. This growing convergence and the failure of the new system to provide a relatively equal delivery of goods and opportunities result in public discontent with a stronger scale of demands, in which the socio-economic terms are now combined with the political.

Post-Soviet Armenia has never experienced a civil war, given the dangerous contexts that it has faced a few times during its 20 year independence. While two of Armenia's neighboring states in South Caucasus, Georgia and Azerbaijan, experienced civil wars in the wake of the break-up of the USSR, Armenia was able to avoid a civil war. Armenia's most vulnerable moments, according to Fiarron and Laitin (2006), were in 1991-92, the point of independence and the period from 1996-1999, when Armenia suffered from anocracy and instability.<sup>38</sup> The Fiarron and Laitin paper was written in 2006, hence we can add to these politically instable periods the period of 2008-present, when Armenia experienced one of its most serious civil and political rights crisis.

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<sup>38</sup> Historian and physicist Spencer Weart in his book “*Never at War: Why Democracies Will Not Fight One Another*” (1998) defines anocracies as societies, where central authority is weak or nonexistent. Kinship bonds extended by personal allegiances to notable leaders are the principal relations. A society may in theory be a state but if the above applies then Weart classifies it as an anocracy. In anocracies, influential families fight street battles. Importantly, there is no central authority which can effectively restrain personal violence such as raids which often escalate by involving friends and relatives to vendettas and wars. In anocracies, power is not vested in public institutions but spread amongst elite groups, who are constantly competing with each other for power.

By another definition, an anocracy lies midway between a democracy and an autocracy.

Despite the absence of a civil war in the third Republic of Armenia, political exclusion and human rights abuse have been common in the country during its post-independence. The 2009 World Report of Human Rights Watch records that “Armenia experienced one of its most serious civil and political rights crises since independence when security forces used excessive force on March 1 against opposition demonstrators protesting the results of the February 2008 presidential election” (Human Rights Watch, 2009:334). There were violent clashes between police forces and the demonstrators, arrests of hundreds of demonstrators and opposition supporters. A state of emergency declared by the government restricted basic freedoms of Armenian citizens, including freedom of movement, freedom of assembly, expression and access to information. According to the report, there was an excessive international condemnation of the use of excessive coercion during the March 1 events and the state of emergency. The report dwells on 1) election-related violence, 2) media freedom, 3) freedom of assembly, and 4) torture and ill-treatment. All of these issues generate political exclusion.

The election-related violence in 2008 post-election events caused 10 deaths, hundreds of injured citizens and hundreds arrested. Police detained and charged hundreds of opposition supporters. There were incommunicado detentions, denial of access to counsel and failure to investigate claims of ill-treatment.

The report raises a particularly serious concern regarding freedom of media in the country, noting that police often target journalists covering demonstrations. Under the state emergency, the National Security Service (NSS) banned at least seven oppositional and independent newspapers from publishing and blocked websites. The ban was lifted in about two weeks, but NSS continued to interfere with the printing of the mentioned newspapers for another week. Later, in the same month, tax authorities hit four of those newspapers with apparently politically motivated audits.

Concerning the freedom of assembly, the restrictive amendments to the law on meetings passed by the National Assembly of Armenia just before the government lift of the state of the emergency on March 17, 2008 should be mentioned. With this law, which was criticized by the Council of Europe and the Organization for Security and Cooperation in

Europe (OSCE), the government denied people's requests to hold public rallies. This law, of course, makes the majority of political arrests seem legitimate and the employment of police and military force by the state permissible. Political exclusion does not end with the imprisonment of hundreds of citizens contesting the repressive state regime and social exclusion; those in custody are often tortured and ill-treated.

There have been past cases of demonstrator beatings and arrests in 1996 and 2004 post-election crises. The repeated violence and coercion used against demonstrating citizens and social movement groups during different administrations shows the durability of political exclusion along with social and economic exclusion. On the other hand, it is essential to note that there are stark differences in the three of those cases regarding the intensity of social mobilization, the organization and violence of demonstrators and coercion used by government elites. Armine Ishkhanyan (2008), for instance, uncovers three of those differences: 1) the support of the main opposition candidate by government officials, civil servants and diplomats; 2) the forms of media, communication, and information-sharing (which I call 'the state of civil society' here); and 3) the emergence of a generation of young Armenians as an active political constituency.<sup>39</sup>

Aside from pre- and post-election beatings, threats and intimidation, arrests and political assassinations that constitute mainly political rights as an element of political exclusion, there is also widespread police abuse of prisoners in Armenia, which, based on Marshall's categorization, can be considered as neglect of both civil and political rights. In their 2010 April statement, the International Federation for Human Rights (FIDH) and Armenian human rights groups stressed a deep concern about "the seemingly pervasive culture of impunity for crimes committed by or under the responsibility of law enforcement bodies in Armenia" (Abrahamyan, 2010). This, indeed, speaks to the flawed and rotten system of the rule of law in the republic.

The European Union for Democracy and Solidarity in the country update for Armenia among other important political developments emphasizes clans, corruption, business

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<sup>39</sup> The similarities and differences of social movements and state reaction to them will be analyzed in detail in Chapter 5.

involvement of political party funding, and human rights violations.<sup>40</sup> Further, Armenia's Human Rights ombudsman states that approximately half of the 5,000 reported abuse cases received are police-related. These issues embody elements and interactions of capital and coercion in Armenia, operating as sources of political inequality.

### **3.7 Conclusion**

The reality of the post-socialist transition is that most of those countries moved from a relatively egalitarian system to a less-egalitarian one, producing long-term social exclusion for certain social groups. The naive beliefs of the post-Soviet people that market system will cause a more equitably distributed income and wealth have been shattered after each and every recent election in some transition countries (e.g., in Ukraine in 1998, in Armenia in 1998, 2003 and 2008, in Azerbaijan in 2003 and 2008, in 2003 and 2008 in Georgia).

This chapter explored the problem of social exclusion in Armenia as an element of transition, depicting the main issues by which we defined and characterized social exclusion in Chapter Two. These issues were categorized into three main fields: economic, social and political. All three of these aspects of exclusion are highly critical in post-Soviet Armenia, based on several international reports and reviews. Armenia's Gini coefficient of 5.6 has been among the highest in world, income distribution is unequal, access to education and health services is very limited for the poor strata of the population, migration trends have intensified, crime, juvenile delinquency and homelessness have increased, and civil, political and socio-economic rights are often violated.

Social exclusion is durable in Armenia, because it lasts for more than 20 years after the Republic's independence, and there have been rare efforts by any of the two ruling administrations to reduce it. The problem started to develop at the beginning of 1990s, when Armenia was going through both economic restructuring and a war, and has continued to expand into a more severe form of exclusion during the post-war period. During the latter period social and political exclusion exacerbated even more, as political and human rights violations increased and became widespread.

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<sup>40</sup> Source: <http://www.europeanforum.net/country/armenia>

## CHAPTER 4

### Hypotheses and Methods

*Capitalism has twins, the market and war. The market converts life into commodities, it converts land into a commodity. And when capitalists cannot sustain this economic model based on looting, on exploitation, on marginalization, on exclusion, and above all, on the accumulation of capital, they rely on war. – Evo Morales*

*Income inequality is where the capitalist system is most vulnerable. You can't have the capitalist system if an increasing number of people think it is unjust. - Alan Greenspan*

*The military caste did not originate as a party of patriots, but as a party of bandits.*

– Henry Louis Mencken

#### 4.1 Introduction

This chapter describes the steps I have undertaken to address the research question of the dissertation. It starts with a brief section presenting the research design and explaining why the chosen research design is inadequate for studying social exclusion in post-Soviet Armenia. The research design is a case study utilizing both quantitative and qualitative research methods. The quantitative analysis is based on the results of a student survey that I carried out in Armenia in 2009. The qualitative research includes historical analysis, elite interviewing, and newspaper content analysis. This mixed research design was necessary in order to demonstrate not only social exclusion and deprivation indicators, described in Chapter Two, but it also enabled me to identify the processes and relations that tend to cause exclusion in the specific context. This way, we can understand social exclusion as a dynamic process.

The second part of the chapter formulates the two main hypotheses of the dissertation, speculating that privatization was an important factor in the formation of social exclusion in post-Soviet Armenia, particularly its economic dimension, and that state militarization through war has further exacerbated social exclusion, affecting most heavily on its social and political dimensions. Further, the development of these hypotheses offers a theoretical framework through which durable social exclusion in post-Soviet Armenia will be examined. This section assesses existing theories of privatization and state militarization, and whether

they can sufficiently explain the problem of exclusion and inequality. It reargues that from a qualitative research perspective, using Weber's concept of social closure and Tilly's concept of opportunity hoarding can make a valuable contribution to enhancing understanding about the processes that result in the formation, reinforcement and durability of social exclusion. Adapting these theories helps to establish the interrelations between the Armenian post-independence state building, privatization process, the Karabakh war and consequent state militarization that are designed by state elites and business oligarchs in a specific way to exclude others. The mentioned conditions and processes are examined through a 20 year period, in an effort to capture the durability of exclusion in post-Soviet Armenia.

## **4.2 Research Design**

This study is an exploratory case study.<sup>41</sup>I chose this research design for two main reasons. First, because social exclusion is a rarely-studied problem in not only post-Soviet Armenia, but also in most of the post-Soviet space, there is a shortage of data concerning the topic, and therefore an exploratory study seemed to be the most appropriate and available method. As Russel Schutt (2006) put it, the goal of an exploratory study is "to investigate social phenomena without explicit expectations", which I have tried to do for studying social exclusion in post-Soviet Armenia. Secondly, exploratory research is considered to be a good method for social scientists who seek to examine social issues that are difficult to quantify, such as processes and relations. In this sense, the use of an exploratory study seems to be an appropriate method to study social exclusion, especially since I intend to examine how political processes that involve issues of power, domination and hegemony affect the polarization and marginalization of certain groups within a society. As an exploratory case study, this research provides significant insight into the problem of social exclusion in post-Soviet Armenia and is a rare effort to generate formal hypotheses for studying social exclusion in the post-Soviet space. It is an attempt to develop a preliminary theory on the problem of social exclusion in developing countries, based on the case of post-Soviet Armenia.

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<sup>41</sup>An exploratory study is generally conducted for a problem that has not been clearly defined, particularly for the case in which the researcher is interested. Whereas an exploratory study may produce important observations about the problem, it should represent definitive conclusions with extreme caution.



The research design combines qualitative historical analysis, as well as a survey of university students, and interviewing party elite and leaders of research organizations.<sup>42</sup> The aim of the student survey was to evaluate public perceptions of social exclusion quantitatively. Undertaking interviews with political party elites and heads of research organizations in Armenia enabled me to better assess coalition-building processes between the military and state elites, and how they transform the Armenian state and class structures, creating social mobilization and state repression against this mobilization.<sup>43</sup> On the basis of the data gathered in these interviews, I was able to pinpoint key (para)military leaders active in state politics, and the type of interactions between state elites and those (para)military figures, that act as obstacles of social inclusion. The interviews also helped me better assess the connection of the Armenian elites' rigid position on the Karabakh question and its resolution to the militarization and autocracy of the Armenian state, the use of the Karabakh issue by the same elites to maintain their power and to restrain social discontent. Finally, through these interviews I discovered more details and specifics of the privatization process, and how the latter generated widespread unemployment, increased low-wage employment, black markets, etc.

The historical analysis is based on previous literature covering the period of 1988-2008. The information collected from the historical analysis, as well as interviews and surveys, although valid and helpful in uncovering the relationships of underlying forces, were not sufficient. Academic books and articles that focus on latest political events in Armenia are limited. This lack was ameliorated by the Armenian media, which is a good commentator on the Armenian and South Caucasus socio-economic and political development process. To fill the gap, I also employed mass media content analysis, concerning events related to the

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<sup>42</sup> During the summers of 2009, 2011 and 2012, I conducted several interviews on themes of privatization, the Karabakh war, state militarization, and social movements. State elites for interviewing were chosen from major political parties, both pro-government and oppositional. Among interviewees there were former and current state elites, such as three of the former Prime Ministers of the Republic of Armenia (RA), a senior advisor to President Levon Ter-Petrosyan, and several pro-government and oppositional political party leaders. Leaders and representatives of research organizations were chosen based on the level of their political awareness, active participation in the socio-political life of the republic, as well as their research input in the academic realm and policy-making. The initial list of the interviewees, particularly the state elites, included more individuals, but because of the unavailability and/or unwillingness of some of them to discuss the topic with me, I managed to interview only 15 of them. Most of the interviews were conducted in Armenia, except two of them, which were conducted in the US.

<sup>43</sup> The interview and survey questions can be found in the Appendix.

Karabakh movement, Armenia's independence in September 1991, the privatization process and the emergence of oligarchic echelon, Karabakh war and the peace process, social movements and their repression, starting from year of 1988. Specifically, articles from the following newspaper sources were used: *Armenia Liberty (Radio Free Europe/ Radio Liberty)*, *Hetq Investigative News*, *Azg*, *Haykakan Jamanak*, *Tert*, *Hayastani Hanrapetutyun*, *Aravot*, *EuraisNet* and *ArmeniaPedia*.

A few of the chosen newspapers, such as *Hayastani Hanrapetutyun*, are considered to be main official information sources in Armenia. They are not privately owned and present the pro-government view on events. Some newspapers and online media sources, such as *Haykakan Jamanak*, have been used because they articulate the views of oppositional forces. Others, such as *RFE/RL*, are considered to be fairly unbiased sources of news. A few of those mass media sources are external and express foreign analysts', as well as diaspora Armenians' observations on Armenia's political developments. In rare cases of information deficiency, I have consulted WikiLeaks, which presents information that is common knowledge in Armenia, but is not published by journalists due to fear of potential intimidation and suppression. In this way, by consulting a variety of pro-government, oppositional and external sources, I intended to present a comparatively realistic and an unbiased picture of events.

### **4.3 Hypotheses**

Given the theoretical framework around the phenomenon of durable social exclusion presented in Chapter Two (*Durable Social Exclusion*), this study proposes to test two hypotheses related to the development of durable social exclusion in Armenia. They are:

(1) As a critical component of free-market economic reforms, the privatization of firms and social services was a necessary but not a sufficient factor in the formation of social exclusion, particularly the economic dimension of social exclusion. The relative absence of policies to promote social equity and political inclusion were intended consequences of a market model that concentrated wealth and life chances at the top of the income scale. In the process of industrial privatization, particularly of the largest firms and industries since the beginning of 2000, government officials spun firms off to political supporters who became

large-scale entrepreneurs. The critical point is that these “oligarchs” also participated in the policy process of free-market reforms. Their networks with policymakers provided crucial political and material support for market reforms beneficial to oligarchs. This relationship was also favorable for state elites in maintaining their power.

(2) State militarization through war is a second necessary and largely overlooked condition for the persistence of social exclusion, particularly the social and political dimensions of social exclusion, in Armenia over more than two decades. It consolidated an authoritarian and repressive electoral political regime. This militarized form of democracy defeated strong social movements pressing for social equity and political inclusion. A militarized state also resulted in an extreme sense of nationalism and an uncompromising position on the Karabakh question, which in their turn affected the deepening of social exclusion in Armenia, as well as the insecurity of the South Caucasus region.

#### Development of the Privatization Hypothesis:

If the great scenarios teach us anything, it is that the problems that threaten capitalism arise from the private sector, not the public. The saturation of demand and the degradation of the labor force that are the great difficulties of Smith’s conception; the crises and contradictions of Marx’s model; the inability to reach full employment that Keynes selected as the great cultural erosion of Schumpeter’s scenario – these are all failures that arise from the workings of the capitalist economy, not from any interference with those workings by the polity. What solutions, what counter-measures can there be to problems caused by the private realm except those that originate in the public realm? (Heilbroner as cited in Byrne 2005)

At the same time, it is argued within the policy documents of the European Union: The cause of exclusion is *not* the fundamental nature of capitalism (which never gets discussed) but the ‘contemporary economic and social conditions’ which tend to exclude some groups from the cycle of opportunities. (Byrne 2005, italics added)

Nonetheless, it is undeniable that there are fundamental problems inherent in the nature of the capitalist system, the balance of power of labor and capital within this system and the privatization process as a critical component of this system, particularly in the post-

Soviet space.<sup>44</sup> A comprehensive program of free market economic reforms to a great degree caused the initial deterioration of income, labor, and social indicators in post-Soviet transitions. That program included the introduction of the price system, the privatization of firms and social services, financial and trade liberalization, fiscal retrenchment, tight monetary policy, and deregulation. In particular, the privatization process has been significant for the transition of post-Soviet societies.

While the post-Soviet literature has a mixed stance in regard to consequences and outcomes of privatization, there is an extensive literature, which shows that economic reform produced significant social exclusion and challenges neoliberalism through focusing on anti-neoliberal protest and mobilization in Latin America (Lopez Maya 1999; Wood and Roberts 2005; Munck 2005; Yashar 2005; Dello Buono, de la Barra, 2009; Silva 2009)<sup>45</sup>. For instance, Silva (2009) challenges neoliberalism in Latin America, arguing that neoliberal reforms commodified labor by restructuring the state in support of market efficiency to the exclusion of other values. "Free market policies severed the connections of organized subaltern social groups to the state, leaving them to fend for themselves against capital in the market" (Silva 2009:266). Yashar (1998, 1999) strikes a similar chord in her analysis of Latin American indigenous rights movements arguing that the adoption of neoliberal economic policies and privatized public assets and commonly held land, states threaten the coherence of indigenous communities.

Within the framework of the privatization argument, I follow the Latin American literature in proposing that privatization, as a critical component of neoliberal reform, affected the economic, political and social sphere in Armenia, threatened livelihoods and interests of middle classes and a wide variety of popular sectors and raised a range of grievances, giving rise to waves of social mobilization. Referring to Silva (2009:266) again, we can speculate that these waves of "anti-neoliberal contention suggest the dawning of a Polanyian countermovement to contemporary market society" in Armenia. Indeed, post-

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<sup>44</sup> The major theories of privatization have been discussed in Chapter 2, in the section where I examined the causes and drivers of social exclusion in post-Soviet countries.

<sup>45</sup> For further empirical findings and conclusions on privatization in post-Soviet republics, please see Barberis, Boyko, Shleifer, and Tsukarova (1996); Earle (1998); Earle and Estrin (1998); Djankov (1999a); Djankov (1999b); and Black, Kraakman and Tarassova (2000). For example, Black, Kraakman and Tarassova (2000) imply that Russian privatization has created "kleptocracy" and has essentially failed.

Soviet Armenia is one of the countries where neoliberal globalization assumed its most pernicious form. Uneven rates of economic growth were accompanied with extreme poverty and a tremendous expansion of social exclusion.

The political results of privatization can be studied through different political theories and perspectives, among which is dependency theory. Many scholars of the dependency or world systems and neo-dependency theories, such as Rostow (1960), Gunder (1966, 1967, 1969), Sunkel (1969), Cardoso (1972), Amin (1974, 1977), Cardoso and Falleto (1979), Wallerstein (1974, 1979, 1980), and Tausch (1992, 1993, 2003) trace the world system perspective to the writings of Karl Polanyi. In opposition to free market economists, the work of Polanyi (1944) argues that structural change within any one country or a region cannot be adequately understood apart from the specific features of the country/region and the domestic processes that involve local actors, such as social classes, state policies, civil society, the military, etc. In regard to dependency theory, subsequent research has more specifically argued that more subordinated and dependant countries within the world system experience a number of problems, such as slow economic growth (Bornschieer et al., 1978, as cited in Timberlake and Williams, 1984:141), increased levels of income inequality (Rubinson, 1976, as cited in Timberlake and Williams, 1984:141) and distorted labor force structure (Fiala, 1983, as cited in Timberlake and Williams, 1984:141). Particularly, since the evolution of the capitalist system in third world countries dependency theory has favored the appearance of specific patterns of class relations in the latter.

Dependency theory is closely related to the advancement of the neoliberal order, chiefly the privatization process in post-Soviet region. In this regard, Timberlake and Williams' (1984) main finding that dependence contributes directly to political exclusion and government repression supports the privatization hypothesis developed in this study. More specifically, Timberlake and Williams argue that "the degree of penetration of peripheral countries by foreign capital contributes to the formal exclusion of non-elite political participation and to the greater frequency with which governments actively repress opposition" (Timberlake and Williams 1984:141).

The exclusion of non-elite political participation and the greater frequency and strength of opposition repression by the state hold true not only in the case of foreign capital penetration as a consequence of privatization, but also in the case of the emergence of a new class of oligarchs and the accumulation of capital in their hands, again as a consequence of privatization. The elite, who are enriched by the penetration of the foreign capital or through the attainment of assets and with political power, have an interest in assuring the security and longevity of that capital and power. The “important ways these interests are pursued include promoting political structures and supporting repressive regimes which will impose negative sanctions when opposition is organized” (Timberlake and Williams, 1984:142).

Armenia can be considered a case of a peripheral country, where during the neoliberal restructuring, privatization played a special political role. It created large-scale private capital and, therefore, important business interests desirous of advancing their policy preferences in pursuit of profit. As a result, the privatization hypothesis involves an examination of the evolution of business-state relations during the privatization of firms and services in Armenia.

Privatization provided informal avenues of influence for business communities to affect policymaking and guarantee a "privileged position" for them in terms of policy output (Lindblom 1977). Due to the boom of oligarchy and kinship networks resulting from the privatization process, access to economic assets, financial institutions and business development was not equal for all. Current structural issues, such as corruption, protectionism and other challenges create privileges for a few, while restricting the potential of development for others. Frequently laws are approved for particular people. A high level of corruption in tax administration and budget expenditures facilitates the increase in inequality. As a result of corruption, the tax system actually becomes regressive, which directly increases income inequality. Investments in human capital and social programs financed from the government budget are biased in favor of financing the projects, where the level of corruption tends to be high.

According to one of my interviewees, during the 1990s there was a well-known rhymed phrase in Russian often used by the Armenians, which is the following:

“приватизация это прихватизация” (*privatizatsiya eto prixvatizatsiya*).<sup>46</sup> It is translated into English as “privatization is usurpation” or “privatization is a means to usurp”.

Another interviewee, Richard Giragosian, comments more specifically on the privatization process like this:<sup>47</sup>

“During the government of Prime Minister Hrant Bagratyan, Armenia was a leading reformer in the post-Soviet states.<sup>48</sup> Privatization went further and faster than in many similar countries. The reason I mention the success of privatization, is also because it demonstrates what Armenia could have ensured and accomplished in other sectors of privatization, because it was land privatization and only land privatization that was transparent and successful. *The later industrial privatization opened a way for the formation of oligarchic cartels*” (italics added).

Here is another quote from the same interview with Giragosian:

“During the Kocharyan period (1998-2008), when the country enjoyed seven years of double digit economic growth, that economic growth was more a paradox; it was not growth that filtered down to the general population and it was sector-specific, for example construction and services sector. *It was not a rising tide that lifted all boats*” (italics added).

On the contrary, “*The Caucasian Tiger*” (Mitra et al.:2007) mentions that due to the recent period of growth in Armenia there has been a sharp rise in consumption by the poor. The World Bank authors further state that the poorer quintiles of the income distribution have gained more from this growth than the richer quintiles, with the extremely poor enjoying the greatest gain. This finding is, without doubt, consistent with other IMF and World Bank reports. In the same section, however, the authors discuss high unemployment rates, which according to survey data stand at about one-fifth of the labor force. The wonder, thus is, how do the country’s poor and the very poor gain from the economic growth more

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<sup>46</sup> Gevork Manoukyan is Chairman of the Armenian Constitutional Legal Protection Centre (ACPRC). Manoukyan is an internationally recognized human rights advocate and activist. Manoukyan was interviewed on May 20, 2009 in Vanadzor, Armenia.

<sup>47</sup> Richard Giragosian, Director of the Armenian Center for National and International Studies (ACNIS), Armenia. Giragosian was interviewed in Yerevan, Armenia on August 2, 2009.

<sup>48</sup> Hrant Bagratyan was the 4<sup>th</sup> Prime Minister of post-independent Armenia in 1993-1996. Before this position, Bagratyan was Minister of Economy, Vice-Prime Minister of Armenia (1991–1993). Since 1996, he has been Consultant of the International Monetary Fund as an energy expert, professor of economics at the Russian-Armenian University in Armenia, at Kiev International University, and at the University of Banking Affairs of National Bank of Ukraine. In 2006 Bagratyan was recognized by the independent journalists as the best economic public man of Armenia during the whole period of the independency of the country in 1991-2006.

than the rich do in the presence of high unemployment rates?<sup>49</sup> The persistence of unemployment in Armenia is explained by Mitra et al. (2007) by the incompleteness of the structural reforms and inadequacies of institutions and practices that encourage competition.

Commenting on “The Caucasian Tiger” and Armenia’s unprecedented economic growth, ICHD experts call it “high but disturbing economic growth” (ICHD 2007:1-2). They bring up seven symptoms of the issue, a few of which deserve mentioning here, because they are directly or indirectly linked with the privatization process and its consequences in Armenia. Those points support the arguments made in disagreement to the World Bank assumption that the continuation of the neoliberal reforms, specifically privatization and economic growth as a consequence of it, was a positive experience for Armenia.

1. Capital is centralized and circulated primarily in one city – Yerevan. Economic growth is not evenly distributed in Armenia both in terms of geography and social layers of the population. The growth is skewed and pregnant with a series of consequences, including the poor quality of the national security, which in its turn is specifically associated with increase of migration.

2. In terms of expenditure components, GDP mostly grows due to import, or more precisely, due to the difference between current consumption, construction expenditures and imports. The major source of economic growth of Armenia is direct or indirect expenditures resulting from remittances.

3. In terms of income components, it is the wealthy social layers that are affected by the present pace of the economic growth.

4. Improvement of the welfare of the poor and the middle classes is defined with remittances. The present economic growth is not conditioned with the development of a competitive real sector. (ICHD 2007:1-2)

The analysis of the impact of privatization and subsequently emerged oligarchic elites on social exclusion in post-Soviet Armenia, as well as a exhaustive discussion of the above-stated points will be detailed in Chapter 8, *Privatization and Social Exclusion in Post-Soviet Armenia*.

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<sup>49</sup> My explanation to this question would be that the consumption numbers are easier and more frequently secreted by the wealthy than by the poor, whether those numbers are based on survey data or other official statistics. Moreover, higher consumption rates reported by the poor may be due to remittances, rather than redistributive policies. Hence, we get higher consumption numbers for the poor than for the wealthy.



Development of the Militarization Hypothesis: It is indisputable that war and the military can become a critical element and a significant force in shaping the path of state-building. It only remains a question of whether it is a positive or a negative force for development, for consolidation of democracy, and for social inclusion. Contending that in the case of post-Soviet Armenia state militarization after the Karabakh war has been a critical factor for maintaining elite power and domination and, consequently, for the durability of social exclusion, the second hypothesis of the dissertation explores the conditions that make the Armenian state so repressive and able to contain strong mass mobilization by civil society that demands for greater social inclusion. Several questions here become important. Under what conditions do military institutions or leaders gain privileges that allow them to be actively involved in domestic politics? What are the factors that make some military states more stable than others, maintaining their hegemonic power? And if state militarization causes social exclusion to become durable, how does it do it?

These questions will be explored mainly in the fifth and sixth chapters, where a comparative analysis of five post-Soviet states and their repressive power is examined, and a discussion of the Karabakh war and after-war political events is developed. But before we try to search answers to these questions, it is essential to succinctly present how state militarization is expressed in modern Armenia.

The definitions and theories of state militarization discussed in Chapter Two are significantly related and serve as the foundation for the development of our state militarization hypothesis. For evaluating the state of growth and equity in post-Soviet Armenia, I oppose the acknowledged association between the increased militarization and less stratification.<sup>50</sup> Instead, I consent to Hewedy's (1989) and Bowman's (2002) assertion that if a country wants to grow democratically, protect its citizens' well-being, and restore equity, it should minimize its armed forces and decrease nationalist sentiments. Similarly, my hypothesis argues that a militarized form of democracy defeats strong social movements that press for socio-economic equity and demand political inclusion. A strong, coercive apparatus enhances incumbent's capacity to repress opponents. The greater the incumbents' capacity to

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<sup>50</sup> The major theories of political power, state militarization and militarism, which suggest that militarization decreases social stratification, were discussed in Chapter Two.

crack down on opposition protest, or to prevent it from emerging in the first place, the greater are the prospects for stable authoritarianism (Way, 2006:9). Stable authoritarianism in its turn exhibits prolonged exclusive, unaccountable and arbitrary power against potential challengers, therefore closing opportunities for those who are excluded and making social exclusion durable.

Employing the military, not only serves the purpose of repressing oppositions, but as many prominent authors have observed, military and police forces are the key instruments of state power in general (Katzenstein 1996, Bowman 2002, Way 2006). This is the case of post-Soviet Armenia, especially after the end of the Karabakh war. According to Richard Giragosian, “the Armenian military is more than a fundamental pillar of the state; it has become a foundational agent of the state” (Giragosian, 2005:13).

Janowitz's (1977) argument that paramilitary forces have been developing quickly in the Third World countries and that their rapid growth has contributed to “the regimes’ stability, that is, their ability to maintain themselves in power” contributes to a fundamental part of my dissertation, regarding the hegemonic power of the state-military elite networking and merger in Armenia (Janowitz 1977:5). Military elites and Karabakh war commanders, as well as other representatives of security forces including national police forces and militia personnel rose not only to the domestic political arena, but also became actively involved in the economic realm during the state reformation of post-Soviet Armenia. This has been mutually beneficial to both state leaders and militaries, because while the former have secured political and economic resources for the military leaders, the latter have provided coercive instruments and power for the incumbent governments’ security. In this way, military choices have been vehicles of popular politics throughout the democratization of Armenia after the Karabakh war’s cease-fire.

The Karabakh war and the strong coercive power of the Armenian state gained due to the war enabled Armenian state elites to contain mass protests against mounting socioeconomic and political exclusion, as a result contributing to the perpetuation of high levels of social exclusion. In successive waves of mobilization, protesters framed their struggle in terms of inclusion, redistribution, and recognition. Indeed, Armenia experienced

a higher degree of social exclusion, and consequently a higher degree of social mobilization than other post-Soviet countries that passed through similar processes of economic and political transformation. Here, research suggests that despite waves of well-structured and strong mobilization and demonstrations, Armenian social movements have failed to achieve changes of regime or increase in social inclusion, which other post-Soviet countries have managed to achieve in some degrees.<sup>51</sup>

Through comparison of five post-Soviet countries – Ukraine, Georgia, Kyrgyzstan, Azerbaijan and Armenia – I show that only Armenia and Azerbaijan, which have had the most mobilized opposition movements (even in absolute terms), have been unable to achieve change. As a result of social movements, the other three cases experienced "colorful revolutions", that is, effective transfers of state power to new state actors (Tarrow, 1998:157). In other words, the Armenian and Azeri waves of social movements have been futile as compared to the Ukrainian, Georgian and Kyrgyz movements (Way 2006; Beachain and Polese 2010). The reason for this lies in the success with which states break down oppositions, a major characterization of modern state militarization. The type of relations and coalitions that may be established between the state, the army and the society is largely dependent on the strength of the military. If a state is founded on a powerful army, which is well-funded by the state, then army may potentially become an agent of socio-economic change. Further, I argue that the success of opposition repression in the case of the mentioned five cases depend on the fact whether the country has recently been involved in an external war or not. Both Armenia and Azerbaijan were engaged in an interstate war, the Karabakh war, and regardless of the war outcome, both states have used the war outcome for promoting military prerogatives and for strengthening their coercive apparatus.<sup>52</sup>

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<sup>51</sup> A change of regime does not necessarily cause a positive change in social inclusion, but it brings new political forces and discourses, which allow for more social participation in economic and/or political decision-making process.

<sup>52</sup> Though the war ended with Armenia's victory with the signing of a cease-fire between Armenia and Azerbaijan and the *de facto* independence of the Nagorno-Karabakh Republic, the Azerbaijani leadership has repeatedly threatened to restart hostilities to retake the region. Since the cease-fire, the territorial question has been skillfully used by the Azeri authorities as part of their campaign. As Cheterian (2010) reports, they increased their militaristic declarations and emphasized the need to reinforce the Azerbaijani army. They insist that they will seek a military solution in case diplomatic negotiations with Armenia do not work. Meanwhile, Armenian authorities, backed by nationalist sentiments in the country, also worked on strengthening military ideology, as well as the state budget spent on military. In the absence of war, the ruling

According to Arman Grigoryan, the monopolization of resources in favor of a few had chiefly to do with war and the war economy both during the war and after it.<sup>53</sup> War affected the unhealthy distortions of economic behavior in Armenia by several ways. The first reason, Grigoryan mentions in his interview, is similar to that mentioned in the classical militarization literature. War in general tends to strengthen states, tends to lead to more centralization, tends to lead to more control. This is the universal logic of the war that was introduced in the Armenian economy. “Particularly, when you have a country at war that does not have a central budget, to speak of, it has to be very concerned about controlling as much as it can to finance the war. And this led to the concentration of economic power in the hands of the few” (Grigoryan, interviewed on 03.24.2010).<sup>54</sup>

The second avenue by which Grigoryan finds the war affected the economic behavior of the country concerns the fact that it was not the best economic actors that gained access to economic means but those that were connected to the war effort. For example, the most important economic ministry in Armenia in mid 1990s was the Defense Ministry. It was not a well-publicized, nonetheless, a well-known fact that certain imports essentially were monopolies of the Defense Ministry and connected businessmen.

Finally, another reason why military leaders were fairly or unfairly rewarded with economic assets was the victory of Armenia in the war. The first stage of the privatization process of state properties coincided with the immediate period after the war in Armenia, and certain military actors were awarded economic resources. Very few in Armenia dispute that

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elites of both countries thus strengthened their coercive apparatus. The Armenian political system in this way has also gravitated towards an openly authoritarian regime, similar to the Azerbaijani political structure.

<sup>53</sup>With a PhD in Political Science from Columbia University and the MA in International Relations from University of Chicago, Arman Grigoryan is currently an assistant professor of International Relations department at the Lehigh University. He is the main oppositional political party “Hayoc Azgayin Kongress” (Armenian National Congress) representative to the Parliamentary Assembly of the Council of Europe (PACE). Grigoryan has previously worked as an analyst in the Department of Research and Analysis of President’s Office in Armenia (1991-1993) and later as Second Secretary in the Middle East Department of the Ministry of Foreign Affairs of Armenia.

The interview with Grigoryan was conducted in Ann Arbor, Michigan, on March 24, 2010.

<sup>54</sup> When the war broke out, Armenia was already facing tremendous constraints: the consequences of the 1988 earthquake that destroyed more than 30% of Armenia’s industrial capacity, the secession from the USSR and the first generation structural reforms, the widespread poverty, weak institutions and energy crisis. “The problems were staggering, and the expectations of what the first administration could have done to be matched to the constraints are typically not discussed in the Armenian political discourse or even in some studies of the origins of corruption, poverty, social exclusion and economic distortions” (cited from the interview with Arman Grigoryan in Ann Arbor, Michigan, March 24, 2010).

the military should have been rewarded for their efforts and victory in the fight for the homeland, but since the country did not have adequate resources at the time, it was done by awards to these people through non-transparent privatization auctions.

Thus, it can be said that the economic dimension of social exclusion started during the Karabakh war. The leadership that came after the first president of post-Soviet Armenia, Levon Ter-Petrossian, further used the economic distortions that resulted as a consequence of war and relied on the existing system to strengthen the coercive capacity of the state. “Robert Kocharyan’s administration saw it as an opportunity, not a problem; they in fact exploited this opportunity for more centralization, for dolling out benefits to themselves and to strong militaries and pliant businessmen, who would economically as well as politically support them”<sup>55</sup>

To conclude the discussion of the state militarization hypothesis, it is imperative to stress that the Armenian state militarization, contrary to the conventional view of militarization presented in Chapter Two, was established and enhanced by the field commanders of the Karabakh war, rather than professional militaries. Based on the etymology of the term, military spelled as *militaris* in Latin and meaning “soldier” implies that militarization can be organized by individuals, who are skilled in arms, engaged in military service or in warfare. Subsequently, in most literature of state militarization, the discussion develops around control of politics by a professional army that is engaged in no other profession than preparing for and engaging in warfare. Opposite to this traditional view, the post-Soviet Armenian government has had several high ranking military officers who have not been trained as professional soldiers. During the Soviet times, Armenia did not have a purely Armenian or an autonomous Armenian army. The first post-Soviet Armenian army, that is the army that fought during the Karabakh war, was formed and developed by mainly civilians or field commanders, who became “militaries or militarized” due to their participation in the Karabakh conflict.

As Libaridian recalls, *“the military in Armenia, had at that time, and to some extent continues to have, the Soviet model of non-intervention in political affairs; by and*

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<sup>55</sup>Cited from the interview with Arman Grigoryan in Ann Arbor, Michigan, March 24, 2010.

*large, the military officer corps has stayed aloof*” (italics added).<sup>56</sup> According to him, it was not the traditional officers of the military, but ordinary civilians, who got involved in the war, became field commanders and then ended up dominating the economy and politics of Armenia. Indeed, during and after the war, Armenia has had Defense Ministers, Generals, Heads of Police and other high ranking military officials, who were not military officers with any military training. Examples include Vazgen Sargsyan, Manvel Grigoryan, Seyran Saroyan in Armenia, Samvel Babayan in Karabakh, and Robert Kocharyan, Serzh Sargsyan both in Karabakh and Armenia<sup>57</sup>.

#### **4.4 Operationalization of Important Concepts**

The literature on social exclusion and inequality typically mentions *bounded categories*, such as black/white, male/female, Muslim/Christian, peasant/landlord, etc. Authors that include developing countries in their analysis mostly discuss social exclusion in terms of the categorically bounded groups with different ethnicity and culture (Stewart, Brown and Langer 2008), caste and religion (Thorat, Attewell and Rizvi 2009), age and gender (Gomes da Conceição 2002), rural-urban residence, disabilities, etc. Although one may not deny the fact that in Armenia there exist certain inequalities in terms of categorically bounded groups, such as females versus males, people with urban residence versus those with rural residence, or groups with disabilities versus those without, the focus of social exclusion in this study is not based on any of these categories. The exclusion examined in this study concerns a group of people that may represent, for example, a female or in the same way a male category, a person with urban or rural residence; exclusion is studied through what Sen (1998) calls “relational roots of deprivation” and not through bounded or categorical groups of excluded people. The political processes and power relations described

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<sup>56</sup> Gerard J. Libaridian is an outstanding Armenian American historian and politician. From 2007- 2011, Dr. Libaridian was the director of the Armenian Studies Program and the Alex Manoogian Chair in Modern Armenian History at the University of Michigan, Ann Arbor. Libaridian taught previously at a number of universities, and has lectured and written extensively. From 1991 to 1997, Libaridian served as adviser, and then senior adviser to the former President of Armenia, Levon Ter-Petrossian, as First Deputy Minister of Foreign Affairs (1993-1994). His role was invaluable in the state-making of the independent Armenia, as well as the Karabakh peace negotiations during the presidency of Levon Ter-Petrossian. Gerard Libaridian is the founder of the Zoryan Institute (1982) <http://zoryaninstitute.org/>.

The interview with Dr. Libaridian was conducted in Ann Arbor, Michigan on April 14, 2010.

<sup>57</sup> These individuals' professional backgrounds and their relation to Armenian state militarization will be addressed in detail in Chapter Seven, *State Militarization and Social Exclusion*.

in the study, although affecting social exclusion in both urban and rural areas, are particularly relevant to the urban category.

Durable social exclusion in this study is measured by the Gini coefficient, wage distribution, unemployment rates over a period of around 20 years.<sup>58</sup> Other indicators, such as government expenditures on health, education, housing and welfare, which have deteriorated, are evaluated, as well.<sup>59</sup> While standardized inequality indicators, such as the Gini coefficient, distribution of income, access to social goods and employability, are measurable outcomes of social status, they are unable to uncover the popular perceptions of how inequality and exclusion are created and inherited from cohort to cohort. Hence, it is important to present not only those indicators, but also public reaction that plainly captures the transitional exclusion of Armenian people. This is done through surveying a group of students, as a representative cluster of the society. Three hundred students participated in the survey.<sup>60</sup>

With respect to privatization, the opaque process by which public assets were sold to certain individuals is analyzed. State administrators allowed friends and relatives to buy lucrative companies. A discussion concerning the huge amount of industries held by individuals close to the state elites is developed. The generation of oligarchic strata, as a social class prone to social closure and opportunity hoarding, is a core investigation of the chapter examining the impact of privatization on social exclusion. I also discuss the social impact of privatization of the energy and telecommunications sectors. Furthermore, administrative barriers to foreign investment are emphasized.

Because there are no sound and complete studies on militarization in the post-Soviet region (except, perhaps Way and Levitsky 2006 and 2010; and Ó Beacháin, Donnacha and

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<sup>58</sup> Because there is a shortage or unavailability of data on these indicators in post-Soviet Armenia as in most of the post-Soviet countries, it was impossible to compile a consistent and up-to-date presentation of economic inequality based on only these indicators. Specifically, it was very difficult to find data on the Gini coefficient in post-Soviet Armenia for different years. Therefore, I have tried to include the best available data related to these indicators, most of which were found and retrieved from the World Bank, IMF and UN publications and reports.

<sup>59</sup> The complete list of social exclusion indicators used in this study was presented at the end of Chapter Two, when I discussed measuring social exclusion.

<sup>60</sup> The survey and a more detailed discussion around it can be found in the Appendix and in Chapter Four, "*Public Perceptions of Social Exclusion*".

Abel Polese 2010), the operationalization of the phenomenon in this dissertation is anchored in some of the popular theories of militarism and militarization (Andreski 1954 and 1968, Janowitz 1964 and 1977, Eide and Thee 1980, Mann 1987, Dunne and Smith 1990 ), as well as studies of militarization in Latin America and Middle East (Hurewitz 1969, Hewdey 1989, Bowman 2002).

State militarization in this study is defined as: a) state's readiness for war, increase in military budgets and military participation ratios due to war, and b) a continued extension of unfavorable state influence in civilian spheres, including economic and socio-political life, by use of coercion via the security sector. While the first part of this definition may not always result in social exclusion, and thus is not as central in explaining it, the second part of the definition treats state militarization as fundamental for authoritarian stability, and therefore, also for alterations in the distribution of power.

State militarization is measured on two levels, based on the above-provided definition. First, the conventional definition of militarization would include indicators such as military expenditures as a percentage of overall GDP; military expenditures as a percentage of overall public expenditures; and armed manpower ratios, otherwise called military participation ratios.<sup>61</sup> Most of these data are available in Stockholm International Peace Research Institute's (SIPRI) Military Expenditure Database. Second, the security sector and state coercion will be measured by the number of regular military and paramilitary Karabakh war leaders in government (the National Assembly of Armenia and Ministries); and the level of state repression used against oppositional movements, specifically their leaders, in terms of the number of political arrests and physical or political intimidation.<sup>62</sup>

Finally I draw freely from a rich literature on contentious politics (Tilly 1978, 2001, 2004, 2007; Tarrow, 1998; McAdam, Tarrow, and Tilly 2001; McAdam, McCarthy and Zald 1996), discussed at length in Chapter 2, because the latter fits well with the collective action process that has gripped Armenia since the transition from socialism. Social mobilization, its

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<sup>61</sup> Data on military expenditures can be found in the comparative chapter on social movements and revolutions, Chapter 5.

<sup>62</sup> As defined by the UK Department for International Development (DFID), the security sector in this study includes armed forces; police; paramilitary forces; intelligence and security services (both military and civilian); customs authorities.



organization, and the intensity of discontent is measured by the number of demonstrations and the number of demonstrators during the 1996, 2004 and 2008 movements. I also discuss the repertoire of contention expressed during those movements. Most often, the demonstrators did not violate limits and respected norms, but there have been cases when they sought to enact disruption and transgression. In addition, I investigate the linkage between demands of social movement organizations and economic and political exclusion. It supports the hypothesis that sociopolitical exclusion contributed to mobilization. The strength of social mobilization will also be assessed according to the formation of horizontal linkages among diverse social movement organizations and between these and opposition political parties.

#### **4.5 Conclusion**

This chapter was divided into three main parts. The first part dealt with the research method and design of this dissertation. It is an exploratory case study, based on a historical analysis, state elite interviews, a quantitative analysis of a student survey, and newspaper content analysis.

The second part was concerned with the main hypotheses and their concise analysis. The main contention of the first hypothesis in the second part of this chapter is that privatization negatively affected the economic, political and social sphere in Armenia, generating continued waves of social mobilization. The consequences of the privatization process, as an element of the neoliberal restructuring in post-Soviet Armenia, were particularly harmful in the economic sphere, chiefly in the labor market. It created massive unemployment, low-wage employment, and income and wealth inequality. As a consequence of the privatization process, the emergence of a new class of oligarchs and the accumulation of capital in their hands occurred. The new wealthy, practically the new class of oligarchs, aggravate social polarization by assuring the maintenance of their newly acquired resources and power.

In regard to the state militarization hypothesis, this part concluded that the peculiar distinction of the Armenian state militarization is not merely the state's readiness or strength to protect the country in case of external war, but also the state's readiness to rely on the

coercive apparatus to repress social protests. The militarization process started as a consequence of Armenia's active involvement in the Karabakh war, but it continued after the war in a different way. Exercising supremacy in military policy and decision making, as well as a tight control of army and in general the security sector by the state elites at the end of 1990s, turned into a 'militarization for internal matters', when the leaders of the Karabakh movement weakened and the state power passed into the hands of the leaders of the Karabkh Party. In this case, the armed forces became concentrated on internal order and often were used to prey on the society rather than to protect it.

The third part of the chapter operationalized the important concepts of the study, describing how these concepts were measured.

The specific steps described in this chapter are the roadmap for the following four chapters, which center on the examination of the public perceptions of social exclusion in Armenia; the comparative strength of the Armenian state to repress social discontent (expressed through the comparison of success and failure of social revolutions in five post-Soviet states); the processes that made the Armenian state militarized and exclusive; and finally the thorough evaluation of the privatization process.

## CHAPTER 5

### Public Perceptions of Exclusion

*Not everything that can be counted counts,  
and not everything that counts can be counted.*  
Albert Einstein

#### 5.1 Introduction

It is a difficult task to measure the magnitude of social exclusion due to the inherently complicated nature of the phenomenon and its dynamic character. Social exclusion can be measured and evaluated quantitatively and qualitatively. In both cases, it is very complicated to document evidence of links between levels and depth of exclusion and factors assumed to be affecting it. Most of the literature on inequality and exclusion has focused on Gini coefficient, income and wage differences across social classes, and finally the difference of the richest and poorest quintiles of the society. However, national or cross-sectional surveys that capture people's feelings about inequality and exclusion are not widely available.

One of the first instances to measure social polarization in the South Caucasus region and to suggest recommendations is Nazim Habibov's (2011) "*Self-perceived social stratification in low-income transitional countries: Examining the multi-country survey in Armenia, Azerbaijan, and Georgia*". Based on the latest comparative survey conducted in Armenia, Azerbaijan and Georgia, Habibov (2011) examines the factors explaining self-perceived stratification in South Caucasus. Whereas Habibov examines social polarization and exclusion based on merely the self-perceived standpoint, in the analysis of the problem this dissertation incorporates both public perceptions of exclusion and a reasonably factual presentation of social exclusion based on both quantitative and qualitative measures (beyond public perceptions). The author's most significant finding is that the majority of the people in the examined region consider themselves as middle class, although a substantial share of the population are in fact at the lowest level of society. Another essential conclusion of Habibov's study is that self-perceived social stratification in those three countries can largely be explained by a set of factors within the direct social policy domain and that the problem can be mitigated by promotion of job-intensive economic growth, supporting small

businesses, improving effectiveness of social protection policies, affordability of healthcare and education, and active integration of migrants and investment in public infrastructure.

Most of the above-prescribed policy improvements are orthodox recommendations for the problem of poverty, social exclusion and stratification promoted by the western analysts. Contrary to those prescriptions, several programs aimed at the above-advocated recommendations, such as programs of the Millennium Challenge Corporation in Armenia, have not been successful in alleviating the problem.<sup>63</sup> They are designed well, but do not always perform effectively in developing countries. This inefficiency may have resulted from the nature of non-egalitarian and non-democratic states, as well as ineffectiveness of the institutions designed to regulate the functions of the state. The purpose of this chapter is to analyze the self-perceived social exclusion in post-Soviet Armenia and to find out factors, beyond the mentioned policy-related fields, that Armenian students, a representative cluster of the Armenian society, believe are essential in explaining their exclusion from certain resources and activities.

In a brief section, I first specify the method and objectives of the survey, mentioning the number of respondents and the city of their residence. Here, I also explain why descriptive and regression analyses were chosen. Further, I discuss the dependent and independent variables. This section is followed by the analysis of the descriptive and regression statistics, main findings and implications. First, a significant number of student respondents in all the three cities, more than 80%, believe that there is a high degree of social exclusion in Armenia. Around 70% of them perceive social exclusion to be a combination of economic, social and political exclusion. The majority of the 80%, who agree that there is social exclusion in Armenia, think that the main cause of social exclusion is the deficiency of the labor market. The respondents' estimation that their family's socio-economic status and well-being have not improved much over the last 10 years shows the durability of the

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<sup>63</sup> The Millennium Challenge Corporation (MCC) is a bilateral United States foreign aid agency, which was established by Congress in 2004. It is separate from the State Department, as well as the US Agency for International Development (USAID). In spring of 2004, Armenia was chosen to be among a select group of 16 countries eligible for Millennium Challenge Corporation funding. Other low-income countries with a strong commitment toward good governance and economic growth and reform were Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu.

surveyed students' self-perceived exclusion. Their high level of demonstration participation also indicates strong public aggravation due to economic, social and political exclusion.

Finally, the survey results lead to the conclusion that the type and nature of state elites are fundamental for the explanation of self-perceived social exclusion in Armenia, because among several factors, 'the President' and 'the National Assembly (NA) of Armenia' hold the first positions, with an equal, about 22%, participant reply rate. Another 13% indicates 'the domestic security system' as important in causing social exclusion.

In the concluding section, I focus on the limitations and shortcomings of the student survey process and results. The conclusion stresses that, although this survey managed to confirm that Armenians feel socially, economically and politically excluded, it failed to find valid evidence of the hypothesized affect of the privatization process and state militarization on social exclusion.<sup>64</sup>

## **5.2 The Objective and Methodology of Student Surveys**

In order to capture public perceptions of durability of exclusion, I have compiled an original dataset through on-site student surveys on social exclusion conducted in the period of February-April 2009. The surveys were conducted by me in the three main cities of Armenia: the capital city Yerevan as the center where most repressive acts by the state and military elites have been carried out and in two other cities of Armenia, Vanadzor and Gyumri, cities with high levels of poverty, crime and political apathy.<sup>65</sup> The number of observations is 300; those are individuals aged 18 and higher. 108 students represent

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<sup>64</sup> This failure is an indication for me as the author of the survey that design of the survey questions was incomplete and could not lead to definitive correlations between the hypothesized indirect and direct variables. In fact, initially when designing the survey questions, I did not have an intention to measure this relationship. However, after collecting the filled questionnaires, it turned out that if I had incorporated more specific questions, the public perceptions could also lead to evidence or denial of the hypothesized relationship. In the future, a more adequately designed questionnaire can possibly help me find evidence to confirm or disconfirm the relationship of the independent and dependent variables.

<sup>65</sup> In Yerevan and Gyumri, the student surveys were conducted with the help of student friends and relatives, who distributed the survey questionnaires among their student circles and returned the filled questionnaires to me. As a former student of Vanadzor State Teachers' Training Institute (VSTTI), in the distribution and collection of the student surveys I got invaluable help from professors of the department of Foreign Languages, English Faculty of VSSSTI.

Yerevan, 98 students represent Gyumri, and 94 students represent Vanadzor. These three cities represent different marzes of the Republic of Armenia.<sup>66</sup>

The quantitative analysis first of all tackles the descriptive statistics of student perceptions of social exclusion through contingency tables. Further, the research methodology of the analysis utilizes logistic regression, since both the dependent and the main seven independent variables are categorical in nature. In regards to the regression analysis, we should note that the results are presented in odds ratios. There are two models constructed, one model tests the association of the dependent variable with the primary independent variables alone. The second model incorporates two socio-demographic control variables to find if the influence of the latter can change results obtained in the first model.

The dependent variable of the study is *perception of [existence of] social exclusion in Armenia*. The independent variables of the study are constructed based on questions the answers to which are related to all three aspects of social exclusion discussed in the second chapter of this dissertation: economic aspect, social aspect and the political. Perceptions of economic exclusion are based on respondents' (1) *parents' employment status*, (2) *own employment status*, and (3) *relative poverty level of household*. Perceptions of social and political exclusion are based on respondents' answers to a question that asks: (4) *"Have you or a family member currently or in recent years been (actively) involved in civil and political activities or organizations, such as, for example, labor unions, social clubs, a political party or parties, pre-election campaign, women's organizations?"* The measurement of those two aspects of social exclusion (social and political) becomes more complete if we also analyze patterns of (5) *respondents' demonstration participation (or inaction)*, and (6) *demonstrators' socio-economic status improvement within the last 10 years due to socio-political events*. (7) *The perception of self-exclusion* is a combination variable measuring the economic, social and political perceptions of exclusion.

The control variables are (1) *age* and (2) *residence*. All of those variables might not match the real picture of social exclusion in post-Soviet Armenia; this part of the study,

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<sup>66</sup> In Armenia, marz is a territorial-administrative subdivision equaling a region: there are 11 marzes, including the city of Yerevan with its outskirts. Marzes are sometimes also called regions.

however, is more concerned with the *public perceptions* of social exclusion and *not actual* social exclusion.

“*Perceptions of [existence] of social exclusion*”, a dummy variable, is constructed based on the answers to the question: “*Do you think there is social exclusion in Armenia?*” For answers “yes”, the variable is coded as 0, and for answers “no”, it is coded as 1.

The independent variable “*relative poverty level of household*” is coded in the following manner: answer ‘considerably above’ is coded as 1, ‘a little above’ is coded as 2, ‘about the same’ is coded as 3, ‘a little below’ as 4, ‘considerably below’ is coded as 5, and ‘don’t know’ as 6. The variable “*parent employment status*” is coded 0 for the answer ‘yes’ and 1 for the answer ‘no’. The variable “*own employment status*” is coded likewise. Variable “*self-exclusion*” is coded 1 for the answer ‘yes’ and 0 for the answers ‘no’.

The independent variable highlighting the socio-political aspect of exclusion, “*socio-economic status improvement*” is coded 0 for answers ‘no’ and 1 for answers ‘yes’. The variable “*demonstration participation*” is coded 0 for answers ‘yes’ and 1 for answers ‘no’. In the regression analysis, the variable “*cannot answer*” is coded 0 (‘yes’), meaning that those students, who could not or did not want to answer to this question, participated in a demonstration.<sup>67</sup>

The variable “*change needed to make Armenia more inclusive and egalitarian*” is coded as follows:

- a. The President (1)
- b. The National Assembly of Armenia (2)
- c. The domestic security system (3)
- d. Political parties (4)
- e. Mass media (5)

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<sup>67</sup> A student has either participated or has not participated in a demonstration. A “*cannot answer*” reply does not seem to be applicable to this type of question, therefore, I tend to assume that the students who provided a “*cannot answer*” reply to this question participated in at least one demonstration. As it is typical of surveys, anonymity does not often help the surveyor to obtain either objective or true data from respondents, because of respondents’ fear of bearing responsibility for their answers, because of their emotions and judgments at the moment of taking the survey, etc. More on the illusive nature of the public opinion can be found in John Zaller’s “*The Nature and Origins of Mass Opinion*” (Cambridge, 1992).

- f. Human rights organizations and the Ombudsman (6)
- g. Local NGOs (7)
- h. The international NGOs (8)
- i. Diaspora Armenians (9)
- j. Market relations/businesses (10)
- k. Other (11)
- l. N/A (12)

### 5.3 Descriptive and Regression Statistics, Findings and Implications

The overall descriptive statistics of the variables are listed in Table 5.1 below. Each of the included variables is also presented in a separate contingency table, where the variable is summarized based on the category of residence. This additionally helps us discern patterns of social exclusion through the urban-rural category, although the analysis of social exclusion based on the urban-rural category is not the main purpose of this survey. As it was expected, we can see that 83% of the respondents think that there is social exclusion in Armenia. This is a significantly high number.

**Table 5.1:** Descriptive Statistics (in percents, unless noted otherwise)

<b><i>Perception of (existence) of Social Exclusion in Armenia</i></b>	
Think there is social exclusion in Armenia	83
<b><i>Perception of Economic Exclusion</i></b>	
Household poverty level is about the same or considerably below relative poverty level	17
Respondents are employed	10
Respondents' parents are employed	31
<b><i>Perception of Social and Political Exclusion</i></b>	
Think their (their households') socio-economic status improved in the last 10 years	18
Participated in a demonstration / cannot answer if participated in a demonstration	26 /35
<b><i>Perception of overall Self-Exclusion</i></b>	
Think they are excluded of having or doing something they deserve to have or to do	71
<b><i>Socio-demographic characteristics</i></b>	
Age of the respondent (mean)	20
Age of respondent by categories	
18-20	69
20-25	27
25 and older	5
Residence of the respondent	
1= Vanadzor	31
2= Yerevan	36
3= Gyumri	33

Source: Student surveys conducted by the author, 2009.



Table 5.2 also shows that there is not much difference of public attitudes concerning social exclusion between urban and rural residence.<sup>68</sup> In all three cities, around 80% of students accept that there is social exclusion.

**Table 5.2:** Perception of Armenian students on social exclusion existence in Armenia

<i>Perception of Exclusion Existence</i>	<i>Residence</i>			Total	Percent
	Gyumri	Vanadzor	Yerevan		
Yes	86	79	83	248	<b>82.67</b>
No	12	15	25	52	<b>17.33</b>
<b>Total</b>	<b>98</b>	<b>94</b>	<b>108</b>	<b>300</b>	<b>100.00</b>

*Source:* Student surveys conducted by the author, 2009.

There was no explanation or definition of social exclusion provided in the survey for the respondents, which makes us wonder whether the respondents have understood correctly what social exclusion is. Although there was no definition of social exclusion provided, the survey very explicitly focused on all elements of social exclusion in the provided multiple choice answers for the second question. Hence, 72% of the students understand social exclusion as the combination of economic, social and political exclusion, which means that the majority of the students have a correct perception of what social exclusion is as defined in this study (Table 5.3). But it is important not only to assure that the respondents understand what we mean by ‘social exclusion’ in this project and to find out what portion of respondents in fact have evaluated social exclusion exactly the same way as we have defined in the study, but at the same time to discover which aspect of social exclusion perception is more appealing among the respondents.

<sup>68</sup>Yerevan is considered the only urban residence in Armenia. Although Gyumri and Vanadzor are the second and third biggest cities, they are considered to be rural. Employment opportunities, as well as cultural, political and intellectual events and opportunities are centered in the capital city Yerevan.

**Table 5.3:** What is social exclusion according to Armenian students?

<i>Understanding of Social Exclusion</i>	<b>Frequencies</b>	<b>Percent</b>
Labor Market Exclusion	35	11.67
Service Exclusion	15	5.00
Political Incapacity /Passiveness	19	6.33
Exclusion from social relationships and networks	7	2.33
All of the above	215	1.67
First and second	4	1.33
First and third	4	1.33
First, second and third	1	0.33
<b>Total</b>	<b>300</b>	<b>100.00</b>

*Source:* Student surveys conducted by the author, 2009.

As we can see from Table 5.3, those respondents that do not think social exclusion is the combination of economic, social and political exclusion can be classified into three groups: a) those who acknowledge social exclusion to be mainly economic exclusion or deprivation from job market, b) those who believe social exclusion to be a result of only service exclusion and exclusion from social relationships and networking, and c) those who understand social exclusion as exclusion only from political activity, as well as decision and policy making. About 12% believe that the labor market is the most significant force for creating social exclusion; more than 6% think that political exclusion creates social exclusion; and 5% think that social exclusion results from lack of services or unequal opportunities for services. Surprisingly, only 2%, respectively 7 people among 300 respondents, gave some importance to the phenomenon of social networks. My speculation for this low number is that Armenians, as it is typical of many collectivist cultures, tend to view themselves as members of groups, such as family, a religious group, or a work unit/collective, and usually consider the needs of the group to be more important than the needs of individuals. This trend is slowly changing with the country's transition to capitalism and to a more individualist culture; yet, Armenian culture is still highly collectivist and highlights public and collective interests, thus there is less fear of being excluded from social networks.

**Table 5.4:** Opinion or attitudes of Armenian students on self-exclusion

<i>Opinion on Self-exclusion</i>	<i>Residence</i>			Total	Percent
	Gyumri	Vanadzor	Yerevan		
Yes	66	68	79	213	<b>71.00</b>
No	32	26	29	87	<b>29.00</b>
<b>Total</b>	<b>98</b>	<b>94</b>	<b>108</b>	<b>300</b>	<b>100.00</b>

*Source:* Student surveys conducted by the author, 2009.

It is interesting to note that while the majority of the respondents (83%) find social exclusion a serious problem in the country (Table 5.1 and Table 5.2) and 71% mentions that they feel they are excluded of doing or having something they deserve to do or to have (Table 5.4), only 13% acknowledged that their own household poverty level is about the same or below the overall poverty level (Table 5.5).<sup>69</sup> This has couple of implications. The first and most important implication is that students do not identify social exclusion as poverty alone. The second implication is that respondents have not presented their household poverty level correctly. Further, if they did present the latter correctly, then it means that economic exclusion, measured as overall poverty level, is not the most important aspect of social exclusion for the surveyed students. Third, we can assume that students have evaluated the country's situation in regard to social exclusion (at least economic exclusion) fairly and without a bias based on merely their own household's poverty level. While for many other variables the experiences of the students' families or their own experiences of deprivation drives students' perception of the existence and nature of social exclusion, it seems like their own households' poverty/prosperity level has not mattered much.

**Table 5.5:** Overall poverty level of their households based on Armenian students' estimates

<i>Overall Poverty Level of Households</i>	<i>Residence</i>			Total	Percent
	Gyumri	Vanadzor	Yerevan		
Considerably above	51	42	68	161	<b>53.67</b>
A little above	32	34	22	88	<b>29.33</b>
About the same	8	10	11	29	<b>9.67</b>
A little below	1	1	1	3	<b>1.00</b>
Considerably below	0	2	4	6	<b>2.00</b>
Don't know	6	5	2	13	<b>4.33</b>
<b>Total</b>	<b>98</b>	<b>94</b>	<b>108</b>	<b>300</b>	<b>100.00</b>

*Source:* Student surveys conducted by the author, 2009.

<sup>69</sup> In Table 5.5, I have added the percentages of 4 answers ("about the same" - 9.67%, "a little below" - 1%, and "considerably below" - 2%) to get the 13%.

The picture changes when we look at the employment numbers (Table 5.6). 10% of the surveyed students are employed. This seems to be a small number, but it was expected and is not surprising. In Armenia, all students are enrolled full-time and their main responsibility is studying. Most of them do not worry about their tuition or living expenses as it is considered to be the parents' 'duty'. Also, some percentage of university students is state-funded and receives stipends.<sup>70</sup> Therefore, we find the 10% student employment to be quite a high number. In contrast, only 31% of the parents are employed and 69% are unemployed. This is a very high unemployment percent and coincides with the soaring unemployment situation recorded in Chapter Two.

**Table 5.6:** Employment status of respondent students

<i>Employment Status</i>	<i>Residence</i>			Total	Percent
	Gyumri	Vanadzor	Yerevan		
Yes	9	6	15	30	<b>10</b>
No	89	88	93	270	<b>90</b>
<b>Total</b>	<b>98</b>	<b>94</b>	<b>108</b>	<b>300</b>	<b>100.00</b>

*Source:* Student surveys conducted by the author, 2009.

While the economic aspect of exclusion, specifically labor market exclusion, in our respondent answers was most frequently noted to be equal to social exclusion, the analysis of perception of social and political exclusion based on their estimation of own socio-economic status improvement and demonstration participation shows that there is also strong public aggravation due to lack of political opportunities and social advancement (Table 5.7 and Table 5.8).

**Table 5.7:** Students' (households') status change (in terms of improvement) in 10 years

<i>Status improved</i>	<i>Residence</i>			Total	Percent
	Gyumri	Vanadzor	Yerevan		
Yes	18	8	28	54	<b>18.00</b>
No	80	86	80	246	<b>82.00</b>
<b>Total</b>	<b>98</b>	<b>94</b>	<b>108</b>	<b>300</b>	<b>100.00</b>

*Source:* Student surveys conducted by the author, 2009.

Both in Gyumri and Yerevan, 80 people, which is about 75% of the Yerevan sample and about 82% of the Gyumri sample, state that their families members' socio-political

<sup>70</sup> Exact data for current percentage of state-funded university students are unavailable, but during 1990s, 20-25% of the top students (with best university admission exam grades) in each group were state-funded.

situation has not improved in the last 10 years. In Vanadzor, the socio-political situation is even worse, since more than 90% of respondents complained about improvement opportunities in this realm. Only 8 people out of 94 respondents have noted that their households' status in terms of socio-economic well-being has improved in the last 10 years (Table 5.7).

This strong sense of exclusion in terms of social and particularly economic and political comfort and security acknowledged by the student sample may rationally propel a common logic of grievance. If exclusion is soaring, the frustration of the excluded becomes unbearable, and the urge for action vital. This, as expected, is the case among the surveyed students in Armenia. The percent of people who have participated in demonstrations during recent years seems to be high, around 26% (Table 5.8).<sup>71</sup>

**Table 5.8:** Demonstration participation by Armenian students

<i>Demonstration Participation</i>	<i>Residence</i>			Total	Percent
	Gyumri	Vanadzor	Yerevan		
Yes	17	26	36	79	<b>26.33</b>
No	76	59	60	195	<b>65.00</b>
Don't want to answer	5	9	12	26	<b>8.67</b>
<b>Total</b>	<b>98</b>	<b>94</b>	<b>108</b>	<b>300</b>	<b>100.00</b>

*Source:* Student surveys conducted by the author, 2009.

Since demonstration participation is a sensitive topic, I have included a “don’t want to answer” choice together with “yes” and “no” answers. If we exclude the “don’t want to answer” option from our analysis, only 26% of the students have participated in any demonstration. 65% mentioned that they have never participated in any demonstration. These numbers reveal that although more people are angry about their situation, they still do not go out to the streets for demands of greater inclusion; this may be due to fear of being ignored and/or fear of being repressed. Nevertheless, assuming that the students who have replied “don’t want to answer” have participated in one or more demonstrations, but are scared to be identified as anti-government or oppositional constituents, we can say that 35% (26% + 9% in Table 4.8) of the respondents have been demonstration participants. In this case, we get one third of the sample, which is a big percentage. Therefore, while initially the observation

<sup>71</sup> The expectation was to get even higher percentages of demonstration participation, based on the extremely large percentage of self-perception of exclusion, around 72%.

of the Table 5.8 data does not seem to imply very high demonstration participation, a closer examination of the numbers reveals the opposite.<sup>72</sup>

Reactions have been mixed among the surveyed population concerning what/who they would change in order to make Armenia economically, politically and socially a more *egalitarian* country to live in. Among the options for a potential change in the country mentioned in Table 5.9, ‘the President’ and ‘the National Assembly (NA) of Armenia’ hold the first positions, with an equal, about 22%, participant reply rate. 15% of the respondents think that many factors are essential in building a more inclusive and egalitarian homeland; among those ‘own lifestyle’, the ‘president of the country’, the ‘NA of Armenia’, ‘domestic security system’, ‘political parties’, ‘mass media’, ‘human rights organizations’, ‘local nongovernmental organizations’ and the ‘international approach to Armenia’. Finally, the next highest percentage of answers, 13%, indicates that another factor to blame for the exclusionary nature of the Armenia state is the ‘domestic security system’. The rest of the factors counts for 1% -7% of the sample response.

**Table 5.9:** Change needed in order to make Armenia economically, politically and socially more egalitarian/inclusive society

<i>Change for Greater Inclusion</i>	<b>Frequencies</b>	<b>Percent</b>
Own lifestyle	5	1.67
<i>The President</i>	66	<b>22.00</b>
<i>National Assembly of Armenia</i>	67	<b>22.33</b>
<i>Domestic security system</i>	39	<b>13.00</b>
Political Parties	22	7.33
Mass Media	3	1.00
Human Rights Organizations	12	4.00
Local NGOs	9	3.00
The International Approach to Armenia	7	2.33
<i>All of the above</i>	46	<b>15.33</b>
Other	9	3.00
N/A	15	5.00
<b>Total</b>	<b>300</b>	<b>100.00</b>

*Source:* Student surveys conducted by the author, 2009.

<sup>72</sup>This is a typical trend in surveys, called Social Desirability Bias – a tendency for respondents to reply in a manner that they feel will be viewed favorably by others. See also, John Zaller’s “*The Nature and Origins of Mass Opinion*”, where Zaller argues that public opinion on issues is unreliable, primarily because elite sources of information provide competing or multiple considerations causing public opinion polls to measure whatever recent elite message an individual has stored in their short term memory.

The relatively high rates of students identifying the President, the Parliament and the domestic security system as main causes of self-perceived exclusion by the surveyed Armenians imply that we should particularly concentrate on these three branches of the Armenian state apparatus in the explanation of the durable social exclusion in Armenia. Based on the theoretical framework of this study presented earlier, the privatization and the state militarization increased social exclusion in Armenia through inequitable power and opportunity distribution practiced by the Armenian state elites. Following the same framework, the President, the National Assembly, and the security system of the Armenian state are the central forces in these unfair power distribution processes, and their role in generating social exclusion is critical. Therefore, the above-mentioned finding of the survey is not unexpected.

Based on not only the descriptive, but also the regression results, one can make an assumption that the factors affecting student perceptions of social exclusion are obviously related to the labor markets, altered after the privatization process, as well as the nature of state elites and institutions.

Before presenting the findings of the statistical models, it is important to mention that the independent variables are notably inter-correlated. As a result, statistical tests were conducted to determine if multi-collinearity is a problem for the data. After reviewing the collinearity diagnostics, none of the variance inflation factors (VIF) was over ten. Consequently, it was concluded that collinearity amongst the independent variables should not be a problem amongst this data.

Only the second model, which takes into consideration also the control independent variables of age and residence, will be discussed because there is no difference in statistical and very little difference in substantive significance between the independent and dependent variables for both models. Specifically statistical significance does not change. There is statistical significance between only four of the independent primary variables and the dependent variable. Those variables are *'household's overall poverty level'*, *'parents' employment status'*, *'status change in recent years politically, socially or economically'* and *'whether the student feels he/she is excluded of having or doing something that he/she*

*deserves to have or to do*'. Obviously, these variables relate to all three aspects of social exclusion: economic, political and social.

Statistically, there is no association between the variables of '*student employment*', '*demonstration participation*' and the perception of social exclusion. While it is expected to find no statistical significance for the variable of '*student employment*' due to the fact that as a general rule Armenian students do not work during their student years, it is astonishing to find absence of association between '*demonstration participation*' and '*perception of social exclusion*'. Assumingly, the lack of statistical significance in this case is due to the fact that the answers regarding demonstration participation by the students do not represent the reality.<sup>73</sup> Another possible explanation to the absence of relationship between these two variables, noted by one of the reviewers of this dissertation, may be the fact that those who feel social exclusion is a serious problem also believe that they are powerless to change anything, so they do not participate in demonstrations.

Unpredictably, both of the control variables, which are age and residence, have no influence on the perception of social exclusion. Since the surveyed population consists of only students, the age range varies mainly from 17-22 years. Obviously, the surveyed population does not consist of different generations, and unfortunately, we cannot observe any differences of mentality and attitudes towards economic, political and social developments and phenomena.<sup>74</sup> The absence of statistical significance for the '*age*' variable, thus, is natural.

Social exclusion is often characterized by the dimension of urban-rural residence. It is popular to assume that inequality appears to arise largely from the absence of opportunities for large segments of the population residing in rural areas. The statistical evidence in the

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<sup>73</sup> This issue has been discussed more in detail in the descriptive part of the survey analysis.

<sup>74</sup> As compared to many western countries, particularly the United States, where university student age varies widely, in most post-Soviet countries the typical student age is 17-22. Some exceptional cases are when a person serves in the army and continues education after the army or when a person pursues a second or third education. Even in those cases the student age will not exceed 30 years.

It is a very recent, nonetheless infrequent, phenomenon to find 40-50 year old students in Armenian universities. Those are generally public officials, such as for example, a parliamentary deputy, who after gaining high ranks and/or government positions, aim to attach a certain education to their resume/profile. In any case, their studentship is not a formal one; most often they hardly ever attend classes.



case of post-Soviet Armenia, based on this student survey, does not validate this popular assumption. Through this point one can detect the demarcation between poverty and social exclusion. Although poverty level is much higher in rural areas of Armenia, there is not much difference in the perceptions of social exclusion between rural and urban populations. It is not as much poverty that matters to people, as the absence of power, voice and independence, and vulnerability to exploitation and humiliation. The absence of statistical significance between variables '*residence*' and '*perceptions of social exclusion*' highlights the importance of social inclusion for poor people, the importance of securing respect and dignity for themselves, irrespective of residence.

The regression results are not much different in the two models; the control variables do not change either the statistical or the substantive strength of the relationships tested. To better understand the estimated substantive impact of the variables of interest, I have interpreted the results of the second model with socio-demographic characteristics (Table 5.10):

1. The odds that a person, whose household poverty level is a little below the overall poverty level, will think there exists social exclusion as a serious problems in Armenia decreases by 41 percent on average as compared to that of a person, whose household poverty level is considerably below the overall poverty level, holding all other variables constant.
2. The odds that a person thinks there exists social exclusion as a serious problem in Armenia decreases by 95 percent on average, if a person's parents are employed, holding all other variables constant.
3. The odds that a person thinks there exists social exclusion as a serious problem in Armenia increases by 237 percent on average, if the person's household's status has not improved (economically, socially and/or politically) within the last 10 years, holding all other variables constant.
4. The odds that a person thinks there exists social exclusion as a serious problem in Armenia increases by 1761 percent on average, if a person feels that he is excluded of having and/or doing something that he deserves to have or to do.

While in earlier chapters of this dissertation, social exclusion in Armenia had discussed in terms high Gini coefficient rates throughout different years, persistent problems in health care, and education, growing rates of homelessness, crime rates and migration rates, the above statements clearly come to add further evidence that social exclusion exists in

Armenia as a multifaceted problem consisting of social, political and economic elimination. Indeed, students' perceptions of social exclusion are highly affected by their families' poverty level, their parents' employment level, their household levels' stagnant situation over a long period of time, such as 10 years, and finally their own exclusion of having and/or doing something that they deserve to have or to do. This coincidence of public grievances regarding exclusion and factual substantiation mentioned earlier in this paragraph increases confidence in claiming that social exclusion subsists and is an acute problem in post-Soviet Armenia.

**Table 5.10:** Odds ratios of logistic regression of considering the existence of social exclusion as a serious problem in Armenia on indicators of perception of economic, social and political exclusion, perception of self-exclusion, and socio-demographic indicators

	<b>Model 1</b>	<b>Model 2</b>
<b><i>Perception of economic exclusion</i></b>		
Household's overall poverty level	39.8*	40.7*
Student's employment status	303.2	194.1
Parents' employment status	95.1*	95.0*
<b><i>Perception of social and political exclusion</i></b>		
Status change in recent years politically, socially or economically	241.1*	236.6*
Demonstration participation	24.5	27.9
<b><i>Perception of self-exclusion</i></b>		
Student's perception of self-exclusion	1667.2*	1761.3*
<b><i>Socio-demographic characteristics</i></b>		
Age of the respondent		36.2
Residence of the respondent		20.5
N of cases	300	300
R square	895.0**	814.8**

*Significance level: \*\*  $p < 0.01$ ; \*  $p < 0.05$ ; †  $p < 0.1$ .*

## 5.4 Conclusion

This chapter developed a quantitative analysis of a survey conducted with students of Armenian universities about social exclusion, factors affecting social exclusion and social movements. The public perceptions primarily coincide with other accounts of poverty and inequality, increasingly deteriorating socio-economic conditions for the middle and poor classes, amplified sense of helplessness and despair felt by people due to their inactiveness in politics, lack of employment and income to sustain themselves and their households.

Some limitations of the results of this survey research should be acknowledged. The dependent variable cannot be considered as a very accurate and reliable measure or an indicator of actual social exclusion in Armenia; it is a perceptual measure and has been defined as such in this part of the paper. In any case, it may not reflect the actual extent of social exclusion in the country; the latter may be more or less pervasive than actually observed based on the survey answers, depending on the bias, trust, mood and some other characteristics of the surveyed individuals during the time of taking the surveys.

Another shortcoming of this survey is that the data may be subject to bias and error due to the fact that a statistically random sample of the Armenian population was not utilized because of scarce time and resources during my field trips in Armenia. As a sample of student population, the surveyed group was an opportunistic sample.

Yet another limitation originates from the chosen sample of our survey. It would have been very interesting and important to provide statistical evidence confirming the two hypotheses of the study concerning the privatization and state militarization explaining durable social exclusion in Armenia. But because privatization of firms and services started in 1994-1995 in Armenia, our respondents would have no or very limited knowledge on whether and/or how privatization of firms has affected the emergence of social exclusion. The majority of the surveyed students were between 4-8 years old, when the privatization process started in the country. Similarly, the Karabakh war started in 1991 and state militarization process was initiated during the same period. In this case again, the surveyed population was too young to remember much and would be incompetent to provide correct information and enlightening answers regarding how those two variables explain the emergence of social exclusion.

The next limitation is closely related to the one detected in the above paragraph. Authors often rely on the feelings of older generations to conclude that inequality, particularly its economic dimension, was lower during Soviet times. At the same time, the younger generation, who has not experienced the Soviet lifestyle may not properly comment on the difference. To make things more complicated, statistics and consistent data related to Gini coefficients, wage equality, and unemployment rates prior and after socialism are rare,

and it is difficult to find a benchmark for comparison of social exclusion and inequality before and after the USSR based on this survey. A larger survey, that can be carried out for several years and between different generations (particularly the generation of 1960s and 1970s, who experienced both the socialist and the capitalist systems) would more sufficiently address this gap.

Also it is recognized that the dependent and some of the independent variables of the survey regression are quite interrelated and the causal direction of influence may be contrary than the assumed one. This is true particularly for the 'demonstration participation' and 'perception of social exclusion' variables; a person's perception of exclusion may be affecting his/her participation in demonstrations, and not the opposite.

Clearly, a future study needs to examine the longitudinal nature of these relationships in order to verify causality. Moreover, while a student survey is helpful, students' knowledge on social exclusion is incomplete and limited. The causes of social exclusion, which may be important from the point of a student, for example, may not be relevant from the point of view of a housewife, a teacher, a retired politician, or a businessman. The selection of respondents from more diverse backgrounds and of a wider outlook may foster new insights and theories of social exclusion.

Despite these limitations, this survey analysis makes some important contributions to the social exclusion literature in Armenia. First, it concludes that social exclusion exists in Armenia as a serious problem, and that the problem is expressed not only by high Gini coefficient rates, as well as statistics showing the shrinkage of labor market and increased unemployment, the growing levels of crime, migration, homelessness, human trafficking, human rights abuse and political arrests, lack of access to education and health services, but also that it is a problem intensely acknowledged by ordinary citizens. The public judgment about unemployment, poverty, family status improvement, political participation and exclusion from certain things and activities tells us a plain story of social exclusion; it tells the story even more lucidly than the numbers illustrated in previous chapters.

Secondly, based on the results of this survey, I could assert that Armenian people are mostly discontent with the presidency, the parliament, and the security sector of their country, more than any other institution or factor, local or international. The survey demonstrates that the exclusionary policies of these institutions create frustration and a need to protest among people, and that the majority of the people indeed go out to the streets with demands of greater inclusion in the economic, political and cultural life of the country. The goal of examining the power of the elites representing those institutions and uncovering relations between them and the rest of the society will be the major task of the following three chapters, which are qualitative in nature.

## CHAPTER 6

### **Power, Contentious Politics, and Repressive Capacity of the State**

*“Revolution is the sex of politics: All the governments that we know today owe their origin to it.”*

– Henry Louis Mencken

*“Post-socialist revolutions stemmed from people’s desire for fair and equal income distribution and the growing disparity in real income.”*

– Grzegorz Kołodko

*“A nation that continues year after year to spend more money on military defense than on programs of social uplift is approaching spiritual death.”*

– Martin Luther King, Jr.

#### **6.1 Introduction**

With the breakdown of the USSR’s communist regime, political scientists started producing a plethora of theories concerning the consequences of this breakdown. Among those theories a prevalent one was concerning the diversity of post-Soviet trajectories and why some post-Soviet states were more democratic than others. While many scholars still meditated over the issue in efforts to find causes of democratization in those countries, the post-Soviet space experienced a couple of “colored revolutions”: the “Rose Revolution” in Georgia in 2003, the “Orange Revolution” in Ukraine in 2004, and then, most surprisingly, the “Tulip Revolution” in 2005 in Kyrgyzstan, a stronghold of post-communist authoritarianism in Central Asia. People in other post-Soviet republics, such as Armenia and Azerbaijan, were steadily struggling to accomplish a peaceful revolution. In these countries, as in most of the post-Soviet republics, the initial hopes of freedom, democracy and development nurtured after the fall of communism and the collapse of the USSR remained hopes merely; they did not turn into a reality. With the promised democracy the neoliberal order provided freedom without opportunity, a devil’s gift. Along with this, the need and efforts of “the society [to] protect itself against the perils inherent in a self-regulating market system” was gradually mounting (Polanyi 1957:76).

As an expression of their anger and desperation, crowds of angry citizens in different post-Soviet countries took to the streets of their respective capital cities to protest against

their incumbent governments. Ordinary people, tired of waiting for economic benefits and new opportunities promised through privatization, called for political candidates and policies that promised a return to traditional social democratic values and enhanced social welfare. In this headway of resentment and contestation, groups of rioters have stormed parliament buildings, blocked central roads, organized marches, strikes and sit-ins for days and nights. These collective actions carried a continued character in several of the cases, turning into a wave of conflict, complaint and contention. Some of the movements were violent and disruptive riots, while others have been peaceful demonstrations and marches. Some of them succeeded in producing revolutions and changing the ruling regimes, yet others failed and have continued to insurrect.

While the emergence, organization and outcome of these movements considerably varied in post-Soviet societies, they possessed something in common in their nature; most of those movements challenged transformational processes and relationships within the state and society that inhibit social inclusion. In particular, they demanded for equal social inclusion and equal access to opportunity and resources, new distribution of income and wealth. Although some scholars, such as Henry E. Hale (2005), argue that those revolutions “are not democratic breakthroughs”, there is an extensive literature speculating about a new democratic ascendancy and suggesting that those events are democratic breakthroughs.<sup>75</sup> According to Hale, “colored revolutions” are “contestation phases in regime cycles where the opposition wins” (Hale 2005:134). Nonetheless, treating those movements as contestation phases does not curtail the democratization drive in which they are embedded.

This chapter observes “colored revolutions” as democratic breakthroughs, because the importance of public opinion in deciding whether the opposition wins and whether there is a turndown of an ineffective government is a critical element of political inclusion and deliberative democracy. Based on the success or failure of revolutionary attempts in the post-Soviet states, one can also look at how the power of individuals and groups is affected by the social and historical context in which they are embedded. Those countries that witnessed

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<sup>75</sup>See Michael McFaul, “Transitions from Communism,” *Journal of Democracy* 16 (July 2005); Adrian Karatnycky, “Ukraine’s Orange Revolution,” *Foreign Affairs* (March-April 2005); and Vitali Silitski, “Beware the People,” *Transitions Online*, March 21, 2005

revolutionary outcomes (through peaceful means and tactics) versus only revolutionary situations may be considered less autocratic and socially more inclusive.

The success of "colored revolutions" is closely related with and is examined here through the phenomenon of political power and state militarization. As mentioned in earlier chapters, political power is an essential element of state militarization. The issue of power and how certain states manage to exercise power is a central theme of this chapter. The chapter focuses on the social implication of militarization, namely: the reproduction of social inequalities based on the repressive capacity of the state. "When a dominant group is able effectively to convert its legitimately established privileged position in the military into social dominance outside the military, the military is functioning as a state mechanism involved in the reproduction of inequality. ... Militarism and social inequalities are then structurally binding." (Yagil 1998:874)

Due to the absence and shortcomings of appropriate power measurements, I do not try to quantify state's repressive power in this dissertation. It is evaluated here mainly qualitatively based on the assessment of political events, socio-political context and the relationships of state elites, oppositional elites and other societal actors. The next chapter is a detailed account of those events in post-Soviet Armenia. The current chapter is an effort to provide a comparative power of the state, considering the strength of protest repressions in a five post-Soviet states. Power, therefore, is based on the level and intensity of militarization of a state. The argument is that the more militarized a state is, the more powerful its coercive strength is and the more easily it restrains mass protests and challenging oppositions.

In order to provide evidence of the Armenian state militarization comparatively, I proceed in two directions. First, I display a brief quantitative analysis of military budgets and manpower ratios in Georgia, Ukraine, Kyrgyzstan, Armenia and Azerbaijan. Those are post-Soviet states that have experienced strong social movements, as a result of public reaction to social exclusion and opposition to electoral fraud. The statistics related to the militarization of those countries indicate that Armenia along with Azerbaijan lead the list in terms of very high military budgets, as well as manpower ratios.



Secondly, I conduct a comparative analysis of revolutionary situations and outcomes in the mentioned countries, concluding that those countries with more exclusionary states based on strong security sectors have been more successful in containing social protest, and therefore less inclined towards greater social inclusion. The comparative examination of the five post-Soviet countries yet again confirm that Armenia and Azerbaijan are more militarized than Georgia, Ukraine and Kyrgyzstan, because they had warred against an external enemy. Due this feature, the former two have successfully defeated repeated waves of social protests, whereas the latter three have not been able to do so. On the contrary, Georgia, Ukraine, and Kyrgyzstan experienced revolutionary outcomes, the Rose Revolution, The Orange Revolution, and the Tulip Revolution.<sup>76</sup> Throughout the chapter, my main contention is that those states that are more repressive and militarized, restrain mass movements more easily, relatively irrespective of other national or international factors.

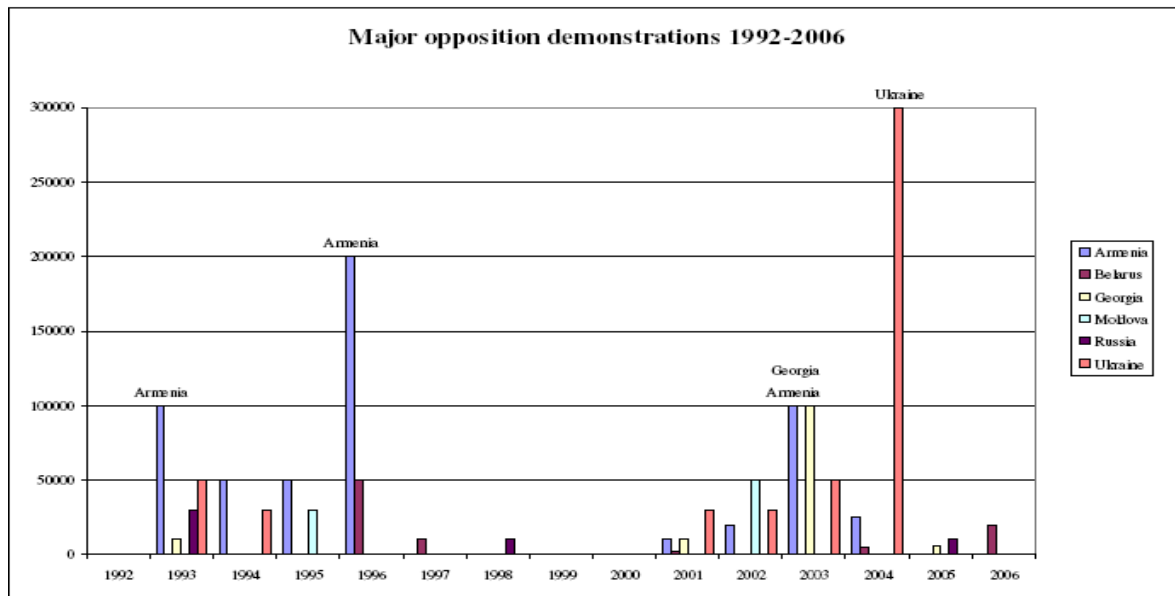
## **6.2 A Comparative Analysis of Conventional Military Power**

I use the state-centrist approach of power (Skocpol 1979; Parsa 2000; Goodwin 2001) coupled with Tilly's (1978) revolutionary situations and revolutionary outcomes discussed thoroughly in the theoretical framework of this dissertation to explain the differences of Georgian, Ukrainian, Kyrgyz, Azeri and Armenian movements and revolutions, focusing specifically on the *repressive capacity of the government/state*. As mentioned earlier in the chapter, the differences of *repressive (in)capacity of the governments* of the compared countries will be studied through the degree of their state militarization.

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<sup>76</sup>Here, one can argue that Georgia has passed through privatization and had a war, but is contrasted to Armenia in this study as a case with less social exclusion. The counterargument is the following: 1) While Armenia's war (1991-1994) was against external enemy Azerbaijan, Georgia's wars of 1988-1992 and 1992-1993 are considered as civil wars consisting of inter-ethnic and intra-national conflicts in the regions of South Ossetia and Abkhazia; 2) While both these ethnic conflicts in Georgia occurred before 2008, the Georgian-Russian war of 2008 falls out of this research time span. If it occurred during the period covered in this dissertation, I assume research could find evidence that Georgia would become a similar case to Armenia and Azerbaijan in regards to state militarization and social exclusion. Perhaps, further research can focus on whether the consequences of this war (against Russia as an external enemy), such as, for instance increased military budgets and military participation ratios have changed or will soon be changing power relations domestically in Georgia

**Figure 6.1: Opposition Mobilization in Armenia, Belarus, Georgia, Moldova, Russia and Ukraine, 1992-2006**



Source: Lucan Way, CDDRL Working Paper, June 2006, page 10.

Comparing Armenia, Ukraine and Georgia on the above figure of opposition mobilization during 1992-2006 among the post-Soviet countries (Figure 6.1), we see that Armenia has had the most mobilized opposition (Way 2006).<sup>77</sup> Kyrgyz opposition demonstrations are not illustrated in the figure, but the reason for this could be the fact that it did not include a big number of demonstrators. Sources mention about tens of thousands of Kyrgyz opposition demonstrators. Mcglinchey (2003) mentions of some 5000-10000 crowds. The Azeri protests are not displayed either, but sources mention of 20,000 -25,000 people.

Military power of the states, first of all, stemming from the traditional definitions of state militarization, is compared based on their military budgets.<sup>78</sup> Stockholm International Peace Research Institute's time series on military expenditure for the years of 1988 to 2006 shows that, as expected, Armenia's military budget as a share % of GDP is very stable and

<sup>77</sup> Based on Figure 6.1, between 1992 and 2006, the occurrence of demonstrations was more frequent in Armenia than in any of the selected countries in the figure. Even in absolute terms, Armenia has had the most mobilized opposition. Per capita number of demonstrators is the most in Armenia (Way 2006).

<sup>78</sup> The SIPRI definition of military expenditure is as follows and where possible, SIPRI military expenditures include all current and capital expenditure on:

- the armed forces, including peace keeping forces
- defense ministries and other government agencies engaged in defense projects
- paramilitary forces when judged to be trained, equipped and available for military operations
- military space activities

higher in most years than in Ukraine, Georgia or Kyrgyzstan, which similar to Armenia, have faced prolonged oppositions towards their ruling elites (Figure 6.2).<sup>79</sup>The average military expenditures in Armenia for the observed years are 3.1%, in Georgia they are 1.3%, in Kyrgyzstan 2.6%, in Ukraine 2.8%, and in Azerbaijan 2.7%.

**Table 6.1:** Military Expenditure as Percentage of GDP: Armenia, Georgia, Kyrgyzstan, Ukraine, 1992-2007

	Azerbaijan <sup>a</sup>	Armenia <sup>b</sup>	Georgia <sup>c</sup>	Kyrgyzstan	Ukraine <sup>d</sup>
<b>1992</b>	[2.5]	2.2	..	1.6	..
<b>1993</b>	[4.9]	2.3	..	1.5	.5
<b>1994</b>	[3.7]	..	..	2.6	2.5
<b>1995</b>	[2.7]	4.1	..	3.5	2.8
<b>1996</b>	[2.3]	3.1	2.2	3	3.3
<b>1997</b>	[2.3]	3.9	[1.3]	3.1	4.1
<b>1998</b>	[2.4]	3.5	[1.1]	2.7	3.4
<b>1999</b>	[2.6]	3.7	[.9]	2.6	3
<b>2000</b>	[2.3]	3.6	[.6]	2.9	3.6
<b>2001</b>	[2.3]	3.1	[.7]	2.3	2.9
<b>2002</b>	[2.2]	2.7	1	2.7	2.8
<b>2003</b>	[2.4]	2.7	1.1	2.9	2.8
<b>2004</b>	[2.6]	2.7	1.4	2.8	2.6
<b>2005</b>	[2.3]	2.7	3.5	3.1	[2.4]
<b>2006</b>	3.4	2.9	5.2	3.2	2.8
<b>2007</b>	..	3	9.2	3.1	2.9
<b>Average</b>	<b>2.7</b>	<b>3.1</b>	<b>1.3</b>	<b>2.6</b>	<b>2.8</b>

<sup>a</sup> Azerbaijan changed or redenominated its currency during the period; all current price local currency figures have been converted to the latest currency.

<sup>b</sup> Figures for Armenia do not include military pensions. For 2004-2006 these amounted to 9979, 1113 and 12440 b. drams respectively.

<sup>c</sup> Figures for Georgia from 2002 are for the budgeted expenditure. The budget figure for 2003 is believed to be an underestimation of actual spending because of the political turmoil during the year.

<sup>d</sup> Figures for Ukraine are for the adopted budget for the Ministry of Defense, military pensions and paramilitary forces. Actual expenditure was reportedly 95-99% of that budgeted for 1996-99.

Note: US\$ m. = Million US dollars; - = Empty cell; ... = Data not available or not applicable; ( ) = Uncertain figure; [ ] = SIPRI estimate

Source: Updated from Stockholm International Peace Research Institute (SIPRI).

Another source comparing only the South Caucasus three republics' public spending confirms that in the year of 2000, Armenia's military spending is the highest.

<sup>79</sup> Pay attention to the fact that figures for Armenian expenditures do not even include military pensions.

**Table 6.2:** Public Spending (education, health and military) in Armenia, Azerbaijan and Georgia, 1995-2000

<b>1.3 Public Spending</b>	<b>Armenia</b>	<b>Azerbaijan</b>	<b>Georgia</b>
<b>Public expenditures</b>			
Education (% of GNP), 1985-1987	..	5.8	..
Education (% of GNP), 1995-1997	2	3	5.2 <sup>1</sup>
Health (% of GNP), 1990	..	2.7	3
Health (% of GNP), 1999	4	1	0.8
Military (% of GDP), 1990	..	..	..
Military (% of GDP), 2000	4.4	2.7	0.9
Total debt service (% of DGP), 1990	..	..	..
Total debt service (% of DGP), 2000	2.2	3.4	3.9

*Notes:*<sup>1</sup>Data refer to a year or period other than that specified

*Source:* United Nations, “Republic of Armenia: Public Administration Country Profile”, January 2004.

As a percentage of GDP Armenian military spending is **4.4**, while Azerbaijan’s is **2.7** (the opponent country that similarly needs strong military in case of war to restart with Armenia) and Georgia’s is **0.9**. Not only is the Armenian military spending highest among the three republics, it is also highest as compared to other public expenditures within the country, such as health and education.

The World Bank’s indicators on Defense and Arms (Figure 6.2 - Figure 6.6) also show that average armed forces personnel as the percentage of total labor force is highest in Armenia for the observed years.<sup>80</sup> Azerbaijan follows. In Armenia it is **2.6%**, in Azerbaijan it is **2%**, in Georgia it is **1.4-1.5%**, in Kyrgyzstan it is **1%**, and in Ukraine it is **0.9%**.

<sup>80</sup> Armed forces personnel are active duty military personnel, including paramilitary forces if the training, organization, equipment, and control suggest they may be used to support or replace regular military forces. Labor force comprises all people who meet the International Labor Organization's definition of the economically active population.

**Figure 6.2:** Armed Forces Personnel as a Percentage of Total Labor Force in Armenia, 1992-2008



**Figure 6.3:** Armed Forces Personnel as a Percentage of Total Labor Force in Azerbaijan, 1992-2008



**Figure 6.4:** Armed Forces Personnel as a Percentage of Total Labor Force in Georgia, 1992-2008



**Figure 6.5:** Armed Forces Personnel as a Percentage of Total Labor Force in Kyrgyzstan, 1992-2008



**Figure 6.6:** Armed Forces Personnel as a Percentage of Total Labor Force in Ukraine, 1992-2008



Source: <http://www.tradingeconomics.com/armenia/armed-forces-personnel-total-wb-data.html>

### 6.3 A Comparative Analysis of Contentious Politics and Coercive States

After presenting a comparative evidence of the strong military capacity of the Armenian state in the previous section, this section tries to argue that more military and repressive regimes are triumphant at hampering the development of human rights, fundamental elements of social exclusion, in their respective societies by suppressing social protest. While some autocratic regimes, being quite weak, collapse in case of even minimal social movement, others are based on more solid foundations and can simply crack down oppositional movements. As Lucan Way writes, “backed by well financed states, strong coercive apparatuses, and/or cohesive ruling parties, such regimes have either survived serious opposition challenges or successfully beat back serious opposition before it could emerge” (Way 2006:8). For example, discussed further in the chapter, in 2003 Georgian President Shevardnadze was displaced in the face of “undersized” crowds, mainly because he “no longer controlled the military and security forces” and, thus, was “too politically weak” to repress the crowds (Mitchell 2004:345-348). The explosion of a movement into a revolution protest in the examined countries for the studied period was possible only in cases where the regimes under threat did not resort to machine guns or tanks. Illustrated in this section, Armenian elites always resorted to guns and tanks. As we can observe in Table 6.3 and Table 6.4, only in the absence of tough authoritarianism and a militarized state (after an interstate war), was a revolution possible.

**Table 6.3: "Color revolutions" accomplished and attempted, 2000-2008**

State	Success	Period	Elections	Crowd	Victims	War <sup>81</sup>
Armenia	No	April 12, 2004	Feb, 2003	25,000	Few	1991-94 (Yes)
		20-February-02 March, 2008	19 February, 2008	100,000		
Azerbaijan	No	16 September- 20 October, 2003	15 October, 2003	25,000	Few	1991-94 (Yes)
		08 Aug -26 Nov, 2005	06 Nov., 2005	20,000	Few	
Georgia	Yes	15-23 November, 2003	02 Nov., 2003	100,000	None	No
Ukraine	Yes	22 November- 04 December, 2004	21 Nov., 2004	500,000	None	No
Kyrgyzstan	Yes	18-24 March, 2005	13 March, 2005	25,000	Few	No

Source: Adapted from Baev, 2010.

**Table 6.4: State Militarization Levels and Failure/Success of Social Movements, 2000-2008**

State	Armenia	Azerbaijan	Georgia	Ukraine	Kyrgyzstan
Military budgets	Very high	High	Low	High	High
Ratio of manpower	Very high	High	Low	Very low	Low
(Threat of) External war	yes	yes	no	no	no
Authoritarian state	yes	yes	partly	partly	yes
Revolution occurred	no	no	yes	yes	yes

Source: Created by the author.

6.3.1. Georgia: November 23, 2003 was a noteworthy day in the history of Georgia. For the first time in Georgian history a revolution exploded in Georgia, the first non-violent change of regime in the Caucasus. This was an event not predicted by scholars, as many were anticipating a more violent turn of events in this small post-Soviet country.

On November 2, 2003, Georgia held parliamentary elections. As in other cases studied in this chapter, the election was controlled by the incumbent, President Eduard Shevardnadze. Tens of thousands of demonstrators took to the streets of Tbilisi, the capital

<sup>81</sup> Baev (2010) included only 'civil war' in the table. I have changed the author's mentioning of civil war with external war, because in this dissertation Armenian state militarization started after the Karabakh war (not a civil war), which Baev categorized as a civil war. Therefore, I am more interested to see the affect of external wars on post-war state militarization and a state's ability to crack down potential revolutions/potential civil wars during 2000-2008.

city, to protest against the flawed results of a parliamentary election in Georgia. They demanded Shevardnadze's resignation. Peaceful protests lasted for 20 days. The demonstrations were in full swing for three days on November 20, 21 and 22. After Mikheil Saakashvili's public announcement that all negotiations with the President were halted because the President did not accept the protestors' demands, people grew more aggravated and filled the streets.<sup>82</sup> On the morning of November 23 the demonstrations became larger. Protestors came from different classes and different social groups, of different ages and ideologies: students, teachers and professors, workers, young people and the elderly.

As typical of threatened governments, the government ordered the security forces to defend constitutional order. Shevardnadze deployed soldiers in the streets, but did not dare to order for violence. He refused to order his troops to shoot the people. Meanwhile, protestors, the majority of them students, distributed red roses to the soldiers. The latter chose not to use their guns. State efforts to contain mass mobilization were unsuccessful. On November 24, Shevardnadze's regime was brought down by about 100,000 people. Shevardnadze left his office peacefully, similar to Armenia's President Ter-Petrosyan's resignation in 1998.<sup>83</sup> According to Cohen (2004), "a wise man", Shevardnadze, who led Georgia, "on and off, for 31 years decided to bow out gracefully." He "was not ready for the role of a Slobodan Milosevic or a Nicolae Ceausescu". The opposition came to power and in January 2004, one of the opposition leaders, Mikhail Saakashvili was elected as president of Georgia.

The success of the 2004 Georgian movement can be credited to a couple of factors. A most vital circumstance was the pressure from below. An important factor for the movement to start was the economic situation of the country, more specifically the uneven distribution of wealth between the society's different groups. Although Georgia witnessed economic growth during Shevardnadze's years, most of the population still lived in poverty and social problems were become quite severe. Corruption and bribery were widespread. The state,

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<sup>82</sup> Saakashvili is a Georgian politician, the founder and leader of the United National Movement Party. He became the third President of Georgia in January 2004 and has led Georgia till November 2013.

<sup>83</sup> The similarity of regime change in Armenia in 1998 and in Georgia in 2003 is that in both cases the incumbents left their office as Presidents. Nonetheless, there is a significant difference: in the Armenian case, the president resigned because of pure political pressure and this happened approximately two years after the 1996 post-electoral mass protests, while in the Georgian case Shevardnadze gave up because of public pressure and under people's power.



instead of feeding its people, was more interested in enriching its oligarchs. The level of social exclusion in all its dimensions was becoming very high, and people needed to express their frustration. This expression of public aggravation burst into mass protests after the 2003 parliamentary elections.

The input of “Kmara”, a civic resistance movement created by Georgian university students, was enormous in undermining the government.<sup>84</sup> The literature on Rose revolution repeatedly highlights that Kmara led the demonstrations. Kmara is quoted to have been supported, financed and trained by several Western organizations and foundations, such as George Soros’s “Open Society - Georgia Foundation”, Freedom House, the National Democratic Institute, European Union, USAID, National Endowment for Democracy, International Republican Institute, Organization for Security and Cooperation in Europe, and the Council of Europe.

The success of the Rose Revolution ignited a debate about the importance of the international actors, such as diplomatic, financial and other forms of support from the West, specifically from the USA, in transforming local politics in developing countries. The November 24, 2003 *Wall Street Journal* acclaims the breakdown of the old regime to the non-governmental sector in the country, supported by Western and particularly American foundations. NGOs had “spawned a class of young, English-speaking intellectuals hungry for pro-Western reforms”, who organized a peaceful coup. While many scholars overestimate the international factor in Georgia’s, likewise in Ukraine’s revolutions, Kandelaki argues that “foreign actors played a limited role because they lacked information or were overly cautious about fostering significant political change” (Kandelaki 2006:2). He contends that most of the civil society organizations in Georgia were constrained by the priorities and requirements of foreign donors and ‘their own elitism’.

Georgia’s Rose Revolution and Ukraine’s Orange Revolution are very similar in many aspects. Like the Orange Revolution, the Rose Revolution did not experience any violence from either the protestors or the state authorities. Three key reasons lie behind the

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<sup>84</sup> “Kmara” was the Georgian version of the Serbian “OTPOR” and the Ukrainian “Pora”. Translation of “Kmara” into English is “Enough”.

logic of non-violence from Georgian security forces. The first reason is that the armed forces were not supporting the autocratic regime and they made clear that they would defend the protestors; in fact they joined the demonstrators in Georgia. The second reason for the absence of violence was due to a divided ruling elite. Finally, a third factor widely acclaimed to have driven the security forces not to exercise use of power was the opposition's strong efforts to develop "sympathy for their cause while downplaying the threat posed by political change" (Kandelaki 2006:3).

6.3.2. Ukraine:After the breakdown of the USSR, there occurred tens of protests, demonstrations and attempts of "color revolutions" in the post-Soviet space. Ukraine's Orange Revolutions in November-December of 2004 was the second revolution after the popular Georgian Rose Revolution of 2003. The two revolutions had many similar aspects, but Ukraine's Orange Revolution was much larger than Georgia's Rose Revolution, which caused analysts and scholars to treat Ukraine's case as a new trend-setter, "a new landmark in the post-communist history of Eastern Europe, a seismic shift Westward in the geopolitics of the region" (Karatnycky 2005: 1). As Andrew Wilson observes:

"It took real people power to challenge the Ukrainian system, which was much stronger than the eleven-year Shevardnadze regime. There was certainly no bloodbath, no Terror, no set-piece storming of buildings, though revolutions often have to be non-revolutionary in order to succeed. Ukraine's negotiated path to peaceful settlement stood in marked contrast to Kyrgyzstan or even Georgia, certainly in contrast to the bloody events and suppression of protests in Uzbekistan". (Wilson 2005:198)

The Orange revolution, as all the revolutions and revolutionary situations examined in this chapter, was initiated as a post-election reaction. However, while all the other cases of mobilization were caused not only by flawed elections and political exclusion and they embraced also economic and social exclusion, Ukraine was the only country that had a strong economy. In Ukraine's case it was not economic stagnation and socio-economic exclusion that led the masses to the revolution. Although Kuzio (2006) mentions about "popular perceptions of unjust privatizations and the rise of Ukrainian's oligarchic class," "a growing gulf between the ruling elite and society," "economic growth was not felt by the population," and that "most Ukrainians looked negatively at the 1990s as a decade of the "primitive accumulation of capital" (Bandit Capitalism)," he still believes that economic issues as such

did not play a major role in the 2004 elections and post-election events in Ukraine (Kuzio 2006, pp 45-49).

Åslund likewise points out that the Ukrainian revolution did not seem to have any class identity at all. “Hardly any names of businesses, parties, or organizations were to be seen. No one talked of social or economic issues. This was pure politics” (Åslund 2007:175). Therefore, this is the only country where the phenomenon of durable social exclusion does not apply; here we talk about only the political exclusion aspect of social exclusion.

The Ukrainian presidential elections of November, 2004 witnessed a massive mobilization against the incumbent President Kuchma. Kuchma was considered a corrupt and authoritarian leader with oligarchic ties. Under his government, the judiciary was malleable, mass media controlled to the level that defiant or investigative reporters could have been murdered. The massive uprising of the 2004 in Ukraine was in support of Viktor Yushchenko, the main oppositional candidate against Viktor Yanukovich, the presidential candidate who was widely known as handpicked by the incumbent president Kuchma. Election fraud and vote rigging served as an opportunity window for the public outrage to burst leading to the Orange Revolution.

The demonstrations included about 40,000 university students with a sea of orange flags, hundreds of Ukrainians who arrived from other cities of the country to Kyiv, the capital city, over one million Ukrainian citizens who went out to the streets in support of their candidate.

C. J. Chivers of the *New York Times* reveals that as the protesters gained momentum, Ukraine’s military and security services began to fragment. Although state elites demanded to use force to disperse the demonstrations, the authorities did not dare to intervene with the military and the SBU (Security Service of Ukraine). Ukrainian security agencies played an instrumental role in the Orange Revolution, as they provided support to the political opposition. According to Chivers (2005), after the Interior Ministry marshaled troops to attack the protestors, SBU leaders proclaimed that they would use force to protect the

protestors. Ukrainians went to vote in a re-run election on December 26, and the next day Yushchenko became the elected President of Ukraine.

Unlike for other countries that witnessed high levels of social mobilization, there is an abundant literature on the causes and consequences of the Orange Revolution in Ukraine. Some discuss only the domestic context, others emphasize the international context. A very popular reason that many authors find primary is the civil society, particularly youth groups, such as “Pora”.<sup>85</sup> Polese (2009) argues that the crucial factor in the Orange Revolution was the transformation of informal social networks into a formalized civil society. Others ascribe an essential role to Ukrainian nationalism. Dominique Arel suggests that “nationalism produced the Orange Revolution. ... if Ukraine is now on the road to an open society, it is largely thanks to the strength of its nationalism” (Arel 2005:1). Another factor that Arel finds important is a “polarized society”.

Kuzio’s thorough assessment of the Orange Revolution indicates eight necessary factors for this revolution: *competitive authoritarian regime, preceding political crisis, charismatic candidate, sympathetic capital city, disunited and dispirited ruling elites, united opposition, new generation, and civic nationalism*. As contributing factors that are noteworthy, Kuzio states another set of five variables. Those are the *economic factor, modern communications, the public mood, security forces and the international involvement*.

While it is necessary to mention factors that the literature finds significant for the success of the Ukrainian social mobilization, it is not the aim of this chapter to discuss all of these factors at length. A required task here is to discover the differences that led the Ukrainians to a successful color revolution, that is, the removal of authoritarian leadership by means of non-violent techniques, as compared to the Armenian case. Based on the reviewed literature, we can assess that the necessary but missing condition for the Armenian revolutionary situations to turn into a revolution was the international factor. But since this dissertation does not deal with the international factor due to the fact that I am concerned with the domestic context of social exclusion, I leave the involvement and the role of the international community to future research.

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<sup>85</sup> The translation of “Pora” is “It’s time!” or “It’s enough!”

The basic premise shared in earlier parts of this study focuses on state militarization as a leading factor to the failure of social movements. Now, revisiting the two cases, Ukraine and Armenia, through the state militarization lenses, it becomes obvious that the level of state's repressive power has been the primary factor for the differences in outcomes.<sup>86</sup> Similar to the Georgian case, the Ukrainian security forces remained neutral or 'defected'. Binnendijk and Marovic (2006) examine the explicit strategies developed by protestors in Ukraine to increase the costs of repression and reduce the willingness of state security forces to resort to violence. Through means of persuasion, organizers averted major repression of their movements. However, it is contestable whether the armed forces did not intervene because of the protestors' persuasion skills or because the Security Service and the military were sympathetic to Yushchenko. In a similar method, Armenian protestors have tried extraordinary methods of attracting the Armenian armed forces, but in vain. The Armenian military leaders are people with close ties to government authorities. Armenian military, particularly those officials, who have been appointed after the Karabakh war and are not the classic Soviet officers with proper military training, but civilians who turned into military officials, are extremely subordinate to the state, because they have their stake to lose if there is a regime overturn. State-military relationship is tightly interrelated and inter-dependent in today's Armenia.

Another reason for the Ukrainian state's inability to use force may be due to the fact that Ukraine's Interior Ministry was divided. Crucially, the Ukrainian elite was divided; some politicians joined the main opposition candidate's camp before the election and others defected to Yushchenko's camp when it was evident that the Orange victory was a likely outcome of the post-election movement. Divided elite means a divided state. A divided state means weaker state capacity for repression, unlike post-Soviet Armenian and Azerbaijani cases. Armenian governing authorities during the latest two post-electoral protests have had a very strong cohesion of state elites; there was a state elite fragmentation only during the 1996 demonstrations in Armenia, and which like in other cases of revolutions resulted in

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<sup>86</sup> As already mentioned in an earlier part of the dissertation, it is imperative to re-state that 'success' does not explicitly refer to more social inclusion after the specific revolution. It does not refer to the reforms or effectiveness of the post-revolutionary government. It only refers to the effective overthrow of a non-democratic and illiberal regime, in as much as it is based on the desire and decision of the larger part of the society.

the incumbent President Ter-Petrosian's resignation in 1998. In short, state militarization is the main difference between the Georgian and Armenian causes that led to success in one case, and to failure in the other.

6.3.3. Kyrgyzstan: The post-Soviet revolutions of colors and flowers continued with the "Tulip Revolution" of 2005 in Kyrgyzstan. For the third time in two years people overthrew their governments in CIS (Commonwealth of Independent States) countries, and for the first time this has occurred in the post-Soviet central Asian region. The "Tulip Revolution" happened as a reaction against rigged elections in Kyrgyzstan; its causes, however, are not rooted only in electoral fraud, but as in many cases of mass protests, stem from social, economic, as well as political segregation. The revolution in Kyrgyzstan was conditioned by widespread discontent not only in the political elite, but in the wider society.

A central position and role in the Kyrgyz events carried the People's Movement of Kyrgyzstan (PMK). The movement included many of the opposition's prominent figures. Many important movements and parties joined the PMK, among those the Ata-Jurt movement, the "For Fair Elections" bloc, Jany Bagyt, the National Movement of Kyrgyzstan and the National Congress of Kyrgyzstan. In early November the opposition demanded that the President sign a new constitution limiting his powers. Akaev signed it on November 9, yet tensions between pro- and anti-government demonstrators threatened political breakdown.

Unlike its predecessor cases, Georgia and Ukraine, the literature on the Kyrgyz case is limited. Authors chiefly lay out a chronology of events leading to the revolution, the escalation of protests and a description of the Tulip Revolution itself. There are few authors who discuss any other causes of this revolution, except the political tensions between the government and oppositional leaders. The main focus of scholarly and policymaking discussion revolves around its consequences, particularly regarding democratization. Many skeptically wonder if the Kyrgyz revolution has brought any real changes for its people and whether it has affected the consolidation of democracy in this country. Whereas a few consider the Kyrgyz events of 2005 as "little more than a coup d'état" (Knyazev 2005), or an event "orchestrated by external forces, primarily the US" (Peters 2005)", many analysts

mention that, the international community had little influence and was not a primary driver of the regime change for the Tulip Revolution (Saidazimova 2005; Radnitz 2006; Lewis 2010).

According to Marat (2006) the rise of political violence is one of several negative repercussions resulting from this sudden transformation. Based on her accounts, post-revolutionary Kyrgyzstan has been experiencing violent activity of organized criminal groups and widespread corruption in the public and economic sectors. But as Martha Brill Olcott believes, the consequences of the “Tulip Revolution” can still lead to the development of a democratic political system in Kyrgyzstan, “something that was unlikely to have been the case had Askar Akayev been allowed to complete his term of office” (Olcott, 2005).

A very good analysis of the Tulip Revolution is presented by Radnitz (2006), who argues that the overthrow of the government was possible due to an “improvised alliance of opposition leaders and business elites”. Unlike Georgia and Ukraine’s revolutions, as well as contained mass mobilizations in Armenia and Azerbaijan, in Kyrgyzstan civil society networks, students, and urban residents played a minimal role. Informal ties have been vital.

For the sake of the militarization argument put forward in the introduction of this chapter, a point that is worth underscoring is that similar to Georgia and Ukraine, Kyrgyz armed forces also joined the protestors. Otunbaeva said that police officers had joined the opposition team in massive numbers. “Policemen, including high-ranking officers, took off their uniforms, changed into civilian clothes and joined our ranks. So we have substantial support” (Saidazimova, 2005). Lewis (2010) also contends that it was not very difficult for the mobilization to defeat the state, because Akayev refused to order the security forces to use force, and the latter were reluctant to exercise force. Thus, the regime had limited ability to oppose the mobilization. “In fact, there was no cost attached to participation in demonstrations, and much greater costs in some communities (social ostracism, loss of access to local leaders) associated with opposing anti-government protests” (Lewis 2010:59).

6.3.4. Armenia: After its independence from the USSR, the Armenian Republic has witnessed repeated cycles of demonstrations. Except for the year of 1988 that was marked with demonstrations for the liberation and reunification of Karabakh with Armenia (widely known

as “Karabakh” or “National” movement), all the subsequent small or major demonstrations and insurgencies throughout 1998-2008 were directed towards state elites on economic, political and ideological grounds.<sup>87</sup> Most typically, the latter demonstrations were followed with hundreds of troops in Armenia’s capital and clashes between opposition activists and government forces. Those, therefore, have been failed efforts of contentious politics and revolutionary outcomes by the demonstrators.

The 1995 parliamentary elections were announced by the UN and other observers to be free but not fair. These elections were followed by the presidential elections in 1996 that were also disputed to be unfair. Official results announced that incumbent Levon Ter-Petrosian received 51.75% of the votes and his main opponent, Vazgen Manukyan received 41.29%. International observers’ assessments mentioned irregularities, procedural violations and breaches of the election law.<sup>88</sup> According to Manukyan’s supporters their candidate had gained 60% of the votes, so the opposition rejected the official results. Mass protests followed.

The protestors used violence, and breaking through police lines, entered the government building. They took hostage Babken Ararktsyan, the speaker of the Parliament, and beat up his two deputies. Because of this violence on behalf of the protestors and the government’s assumption that the demonstrators attempted to seize a government building, the riot was dispersed by the police. Zolyan (2010) argues that the post-election protests of 1996 in Armenia had the characteristics of “the “color revolutions””: claimed fraudulent elections, mass protests, and an attempt to overthrow the government. “The events of 1996 proved to be a pattern that in the years to come repeated itself in different post-socialist countries, albeit though with different outcomes” (Zolyan 2010:89).

The next major state repression scene repeated in February of 2003 when Kocharyan’s re-election as president (elected in 1998 after Ter-Petrosian’s resignation) was followed by widespread allegations of voter bribery and ballot-rigging. The opposition campaign peaked into a massive, yet peaceful, protest on April 12, 2004. Some sources

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<sup>87</sup> The national movement of 1988, surpassing the mark of one million citizens from all over Armenia and abroad, will be discussed more in detail in Chapter 7.

<sup>88</sup> OSCE ODIHR “Election Observation Mission in Armenia”, September 1996, <http://www.osce.org/odihr/elections/armenia/14148>



estimate the number of protestors to around 10-15,000 (*Eurasia Insight*, 13 April, 2004), others to about 25,000 (Karapetyan, 15 April, 2004). The Rose Revolutions had just occurred in Georgia, and the Armenian opposition, inspired by the neighboring country's success, tried to imitate the Georgian revolutionary tactics, among those peaceful mass protests and rallies, blocking government buildings and streets. Although the demonstrators were peaceful, the protest was dispersed by use of excessive force and in a very brutal way (Human Rights Watch 2005). There were more than 200 arrests, among those ordinary protestors, opposition leaders, and even three members of the National Assembly.

Although opposition tactics and organization have been similar in Armenia and Georgia in 2003-2004, the state's reaction has been totally different. While the Georgian incumbent President, Eduard Shevardnadze, showed an excessively mild attitude towards demonstrators and did not resort to repressive methods, the Armenian government under the guidance of President Kocharyan has used violence and suppression to crush down any challenges against the Executive, both in the parliament and on the streets.

The Parliamentary elections of May 2007 and specifically the Presidential elections of February 2008 have also been a sharp example of political exclusion.<sup>89</sup> The alleged electoral violations and fraud proceeded with mass protests in the capital city Yerevan. This time again, the protestors were extremely peaceful and no violence was used as a social movement tactic. People began the demonstrations on February 20 in the Liberty Square of Yerevan, and continued their demands of inclusion, equal rights, and fair political participation. Approximately 25,000 opposition supporters were reportedly present on the first days of the protest. Some hundreds of people were protesting in the Square even overnight.

During the 2008 protests, the demonstrators did not seek to enact disruption and transgression. In general, the protests of the 2008 were considered to be non-violent from the side of the protesting people. Demonstrations consisted of several groups and interests, such

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<sup>89</sup> The elections of 2008 and its consequences on political exclusion in the Armenian society is a major theme of discussion and will be thoroughly analyzed in Chapter 7.

as youth movements HIMA and SKSELA which were greatly frustrated.<sup>90</sup> There were elderly people in the streets, students and teenagers, intellectuals, and finally, the political opposition. There was also a new force: the Armenian workers of Russia, who losing their jobs in Russia, had returned home. This is significant because they returned to Armenia unemployed and were disappointed with the economic opportunities in the homeland.

Despite government urges to go home, the angry, discontented crowds continued their only way towards building a more inclusive homeland, demanding a new government that in their beliefs would be more inclined to meeting their needs; economic, political and societal. Their demands, however, were soon crushed. On the morning of March 1, police and army units dispersed the 700-1000 persons who had camped overnight, beating them with truncheons and electric-shock devices.<sup>91</sup> Eight protestors died during those clashes, dozens were injured.

Zharangutyun (Heritage) party's leader Raffi Hovhannisyan's statement on the post-election situation in the country mentioned that "the schism between the Armenian people and its government continues to expand". Zharangutyun, which was then the only opposition party represented in the National Assembly, believed that the presidential election was fraudulent, and that Armenian people had a legitimate right to dispute its official results in demonstrations. Hovhannisyan's statement continued: "The unconscionability displayed on February 19 and the brutality used to protect it on March 1 remain unresolved issues. No state of emergency, accompanied as it is by an aggressive, one-sided 'public information' vertical which deepens the public divide rather than healing it, will succeed in securing the collective amnesia of state and society."<sup>92</sup>

According to state elites, the events of March, 2008, were efforts to overthrow the government, an attempt of coup d'état.<sup>93</sup> Hundreds of the supporters of the main opposition candidate Levon Ter-Petrosian were arrested and jailed on charges of attempts to seize the

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<sup>90</sup> 'Hima' means 'now' and 'sksel' means 'it has started'.

<sup>91</sup> "Protector on the Scene Tells of Melee", www.armenianow.com, March 1, 2008

"Ter-Petrosyan 'Under House Arrest' Rally Broken Up", Radio Free Europe/Radio Liberty (RFE/RL), March 1, 2008; "Armenia: Police Beat Peaceful Protestors in Yerevan", Human Rights Watch (NY), March 2, 2008

<sup>92</sup> "Ter-Petrosyan, Allies Discuss Next Steps", Radio Free Europe/Radio Liberty (RFE/RL), March 17, 2008, retrieved from <http://www.armtown.com/news/en/rfe/20080317/>, last access on August 17, 2011

<sup>93</sup> "Armenia: Officials, Opposition Take Tentative Steps Toward Conciliation", Eurasianet.org, March 13, 2008

government. Sources estimate over 400 hundred citizens' arrest following March 1. The National assembly, controlled and governed by the President, stripped four deputies allied to Ter-Petrosian of their legal immunity from prosecution. While three of them were detained by the police, the fourth was able to hide and for the following couple of years remained on the run.<sup>94</sup>

Several local and international media sources and reports have exposed and condemned the state violence exercised by the Armenian state in the aftermath of the 2008 elections. They have mentioned about beatings during the protests by the police and army representatives, illegal political arrests, police brutality against the detainees, and discrimination of political elites who supported the opposition candidate.

The 2008 post-election crisis and the state of emergency announced in Armenia as the state elite's reaction to thousands of protestors obviously supports the main argument of this dissertation that coercive state apparatus merged with its military high rank authorities is a significant factor in creating political exclusion of large masses. The President's imposition of a state of emergency complete with bans on the freedoms of assembly and speech coupled with sweeping media censorship, in response to an internal political crisis that has cost at least eight lives is a combination of most of the elements mentioned in the political exclusion indicators in earlier chapters of this study.

Zolyan's (2010) research on the Armenian case evaluates the capacity of a few factors commonly associated with the effectiveness of social movements in Armenia and acknowledges only one of them, *an openly authoritarian and militarized regime*, as a truly significant factor in breeding revolutionary situations. For instance, although many would think that leaders of the opposition and their ideology are a key determinant of the social movements' success, he suggests that the oppositional discourse does not matter much in Armenia. Zolyan also argues that the rivalry between the West and Russia as well is not an essential cause of the political crises that could have led to a color revolution in Armenia. Next, in spite of the fact that the international community's engagement is instrumental for

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<sup>94</sup> "Fugitive Opposition MP Arrested", Armenia Liberty (RFE/RL), March 13, 2008, retrieved from <http://www.armtown.com/news/en/rfe/20080313/200803132/>, last access on August 17, 2011

the success of a social movement to become a revolution, international engagement cannot be considered a necessary and a sufficient cause for the emergence of a political situation in which a color revolution may occur. The most significant factor determining the failure and/or success of a social movement is an “openly authoritarian regime”, a regime that “strives to ensure stability at the expense of pluralism and liberty ... , which might be the preferred outcome for some members of the ruling elites in Armenia, who tend to equate ‘stability’ with maintaining their grip on power, but it can prove disastrous for the country in the long run” (Zolyan 2010:97-98).

In the case of Armenia, variables such as 1) *opposition leadership and a leader’s ideology*, 2) *organization and structure of a social movement*, as well as 3) *the international factor* are not as important in determining the success of a social movement, as 4) *the authoritarian mechanisms of the state’s decision-making and a state’s organizational base*. Börzel, Pamuk, and Stahn (2008:19) likewise mention that the Armenian state holds a strong, well-established and unchallenged monopoly on violence throughout the country.

6.3.5. Azerbaijan: There was a phenomenal growth of economy in 2005 in Azerbaijan. But similar to Armenia, Azerbaijan has experienced a high degree of inequality, and over 40 percent of the population was estimated to live in poverty (Alieva 2006). As a product of industrialization, there was a sudden rise of clans, and a radical change of social structure. The opportunities among different classes changed, leaving the poorest in poverty and socially vulnerable. There have been many efforts in Azerbaijan to overthrow the regime, such as in 2003 and in 2005; however none was successful.<sup>95</sup> Armenia and Azerbaijan are the only countries among the chosen cases that have had very mobilized social movements but at the same time the respective states contained those movements, shutting down protestors.

The presidential elections of 2003 have been considered not fair; the results of votes confirmed that Ilham Aliyev, the son of President Heydar Aliyev, was the ‘elected’ President, a successor to his father. This election was condemned by the OSCE, yet it was accepted internationally. The international observers and Western diplomats criticized human rights

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<sup>95</sup>For example, protests in 2005 followed by 196 protestors’ immediate arrests, about 600 opposition supporters’ arrests in the following two months and over 100 imprisonments after unfair trials (Alieva 2006).

violations and voting manipulation by the government but still advised opposition leaders to stop their protests. International refusal to acknowledge the unfair elections left Azeri people disillusioned. As a result, only 50% of the electorate turned out to vote in the parliamentary elections of November 2005 in Azerbaijan.

Similar to Georgia and Ukraine, several youth movements such as Yox, Yeni Fekir, Magam and Dalga, were created in Azerbaijan.<sup>96</sup> Many of those groups used the same tactics as the Ukrainian Pora and Georgian Kmara. The Yox movement chose green as its color, similar to Ukrainian revolution's orange color. In November 2005, thousands of young people took to the streets. On 26 November, the police cracked down demonstrations that had high promises and potential of becoming a color revolution. The police used teargas and water cannons; dozens of protesters were injured.

In Azerbaijan, there was a lack of international community support to affect the realization of a color revolution. There was no critical action and active involvement on their behalf towards changing the autocratic regime of Aliyev, because they were not committed to a regime change due to the existing business arrangements regarding Azerbaijani oil. Sources even mention that Western governments and non-governmental organizations in some cases were even opposed to the regime change. "Arguing that Azerbaijan needed "evolutionary" rather than revolutionary change, they put other, higher priority interests above democratization in Azerbaijan." (Bunce and Volchik 2008:4) Azerbaijan lacked the external influences that weakened autocrats in other post-Soviet countries through effective revolutions.

In the analysis of "color revolutions", the greatest threat to the stability of autocratic regimes lies not in the organization of the political opposition or the socio-economic challenge from below, but more significantly in the informal mechanisms by which the leader maintains cohesion within the ruling coalition and in the means of sustaining the armed forces. In Azerbaijan, oil revenues allowed the regime to provide benefits to its supporters at both domestic and international levels and maintain elite cohesion. There was a

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<sup>96</sup> In this case again, the youth groups named themselves very symbolically; for example, "Yox" means "no!", "Yeni fikir" means "new idea", "Magma" means "it's time!", an "Dalga" means "wave".

failure of the business community to support the opposition, because it was not independent of the regime. There was also unwillingness from the external community to intervene for the same reason (dependence on the Azeri state leaders based on oil interests).

On the other hand, like in post-war Armenia, the post-war Azeri state was able to keep a strong grip on political power due to the existence of external threat from Armenia. The security forces remained loyal to the regime and followed orders to use force against protesters, rather than defect to the opposition as they did in Georgia and Ukraine. Thus, the government control of the business elites, as well as the security forces, insulated Aliyev's regime from being overthrown. Several times during demonstration riots, the Azeri state did not hesitate to defend its interests with force.

#### **6.4 Conclusion**

The body of literature on democratization stresses how economic crises inevitably lead to general crisis in a regime and the ouster of the ruling elite. Many of the countries, where people were driven to break down authoritarian or quasi-democratic governments, had suffered acute economic depression and loss of political power for the majority of their citizens. And although in my assessment the "color revolutions" are not true social revolutions, famously defined by Skocpol as "rapid, basic transformations of a society's state and class structures ... accompanied and in part carried through by class-based revolts from below", the "color revolutions" have been aimed at more inclusion and a fairer share of opportunities between social classes. Timothy Garton Ash has accurately coined the term 'refolution' to describe the hybrid form of change that had taken place in the post-Soviet space, a mix of reform and revolution. Be they revolution or 'refolution', those do bring hopes for ordinary people to defeat violent states and to some extent transform their societies.

Every color revolution is indeed unique with its specific trajectory and its particular emotional catharsis. The discussed post-Soviet revolutions and attempts of revolutions have several characteristic features. I have already mentioned some of those similar features, among which international involvement is of utmost importance in most of the "color revolution" literature. Baev (2010) for example, highlights the international factor, in particular posing that the unconditional support by either Russia or the West to leaders

seeking to face down potential “color revolutionaries” is the main determinant of a color revolution. While international involvement has been relatively important in some cases, such as Georgia, Ukraine, and perhaps in Azerbaijan because of the interests in its large oil and gas supplies, in Armenia and to a lesser degree in Kyrgyzstan, its role was minimal.<sup>97</sup> A most prominently stood out feature in containing social movements was the level of violence used by the state. As shown in previous sections of this chapter, the Armenian state along with its neighbor Azerbaijan has excelled at it.

This chapter focused on the importance of the coercive power of the state in the failure of revolutionary attempts. With a comparative chapter on the military statistics, history of social movements of the studied countries and the respective states' repressive power for the period of 2000-2008, I intended to re-emphasize the military power of Armenia and Azerbaijan as compared to other similar post-Soviet states. Before a more systematic examination of the post-Soviet Armenian state militarization beyond the conventional perspective, there is a need to mention that the course of the militarization of the Armenian state is chiefly rooted in Armenian history, which was heavily influenced by the tragic fate of the nation as a perpetual victim. This historic legacy only fostered a vibrant and militant nationalism among the nation. The Armenian military in later years gained more power from the outbreak of the Karabakh conflict and the ascendance of a newly dynamic militant nationalism, which actually preceded the birth of the modern post-Soviet Armenian independent state. These historical narratives will be the main discussion of the following chapter, with a substantial focus on the Karabakh conflict, and its consequences on the Armenian democratization, peace prospects, economic development, and social inclusion.

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<sup>97</sup> This minimal role in Armenia may be explained by Armenia's lack of resources such as oil and gas. One may argue that the country also has limited strategic value.

## CHAPTER 7

### State Militarization and Social Exclusion

*War is the engine of state building, but it is also good for business. Historically, the three have often amounted to the same thing. The consolidation of national states in Western Europe was in part a function of the interests of royal leaders in securing sufficient revenue for war making. In turn, costly military engagements were highly profitable enterprises for the suppliers of men, ships, and weaponry. ...*

*The distinction between freebooter and founding father, privateer and president, has often been far murkier in fact than national mythmaking normally allows.*

Charles King

#### 7.1 Introduction

In “*Benefits of Ethnic War: Understanding Eurasia’s Unrecognized States*”, Charles King argues that there is a political economy to warfare that produces positive externalities for its perpetrators. Wars and post-war aggression in many of Eurasia’s separatist states, similar to perpetual violence in Sierra Leone, Myanmar, Liberia, Angola, Cambodia, Colombia and elsewhere in the world, have less to do with social or institutional anarchy than with the rational calculations of elites about the use of violence as a tool for extracting and redistributing resources. “Conflicts, in this sense, may not “burn themselves out”, precisely because it is in the interests of their makers, on all sides, to stoke them” (King 2001:528). At the same time, conflicts may continue for reasons that are different than those that started it, and with actors who were relevant at the time the conflict started. In this sense, while the Karabakh war (1991-1994) was inevitable between the Armenian and Azeri people in 1991, the long-lasting non-resolution of the conflict could have been avoided if Armenian political elites had the will and ability to find a compromise solution.

This chapter evaluates Armenian citizens' social exclusion with its multidimensional nature and dynamic process of "being shut out, fully or partially, from social, economic, political and cultural systems that determine the social integration of a person in a society", by primarily analyzing the promotion of nationalist policies that deprived Armenia of economic development and Armenians of employment opportunities; the weakening of civil society and participatory politics by the breakdown of peaceful opposition and



demonstrations; and unfair exercise of power by the governing leaders. It argues that the militarization of the Armenian state through the Karabakh war led to the social and political exclusion of the wider Armenian society by forcefully eliminating political opposition, suppressing independent judiciary and curtailing the independence of the media. The prospect of free and competitive elections that would result in fair and peaceful rotation of power and accountability clearly failed. These processes have further polarized the wealthy and the poor, increasing economic exclusion of the latter. A vicious circle of economic, political and social dimensions of exclusion was conceived.

Furthermore, a long-lasting absence of peace resolution over the Karabakh conflict maintained by a nationalist ideology that was reinforced during the Kocharyan administration undermined the formation of peaceful foreign policy and security, market reform, democracy, and social inclusion in post-Soviet Armenia. The frozen state of the Karabakh conflict has led to certain distortions in the post-Soviet Armenian political system. It was a springboard for the post-war state militarization in Armenia. Prolonging the dispute and shunning a final settlement by central policy elites since and during the presidency of Robert Kocharyan has also prolonged the durability of social exclusion in the Armenian society. Key elites got major benefits from stalemate, and had an incentive to prolong it. A final settlement for the Karabakh conflict has become an outcome from which ordinary people would greatly benefit, but which entails much sacrifice from elites who maintain not only control over armed forces, but also accrue resources through political support and financial assistance of the international community as long as they prolong a resolution. Meanwhile, Armenia is in a "form of self-imposed isolation, an isolation that is leading to economic, political, and strategic strangulation" (Libaridian 2007:301).

The analysis of social exclusion through state militarization is examined through four main events in post-Soviet Armenia: 1) The Karabakh war of 1991-1994; 2) the resignation of first President of the Republic of Armenia, Levon Ter-Petrossian, in 1998; 3) the 1999 Parliament shooting, and 4) 2008 March repression of post-electoral protests. These events, characterized with many elements of militarization discussed in the definition and theorization of the term in Chapter Four, are rooted in militarization and routed to social exclusion. Particularly, the three post-war events – Ter-Petrossian's resignation; the 1999

Parliament murders; and the March 1, 2008 post-electoral turmoil – were infamous events that impacted the Armenian state militarization and its effect on social decay.

This chapter interprets the above-mentioned three political events as significant junctures in post-Soviet Armenian politics and relates them to the non-conventional development of state militarization in Armenia.<sup>98</sup> In this regard, all three of these events were allegedly initiated and pressured by politicians, who had been seriously involved in the martial activities of Karabakh war, were considered as some of the most revered military figures for Armenians, and had afterwards gained control over the armed forces. Being related to the Karabakh war and having some 'military' background,<sup>99</sup> Armenian high-ranking political elites influenced military leaders to support them in maintaining their political hegemony through containing mass mobilizations, repression of opposition, election fraud, and other human rights violations. Their regimes heavily depended on the loyalty of the army and police and employed rigid authoritarianism and a constant need for coercion or its threat. In exchange to the services of the military, certain individuals in the military were rewarded with higher ranks, higher positions and other resources.<sup>100</sup>

Most of the politicians I have interviewed for this dissertation agree that post-war Armenia is a militarized state, and that the state militarization adversely impacted a beneficial foreign policy that would positively affect Armenia's socio-economic development. They also agree that this type of regime has continuously closed opportunities of political power and policy-making for oppositional politicians and has excluded the majority of Armenian citizens from political participation. Only one of the interviewees,

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<sup>98</sup> In the conventional militarization sense, only the Karabakh war can be considered an element of true state militarization. But as stressed in the state militarization literature discussed earlier in this dissertation, any other political event that intervenes with domestic politics through the use of military affairs or armed tactics may be characterized as state militarization.

<sup>99</sup> We should emphasize that 'military' here denotes a field commander, rather than a traditional combatant with military training background. Field commanders during the Karabakh war were similar to fedayees (Ֆեդայի), also known as the Armenian irregular units or Armenian militia, who were civilians that voluntarily left their families to form self-defense armed units against the enemy.

<sup>100</sup> Gabrielyan (2011) describes a process of clientelistic relationship between the Kocharyan administration and the military, which strongly resembles the "feudalization of the state" in the military realm. Kocharyan, for example, formed a loyal army team by granting titles of "General" to several soldiers. Later they were appointed to various positions in the Armed Forces (Gabrielyan 2011). Since 2000, position appointments and sponsorship entitlements in the Armed Forces became increasingly popular. "Huge amounts of money to expend from the Army, not targeted funds, profits from the abuse, became common practice during their [Kocharyan-Sargsyan] government" (ibid).

Chairman of the Armenian Constitutional Legal Protection Centre (ACPRC)Gevorg Manoukyan rejected the idea that post-war Armenia has been militarized.<sup>101</sup> According to him, after every war, even after World War II, during Stalin's dictatorial regime, war soldiers/heroes or so called *frontaviks* earned great respect and gained much authority. Manoukyan claimed that it was normal for Armenian warriors of Karabakh war to enjoy respect and more resources than other citizens, because they put their lives at danger during war for the safety and security of the Armenian nation. But Manoukyan, as most of the other interviewed politicians and analysts, think that war leaders, such as Samvel Babayan, for example have gone too far by acquiring too much power, wealth and violence.<sup>102</sup>

Stepan Safaryan and Gerard Libaridian confirmed that there is state militarization but both stressed that the power is, by and large, not the military itself but the top-rank officers, mostly "field commanders", not the professional officers.<sup>103</sup> Libaridian brought the examples of Vazgen Sargsyan joining Kocharyan in the critical period of Ter-Petrosian's resignation, Samvel Babayan of Karabakh, Manvel Grigoryan of Ejmiatsin, calling the latter two "disastrous and cruel characters". Libaridian also added that it was a conscious decision to do special favors to the Yerkrpah fighters during the privatization of small industries. "I remember Vazgen [Sargsyan] saying "we need to do something for these boys, they gave their youth..." So, there was, I'd say, a privileged treatment of the Yerkrpah. But I don't know if they benefitted in the privatization of the big industry."<sup>104</sup>

Jirair Sefilyan agreed with Safaryan and Libaridian by focusing on corrupt generals ("field commanders") hailing from Karabakh war, who want to control the power system of the country.<sup>105</sup> He, however, stressed that there does not exist a "Mussolini-type system" in Armenia, because current Armenian militiamen do not possess adequate ideology and ideas

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<sup>101</sup> Gevork Manoukyan, Personal interview with author, Vanadzor, Armenia, May 20, 2009.

<sup>102</sup> Many of the interviewees mentioned Samvel Babayan when discussing state militarization in Karabakh. The following sections of this chapter will dwell more extensively on his role on the relation of post-war militarization and social exclusion.

<sup>103</sup> Stepan Safaryan, Personal interview with author, Yerevan, Armenia, September 6, 2011; Gerard Libaridian, Personal interview with author, Ann Arbor, Michigan, April 14, 2010.

<sup>104</sup> The quote is derived from the author's interview with Libaridian, Ann Arbor, Michigan, April 14, 2010.

<sup>105</sup> Jirayr Sefilyan, Personal interview with author, Yerevan, Armenia, August 17, 2011.

as Mussolini and similar dictators employed in controlling the system.<sup>106</sup> Instead, the Armenian elites excel at using force.

According to Arman Grigoryan and Armen Darbinian, after the Karabakh war, certain actors were rewarded with economic assets. This was not done through auctions as a normal way of privatizing certain assets; the state simply gave those rewards to people that had been connected to the war, that had to be rewarded.<sup>107</sup> The resources for rewarding them were extremely scarce at the time (in mid 1990s). All those things introduced terribly unhealthy distortions in the economy and created economic exclusion for the rest of the society. Grigoryan emphasized that it was not the most meritorious economic actors that gained access to economic means but those that were connected to the war effort. This is how war affected centralization of assets into a few hands and increased economic exclusion.

Paruyr Hayrikyan indicated that, if we characterize Armenia as militarized due to the activities of the Yerkrpah and several field commanders who later turned into corrupt and authoritarian politicians, he would substitute the term “state militarization” with the term “state criminalization.”<sup>108</sup> To explain his reasoning, Hayrikyan opposed the example of Israel as a militarized state to the case of Armenia as an extremely authoritarian country or dictatorship. I argue, however, that authoritarianism turns into militarism, when the leaders of

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<sup>106</sup>Benito Mussolini was an Italian politician, considered to be a central figure in the creation of fascism. Mussolini is said to have had major influence on Adolf Hitler, and was a close ally of Hitler's during World War II. He led the National Fascist Party of Italy, ruling the country from 1922 to 1943. He was able to destroy all political opposition and transform the country into a one-party dictatorship. Mussolini was executed in 1945 by Italian partisans.

<sup>107</sup>Armen Darbinian was the 7<sup>th</sup> Prime Minister of post-independent Armenia in 1998-1999. An economics graduate from Moscow State University, he was appointed First Deputy Chairman of the Armenian Central Bank in 1994 and Minister of Finance in 1997. Since 2001, Darbinian has been the President of the Russian-Armenian Slavonic University. In 2005, the World Economic Forum awarded him the title of Young Global Leader. Currently Darbinian is on board of several think tanks and research organizations. The interview with Darbinian was conducted in Yerevan, Armenia, September 3, 2011;

Arman Grigoryan, personal interview with author, Ann Arbor, Michigan, March 24, 2010.

<sup>108</sup>Paruyr Hayrikyan was one of the founders and most active leaders of the democratic movement in the Soviet Union. Since 1987, Hayrikyan established the Union for National Self-Determination (UNSD) party, which was the first openly operating democratic organization within the territory of the former USSR. During the Soviet rule, Mr. Hayrikyan spent 17 years in prisons, labor camps, and exile for his political activities and eventually was stripped of Soviet citizenship and exiled to Ethiopia. In 1990, following pressure of a group of United States senators led by Bob Dole, Mikhail Gorbachev restored Hayrikyan's citizenship and allowed him to return to Armenia. Since then Hayrikyan has taken an active part in Armenian political life. He was twice elected into the Armenian National Assembly, ran for presidency, and served as a human rights ombudsman. The interview with Hayrikyan was conducted in Yerevan, Armenia, August 8, 2011.

an authoritarian state, who have fought in a war of critical significance for the country's security, use their authority, military networks, weaponry, and above all the armed forces to control internal politics. Then the country becomes militarized, as it happened with the Armenian state.<sup>109</sup>

It is indisputable that the Karabakh war, although won by Armenians, had a tremendously adverse impact on the Armenian people's lives. Besides creating poverty and deprivation, the war produced a generation of a new type of military class – the army of field commanders of war – who after the war became the Armenian state elites and political leaders. During their service in the Armenian government, those politicians had a tendency of exploiting their military networks and authority gained during war, as well as power to use armed forces for local politics, specifically during times of elections. It can be said that the victory in war and its political circumstances shaped a militarized state.

The summary of Karabakh war and negotiations for peace after war, examination of President Ter-Petrosian's resignation in 1998, the analysis of the 2001 Parliament shooting, and 2008 post-electoral violence in Armenia show that the fate of political regimes in democratizing and changing states ultimately rests with people who bear arms. As Zoltan Barany (2011) argues, the military is the most important state institution in transitioning states because democracy cannot be consolidated if military elites do not support democracy. "No institution matters more to a state's survival than its military, and no revolution within a state can succeed without the support or at least the acquiescence of its armed forces" (Barany 2011:28). This is true particularly for the post-communist regimes. Therefore, examining politics and political exclusion in post-Soviet Armenia will be problematic if military-related people and their activities are extracted from politics.

## **7.2 The Karabakh Conflict: Origins, Dynamics, and Perceptions**

### **7.2.1. Pre-Soviet Historical context of the Karabakh conflict**

Karabakh is a landlocked region in the South Caucasus with a population of 140,000. The total size of Karabakh is 4,800 square kilometers and it is only 1.5 times bigger than the

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<sup>109</sup> Since these individuals have fought in the war, whether with or without military training, military education or occupation, they become soldiers. They are not simply civilian leaders any more.

state of Rhode Island (Croissant, 1998:10). It is separated by 3.726 miles from the south-eastern border of Armenia. Armenians have lived in the Karabakh region since Roman times. In the early Middle Ages the native Albanian population of upper (mountainous) Karabakh merged into the Armenian population, and after 1300, Islamic Turks moved into the steppes of lower Karabakh (Ruthland 1994:841).

This tiny territory has a symbolic importance for both Armenians and Azeris. Although Karabakh has been under the reign of Muslim invaders for centuries, it has managed to maintain its remarkable Christian cultural heritage.<sup>110</sup> Karabakh symbolizes freedom and independence for Armenians (Hunter, 1994:97). For Azeris, Karabakh became culturally and nationalistically significant in the 19th century. It occupied a special place in the Azerbaijani national consciousness (ibid). Nowadays, Armenians reject Azerbaijan's authority and control over Karabakh. Both peoples accept this region as an essential historical site intrinsic of ethno-cultural identity. Whereas the Karabakh conflict has an old history, it resurfaced at the end of 1980s, turning into the Karabakh war in 1991. Since the end of the Karabakh war in 1994, Karabakh is a *de facto* independent state, governed by the Nagorno-Karabakh Republic.

There is ample coverage of the Karabakh conflict focusing on its historical, territorial, demographic, ethno-religious, socio-economic and political dimensions.<sup>111</sup> Whereas most of the literature focuses on the sudden explosion of the conflict, it should be noted that there was very little that could be considered sudden about this conflict.<sup>112</sup> Saparov (2012), for example, contends that while the Western literature addresses the Karabakh conflict based on the events of the post-Stalinist period, there is a need to venture as far back as the period of civil war of 1918-1921. He argues that vast amount of literature ignores the examination of Bolsheviks decision to grant autonomous status to Nagorno-Karabakh. Therefore, "it has

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<sup>110</sup> The genesis of the Karabakh conflict has decades of history. For a very detailed chronology of events referring to the history of autonomous region of Mountainous (Nagorno-) Karabakh, see Libaridian's (1988) *The Karabagh File: Documents and Facts on the Region of Mountainous Karabagh 1918-1988* (pages 145-154). Libaridian presents documents and facts on the topic beginning with the 7th century A.D.

<sup>111</sup> The list of authors on the Karabakh conflict is exhaustive. For most popular and serious examinations of the Karabakh conflict, please see (Hovannisian 1997; Yamskov 1991, 1992; Altstadt 1992; Hunter 1993; Suny 1996, 1999-2000; MacFarlane, & Minear 1997; Laitin and Suny 1999; Libaridian 1999 & 2004; Mooradian & Druckman 1999; Cornell 2001; Papazian 2001; De Waal 2003).

<sup>112</sup> Acknowledging that the origins of the conflict date back to the pre-Sovietization of the region, I primarily concentrate on its history and roots after the Sovietization of the region.

become almost a cliché to blame the creation of the ethnic Armenian autonomy within Azerbaijan on Stalin, who by doing this created leverage against both republics" (Saparov 2012:282).

Whereas the historical battle of Armenians of Karabakh against Muslim invaders and the struggle for national liberation has an older history, the genuine roots of the Karabakh conflict may be traced back to the collapse of the Russian Empire and the fragmentation of the South Caucasus (Saparov 2012). The conflict complicated further with the application of Leninist nationality policy and Stalin's "principle of divide-and-rule" (which is also called "combine-and-rule") in the Transcaucasus region in the beginning of the 20th century (Croissant 1998:19).<sup>113</sup> As a result of strategic and economic calculations of Soviet authorities, this policy contained several anomalies, one of which was the attachment of Nagorno-Karabakh as an autonomous region to Soviet Republic of Azerbaijan by Joseph Stalin in 1921.<sup>114</sup>

Karabakh was conquered by Arabs in the 7th century, invaded by Seljuk Turks in the 11th century and overtaken by Mongols from the 13-15th centuries. The Mongol rule of the region was terminated in the 16th century, when the Ottoman Turks conquered the region. Early in the 16th century, Armenians initiated tentative ineffective steps towards liberation. In 1639, the Armenian Plateau was divided between Ottoman Turkey and Safavid Persia. Persia and the Ottoman Empire agreed to cede Karabakh to the Khanate of Ganja, a tributary of Persia (Libaridian 1988:145-146). It was during this period when Armenians were granted greater privileges by Persian rulers. Karabakh was the only Armenian-populated territory that

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<sup>113</sup> The ultimate goal of the Soviet nationality policies was to maintain a multi-ethnic Soviet empire. Soviet nationality policies were characterized by three key objectives: (1) nation-building through institutionalization of territorialized ethno-cultural identity, (2) homogenization through Russification, and (3) nation-destroying through demographic manipulations and carving of territorial-administrative units cutting across ethno-cultural lines (Harutyunyan 2010:135). These policies fundamentally defined inter-ethnic relations in the Soviet region. Even after the breakup of the USSR, the legacy of Soviet nationality policies, continues to affect the ethno-territorial tensions in post-Soviet republics. The case of the Karabakh conflict is a good example.

<sup>114</sup> "The great irony of Soviet nationality policy was that a program that was intended to eradicate nationalism, eventually meld all these ethnicities into a single "Soviet people," and reduce the political salience of nationality, in fact embedded ethnicity into politics, granting advantages to some and disabilities to others" (Laitin and Suny, 1999:149). The USSR, in this way, became a 'prison house of nations', with inherently inequitable political relations between the center and the republics. There were inequalities also within the republics, which increasingly became intolerable. At the end of 1980s, the anomalies of the Leninist-Stalinist nationality policy have grown into nationalist activities as soon as the Soviet Republics attained the opportunity of self-development (Suny 1993b).

was independent while the rest of Armenia was under the Iranian rule in pre-Soviet era. In 1603, Shah Abbas the Great of Persia allowed local Armenian rule in Karabakh under five *meliks*.<sup>115</sup> These five kinglets later joined – but not supplanted – by a Muslim khanate, survived until the Russian conquest of Karabakh (ibid). With Russian Empire's annexation of the region in 1805, Armenian *meliks* of Karabakh lost their autonomy and power that was granted to them by the Persian Shah (Bournatian, 2002). In 1813, Persia and Russia signed the Treaty of Gulistan, as a result of which Karabakh as well as most of the territories of Azerbaijan were ceded to Tsarist Russia (Libaridian 1988:146).

Until 1905 there were no reports of Armeno-Tatar mass clashes. Since 1880s, Russian "fondness" of Armenians had begun to decrease<sup>116</sup> and the new Russian policy of seeking to avoid conflict with the Ottoman Empire favored the Tatars of Transcaucasia as opposed to the Armenians.<sup>117</sup> The anti-Armenian policy, particularly the confiscation of the property of the Armenian Church and the closing of Armenian schools, provoked Armenian anger and uprisings. In the period of 1905-1907, clashes between Armenians and Tatars or "Azeris" broke out throughout Transcaucasia, Karabakh being one of the bloodiest scenes of fighting. Tsarist authorities did not intervene in order to curb Armenian activism, and Armenians were massacred in areas where Tatars outnumbered Armenians (Libaridian 1988:146).

Following the Russian Bolshevik Revolution of 1917, the situation in Transcaucasia was further complicated by the involvement of several great powers – the Ottoman Empire, Great Britain, Soviet Russia and Kemalist Turkey. These powers pursued their own goals in the region; however, they did not always possess sufficient power to impose their will in an unconditional manner. Armenia, Georgia and Azerbaijan accordingly cooperated with this or the other major actor in order to advance their own goals and territorial claims (Saparov 2010). In March of 1918 Armenia, Azerbaijan and Georgia formed the Transcaucasian Confederation as an independent multiethnic republic. The Confederation dissolved in May of the same year due to conflicting interests. The Republic of Georgia declared its

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<sup>115</sup>The word "melik" in Arabic means "ruler." In this case, the title "melik" de facto referred to the equivalent of princes or local overlords, leftovers from the medieval Armenian feudal system.

<sup>116</sup> One of the reasons for this was the dismissal of the liberal Chief Minister Loris-Melikov after the assassination of Tsar Alexander II in 1881.

<sup>117</sup> Azeris were generally referred to as Tatars or Tartars in Czarist Russia.



independence on May 26, 1918. The Republic of Azerbaijan declared independence on May 27, 1918. Despite Armenian fears of Ottoman Turkey's eastward expansion, Armenia declared its independence on May 28, 1918.<sup>118</sup> The Armenian fear of Ottoman Turkey became real, when the Ottoman Turkish army invaded most of the Eastern Armenian territories. On June 4, 1918, the Turko-Armenian Treaty of Batum was signed, as a result of which Armenia was compelled to cede large territories to Turkey, Georgia, and Azerbaijan. Armenian territory decreased to 4,500 square miles. Karabakh then obtained the status of autonomous district under the protectorate of Azerbaijan (Saparov 2010).

In September of 1918, Turks and Azerbaijanis launched systematic massacres of the Armenian population. 15,000 - 20,000 Armenians were killed (Walker 1980, Libaridian 1988, Payaslian 2007). In October, Turkish massacres intensified in Karabakh (Libaridian 1988). Armenians, initially resisting Turko-Tartar attackers, eventually surrendered (Harutunyan 2009). Armenian compliance was due to the intervention of the British High Commander of Caucasus, General Thomson, who promised Armenians that the problem would be mediated in the Paris Peace Conference (Libaridian 1988). British intervention was then irresistible, because following the surrender of Central Powers after the World War I, the British Empire had emerged as the dominant player in the region.<sup>119</sup> Despite British assurances and despite strong resistance by Armenians, the final decision was to leave Karabakh and Zangezur as autonomous regions within Azerbaijani jurisdiction.<sup>120</sup> In August of 1919, Armenians were forced to accept Azerbaijani authority over Karabakh.

After the British left the region failing to impose a settlement, Bolsheviks became the imperial arbiters in the Transcaucasus, as a result of which Armenia had to accept a “temporary” Bolshevik occupation of Karabakh, Zangezur, and Nakhijevan on August 10,

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<sup>118</sup> With this independence, the First Republic of Armenia was established. Armenia's first statehood lasted very short, only two years, before Armenia became a Soviet Socialist Republic in 1920.

<sup>119</sup> The *Central Powers* were one of the two warring factions in World War I (1914-1918), composed of the German Empire, the Austro-Hungarian Empire, the Ottoman Empire, and the Kingdom of Bulgaria.

<sup>120</sup> Armenia and Azerbaijan historically have had three disputed regions: Zangezur, Nakhijevan, and Karabakh. Zangezur and Nakhijevan had mixed populations. Karabakh, on the contrary, has always been predominantly and overwhelmingly Armenian populated. As a result of the Treaty of Kars in 1921 and the Soviet-Turkish Treaty in 1921, Nakhijevan – an exclave bordered by Armenia, Iran and a 6.21-mile (7-km) frontier with Turkey – was granted the status of an Autonomous Soviet Republic within Azerbaijan in 1924. Karabakh was made an Autonomous *Oblast* (region) of Azerbaijan in July 1923. Zangezur, which separates mainland Azerbaijan from Nakhijevan, was returned to the Armenian SSR (Harutyunyan 2009).

1920. The same day, the Treaty of Sevres was signed, according to which Turkey would recognize Armenia as a free and independent state. The Treaty of Sevres stipulated that the President of the United States, Woodrow Wilson, would determine the boundaries of the proposed Armenian state. Wilson designed a state which would include portions of Eastern Anatolia, or what Armenians call Western Armenia. Moreover, it was designed to include Nakhijevan, despite its predominantly Turkic population, as well as most of Karabakh's territory. According to the Treaty of Sevres, Turkey would renounce any claim to the ceded land (Hovannisian 1967; 1997; Walker 1980). However, "Wilsonian Armenia" was never realized, since neither European powers nor the United States had enough political will to commit to this task against the Ottoman Empire.<sup>121</sup>

The Treaty of Sevres ignited a strong wave of Turkish nationalism. Turks, ensuring the support of Bolsheviks through a secret pact signed between the Grand National Assembly of Turkey and Soviet Russia in August 1920, attacked Armenians in the autumn of 1920.<sup>122</sup> To avoid the potential annihilation of Eastern Armenians, the government of the Republic of Armenia decided to relinquish power to the Bolsheviks. For the next seventy years, Armenia was a Soviet Socialist Republic.

### **7.2.2. Karabakh conflict during the Soviet Period**

After Sovietization, the Bolshevik position in Azerbaijan was weak and in order to gain stronger control in Azerbaijan, Bolsheviks had to support Azerbaijani territorial claims. They supported Azerbaijani claims to the disputed regions of Karabakh, Zangezur and Nakhijevan until December 1920, when the Bolsheviks, trying to facilitate the Sovietization of Armenia, forced Azerbaijan to renounce its claim on the disputed territories (Saparov 2012:320-321). But due to the slow reaction of the Armenian Bolsheviks, Armenians failed to use this opportunity to extend their rule to Karabakh (ibid). On December 3, 1920, Armenia signed another peace treaty, the Treaty of Alexandrapol, which obliged Armenia to renounce the Treaty of Sevres, surrender Western Armenian territories, the province of Kars in Eastern Armenia, and accept temporary Turkish jurisdiction over Nakhijevan

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<sup>121</sup> The Treaty of Sevres was annulled when the Turkish government and Entente Powers ratified the Treaty of Lausanne in 1923.

<sup>122</sup> The conflict between the First Republic of Armenia and the Turkish nationalists following the signing of the Treaty of Sevres is often referred to as Turkish-Armenian War.

(Hovannisian 1967, 1997; Walker 1980).<sup>123</sup> Four months later, the pendulum that initially favored Armenians, swung back again. In March, 1921, the "Treaty of Brotherhood and Friendship" between the Soviet Union and republican Turkey included a provision that both Nakhijevan and Karabakh were to be placed under the control of the Azerbaijani SSR (Cornell 1999:8). Azerbaijan, therefore, continued to remain in control of Karabakh (Saparov 2012).<sup>124</sup>

Bolshevik policy changed after the complete conquest of the South Caucasus. In May 1921, Moscow was once again intending to grant Karabakh to Armenia, and on July 3, 1921, a decision was made by Stalin to assign Karabakh to Soviet Armenia. Two days later, on July 5, 1921, Stalin and *Kavburo* once again reversed their decision, agreeing to Karabakh's remaining in the Azerbaijani SSR (Cornell 1999; Saparov 2012). "To sweeten the pill for Armenians, Karabakh was to receive autonomy" (Saparov 2012:321).

The placement of Karabakh in Azerbaijan altered the boundaries of Karabakh. Autonomous Karabakh was separated from Armenia by a six-mile swath of land, called the Lachin corridor.<sup>125</sup> As a result of the Soviet authoritative decision, Lachin became part of the Republic of Azerbaijan, thus Armenia had no contiguous border with Karabakh (Laitin and Suny 1999). Karabakh also became subservient to Azerbaijan. On July 7, 1923, a decision was made to give the region the status of an autonomous *Oblast*. Nagorny Karabakh Autonomous Region (NKAO), which included the mountainous part of Karabakh, was created within Azerbaijan, with an overwhelming Armenian population of 94% of the total population. In 1924, NKAO was officially declared as a constituent part of the Azerbaijani SSR.

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<sup>123</sup>The Treaty of Alexandrapol was never ratified and was replaced by the Treaty of Kars in October, 1921.

<sup>124</sup>It is considered that Stalin's decision was, one on hand, a concession to the newly-founded Turkish republic and its leader Kemal Atatürk, whom Stalin regarded as a potential ally at the time and who was hostile to any territorial arrangements favoring Soviet Armenia. On the other hand, given Stalin's tendency to divide the Caucasian people in order to control them easily, separation of the Armenian republic and Karabakh, was an element of his divide-and-rule policy (Cornell 1999).

<sup>125</sup> The fate of the Lachin corridor has become one of the significant issues during the OSCE Minks Groups' negotiations over the Karabakh peace settlement. More details on the territory of Lachin will be presented in the analysis of those negotiations.

The decision to assign Karabakh to Azerbaijan has been justified by the Soviets on the grounds of acknowledging Karabakh's economic ties to Azerbaijan, and reportedly to please Turkey. Others also mention a justification referring to the necessity to create harmony and advancing peace between Muslims and Armenians for the "Soviet construction" (Altstadt 1992:117; Suny 1993). But as mentioned before, the attachment of Karabakh to Azerbaijan had anomalies that the Soviet authorities had ignored. Harutunyan (2009) mentions that NKAO was an anomalous arrangement within the Soviet ethno-territorial politics. "It was the only case in the USSR where a national group (i.e., Armenian ethnic group) was endowed with both a republic (i.e., Armenian SSR) and an autonomous region (i.e., NKAO) in another republic (i.e., Azerbaijani SSR). As a general rule commonly practiced in Soviet ethno-territorial federalism, only minority groups without a titular republic were given autonomous status either in a form of republic, region (*oblast*), or area (*okrug*)" (Harutunyan 2009:134). Suny writes, it was "the only autonomous national region with a majority that was of the same ethnicity as a neighboring Soviet republic [Armenia] yet was not permitted to join that republic" (Suny 1993:194).<sup>126</sup> De Waal (2003) has also indicated that the above-mentioned 1921 arrangement made by Stalin turned the NKAO into one of the only two instances in the Soviet system of an autonomous province inside one republic that had a strong affiliation to another republic.<sup>127</sup>

Since Stalin's above-mentioned decision in 1921, the Nagorno-Karabakh issue has been intensely disputed. Armenians viewed the incorporation of the mainly Armenian populated region into Soviet Azerbaijan as unjust and never accepted the 1921 decision. They used every opportunity to challenge the status quo. Protests against it were made several times, first in 1945 and later after Stalin's death in 1963, 1965 and 1977 (Libaridian 1988; Fraser et al., 1990; Suny 1993; Hunter 1994; DeWaal 2003). Armenians have continuously and persistently requested the reunification of Karabakh with Armenia. The requests were sent to Moscow particularly during Krushchev's "destalinization" era with

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<sup>126</sup> Another anomaly, albeit of a different type, is the Ossetian case. Ossetians were not granted with a titular republic, but were divided into two political units between two different titular republics: an Autonomous Republic in Russia and an Autonomous Region in Georgia. Finally, another odd arrangement was the creation of Nakhijevan's Autonomous Republic within Azerbaijani SSR. As a result, Armenia is positioned in the middle of the mainland and the Nakhijevan exclave since 1924.

<sup>127</sup> The other instance, Russian-majority Crimea, though also unstable, has proved a less divisive case.

aims to revisit the status of Karabakh. The 'matrimony' of Karabakh with Azerbaijan has been a point of contention throughout the Cold War era. This 'matrimony' could not last long due to several differences between the two ethnic groups, and grievances began to emerge in 1988 with the epoch of *perestroika* (restructuring) in the USSR.<sup>128</sup>

### **7.2.3. The Karabakh Movement and the Post-Soviet Dynamics of the Conflict**

Before proceeding to the analysis of the post-Soviet context of the conflict, it is important to present a brief description of the causes of the conflict, highlighting those that were prevalent during the Soviet period. The history of the Karabakh conflict demonstrates that it has passed through different stages, and was exacerbated by territorial, economic, linguistic, and national-cultural causes. The most significant source of the Karabakh conflict revolves around territorial demands, as well as state-administrative affiliation of Karabakh.

The economic roots of the conflict are believed to be reflected by the real and perceived differences of living standards and socio-economic conditions of Armenian and Azeri populations residing in Nagorno-Karabakh, as well as in Armenia and Azerbaijan respectively (Yamskov 1991:640; Yamskov 1992:134). According to Yamskov, the most fundamental economic cause underlying the conflict was the "significant lag in the standard of living or quality of life in Azerbaijan relative to that in Armenia" coupled with the fact that the population of Nagorno-Karabakh "enjoy[ed] a level of social and economic development that is somewhat higher than that of the general population of Azerbaijan" (Yamskov 1991:640). Nonetheless, the Armenians in Karabakh, aware that life in Armenia is even better, felt "dissatisfied with the deliberate policies of the Azerbaijani government, which controlled the economy ... of their oblast." Meanwhile, the Azerbaijani government, concluding that the quality of life was better in Karabakh than in other backward regions of Azerbaijan, directed funds received from businesses in Karabakh to the development of other poorer regions of Azerbaijan (Yamskov 1991).

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<sup>128</sup>Soviet nationality policies contributed to the institutionalization of ethnic identities both in Armenia and Azerbaijan. Both republics also developed a strong sense of territorial ownership and entitlements over Karabakh. Armenians in Armenia and Karabakh never settled for Soviet colonial cartography. Azeris, on the other hand, strongly believe Karabakh was an integral part of Azerbaijan since ancient times. (Harutyunyan 2009:152).

Another significant cause was a national-cultural cause. According to Yamskov (1991) there is a clear difference in the perception of modern urban culture and lifestyle priorities by the two peoples. Whereas Armenians along with Georgians are considered to be the most "Europeanized" in the Transcaucasus region, the Azeris are the least (Yamskov 1991:657). In terms of values and behavioral stereotypes, modern Armenians and Azeris differ significantly. The education level of Soviet Armenian population was also much higher. They had better knowledge of the Russian language, which provided them with greater mobility (Yamskov 1991:647; Yamskov 1992:135).

Besides cultural and educational differences, the linguistic issue was of major concern to the Armenians in Soviet Azerbaijan. The use of the Armenian language was allowed in Soviet Azerbaijan, however education in the Armenian language was not available. Moreover, Armenian mass media, particularly TV channels were limited. Armenian history was excluded from the school curriculum (Yamskov 1991:643; Kaufman 2001:58).

Surprisingly, religion and struggle for faith has not been a significant factor in aggravating the Karabakh conflict.<sup>129</sup> Although an overwhelming majority of Armenians are Christian, and Azeris are Muslim, slogans of religious intolerance have rarely been advocated by either ethnic group during the conflict. Moreover, Muslim Kurds continue to live undisturbed in Armenia after the expulsion of the Muslim Azeris during the Karabakh war, and Christian Udins remain in Azerbaijan (Yamskov 1991)<sup>130</sup>.

An alarming issue for Armenians was also the ethnographic shift in population of Nagorno-Karabakh. "The size and share of Armenians in the total population decreased from 124,100 persons (96%) to 123,000 persons (76%) between 1921 and 1979, while the Azerbaijani population at the same period increased from 7,400 persons (6%) to 37,000 persons (23%)" (Yamskov 1992:135). One of the reasons for this ethnographic shift was due to qualitative differences of the two ethnic groups; Azerbaijanis were mostly peasants, while

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<sup>129</sup> The international media often made statements about the Karabakh conflict stressing that it is a conflict being between 'Christian Armenia and Muslim Azerbaijan'. This is a false characterization, because, as was already illustrated briefly in this dissertation, the roots of the conflict are far more complex.

<sup>130</sup> The Udins are a small ethnic and linguistic group with Armenian names that belong to the Armenian Gregorian faith.

Armenians were more urban (Fraser et al. 1990:655). Another reason was due to central government policies. In any case, if the tendency of decreasing Armenian population would continue, the overwhelming Armenian predominance in Nagorno-Karabakh would swiftly disappear. With an insignificant percentage of Armenian population, Karabakh Armenians' grounds for uniting with Armenian SSR would diminish as well.

Given all those differences between the two peoples and the strong belief held by both sides that Karabakh belongs to them, the Karabakh issue needed a trigger to resurface. *Glasnost* and *perestroika* ("liberalization/openness" and "restructuring") advocated by Mikhail Gorbachev in the late 1980s became a window of opportunity for Armenians to once again address the "territorial 'injustice' imposed by Stalin" and claim their demands for Karabakh's reunification with Armenia (Croissant 1998:26). It was safer to express demands in the new, more open atmosphere of a weakening Soviet Union. In August of 1987, a petition for annexation of Karabakh to be annexed to Armenia was signed by 100,000 Armenians. Other sources mention 75,000-400,000 (Libaridian 1988:152).

On February 20, 1988, the Nagorno-Karabakh Soviet voted to request the Soviet government to allow Karabakh to leave Soviet Azerbaijan and become part of Soviet Armenia (Libaridian 1999:5; MacFarlane & Minear 1997:13). Karabakh's request to be united with Armenia was supported in Armenia. Most importantly, the Armenian intellectual elite played a central role in appealing to Moscow to unite Karabakh with Armenia (Kaufman, 2001:61). Despite Gorbachev's negative stance towards Soviet policy of nationalities and his campaign for free development of national cultures, the *Politburo* decided not to return Karabakh to Armenia. A movement started with a chain of demonstrations and massive rallies in Armenia. "Unusual in their character and sheer volume, these demonstrations received worldwide attention. They were, in fact, the first such movement by a people in what was then the Soviet bloc" (Libaridian 1999:6). Among all of the Soviet republics, Armenia was the first to see the emergence of the first and most widespread mass movement for democratization (Ruthland 1994:839). The events that followed these mass rallies are characterized by Gerard Libaridian (1999) as a "political earthquake" (p. 5).

The Soviet leadership was not then ready to deal with separate demands of the USSR republics, and it was taken aback by the audacious demand of Armenians. Meanwhile, Azerbaijan was outraged. Within hours, violence between the two ethnic groups began both in Armenia and Azerbaijan. “In the wake of the February 1988 demonstrations, Armenian and Azeri residents engaged in communal violence, characterized by individual attacks ‘mainly at night, aimed at destroying livestock and harassing people’” (Human Rights Watch, 1994:3). Violent clashes occurred in the territory of Nagorno-Karabakh, namely the Azeri town of Aghdam and the Armenian town of Askeran (Kaufman 2001:63; Nadein-Raevski 1992:120).

On February 27-28 of 1988, Azeris launched deadly violence against the Armenian population of the Azeri industrial city of Sumgait, a city north of Baku (Nadein-Raevski 1992:120). Soviet authorities did not prevent the Azeri pogroms. Dozens of Armenians were killed.<sup>131</sup> “The tragic events of Sumgait instantaneously evoked existential concerns and fears among many Armenians who drew parallels between Sumgait and the 1915 Genocide” (Harutyunyan 1999:156). Following Sumgait, there were killings of Azeris in some villages and towns of Armenia.

The events of 1988 can be considered the first serious nationalist clash in the late Soviet era, and the Karabakh conflict the “most predominant” of all of the Soviet disputes.

“More than any others in Yugoslavia or the Soviet Union, the conflict was all but inevitable because its causes lay in the 'deep structure' of the relationship between its two parties in late Communist times. Four elements – divergent national narratives, a disputed territorial boundary, an unstable security arrangement and lack of dialogue between the two parties – had made fissures that would break Armenia and Azerbaijan apart, as soon as trouble began. Yet because the problem was both so new and so profound, no mechanism was found – or has yet been found – to repair the damage” (De Waal 2005:12).<sup>132</sup>

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<sup>131</sup>*Tass* reported 31 people dead (Libaridian 1988:154). Other mass media sources estimated the number of murdered Armenians up to 53.

<sup>132</sup> As the history of Karabakh conflict demonstrates, the breakup of the conflict was neither new nor unexpected. However, most of the western literature considers the problem as new and unpredictable.



The Armenian dispute was an unprecedented move in the Soviet hierarchical political atmosphere; Soviet authorities were startled by the Armenian challenge. The Soviet authorities' inability to deal with the movement amplified the latter's inspiration, strength and volume. Massive in volume, the Karabakh movement had an extraordinarily non-violent and peaceful character. The movement of Karabakh very quickly became the most essential political issue for the Armenians over the globe. Diaspora Armenians joined their brethren in Armenia and Karabakh by organizing demonstrations across the world requesting Soviet authorities to redress the historical injustice.

In Karabakh, the movement was called *Krunk* ("Crane") and led by Robert Kocharyan. *Krunk's* main interest and concentration was Karabakh's unification with Armenia. In Armenia, the movement was called the *Karabakh movement*. It was led by the "Karabakh Committee", consisting of mainly popular Soviet Armenian intellectuals, such as Zori Balayan (a journalist) and Silva Kaputikyan (a poetess), whose main agenda was similarly the unification of Karabakh with Armenia. Late in 1988, the "Karabakh Committee" underwent ideological restructuring and replacement. The original group was replaced by new, less well-known members: Levon Ter-Petrosian (a philologist and historian); Vazgen Manukyan and Babken Ararktsyan (professors of mathematics at the Yerevan State University); David Vardanyan (a biologist); Ashot Manucharyan (a teacher and vice-principal of a high-school as well as a Communist Party Youth activist); Raphael Ghazaryan (a physicist); Hambartsum Galstyan (an ethnologist, who before his assassination in 1994 had become the Mayor of Yerevan); Vano Siradeghyan (a writer); Samvel Gevorgyan (a journalist); Alexan Hakobian (a historian); and Samson Ghazaryan (a history teacher). The reformed committee did not have a single leader. The agenda of this reformed Karabakh Committee was not merely the Karabakh issue, but also, and more importantly, democratic reforms and independence of Armenia<sup>133</sup>.

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<sup>133</sup> The Karabakh Committee had a strong democratic structure, where ideas not only were a result of common deliberation but also required an approval of all members. It was due to this democratic nature that the Committee was able to appeal to tens of thousands of people to demonstrate peacefully from 1988 to 1990 in Armenia. Leaders and people were in a continuous exchange of ideas; in this participatory democracy, public deliberation was an essential component for resolving issues. Popular opinions and suggestions were vital in the Karabakh Committee's tactics. One of the illustrative examples was the decision to open a "table of suggestions", where people could submit their ideas for future actions. Several observers from the Baltic States and other

In December of 1988, a notorious earthquake devastated Armenia, resulting with more than 25,000 deaths, thousands of homeless and a complete destruction of industry and production. Soviet authorities, taking advantage of the disaster and chaos in Armenia, managed to arrest Karabakh Committee members. Those members were shortly released under international pressure, and in 1989, the Karabakh Committee institutionalized its activities under the name of Armenian National Movement (ANM).<sup>134</sup>

The inter-ethnic fight between Armenians and Azeris soon worsened. By the end of 1989, most Armenians residing in Azerbaijan and Azeris residing in Armenia had fled their homes in Armenia and Azerbaijan respectively. “Armenians were expelled *en masse* from Azerbaijan and vice versa” (MacFarlane & Minear 1997:14). The situation was so dramatic, that in January of 1989, Soviet authorities decided to take control of the region by deploying their Interior Ministry and army troops. In September, Azerbaijani Popular Front (APF) leaders initiated a railway blockade against Armenia and Karabakh, successfully degenerating Armenia’s economy.<sup>135</sup>

In January 1990, Azeris waged another slaughter of Armenians in the capital city of Azerbaijan. The attacks towards Armenians continued for three days, and local police or Soviet troops did not intervene. Similar to Sumgait's violence, killings of defenseless Armenians in Baku were considered by Armenians to be a “new act of genocide against the Armenian people, planned and organized by the Azerbaijani state and party leaders” (Nadein-Raevski 1992:120). After about a week of violence, Russian authorities declared a state of emergency. Soviet troops finally entered Baku on January 19th in order to stop the violence. It is argued that the real objective of the Soviet authorities was not to prevent Azeri violence against Armenians. Instead, they intended to punish Azeris, who passed a law on sovereignty in September of 1989, for their anti-Soviet actions.<sup>136</sup> Violent clashes started

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Soviet republics admired the non-violent, constitutional, democratic nature of these demonstrations led by the Karabakh Committee and were hoping that this method of social movement would set a precedent in other Soviet republics (Harutyunyan, 1999:155).

<sup>134</sup> Armenian National Movement (ANM) is the English translation of the movement's name. In Armenian, the name of the movement is Hayoc Hamazgayin Sharzhum (HHS) – Հայոց Համազգային Շարժում.

<sup>135</sup> 85% of cargo and goods arrived to Armenia by means of railway.

<sup>136</sup> Soviet authorities similarly crushed protesters in Tbilisi, Georgia, 1990, where hundreds of people were killed. They also intended to curb Armenian disobedience since February 1988. With a pretext to 'restore order' in Armenia, Soviet troops were deployed to Armenia in July and later in November, 1988. Thousands of Armenian

between the Russian troops and Azerbaijani fighters; about 130 people were killed.<sup>137</sup> January 19, 1990 is known in Azerbaijan as “Black January”. Soviet's ruthless punishment of Azeri masses completely destroyed Azeri public's trust towards the Soviet regime and made relations between Moscow and Azerbaijan very tense (De Waal 2003).

Meanwhile, the movement for Karabakh in Armenia had transformed into a movement for independence. Armenia started its transition to statehood, as the Communist Party of Armenia relatively peacefully surrendered power to the Armenian National Movement. By the summer of 1990, ANM was elected to the Supreme Soviet of Armenia. In July 1990, Levon Ter-Petrossian became elected President of Armenia's Supreme Soviet. Despite many efforts, the Soviet government was unable to oppose Armenia's independence, and on September 21 of 1991, Armenia enthusiastically declared its independence. In October 1991, Levon Ter-Petrossian was elected as the first executive-style President of independent Armenia. On September 2 of 1991, Karabakh had announced its secession from Azerbaijan and, therefore, its independence. Azerbaijan nullified Karabakh's autonomous status and declared direct rule on November 26, 1991. On December 10, 1991, Karabakh chose independence through a referendum. Karabakh officially declared independence on January 6, 1992, although this independence remains unrecognized by the international community, including Armenia. President Ter-Petrossian refrained from recognizing Karabakh's declaration of independence, arguing that "a permanent and durable solution would require reaching a solution through negotiations based necessarily on compromises on both sides, that Armenia's recognition of Karabakh's independence would foreclose all negotiations and the problem would remain unresolved" (Libaridian 1999:30). Karabakh leaders, nonetheless, insist that statehood is conferred by history and not by international resolutions (de Waal 2013:256).

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protesters gathered at Yerevan's International Zvartnots Airport to block the entrance of the Soviet troops in July. As a result of provocations, a clash occurred between the Soviet troops and the demonstrators at the airport on July 5. The security forces opened fire killing one person and injuring several people (Galstyan 2002).

<sup>137</sup> Some sources mention the number of killed Azeris up to 200.

## 7.3 The Karabakh War, Social Change, and Peace Mediation

### 7.3.1. The War (1991-1994)

What had started as a peaceful political upheaval quickly transformed into ethnic violence. "A local political conflict quickly turned brutal and was soon militarized, nationalized, regionalized, and internationalized" (Libaridian 1999:92). By early 1992, with the breakup of the Soviet Union and the withdrawal of the formerly Soviet forces, the Karabakh movement increasingly escalated into an undeclared, full-fledged war between Armenia and Azerbaijan. In February 1992, Armenians had already conquered and evicted the populations of Azeri villages Malybeili, Karadagly, and Agdaban (Cornell 1999:31). On 27 February, Armenian forces seized the small but strategically important town of Khojaly (Khojalu), on the Agdam-Stepanakert road (Walker 1996:109).<sup>138</sup> Khojaly was the second largest Azeri town in Karabakh, which had the only airport of the region. Khojaly was also important, as it served at the time as an artillery base, where Armenian and Russian units were kept. As a result of the capture of Khojaly, hundreds of Azeri civilians were mutilated and killed, and thousands were forced to flee their homes. "As is the case in most instances of ethnic cleansing, the atrocities carried out by the aggressor served a double purpose: to force the population to flee and never to come back, but also to intimidate other inhabitants of nearby villages to leave their homes, fearing similar actions." (Cornell 1999:32) Whereas Armenians tend to understate the number of Azeri deaths during the Khojaly atrocities, Azeri sources estimate the number of death to be over 600 (Pope 1992). Human Rights Watch has estimated the figure of killed to be between 200 and 1000.<sup>139</sup>

In May 1992, Armenians captured the towns of Shushi/Shusha and Lachin, creating a corridor between Armenia and Karabakh.<sup>140</sup> Before their conquest by Armenians, Shushi and Lachin, dominated by Azeri military presence, used to separate Karabakh from Armenia, making it difficult for Armenian supplies to reach Karabakh (Human Rights Watch, 1994:5;

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<sup>138</sup> For more details on the capture of Khojaly by Armenians, please see Hugh Pope, "600 Azerbaijanis slain at Khojaly, investigator says", in *The Los Angeles Times*, 12 June 1992; Thomas Goltz, "Armenian Soldiers Massacre Hundreds of Fleeing Families", *The Sunday Times*, 1 March, 1992; Anatol Lieven, "Corpses Litter Hills in Karabakh", *The Times*, 2 March 1992; "The Face of a Massacre", *Newsweek*, 16 March 1992; "Massacre by Armenians", *The New York Times*, 3 March 1992; *The Age*, (Melbourne), 6 March 1992.

<sup>139</sup> See Human Rights Watch/Helsinki, *Azerbaijan: Seven Years of Conflict in Nagorno-Karabakh*, 1994.

<sup>140</sup> Shushi/Shusha was the last Azeri town in Karabakh.

Cornell 1999:33). The capture of Shushi and Lachin was militarily, politically and logistically of utmost importance for the future development of war; Armenians now could prevent any possibility by Azeris to open the road linking the region to Armenia, and Karabakh could now be integrated into Armenia.<sup>141</sup> The Armenian control of Shushi and Lachin aggravated a crisis within political circles in Azerbaijan leading to government changes. The fall of Lachin was a severe blow to the Azerbaijani president Ayaz Mutalibov's regime. The Khojaly events and the capture of Lachin generated Azeri public outrage leading to the dismissal of President Mutalibov. In June 1992, Abulfaz Elchibey became the president of Azerbaijan, and many political leaders representing the Azerbaijani Popular Front Party (APF) were elected into the Parliament.

The capture of the above-mentioned Azeri territories by Armenians provoked the neighboring countries' condemnation towards Armenia. Mainly, neighboring Muslim countries such as Iran, Turkey and Chechnya tried to support Azerbaijan. Iran condemned Armenia, calling Armenians as aggressors. As a loyal neighbor and ally of Azerbaijan, Turkey defended the Azerbaijani position. Turks also denounced the Armenian aggression. Turkey did not intervene militarily, such as providing troops, but it provided military aid to Azerbaijan. It has been documented that Chechens as well provided invaluable assistance to Azerbaijan, basically supplying Azeris with Chechen fighters in battles. Chechens later withdrew realizing that the Karabakh war is not around religion, but around territorial dispute and nationalism (Bodansky 2008).<sup>142</sup> Another key mediator has been Russia. In 1992, Russia issued a warning to Western nations, particularly, the United States, not to interfere with the conflict, highlighting that it would possibly turn into the third world war (Croissant 1998).

In June 1992, Azeris recaptured Agdere/Mardakert, as well as the Shahumian region in the North of Karabakh (Cornell 1999:33). However, the Azeri counter-offensive was

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<sup>141</sup> Internationally, this integration is still not accepted. According to Cornell (1999), the refusal of Armenian representatives to even discuss renouncing the Lachin area in international negotiations implies the critical significance of the issue for the Armenian side.

<sup>142</sup> In an interview to Azeri ANS TV company, Chechen field commander Shamil Basayev (a militant Islamist and the leader of the Chechen rebel movement) stated that there were rare officers in the Azeri army, especially among the top leadership, who he could trust. Basayev also declared that "the Armenians were prepared better for the war". According to the commander, the fall of Shushi occurred due to the ineffective organization of the Azeri troops. Basayev added that he decided to withdraw from Karabakh his fighters due to the above-mentioned reasons. (<http://www.panarmenian.net>, 2000).

short-lived. In February 1993, Armenians once again captured most of the Agdere/Mardakert region lost in June 1992. Together with Agdere/Mardakert, the eastern part of the Kelbajar region of the Azerbaijani republic was captured.<sup>143</sup> In April 1993, Armenian forces initiated yet another major offensive, gaining control over Kelbajar province, with a mixed population of around 60,000 Azeris and Kurds (MacFarlane & Minear, 1997:17). The population of the province was forced to flee (Human Rights Watch 1994:9). The capture of Kelbajar was followed by the capture of Fizuli, another homogeneously Azeri area to the Southeast of Karabakh. Fizuli as well was cleansed from its Azeri population in a few days (Cornell 1999:33).

At this stage, a negative reaction of the larger international community was emerging. Even Russians, that typically used to be on Armenia's side, thought that Armenians had gone too far. The United Nations Security Council issued Resolution 822 that demanded withdrawal of forces from Kelbajar province (Cornell 1999; Tadevosyan 2010). Despite the international condemnation, Armenian forces, taking advantage of the internal political turmoil in Azerbaijan, gained control of Aghdam at the eastern border of Karabakh. The Armenian side continued its impressive military victories until an official cease-fire was signed on April 16, 1994. But as Druckman and Lyons point out, this cease-fire between Armenia and Azerbaijan was a "backward-looking cease-fire", because it stopped the immediate military action but failed to address the root causes of the hostilities (Druckman & Lyons, 2005:267).<sup>144</sup> Before the cease-fire was announced, the UN Security Council issued two other Resolutions – Resolutions 853 and 884 – condemning the hostilities and the military actions. Similar to Resolution 822, these Resolutions did not affect the warring parties and failed to produce any positive results (UNSC 1993a; UNSC 1993b). Armenians managed to *de facto* alter "internationally recognized borders" by force. "In this sense, the Armenian campaign was a clear-cut success" (Cornell 1999:42).

Many were surprised by the victory of Armenians in the Karabakh war. Armenia and Karabakh together had less military personnel and even less weaponry than Azerbaijan.

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<sup>143</sup> In fact, Kelbajar was outside Karabakh's territory.

<sup>144</sup> There will be more details about why this cease-fire is considered a "backward-looking cease-fire" in the following sections of the dissertation.

Azeris not only possessed more manpower and more arms, they were also economically in a better situation; yet Armenians turned out to be stronger with their comparatively fewer troops and less weaponry. One of the reasons for the Armenian success was due to the fact that Armenian state authorities, specifically the members of the Karabakh Committee, successfully managed to turn the issue of Karabakh into a matter of national pride and politics, into the rebirth of the Armenian state. Armenians, both volunteer fighters from Armenia and local residents from Karabakh, were ready to fight and die for Karabakh. Andrei Sakharov claimed that “for Azerbaijan the issue of Karabakh is a matter of ambition, for the Armenians of Karabakh, it is a matter of life and death” (Chorbajian 2001:161). For the Armenians from Armenia it was a matter of national identity and the establishment of the Armenian state.

### **7.3.2. Socio-Economic Consequences of the Karabakh War**

Armenia came out of the war with a military victory, taking control over Karabakh and the Lachin corridor connecting it to mainland Armenia. In the course of the war, Armenia also occupied seven Azeri districts (about 20% of Azeri territory) surrounding Karabakh<sup>145</sup>. But the Armenian victory put Armenia in an economically disadvantageous position. The country was paralyzed by refugee flows and energy crises. Isolations and war consequences devastated urban and industrial infrastructure. Between 1991 and 1994, the economy decreased 61% (Sarian 1996). By 1994, the GDP had fallen nearly 60% from its 1989 level. The war in Karabakh had brought little material benefit to Armenia (Laitin and Suny 1999).

The Nagorno-Karabakh war was the most destructive ethnic conflict in terms of lives and property in the post-Soviet region. Nonetheless, it is 'less well-known' among other similar conflicts in the world. The effect of the conflict in terms of damage was huge; equal or “greater than [it was] in and around Kosovo” (Kazimirov 1999:93). Furman and Åsenius (1996) mention that the “Karabakh conflict, comparable to that in Yugoslavia in the scale of military action and the number of victims, has drawn much less attention from the world than it deserves” (p. 139).

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<sup>145</sup> Those seven districts are Kelbajar, Lachin, Kubatly, Zangelan, Jebrail, Fizuli, and Aghdam.

The Karabakh conflict resulted in an estimated 25,000-30,000 casualties and more than one million refugees and internally displaced persons (IDPs) on both sides (Human Rights Watch 1994:vii; MacFarlane & Minear, 1997:1). According to MacFarlane & Minear's (1997) estimates the war caused around 25,000 deaths and the uprooting of around 1,250,000 -1,500,000 refugees and IDPs. "Approximate figures include 350,000–400,000 refugees in Armenia; 600,000–650,000 IDPs and 200,000 refugees in Azerbaijan; and 15,000 IDPs in Nagorno-Karabakh" (MacFarlane & Minear, 1997:20). Laitin and Suny mention 233,700 refugees along with 251,000 IDPs (Laitin and Suny 1999:153). After the Sumgait and Baku pogroms alone about 300,000 Armenians left Azerbaijan (Libaridian 1999:7). In response to the anti-Armenian aggression in Sumgait and Baku, violence against Azeris broke out in Armenia, and as a result, around 160,000 mostly rural Azerbaijanis left their homes in Armenia (Kaufman 2001:67; Libaridian 1999:7). Azeri attacks against the Armenian population in early summer of 1992 created "40,000 Armenian IDPs who remained in Nagorno-Karabakh and refugees who fled to Armenia" (MacFarlane & Minear, 1997:17). During the capture of Kelbajar in April 1993, hundreds of Azeris were forced to flee, thus producing a huge wave of refugees from the Azeri side (Human Rights Watch 1994:9). The Armenian offensive in Agdam added approximately 50,000 to the IDP population, most of who settled in temporary camps in Azerbaijan (MacFarlane & Minear 1997:18).

Azerbaijan currently has 600,000-1,000,000 refugees, Armenia 400,000 refugees, and Nagorno-Karabakh 60,000 refugees (Tadevosyan 2010, IDMC 2010). Tadevosyan demonstrates the humanitarian challenges resulting from the war in Armenia, pointing that Armenia – a small country with less than 3 million people – was facing a real humanitarian issue as the refugee and IDP population in the need of assistance made up more than 10% of the population resident in Armenia (Tadevosyan 2010). Moreover, those refugees have not fully embedded in their new societies. Their socio-economic, as well as often the political inclusion, has frequently been neglected in both Armenia and Azerbaijan. The issue of refugees in both countries directly depends on the resolution of the conflict.

The refugees and IDPs were faced with legal, cultural, political, and socio-economic problems, such as language barriers, limited employment opportunities, lack of



transportation, and other problems. The Armenian legal system, being still in an infantile developmental phase, left many refugees out of the legal framework. The refugees from Karabakh were chiefly excluded from the new Armenian citizenship law that basically did not give any rights to them (MacFarlane & Minear, 1997:40).<sup>146</sup> Whereas Azerbaijan set up refugee camps, Armenia never did so. Therefore, a large number of refugees had to rent accommodations, live in converted shipping containers, or reside with relatives and friends in Armenia (IMDC, 2010:8). A major obstacle was that UNHCR was not allowed to build new homes for refugees and IDPs, defined under strict terms, as the Armenian government had prohibited constructing homes for refugees from Karabakh proper. Similar to the case of Armenian citizenship, people displaced from Karabakh could not be called refugees, "as that would imply the territory was considered part of Azerbaijan, or IDPs, as that meant it wasn't" (Krikorian 2003). Instead, those people were referred to as Displaced Persons (DPs) (ibid). In these circumstances, many refugees, particularly the elderly, dreamed of returning to their former homes.

Integrating into Armenian society became a huge challenge for many refugees. "They associate[d] their successful integration not with acquiring Armenian citizenship, but with getting jobs and permanent housing" (Sahakyan, 2003). According to Sahakyan, international surveys placed refugees in the ranks of the poorest in Armenian society (UNHCR, Sahakyan 2003).

In his interview Artur Sakunc, head of the "Helsinki Citizens' Assembly Vanadzor Office", touched upon two main challenges that the refugee population experienced: language barrier and cultural obstacles.<sup>147</sup> According to Sakunc, the refugees, first of all, experienced language discrimination, because living all their lives in Azerbaijan, they were

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<sup>146</sup> Refugees from Sumgait and Baku were not expected to go back to Azerbaijan (Baku and Sumgait are within Azerbaijan's territory, Baku being its capital city), but the same expectation did not apply to Karabakhi refugees. This ambivalence towards refugees from Karabakh, on one hand, and refugees from Azerbaijani territories, on the other, has complicated the integration of refugees into the society in Armenia. By 2004, however, Armenia had naturalized about 65,000 refugees. This is considered to be one of the most successful voluntary naturalizations in the last decade (UNHCR 2004, para. 1, in Tadevosyan 2010). But at the same time, many refugees, like thousands of other citizens, emigrated from Armenia to find better lives abroad. The International Displaced Monitoring Center (IDMC) states that in 2006, there were around 8,400 displaced people left in Armenia (IDMC 2006, par. 1).

<sup>147</sup> Artur Sakunc, personal interview with author, Vanadzor, Armenia, June 2, 2011.

educated in Russian schools and spoke little or no Armenian.<sup>148</sup> Being forced to adapt to living in Armenia was very difficult for refugees as Russian-speakers (Helton & Voronina, 2000:89). It was also problematic for refugees to adjust to life in urban parts of Armenia "due to their predominantly rural background (MacFarlane & Minear 1997:40).

The director of the Sakharov Armenian Human Rights Centre, Levon Nersisyan, also divided the problems that impeded the successful integration of Armenian refugees into two groups – "socio-economic and cultural". The socio-economic problems included the provision of permanent housing for refugees, employment, and access to social welfare and health care. Among the cultural obstacles Nersisyan, similar to Sakunc, stressed the language barrier, which further narrowed refugees' employment opportunities as they could not compete with the local population on the domestic labor. In this way, they were excluded from adequate employment opportunities, qualifying only for low-paying jobs (UNHCR, Sahakyan 2003).

### **7.3.3. An Overview of the Conflict Negotiations**

Whereas several efforts were made from the early stages of the conflict to negotiate a peace agreement, no peace agreement has been achieved by either the two governments, or by the mediation of any other external force or great powers.<sup>149</sup> Laitin and Suny (1999) summarize the failure of negotiation attempts as follows:

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<sup>148</sup> Armenia was the first among other post-Soviet republics to ratify the European Charter for Regional or Minority Languages in January 2002. This treaty was adopted in 1992 under the auspices of the Council of Europe to protect and promote historical regional and minority languages in Europe. At the same time, Armenia is homogenous like no other nation among post-Soviet nations. More than 97% of the population is Armenian. This mono-ethnic feature of the Armenian people and the fact that Armenians, although fluent in Russian, chiefly speak Armenian put the Russian-speaking refugee population at unease in Armenia.

<sup>149</sup> The main stages of the Karabakh peace process were the following: 1991 - Zheleznovodsk (Russia) declaration; 1992 - Minsk Group launched; 1992 - Tehran declaration; 1992 - Villa Madama (Rome, Italy) talks commence; November 1992- April 1993 secret negotiations of Russia, Turkey, US, Armenia, Azerbaijan; 1994 - Bishkek protocol signed; 1994 - Budapest summit declaration; 1995-1996: the Guluzade-Libaridian confidential talks; 1996 - Lisbon summit statement; 1997 - Denver statement; 2001 - Key West summit; 2004 - Prague process begins; 2006 - Rambouillet round held; 2007 - Madrid principles submitted; 2008 - Meiendorf (Moscow) declaration; 2009 - L'Aquila (Italy) statement (Sanamyan 2009). For a discussion of the various stages of the negotiations for the years of 1994-2008, see Tatul Hakobyan's "Mediator's Play Down Prospects of Early Karabakh Settlement", the *Armenian Reporter*, November 22, 2008, online at [www.reporter.am](http://www.reporter.am). Very little is written about a few of those negotiation stages, such as the secret negotiations of the group of five (1992-1993) and the Guluzade-Libaridian confidential talks, but they were considered quite significant. No details have really been made public regarding the content of these negotiation stages.

"A close review of the negotiations convinces us that the break-down of these attempts stem not from intractable, irresolvable differences - nor even from fear on either side that the security of their populations would be threatened by a post-settlement regime - but rather from contingent political factors. At first, the situation on the ground was in such flux that the side having the military advantage was unwilling to make concessions. Then, when the military situation stabilized, the international community was divided and sent mixed messages to the combatants, making it difficult to structure a peace plan. Finally, once a cease-fire was put in place and the international community unified around common principles, its proposed solutions failed to balance the goals of territorial integrity and self-determination in a way that all parties could accept." (Laitin and Suny 1999:157-158)

The earliest effort of mediation was initiated by President Boris Yeltsin of Russia and Nursultan Nazarbaev of Kazakhstan in September of 1991 (Mooradian & Druckman 1999; MacFarlane & Minear, 1997). Mooradian and Druckman mention that "the personal ambitions of these presidents, more than the fate of Nagorno-Karabakh motivated them to intervene in the conflict". After three months of mediation, these mediators gave up their efforts (Mooradian & Druckman 1999:710).

The Yeltsin and Nazarbaev mediation attempt was soon followed by the Iranian mediation, which lasted from February to May, 1992. Iran's desire to maintain its historical relationship with both Armenia and Azerbaijan, to bolster its standing as a regional power, and to prevent Turkey from gaining regional dominance prompted Iran to intervene (Mooradian & Druckman 1999:710).

In June, 1992, efforts at mediation by Russia and Iran were replaced by negotiations mediated by the Organization for Security and Cooperation in Europe (OSCE, CSCE at the time) (Dehdashti 1997:464; Libaridian 1999:29; Mooradian and Druckman 1999:710; Laitin and Suny 1999:158-159).<sup>150</sup> OSCE involvement was justified by its status as a regional organization in which all parties to the dispute were members, as well as by its "competence to solve disputes and to prevent conflicts"<sup>151</sup> In March 1992,

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<sup>150</sup>Both Armenia and Azerbaijan had joined the CSCE after gaining independence.

<sup>151</sup> France, Russia and the United States are permanent co-chairs of the OSCE Minsk Group (the OSCE Troika). The permanent members of the Group include the following participating states: Belarus, Germany, Italy, Sweden, Finland and Turkey, as well as Armenia and Azerbaijan and, on a rotating basis, the OSCE Troika (www.osce.org). As a multinational organization that does not have a direct interest in the region, OSCE might seem to have been an impartial mediator. Nonetheless, the individual member states of the Minsk Group have their own national agendas and interests that may affect the objective process of negotiations. The United States has a direct economic interest in the oil reserves in the Caspian Sea. The US, thus, is considered to lean towards Azerbaijan, particularly since 2000. But there is literature that considers the US to be

OSCE/CSCE planned to organize a peace conference in Minsk, Belarus in order to find a peaceful solution to the problem of the status of the Karabakh. The conference did not take place, but the future political framework for peace negotiations is still called the Minsk Group peace process.

In 1995, another channel of negotiations was set up between Armenia and Azerbaijan, with the special advisors of the Armenian and Azerbaijani presidents, Gerard Libaridian and Vafa Guluzade as the principal negotiators (Carley 1998; De Waal 2013). According to de Waal, Libaridian and Guluzade began to meet informally every month to work on the status question in particular and made substantial progress" (De Waal 2013:267). The Libaridian-Guluzade negotiating track ended with the Lisbon Summit of 1996. Since then, the Minsk Group has come up with several proposals, none of which could achieve a final peace settlement for the conflict because each side of the conflict has continuously insisted on incompatible conditions that the other would not accept.

The Karabakh conflict refers to two competing principles of international law: the right of self-determination on one hand and the right of territorial integrity on the other (Hunter 1994:105). OSCE, as a mediator organization needs to respect both of those rights, which makes the resolution of the conflict more complicated. OSCE pledges to "refrain from making each other's territory the object of military occupation or other direct or indirect measures of force in contravention of international law, or the object of acquisition by means of such measures or the threat of them" (OSCE 1975:5). At the same time, OSCE states: "By

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pro-Armenian due to diaspora Armenian lobbying in the US. Cutler (1998), for instance, states that the US policy on Karabakh through much of the 1990s was dominated by politically well connected diaspora Armenians. The Freedom Support Act, a long-term program of economic assistance to the former Soviet Union (enacted in 1992 by the US), included a section - section 907(a) - which prohibited all US assistance to Azerbaijan due to its blockade of Armenia. The Congress defined Azerbaijan as the aggressor in the conflict, and legislation was passed penalizing Azerbaijan and Turkey for their bans on trade with Armenia (Cutler 1998:136; Cornell 1999:99).

France, which has historic ties with Armenia, supports the latter.

Turkey is pro-Azeri (Freire, 2003:465-466). Turkey sides with Azerbaijan on the account of the two countries' ethno-linguistic and religious ties. It therefore militarily and diplomatically supported Azerbaijan and imposed an economic blockade on Armenia.

Russia, as a major power in the region, sometimes leans towards Armenia, and other times towards Azerbaijan, depending on its agenda in the region respectively. Similar to the US, Russia's primary objective in maintaining its presence in the Caucasian "Near Abroad" has been to obtain its share of the Caspian Sea oil proceeds. But there is more than just oil for Russia's interests in the region. It has also sought to maintain military dominance in the borders of its former Soviet republics, as it is essential to its security. Other economic incentives have also influenced Russia's activities, such as its control of the entire energy sector of Armenia.

virtue of the principle of equal rights and self-determination of peoples, all peoples always have the right, in full freedom, to determine, when and as they wish, their internal and external political status, without external interference, and to pursue as they wish their political, economic, social and cultural development” (OSCE, 1975:7). It is extremely difficult to propose a solution that would equally satisfy both Armenians and Azeris, because in any type of resolution one of those rights should dominate.

Another obstacle for the OSCE to achieve a peace settlement is that it has no military capabilities and functions, such as NATO does (Freire 2003:37). The OSCE’s efforts are based on unanimous consensus, which grants equal status to all participating states. Therefore, even if one of the participating states disagrees to a peacekeeping plan, no peacekeeping mission can be implemented (Freire 2003:22).

#### **7.3.4. "Package" versus "Step-by-Step" Approaches**

The issues related to Karabakh were divided into two categories. The first category was defined as the *Karabakhconflict* and referred to military-technical issues, such as ending blockades and the return of refugees and IDPs on both sides; measures to strengthen the cease-fire; the issue of hostages and prisoners of war. The second category referred to the status of Nagorno Karabakh and was known as the *problem* of Karabakh (Libaridian 1999:55-56). Armenian political discourse has been strongly focused on two of the OSCE's several proposals, called "package approach" and "step-by-step approach", that deliberated both the *Karabakhconflict* and *problem* of Karabakh.<sup>152</sup> The "step-by-step" approach envisaged first negotiating and implementing one category of issues, and later undertaking the second category of issues. It focused on eliminating the consequences of war in the first phase. The question of the status would be negotiated after the first phase. "Step-by-step" approach constituted the "land-for-peace" approach.<sup>153</sup> The package proposal, on the contrary, constituted the "land-for-status" approach", which envisaged tackling issues of both

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<sup>152</sup> The "package/step-by-step approaches" are also known as the "package /step-by-step deals, proposals, solutions and formulas". The "step-by-step approach" is often referred to as the "phased approach". Throughout the chapter, I may use any and all of those terms. Other, less well-known proposals include the "Common State" and "Land Swap", also known as the "Goble plan".

<sup>153</sup> Libaridian mentions that certainly not all occupied territories would be returned to Azerbaijan based on the step-by-step solution (Libaridian 1999:56).

categories simultaneously (Libaridian 1999:56). In the package proposal, occupied territories have been considered to be "the most valuable bargaining chips to secure the status" preferred by Armenians as winners of the war (ibid).

In 1997, the Minks Group offered three draft proposals to the parties (in May, July, and September), the two of which (in May and July) were basically package proposals.<sup>154</sup> In May 1997, the main features of the framework that would serve as a basis for renewed negotiations, included:

1. The withdrawal of Karabakh troops from occupied territories, including the Lachin corridor.
2. The deployment of a peacekeeping force to patrol the buffer zone between the two armies, under a one-year renewable mandate.
3. The leasing of the Lachin corridor by Azerbaijan to the OSCE, who in turn would lease it to Karabakh.
4. The repatriation of Azeri displaced persons (DPs) in the occupied districts;
5. An end to the blockade on Armenia and Karabakh (a commitment to which Turkey later subscribed as well).<sup>155</sup>
6. Finally, the provision that Azerbaijan's territorial integrity would be formally preserved, but that Karabakh would be effectively self-governing, including a "national guard" at the minimum necessary level. (Tavitian, 2000:15)

Concerning the status of Karabakh, the July 1997 draft read as follows: "Nagorniy Karabakh is a state and territorial formation within the confines of Azerbaijan." (RFE/RL, February 2001). The May and July proposals, thus, sought to retain Azerbaijan's territorial integrity. Karabakh, at the same time, would have virtual sovereignty over its domestic affairs. Armenia accepted the first two proposals with significant reservations as bases for

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<sup>154</sup> I will briefly demonstrate key points regarding the proposals of 1997. For a detailed summary of the three successive proposals, please see RFE/RL Caucasus Report of February 3, 2001, Volume 4, Number 8 (<http://www.rferl.org/content/article/1341889.html>); Tavitian (2000); Laitin and Suny (1999); Zourabian (2006); Website of *Conciliation Resources: Working for Peace* at <http://www.c-r.org/our-work/accord/nagorny-karabakh/keytexts18.php>; Website the *Conflict of Nagorno-Karabagh* at <http://www.mountainous-karabakh.org>; Website of the *OSCE*, <http://www.osce.org>.

<sup>155</sup> When Armenia declared independence in 1991, Turkey was one of the first countries to recognize it. The border between the two countries was open until 1993, before Armenia occupied around 20% of the Azerbaijani territory. Turkey closed its border with Armenia in a show of support for Azerbaijan. Although there have been a few reconciliation efforts between the two countries, Normalization of relations and reconciliation has not been established, as Turkey sets a precondition of official abandonment of Armenia's territorial claims about eastern Anatolia and Genocide recognition. Turkey also injects the Karabakh issue into the reconciliation process, which makes the normalization process even more complicated.

negotiations (Libaridian 1999). Azerbaijan accepted it, but “with such reservations that its acceptance amounted to a rejection” (ibid). Karabakh rejected the two proposals outright. As Ter-Petrosian’s senior advisor Gerard Libaridian notes, after the rejection of the May and July drafts based on the "package approach", the President became certain that the "step-by-step" approach, if coupled with the necessary security guarantees for the people of Karabakh, was the best approach (Libaridian 1999:57).

The September 1997 proposal was based on the "step-by-step" rather than the "package" approach (RFE/RL, 2001). Based on the September draft of the proposal, the parties would address first consequences of the war and security issues, mentioned in the previous package deals. In the second phase of negotiations, political issues, such as Karabakh’s final legal-political status, and the issue of the Lachin land corridor would be negotiated or “just postponed for an indefinite period until confidence building would enable the possibility of reaching further agreement” (Zourabian 2006:259). As compared to the May and July drafts, the September draft contained more extensive security guarantees for Karabakh and, most significantly, did not define the future status of Karabakh. Instead, the three sides, "having put an end to the military aspect of the conflict, agree[d] to continue conducting negotiations in good faith ... to speedily attain an all-encompassing regulation of all other aspects of the conflict, including the political aspect, which include[d] defining the status of Nagorno-Karabakh and resolving the problem of Lachin, Shusha and Shaumian" (RFE/RL, 2001).

The September 1997 draft proposal was accepted by Azerbaijan and Armenia as a basis for negotiations, with reservations by Armenia. Despite the evident advantage of the agreement, the Karabakh government together with some high-ranking officials in Armenia opposed the proposal.<sup>156</sup> Karabakh rejected it probably because it was based on the idea that Karabakh would remain within the boundaries of Azerbaijan. "Fearful that by giving up the occupied lands it would lose its leverage over the status question (despite the OSCE's granting of a veto over status to Karabakh), the Karabakh government came out once again

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<sup>156</sup> According to the "conventional wisdom", it was Ter-Petrosian's agreement to this plan that became the critical reason for his government members' antagonism towards Ter-Petrosian, resulting in the resignation.

for a “package” deal calling for resolution of both the status issue and the question of withdrawals simultaneously" (Laitin 1999:164).

After the failure of the negotiations in the summer and the autumn of 1997 to secure a comprehensive agreement, a new plan was proposed in December, 1997. The new plan chiefly corresponded to the previously proposed “package” agreement, with the following differences:

- Gradual withdrawal of the armed forces in different phases to ensure that the full demilitarization of the region would not be abused by either side in a surprise attack;
- The Lachin corridor would remain under the control of Nagorno-Karabakh armed forces;
- Establishment of a joint commission between Armenia and Azerbaijan to resolve the final status of Nagorno-Karabakh and the remaining issues, such as the status of Lachin, Shushi and Shahumian.<sup>157</sup>

Karabakh again rejected the proposal, justifying its rejection by the fact that the proposal left Karabakh's status and the question of the Lachin corridor connecting Karabakh with Armenia to the indefinite future.

There have been other proposals drafted since 1997, but none of those proposals was able to bring the sides close to agreement on status by reconciling the needs of self-determination with territorial integrity to the liking of all parties.<sup>158</sup> It is argued that the

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<sup>157</sup> Minsk Group Proposal at the website of *Conciliation Resources*; available at: <http://www.cr.org/our-work/accord/nagorny-karabakh/keytexts19.php>

<sup>158</sup> Since 1998, three major proposals have been discussed, those being the "Common State", the Key West, and the Prague Process (a series of negotiations that began in May, 2002). The "Common State", presented in November 1998, proposed a vaguely defined common state between Azerbaijan and Nagorno Karabakh, featuring more or less 'horizontal' relations between Azerbaijan and Karabakh (Jacoby 2005:32). Based on the "common state" proposal, Karabakh would have received de facto independence within a loose confederation with Azerbaijan. Karabakh would have the internationally recognized status of a republic with its own constitution, armed forces, and power to veto any legislation passed by Azerbaijani authorities (RFE/RL, February 2001).

The provisions of the proposal discussions in Key West, Florida in April 2001, are widely believed to grant Azerbaijan use of a land corridor across southern Armenia to link Azerbaijan with Nakhijevan. According to Volker Jacoby, who worked as Assistant to the Personal Representative of the OSCE Chairman-in-Office for the Nagorno Karabakh conflict 1998-99, "in the course of the domestic debates launched only after the talks, Aliyev reported (and Kocharyan denied) that it [the "Goble Plan" or "Land Swap"] had involved Armenia surrendering access to a strip of its southern district of Meghri, offering Azerbaijan direct access to Nakhijevan, in return for accepting Armenian control over the Lachin corridor connecting Karabakh with Armenia" (Jacoby 2005:32). The plan was named "Goble" after a former U.S. State Department specialist on the Caucasus, Paul Goble, who had written a paper in 1992, proposing the idea of a territorial exchange to resolve the Karabakh dispute.



summer and early fall of 1997 was the moment when two of the three sides came closest to a settlement of the Karabakh conflict, once Ter-Petrossian suggested the "step-by-step" approach as basis for negotiations (Laitin and Suny 1999:164; Libaridian 1999). Any other significant proposal that was close to a peace settlement has not been documented or available to the public after 1997. As Radio Free Europe reporter Liz Fuller observes, "in terms of the Karabakh peace process, the most fundamental change probably is that the Minsk Group has apparently given up its attempts to craft a proposal that would be acceptable to all three parties" (Fuller in RFE/RL, 2004).

#### **7.4 Post-War Militarization and Social Exclusion**

Strong disagreements around the above-discussed package and step-by-step approaches in Armenia escalated into Ter-Petrossian's resignation on February 3, 1998. The following sections of the chapter will discuss how this divergence between the President and his opponents became the turning point for limited prospects of Armenia's security and economic development, as well as the beginning of a series of human and political rights serious violations of the Armenia people. Levon Ter-Petrossian's resignation, and his successor presidents' reluctance of concessions for a peace agreement, coupled with their authoritarian tendencies, have created massive social, political and economic problems for the Armenian society. In order to better understand Ter-Petrossian's resignation, we must consider the pre-resignation political developments, and most significantly, analyze the rationale of "package" versus "step-by-step" supporters in greater detail.

##### **7.4.1. Levon-Ter Petrossian's Resignation**

In addition to coping with war, independent Armenia was facing immediate tasks, the most important ones of which were rebuilding its devastated economy and strengthening its democratic institutions. By mid-1990s, the Armenian government headed by Levon Ter-Petrossian was facing mounting economic problems, including an economic blockade by

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For both 1998 and 2001 cases, Baku later reneged on the tentative agreement reached (Fuller in RFL/RE, May 2009).

Finally, during the Prague Process a new method of negotiation involved "no agenda, no commitment, no negotiation, but a free discussion, on any issue proposed by Armenia, Azerbaijan, or by the [OSCE Minsk Group] co-chairs (German, 2005). The Prague Process culminated in Warsaw on May 15, 2005, and was followed by the Madrid Principles.

Azerbaijan and Turkey, an energy crisis and cold winters, and relative material deprivation of the Armenian people. In February 1993, the first wave of demonstrations resulting from poverty and scarcity demanded the resignation of the government. President Ter-Petrosian formed a new cabinet with economist Hrant Bagratian as the Prime Minister, intending to improve the country's economy. But this was not an easy task. The war had been all consuming, and the remaining resources in the government budget were scarce. The war and its consequences made it very difficult to concentrate state resources on strengthening the economy.

Meanwhile, some tensions had emerged among different government members, who started to express conflicting political ambitions and disagreements about the course of action of the country's development. By the cease fire of 1994, elite fragmentation had already taken place within the Armenian ruling circles. "The political consensus had disappeared as soon as some major items on the agenda (independence, basic laws on political and economic reforms) were resolved" (Libaridian 1999:10). Already between 1991 and 1993, some ANM members joined the opposition or distanced themselves from ANM. Among those members were Vazgen Manukyan (the first Prime Minister) and Davit Vardanyan (Head of Supreme Soviet's Permanent Committee on Foreign Relations), who formed the National Democratic Union (NDU), Hambarzum Galstyan (mayor of Yerevan during the Ter-Petrosian years), Samson Ghazaryan (a member of the Supreme Soviet), and Davit Shahnazaryan (Minister of Security in the Ter-Petrosian government). More specifically, Vazgen Manukyan had been an ardent critic of the Ter-Petrosian administration since 1991, when he thought to assume the presidency instead of Levon Ter-Petrosian.

In 1994, Ter-Petrosian banned the ARF (Armenian Revolutionary Federation) – an extremely nationalist party – on national security grounds. First, the banning of ARF was based on the idea of terminating terroristic activities and criminal acts often organized by the ARF. The second reason for banning the party was that the ARF had failed, despite two warnings from the Ministry of Justice, that according to the law no party could function in Armenia if the majority of the members of the ruling body were not citizens of Armenia and residents of Armenia. Ter-Petrosian decreed the banning but turned it over immediately to the Supreme Court for adjudication. (The Supreme Court was not a constitutional court.) The

Court determined that the president was wrong to decide that criminal acts were committed that such issues should be determined in courts of law. But the Court agreed with the President regarding the second charge and that in that respect the banning was within the jurisdiction of the executive as the party had failed to comply. The banning of the ARF created a fervent opposition led by ARF against the Ter-Petrossian administration.

As already mentioned, besides ARF, President Ter-Petrossian was facing another major opposition by once a fellow ANM member, a former Prime Minister and Armenian Defense Minister, Vazgen Manukyan, who had created his own political party, the National Democratic Union (NDU). By 1996, the ANM had lost its main positions of power in the government. As Libaridian recalls, "the governing party had become complacent, arrogant, self-confident, and careless, while the opposition had turned impatient." (Libaridian 1999:11)

According to RFE/RL (July 05, 1994), *Noyan Tapan* (September 19, 1994) and *Hailour* (October 21, 1994), anti-government rallies and demonstrations convened by NDU of Vazgen Manukyan were massive and frequent in 1994. In October a demonstration of 50,000 called for the resignation of Levon Ter-Petrossian. Members of the Parliament were reportedly victims of armed attacks (Balian 1995). Demonstrations continued through the spring, organized by the main opposition parties, the ARF and the NDU.

Amidst this political and economic situation, in September of 1996, presidential elections took place. Ter-Petrossian won the elections with 51.75% of the vote, winning over his main opponent Vazgen Manukyan. Following the victory of Ter-Petrossian, a violent and disorderly protest broke out in the streets of the capital city, organized by the coalition opposition of NDU and ARF. Protestors stormed the Parliament building, physically attacked members of the National Assembly, beat two Vice-presidents of the National Assembly, and kidnapped the President of the National Assembly. Manukyan had determined, even before the ballots were cast, that if he lost the elections, it could only be due to fraudulent elections. He announced himself a winner and urged "the people" to take matters into their hands. The tendency to resort to violence and rebellion, advocated and implemented by NDU, was

unacceptable.<sup>159</sup> The government had to order troops into the streets to control the crowds (Freedom House Report 1998; *Armenia This Week*, September 25, 1996).

But it was not in 1996, under the pressure of his traditional antagonists, NDU or ARF, or the impoverished masses that President Levon Ter-Petrossian resigned. It was only two years later, in 1998, when he resigned. It was not because of Ter-Petrossian's 'unpopularity' among the Armenian citizens that he resigned. It is believed that the "people" had very little to do with Ter-Petrossian's resignation. After about a decade of leadership under the most challenging circumstances, Ter-Petrossian managed to receive the support of about half the voters against a united opposition (Libaridian 1999; Suny 1999). Poor socio-economic conditions were not the key factors for the political weakness of Ter-Petrossian administration. Neither was Ter-Petrossian's stance on the Karabakh conflict. Ter-Petrossian's foreign policy, particularly his preference of the "step-by-step" approach for the Karabakh conflict resolution, was a pretext to be used by the opposition coalition in order to oust Ter-Petrossian.

On 26 September 1997, during a press conference, still president Levon Ter-Petrossian argued that Armenia should agree to the "step-by-step" peace proposal recommended by the Minsk Group earlier that month. He based his argument by providing a comprehensive analysis of five options available to the Armenian nation.

1. *To maintain the status quo* - no peace and, hopefully, no resumption of war.
2. *To have Armenia recognize Karabakh as an independent state or annex NK to Armenia.*
3. *To renew the war* to force a final settlement on Azerbaijan.
4. *To return to the "package" approach.*
5. *To accept the "step-by-step" approach.* (Sargsyan 2006)

Ter-Petrossian reasoned that it was unfeasible to preserve the status quo indefinitely, because Armenia would not be able to survive the economic pressures of blockades imposed

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<sup>159</sup> Since 2004, the Armenian people have organized an extraordinarily powerful and massive wave of social movements aimed against the socio-economic, political and environmental policies of the subsequent, Kocharyan and Sargsyan, administrations. Those movements, however, as opposed to the September 1996 post-election turmoil, have been characterized by their non-violent nature. A detailed description of the February-March 2008 demonstrations that will be presented in a following section of this chapter is a stark example of that.

by Azerbaijan and Turkey (the first option);<sup>160</sup> that for Armenia to formally recognize the independence of Karabakh would put Armenia in the risk of decades-lasting imposition of international community's harsh sanctions (the second option). This option would be perceived as an ultimatum to Azerbaijan and to the international community, and would ultimately fail. He also stressed that it would be difficult, if not impossible, for Armenia and Karabakh together to win a new war against Azerbaijan (the third option), as it required a complete defeat and capitulation of Azerbaijan, which would be impossible. Ter-Petrosian announced: "We must be realistic and understand that the international community will not tolerate the situation around Nagorny Karabakh for a long time, since this situation represents a threat to regional cooperation, security and the West's oil interests." More importantly, the President asserted that the Armenian nation faced a choice to either compromise on the Karabakh problem, or accept economic stagnation and socio-economic problems for the Armenian people for the years to come.

"Armenia will not become a normal state. We will not live well until the Karabakh problem is solved and the blockade is eliminated. Either - or. Or we should tell the world: move over, we ourselves will solve our problems, we are confident in our abilities and will not go for concessions. But in this case, no-one has the right to demand better living standards; on the contrary, we will have to get used to the idea that living standards will decline even further. Or, if we want to live well and develop our economy, we should have the courage to go for serious mutual concessions." (Ter-Petrosian, 2006:610-611)

The fourth (the "package" approach) and the fifth (the "step-by-step" approach) options for resolving the Karabakh conflict were deemed as the only two "realistic approaches." Outlining merits of both approaches, the President pointed out that since Azerbaijan and Karabakh had irreconcilable disagreements regarding Karabakh's final legal-political status, the only realistic approach left was the step-by-step approach.<sup>161</sup> Negotiating

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<sup>160</sup> For a more detailed analysis of Levon Ter-Petrosian's calculations of economic prospects of Armenia versus Azerbaijan, see Arus Harutyunyan (2010:168-170). Briefly, Ter-Petrosian argued that even investments from diaspora Armenians (at the time around \$10 million annually) would not compensate for Armenia's economic losses, let alone boost up the infrastructure, if Turkey and Azerbaijan would not end their blockade. Meanwhile, Azerbaijan, already in 1994, attracted more than \$35 billion investments by international oil companies. In 1994, Azerbaijan signed the "Contract of the Century" with powerful oil companies from the US, UK, Norway, Turkey, Saudi Arabia, and Japan (ibid).

<sup>161</sup> Despite Ter-Petrosian's unspecified reservations about the September draft, it was considerably more advantageous to Armenia than the two preceding "package" proposals. Specifically, a) it provided enhanced security guarantees for the population of Karabakh, Armenia and Azerbaijan; b) it did not call for a withdrawal of Armenian forces from the key districts of Shushi and Lachin; c) it did not explicitly insist that the final settlement must respect Azerbaijan's territorial integrity; and d) it envisaged Karabakh's *de facto* independence

the complicated issue of Karabakh's status and land simultaneously seemed to be an unlikely prospect.

The President's arguments triggered a storm of dissent across the Armenian political spectrum. The "step-by-step" approach of conflict resolution was unacceptable for the Karabakh leadership and their allies in Armenia. Ter-Petrosian's compromising stance was termed as 'defeatist' by some of the governing elites. Among the most fervent antagonists of the "phased" approach were Robert Kocharyan (Prime Minister of Armenia), Serzh Sargsyan (Minister of Internal Affairs and Security of Armenia), Vazgen Sargsyan (Defense Minister of Armenia), and Arkady Ghukasyan (the newly elected president of Karabakh). Karabakh's president Ghukasyan announced that "however badly the people live, there are holy things, there are positions that they will never surrender under any circumstances" (De Waal 2003:260). At the same time, the opposition parties in Armenia, taking advantage of the situation, accused the President of giving up on national ideals. Vazgen Manukyan of the NDU, a long-time challenger and opponent of the President, announced the latter's reasoning as "capitulation" and "treason" (RFE/RL, 1 October 1997).

Ter-Petrosian's opponents insisted on the "package" solution, strenuously avoiding and rejecting any kind of subordination of Karabakh to Azerbaijan. "Fear is fertile ground for nationalist politics, and Ter-Petrosian found it increasingly difficult to promote his own more compromising line in the face of opposition from many Parliamentary parties, and even from members of his own cabinet, such as regime strongmen Serzh Sarkissian, Vasken Sarkissian and Robert Kotcharian" (Tavitian, 2000:11).

While Ter-Petrosian linked Armenia's future stability and economic development to the resolution of the Karabakh conflict, his adversaries believed that Armenia could develop politically and economically without any concessions in the Karabakh issue. Those, who disagreed with the President, assumed that Armenia's and particularly Karabakh's economic well-being would be fine even without a lifting of Turkey's embargo, as well as the resolution of the Karabakh issue. They were willing to wait while the international mediators

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remaining unchallenged until such time as final status negotiations produced a mutually acceptable treaty (Libaridian 1999:58; Laitin and Suny 1999:165; Fuller, 2004).

rethought their position (Suny 1999:169). Prime Minister Kocharyan specifically argued that "negotiations should consolidate the victory and give Armenians time to cash in" (Libaridian 1999:66). He and his allies 'believed' that even in the case of a renewed war with Azerbaijan, Armenia would be secure, because as the Karabakh war showed, Azeris lacked will and ability to excel Armenians militarily and that Azeris could not retake Karabakh by force.<sup>162</sup> Vazgen Sargsyan condemned the step-by-step approach and opposed Ter-Petrosian by announcing: "Certain people should not be allowed to resolve the Karabakh problem on behalf of the whole Armenian nation . . . . Armenia and the 'Nagorno-Karabakh Republic' should be prepared for a protracted conflict not only by rejecting concessions to Baku, but also by annexing Shusha and Lachin in the interests of Karabakh's security" (Croissant 1998:122; Baghdasaryan in *Hayastani Hanrapetutyun*, 1998; Gayane Karapetyan in *Hayastani Hanrapetutyun*, 1999). According to Ter-Petrosian's opponents, Azerbaijan would also be reluctant to start any military action against Armenia or Karabakh fearing to make their oil assets, oil production facilities, and international business deals vulnerable.

In response to the speculations raised by the opposition, Ter-Petrosian published an essay titled "War or Peace? Time for Thoughtfulness." The essay, which was published in most Armenian newspapers on November 1, 1997, addressed anew the benefits of the "step-by-step" approach and argued that a final resolution of the conflict was in the interests of both Armenia and Karabakh, highlighting that the conflict should be resolved peacefully, rather than militarily. Once again, Ter-Petrosian stressed the urgency of compromise. He wrote:

To solve the question of Karabakh we have only one option, a compromise solution, which does not mean that one side is the victor and the other the loser; it does mean finding an agreement based on what is possible when the conflict has reached maturity ... The opposition

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<sup>162</sup> In her dissertation, Harutyunyan (2010) presents an excellent overview of the ethno-nationalistic discourse in Armenia. According to Harutyunyan, the denouncement of the "step-by-step" solution was accompanied by the rhetoric of national self-affirmation and resentment. This discourse believed that Karabakh was the first step towards the establishment of the "United Armenia", as well as towards the restitution of historical injustices. The ethno-nationalists denied territorial concessions based on the rhetoric of Armenia's recent military success and the winning of war.

This nationalist assumption, as well as the rejection of concessions in the Karabakh conflict, was referred by Ter-Petrosian and his supporters as erroneous and irrelevant respectively, arguing that winning the battle should not be equated to winning the war. Ter-Petrosian said: "Unfortunately, Karabagh has won the battle, not the war. A war is considered won only when the foe has been forced into capitulation. The confusion between battle and war has brought misfortune to many." (Ter-Petrosian, 1997, 2006)

should not mislead the people by arguing that there is an alternative to the compromise: the alternative to compromise is war. The rejection of compromise and maximalism (the drive to obtain the maximum rather than the possible) is the shortest path to the final destruction of Karabakh and the worsening of the situation in Armenia ... That which we are rejecting today, we will be asking for tomorrow, but we will not get it, as has often happened in our history. We must be realistic and understand that the international community will not for long tolerate the situation created around NagornoKarabakh because that is threatening regional cooperation and security as well as the West's oil interests ... Compromise is not a choice between the good and the bad, but rather between the bad and the worse; that is, compromise is just a means to avoid the worst, from which parties benefit when they have become conscious of the worst and are able to display the necessary political will and courage ... On the issue of Karabakh's independence we have no allies. No one will resolve the present enigma but us. We are the ones who must resolve it, and we will resolve it to the extent that our capabilities allow us. Our only ally is our rejection of adventurism.<sup>163</sup>

In "War and Peace," Ter-Petrossian mentioned that by rejecting May and July 1997 "package" peace plans and later also the Minsk Group's September "step-by-step" plan, the leadership of Karabakh had placed both Armenia and themselves in "an uncomfortable situation."<sup>164</sup> Ter-Petrossian was also surprised that his opponents (several of his own ministers) interpreted his endorsement of the September 1997 "step-by-step" plan as something new and unexpected for them. In fact, the 26 September press conference was not the first occasion when Ter-Petrossian expressed his preference for a compromise peace resolution, and the ministers in question had not previously argued against the issue (Fuller, 2004). Moreover, the disagreement between the President and his opponents did not center on the relative merits of the "step-by-step" versus the "package" approaches. Instead, it centered on methodology rather than specifics. Thus, a question remains unanswered as to why those, who opposed the September proposal's methodology (i.e., the "step-by-step" deal), had not tried to transform the May or July draft proposals ("package" deals) into an acceptable basis for a peace resolution.

Ter-Petrossian's arguments during the September press conference, as well as his logic in "War or Peace? Time for Thoughtfulness", allegedly failed to persuade other state elites that the compromise resolution of the Karabakh conflict was in the best interests of the Armenian Republic. On January 28, 1998, the Defense Minister Vazgen Sargsyan claimed

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<sup>163</sup>Levon Ter-Petrossian, "Paterazm te Khaghaghutyun, Lrjanalu Pahe"[War or Peace? Time for Thoughtfulness], *Hayastani Hanrapetutyun*, November 2, 1997; See also Ashot Sargsyan, "Yntrani: Eluytner' Hodvatsner, Harcazrucner" [Selected Speeches, Articles, Interviews], Erevan, 2006, pages 625-639.

<sup>164</sup> I have earlier noted in this chapter that the Karabakh leadership had practically rejected the first two draft proposals in May and July 1997, both of which were based on the "package approach".



that the President should adjust his Karabakh policy or else he would be ousted.<sup>165</sup> In early February, two of Ter Petrossian's closest allies in government, Vano Siradeghyan and Alexander Arzumanyan, resigned from government.

The political crisis was increasingly becoming severe, especially after the Defense Minister Vazgen Sargsyan threatened that he would not step aside, even if asked to do so by the President. The confrontation between Ter-Petrossian and the Kocharyan team worsened at an Armenian Security Council meeting in February, when Kocharyan announced that he would resign over the President's position on Karabakh (Tavitian 2000). Whereas "the normal course of action for subordinates who disagree with their President on substantial issues and whom they failed to convince to change course would have been, of course, to resign themselves" (Libaridian 1999:50), the mentioned subordinates, on the contrary, intended to create a political crisis. In these circumstances, on February 3 of 1998, Ter-Petrossian resigned under pressure from "powerful members of his own cabinet" (Libaridian 1999:48).

In his resignation speech, Ter-Petrossian stated that "well-known bodies of power demanded [his] resignation" (Walker 2011:1). He added: "Taking into account the fact that the fulfillment of the president's constitutional duties under the current situation is fraught with a real danger of destabilization in the country, I accept that demand and announce my resignation" (ibid). He then called upon the Armenian people to "display restraint" (ibid). By these words, the President was clearly indicating that he could no longer exercise his constitutional power, particularly the right to fire his Prime Minister.

The president has a right to resign, and when he does so, the presidency passes to the head of the National Assembly. If the latter is unable to perform the presidential duties, the prime minister becomes the acting president. In this instance, the National Assembly voted to accept not only Ter-Petrossian's resignation but also the resignation of the Head of the

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<sup>165</sup> It is essential to note that only six people in Armenia and Karabakh were fully informed about the state of the ongoing negotiations (Ter-Petrossian 1997; 2006). Kocharyan was among one of those six, but neither Serzh Sargsyan nor Vazgen Sargsyan was. Therefore, it is possible that "either Kocharyan violated the confidentiality of the peace process by divulging details to Sarkisian [the Minister of Internal Affairs] and Sargsian [the Defense Minister], after which the collective decision was taken to push for Ter-Petrossian's resignation; or alternatively, the debate about the Karabakh peace process was only tangential, or possibly even irrelevant, to the move to oust Ter-Petrossian" (Fuller, 2004 in RFL/RE).

National Assembly, Babken Ararktsyan, who was Ter-Petrossian's ally. Armenia's Prime Minister Robert Kocharyan, thus, backed by the influential coalition of 'power ministers', became acting president of Armenia "in his own right" (Laitin and Suny 1999:199). Both Vazgen Sargsyan and Robert Kocharyan 'believed' that the resignation was constitutional. However, as Libaridian asserts "the process seems to have *technically* followed the constitutional order, but doubts remain whether *the spirit* of the Constitution was respected"(Libaridian 1999: 50), (italics added). The circumstances were not constitutional, and by resigning, "Ter-Petrossian avoided a constitutional crisis and a potentially disastrous confrontation" (Libaridian, 1999:51). Ter-Petrossian was compelled to step down, which was essentially a "constitutional coup d'état." (Suny 1999:158)

In essence, the President's resignation was mainly about his political opponent's desire and struggle for power. It was about a struggle, in which the winners had coercive supremacy and not just political will for power. They had control over arms, as well as popular authority gained during the Karabakh war. At this point, more comprehensive observations about the people inside the power coalition and how they obtained the above-mentioned coercive powers are in order. How did it happen that whereas other political leaders such as Vazgen Manukyan, the leader of NDU, and other influential political parties, such as ARF or less influential Communist party could not win over the ANM and its leader Levon Ter-Petrossian, the coalition of Robert Kocharyan, Vazgen Sargsyan and Serzh Sargsyan was able to do it? Was war or victory in war important factors in the explanation of those politicians' power? And are the former or their war background, experience and political activities in any way related to the development of social exclusion in Armenia? The brief outline of some of the war-related people that cultivated a political agenda and formed a party, the "Party of Karabakh", is an important contribution to this part of the dissertation.<sup>166</sup> It highlights the power through which these individuals could make decisions affecting important political events that have notoriously affected social, economic, and particularly political exclusion in the country.

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<sup>166</sup> Libaridian underlines that "the best way to understand Karabakh is to look at it as a party, "the Party of Karabagh" (Libaridian 1999:90). Within the Party, "Karabakh is at the top of the hierarchy of concerns; all else is subject to its logic" (Libairdian 1999:94). The army, as a most powerful institution in Armenia, formed the backbone of the "Karabakh Party" (de Waal 2003:257).

#### **7.4.2. The Power Coalition and the "Party of Karabakh"**

Throughout the 1990s, the "Party of Karabakh" included a few strong-minded personalities both from Karabakh and Armenia, whose position on the issue of Karabakh has been centered on no concessions (Libaridian 1999). In Karabakh, it consisted of Robert Kocharyan, Serzh Sargsyan, Samvel Babayan, and Arkadi Ghukasyan. Kocharyan was the most important character among the mentioned ones in Karabakh (since 1997, also in Armenia). In Armenia, it was Vazgen Sargsyan.

Robert Kocharyan, a native of Nagorno-Karabakh, became the President of Karabakh Defense Committee in 1992 and by the end of the same year he became the President of Karabakh. Levon Ter-Petrossian appointed him the Prime Minister of Armenia in March of 1997. Some observers assume that this appointment meant a strengthening of Karabakh's interests and position in Armenia, because with his roots in Karabakh, Kocharyan would never agree to concede the independence and/or territorial achievements of Karabakh won in the war effort, in which Kocharyan himself played an important role (Cornell 1999).

Ter-Petrossian was aware of Kocharyan's stance on Karabakh. He knew well that on the issue of Karabakh, the difference between himself and Kocharyan concerned the type of compromise each was willing to accept. For Ter-Petrossian, beyond the problem of Karabakh, there was the problem of the socio-economic well-being of the Armenian people in Armenia and in Karabakh – poverty, unemployment, low wages, etc. For Kocharyan, above all, maintaining Karabakh's territorial achievements was significant, regardless of what it might cost to the Armenian people (Libaridian 1999; Suny 1999; Laitin and Suny 1999).

Since the mid-1990s, specifically after the cease-fire, the divergence of thought concerning peace, security, and economic development of Armenia and Karabakh had increased between the two men – the leader of Armenia and the leader of Karabakh. Kocharyan argued that the conflict and its circumstances were not the key factors explaining Armenia's poor economic situation. Instead, he argued that Armenian government should get rid of corruption and introduce a stronger discipline within the government. He proposed that "with better management, more discipline, strong anti-corruption policies, a forceful effort to

achieve unity, and the coordination of the resources of the state of Armenia and the Diaspora", Armenia could improve its economic performance (Libaridian 1999:65). Knowing that Kocharyan assumed anticorruption policies, coupled with strengthening the state and the rule of law, could do as much for the Armenian economy as lifting the blockade, Ter Petrossian, presumably, intended to put Kocharyan to the test when he invited the latter to serve as Prime Minister of Armenia in the spring of 1997. In this way, Kocharyan, would have authority over socio-economic issues and would have the opportunity to prove his position (Libaridian 1999; Laitin and Suny 1999; Tavitian 2000; Fuller 2004).

In any case, Kocharyan's position as Prime Minister and his subsequent elevation to the presidency through a 'palace coup' turned out to be a challenge to Ter-Petrossian's more liberal position (Cornell 1999). After Ter-Petrossian's resignation, Robert Kocharyan began to use the authorization and power of the presidency. It is important to note here that Kocharyan's candidacy to the Presidency was then technically illegitimate. The Armenian Constitution explicitly forbade non-citizen Armenians (at least for ten years) from the presidency. Article 50 of the 1999 Constitution stipulates: "Every person having attained the age of thirty five, having been a citizen of the Republic of Armenia for the preceding ten years, having permanently resided in the Republic for the preceding ten years, and having the right to vote is eligible for the Presidency."<sup>167</sup> Kocharyan was not an Armenian citizen in March of 1998, neither had he been a permanent resident of Armenia for ten years. This means that, then a citizen of Azerbaijan, Kocharyan became a President of Armenia illegally.

Since the first days of Kocharyan's presidency, his government reverted to a strong traditional nationalism, which was in accord with hard-liners of the Karabakh government and was very amiable to the Armenian Diaspora.<sup>168</sup> It is considered that the diaspora Armenians' support strengthened Kocharyan's hand in domestic politics.

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<sup>167</sup> See the Constitutional Court of the Republic of Armenia, available online at <http://www.concourt.am/english/constitutions/index.htm#3>

<sup>168</sup> Armenians have established communities throughout the world since ancient times, creating a 2,000 year-old Diaspora (BBC, February 2007). But the size of the Armenian communities around the world dramatically increased since the Armenian Genocide of 1915, when the Armenians living in their ancestral homeland (eastern Turkey, known as Western Armenia among Armenians) were systematically exterminated by Ottoman

The Armenian diaspora is divided into two communities – those from Ottoman Armenia or Western Armenia (the "old" Diaspora) and those who have migrated from Armenia during the late 1980s, especially after the earthquake and after the independence of Armenia (the "new" Diaspora).<sup>169</sup> Feeling strong ties with their historic homeland, both Diasporas have showed strong interest in the social, political and economic developments of Armenia, particularly after the country's independence in 1991. The Diaspora Armenians have been a critical part of the FDI and aid in the republic of Armenia. Particularly, the "new" Diaspora's remittances have recently been crucial for Armenia's economy. However, there is a difference in the nature of the "old" and "new" Diasporas' involvement. Because the "old" Diaspora had a very strong political identity, which was shaped by the "victim" identity that in turn was formed by the forced emigration experience, its involvement in the homeland has been largely political and thus the perceptions of Armenia's investment climate has been greatly dependent upon the political realities (Chakhalyan, 2007:54). This attitude and perceptions of the "old" Diaspora have stood in sharp contrast to the "new" Diaspora, which has not been political, owing to a large extent to a different historical experience of migration that has been voluntary and conditioned by economic considerations (ibid).

Due to its economic and political involvement and influence, the Diaspora has always been an important element of the Armenian foreign policy. Specifically Kocharyan's foreign policy, as well as economic policies, was heavily influenced by largely nationalist Armenian Diaspora communities. The Armenian national identity was more powerfully and coherently articulated, the images of Genocide were projected into the Karabakh conflict, and the prospects of improved relations with Turkey closed off (Suny 1999:158-159). The new

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Turks. The modern Armenian Diaspora was chiefly formed as a result of this Genocide. The survivors of the Genocide (about 400,000) settled in Eastern Armenia and the Caucasus as well as in a number of Middle Eastern and European countries. Required to cope with and adapt to unfamiliar environments, the resistance and discrimination of the recipient states, "the post-Genocide diaspora adopted socio-cultural and political peculiarities of their various host states and eventually emerged as a multi-local heterogeneous entity" (Harutyunyan 2009:58).

Although it is an impossible task to compile an accurate count of all Armenians in the Diaspora, Armenian worldwide population is estimated to be around 11 million, out of which about 3 million reside in Armenia, 130,000 in Karabakh and 120,000 in the region of Javakhk in Georgia. There are approximately 8,000,000 diaspora Armenians living abroad. The largest Armenian communities are in Russia, the United States, France, Ukraine, Georgia, Argentina, Lebanon, Syria, Iran, Turkey, Canada, Ukraine, Greece, and Australia.

<sup>169</sup> According to some historians, even if this taxonomy refers to the weaved emigration out of historic Armenia, including present day Armenia, there are at least three diasporas: pre-Genocide, post genocide, and post independence.

president called for the right to self-determination for Karabakh, and pledged to support its independence.

Soon after Kocharyan's election, frequent cases of human rights violations in Armenia were documented. In one of my interviews, a former Prime Minister, Hrant Bagratyan, recollected the most notorious incident related directly to Kocharyan and his staff. The Armenian people were legitimately alarmed, when in September 2001 a bodyguard of then president Kocharyan attacked and killed a man in a café restroom. The victim, Poghos Poghosyan, had reportedly addressed the president with the words, "Hi, Rob." Witnesses mentioned that Poghosyan was assaulted by presidential bodyguards, who thought that "Hi, Rob" was an offensive greeting of the Armenian president. The 43-year-old Poghosyan was found dead in the café's restroom at night, shortly after Kocharyan left the place. Kocharyan later admitted that the victim died as a result of a "scuffle" with his security service. RFE/RL reported that state prosecutors investigating the politically embarrassing murder charged the bodyguard with "involuntary manslaughter," a crime punishable by up to three years in prison. They further sought an even shorter jail term by citing some "mitigating circumstances." According to the Institute of War and Peace Reporting, the bodyguard convicted of murdering Poghosyan received a suspended sentence of two years.<sup>170</sup>

The domestic political atmosphere started to change swiftly as well. There appeared reports of arrests of political nature, dismissal and assassinations of several government top officials. In August, 1998, Henrikh Khachatryan, Armenia's Prosecutor-General was murdered in his office "in murky circumstances" (*TheNew York Times*, August 7, 1998). Deputy Defense Minister Vahan Khorkhoruni was assassinated in December, 1998 (Asbarez, December 12, 1998). Shortly, in February 1999, the Deputy Minister of Interior Artsrun Margaryan was murdered (Asbarez, February 10, 1999). Following these mysterious political assassinations, on October 27, 1999, Armenia witnessed a terrible tragedy - a massacre in the Parliament. This mysterious attack was the beginning of another period of political instability

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<sup>170</sup> For a more detailed account of this case, see the Institute for Peace and War Reporting, CRS Issue 649, "Restaurant Killing Raises Broader Concerns," by Nvard Hovhannisyan, July 6, 2012, available online at: <http://iwpr.net/report-news/armenia-restaurant-killing-raises-broader-concerns>; and *Asbarez News*, "Kocharyan Bodyguard to be Charged Cafe Death Probe," November 28, 2001, available online at <http://asbarez.com/45848/Kocharyan-bodyguard-to-be-charged-cafe-death-probe>

in Armenia that gradually led to President Kocharyan's becoming politically more powerful. There have been assumptions and opposition charges that Robert Kocharyan and his allies masterminded the attack in order to destroy his main opposition at the time.<sup>171</sup>

Kocharyan further strengthened his regime by replacing former government members with new people and forming a loyal team that included long-time allies and Karabakh war comrades, among who was the newly appointed Defense Minister, Serzh Sargsyan. Like many of the newly appointed government members, Sargsyan's political career began with the tensions over Karabakh. Sargsyan participated, organized and led a number of battles in the Karabakh war as a field commander. Sargsyan was the chairman of Karabakh's Self Defense Forces Committee and he is considered to be one of the founders of Karabakh's armed forces. In 1990 he was elected to the Supreme Council of Armenia. Since the independence of Armenia, he has held several cabinet positions in the Armenian government: Minister of Defense (1993-95), Minister of Interior and National Security (1996-99), Secretary of the National Security Council (1999-2007), Minister of Defense (2000-2007), and Prime Minister (2007-2008). In 2008, Sargsyan was elected President of Armenia, despite massive popular opposition and elections, which were marred with irregularities and fraud, denounced by election observers.<sup>172</sup>

Another member of the "Party of Karabakh", who also rose to prominence during the Karabakh conflict, was Samvel Babayan from Karabakh.<sup>173</sup> Babayan, a car mechanic barely out of high school, was a competent paramilitary officer. In 1991, he joined a paramilitary unit, and quickly became a significant figure among the field commanders. He had his own battalion and led it very courageously. He "made courageous and uncommon decisions without any academic and military knowledge" (Shahnazaryan 2010:3). The young commander actively participated in the capture of Shushi in 1992, one of the highest

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<sup>171</sup> The Parliament massacre, which has been a crucial event in the history of post-Soviet Armenian politics, highlights the growing supremacy of coercive powers in Armenia. The Parliament shooting and its consequences will be detailed in further pages of the chapter.

<sup>172</sup> The February 19, 2008 presidential elections in Armenia can be a separate subject of research regarding political exclusion, social movements, and state violence. This presidential election will be described and analyzed more in detail in the next chapter.

<sup>173</sup> Samvel Babayan, among a few others, belonged to the category of non-traditional, self-taught and war-disciplined commanders (paramilitaries), who later entered into politics.

achievements of the war by Armenians.<sup>174</sup> Babayan's contribution in the capture of Shushi bestowed him with an extraordinary reputation. Despite his young age, he became the commander of Karabakh's army in 1992 and later in 1995 the Minister of Defense after his predecessor Serzh Sargsyan became Armenia's Defense Minister.

Besides the honor and image of being a capable commander, Babayan managed to obtain the reputation of a shrewd businessman. As Lynch states, "the armed forces are always very well protected in separatist states", and Babayan's security as a political-economic actor was also well protected (Lynch 2002:842). After the ceasefire of 1994, but with Karabakh on war footing, Babayan maintained considerable power with little oversight from civilian authorities. Using his power, he managed to acquire huge amount of wealth, such as industries, land, houses, as well as tax and customs privileges for himself and his cronies (de Waal 2000). "Despite Babayan's warlordish behavior, which in a short period of time managed to offend a large number of people, he was treated quite softly in light of his infinite popularity stemming from his wartime leadership" (Shahanzaryan 2010:3). The allegiance of war veterans and people of Karabakh to the acclaimed war hero, particularly of villagers from his native village of Mysmyna, was beyond primordial loyalty to a patron. Based on his military identity and commitment in war, Babayan concluded: "I am the very Samvel Babayan on whose shoulders the destiny of the nation was laid down in 1992. ... My main mistake was continuing to work with people who did not accept my views after the cessation of military action." (ibid)

Babayan's exploitation of his military position became even more overt, when Kocharyan became the Prime Minister of Armenia in 1997. Kocharyan away from Karabakh, there was no other person strong enough to intervene with Babayan's machinations. At the time, Babayan was a leading importer of gasoline and tobacco products in Armenia; in fact he secured a monopoly over these businesses (Shanazaryan 2010). It has been claimed that he used Karabakh Army military trucks to transport the cigarette and petrol cargo. Also, he had businesses related to the construction sector of Karabakh. Babayan and his family also controlled most job appointments in the region (ibid). An example of Babayan's exploitation of his wartime achievements and abuse of his position after war has been the widely known

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<sup>174</sup> The geopolitical significance of Shushi's capture for the Armenian side has been noted earlier in this chapter.



"Babayan Underpass" in Stepanakert, the capital city of Karabakh (Lynch 2002:842). The "Babayan Underpass" was a major underpass, the construction of which lasted years. It was built by military-related contractors in a location, where the traffic is not very busy and there was no need for an underpass (ibid).

De Waal (2000) claims that Babayan was far more than a military leader; he was the de facto overlord of the region, running the local economy (de Waal 2000). He made money out of both war and peace. He was one of the paramilitary elites that initiated the merger of black markets and war (Shahnazaryan 2010). Trading hostages during wartime had become a business for this warlord. Sources mention that Babayan's family members extorted bribes to release from prison people who they themselves took into custody (Shahnazaryan 2010:4). Babayan eliminated all his opponents through moral and physical threats, pressure, as well as assassinations (ibid).

In Karabakh, Babayan's authority and power allowed him to interfere with state affairs. He forced the Prime Minister of Karabakh, Leonard Petrosyan, to resign in June of 1998.<sup>175</sup> Similar to many government leaders of Karabakh, Babayan intended to become a part of the Armenian government. He did so by forming and financing two Armenian political parties and entering into the Armenian Parliament through those parties in 1999. Babayan's intrusion into Armenian politics perhaps was a potential challenge to Kocharyan's growing power in Armenia. With the support of Karabakh's President Arkadi Ghukasyan and Armenia's Defense Minister Vazgen Sargsyan, Kocharyan managed to restrain Babayan's authority not only in Armenia, but also decreased his powers in Karabakh. In 1999, Babayan was dismissed as Defense Minister of Karabakh. In 2000, he was charged with the March 2000 assassination attempt against Arkadi Ghukasyan and sentenced to 14 years

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<sup>175</sup> Ironically, both Ter-Petrossian (in Armenia) and Leonard Petrosyan (in Karabakh) resigned in the same year under the influence of former warlords, who after war were influencing the political affairs of their respective republics.

imprisonment.<sup>176</sup>In 2004, however, Babayan was released from prison due to deteriorating health.<sup>177</sup>

In accord with Kocharyan and others from the "Party of Karabakh", Babayan was an ardent opponent of territorial concessions to Azerbaijan. As Defense Minister of Karabakh, Babayan, argued in an interview in October 1997 that the chances of renewed war with Azerbaijan were high, and in case of a war, Azerbaijan would have to accept military defeat. He added that a renewed war would finally result in a decisive victory by one side or the other (Walker 1998). According to the Armenian News Network *Groong*, when top officials in Armenia were initially reluctant to openly display disloyalty to the President regarding step-by-step proposal, they urged Babayan to challenge Ter-Petrossian's inner circle. In the joint session of National Security Councils of Armenia and Artsakh in January 1998, it was Babayan who most vociferously opposed Ter-Petrossian (*Groong News*, October 6, 2004)<sup>178</sup>.

The Babayan phenomenon is a striking example of a wider postwar phenomenon – postwar militarization – when victory allowed the Armenian military commanders to control the peace (de Waal 2010). In Armenia, the Karabakh war veterans' organization the *Yerkrapah*, also known as the Yerkrapah Battalion or the Union of the Yerkrapah Volunteers, became a core element of the postwar militarization in Armenia after the cease-fire.<sup>179</sup> The

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<sup>176</sup>Babayan was Arkadi Ghukasyan's most formidable political opponent. Babayan was in power struggle with Ghukasyan and attempted to assassinate the latter with the support of people from his inner circle.

<sup>177</sup> Unofficial sources mentioned health issues, but the release of the former military leader was not given an official explanation. Babayan's amnesty, thus, appears to have been an act of clemency. It is argued that Babayan's release from prison was engineered by Kocharyan and Arkadi Ghukasyan. Babayan's release occurred in the backdrop of a politically sensitive time for Karabakh. During the 2004 municipal elections, public discontent burst in Karabakh concerning the pace of democratic and social-economic progress. The election of the independent opposition candidate Eduard Aghabekyan as Mayor of Stepanakert (capital city of Karabakh) and his defeat over the incumbent – a well-funded ruling party candidate – was an unexpected event for both Karabakh and Armenian leaders. Aghabekyan's victory emboldened citizens of Karabakh. After Major General Movses Hakobyan was quoted by journalists that Karabakh was not ready for full democracy as long as war was not over, Hakobyan was obligated through a special session of the legislature to declare that he was misquoted. Meanwhile, Ghukasyan and his political mentor Kocharyan were serving their last terms in presidential office, one in Karabakh, the other in Armenia respectively. Since Babayan had been punished already for his oppositional attitude against Ghukasyan, and there was no "political niche" left vacant for Babayan either in Karabakh or Armenia, Kocharyan and Ghukasyan decided to pardon Babayan. This was or seemed to be a sound political move on their behalf, rather than being forced to do so by Babayan's supporters. (*Groong News*, October 6, 2004)

<sup>178</sup> Retrieved from: <http://www.groong.org/ro/ro-20041006.html>

<sup>179</sup> "The "Yerkrapah" is translated as homeland protectors/defenders.

Yerkrapah was led by Vazgen Sargsyan, one of the strongest and most talented, if not the most significant figure that rose to power out of the Karabakh conflict.

Vazgen Sargsyan's political activity started when he joined the movement for Karabakh. In 1990, he was elected to the Armenian Parliament, and became a member of the Internal Affairs and State Defense Committee. He was very active during the first years of the war, and since 1990-1992 he was commanding voluntary and paramilitary troops in Karabakh. He inspired the "battalion of kamikazes", a very important battalion during battles. In 1992, Sargsyan became Defense Minister of Armenia, and from 1993-1995 he was State Minister in charge of Defense. In 1995, during the restructuring of government ministries, he again became Defense Minister. In 1999, President Kocharyan appointed Sargsyan as Prime Minister.

The Ministry of Defense created the Yerkrapah in 1993, when Vazgen Sargsyan was the Minister of Defense.<sup>180</sup> The Yerkrapah emerged as an overtly nationalist force, directly tied to the war rather than the Karabakh movement. "Essentially an organization of soldiers, with limited intellectual leadership (unlike the early ANM or other parties, the Yerkrapah has been militant in its views on national issues and Karabakh" (Panossian 2006:241). Sargsyan had control and full authority of the organization, with over 10,000 members. While the Yerkrapah was initially created to be a social organization with its main objective to solve social problems of Karabakh war veterans, it later became involved in political affairs of the country. The leadership of the organization was politicized, turning into a military political organization implementing political functions. Since the Yerkrapah members had fought in the war, the majority of them retained their weapons, and this granted the organization special power. De Waal mentions that the Yerkrapah became the most powerful and a very influential organization in the country and took over some areas of the economy (de Waal 2004:244). De Waal also calls the Yerkrapah's leader Sargsyan the "chief generalissimo [of the army], Armenia's charismatic first defense minister, most prominent military leader, and emerging feudal baron" (de Waal 2004:257).

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<sup>180</sup> Some sources mention 1993 as the year Yerkrapah was established 1993 (de Waal 2003). Libaridian recalls that the organization started in May of 1992, during the Nakhijevan border skirmishes.

According to Human Rights Watch, the Yerkrpah posed a serious threat to the rule of law in Armenia. It is considered that the Yerkrpah managed to develop into a quasi-criminal, quasi-political organization under the protection and support of the army. In 1995, the Yerkrpah members allegedly attacked offices of foreign religious groups (mostly Christian sects) in Armenia, because the latter discouraged military services. In July 1997, the Yerkrpah also reportedly broke into a human rights library in Vanadzor and ransacked it (Human Rights Watch 1999, US State Department Report 1997). The library break-in was primarily aimed at control of the space rather than the activities of the center; nonetheless, "the incident underscored the freedom of these local militias [the Yerkrpah] to act outside the law (U.S. State Department Armenia Country Report on Human Rights Practices, 1998).

Yerkrpah's relation to these human rights violations brought even international attention to the activities of the organization, highlighting the necessity to reduce any patronage of the Yerkrpah on behalf of the Armenian government, specifically the Defense Ministry. Holly Cartner, executive director of Human Rights Watch's Europe and Central Division stated:

"Militia groups like the Yerkrpah Battalion are a threat to Armenia's nascent civil society. The Clinton Administration should lead the international community in sending a clear message to the Armenian Defense Ministry: human rights abuses by vigilante groups will not be tolerated. The Yerkrpah members should not be allowed into government security forces or other official positions without a thorough review of each applicant's record" (Human Rights Watch 1998)

In the fall of 1997, the organization registered as a political party and entered Parliament with seventeen seats. Yerkrpah merged with the Republican Party of Armenia and became the largest group in the National Assembly in the summer of 1998.<sup>181</sup> Regarding his decision to merge the Yerkrpah into the Republican Party of Armenia to establish a political base in the Parliament, Sargsyan announced: "From the very beginning there was a wrong impression that the Yerkrpah can do nothing – but fight, however – time has shown that the Yerkrpah can not only perform feats on battlefields - but also have a say in peaceful

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<sup>181</sup> The Republican Party of Armenia was a small nationalist party established in 1990. Its ideology was similar to Yerkrpah's ideology and slogans (Panossian 2006). Yerkrpah adopted the name and the legal status of the party (Jamestown Foundation 1998; The Republican Party of Armenia).

development."<sup>182</sup> By 1998, the organization had become Armenia's most influential 'political' factor and, as it grew more representative, its political muscle started to influence the Armenian political life. When Ter-Petrossian and his party ANM were on the verge of weakening, many defectors from the ANM joined the Yerkrpah. At some point, the organization had become an alternative force structure and a coercive resource in the hands of certain political elites. Ter-Petrossian particularly paid a high a price by allowing Vazgen Sargsyan to involve the Yerkrpah veterans in politics. Although initially supportive of Ter-Petrossian, the Yerkrpah had a share in ousting the former President from power and placing Kocharyan in the presidency. It was only after Vazgen Sargsyan's death in 1999, that the Yerkrpah weakened and ceased to pose any threat to the executive or other political powers.

There has always been a big divergence of public attitude towards Yerkrpah and their leader Vazgen Sargsyan in Armenia. Some consider Sargsyan as the victorious *Sparapet*<sup>183</sup> and the most important person of post-independent Armenia's defense; whereas, in the words of another renowned hero of the Karabakh war Arkady Ter-Tadevosyan (nicknamed *Commandos*), "Vazgen's strength continues to worry certain people or systems, which, for some reason, continue to keep a sense of fear from the dead Vazgen" (Jebejyan 2013). Many remember Sargsyan as the founder of the modern Armenian army, as the chief architect of the Karabakh war victory, and an outstanding soldier.<sup>184</sup> Yet again, many others would agree to Ara Sanjian's recollection that there was another side to Sargsyan. "He was extremely ambitious and did not always shun non-democratic methods to attain his political and personal goals" (Sanjian 1999). Hardly anybody would ever challenge or oppose Vazgen Sargsyan. "The lack of open criticism against him was motivated not only by the genuinely deep respect towards his achievements as Defense Minister but also by fear of his all-reaching hand" (ibid). Although quite lengthy, I find it very important to quote some pieces

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<sup>182</sup> Vazgen Sargsyan was cited in Asbarez news, May 10, 1999, retrieved from: <http://asbarez.com/39846/sargsyan-campaigns-stresses-veteran-benefits/>

<sup>183</sup> As a national hero of the war, Sargsyan was nicknamed "Sparapet Hayotc", which may be translated into English as the "Armenian Commander-in-Chief".

<sup>184</sup> In fact, the same type of diverging public attitude exists around the "Yerkrpah" and its role for post-independent Armenia.

of his speech during the Fifth Extraordinary Congress of the Republican Party of Armenia, in January of 1999, almost a year after Ter-Petrossian's resignation.

My role in political developments has been grossly exaggerated. Neither under Levon Ter-Petrossian, nor under Robert Kocharyan, I participated in the economic policy. ... I worked with seven Prime Ministers and didn't have personal conflict with any of them, you can ask them. I never beat any of them; I never forced anybody out of the country. ... I never participated in the privatization, and I myself privatized nothing. I didn't create clans and have no intention to do so, since I regard clans as the greatest danger to this country.

As an acting Defense Minister of a belligerent country, I can't help participating in the political process. ... The army is a component of this society, the mirror of the society, and economic, social, political drawbacks hit the army directly. If the army shed blood for this country, then, naturally, the army, when its destiny is concerned, must participate in these processes. ...

About my relations with Robert Kocharyan. I say, once and for all, because I don't need excessive blabber, we are close friends, we are combat comrades, we have common destiny. I shall never oppose Robert Kocharyan, don't hope for that. ...

About my relations with Levon Ter-Petrossian. He is a wise and moral man and statesman. Levon Ter-Petrossian has left and took his convictions with him, leaving the field to us. If Levon Ter-Petrossian didn't want to leave, no one would be able to force him out. About the rumors that Levon Ter-Petrossian was forced out, and who forced him out. Vazgen Sargsyan? It is absurd and ludicrous. If Levon Ter-Petrossian didn't resign, no one could make him resign. If he dismissed me as Defense minister, I would resign. But in this case the responsibility would be on him. Now he resigned and we are responsible. There is a problem of responsibility, not of dismissal of each other. I did not rise against Levon Ter-Petrossian, I defended the idea. Our dispute was about Karabakh problem and some people in Levon Ter-Petrossian's entourage.”(Vazgen Sargsyan, Fifth Extraordinary RPA Congress of 1999)

The Defense Minister's speech reflects his influential role in Armenia's political arena and that he strongly opposed Ter-Petrossian's policy on the problem of Karabakh. Sargsyan's speech also expresses his change of support and collaboration to Robert Kocharyan. Whereas there is ample anecdotal evidence that Sargsyan had strong influence in the economy/business, and that he benefited from the privatization process, in this speech he denied any involvement in privatization or any wealth obtained as a result of privatization. Grigoryan, for example, states that “it was a well-known fact, if not well-publicized, that certain imports essentially were monopolies (mainly sugar and flour) of the Defense Ministry and connected businessmen under the patronage of then Defense Minister V. Sargsyan. And again, this was not necessarily done for reasons of introducing corruption, for reasons of

benefitting unfairly by the leaders of the time; it was the logic of the war that dictated such actions and such centralization.”<sup>185</sup>

### **7.4.3. Foundation of Armenian Democracy and Abortion of its Consolidation**

Papazian (2008) focusing on the evolution of the Armenian national identity during *perestroika*, displays how claims for reforms in the nationality issue transformed into national self determination and democratization. The Karabakh movement, initially a contestant political movement, laid the foundation of the Armenian sovereign nation-state. Supporters of the movements redefined the terms of the national debate around Karabakhin purely political terms, eventually to be expressed by a sovereign national state (Papazian 2008).

After independence, the Armenian National Movement, under the leadership of Ter-Petrosian, enjoyed extraordinary popular support and legitimacy as the anticommunist leader of the nation. The platform of the Armenian National Movement called for democratization, social justice, national sovereignty, and economic reform. "Real social change was possible and would be evident, he [Ter-Petrosian] argued, only with the gradual buildup of institutions and economic strength, both of which would enable reformist policies to take root" (Libaridian 1999:53). "For the first four years of its existence, ... despite the war, blockade, and failure to repair the damage suffered in the December 1988 earthquake, ... the government of Armenia under Levon Ter Petrosian displayed an enviable stability and an apparently steady trajectory toward democracy and capitalism" (Suny, 1999:156). Initially it faced little internal opposition, if any (Suny 1999).

Between 1990 and 1997, despite the adverse consequences of the Karabakh war on the Armenian society, Armenia was steadily transitioning into a democracy. The country followed principles of democracy without breaching its citizens' rights and without discriminating opportunities within its society. But with the absence of a resolution to the Karabakh conflict, Armenia did not fully consolidate into a democratic system. "Levon Ter-Petrosian's resignation halted the march in that direction" (Libaridian 1999:16).

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<sup>185</sup> Cited from the interview with Arman Grigoryan, Ann Arbor, Michigan, March 24, 2010.

Within a few years of independence, serious strains affected the government's efforts to create a democratic state with legitimacy. Privileged elites, particularly those from the "Party of Karabakh", resisted change, and their resistance became an obstacle for Armenia's change to a democratic and dignified society.

The political crisis of 1998, followed by the President's resignation in Armenia, can be characterized by a wave of a few military and security-related developments that were focal in the failure of the development of economic and political institutions. These events are composed below by the ascendance of their significance.

- A coalition of power ministers comprising of political elites, who all gained authority and popularity in the Karabakh war, was formed against Levon Ter-Petrossian administration;
- Vazgen Sargsyan, the leader of the paramilitary organization Yerkrpah, announced that the Yerkrpah had switched their support from Ter-Petrossian to Kocharyan; and
- Forty members of the National Assembly of Armenia reportedly quit the ruling coalition in order to join the Yerkrpah parliamentary faction, later making it the largest parliamentary bloc (Astourian 2001:57; Croissant 1998:123).

It can be said that Levon Ter-Petrossian's resignation highlighted the limits of international pressure on Armenia as a country with several autocratic elites related to war, and stressed the dangers inherent in ignoring those limits. At the time of his resignation, Ter-Petrossian predicted that the 'party of peace' was being replaced by the 'party of war'. It is perhaps true that the change of political elites in 1998 cost the Armenian people the long-term absence of peace settlement, economic insecurity and democratic norms. Today on the negotiating table are proposals, whose essence is nearly the same as the "stage-by-stage" plan that was discussed in September, 1997. The proposals have remained almost unchanged, but the regional balance of power has transformed much. Socio-economic matters have worsened for ordinary citizens on the domestic scene as well. Armenia's first president's caution about the change became obvious not too long after his resignation.

It was only a year after Kocharyan's presidency, in October of 2000, when thousands of people took out to streets, calling for President Kocharyan's resignation. Despite his pledges to fight against corruption and to boost the economy, President Kocharyan was not displaying any intentions or actions to keep his promises. There was little, if any economic



progress, which, however, was mainly due to remittances from abroad and foreign assistance or, more specifically, foreign debt.<sup>186</sup>The government had failed to improve the country's economy. What is more, political exclusion was aggravating. Now not only material deprivation was widespread, but there was also an agonizing intensity of political arrests, murders, intimidations, and other human rights violations. Since 2000, authoritarian tendencies emerged in Armenia; restrictions on political freedom and freedom of speech surfaced. Extensive accusations of electoral irregularities and fraud, as well as violations of the Armenian Constitution, were common.

#### **7.4.4. The Armenian Parliament Attack of October 27, 1999**

Soon after Kocharyan's election as President, V. Sargsyan started to diverge from Kocharyan's aspirations. Their relations quickly deteriorated. Sargsyan, whose role was instrumental in the palace coup against Ter-Petrosian, was gradually persuaded of the advantages of the peace deal on the resolution of the Karabakh conflict (de Waal 2013:275). Ironically, Sargsyan found himself drawn to the resigned president's position, and seemed to understand that peace was the key to solving much of Armenia's problems, and that the "frozen" state of the conflict kept the country in misery, degrading the economy and fueling corruption (Sifakis, 2001). A popular assumption circulated within media that Sargsyan received substantial backing from both the World Bank and IMF, presumably to reinforce his reassessment on the Karabakh conflict.<sup>187</sup>

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<sup>186</sup> The economy grew by 6.2 percent in the first nine months of 1999 compared to same period of the previous year. However, real GDP fell by 2.3 percent at the end of 1999 in the wake of political assassinations (IMF 2001). According to the IMF, at the end of 2000, Armenia's external debt amounted to \$862 million, the equivalent of the 45 percent of GDP or 194 percent of exports. From 1995 to 2000, external debt more than doubled (IMF 2001). The latest value for external debt stocks, concessional (DOD, in US\$) in Armenia was \$2,564,586,000 as of 2011. Over the past 18 years, the value for this indicator has fluctuated between \$2,564,586,000 in 2011 and \$16,626,000 in 1993.

([http://www.indexmundi.com/armenia/economy\\_profile.html](http://www.indexmundi.com/armenia/economy_profile.html))

<sup>187</sup> There is a street story suggesting that Vazgen Sargsyan was heavily influenced by the U.S. policy in Armenia, advocated by then U.S. Ambassador to Armenia, Michael Lemmon. Sargsyan and Lemmon socialized, played tennis together. Ambassador Lemmon, enthusiastic about a peace agreement (it could become his biggest achievement as Ambassador), supposedly impacted Sargsyan's renewed position on the Karabakh solution. The slain Minister had even recently asked Washington to mediate an improvement in the strained Armenian-Turkish relationship (RFE/RL, Vol. 3, No. 219, November 9, 1999)

Meanwhile, Sargsyan was continuing to reinforce his political supremacy in the country.<sup>188</sup> Securing political support in the Parliament through the politicization of the Yerkrpah was followed by another strategic move, the creation of the *Miasnutyun* bloc.<sup>189</sup> Petrosian (2005) points out that Sargsyan had an exceptional ability to build “most unexpected tactical unions in order to achieve his goals” and, as a good example of this type of tactics, he refers to the ruling “Miasnutyun” bloc. After the 1998 presidential elections, Sargsyan, recognizing the leader of the People’s Party Karen Demirchyan’s growing power and popularity among people, allied with him within the "Miasnutyun" bloc. Demirchyan, the former First Secretary of the Communist Party of Armenian Soviet Socialist Republic and the chairman of the Armenian Supreme Soviet (effectively the leader of Soviet Armenia) from 1974 to 1988, had managed to garner about 40% of votes in the 1998 presidential elections (based on official results), coming second after Kocharyan. Demirchyan became a major potential opponent for Kocharyan after the May 1999 Parliamentary elections, where the "Miasnutyun" electoral alliance achieved a total victory, winning the majority of parliamentary seats with 43% of votes.<sup>190</sup> Sargsyan, in his turn, confirmed himself as the *de facto* decision-maker in Armenia.

Since the creation of the "Miasnutyun" bloc, both Demirchyan and Sargsyan were considered more popular and more powerful than Kocharyan, despite Kocharyan’s presidential authority. The creation of such a powerful union of two significant figures of Armenia’s political field changed the state of affairs. Commenting on the creation of "Miasnutyun", a distinguished political journalist, Anna Israyelyan, noted: "As for Vazgen Sargsyan’s logic, I will have to remember a hypothesis about contradictions inside the ruling regime, which was frequently voiced at that time. No matter how much Sargsyan assured that there were "no problems" between him and Kocharyan, this step [the "Miasnutyun" alliance]

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<sup>188</sup> Kocharyan’s unprecedented rise to presidency did not deprive Vazgen Sargsyan of his extraordinary authority and substantial power within the ruling circles. With strong links to the military and a strong political base in the Parliament, Sargsyan then was extensively considered to be the first man to wield the political power in Armenia. He basically controlled the military resources of the country.

<sup>189</sup> "Miasnutyun" is translated into Armenian as "Unity" or "Merger".

<sup>190</sup> In the chaos of post-Soviet independence, many Armenians cultivated a sense of nostalgia for their Soviet life and experience. Demirchyan's popularity was derived to a large extent from those nostalgic feelings towards the Soviet years and, thus, from Demirchyan's experience as a Soviet-era leader.

testified the opposite." (Araratyan 2012).<sup>191</sup> According to many, it was due to "Miasnutyun" bloc that Sargsyan became the Prime Minister in June of 1999. The union of these two types of power, with Sargsyan being the hard power as the winner of the war, an experimental Prime Minister with positive outcomes, and Demirkhyan, as the soft power, a non-military figure, a man of long-term experience in public administration, looked as a very beneficial channel for Sargsyan to advance to presidency.

It is substantially important to stress that recently Sargsyan's image among people as a hardliner was changing into a more popular leader, particularly because the short period of his premiership was distinguished with more or less successful attempts to take the country out of financial crisis and to fight against corruption. "All he had to do was get rid of the image he gained during the Nagorno-Karabakh war as a guerrilla ... and to prove to the people that he was capable of governing the state" (Petrosian 2005).

With such a powerful authority and a changing image, Sargsyan, as Prime Minister, thus, began to overshadow the new President, Kocharyan. At the same time, he was transforming from a formerly Russian-oriented politician towards a more pro-Western leader, distancing himself even more from Kocharyan's explicitly Russian-inclined stance and diplomacy. For President Kocharyan and the political circle close to him, Sargsyan's unexpected transformation was threatening. It was becoming obvious that while a few years ago Sargsyan promoted Kocharyan's way to the presidency, he could easily oppose Kocharyan with the same manner he did the former President Ter-Petrosian. Media accounts reported about rumors that the Prime Minister was considering forcing the resignation of State Security Minister Serzh Sargsyan, a close ally of Kocharyan (Danielian 1999; Grigoryan 1999).

In September, 1999, the first Armenia-Diaspora conference was held in Yerevan. Following the conference, as a new Prime Minister, Sargsyan made a visit to the United States, during which it became clear to him that financial support from the Diaspora was decreasing and it could not boost economic development of Armenia (de Waal 2003:263).

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<sup>191</sup> Please see Mediamax website, "National Assembly Elections: v1.0-v4.0": 1999 elections" by Aram Araratyan, April 13, 2012, (<http://www.mediamax.am/printpage.php?lang=en&nid=4633>)

Meanwhile, on October 11, 1999, Kocharyan met with the President of Azerbaijan Heydar Aliev. It is contended that the meeting finished with a hope for a final Karabakh resolution proposal in the imminent OSCE summit in Istanbul in November (de Waal 2003).<sup>192</sup>

Such was the domestic political context, when on October 27, 1999, Demirchyan and Sargsyan were assassinated in the Parliament with other senior politicians. Their assassination happened less than six months after the 1999 Parliamentary elections. On that tragic day, five gunmen led by a former journalist and an extreme nationalist, Nairi Hunanyan, stormed the Armenian National Assembly and opened fire in the Assembly's session hall. The terrorists carried out the parliament massacre, claiming that: "The country [was] in a catastrophic situation. People [were] hungry and the government [didn't] offer any way out" (Avagyan and Tadevosyan 2005). Along with the Prime Minister Sargsyan and the National Assembly Speaker Karen Demirchyan other high ranking officials were murdered, among them Deputy Speakers Yuri Bakhshyan and Ruben Miroyan, Minister of Emergencies (Urgent Issues) Leonard Petrosyan, National Assembly Members Genrikh Abrahamyan, Armenak Armenakyan and Mikael Kotanyan. Many others were wounded and injured.

The incident unfolded live on television, and upon terrorists' demands, negotiations to speak on TV began. The security forces were put on alert, but there was no further action taken. President Kocharyan was personally directing the security forces outside the National Assembly during the standoff. Meanwhile, citizens seemed unclear of what was happening in the country. As negotiations to free the hostages began, the process turned to be a daunting task, because the terrorists' comments and demands "seemed to lack coherence." Agreeing to the words of Armenia's Minister of Health that the gunmen seemed to be in a "state of possession", the Russian minister for relations with former Soviet states, Leonid V. Drachevsky, added: "It looks like a psychiatrist is needed – professional negotiators from the

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<sup>192</sup> This was the two presidents' fifth meeting in six months. According to de Waal (2003), the mood of the meeting was friendly, and Azerbaijanis even barbecued a sheep (de Waal 2003:274). De Waal writes that during the meeting, the two presidents reconsidered the "Goble Plan" ("land swap" plan mentioned earlier in the chapter), despite the fact that the plan was previously not liked by either Armenian or Azerbaijani elites (ibid). The Azerbaijani elites rejected the plan in 1999, considering it as surrender of Karabakh. Perhaps, it was over this issue that in October 1999, three of Aliev's most experience advisors – foreign affairs aide, Vafa Guluzade, the head of his secretariat, Eldar Namazov, and his foreign minister, Tofik Zulfugarov – resigned. The "Goble Plan" was also accepted negatively in Armenia, because by losing Meghri, Armenia would lose its southern border with a very important neighbor, Iran.

special services who would calm them down." (Sifakis, 2001) The members of the team were not capable of articulating a full political position, and they named almost everyone in Armenia as a co-conspirator. What made things even more complicated was that at the time of negotiations, government officials had difficulty defining the political background of the gunmen (ibid).

The leader of the gunmen, Hunanyan, told the reporters that the eight deaths of the attack were all "innocent victims" except for the case of Sargsyan.<sup>193</sup> According to Hunanyan, "Sargsyan failed the nation" (Avagyan and Tadevosyan 2005). Before surrendering, Hunanyan announced: "This is a patriotic action. This shake-up is needed for the nation to regain its senses." When already captured, he added: "Today's murder is going to be a shock for people. It was intended as a warning to the rest of the government. It doesn't matter who's going to replace those who died in the shootout today. From now on they will serve the people, because they see what can happen if they don't" (ibid).

After the gunmen surrendered the Parliament, they were carried away in a bulletproof van. President Kocharyan promised the nation a "fair trial" of the gunmen. But the long process of investigation and trial discovered very little about the case and it failed to find out the real motives behind the attack. Numerous important questions that have been churning in the media during those days and still several years afterwards have not been disclosed concerning the case. Moreover, the trial rapidly and suddenly ended as the leader of the

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<sup>193</sup> There is not much detail about the biography of the leader of the gunmen, Nairi Hunanyan. It is known that he was born in 1965 in Yerevan, Armenia. Hunanyan, who was 34 at the time of the terrorist attack, was a former journalist, a graduate of the Department of Philology and Journalism of Yerevan State University (AZG Daily, April 20, 2001). *Azg Daily* reported that Hunanyan used to go in for various kinds of sports and had read about 4,000 books kept in his parents' library. When he was 22, his parents divorced. According to *Azg Daily*, in 1987 Hunanyan actively participated in ecological rallies, then in 1988 in protest demonstrations for the unification of Karabagh with Armenia. In 1988 he went to Karabakh with the Karabakh Committee leaders Levon Ter-Petrossian, Vano Siradeghyan, Vazgen Manukyan and others and was involved in arranging the activities of Karabagh Komsomol (Young Communists) with those of Armenia. He first met Robert Kocharyan and Serzh Sargsyan in Stepanakert, Karabakh. He was the founder of the *Horizon* (translated into English as "horizon") information agency. Since 1990, he was a member of the "Dashnakutiun" (Armenian Revolutionary Federation), the most radical nationalist Armenian political party, which was banned as a political party in Armenia by Ter-Petrossian, but later reinstated in by Kocharyan (Teymurazyan, 2007). He had close contacts with Hrayr Marukhian, the representative of the ARF Central Bureau (AZG Daily, April 20, 2001). "The party [ARF] was a means for me to realize my plans," Hunanyan said (ibid). Hunanyan was later expelled from the party on the grounds of stealing money, although he insisted that this story was not true. From 1994 to 1997, Hunanyan lived in Crimea, the Ukraine, and returned to Armenia in 1997 (Teymurazyan, 2007). When in prison, Hunanyan also denied allegations ascribed to him by the ARF that he had connections with Turkish special services.

group Nairi Hunanyan reportedly intended to reveal new information about the crime. By now, many members of the terrorist group are dead; allegedly they have made suicides in their prison cells.<sup>194</sup> Thus, there are even fewer hopes to learn anything new about the case.

With so much doubt and confusion behind the attack and no clear reasons discovered during the trial, the notorious attack left the nation wondering: Who might have been responsible? Who benefitted? What would the consequences be?

Several views concerning the motives of the attack on the Armenian National Assembly have been conceived by political researchers and analysts. Some relate it to the potential resolution of the Karabakh issue and argue that it was organized by outside forces. Some consider the attack as an attempted coup d'état. This, however, was never a challenge to state authority [particularly to Kocharyan's power as President], nor was it an attempt to seize the state. Yet a few think it was just a criminal operation undertaken on social-political grounds, because the terrorists had emphasized "the miserable situation of our [Armenian] people" and corruption of Armenian politicians as the main reasons for their attack. Whereas Hunanyan was quoted as saying: "we wanted to save the Armenian people from perishing and restore their rights", he articulated no clear political agenda of how to do so (Koran 1999).

Though Hunanian denied any relation of their actions to the situation concerning Karabakh, there is "a street-talk tale" that the Karabakh issue played a role in the organization and implementation of the attack. As mentioned earlier, less than a month before the Parliament shooting, there were closed talks between Armenian and Azeri leaders that many hoped would lead to an agreement at the next OSCE summit in November. The agreement was the land swap ("Goble Plan"), which was discussed earlier in this chapter.

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<sup>194</sup> In 2000, Norayr Yeghiazaryan, who had sold weapons to the gang, died under unknown conditions in an isolation cell. In 2004, Vram Galstyan (uncle of Nairi Hunanyan) committed suicide by hanging from a bed sheet. In May, 2010, Hamlet Stepanyan, 57, died of an apparent heart attack inside Nubarshen penitentiary. He is the third among six defendants of the controversial case who died in prison. There are also important witnesses of the case that died under suspicious circumstances. In 2002, Tigran Naghdalyan, 36, Chairman of the Board of the Armenian Public Television and a key witness of the case was shot dead at the doorstep of his apartment. In 2004, National Assembly deputy Mushegh Movsisyan, 47, another key witness of the case, died in a car accident. In 2004, Hasmik Abrahamyan, 45, an employee of the NA Protocol Department, who was on the witness list, was found hanged in the NA Protocol building (Abrahamyan, 2010).

Focusing on the prospective of a settlement, a few analysts supported the speculation that the attack was a "bid by Russia to sabotage ongoing talks to settle the Karabakh dispute with Azerbaijan" (Grigoryan 1999).<sup>195</sup> Whereas the timing of the parliament attack and the above-mentioned talks between Kocharyan and Aliev coincided, there was no evidence leading to the conclusion that this version was a likely reason for the parliament assassinations. The linkage was too indistinct.

The most widely accepted view regarding motives of the 1999 Parliament violence, reflected in many political analysts' articles and speeches, in numerous interviews given by the members of the Sargsyan and Demirchyan families, in the numerous videos related to this theme uploaded in the YouTube by oppositional groups, is that Sargsyan and Demirchyan were simply victims of a political assassination. This version presumes that Kocharyan was the mastermind behind the attack in efforts to get rid of his most influential political adversaries. The latter had effectively marginalized Kocharyan and Kocharyan's allies in the last few months. This conviction is supported by the leader of the gunmen Nairi Hunanyan's statement during the trial that "by killing Prime Minister Sargsyan, he had helped restore "constitutional order" by strengthening the position of then-President Robert Kocharyan" (Coalson and Tamrazian 2009). Grigoryan (1999) observes that the assassination of Sargsyan and Kocharyan would dramatically weaken the "Miasnutyun" bloc's control of Parliament and government, leaving Kocharyan with little potential opposition.

As it has been widely contested in media and believed by the public, Kocharyan seemed to be a major beneficiary of the situation created from the chaos following the attack. The speculations of many parliament members and leaders of political parties support this motive (Abrahamyan, 2010). Here are what some of Armenian politicians have said regarding the October 27 tragedy and the trial process:

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<sup>195</sup> There were allegations accusing Russia of organizing the violence in the Armenian Parliament. Former Federal Security Service (FSB) agent Alexander Litvinenko had blamed the Russian special services for the Parliament attack. According to Litvinenko, "Russia's political leadership managed to prevent the signing of a peace agreement resolving the Nagorno-Karabakh conflict". He concluded that Russian authorities hatched the plot to prevent a resolution of the Nagorno-Karabakh conflict. Nevertheless, Litvinenko provided no evidence to support his accusation. The Russian Embassy in Armenia immediately denied any such involvement.

Albert Bazeyan (Republican Party; Mayor of Yerevan August 1999-January 2001): "We have come to the conclusion that the crime was aimed at making Robert Kocharyan's power unlimited and uncontrolled. By physically eliminating Karen Demirchyan and Vazgen Sargsyan, its organizers wanted to create prerequisites for Kocharyan's victory in the future presidential elections." (Martirosian and Meloyan, RFE/RL, October 2009)

Artashes Geghamyan (Law and Accord party): "I think that president Kocharyan should have resigned when the passions died away to secure fair pre-time presidential election. He did not do it, which was followed by strange and obscure processes. ... I think that president Kocharyan's announcement that death penalty would not be applied in Armenia was premature." (Abrahamian, 2001)

Norik Petrosyan (Communist party): "I am sure that the authorities are not making special efforts to have the crimes revealed. This makes me believe that there were people behind this group, and I am not sure that these people will be revealed under these political conditions." (Abrahamian, 2001)

Aghvan Vardanian (Armenian Revolutionary Federation/ Dashnaksutyun): "It was a crime, directed against the foundations of our statehood. We think that the law-agencies, if necessary, have to continue looking for who masterminded it even for decades. But it is beyond doubt that there were people behind Hunanian and his henchmen and they must be tracked down and punished." (Abrahamian, 2001)

Myasnik Malkhasian (Hayastan group): "It is painful to see that two years have passed by but the crime is not discovered, and neither the politicians nor the public have any idea about how the trial will proceed. As the assassins are known, they should have been long ago executed; the debate whether death penalty should be applied or not seems to be quite unnecessary. We are disappointed with the trial process. The authorities should have undertaken quick action to reveal the organizers. The ongoing trial is keeping the public strained giving rise to suspicions and controversial comments". (Abrahamian, 2001)

Other politicians have blamed Kocharyan for the bungled criminal investigation of the parliament attack. Levon Ter-Petrosian, the former president, announced in 2007: "The October [1999] massacre was the main milestone that cleared the broad way to the formation and development of Kocharyan's regime" (Danielyan, 2007, Eurasianet). Ashot



Manucharyan, a former member of the Karabakh Committee, accused the President Kocharyan of "concealing from the investigation the main version of the realization of the terrorist act of October 27 – V. Sargsyan's and K. Demirchyan's disagreement with the so-called "Goble Plan" of territorial swap between Armenia and Azerbaijan" (*Mediamax*, October 26, 2000).

Prison deaths of some of the terrorists have further fuelled more allegations of a high-level cover-up of the parliament attack. Specifically the relatives and supporters of the murdered politicians suspected Kocharyan and then State Security Minister Serzh Sargsyan of masterminding the killings and mishandling the trial.

Amidst widespread accusations, Serzh Sargsyan and Robert Kocharyan initially found themselves in a vulnerable position. Vazgen Sargsyan's followers in both the Defense Ministry and the "Yerkrapah" held Serzh Sargsyan and Robert Kocharyan partly responsible for the tragedy. They particularly demanded the State Security Minister Serzh Sargsyan's resignation (Sanjian 1999). But Kocharyan and Sargsyan were not the only ones at risk; the Armenian National Assembly was in disarray. The National Assembly significantly weakened by the assassinations and without a strong Parliamentary Speaker, was no longer able to assume the role of a powerful political counter-balance to the president (Petrosian 2005). The governmental elite that could oppose and block the political domination of the new president was now demolished. "Miasnutyun" was unlikely to survive the death of its leaders; with Sargsyan and Demirchyan dead, no other party member was powerful enough or had the political vision to maintain the coalition. For the next few months, Kocharyan neutralized a few of his opponents, by appointing them to high positions, many of who he later dismissed.<sup>196</sup>

After the death of the most powerful military person, Vazgen Sargsyan, who could have potentially challenged the new president's power, Kocharyan's next mission became the formation of a new coalition, a new political team. The emphasis of the coalition was the establishment of a strong military team, a team that could protect Kocharyan in case of

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<sup>196</sup> For example, the assassinated Prime Minister's brother Aram Sargsyan was appointed Prime Minister. But Aram Sargasyan was dismissed by Kocharyan in May 2000, less than a year after the appointment, due to "inability to work" with Sargsyan's cabinet.

potential opposition and challenge to his power. In 2000, he made new appointments for Defense Deputy Ministers (Manvel Grigoryan, Gagik Melkonyan, Yuri Khachaturov, Arthur Aghabekyan, Michael Grigoryan). In May of the same year, in violation of the Constitution and bypassing the government, Defense Minister Vagharshak Harutyunyan was fired. President Kocharyan justified his decision by stating that “the Armenian army would have found itself on the verge of collapse if he [Harutyunyan] had stayed in office for another six months”. The president also claimed that Harutyunyan “was the only general of the Armenian army who did not spend a day at the front”, adding that he [Kocharyan] “immediately participated in the creation of the army and could not stay indifferent to that.”<sup>197</sup> The real reason behind the Defense Minister's dismissal was the fact that right after the tragedy of October 1999 (the Parliament attack), Harutyunyan had blocked all the roads to the city by his own initiative. Kocharyan publicly condemned the Minister, announcing that the latter didn't have the right to take any steps without discussing it with the President.<sup>198</sup> Harutyunyan, consequently, was replaced with a long-time strong supporter and war-time friend Serzh Sargsyan. Kocharyan quickly managed to attain his political power and leadership. By the summer of 2000, he fully recovered his strength as president and dismissed all his opponents from key posts.

The government became more authoritarian and politically exclusive, as the use of force to resolve economic and political issues gradually became a predominant propensity of the Armenian state leaders. Armenia's evolution into a totalitarian regime that started with Ter-Petrosian's resignation continued.<sup>199</sup> The country carried on its "slide into a semi-

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<sup>197</sup> For more details, please see the website [www.Karabakh.org](http://www.Karabakh.org), available online at <http://www.karabakh.org/news/analysis/azerbaijans-army-and-armenias-armed-forces/4/>.

<sup>198</sup> The Minister acted on his own due to the extreme situation. The chairmen of the legislative and executive branches were murdered, the whole National Assembly was occupied, and its members taken hostage by the terrorists. Supposedly, under these circumstances, the Minister made the right decision to block the roads to the capital city, assuming that this may be a large-scale terrorist attack against the country. There are also premises that Harutyunyan was not able to find Kocharyan urgently (Seyranyan2008).

<sup>199</sup> One may counter-argue here that according to my presentation, Vazgen Sargsyan was a powerful hardliner during the last few years of Ter-Petrosian's administration and he was instrumental in Ter-Petrosian's resignation and the demise of democratic norms in Armenia. However, I have further highlighted that Sargsyan, soon after Ter-Petrosian's resignation, realized the genuine value of Ter-Petrosian's arguments on the Karabakh conflict resolution and, reportedly, was gradually changing to a less nationalist leader. Whereas it is debatable whether Sargsyan would truly change to a more popular and less autocratic leader as Prime Minister, if not assassinated, it is unquestionable that his political presence, and moreover his changed attitude towards Kocharyan's policies, was the strongest impediment to the monopolization of politics by Kocharyan, widely considered to be the shrewdest hardliner of the "Karabakh Party". In this sense, I agree to Israelyan's

authoritarian state dominated by a powerful president" (Coalson and Tamrazian, 2009). Anna Israelyan, a well-known journalist who reports for RFE/RL Armenia, wrote: "After October 27, authority in Armenia became very monolithic, with a single center" (ibid). According to many, both in media and in political discourse, after this infamous episode president Kocharyan solidified his grip on power, and hopes for a more politically diverse atmosphere in the country became increasingly elusive.

Whatever the real motive behind the Parliament attack of 1999, it plunged the country into crisis. It was an unprecedented event for Armenia, which traumatized the small landlocked country and shocked the world. It created a situation fraught with uncertainty. Political leaders of great powers expressed their fears that the attack would undermine attempts to resolve the Karabakh dispute. Then US president Bill Clinton condemned the violence and stated that "Prime Minister Sarkisyan's death was a real blow to that country and that region" (Marsden 1999).

The event had a major impact on the neighboring countries' perception of Armenia's internal strength. It created an image of Armenia with frail and fragmented political elites. This was specifically true on the part of Azerbaijan. The deputy chairman of the Azeri Popular Front (APF), Ali Kerimov, stated that Armenia could not be trusted to fulfill any conditions that might be made in a settlement in Nagorno-Karabakh (Avagyan and Tadevosyan 2005). The head of the Azeri Parliament committee of foreign affairs, Rza Ibadov, declared the shooting was "not only a powerful blow to the image of Armenia, but also an obvious demonstration of the inter-party political crisis in Armenia. It seems that concrete political powers stand behind the acts of the terrorists" (ibid).

Besides creating huge shifts in Armenian local political scene and, perhaps, affecting Armenia's foreign affairs, the Parliament shooting negatively influenced Armenia's economy, specifically through a decrease in foreign investment. Ugurluyan (2001) states that the assassinations directly impacted the foreign investment level in Armenia, which dropped 92.2% from 1998 to 1999. "October 27 events adversely impacted the situation in the country

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observation that Sargsyan's assassination was critical in the establishment of a "monolithic political atmosphere" and the expansion of political exclusion in the republic.

in all aspects and spheres and its consequences will be felt for long, in economic, political and social expressions" (Human Rights and Human Development Action for Progress: Armenia 2000:15). It predicted a further decline in human development (ibid).

Iskandaryan and Cheterian (2008) contend that the Parliament massacre and Kocharyan's capacity to outmaneuver his rivals led to the formation of a pyramid of power in Armenia, on top of which stood the president. "All competing political forces were eliminated, marginalized, or co-opted, creating the conditions for a pyramidal political system" (Iskandaryan and Cheterian 2008). Yet, while Kocharyan was a strong ruler, he lacked a popular base in Armenia. It made him rely even more on authoritarian methods, suppressing the media and falsifying elections (ibid).

#### **7.4.5. Post-electoral Violence of March 1, 2008**

Since 2000, state coercion has been particularly harsh against people at times of elections in Armenia. The political atmosphere during elections, specifically in the 2003 and 2008 presidential elections, was marred with intimidation. In 2003, Kocharyan was reelected in an election that was acknowledged to be fraudulent by OSCE and international observers (OSCE/ODHIR 2003). The 2003 presidential elections occurred through two rounds. Since no candidate received a majority of votes in the first round of the elections held on February 19, a second round was held on March 5<sup>200</sup>. After the first round, the opposition expressed its discontent by organizing large rallies in Yerevan. Police detained demonstrators and opposition supports on February 22. Reports prepared by OSCE and Human Rights Watch state that more than 200 people were detained and many were sentenced to 15 days of administrative detention in efforts to ruin the opposition before the second round of elections to be held in March (OSCE/ODHIR 2003; Human Rights Watch 2003). In March, according to official results, Kocharyan defeated the main opposition candidate Stepan Demirchyan with about 67% of the electoral vote.

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<sup>200</sup> During the first round of elections, incumbent President Robert Kocharyan received a little less than 50% of the vote, not being able to defeat main opposition candidate Stepan Demirchyan, assassinated Karen Demirchyan's son.

The Armenian government continued to use excessive force against disgruntled people in April of 2004, when Armenia's political opposition and civil society united in mass peaceful protests. People, led by major opposition forces, demanded Kocharyan's resignation. The cycle of state repression was repeated through violent dispersion of peaceful demonstrators, arrests, journalist attacks, raids of political party offices, and restriction of travel from regions to the capital city in order to prevent people from participating in demonstrations.

After Kocharyan's reelection as president in 2003, the Armenian Republican Party – the main government-supported political party – consolidated its grip on Parliament. Oppositional representation became very limited in the National Assembly. Therefore, the political environment was void of political diversity in the eve of 2008 presidential elections. President Kocharyan was serving his second and last term as President, and it was apparent that Prime Minister Serzh Sargsyan would become Kocharyan's heir to presidency in the 2008 presidential elections.

The political apathy was broken on September 21 of 2007 by Ter-Petrosian, who in his first public speech since his resignation fiercely denounced Kocharyan and criticized his administration for the existing corruption, human rights violations, criminality and plutocracy (RFE/RL, September 2007). Later in October, Ter-Petrosian publicly announced his intention to run for the presidency and lead the opposition in the forthcoming elections. Armenia's former president's speech increased hopes of replacing the current regime in the upcoming presidential elections. Yet the incumbent government once again was facing the issue of maintaining power at all costs. Ter-Petrosian's intentions to lead the opposition in the wake of elections leveraged the government to take exceptional steps against oppositional challenges. The state elites' apprehension was particularly expressed by the fact that the pro-government media, including all TV channels, were profoundly skewed in Sargsyan's favor before elections. They sharply criticized the opposition and its leader (RFE/RL 2007; PACE 2008; Arminfo 2008).

Sargsyan and Ter-Petrosian were the main presidential candidates among nine candidates during the February 19, 2008 elections. According to official tallies, Prime

Minister Sargsyan won the elections and his main challenger Ter-Petrosian placed second. On February 20, the Central Election Commission declared Prime Minister Serzh Sargsyan the winner of the elections with 52.8% of the vote. Based on official results, Levon Ter-Petrosian won 21.5%. Immediately after the elections, OSCE, Human Rights Watch, and other international observers criticized the 2008 Armenian presidential elections as non-democratic and documented several cases of voter intimidation, threatening, violation of the right to secret ballot, ballot stuffing, and violent attacks of opposition party activists (OSCE 2008; Human Rights Watch 2008). A majority of Armenian citizens also condemned the elections as unfair.

The election results were particularly strongly disputed by supporters of Ter-Petrosian. Thousands of citizens contending Sargsyan's victory as fraudulent organized 10 days of continuous peaceful protests in Yerevan's Freedom Square after the election. Daily rallies were held in the streets of Yerevan. Hundreds of protestors camped out overnight in tents in the Freedom square. On March 1, 2008, this peaceful mass mobilization ended in deadly clashes between government forces and demonstrators. Early in the morning, the police attacked people, who were sleeping in their tents on Freedom Square in central Yerevan and dispersed the demonstrators chasing them for several kilometers (Human Rights Watch, 2008). Ter-Petrosian was forcefully taken to his residence and put under house arrest (RFE/RL 2008; Nazaryan 2011). Ten people died, more than a hundred were injured, and several dozen were arrested as political prisoners (Human Rights Watch, February 25, 2009; Fuller and Giragosian, April 26, 2011). Police charged those who were arrested with violent attempts of government overthrow, mass disorder, police resistance, and other criminal offenses. The opposition – in reality extremely organized and peaceful – was blamed for creating disorder, political turmoil and instability in the country. The recurring cycle of Armenian people demanding their right to equal law and fair voting resulted in an imposition of a 20-day state of emergency, including a complete ban on public rallies, by the Armenian government (Human Rights Watch, February 25, 2009; Tavernise 2008).

According to the President's decree, the media were forbidden to use any other source of information on the internal affairs of Armenia beside the official ones (Message of Armenian President Robert Kocharyan to the People of Armenia, March 1, 2008). In the

aftermath of protest crackdown, many newspapers, several radio stations, and most online news were banned. Foreign broadcasters' reports on Armenia were shut down along with other local mass media (Yerevan Press Club, 2009). National Security Service officials censored newspaper contents and banned their publication when those were in favor of the opposition (ibid). The Armenian government also banned the Armenian-language broadcasts of Radio Free Europe/Radio Liberty. In a March 7 editorial titled "Dark Days in Armenia," the *New York Times* called on President George W. Bush, along with European leaders, to "make clear to Armenia's government that such behavior is unacceptable and will jeopardize future relations" (*NY Times* 2008). "A clear signal of disapproval is needed in order to halt what the editorial described as a "slide into authoritarianism" by CIS states" (*EurasiaNet* 2008).

Nazaryan (2011) comments that although the purpose of the state of emergency was declared to "promote national reconciliation" (Kocharyan, 2008), the Armenian people lacked information about how many people had been killed and injured, or who was arrested and why (Human Rights Watch, 2008). Citizens' attempts to organize protests in other cities and towns of Armenia were contained by local authorities in spite of the fact that the state of emergency was declared only for the capital city, Yerevan.

After the state of emergency was declared, regular army troops were charged with maintaining public order in the country. The Armenian military deployed its troops in the city center. Addressing the Armenian nation, the Chief of the Armed Forces Seyran Ohanyan cautioned that any attempts of rallies by people will be "strictly" countered. "I would like to warn all citizens that any attempt to organize or participate in events prohibited under the state of emergency would be adequately and strictly countered by the Armed Forces of the Republic of Armenia. ... In particular, I am asking you to refrain from attempting to assemble in Yerevan even in small groups" (*ArmTown* 2008; *Horizon Weekly* 2008). Accordingly, the army would intervene at the "slightest" sign of such attempts, consequently making the Armenian army politicized and the Armenian state militarized.

In contrast to Ohanyan's announcement that the army would intervene in case of social mobilization, the Defense Minister Mikhail Harutyunyan had announced days earlier:

“No one will involve the army in political processes!” (Panarmenian.net, 2008)<sup>201</sup> On February 23, four days after the presidential elections and a few days before the armed forces restrained protesting citizens, Harutyunyan said: “All Deputies to the Defense Minister are performing their duties. The army doesn’t deal with politics. We obey the orders of the Supreme Commander.” In the same speech, however, the Minister announced that the army and military leaders do not support Levon Ter-Petrossian and added that “the dreams of the opposition will never come true” (ibid)<sup>202</sup>.

Reporters and analysts conclude that the post-election process of 2008, specifically the violent repression of demonstrators, the use of not only police but also the army, and the declaration of a state of emergency, became a turning point for the delay of Armenia’s future democratization. Using the military in internal affairs is banned by the Armenian Constitution (Article 8.2; Article 55, part 13). Article 8.2 stipulates: “The armed forces of the Republic of Armenia shall ensure security, defense and territorial integrity of the Republic of Armenia, as well as inviolability of its borders. The armed forces shall maintain neutrality in political matters and remain under civilian control.”<sup>203</sup>

Furthermore, part 13 of the Article 55 of the Constitution states: “In the event of an armed attack against the Republic, an imminent danger thereof or declaration of war, [the

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<sup>201</sup> In 1992-1994 Mikhail Harutyunyan has held different positions in the system of Armed Forces of the Republic of Armenia. Harutyunyan was one of the reliable figures in the government of Robert Kocharyan after the 1999 coup, having provided services to Robert Kocharyan and Serzh Sargsyan. In 2000, Mikhail Harutyunyan, First Deputy of Defense Minister, Chief of General Staff of the RA Armed Forces temporarily fulfilled the duties of Defense Minister. In 2007 again, Serzh Sargsyan assigned Harutyunyan as Defense Minister of RA. During the same time, Seyran Ohanyan was assigned the post of Chief of General Staff of the RA Armed Forces (Gabrielyan 2011).

According to Gabrielyan (2011), the positions occupied in the Defense Ministry helped Harutyunyan and his family members to illegally convert money into real estate and many businesses. The Harutyunyan family is a shareholder of “Rome”, “Cactus” and “Central” restaurants, the “Le Boheme” chain of cafes, the clothing shop “Storm”, and Austrian Airlines in Armenia. It is rumored that the former Minister has apartments in the center of Yerevan and Moscow, as well as private houses in Armenia.

<sup>202</sup> Ter-Petrossian and the opposition were not expecting either the Armed Forces or the Defense Ministry to support the opposition. However, they hoped that the Defense Ministry would not violate the Armenian Constitution and would not interfere with the peaceful demonstrations. But according to the Defense Minister's words, the Defense Ministry had a predisposition against the opposition. Harutyunyan's statement that “the army and the military leaders [did] not support Ter-Petrossian” displays the non-neutrality of the military leaders.

<sup>203</sup> For Article 8.2 and Article 55, part 13, please see the Armenian Constitution, available online at: <http://www.Parliament.am/Parliament.php?id=constitution&lang=eng>



President of the Republic] shall declare a martial law, may call for a general or partial mobilization and shall decide on the use of the armed forces. In case of use of the armed forces or declaration of martial law a special sitting of the National Assembly shall be convened by force of law. The law shall define the legal regime of martial law.” With this Article, the Armenian constitution contemplates that the President cannot announce martial law, unless an extreme military situation arises threatening the security of the nation. The mandatory conditions allowing for the implementation of armed forces were absent in the post-election oppositional mobilization in the Republic of Armenia. “So, the administration of the new military structure ... could not be justified by the formulation of “the assurance of constitutional duties of the RA armed forces”” (Gabrielyan 2011).

Ignoring the constitutional ban discussed above, the army was brought to the streets of Yerevan on March 1, 2008. The Defense Minister justified the decree of a state of emergency by the fact that it had been signed by the President, and that he was guided by the President’s decree. Reporters, therefore, claimed that “the Defense Minister superimposed the decrees of the President to the RA Constitution” (Gabrielyan 2011).

When confronted by reporters regarding the President’s decree on state of emergency and its unconstitutionality, the Armenian authorities also stressed the military threat from Azerbaijan and tried to justify the legality of President’s order by the Armenian-Azerbaijani border line tensions. According to Robert Kocharyan’s press secretary, Victor Soghomonyan, “the acts of the Defense Minister of Armenia should be viewed in the framework of security and territorial integrity, and should be considered in the context of real threats, which are present in 2008 January-February. The Azerbaijani armed forces contact line tensions and an aggressive performance in the internal political situation in Armenia, shows the readiness of Azerbaijan to find a military solution to Nagorno-Karabakh conflict”. This kind of reasoning of Armenian officials and the extensive participation of the military in post-election processes yet again confirm that after the Karabakh war the Armenian state has continued militarization tendencies in handling the inner politics of the country. State elites aggressively used the military during the 2008 February-March events in order to keep the regime in power at any price.

The international reaction towards the actions of the Armenian government was disparaging. Giorgi Gogia, a researcher at Human Rights Watch, commented regarding March 1 events in the following way: “The authorities’ response to the March 1 events has been one-sided. The fact that police were themselves under attack at times by no means excuses them for incidents when they used excessive force.” Human Rights Watch also states that there was evidence that “the use of force went outside the boundaries of legitimate policing” and urged Armenian government to prosecute those responsible (Human Rights Watch 2009).

There was a strong critique of Armenian authorities concerning harassment of the media. “We’re alarmed by this blatant attempt to censor news of the disputed election,” the Executive Director of Committee to Protect Journalists Joel Simon stated on March 2. “We call on Armenian authorities to withdraw the ban on independent news gathering and dissemination, and restore access to independent and opposition media” (Committee to Protect Journalists (CPJ) 2008). Three days later, the Broadcasting Board of Governors (BBG), which oversees all non-military U.S. international broadcasting joined the Committee to Protect Journalists’ criticism of socio-political exclusion in Armenia by a strong objection to blackout of independent media in Armenia. “Censorship and harassment of the media are the antithesis of democracy,” said James K. Glassman, Chairman of the BBG (Broadcasting Board of Governors 2008).

Another harsh criticism from the Council of Europe was related to Levon Ter-Petrossian’s house arrest and the restrictions on his freedom of movement. Terry Davis, the secretary general of the Council of Europe, indicated that “the limitations placed on the opposition leader constituted arbitrary action on the government’s part” (*EurasiaNet* 2008).

Many Diaspora Armenians also reacted negatively to what was happening in their historic homeland. On March 2, more than 10,000 supporters of Armenia’s opposition staged a protest in Hollywood’s Little Armenia district. Protestors condemned the Armenian authorities for corruption and unfairness in the country, for fraudulent elections and post-election violence against people. Through speeches and a petition, the protest urged the US to intervene in “establishing democracy” in Armenia (*Horizon Weekly* 2008).

As in the aftermath of the 1999 Parliament shootings, the two other South Caucasian countries, Georgia and Azerbaijan closely monitored official behavior in Armenia. Representatives of civil society from both countries expressed relentless criticism of March 1 repression. Georgia's oppositional parties assailed the Kocharyan administration for resorting to force and called on Armenian authority to stop violence against the Armenian people. "Murder of citizens during demonstrations, arrest of oppositional activists, introduction of the state of emergency and censor, using of military detachments, equipment and armament confirms that the government of Armenia tried to use violence not having exhausted resources for dialogue with the opposition, which doubted official results of the presidential elections," reads the statement released by the "Republican" party of Georgia (IDEE 2008).

Azerbaijan also condemned the outbreak of violence in Armenia. Azerbaijani President Aliyev attributed the March 1 aggression in Yerevan to "the ill-considered policies of the [Armenian] government" (EuraisaNet 2008). At the same time, according to some political observers, Azerbaijan tried to take advantage of the unrest in Armenia and used the political tensions inside Armenia to attack the Armenian border near Mardakert on March 4.<sup>204</sup> The clash between Armenian and Azerbaijani armed forces on March 4 caused several fatalities and was considered to be one of the worst after the ceasefire. According to the speculation that Azeris initiated the attack, Azerbaijani authorities, frustrated with Armenia over the seized territories during the war, tried to please Azeri population and "score public relations" (EuraisaNet 2008). Regarding the clashes, Foreign Minister of the Republic of Armenia Vartan Oskanian emphasized: "If someone in Baku hopes to gain psychological dividends, thinking that we are too concentrated on our internal affairs, he is deeply mistaken" (PanArmenian News 2008).<sup>205</sup>

While Armenia blamed Azerbaijan for initiating the attack, the Azerbaijani military accused the Armenian side of attacking Azeri positions in Karabakh's Mardakert district. The Azerbaijani officials linked the border clash with the post-election tensions in Armenia, stating that it was a clear provocation by Armenia and an attempt to divert the attention of

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<sup>204</sup> It is, however, strongly argued that Armenian side provoked the border clash.

<sup>205</sup> Another source wrote that Oskanian told reporters: "Perhaps they [Azeris] thought we had focused all of our attention on our internal situation, and that this could provide them with a psychological advantage, but this hasn't proved the case." (RFE/RL 2008)

their citizens from the domestic political tensions (RFE/RL 2008). Some Armenian historians and political analysts believe that in this case the Azerbaijani interpretation was closer to the truth.

Regardless of extensive local and international criticism, on March 17, 2008, the Armenian National Assembly passed amendments to the law on public assembly.<sup>206</sup> The “Law on amending and supplementing the Republic of Armenia law on conducting meetings, assemblies, rallies and demonstrations” was promulgated by the President of the Republic and entered into force on March 19, 2008<sup>207</sup>. The amendments, which severely restricted public gatherings, came into force just before the lifting of the state of emergency on March 21. More specifically, the amendments tightened provisions concerning spontaneous assemblies. They also limited the possibility for decisions on restricting assemblies, which deemed to pose a risk for public order, to be reviewed by an independent tribunal or court. Furthermore, a provision allowing for small events to develop spontaneously into bigger assemblies, which was considered a good practice example in the Law in its previous form, was repealed.

The Armenian government’s tactic to amend the Law on Conducting Meetings has been widely considered by political analysts and human rights activists to be another violation of human rights and political exclusion of Armenian people. “The Armenian government should allow peaceful demonstrations, not ban them,” announced Holly Cartner, Europe and Central Asia director of Human Rights Watch. “The new restrictions effectively punish peaceful demonstrators for the violence that took place on March 1” (Human Rights Watch, 2009).

The amendment was criticized by the Venice Commission of the Council of Europe and the OSCE. Both the Council of Europe’s Venice Commission and the OSCE’s Office for Democratic Institutions and Human Rights (ODIHR) raised serious concerns regarding the above-mentioned amendments. “On the basis of a preliminary assessment, the Venice

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<sup>206</sup> For details of the Law, please refer to the Armenian Legislation; *Law on Conducting Meetings, Assemblies, Rallies and Demonstrations of the Republic of Armenia*, available online at:

<http://legislationline.org/documents/action/popup/id/9046>

<sup>207</sup> For details of the amendments to the Law, please refer to the Armenian Legislation; Amendments to the Draft Law of April 2008 on amending and supplementing the law on conducting meetings, assemblies, rallies and demonstrations of the Republic of Armenia, available online at:

<http://legislationline.org/documents/action/popup/id/9038>

Commission and the OSCE/ODIHR Expert Panel on Freedom of Assembly do not consider the proposed amendments to be acceptable, to the extent that they restrict further the right of assembly in a significant fashion,” concluded Venice Commission of the Council of Europe and OSCE/ODHIR. Human Rights Watch also assessed the amendments incompatible with Armenia’s obligations to respect freedom of assembly under the European Convention on Human Rights, to which Armenia was a party (ECHR) (Human Rights Watch 2009).

Armenian government officials themselves have realized the unlawfulness of their acts, and as a justification to their actions they passed amendments to the “Law on Conducting Meetings” as a window dressing. The law provided government authorities with unfettered discretion to grant or deny permission to hold rallies.<sup>208</sup> “Any justified opinion” of the Interior Ministry or the National Security Service, even if subjective, could have been used to terminate an assembly or to justify a denial to assembly. Those are some of the reasons that prompted international reports to note that “the conduct of authorities in many cases supported the claim they did not adequately appreciate the importance of freedom of assembly or its utility in helping a country resolve its national problems” (US Department of State, 2011:39).

The March 1, 2008 events in Armenia were not only criticized as human rights’ abuses and basically, political exclusion of the Armenian people, but they were also condemned for the economic consequences they had on the Armenian nation. As a result of the March 1 crackdown of peaceful masses in Armenia, the Millennium Challenge funds, allocated by the US government to developing countries to establish democratic institutions, were cut for Armenia. The Millennium Challenge funds in the amount of 67million USD were frozen by the United States in Armenia. The Millennium Challenge Corporation explained the cuts with the slow pace of democratization in Yerevan, particularly highlighting the flawed presidential elections that ended with the government violently attacking peaceful protesters. In relation to political exclusion, US officials stated:

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<sup>208</sup> The law contained loopholes that allowed authorities to be free in denying or terminating a meeting or a rally. For instance, according to the law, an authorized body was required to consider the notification of a mass public event (over 100 persons) within 72 hours of receiving it, and the decision of the authorized body should be informed to the organizers of a meeting/rally immediately. But in reality, even if a decision is never made by the authorized body, the law forbids any assembly.

“Authorities used harassment and intrusive application of bureaucratic measures to intimidate and retaliate against government opponents. Police beat pretrial detainees and failed to provide due process in some cases. Courts remained subject to political pressure from the executive branch, with the selective prosecution of political opponents and absence of due process reflecting the judiciary’s lack of independence” (Kucera 2009).

Political exclusion of Armenian citizens extended from brutality used during the protest crackdown to a broader repression of opposition supporters, including repeated harassment and interrogations of opposition candidate supporters in Yerevan and other regions of the country (Human Rights Watch, April 2008). Meanwhile, the economic exclusion of Armenian citizens included tax audits of opposition-owned businesses and pro-opposition press, and firing opposition supporters and their family members from their jobs (ibid). The government of Armenia occasionally deployed government agencies, including the tax and customs services, against political opponents (US Department of State, March 2011). The government campaign of harassment against a Ter-Petrosian supporter, businessman Khachatur Sukiasyan, is an example documenting Armenian government’s retaliatory measures against pro-opposition businessmen.<sup>209</sup> There were previous harassment efforts against Sukiasyan for his support of Ter-Petrosian, but this was the first attempt by the government of Armenia to destroy or seize one of his business assets (Grigoryan, 2008; Wikileaks, April 07, 2008; A1+, November 6, 2008).<sup>210</sup> After the March events, the customs agency for several weeks was not releasing cigarettes imported by Pares Armenia, largely owned by Sukiasyan and his family. The customs agency claimed that the company did not pay the required payments, despite Pares’ insistence that it has made all the required payments (ibid).<sup>211</sup> According to the same source, as well as widely circulated in mass media,

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<sup>209</sup> More detailed evidence of the economic discrimination employed by the Armenian government against Khachatur Sukiasyan is presented in Chapter Seven, “Privatization and Social Exclusion”.

<sup>210</sup> Marianna Grigoryan, Shut Down for Standing up: Oppositionist’s Business Suffer “Political Vendetta”, *ArmeniaNow*, October 28, 2008, retrieved from: [http://armenianow.com/news/9218/shut\\_down\\_for\\_standing\\_up\\_oppositi](http://armenianow.com/news/9218/shut_down_for_standing_up_oppositi); *Armenian Customs Service Joins Crackdown on Opposition Oligarch*, Wikileaks, April 07, 2008, retrieved from [http://www.wikileaks.org/plusd/cables/08YEREVAN297\\_a.html](http://www.wikileaks.org/plusd/cables/08YEREVAN297_a.html); *Sukiasyan Declares that Their Assets Are Robbed*, A1+ News, November 6, 2008, retrieved from: <http://www.a1plus.am/en/politics/2008/11/6/7784>

<sup>211</sup> Pares Armenia, the official importer and distributor of Philip Morris brands of cigarettes in Armenia since 1998, was Armenia’s eighth-largest taxpayer in 2007, paying USD 22 million in customs duties and other taxes, according to State Tax Service statistics (Wikileaks, April 07, 2008). Pares claimed to have paid over USD 1.4 million for documentary stamps needed to clear three different shipments, none of which were released. On

the State Tax Service conducted unexpected tax inspections in many of the Sukiasyan-owned SIL Group businesses. Based on those inspections, the Director of SIL's Pizza Di Roma restaurant chain and the director of SIL's Bjni bottled water operation were jailed, two Pizza di Roma employees were arrested, and a cashier was charged, all on tax-evasion charges. In early March of 2008, Khachatur Sukiasyan was stripped of his parliamentary immunity. He and his two brothers were either arrested or had fled the country (*Wikileaks*, April 7, 2008).

Sukiasyan's case of political and economic oppression was not a rare incidence. According to OSCE (2008, October 9), there were several dozens of similar cases of political exclusion after the 2008 presidential elections. Among them OSCE included Sasun Mikayelyan (Member of Parliament, Mayor of Hrazdan), Hakob Hakobyan (Member of Parliament, President of a Civil-Political Organisation), Myasnik Malkhasyan (Vice President of the Yerkrpah Union), Aleksander Arzumanyan (Former Foreign Minister, Head of Levon Ter-Petrosyan's Electoral Staff), Suren Surenyan (ANM Party member, Proxy of Levon Ter-Petrosyan), Nikol Pashinyan (Editor in Chief of "Haykakan Zhamanak" daily newspaper, Founder of "Alternative" Civil Movement and the Leader of Impeachment political bloc). OSCE reported that those cases "were fabricated on the basis of contradicting and vague testimonies given solely by Police" (OSCE, 2008, October 9). The arrests and detention of these politicians were reportedly conducted with numerous violations.

Not only pro-opposition politicians and businessmen were under government radar, but also journalists, political activists, students, and blue-collar workers, who were identified for their support of the opposition candidate. A publicly-known example of government's retaliation and economic exclusion exercised against nonpartisan journalism was related to the case of independent Gala TV station (*ArmenPress*, November 2007; Human Rights Report, Armenia 2007). In November, 2007, by launching a massive inspection of Gala's accounting books, Armenian tax authorities allegedly discovered several financial breaches related to the TV station. The tax inspection occurred right after the TV station broadcast Ter-

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March 1, Customs denied the request for the stamps (despite having received a payment of USD 128,000 several days earlier), saying the length of the contract with the partner (Philip Morris) was not clear. Pares provided documentation of the contract on March 10, but Customs did not release the shipment, or explained the reason for holding up any of the shipments (*ibid*).

Petrosian's speech, in which he harshly criticized the Armenian state leaders (*ArmenPress*, November 2007). The TV station was forced off the air, after the tax authorities froze its assets and bank accounts over allegedly unpaid taxes (RFE/RL, April 9, 2010).

In December, tax inspectors confiscated thousands of leaflets ordered by the "Alternative" opposition movement, announcing an opposition rally. An "Alternative" member, Artak Arakelyan, was taken into custody and fined 50USD on grounds that he had no document certifying the origins of the fliers (Human Rights Report, Armenia 2007). The State Tax Service also inspected the accounting books of the printing company that had printed the leaflets and briefly detained one of its employees (*ibid*). The same month, the office of the opposition newspaper "*Chorrord Ishkhanutyun*" was exploded; the office with its furniture was largely damaged, but there were no employees injured, as the explosion occurred before working hours. People linked the explosion to the newspaper's critical coverage of the government. The examples of tax inspection and customs service activities against pro-opposition citizens were ample in the press, given that the Kocharyan's administration and the newly elected government of Sargsyan used those agencies to intimidate resistance not only after, but also prior to the elections.

The examination of the political events preceding and following the March 1 demonstrations and killings of peacefully protesting citizens in Armenia, as well as the political discourse about the 20 days of the proclaimed state of emergency heavily support the hypothesis of post-war state militarization. The employment of martial forces against people and state of emergency launched by Kocharyan and Sargsyan administration was a typical means of political exclusion. It contained most of the elements described in the definition of political exclusion, such as political arrests, restrictions on freedom of assembly, limitation of freedom of speech, ban of civil liberties, and other human rights violations. All of the above discussed fundamentals constitute the non-classical form of state militarization, when in the absence of war, former and/or current military representatives (in this case, field commanders turned into politicians) influence the state of political affairs in a country.



## 7.5 Conclusion

This chapter was devoted to the analysis of war, nationalism, and state militarization and their relation to social exclusion in post-Soviet Armenia. It argued that because of the state militarization after the Karabakh war the role of vital institutions that could increase political opposition's reinforcement, including its access to decision-making and leadership, was undermined. Armenian state elites, coercive and extremely nationalist, hindered the evolution of participatory institutions, institutional norms and informal structures that could tackle social exclusion and overcome deficiencies of private markets and social services. The lack of free and fair elections, party competition, independent judiciary and legislation, which are important structures for fostering social inclusion, has continuously reproduced social exclusion in post-Soviet Armenia.

The chapter suggests that if nationalism and militarization were reinstated by a more pragmatic ideology within Armenian communities, Armenian state elites could more effectively evaluate national discourses/policies that would not perpetuate violence and that would alleviate societal problems. The primary goal of the chapter is to demonstrate that after the resignation of Levon Ter-Petrossian, the method of maintaining the "status-quo" on the resolution of Karabakh has been beneficial to state elites in preserving their own coercive power to solve "uncomfortable" domestic situations. Since the end of 1990s, the reinforcement of vibrant nationalist ideals among the nation by state elites has become the main channel to cultivate and nurture post-war state militarization. These nationalist-oriented tendencies allowed state elites to form elite coalitions or, on the contrary, when necessary, eliminate former allies in order to maintain opportunity hoarding and social closure, and thus, affect the expansion of social exclusion, particularly its political dimension, in the country. Summing up the evidence stemming from the war activities and the three post-war events described in this chapter, it is possible to draw the following conclusions.

The first important observation is that in Armenia, victory in war resulted in hardwired nationalism, a more uncompromising position on the Karabakh question, an increasingly more militarized and more exclusionary tendencies. The victory granted representatives of the armed forces with huge leverage in the political arena and in policy-

making. Karabakh's military success was hailed by Armenians as a rare and historic victory, and it gave war-related leaders heroic reputations and great influence in Armenia (de Waal 2004:256). "The conflict over the direction of post-war policy set a precedent for a military veto over political outcomes in Armenia" (Horowitz 2003:39). Consequently, "politics in uniform has emerged as an alternative avenue to power, offering a new source of political legitimacy for ambitious elements of the military as the traditional path to political power has become discredited by rampant corruption and feuding political elites" (Giragosyan 1999). These feuding elites, once in power, banned more reformist political leaders from politics and policy-making, as we saw in the case of Levon Ter-Petrossian's resignation. Many of the proclaimed war commanders developed siege mentalities, and were less tolerant to not only high-level political opposition, but also media criticism and civic political participation. Regulatory mechanisms against opposition have multiplied, financial pressure has increased, and non-conformist media have faced increasing persecution, culminating in the post-electoral opposition crackdown in March 2008. Post-war state militarization often provided cover for political repression, economic cronyism, and led to coup threats and greater electoral turmoil, which all are elements of social exclusion.

The people, on one hand, repeatedly mobilized against the state's mayhem and lawlessness, but, on the other hand, they have often given up their confrontation against the state, recollecting the potential danger (often fabricated) against their rival nation. People have sacrificed their challenges and grievances for the sake of a more important mission – to maintain national strength and power against the Azeri threat. In these circumstances, a most significant consequence of militarization of the Armenian state has been the prevention of the development of adequate political and economic institutions, such as an independent judiciary, a satisfactory security system, and a developed civil society with free and objective mass media. Because of the weakness and lack of those institutions, resulting from the state militarization, Armenia has continuously failed to function as a viable democracy to the extreme detriment of its citizens.

The Armenian victory defined the weakening of civilian authority and a reallocation of military and police power. In his interview, Grigoryan mentioned that he found victory in

war very important in the post-war militarization of the Armenian politics and economy.<sup>212</sup> According to Grigoryan, the victory politically strengthened the group of the volunteers who fought in the war and with them the military that had been already institutionally created in the Defense Ministry of Armenia. A lot of these volunteers became high-ranking officers in the Armenian military. This victorious Armenian military was politically very powerful. “That in itself was a problem in terms of distorting the country’s preferences, or not the country’s preferences as much as the system to match to the preferences of the military establishment because they were politically so powerful”(Grigoryan, 2010).<sup>213</sup> But what made it worse was that Armenia had no other way of rewarding the volunteers, no other way of rewarding the victorious Armenian military but to grant them certain economic rewards, certain economic and political levers, which strengthened them further. Grigoryan argues that this reward-granting to the warriors of Karabakh war introduced a sort of economic behavior that was not really reconcilable with the liberal economic reforms. “You have anti-trust laws, for example, which are absolutely essential for any market to function properly. But at the same time it is the Defense Ministry that has to control the imports of gasoline and sugar. It makes no sense. But that’s how it happened” (ibid).

The second and most essential observation revolves around the *national* versus the *nationalist* cause. In Armenia, Ter-Petrossian and his allies considered the Karabakh conflict to be a national cause, whereas Kocharyan and his associates looked at it as a nationalist cause. "In the first case, Karabakh is the problem of real people, living today, in the world of today. In the second case, the antagonist is the Armenian history, or one's memory of it" (Libaridian 1999:156). By supporting the national cause, Ter-Petrossian did not contend for a simple foreign policy change. Instead, he attempted to transform the images of Turkey and Azerbaijan in the public perceptions and national political discourse from vicious enemies to vital neighbors for the prosperity of Armenia. As Libaridian wisely underlined, “Ter-Petrossian could not see how Armenian or any other diplomacy could change the position of any other countries on territorial integrity and occupied territories” (Libaridian 1999:66). However, the key political elites of independent Armenia, led by Ter-Petrossian,

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<sup>212</sup> Interview with Arman Grigoryan conducted in Ann Arbor, Michigan, on March 24, 2010.

<sup>213</sup> The quote is from the author’s interview with Arman Grigoryan conducted in Ann Arbor, Michigan, on March 24, 2010.

were not capable of swaying public perceptions and feelings concerning the national cause – peace and economic development – because Ter-Petrossian and his supporters became victims of nationalism that was revived and nurtured by the "Party of Karabakh".

Whereas, in the background of the war circumstances, it was a significantly difficult task for the intellectual team of elites to promote the national cause, it turned out to be simple "elite manipulation" by the "Party of Karabakh", the nationalist core of elites, to advocate the nationalist cause. "To secure constituencies, political parties transformed resistance to change into respectable political agendas: "national ideology" provided a convenient cover for regressive politics" (Libaridian 1999:16)<sup>214</sup>. Consequently, real power in Armenia became basically wielded by the nationalist ideology, so much so that even people, who were not initially inclined towards nationalist ideas and practices, started to feel it necessary to support them.<sup>215</sup>

The chapter extensively analyzed the discrepancies between the "step-by-step" and "package" approaches to the Karabakh conflict solution with the aim to demonstrate that these differences became the prime excuse for elite fragmentation within the Armenian government. Political analysts stress that this "ideological split [between the intellectuals and the "Party of Karabakh"] was a source of great contention and was one of the key reasons for the stagnation, poverty, and isolation of post-Soviet Armenia" (Shanazaryan 2010:2).

Ter-Petrossian, as a supporter of the "step-by-step" approach, believed that Armenia could not become economically powerful without the resolution of the Karabakh conflict. It was essential for Armenia, a landlocked and blockaded country, to open its borders with

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<sup>214</sup> By "change", Libaridian (1999) refers to the nationalist/"no-concessions" approach accepted by Kocharyan and allies versus the non-traditional/peace-oriented approach to the Karabakh solution. By "change", I believe, he means the institutional evolution of the Republic of Armenia.

<sup>215</sup> Suny (1999) contends that at first the Armenian public was willing to support the "unorthodox positions" on the resolution of Karabakh advocated by Ter-Petrossian, but the Diaspora and some of the local traditional parties were wary if not hostile (Suny 1999:158). The latter were more effective in their efforts to breed nationalist feelings within the society.

It is worth mentioning here that the case of Karabakh strongly challenges the dominant discourse of nationalist studies, which argues that the shared ethno-religious, linguistic and cultural attributes of a homogeneous community unite its members so powerfully that no politically significant internal disagreements could arise. Accordingly, the irreconcilable differences among Armenian political leaders on the Karabakh issue are very puzzling, given that Armenians in Armenia, Karabakh, and Diaspora share ethno-religious attributes (Harutyunyan 2009:188).

Turkey and have railroads to Middle Eastern and European markets. Turkey, nonetheless, had always mentioned that it would continue its blockade until there is a settlement of the Karabakh conflict. Ter-Petrosian's judgment was based on the apprehension of the national interests of Armenia. A pragmatist like Ter-Petrosian realized that the achievement of international recognition for Nagorno-Karabakh or its attachment to Armenia was as good as impossible (Cornell 1999:127). As a pragmatic leader, he also feared that Azerbaijan's economic performance and military prowess would develop rapidly as soon as oil profits would start to grow, threatening Armenia's security even more. The former president stressed his concern about the non-resolution of the Karabakh conflict before resigning from the presidency in 1998 by stressing, "No matter who rules Armenia, he will fail to ensure normal economic development of the country as long as the Nagorno-Karabakh conflict remains unresolved. It will be impossible to solve the existing public and economic problems without solving the conflict. The closed borders with Azerbaijan and Turkey, no railway access to the environment leads to increasing transport expenses, reduces Armenian's export opportunities and loses interest in foreign investors to invest capital in our country" (Middle East Information Center, 2006). For Ter-Petrosian, Armenians won the battle not the war, and the international community would not tolerate the long-term status quo in Karabakh.

It is often argued that over time, the "step-by-step" approach has emerged as the optimal basis for solution. It was an optimal blueprint for peace settlement as it envisaged a potential for creating a balance between two fundamentally contradicting principles of international law, that is, self-determination and territorial integrity. Aghasi Yenokian, a political analyst, said in 2008: "History has shown that a package solution, as such, does not exist. Ten years have passed since Ter-Petrosian was removed from power. And throughout all these years, every initiative that emerged was based on a step-by-step principle. The "package" solution was impossible, be it from a political or a technical perspective." (RFE/RL 2008). It should be noted that current proposals to end the Karabakh conflict are remarkably similar to the 1997 peace plan, which Ter-Petrosian strongly advocated and which was rejected as "defeatist" by his political adversaries. "

The third observation of the chapter is that the progression of the nationalist cause is strongly related to the deepening of social exclusion in Armenia. As predicted by Ter-

Petrosian, the "maximalist" position taken by Ter-Petrosian's successor leaders, Kocharyan and Sargsyan, ignored the economic and social well-being of the Armenian people in Armenia, focusing mainly on the war victory and no concessions. After the resignation, the Karabakh conflict was politicized to the detriment of democratic reform. The country immediately started to move towards a political and human rights crisis, which culminated in the October terrorist attack of 1999. Since then, intimidation of political opposition, oppression of free and fair freedom of speech, fraudulent elections, human rights violations became frequent. Those and similar practices of political exclusion resulted in the violent breakdown of peaceful demonstrators in 2008. Post-war state militarization was then institutionalized.

Finally, the last observation, closely related to the second and third observations, is that the maintenance of the frozen conflict is considered to be geopolitically and economically harmful for Armenia. Diplomats and negotiators have concluded that Armenia's national safety, economic development and societal well-being is permanently threatened unless the Karabakh conflict is resolved. In an interview to RFE/RL, Caucasus expert de Waal describes the frozen conflict as a "suicide pact", where both sides hurt themselves and everyone suffers (de Waal 2013). The non-resolution of the conflict harms not only the two nations, but the security of the whole region.

Nonetheless, finding a solution is not an easy task. Thinking a way out of the Karabakh conflict requires a rethinking of conventional notions of nationalism (Libaridian 1999, 2004; Laitin and Suny 1999). A long-term solution of the problem lies not in the antagonism and separation of Armenian and Azeri people and states, which nationalists of both countries advocate, but in building links between those people. From this point of view, the increasing arms race between the two countries and militarization of both states is an unnecessary condition for the conflict resolution.<sup>216</sup>

Concluding this chapter, it is worth stating that the collective psyche of fear of the Armenian nation from its immediate neighbors, Turkey and Azerbaijan, allowed state elites

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<sup>216</sup> The increasing arms race in Armenia and Azerbaijan was discussed in Chapter 5, "*Social Movements and State Coercion in Comparative Perspective*".

to exploit the idea of a continual state of war even after war. As Libaridian writes, “this fear both justified and imagined – of the Turk, the Muslim, Pan-Turkism, pogroms, massacres, and a new genocide – has been exploited and manipulated to rationalize, even welcome, the lack of independence and absence of democracy in Armenia” (Libaridian 1991).

## CHAPTER 8

### Privatization and Social Exclusion

#### 8.1 Introduction

Armenia's secession from the USSR was accompanied with the Karabakh territorial dispute, followed by economic blockade, war with Azerbaijan, and state militarization. Amidst this political, military and economic instability, with just newly emerging institutions, without any serious control mechanisms to ensure quality implementation of reforms, Armenia discarded Soviet ideals and transitioned from a planned to a market economy.

This chapter provides a brief history of privatization in Armenia, particularly privatization of industries and services, with an emphasis on the inefficiencies of the process and how it triggered economic exclusion of particularly the low and middle classes of the society, which in its turn increased social marginalization and political polarization. The analysis of the overall social exclusion with its three dimensions, as presented in Figures 2.1 and 2.2, will be discussed through the discussion of 1) the failures of industrial privatization, such as rapid de-industrialization with increased unemployment, low salaries and poor benefits, unequal hiring and firing procedures by the private owners, and unfair voucher and tender auctions; 2) the social impact of major social services, such as the energy sector and telecommunications; 3) administrative barriers to foreign investment; and finally 4) the role of oligarchy in the monopolization of economic resources and domination of the policy-making outcomes.

The privatization process started unwisely early in Armenia since Armenia of that time had still quite weak institutions and could not enforce for all citizens a fair access to the privatized resources. The efforts invested into the militarization processes displaced the efforts to create or strengthen the institutions that could make the effects of privatization more equitable and inclusive. As a result, a hectic privatization process facilitated in a permissive atmosphere, lacking the vigilant eye of control institutions, allowed the creation of a few wealthy businessmen (oligarchs) instead of diffused ownership, and barriers to foreign investment. Above all, the privatization process with its new market relations negatively



influenced the capacity of labor unions' operations, and in general weakened the premises for collective civic action. The random complaints and scattered pressures from the public against the effects of privatization were unable to intimidate the emerged oligarchs from employing the new system for their own interests.

During the privatization period, Armenia failed to alter the role of the state from a direct participant to a regulator of economic activities. Therefore, the framework of economic activities has not been properly regulated, free competition was not ensured, and the interests of private owners without connections and power were not safeguarded. The insurance system, and mechanisms of private investments and pension funds were not well-established, and the process of privatization was not established on stock exchange mechanisms, as well as methods of attracting investments and capital through issuing new securities. In short, the state's regulative functions were not formed during the initial stages of privatization. The inability of government officials to create and enforce clear-cut laws and regulations in its turn encouraged the rise of corruption and inequitable deals during privatization transactions.

Privatization in itself is a process and as such, it cannot be blamed for its inefficiencies. The inefficiencies of privatization in the case of Armenia were rooted not only in the method of privatization, but more importantly, the lack of the government commitment to transparent rules of privatization implementation. Therefore, in order to find the flaws of privatization, I have considered the context in which this process was executed, as well as the agents who implemented this process. The state with its institutions, the culture and informal rules, the historic timeframe, the nature of civil society, and other exogenous factors, such as war with Azerbaijan in the case of Armenia, are all important factors that have had their certain impact on the nature of privatization Armenia carried out, and the latter's impact on social exclusion.<sup>217</sup> This stipulation makes one wonder whether it was reasonable to

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<sup>217</sup> The historic, economic and political context in which privatization was implemented in Armenia has been partially presented throughout this dissertation in different chapters. Some of the factors mentioned in the above paragraph have been discussed to some extent in the militarization chapter. Nonetheless, it is impossible to carry an exhaustive examination of all those factors within one chapter, particularly this chapter, as the aim of the chapter is not the examination of causes of efficient/inefficient privatization, but how privatization process affected the emergence of deprivation and inequality within large segments of the Armenian society. It is about the social consequences of inefficient privatization. A more comprehensive study of the state, formal and informal institutions, culture and history, as well as how they affect the good or bad implementation of privatization would be a useful topic for future research.

implement privatization as an economic development policy in post-Soviet Armenia without first restructuring the Armenian state with its institutions. The problem of employment, for example, is reflected in the fact that the process of economic restructuring, with privatization as its main aspect, could not commence without the mentioned restructuring.

The failure of the above-mentioned and other aspects of privatization negatively influenced overall social well-being and created social inequalities. As observed by UNDP experts in Armenia, “what had begun as an attempt to equalize the distribution of wealth ended with a concentration of wealth in a few hands, and this created the foundation for rising income inequality” (UNDP 2002:66). The new strata of the wealthy and a few oligarchs with tremendous economic power, who emerged as a result of privatization, began to close opportunities for others. Overall, it has been estimated that privatization had little if any efficiency, produced modest revenues and generated no social benefits in Armenia. It is true that periodically it generated double-digit GDP growth, providing for Armenia the title of a "Caucasian Tiger", but it failed to distribute this growth evenly for all layers of the population. Privatization, thus, served as an initial trigger for social exclusion, particularly the economic aspect of exclusion.

Armenian state formation coincided with the transition to a market economy in the country, and the shortcomings of the state formation strongly affected the failures of privatization.

When the state has to lead the society towards wide-ranging structural reforms, and when transformation of the accepted forms of property is unavoidable, the risk of deflection from the intended course of development is dangerously high. Naturally it begets hesitations about the rightness of the selected course of development. If the authority accepts the course of reforms simultaneously ignoring the Social factor, then it is convicted. ... In the case of Armenia it was fairly proved, when the reforms got a negative impression in the people's consciousness. The social basic principles didn't serve as a basis for the republic model. ... As a consequence, state formation became the privilege of a group of people, generating opposition of vast strata. (Darbinian 2001:1-2).

Privatization in Armenia has by and large led to a consolidation of control by incumbent managers, and a creation of a new wealthy class of oligarchs that are closely tied to government officials. The few individuals, who consolidated wealth in their hands, were particularly skilled at engaging in bribes and other forms of theft (Khachaturyan 2004:4).

This prototype of ownership acquisition and wealth concentration was similar to early experiences of some transition countries.

Mass privatization, specifically before the mid-2000s, was not characterized by diffused ownership (ownership either by workers or by large numbers of citizens), and it did not produce significant improvements in enterprise performance. Even when previous managers became new owners of a company or factory, the companies still did not register positive achievements. Relative to other CIS countries, where on average management ownership tends to support restructuring, it is puzzling that in Armenia it has not yielded positive consequences, at least not yet. The strategy of incumbent managers who became owners was typically focused on asset stripping.

The initial privatization of industries and factories through the voucher system, followed by an attempt to implement the privatization of the larger assets and enterprises through bids and tenders resulted in the creation of a small number of very rich private owners, and the majority of the population with few opportunities to have investment shares or to open up new companies. The industrial privatization was futile, because most of the privatized companies were unable to operate successfully in the new environment of the early 1990s. Almost all of these initial companies have disappeared with their assets divided between the ‘owners’ who had ‘purchased’ the vouchers.<sup>218</sup> Many of the assets were old and obsolete, while the rest were transferred into a few private hands. This type of privatization may be called an ‘underground’ privatization, where most of the transactions were not conducted transparently, where the real prices were vague, and where only a small number of people knew the precise distribution of assets and their worth. There is a popular perception of the employees of the transition period that this type of privatization was inequitable, generating unemployment and increases in poverty, vulnerability, deprivation and despair.

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<sup>218</sup> While in Armenia for dissertation research in the summer of 2012, I had several informal talks/interviews with middle-aged middle class Armenians regarding the voucher privatization. The stories of their personal experience revealed that their vouchers were not only sold by them, but also taken away by department managers and company owners through fraudulent schemes and illegal methods. The most surprising fact was that some of those men and women believed that they still had their investment shares in the companies they used to work for, even though some of the factories were long ago inactive, asset-stripped, raided and robbed, or/and sold to foreign investors. Furthermore, these individuals did not have any documentation or legal paperwork on the sale of their vouchers.

The net effects of privatization impacted specifically the poorer families living in the margins of subsistence. The standard of living declined for most Armenians by the increase of unemployment, decrease of social service provision and increase in the costs of insurance for such services. Health and education costs increased as well. Privatization undermined the role of social services, decreased community involvement and narrowed the vision of a good society and good life (Starr 1988:20).

Privatization in Armenia is often regarded as basically a political decision with little consideration given to the poverty and inequality impacts of privatizing state owned property and enterprises. Sharp falls in output and employment accompanied it. After the fall of the USSR, it was inevitable for Armenia, as one of former Soviet republics, to move to a market economy. Therefore, it becomes important not to just challenge the transition to a market economy and society, where power distributions inevitably change, but discuss alternative methods of privatization that could have had less ominous effects on social polarization and exclusion.

Manukyan, who was Prime Minister of Armenia in 1990-1991, stated that while he was supportive of shock therapy and privatization, he was against the methods through which privatization was accomplished in Armenia, particularly the voucher privatization.<sup>219</sup> He considers voucher privatization “idiotism” and declares that it provided the Armenian society with nothing except privation. Instead, Manukyan suggested that privatization could have resulted in more efficient outcomes if implemented based on the following principles: 1) distribute all assets into 3 categories (small, medium, and large enterprises); 2) for a small fee offer the small enterprises, such as cafés, hair salons, small industries and productions to their managers, who were practically their owners, instead of auctioning or publicly selling them. Previous managers would effectively operate them; 3) create cooperatives/cooperation from the medium-sized enterprises that were not of major industrial importance and then privatize them through public sale; and finally, 4) create large public corporations out of a

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<sup>219</sup>Vazgen Manukyan was the Prime Minister of Armenia in 1990-1991. From 1992 to 1993 Manukyan was acting Minister of Defense. After Armenia gained its independence in 1991, he was elected in the National Assembly three times and ran unsuccessfully for President of Armenia in 1996, 1998 and 2003. Vazgen Manukyan is the leader of National Democratic Union (NDU) political party. Currently Manukyan is the Chairman of the Public Council since 2008.

An interview with Mr. Manukyan was conducted by the author in Yerevan, Armenia on August 29, 2012.

couple dozen of large industrial units of major industrial significance the work and operation of which was impossible to restructure quickly without the existence of Soviet economic system, and postpone their privatization until the government could figure out reasonable methods to cooperate with international financial and industrial institutions.<sup>220</sup>

All of the politicians and researchers interviewed for this research concur that industrial privatization, starting from voucher privatization, had several pitfalls in Armenia, except former Prime Minister (1993-96) Bagratyan, during whose years voucher privatization was implemented. Bagratyan justifies voucher privatization saying that “Armenian voucher privatization was a true example of social democratic capitalism, when the government distributed enterprises to their employees through vouchers”. Whereas the former Prime Minister acknowledges that this method has been widely criticized, he is convinced that another privatization method would create a bigger concentration of wealth and resources. According to Bagratyan, the voucher privatization was incomplete, because the subsequent Prime Minister halted the voucher privatization in 1996. Particularly under President Kocharyan’s administration, when all the major industrial assets were privatized, the so-called “investment privatization” started. “Program-based privatization” was the main mechanism of this stage of privatization, which means that an enterprise was being sold to an entrepreneur or company based on promises and/or plans of investment. Retrospectively, it is obvious that “this was a bluff, as there were rare cases of business plans submitted to the government”. Moreover, the privatized enterprises did not achieve output goals of the investment promises.<sup>221</sup> The majority of investment privatization funds did not develop into viable financial intermediaries or key agents of corporate governance.<sup>222</sup>

The Armenian state struggled to find appropriate mechanisms and enforcement strength for successful privatization coordination and productive property management. There was little reinforcement of the economic freedom based on protection of private property. According to Darbinian, “the [Armenian] private property management yields to

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<sup>220</sup> The ideas of the paragraph derive from the author's interview with Vazgen Manukyan conducted on August 29, 2012.

<sup>221</sup> The quotes are from the author’s interview with Hrant Bagratyan conducted on August 20, 2012.

<sup>222</sup> The shortcomings of investment privatization are further discussed in the chapter, when I trace the development and barriers of foreign investment in the Republic of Armenia.

the Soviet model of the public property management by its efficiency”. Literature points to a couple of reasons for this: implementation of a free market economy with disregard for social welfare and assistance; failure to reassess the role of the state; and inability of the state to create real mechanisms and contractual certainty intended for ownership protection, particularly in the realm of legal institutions. (Darbinian 2000; Darbinian and Lalayan 2001; Ugurluyan 2001)

The reformation of the legal system was delayed and not properly carried out in Armenia. It was more or less achieved when the process of property redistribution was nearly finished. “Legal reforms lagged at least 4-5 years behind economic ones, as a result of which the legal framework for protection of private ownership was established only in 1998 and became effective in 1999, while privatization started from 1992” (Darbinian and Lalayan, 2001:5). Furthermore, Khachaturyan (2004) argues that in regard to privatization, the legal system has never been effective in Armenia, which stems from tensions between written laws versus legal enforcement. According to Khachaturyan (2004), Armenia transplanted relatively “good laws,” but its legal system is inefficient and lacks legal clarity. Also, the judiciary lacks expertise to deal with commercial cases. Another problem in the judicial system is related to the conflicting interpretations of substantial and procedural aspects of many laws. Subsequently, Khachaturyan suggests that "Armenia lacks the most basic infrastructure to have an efficiently functioning capital market and its capital market reform agenda should be critically reconsidered (Khachaturyan 2004:66). The shortcomings of the legal system are also reflected in the relationship of managers and shareholders of firms. As Coffee points out, "managers do not either contract with shareholders or pledge a reputational capital that they have carefully built up over years of service; rather, managers and shareholders are thrown together as legal strangers" (Coffee 1999).

While there certainly may be significant benefits from industrial privatization, in developing countries with weaker institutions there is the danger that business people exploit their power to access to public officials. The exploitation of power creates the opportunity for corruption, the “ugly stepchild of privatization” leading to public distrust of the democratic process (Hebdon 1995:2). At the start of privatization, Armenia had just obtained independence and, as a developing country, possessed weak institutions. With weak

institutions, the Armenian state could not protect social equity during privatization transactions. The industrial privatization provided government bureaucrats with ample opportunities for corruption and motivated the enhancement of corrupt networks due to the lack of market-supporting institutions.

Administrative and fiscal inefficiencies were inherent in many auctions and tenders held in Armenia during privatization. Tender officials, who typically were government officials, had a privileged status that allowed them to manipulate the results of the tender and favor a particular bidder in return to side transfers (bribes). In this situation not only revenue maximization of the company suffered, but also opportunities were closed for other bidders, who had fewer resources to offer to tender officials. In Armenia, similar to many other transition economies that have experienced a rapid privatization with vast and heterogeneous assets being privatized, this problem was particularly severe.

Gupta, Schiller and Ma (1999) mention several issues in assessing the social impact of privatization. Several of them, related to mainly the transformations of labor market resulting from privatization, are very important in assessing the impact of privatization on social exclusion in the case of Armenia. The first socially harmful effect of privatization was the downsizing of the workforce and therefore increasing unemployment rates. Privatization also had an adverse impact on salary levels and structure, working conditions, and employees' benefits. Private companies reduced not only employment and wage rates, but also pay supplements as compared to state-owned enterprises and internationally-funded organizations. The tendency of reduced employment and wages created by privatization, which was in stark contrast with Soviet-times overstuffed state-owned enterprises that used to pay excessive wages, were expected to be temporary. Over time, however, the Armenian privatized enterprises could not expand their activities or increase their efficiency, thus the adverse impact of privatization on employment and salary structure became a long-term problem.

Privatization may also affect consumer prices negatively, which happened in Armenia. Privatization was not accompanied by an improvement in productive and allocative efficiency, and the prices of goods and services produced by newly private companies

increased. At the same time there were nearly no subsidies arranged by the state in the context of privatization that could lead to lower prices of goods and services. In this context, consumer prices were high. These price increases had an adverse impact on living standards of vulnerable segments of the population.

According to Gupta, Schiller and Ma (1999) there is yet another issue related to the negative impact of privatization on consumer prices. It is the transition of public monopolies into private monopolies. There is a threat that a privatized enterprise might exploit consumers, and their welfare would not improve. This trend associated with private monopolies has been common in most of the former Soviet republics after their transition to capitalism. Armenia was not an exception. Armenian private monopolies pursued maximization of their profit through exploitation of a monopolistic position instead of through increased competitiveness. New monopolists and oligarchs created complications for competition and kept prices higher. Also, the new businesses typically did not deliver services in poor communities, as it was less profitable for them to do so. With the substitution of private goods for public goods, privatization endangered the availability of public goods to those who could not afford it.

While privatization effects in Armenia were strongly conditioned by other contingent factors, such as Armenia's heavy dependence on the Soviet economic system, the earthquake of 1988 that negatively affected industrial production, war and subsequent blockade, privatization in itself unambiguously increased income inequality with the transfer of state assets to private hands. Private owners, the majority of whom were sons of the local *nomenklatura* and new clan leaders, seized privatized assets and extended control over state and private institutions.<sup>223</sup> They enriched themselves with previously state-owned assets, contributing to dramatic changes in income distribution. It created a new channel of social

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<sup>223</sup>*Nomenklatura* (in Russian "номенклатура") used to be a set or class of people within the Soviet Union and other Eastern Bloc countries who held significant administrative positions in government, industry, agriculture, education and other key spheres of those countries. In other words, *nomenklatura* may be defined as a system of patronage to senior positions in the bureaucracy of the Soviet Union and some other Communist states, controlled by the leaders of the Communist Party. *Nomenklatura* positions were granted only with approval by the communist party of each country and they were basically granted within only the members of the Communist Party. This system of patronage provided party leaders a stranglehold on all important or rewarding jobs.



exclusion and inequality, that is, wage differentials between labor and owners. In this sense, Armenia was not an exception. An increasing wage difference between owners and employees is typically greater in the private than public sector; therefore privatization reinforced this differential in Armenia, too.

The accelerated privatization process in post-Soviet Armenia after the fall of the Soviet Union in 1991 allowed a small segment of society to monopolize most of the wealth and exclude most Armenians from access to it. As Keane and Prasad (2001:4) write, “it is well known that in most of the countries of Eastern Europe and the former Soviet Union making the shift from central planning to market economies, income inequality increased substantially during the first decade of transition.” Not all citizens of the former Soviet republic benefited equally from market reforms and transactions, as demonstrated by high levels of income and consumption inequality (see Table 8:1). Among 27 countries (including the United States) Armenia had the second highest income inequality (56) at the end of 1990s after Romania (61). By high levels of consumption inequality, Armenia (41) was the third after Uzbekistan (47) and Kyrgyz Republic (42).

**Table 8.1:** Gini Coefficients for Income and Consumption Inequality for Eastern European and CIS Countries in 1997

Country	Income Gini Coefficient	Consumption Gini Coefficient
Albania	43	29
<i>Armenia</i>	56	41
Azerbaijan	49	35
Belarus	25	26
Bosnia and Herzegovina	n/a	24
Bulgaria	43	26
Croatia	38	26
Czech Republic	34	25
Estonia	36	37
Georgia	51	36
Hungary	40	27
Kazakhstan	n/a	35
Kyrgyz Republic	45	42
Latvia	39	32
Lithuania	40	34

FYR Macedonia	43	34
Moldova	41	37
Poland	37	33
Romania	61	29
Russia	42	34
Slovak Republic	37	24
Slovenia	34	28
Tajikistan	n/a	31
Turkmenistan	n/a	40
Ukraine	42	33
Uzbekistan	n/a	47
<i>United States of America</i>	38	<i>n/a</i>

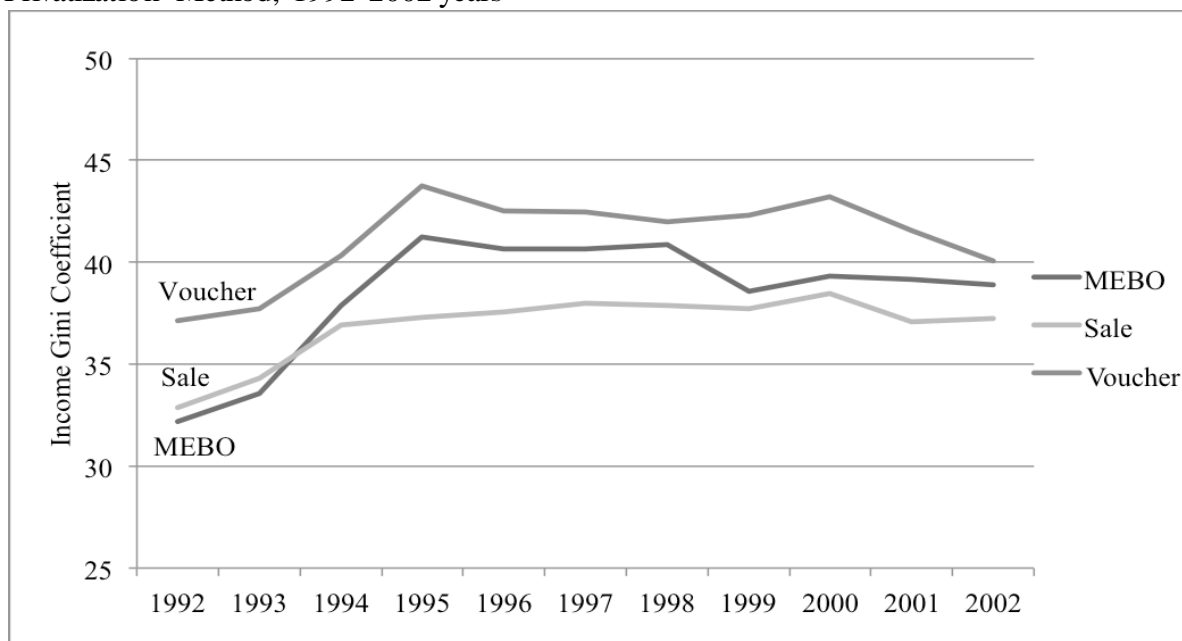
Sources: UNICEF IRC TransMONEE 2008 Database, UNU-WIDER WIID 2008, World Bank Development Indicators 2011.

Figure 8.1 and Figure 8.2 present average income and consumption Gini coefficient trends, categorized by the three main privatization methods (voucher, sale and management and employee buyout (MEBO)) from 1992 to 2002. Both income and consumption inequalities increased sharply during the period from the beginning of the 1990s until the mid-1990s. It should be noted that countries with voucher privatization had nearly always higher inequality levels both income and consumption wise. Armenia was one of the former Soviet countries that adopted voucher privatization as the main privatization method, therefore the high levels of income and consumption inequality observed for Armenia in Table 8.1 is predictable.<sup>224</sup>

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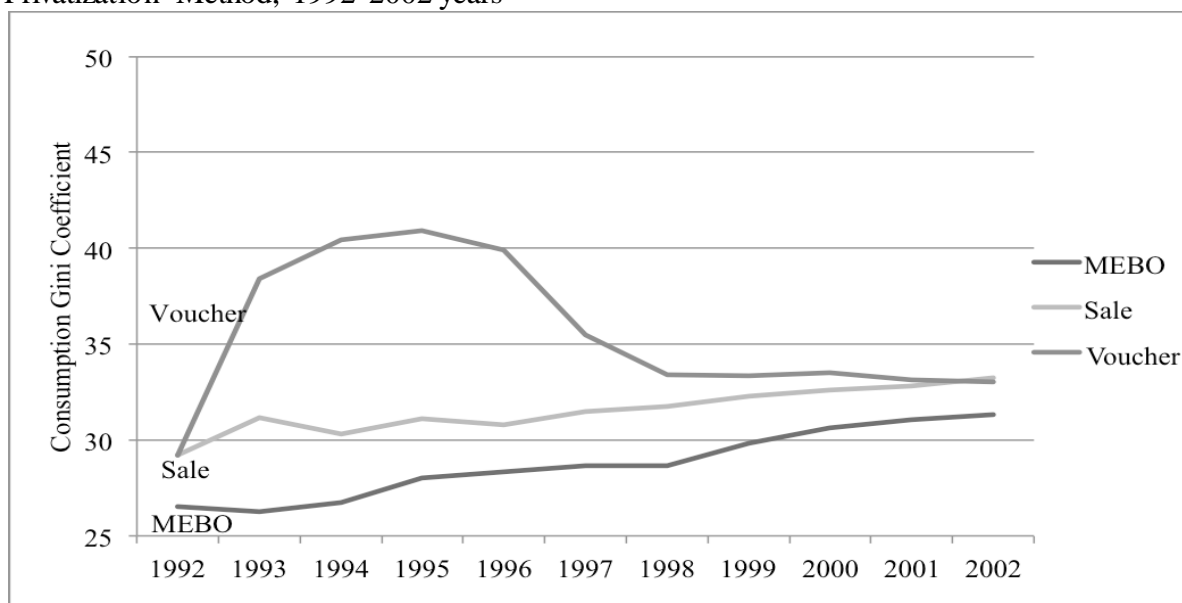
<sup>224</sup> More about the characteristics of the voucher privatization in Armenia will be detailed in the following sections of this chapter.

**Figure 8.1:** Income Inequality Trends for Eastern European and CIS Countries by Privatization Method, 1992-2002 years



Sources: EBRD 1999 Transition Report, Measuring Income Inequality Database 1996, UNICEF IRC TransMONEE 2008 Database, UNU-WIDER WIID 2008, World Bank Development Indicators 2011.

**Figure 8.2:** Consumption Inequality Trends for Eastern European and CIS Countries by Privatization Method, 1992-2002 years



Sources: EBRD 1999 Transition Report, Measuring Income Inequality Database 1996, UNICEF IRC TransMONEE 2008 Database, UNU-WIDER WIID 2008, World Bank Development Indicators 2011.

Income, wealth and consumption inequality, which were relatively new to Armenia, rose also due to the changes in capital markets and industrial labor force, more specifically the deindustrialization of the economy.<sup>225</sup> Deindustrialization increased social exclusion of middle and lower class Armenians and created economic struggles for their families. White collar and professional workers lost their jobs, and found themselves trapped, without the funds to improve their circumstances. Job cuts due to deindustrialization in Armenia led to long periods of unemployment, intermittent employment and increased underemployment. Deindustrialization created extremely low-paid employment of the poor in the informal sector and survival-level subsistence farming in the agricultural sector. Massive migration of thousands of industrial workers to Russia, USA, and European countries, where they could earn for their families, followed the unemployment of these workers.

The effects of deindustrialization transcended simply the loss of salary and purchasing power. The economic exclusion of unemployed Armenians further increased their social marginalization and political polarization, as the financial strain created stress, depression, family tensions, loss of networks and social cohesion. It produced reduced standards of living and a variety of social disruptions not only for the displaced workers and their families but also their communities.

Before independence, Armenia was a heavily industrial country. As of 1990, the country had a high level of urbanization. About one third of all employed population was employed in the production sector, while in Georgia this rate amounted to about 20% and in Azerbaijan to 17% (Nanyan 2011:197). Even after the earthquake of 1988 that seriously damaged light industry (with about a 40% decrease), by 1990, the share of industry in GDP was about 45%. This was still a good indicator relative to other Soviet republics that would soon become the Commonwealth of Independent States (CIS). However, with the deindustrialization of the economy, particularly since 2004, industry's share of GDP declined from about 45% in 1990 to less than 20% in 1998. In 2000, its share was a little over 22%.

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<sup>225</sup>The social costs of deindustrialization are wide and go beyond unemployment, poverty and consumption inequality. They manifest in a variety of ways. The deindustrialized communities wrestle with some core structural problems, such as declining populations, economic development, increased health and mental problems of their population, increased crime rates, suicide and domestic violence. These problems are exacerbated by the loss of social networks that come with deindustrialization. Hence, deindustrialization increased not only economic exclusion, but also overall social exclusion.

Both heavy and light industry had huge declines in production. The decline of these industries has hindered the process of labor-intensive growth. The impact of deindustrialization, as a result of the privatization process, on poverty was severe. By the end of the 1990s, different household surveys concluded that about half of the population in Armenia was poor.

Post-privatization medium and large-scale industrial enterprises in Armenia had low output and employment levels. At the same time new small-scale private enterprises have been operating leisurely. The deficiency of property rights restructuring was one of the main reasons for the lack of growth in industry and the persistence of poverty and economic inequality. The privatization process was not employment-intensive. It did not keep up with employment levels of Soviet epoch, as it did was not able to generate widespread full-time employment. The problem was even worse for the middle class and for the poor of the society. The poor had fewer opportunities to gain secure employment due to several reasons, among which was not only lack of training and education, but also lack of powerful networks and acquaintances. Hence, privatization policies were not designed so that the economy would not exclude the poor from employment. McKinley mentions that “medium and large-scale enterprises, which accounted for most of the country’s production, continued to “hoard” labor, i.e., to keep workers on their books even when they were not actually employed and earning wages” (McKinley 2002:75). The 1996 Labor Force Survey revealed that almost one-third of the employees registered as employed in a company were not employed or were on extended administrative leave (ibid). Official employment data however did not reflect the real deprivation of employees resulted from “labor hoarding”. The problem of economic exclusion became even worse, when in mid 1990s private industries laid off about 100,000 employees.

Privatization of once state-regulated companies and the frail growth of new small-scale private companies forced industrial labor to seek employment in the informal sector, the agricultural sector or to migrate abroad leaving their families alone for extended periods of time. While this was a common consequence of privatization in most post-Soviet republics, reports by Western experts reveal that Armenia’s level of unemployment, as well as income inequality was very high compared to other transition economics during the

transition to a market economy (UNDP 2002, World Bank 2002 & 2007). Throughout most of the 1990s, the percentage of unemployed people was above 20% (UNDP 2002). Besides unemployment, there was also extensive underemployment problem in Armenia. The number of people living below the poverty line, as well as the level of the Gini coefficient, increased between the 1990s and 2000s in Armenia. The country experienced a social deficit: lack of secure employment, low wages, and lack of healthcare and educational opportunities, which used to be universal during the Soviet times. There have not been many efforts to solve those problems because many of the social actors who had traditionally politicized such issues were not well positioned to do so during the period of structural reforms in Armenia.<sup>226</sup>

In a personal interview, Armen Darbinian, stressed the importance of distinguishing between the objective and subjective causes of privatization's unintended consequences for the emergence of widespread poverty and social injustice.<sup>227</sup> One of the objective causes of poverty and inequality in Armenia can be considered the collapse of the Soviet economic system. To understand Armenia's emergence as a market economy, it is important to highlight its Soviet legacy. For some of the small Soviet republics, such as Armenia, their economic growth was very much dependent on the interrelated Soviet economic system. With the breakdown of the Soviet economic system, the economy deteriorated and it worsened the living standards of the majority of the population in Armenia. Sarian (2006) observes that between 1960 and 1980, the economic profile of Armenia became that of a welfare state, which relied on the Soviet Union to sustain its economy. As a result, in 1989, 50.8% of the total volume of industrial production and 71.9% of industrial credits in Armenia were dependent on Soviet subsidies. The total volume of industrial production was 28% and the total volume of industrial credits was 59% for Estonia, 28.9% and 72.4% for Tajikistan, 28.4% and 48.2% for Moldova, and 31.4% and 66.9% for Georgia. The comparison of those figures shows the vulnerability of Armenia's industrial production and how badly the collapse of the Soviet Union impacted its economy (Sarian 2006).

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<sup>226</sup> Those actors were not well positioned to deal with these problems during the restructuring mainly due to war, blockade, and somewhat due to local political events.

<sup>227</sup> The interview with Darbinian was conducted in Yerevan, Armenia, September 3, 2011.

Another objective factor that Darbinian mentioned concerns human expectations. According to Darbinian, the collapse of the Soviet system was equal to a revolution. One of the characteristics of a revolution is that the people who carry on the revolution want their share. This was the case of Armenia. In his interview, Darbinian stressed the factor of human expectations out of the privatization process as a most important objective cause of poverty. People were used to receiving public goods and services through social welfare, and they continued to expect to receive social welfare without hard work and much effort.

While a sharp reduction in equality across transition economies has been viewed as a common part of transition, there are also subjective reasons affecting the inequality and exclusion in each transitioning country. As 90% of my interviewees agreed, in Armenia, the privatization process affected social exclusion through voucher and auction fraud, lack of information/education about the use of vouchers by wide sectors of the population, emergence of local oligarchy, the misuse of recently obtained industries and businesses by the new capitalists, corruption in the distribution of wealth, and tax avoidance by the very same people. Following is a brief summary of the interviewees' accounts regarding these six points and their effects on the exclusion of ordinary Armenians:

Voucher fraud: In Armenia, unlike some other post-socialist countries, vouchers were publicly tradable. This fostered a voucher market, which allowed citizens to sell their vouchers, and also made it easy for managers to buy vouchers that could be traded for shares in their own companies. Managers often acquired the funds to buy vouchers by illegally "privatizing" company funds. They continued to accumulate control after the voucher auctions were completed, by convincing or coercing employees to sell their shares. Moreover, the face value of the voucher was very low. The average citizen, after having received the voucher, decided that the voucher wasn't worth anything. Hence, most Armenians immediately sold their vouchers on the street for an extremely low cost.

Lack of information/education about the use of vouchers by wide sectors of the population: Vouchers were a new phenomenon in post-Soviet Armenia. With very small-scale to almost no awareness-raising action initiated by the government on this theme, ordinary citizens remained largely uninformed of the vouchers' value and access to them.

Emergence of local oligarchy: While only a small group of the Karabakh war participants later became the government, a few others who also stood out during the war and felt close to the former peers now running the country, informally served as the peripheral units or the support groups of the new government. They had more information about the reform discussions, felt privileged, exchanged favor services with one another, supported their friends in the implementation of reforms, and as a result, during the privatization they had more and, usually, not deserved access to the public resources. With this, they stole many other deserving citizens' access to the reform processes and the benefits emerging from those reforms. Local oligarchy was a by-product of the permissive environment with weak institutions, absence or lack of control mechanisms and absence of civil society throughout the implementation of one of the most serious reforms determining the future of the country.

Misuse of recently obtained industries and businesses by the new capitalists: Most of the new owners of the assets were not economists or managers, neither by education nor by experience. Facing the absence of the coordinated Soviet trade system where one republic served as a supplier, and the other a customer, they now had difficulties in treating these industries as a source of stable wealth. Therefore, instead of designing long-term strategic business plans and making the investments necessary to refresh the business to serve the new market demands, they set to generate as much cash as possible in the shortest period in the easiest ways. Most of them sold out the equipment; some started to employ their own keens, without complying with the rules of quality-based administration and merit-based employment; some started employing people without contracts and without fixed contractual agreements, earning more and paying less.

Corruption in the distribution of wealth: During the privatization reform of the larger industries, business merged with the government, allowing a lot of room for corrupt ways of decision-making. The business "sponsored" the government, and the government enforced laws which allowed unfair market competition and encouraged accumulation of growth in the hands of a few. Citizen groups remained without a right to consult and contribute into the wealth distribution processes. They operated as mere receptionists and passive users of the new welfare system.



Tax avoidance: Feeling privileged and enjoying friendly relationships with the new government, many oligarchs started new unlawful practices, among them avoiding paying tax, without being punished for that. This resulted in artificial reduction of state budget and created favorable climate for increasing the wealth distribution gap.

## **8.2 History of Privatization in Armenia**

During the early 1990s, like many post-Soviet Republics, the Republic of Armenia experienced economic stagnation and crisis. There was a huge drop in output, and all macroeconomic indicators worsened. Compared to 1989, GDP decreased by 60% in 1993. Consumer prices increased 110% in 1993 (Arakelyan 2005). Within this environment, the Armenian government, under the guidance and advice of Prime Minister economist Hrant Bagratyan, started its structural reforms, which included liberalization of prices, liberalization of trade and foreign exchange, and development of private markets.

Armenia adopted the Law of “Privatization of the State Enterprises and Incomplete Construction Sites” in August of 1992. The law aimed at the development of an efficient market economy in Armenia through a juridical basis for setting a private relationship towards basic production funds. This law and subsequent laws regarding the privatization process in the Armenia have been frequently amended with the verification and confirmation of Ministry of State Property Management of the Republic of Armenia, the government agency that was established in July 1999 to oversee and govern privatization.<sup>228</sup>

Two principal laws of privatization were enacted in 1996 and 1997, replacing the earlier privatization law. These laws have been amended later, but with little changes. The first one was the Law of the Republic of Armenia on Joint Stock Companies, (JSCL) adopted by the National Assembly in 1996. The JSCL of 1996 was revised in 2001 to reflect the changes introduced by the Civil Code and the Law “On Regulation of Securities Market”

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<sup>228</sup> For the most current information related to state property privatization and alienation of the liquidating companies, rental of property consigned with participation of commercial organizations, as well as other information related to state property management in the Republic of Armenia, see the official website of the Department of State Property Management by the Government of the RA: <http://www.privatization.am>.

(SMRL) adopted by the National Assembly in 2000.<sup>229</sup> The revised JSCL came into effect on December 6, 2001. Theoretically, this law defined the establishment and registration of privatized companies, stipulated the legal status of joint-stock companies, the procedure of their operation and termination, the rights and responsibilities of shareholders, as well as the protection of the rights and lawful interests of shareholders and creditors. Companies could decide on the amount of shares to issue, the value of each share, and the rights pertaining to each type of share that were stated on the share certificate. The joint stock companies could have been open or closed. Open companies were publicly-held companies that sold shares through a public offering and allowed shareholders to sell their shares. Closed companies could not have more than 25 shareholders who could sell shares only to members of the board and predetermined persons who had priority in acquiring the sold shares (Ugurlayan 2001:438).<sup>230</sup>

The second law, the Law of the Republic of Armenia on Privatization of State Property, enacted in 1997, regulated legal relationships concerning privatization of state property, including unfinished construction sites.<sup>231</sup> The government decided which type of privatization process (auction, tender, or direct sale) to use in privatizing a state property. In deciding whether to privatize a company or not, several criteria were taken into consideration, such as the financial condition of a company and the amount of investment needed. Foreign corporations were allowed to participate in the privatization process by bidding on enterprises through a tender offer. The government had a final decision in maintaining full or partial control of an enterprise. Employees of enterprises were provided with equal rights to purchase an enterprise that was being privatized, with preferential treatment granted to certain employees in the case of direct sales of privatized property.

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<sup>229</sup> See Law of the Republic of Armenia on Joint Stock Companies, available in the official website of the Government of RA, [http://www.parliament.am/law\\_docs/271001HO232eng.pdf?lang=eng](http://www.parliament.am/law_docs/271001HO232eng.pdf?lang=eng)

<sup>230</sup> Later, the law on state property privatization program for 1998-2000, stated that the Armenian government should shift closed joint stock companies in which state-owned shares comprised 50% of the authorized capital into open joint stock companies (“*Armenian Government Redistributes State-Owned Shares in Joint-Stock Companies*”, SNARK News AGENCY, Jan. 14, 2000)

<sup>231</sup> See Law of the Republic of Armenia on Privatization of State Property, available in the official website of the Government of RA, <http://www.parliament.am/legislation.php?sel=show&ID=1657&lang=eng>.

The privatization process in Armenia occurred through three stages: initial (1991-1994), large scale or mass (1994-1997), and finally cash or decelerated (1998-2001).<sup>232</sup> The process continues until today case by case. During the first stage, the Armenian government privatized 4% of the total small enterprises to the employees of these enterprises through direct sales at a nominal price. Around 1.6 Million USD, which was equal to 173.1 million rubles (the Soviet or Russian currency) was collected at the end of the first stage of the privatization. While there was a small effort to privatize small enterprises, the first stage of privatization in Armenia is primarily characterized by land privatization.

### **8.2.1. Land Privatization**

Armenia adopted a law on land privatization in 1990, becoming the first Soviet republic to privatize land. With the breakup of the collective and state farms in early 90s, Armenian farmland shifted from state ownership into the private sector at a faster rate than in any other Soviet republic since 1991. Within two years, by 1992, 63% of cultivated fields, 80% of orchards, and 91% of vineyards of the previously state and collective farms were privatized and belonged to family farmers. The result of land privatization was the creation of a small peasant farming system comprising about 335,000 family-owned farms with small areas of land. Farmers among Armenia's 35% rural population received a parcel of land that averaged about one hectare (2.5 acres) in size.

The international community has praised Armenia as one of the most thorough privatizers of land among the former Soviet Republics. The consequences of land privatization in Armenia were similar to land reform in China in 1950s. As a result of both reforms, many peasant households owned their piece of land for the first time ever. The Chinese land reform, however, was implemented in the context of a growing economy, while in Armenia land reform was implemented within an environment of war, depression, and structural changes.

Land privatization in Armenia was an outstandingly equitable process. Land was distributed to each family according to its size. The location of land that each family received

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<sup>232</sup>The next sections of this chapter discuss the three stages of the privatization process in Armenia more specifically.

was determined by lottery, making the allocation of land even fairer. Farmers had to pay for their newly acquired land, and the standard payment was equivalent of 70% of net farm profit for two years. This amount of payment was not considered much. These pieces of private land, although often difficult to cultivate for the new farmers without collective efforts and machinery that during Soviet times were provided by the state collectives (famously known as 'kolkhoz' in Russian), became very effective social safety nets in rural areas. They represented a significant value for the farmers, particularly when the state owned few resources to finance transfer payments to poor households and provide social welfare. This may be one of the reasons that there was basically no trade of land after land privatization. Contrary to industrial privatization in Armenia, during which virtually the majority of shareholders sold their vouchers, there was basically no buying or selling of land by farmers, because those pieces of land were the mere guarantee of subsistence for the new owners of land.

Through land privatization, the dominance of the private sector transferred from urban areas to rural areas. Whereas in 1990 the private sector accounted for 35% of agricultural output, land privatization increased it to about 98% (UNDP 2002). Land privatization prevented the increase of poverty. Compared to other sectors of the economy, land privatization definitely prevented a much wider prevalence of poverty, particularly in rural areas. In rural areas only those families were impoverished, who did not own land.<sup>233</sup> It is a popular view that land privatization played an important role in alleviating widespread hunger and poverty in 1991-1994 (Sury 1997:347-387 in Hovannisian). During an economic crisis, agriculture also became the "last employer" for most of the unemployed, particularly in the rural areas (ibid).

Whereas it is widely considered that Armenian land reform completed by the end of 1993 was fair and equitable, Vardanyan and Grigoryan (2007) mention that the effectiveness of land management and the development of land market activities were hindered by factors, such as insufficient legal framework to local conditions; economically not viable land parcels (land fragmentation); the absence of the privatized land titles; the absence of maps of

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<sup>233</sup> On a more detailed account of land privatization, see UNDP 2002 Report "Growth, Inequality and Poverty in Armenia".

property lines and ownership (cadastral maps); and the absence of the value of the obtained land, as well as price estimation principles.

### 8.2.2. Large Scale or Mass Privatization

Large scale or mass privatization in Armenia began in 1994. During the mass privatization period, a majority of firms were privatized. Mass privatization was mostly voucher-based in Armenia. According to EBRD's categorizations of privatization methods, as published in its 1999 Transition Report, voucher or mass privatization refers to privatization in which citizens are given or can inexpensively purchase vouchers that represent shares in a state-owned company.

Mass privatization was the first serious step to privatize medium and large scale state owned enterprises, when 240 such enterprises were converted to private ownership. Other 613 enterprises were privatized in 1996 and another 397 in 1997. 1996 and 1997 were the two peak years of mass privatization in Armenia. By 2001, a total of 1643 medium and large enterprises were privatized, and the state played a trivial role in the administration of industrial enterprises by the end of 2001 (McKinley 2002).

**Table 8.2:** Privatization of Small, Medium and Large Enterprises in Armenia, 1995-2001 (number of enterprises)

Year	Small Enterprises		Medium and Large Enterprises	
	Annual Number	Cumulative Number	Annual Number	Cumulative Number
1995	n.a.	1833	240	240
1996	2130	3963	613	853
1997	2058	6021	397	1250
1998	599	6620	210	1460
1999	186	6806	54	1514
2000	43	6849	40	1554
2001	78	6927	89	1643

Source: UNDP 2002 report, "Growth, Inequality and Poverty in Armenia".

In the early stages of privatization, mass privatization and MEBO (management and employee buyout), 20% of the value of state owned enterprises was distributed as free vouchers to the employees of the enterprises who had worked in them for at least one

year.<sup>234</sup> During this phase of the privatization, many enterprises were transformed into open or closed joint stock companies. First, they were sold to employees through a closed share subscription. After the closed share subscription, the enterprises that were not purchased by their employees were sold through open share subscription. As a result of the voucher distribution, about 127,000 employees ‘obtained’ ownership of their enterprises.<sup>235</sup>

According to Arakelian (2005), this was an unprecedented result among all former Soviet Union countries.<sup>236</sup> Each voucher had a nominal value of 10,000 Armenian drams (AMD), or approximately 25 US dollars (USD) in September of 1994, but it was raised to 20,000 drams or about 50 USD in March of 1995 to make up for the effects of inflation. While 50 USD was then quite a valuable amount, without investment funds or operating stock exchanges and appropriate market infrastructure, citizens did not find it reasonable to keep their certificates. They converted their certificates into cash by selling them in markets at about 12.5-40% of their nominal value.

According to international reports, by the end of the MEBO phase of privatization, about 60% that is about 6000 of all small enterprises were privatized, and there were around 150,000 shareholders in Armenia. This is a large sector of the population for a country with roughly 3 million population.<sup>237</sup> Based on this fact, one may argue that the mass privatization should have been economically favorable for the majority of the Armenian society. The problem, however, was that most of the shareholders had no elementary knowledge about joint stock companies, how to manage and conduct business with them. Not only were they clueless about the idea of shareholding and stocks, but also about their lawful rights. People sold their certificates not only because of the lack of information on how to use those certificates, but they also sold their certificates because of their dire living conditions and insufficient financial resources. Those, who could purchase vouchers, were the wealthy and well connected. Human Development Armenia Report 1997 estimated that only 7% of the

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<sup>234</sup> For more details on the distribution of vouchers, see World Bank, “Armenia: Growth Challenges and Government Policies”, Vol.II: Main Report, November 2001, p.32.

<sup>235</sup> Some sources, such as the UNDP 2002 report on Armenia, mention that 20% of the value of public enterprises was distributed to the population, other sources, such as Vazgen Arakelian (2005), state that according to the law, 30% of the enterprises was given to RA citizens.

<sup>236</sup> Later in this chapter there is a more detailed explanation of why this high rate of shareholders, which is considered a success, turned into a more concentrated ownership of enterprises.

<sup>237</sup> The number of shareholders ranges from about 127,000 to 150,000 people in different sources. In any case, this is considerably large number for Armenian population.

population participated in the privatization process as shareholders by the end of 1997 (Human Development Armenia Report 1997:36).

The voucher stage of industrial privatization in Armenia failed to create real businessmen and generate visible results in Armenia due to several reasons as observed by Arakelian (2005): 1) lack of knowledge and information on operating and managing joint stock companies; 2) frequent violation of shareholders' rights; 3) violation of rules of corporate governance; 4) non-transparency of activities of joint stock companies; and 5) inefficient performance of management tasks. Similarly, many cross-country studies on post privatization process in Central and Eastern Europe and former Soviet countries conclude that the worst performance was observed in the countries that implemented mass privatization, such as Russia and Armenia (Spicer et al., 2000; Sunita Kikeri and J. Nellis, 2002).

Mass privatization ended in 1998 without yielding the expected results. Also, it did not generate the predicted amount of revenues. While it was projected to collect revenues of 3.5 billion dram (\$700,000,000) by the end of the first stage of the industrial privatization, only \$700,000 to \$800,000 was generated by the state (Astourian 2000:14). These figures are important, because they show that privatization revenues were only one thousandth of the projected amount. Astourian argues that the huge disparity between the projected and actual revenues shows that majority of the privatized enterprises were sold for a few hundred dollars only.<sup>238</sup>

When the campaign for privatization was in full swing, the principle of “forward at all costs” acted. In some cases it caused such situations where the value of the enterprise under privatization looked in the least suspicious. For example, the Yerevan Auto factory was sold off for 11,541 vouchers (the market value of these at the time of privatization equalled 57,705 US dollars which corresponded to the average price of a 3 or 4-room apartment). The enterprise “Armelektroaparat”, producing mechanisms and accessories for

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<sup>238</sup> The example of the cheese factory privatization in Vardenis, Armenia serves as a piece of evidence for this speculation. With its buildings and machines, it was sold for \$400 (Astourian 2000:15). Whereas it is nearly impossible to find accurate data on the prices at which companies, plants and factories were sold, there are a few accounts that reflect the surprisingly low prices. One of those reports written by Russian economist Puzanov (1998) will be discussed later in this chapter.

industrial elevators, was privatized for 26,800 US dollars, the Yerevan furniture factory for 33,600 US dollars, the Tin Can factory for 10,600 US dollars (Puzanov 1998:237-238).

Practically no attention was paid to the availability of business-plans and the capacity of new owners to fund the modernization and restructuring of obtained enterprises. For example, in the case of the aforementioned Yerevan Auto factory the question of its reconstruction was not even on the agenda, since the new owners, just like the state, did not have sufficient finances for the company's modernization.

In the press, other more mysterious prices were quoted. For example, the Vardenis Sewing Factory and Cheese factory were sold off for 62 and 70 vouchers correspondingly, Ararat Greenhouses for 36, Dilijan factory of Mineral Water for 56 vouchers, Yeghegnadzor Sewing Factory for 46, the one in Echmiadzin for 51, Shahumyan Bird factory and Aragats Cheese Factory for 48 vouchers. It is important to note that although sold at a very cheap price, Vardenis Cheese Factory was a profitable firm, occupied a territory of 2.2 hectares, and had a 0.5 hectares platform of industrial and administrative sections and an auto park of 16 operational vehicles. This factory was not the only one that was fully operational among the inexpensively privatized enterprises.

Based on the 1997 "Human Development Report on Armenia" estimates, by the end of 1997, only 7% of the population participated in the privatization process as shareholders. Another source, the ministry of privatization in Armenia evaluated the number of shareholders of medium and large enterprises as of November 1998 to be 143,000 citizens, that is, about 4.5% of the population that received vouchers. Astourian (2000) suggests that the concentration of wealth was greater than these figures suggest. According to his sources (Markosian 85-86), 2.5% of shareholders controlled 60% of the shares of 713 companies privatized through open share subscription.

While enterprises were formally offered for public sale, the process through which the bidding was conducted was not truly accommodating and comfortably comprehensive for ordinary citizens, therefore, it was not truly oriented towards the benefit of the latter. The voucher certificate distribution thus produced an "illusion of social justice", because in reality



people lacked the appropriate knowledge, tools and regulations to make investments with their certificates (Arakelyan 2005:196).

Concerning voucher privatization, Paruyr Hayrikyan, the leader of the Union for National Self-Determination (UNSD) party and one of the founders and most active leaders of the democratic movement in the Soviet Union, mentioned that “the traditions of corporative philosophy and action were not only discouraged since the start of the industrial privatization in Armenia, but also were totally ignored”.<sup>239</sup> According to Hayrikyan, the idea of financial dividends, as portions of corporate profits paid out to stockholders, was absolutely lacking in Armenia. Businessmen who were major shareholders of joint stock companies were automatically becoming the owners of the companies, treating the rest of the shareholders like their servants. Hayrikyan also stressed that it was a widely popular practice for managers and directors of enterprises to often buy vouchers at extremely low prices from workers, telling the latter that in any case they would never get any profit from their vouchers. Hayrikyan said that when he addressed this issue to the government implementing the voucher privatization, then Prime Minister Hrant Bagratyan (1993-1996) replied that the problem would not exist if shareholders kept their own vouchers and did not sell them with minimal prices. Perhaps Bagratyan was right, but considering the transitional moment and the ignorance of most of the population on economic issues, a fundamental question arises: what type of informational training related to the use of vouchers had the government implemented for the society, who had just broken free from the centrally planned economy and a socialist system?

In general, 99% of the politicians and researchers interviewed for this dissertation agreed that the voucher privatization in Armenia occurred in an improper way and that the small shareholders' property rights were not protected from the beginning of the process. The latter were doomed to falling out of market competition too soon. “On the other hand, well-connected entrepreneurs became millionaires within a night without minimal business efforts. These people, unlike famous businessmen such as Rockefellers and Fords in the US who became wealthy based on their entrepreneurial talent and hard work of decades, did not

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<sup>239</sup>The quote is borrowed from the interview with Paruyr Hayrikyan conducted in Yerevan, Armenia, August 8, 2011.

work hard; they achieved wealth and power essentially by exploiting speculation in the privatization process. This was the case in many post-Soviet states, such as Russia, Azerbaijan and Armenia” (Hayrikyan 2011). Similar to Hayrikyan, many other politicians and economists I have talked to, while disinclined to contradict to the principles of free market society, believe that in the above-described situations the state has to be practical and flexible, especially if the people face extremely poor social conditions. They agreed that a government needs to intervene in the market whenever the market creates social exclusion.

Mass privatization was unsuccessful not only because of equality and impartiality issues, but also because of inefficiency. Whereas the privatization literature widely speculates that the shift from planned to market economy stimulates new managers to increase efficiency, in Armenia this premise did not work for many sectors of the newly privatized economy. As described earlier, after the massive voucher sale by workers, incumbent managers were able to consolidate company ownership very quickly. Through a survey of 145 large joint-stock companies in 1999, the Securities Market Inspectorate of RA found out that on average 2-3 largest shareholders held about 70% of company stock (World Bank 2002). But the new owners in Armenia were less supportive of restructuring compared to other CIS (Commonwealth of Independent States) countries. After privatizing a company, the Armenian managers primarily exported the existing equipment of the company, due to which the company stayed idle for most of the time. The export of equipment was a deliberate deindustrialization, and industrial productivity was a comparative advantage of Armenia after independence.

Three factors explain the weakness and/or unwillingness of the new management to restructure their companies. One reason was the lack of fair entry competition and thus insufficient management change. Another reason was the uncertainty and lack of market control in a geopolitically unstable country. Because of this factor, many company owners decided that it was more profitable to enrich themselves with profits of stripped company assets than invest their time, skills, and finances into a long-term strategy of restructuring the company. Finally, a third reason was simply the lack of information and management skills for an efficient restructuring. The World Bank Country Study "Growth Challenges and Government Policies in Armenia" (2002), in efforts to evaluate growth trends in Armenia for

the period of 1994-2000, after the mass privatization was over, identified three elements as critical constraints to sustainable economic growth in Armenia: “a poor business and investment environment, weak managerial skills, and uncertainty about the country’s economic and political prospects in an unstable region.” (World Bank 2002:VII)

The new private sector was unable to respond to the restructuring of property rights, and it became a major obstacle for the growth of industry, persistence of poverty, and vulnerability of small entrepreneurs. There has been registered growth in the service sector in the late 1990s but its growth did not have a big impact on growth and poverty reduction. Industrial sectors, such as power generation and food processing increased. Smaller, export-oriented sub-sectors, such as jewelry and computer software, were noted to be successful. None of these activities, however, were developed enough to compensate for the continuing decline of industry. The sector of *de novo* firms was too small to make a significant contribution to the economic development of small and medium entrepreneurship, and to affect overall poverty levels. The new companies have not been active, and they did not absorb excessive labor. Self-employment rates after mass privatization were also small in Armenia. This is a reflection of existing barriers for both new entry and factor reallocation. The World Bank (2002) estimated self-employment in Armenia to be at least three times lower than in leading economies in post-Soviet region.

The data obtained from National Statistical Service of the Republic of Armenia (NSS) shows the overall number of registered companies in Armenia for the years of 1994-2000 (see Table 8.3). In 2000, there were about 44,000 registered businesses in Armenia, that is, 14.5 businesses per 1,000 residents.<sup>240</sup> According to these numbers, privatization resulted in a rather decent level of entrepreneurship in Armenia. But according to the World Bank, these numbers provide a biased picture that overstates success. The majority of the registered firms did not operate based on business surveys conducted between 1996-2000 years. For example, surveys of small businesses conducted by the National Statistical Service (NSS) in 1997-98 showed that between 56% and 61% of participating businesses were not operating

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<sup>240</sup> The calculation is based on the official number of the population in Armenia, which is about 3 million. In reality, the population is even less than 3 million due to high rates of migration from Armenia. Thus, the number of registered businesses could have been even more per 1000 residents, if we considered not the official, but an approximate real number of the population of Armenia.

during the year of survey. The 1999 similar survey found out that this number increased to about 80%. From the registered 44,000 businesses in 2000 about only 30,000 operated. This means that there were less than 10 businesses per 1,000 residents. This number is small, compared to the numbers of small and medium enterprises (SME) in modern market economies for the same year, such as 37 registered SMEs per 1,000 residents in Germany, 45 in Slovenia, 74 in USA (World Bank 2002, page 42).

**Table 8.3:** Number of Registered Business Entities in Armenia, 1994-2000

Years	1994	1995	1996	1997	1998	1999	2000
Number of Registered Business Entities	5,089	21,238	29,836	37,687	41,241	43,327	44,164
Growth Rate, %		317	40	26	9	5	2

*Source:* National Statistical Service of the Republic of Armenia (NSS).

Business registration since 2000 has slowed even more in the republic. The number of registrations continued to decrease considerably in 1999-2000. The World Bank mentions that the low rate of small and medium business operation was accompanied with a high rate of business liquidation. In 2000, per each 3 new registrations, two companies were liquidated. This type of new private sector suggests that business transactions were governed by informality instead of legal regulations. Entrepreneurs, particularly small and medium ones, typically stayed in the informal sector because of shortcomings in the regulatory system and enforcement practices. Major challenging issues experienced by new businessmen included specifically tax administration arbitrary practices. Those entrepreneurs, who managed to stay in the formal sector, “pursued survival, defensive strategies. These were “forced entrepreneurs”, who had been waiting for an opportunity to return to their traditional occupation as hired labor. Such businesses had a rather limited development potential. (World Bank 2002:42).

Since 2000, the pace of business registrations did not accelerate. In fact, it slowed down dramatically. According to the World Bank Entrepreneurship and Survey Database,

there were 2,576 new businesses registered in the years of 1999-2003. Within the following four years, 2004-2008, the database indicates 2,523 new businesses.<sup>241</sup>

The privatization literature widely speculates that the shift from planned to market economy stimulates new managers to increase efficiency. In Armenia however, this premise did not work for many sectors of the newly privatized economy. After the massive voucher sale by workers, incumbent managers were able to consolidate company ownership very quickly. Through a survey of 145 large joint-stock companies in 1999, the Securities Market Inspectorate of RA found out that on average 2-3 largest shareholders held about 70% of company stock (World Bank 2002). But the new owners in Armenia were less supportive of restructuring compared to other CIS countries. After privatizing a company, the incumbent managers primarily exported the existing equipment of the company, due to which the company stayed idle for most of the time.

A survey of fifty representative privatized enterprises from seven different economic sectors, conducted in 1997 by the Center for Economic Policy Research and Analysis (CEPRA), aptly captured the impact of mass privatization in Armenia through the end of 1997. Related to CEPRA findings, it is worth quoting Astourian (2000:14) at length:

- About eight percent of enterprises were owned and controlled by their former directors, who automatically became executive directors and chairmen of the board of the newly privatized enterprises. Although experienced in manufacturing, they did not have sufficient knowledge in management and strategic thinking.
- The majority of surveyed enterprises were not being restructured. Among the reasons mentioned were the poorly developed institutional infrastructure and an unclearly formulated legal framework.
- Low liquidity and huge arrears of enterprises, caused by lack of markets and ignorance in marketing, was a large problem. The utilization of production capacity in the sample for large enterprises was less than ten percent, while it was 20-30 percent in small and medium enterprises.
- Downsizing by more than 40 percent and low salaries (the average salary was \$30 per month) were other major problems. There was a low level of accounting and auditing services. In many cases, tax records were the only available accounting documentation.

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<sup>241</sup> See World Bank Entrepreneurship and Survey Database: <http://data.worldbank.org/indicator/IC.BUS.NREG>

### 8.2.3. Decelerated and Case-by-Case Privatization

Since 1998, the privatization process slowed down in Armenia. The mass privatization was transitioning into monetary privatization. In 1999, 48 medium and large enterprises were privatized, producing about 8 million USD sales revenues and about 15 million USD of investment commitments. During the case-by-case privatization in Armenia, about 60 enterprises were privatized by foreign investors. Those enterprises included power-generating factories, diamond processing companies, food processing factories, breweries, as well as light industries. The case-by-case privatization was completed with the support and advice of international consultants. For instance, Merrill Lynch was a main contractor in the privatization of 14 key enterprises. Among those enterprises were the Armenian telecommunications monopoly, ArmenTel, Yerevan Konyak (Brandy) factory, and Hotels "Armenia" and "Ani". All those enterprises were sold to foreign investors and generated huge revenues and cash transactions.<sup>242</sup>

In this stage of the privatization process insufficient attention was paid to important issues, such as transparency and public relations (Arakelyan 2005). As in the previous stage of industrial privatization process, those discrepancies, whether intentional or unintentional, were the beginning of unequal access to assets and resources by the citizens of Armenia. Privatization transactions, therefore, chiefly affected the development of social exclusion of ordinary citizens by more powerful members, groups and networks of the society. The more powerful were those who were well-connected with state elites, former managers of enterprises, and of course, those who had more wealth accumulated during Soviet times.

According to Gevorgyan and Melikyan (2004:5), the privatization process, specifically the decelerated privatization, was characterized by the following conditions:

1. Absence of stock market financial intermediary (investment funds, investment companies, etc.);
2. Weakness of state institutions in charge of privatization;
3. Very low savings among the majority of the population;
4. Low interest in the process of privatization on the part of external investors;

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<sup>242</sup> These data are taken from Vazgen Arakelian, 2005.

5. Majority of companies at the time of privatization were non-functioning.

These conditions first of all suggest that there was very little competition, high concentration of ownership supported by low market prices of companies on sale. Companies were purchased mostly by former senior management, thus blocking opportunities for outsiders to bid. There was little participation on behalf of foreign investors. This was due to the fact that privatized companies were not well presented to potential foreign investors. All these circumstances created an environment leading to an ownership of most of the privatized enterprises by a small number of shareholders, mainly insiders.

While conventional wisdom suggests that ownership of a company by insiders may improve work incentives and company loyalty, and positively affects restructuring of the company, the experience of transitioning countries that went through insider privatization presents a different picture. In the case of post-Soviet Armenia, for example, insiders hailing from the planned economy of the Soviet times lacked necessary skills, information and knowledge, access to foreign markets, and technologies necessary for company restructuring and reorganization. This consequently led to poor privatization outcomes. Also, literature argues that the role of foreign ownership with better knowledge of market processes increases the opportunity for firms to have better performance in transition countries (Deardorff and Djankov, 2000; Havrylyshyn and McGettigan, 1999). Insignificant investment level from foreign investors was another reason for unsatisfactory consequences of decelerated privatization in Armenia.

During this stage of privatization the Republic of Armenia experienced major issues regarding the evaluation of the property that had to be privatized. The Armenian government greatly undervalued its industrial assets, 'failing' to come up with substantiated and applicable methods to define a proper price for the property that was being privatized. The undervaluation of industrial assets by the government during the third, decelerated, phase of the Armenian privatization was one of the avenues for economic exclusion, considering the fact that the insiders were given preference during the privatization. The new management (insiders of the privatized company) reserved the right to buy shares from outsiders at a price it dictated. The result was that chiefly insiders ended up buying the shares, and of course it

was the managers who had the money to buy the vast majority of those shares and who ended up benefiting from the auction.<sup>243</sup>The low price of companies supported and led to high concentration of the ownership by insiders.

Decelerated privatization practices in Armenia were not free of the “faults” typical of industrial privatization processes in other countries of CIS. For example, the status of privatization for a profitable enterprise, in comparison with similar but not profitable enterprises, assumed a higher privatization “value”. In order to avoid paying a high price for the profitable enterprise, usually the team of the enterprise, intending to buy it from the state, in an operative and conscious manner brought it down to a bankruptcy condition (Puzanov 1998).<sup>244</sup>

These and many other problems of privatization occurred because of a practical absence of a functioning state, as well as lack of public control over the privatization process (Puzanov 1998:238). Such practices became one of the reasons of privatized enterprises’ low efficiency: in 1996 only 30% of their overall number increased the scope of industry, about 40% stood paralyzed, and another 30% were close to bankruptcy. The value of companies after revaluation varied from 242,000 USD to 2.37 million USD, which, according to Puzanov(1998), is significantly lower from the international value for similar companies. As he mentions, the following enterprises were included among those under-valued companies:

- The chemical plant “Nairit” (produces rubber-technical products for automobile, oil, electro-technical, footwear, optical and medical industries);
- The “Polyvinil” plant with the capacity of 35,000 tons annual production (met up to 28% demand of polyvinyl and vinyl acetate of the entire USSR). By the end of 1990s, it was idle because of the lack of raw material;

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<sup>243</sup> A good example of enterprise undervaluation in Russia, where industrial privatization was conducted in a similar manner to Armenia’s industrial privatization, is provided by Paul Klebnikov, the author of *“Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia”*. Lebnikov reports that the price at which Gazprom was privatized in 1994 through the vouchers was \$250 million, which is 160 times less than the price the stock market would put on the company a mere three years later. Thus, it was less than 1 percent of the stockmarket value of the company. “That makes it one of the great robberies of the century.” (*The Multinational Monitor*, 2002)

<sup>244</sup>Examples of this problem, such as the sale of the Yerevan Auto Factory, the Vardenis Sewing factory, the Vardenis Cheese factory and other enterprises at surprisingly low prices, were reported earlier in this chapter.



- The former USSR Military Industrial Complex “Rubin” is extended in 100 buildings, occupying a territory of 77 hectares, nearby Yerevan. The plant's main product is artificial synthetic crystals (including products for the jewelry industry);
- The chemical Plant “Vanadzor” (produces acetate fiber, 95% of which is exported to England, to South Korea, Syria and Egypt);
- The Yerevan Cognac/Brandy Factory (annually produces 5mln bottles which comprises 55% of its capacity);
- The textile factory of “Gyumri” (cotton and linen);
- The footwear factory “Araks”;
- The electrolamp factory “Luys” (produces all types of light bulbs and chandeliers);
- The national telephone company “ArmenTel”;
- The enterprise “Mars” (built by British firms for production of complicated electrical devices; including integral microchips; before its privatization, about 200 million US dollars were invested in improvements, including systems of computer design).

### **8.3 Social Impact of Privatization of Energy Sector and Telecommunications**

There have been a few successful privatization deals of large companies that resulted in overall welfare of the population. They increased company employment rates, made social conditions of their employees better by raising salaries and offering good benefits. This was the case of the privatization of the cigarette industry in Armenia.<sup>245</sup> Moreover, the prices of the products produced by the company were reasonable and accessible to the majority of the population.<sup>246</sup> The privatization of tobacco production has been one of the rare instances of efficient privatization transactions, generating favorable conditions for their employees and making their product obtainable for many in the society.

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<sup>245</sup> Whereas there are no available data on pre-privatization and post-privatization salaries in tobacco producing companies in Armenia (even if they were available, a comparison would have been incompatible due to hyperinflation and change of currency), the estimates of salaries in the period of 1998-2001 show that the average salary in cigarette industry was higher than that of all other industries in Armenia. In the first half of 2001 the average salary amounted to an equivalent of 32,727 AMD monthly (an equivalent of 59.5 USD) in the industrial sector, and 59,000 AMD monthly (107.3 USD) in the cigarette industry. Also, the annual average salary growth in cigarette industry was higher than in other industrial sub-sectors. While the average salary in the industrial sector increased by 49%, in the cigarette industry it increased by 136% for the same period.

<sup>246</sup> The fact that smoking is bad to human health should be disregarded in this case, because the discussion here concerns not health side effects for the smoking part of the population, but the efficiency of the company based on the price of the product and on how available the company makes its product for an ordinary person, who consumes the specific product.

A good example of mismanagement and non-transparency in the privatization process has been the privatization of the energy sector in Armenia. In 1998 the Armenian Parliament passed a law to privatize the country's electricity supply network. This law allowed potential investors to buy minority stakes in four distribution networks – Yerevan, Central, Northern and Southern – which served around 750 000 users. The state retained control of the generation facilities. Following this development, the European Bank of Reconstruction and Development (EBRD) signed an agreement to purchase a 20% share in each of the networks pending participation from an international investor. Subsequent tenders were released for 75% stakes in 2 networks (Black and Veatch, 2002).

A total of fifteen foreign companies had initially applied for the tender. Later, some of the bidders decided that did not want compete. Others, including such world leaders as Electricite de France and the Swedish-Swiss Asea Brown Boveri, withdrew late in the game. By that time, this privatization project had become overly politicized in Armenia, and the government tinkered with the tender's terms in the endgame phase (Khachatryan 2001). Energy privatization encountered political difficulties almost from the start: first it was slowed by the campaign leading up to Armenia's parliamentary elections in May 1999, and then by the political government upheaval sparked by the October 1999 parliament assassinations. Anti-privatization resistance gained momentum in April, when the two tender favorites, the American corporation AES Silk Road and Spain's Union Fenosa, failed to file a formal bid. Some observers suggest that the missed deadline was a signal of waning foreign investor interest in Armenia (ibid).

The process of privatization of the electric sector was met with difficulty. Due to a lack of interest in investment the privatization process was halted in March of 2001, and for a long time the international tender for the state energy distribution network has raised questions about Armenia's openness to foreign investors. Besides political reasons for the difficulties in the energy sector privatization, there were also governance issues related to the mismanagement of the process. A major difficulty in the sale of the electricity distribution networks was the fact that the Armenian government was influenced and severely pressured from the Russian energy giant Gazprom despite of the pleas of Armenia's largest lender

World Bank to conduct a fair bidding process.<sup>247</sup> In February 2000 RFE/RL reported that the World Bank urged the Armenian authorities to ensure transparency in the ongoing bidding for the country's energy distributing network. In response to past scandals linked with the sell-off of other major government owned assets, the World Bank also asked the government not to collude with Russian firms on tender results.<sup>248</sup>

Whereas Armenian officials were publicly puzzled about the reasons behind the tender's failure, a few of the officials expressed concerns related to the decisions of the government. For example, Justice Minister David Harutiunian, indirectly acknowledged that the government had changed some of the terms in the final stage of the tender process. The 2001 *Jamestown Monitor* reported that the changes would have curtailed the new owners' managerial authority and would have limited their leeway for legal recourse in the event of disputes. As such, the changes could have enabled corrupt and shadowy local groups to meddle with the privatized networks.

Several World Bank assessments judge Armenia's energy reform successful from the point of view of commercial losses and collection rate. Table 8.4 represents the data available on energy losses and collections for Armenia, Azerbaijan, Kazakhstan, Georgia, and Tbilisi.<sup>249</sup> Those are countries in the region that have undertaken some degree of power sector reform. Whereas Tbilisi managed to improve collections, losses remained relatively high and constant. Kazakhstan and Azerbaijan were able to reduce losses, but their collections decreased or remained relatively constant. According to the World Bank accounts, only Armenia managed to unambiguously improve in both collections and commercial losses during this time period.

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<sup>247</sup> Armenia relies heavily on Russian gas for power generation and Armenia's entire gas infrastructure is dominated by a Gazprom-controlled joint venture. Moreover, the "Metsamor" nuclear plant, which accounts for about 40% of Armenia's electricity production, is also heavily dependent on Russian loans and nuclear fuel.

<sup>248</sup> In February of 2000 "Azg", a local Armenian newspaper informed that Russia's Gazprom monopoly, with Moscow's backing, was lobbying hard to get preferential treatment for its subsidiary, the ITERA Corporation. ITERA was taking part in the tender in conjunction with another Russian firm, Rosatomenergo, and was reportedly shortlisted for the last phase of the contest. The newspaper alleged that the interruptions in Russian gas supplies to Armenia that occurred during that phase of the tender could have been a sign of Russian threat and a method of putting pressure on Armenia to win control over its power grid.

<sup>249</sup> The capital city of Georgia, Tbilisi, is included separately in the table, because the data on losses in Georgia is not available after the year of 1997, but it is available for Tbilisi. Therefore, Tbilisi is included, so that we can have an overall perspective of losses and collections in the Republic of Georgia.

**Table 8.4:** Losses and Collections (in percentages) in Selected CIS Countries, 1994-2002

<i>Losses</i>									
	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Kazakhstan	13	15	18	20	21	21	13	13	
Armenia	40	40	34	29	26	27	25	26	26
Georgia						50	50	50	50
Tbilisi						37	52	48	38
Azerbaijan	18	21	19	21	17	16	15	12	16
<i>Collections</i>									
	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Kazakhstan	99	77	85	63	82	74	62	62	
Armenia	39	54	60	61	77	88	89	81	90
Georgia	20	22	42	38	39	40	42	45	47
Tbilisi						32	44	77	91
Azerbaijan	35	39	57	50	43	46	18	26	34

*Source:* Power's Promise Dataset adapted from World Bank 2006 report on Armenia's Energy Reform, available online at <http://siteresources.worldbank.org/ARMENIAEXTN/Resources/Chapter3.pdf>

The Armenian energy reform was far from being successful considering the continuously increasing service costs, although the World Bank calls those costs effective price increases (World Bank 2006). From the perspective of the ordinary citizen, the privatization of energy raised its price, increased the energy share of household budgets, and decreased family standards of living. Natural gas prices, for instance, have been continuously rising. On April 18, 2008 Tigran Sarkisian, the Prime Minister of Armenia, announced that the government would lift natural gas subsidies beginning May 1. This meant that retail gas prices increased from 59 AMD per cubic meter (about 19 US cents) to 84 AMD (about 27 US cents). In April, 2006 the government had decided to subsidize prices for imported gas with an aim to ease the burden placed on private consumers and companies through allocating about \$190 million dollars to in order to cover the subsidy for three years. Only two years later, almost a year before the subsidy schedule of three years was over, the government indicated that the funds for the subsidy ran out (Grigoryan 2008). Similar to this case, gas and electricity price hikes have always posed a serious challenge to the socially vulnerable strata of society.

Another report, prepared for the Second ECA Poverty Forum of 2001 in Hungary, assesses the 1999 electricity tariff increase with particular attention to questions of service accessibility and affordability for the poor. The report findings were based on a survey of 2,010 randomly selected households conducted in December 1999 and January 2000. The report mentions that household tariffs in Armenia were raised to reflect the high cost of supplying low voltage electricity. Thus, in order to improve the financial sustainability of the utilities, in January 1999 the increasing block tariff was eliminated in favor of a single price of 25 AMD per kWh.<sup>250</sup> “Elimination of the increasing block tariff was predicted to raise the average price of electricity 30% (from 19.2 to 25 AMD per kWh). However, the household survey indicates the new price of 25 AMD per kWh represented an unexpected 47% increase (from 17 to 25 AMD per kWh). The difference between the expected and actual tariff increase occurred because the calculation of average price was based on aggregate utility data rather than household level data.” (Lampietti, Kolb, Gulyani, and Avanesyan, 2001:1)

The increase of nearly 50% in electricity prices was a huge blow to majority of the population in Armenia. As the authors imply, the sampled household’s response to this change in the electricity tariff offers key insights into electricity pricing policy and energy sector strategy. For the surveyed households, electricity consumption records dropped on average 17%. Apparently, as a substitute to electricity, consumption of wood and natural gas increased. From the point of view of social exclusion, it is important to note that compared to the non-poor, the poor cut consumption more, the percentage of households with arrears was higher, and the average size of arrears increased more (ibid).

At the end of 1990s and the beginning of 2000s, most Armenian households, particularly the poor, experienced a large burden of energy expenditures. Electricity made up the bulk of these expenditures, and additional increases in tariffs, without access to low cost substitutes, created maximum hardship for the urban poor. The urban poor used to spend 16% of monthly cash expenditures on electricity. Besides, they possessed the least access to wood as a substitute.

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<sup>250</sup> Energy related 'block tariff' is the tariff in which the charge is based on a series of different kilowatt-hour rates applying to successive kilowatt-hour blocks of given size, supplied during a specified period.

Before the failure of the energy sector privatization, the Armenian Republic had already faced another failure, in the privatization of telecommunications system, which was yet another significantly valuable sector of public services and an important component of service privatization.

Armenia's privatization of its telephone monopoly was even worse than the initial privatization effort of the energy sector. ArmenTel, Armenian telecommunications network, was established in 1995 as a joint venture between Armenia's Ministry of Communications and Transport (with 51 % of the shares) and a consortium of U.S. and Russian companies called Trans-World Telecom Ltd. In 1997, the Greek government-owned Hellenic Telecommunications Organization (OTE) purchased ArmenTel, becoming the sole owner of 90 % of ArmenTel. The Armenian government retained 10 % of the company.

The privatization of ArmenTel was marred by serious weaknesses in the decision to grant ArmenTel a monopoly in international telecommunication services including the fixed line market and mobile communications for 15 years. ArmenTel was entitled to decide on its rates unilaterally. So the company introduced increases starting January 1, 1998. In addition to an increase in charges for international calls, the basic monthly telephone service charge for local lines was raised from 600 to 900 Dram (about \$1.70) with only four minutes a day allotted for free calls. The company introduced the per-minute billing for telephone service in September of 1998, a move that caused up to a three-fold rise in phone costs. With a population of about three million, Armenia then had 585,000 telephone lines in service. In 1997 ArmenTel reported \$34 million in pre-tax earnings in the first half of the year alone, compared with \$47 million for the whole of 1997. These figures rose to about \$70 million in 1999 (Tchilingirian 1999:18).

Growing dissatisfaction with OTE's management of ArmenTel became evident early in 1999. ArmenTel allegedly failed to make many of its promised investments. This hindered the development of Armenia's telephone system, which at that time lagged behind those of its neighbors. According to World Bank reports, compared to Azerbaijan and Georgia, fixed-line and mobile tariffs were higher, fixed-line teledensity had grown at only half the pace, and mobile penetration was at only 0.2 % of the population (compared to 3.5 % and 1.8 % in

Azerbaijan and Georgia, respectively). According to press coverage, ArmenTel was perceived to have stifled Armenia's growth in potentially competitive markets for Internet service provision and cable television through excessive access fees for international data transfer, another service over which ArmenTel had exclusive monopoly rights.<sup>251</sup>

Multi-layered problems caused by unfulfilled original objectives, mismanagement and failure to meet investment expectations surfaced. There were also bribery charges reported. While major administrative problems related to the OTE handling of the telecommunications services exasperated the government's patience, the Armenian people were more irritated about the escalating service costs OTE started to introduce. There was enormous dissatisfaction with ArmenTel by the frustrated population in Armenia. Many of the ArmenTel customers, among them Arminco, which is the largest Internet provider in Armenia, the National Academy of Sciences, and *Noyan Tapan* News Agency, started to challenge ArmenTel, when communication lines were cut unexpectedly and without reason. The Armenian Union of Internet Users complained against ArmenTel's monopoly stating that it "hindered the development of Internet services in Armenia. For example, to lease a 64kb/s Internet channel costs \$5,000-\$6,000 in Armenia, some "seven to ten times more than in other countries in the world"" (Tchilingirian 1999:19).

Angry protests were launched against ArmenTel, for its unfair monopoly, unimpressive services and price hikes. Some political parties, particularly the opposition parties, actively campaigned against ArmenTel, advocating people to refrain from using their services. In spite of huge public negative reaction against ArmenTel, then Prime Minister Armen Darbinian stated that the 1997 deal with the Greek telecommunications company, OTE, was "the best in the CIS". He argued that the sale to OTE has advanced the quality of telephone services and that "high quality has to be paid for. Telephone services that are free of charge existed only in communist times." (Tchilingirian 1999:19) Another government official that tried to justify the privatization of the telecommunications system the way it was achieved in Armenia was Artak Vartanian, the Minister of Postal Services and Telecommunications. While admitting that it was politically wrong to introduce the highly

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<sup>251</sup> World Bank, "Regional Study on Telecommunications in the Caucasus", available online at: <http://web.worldbank.org/archive/website01023/WEB/IMAGES/REGIONAL.PDF>

unpopular per minute fee, specifically before the parliamentary elections, he asserted: “Yes, we do have low salaries and grave social problems, but we must have a growing economy, which is impossible without investments.” (ibid)

Finally, following the public outcry against ArmenTel, the government of Armenia adjusted ArmenTel’s license in 2003, depriving ArmenTel of its monopoly over mobile phone services. ArmenTel initiated a dispute, which was settled in November 2004, reducing ArmenTel’s license from 15 to 11 years. World Bank experts find that the most obvious problem with ArmenTel’s license was its exclusivity over fixed-line and mobile services, just as mobile telephony and Internet communications entered the mainstream and began to be established as competitors with fixed-line telephone service. As mentioned before, OTE was given a 15-year exclusive license for fixed-line telephony (local, long distance, and international) and GSM services. Exclusivity over fixed-line and mobile telephony for 15 years obviously hampered the growth of telecommunications infrastructure in Armenia. Other problems included lack of appropriate regulation and lack of appropriate incentives embedded in the legal and regulatory framework and licenses (World Bank 2006:32).

A July statement of Noyan Tapan reported that ArmenTel’s activities and privatization did not correspond with the Armenian law. An interim commission on ArmenTel announced that “its activities conflicted with numerous legislative acts of the Republic of Armenia” (Asbarez 1999). ArmenTel’s monopoly allowed the company to derive immense profits failing to make any serious investments directed to Armenia.

The transfer of natural monopolies and major strategic enterprises into private hands was the policy of a decreasing role of the state in the economy. “Strategic enterprises of energy and gas supply, communications, water supply, transport, etc. were either privatized or operated on a concession basis. This policy was justified by the statement that the state was a bad manager” (Nranyan 2011:201-202). Based on the logic of this policy, the privatization of Armenia’s telecommunications and energy distribution networks were supposed to be key elements of the country’s economic development strategy. Many considered their privatization as an important stage in the transition to the free market. However, Armenia’s power and telecommunications privatization were far from being



examples of fair and efficient privatization in a country that needed them so badly for its economic development and for its people to have appropriate access to energy and telecommunications.

It was difficult for the Armenian people, extremely used to the Soviet system of the state control for equal distribution of resources, to easily trust the privatization of services, especially as they witnessed the mal-administration of the privatized first major infrastructures such as transportation, power and telecommunications. People feared that new owners would raise service costs based on their monopolistic power, and those fears were not imaginary. Immediately after privatization, practically all natural monopolies of the country raised tariff rates and prices of services for several times. Since the privatization of gas, energy, and telecommunications, costs for those services have increased dramatically, worsening the living standards for most Armenians and maximizing daily hardships experienced by the poor, a majority of Armenians.

#### **8.4 Privatization and Administrative Barriers to Foreign Investment**

A major problem of privatization in Armenia was related to foreign direct investment (FDI). Armenia lags behind many transition countries with its FDI per capita rates or the share of FDI in GDP. Literature on Armenia-Diaspora-related economic relations mentions that the Armenian government's strategy was not as favorable for Diaspora Armenians, as well as other foreigners to invest in Armenia. This strategy has generated mainly small scale investments that could have potentially been massive.

According to the Armenian Development Agency (ADA), investment and trade policies of Armenia are considered to be the most open in the CIS by international organizations.<sup>252</sup> Foreign companies are encouraged to invest and are entitled by law to the same treatment as local companies, moreover they have certain advantages. The Law on Foreign Investment, adopted in July 1994, regulates foreign investment in Armenia. It provides guarantees to foreign investors and protects investors from changes in the business

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<sup>252</sup> The information in the next two paragraphs is taken from the Armenian Development Agency, available online at <http://www.ada.am/eng/for-investors/fdi-statistics/>.

related laws for 5 years. According to the Law a “Foreign Investor” is any foreign company or citizen, a person without citizenship, an Armenian citizen permanently residing outside of Armenia, or an international organization that invests in Armenia. “Foreign investment” is any form of property, including financial assets and intellectual property, which is invested by a foreign investor directly in the territory of Armenia, in any economic or other venture.

Foreign investors can make investments in Armenia through the establishment of fully foreign-owned companies (including representations, affiliates, and branches), the purchase of existing companies and securities, or the establishment of joint ventures. The company registration process takes about a week. There are also incentives for exporters – no export duty and a VAT refund on goods and services exported. There are no limitations on the volume and type of foreign ownership, the number of foreign employees and access to financial sources. Although foreigners can only lease land, a company registered by a foreigner as an Armenian business entity does have the right to buy land. Foreigners may obtain permission to use land under long-term leases, and concessions for the use of Armenian natural resources with the participation of an Armenian company.

Similar to ADA, literature on post-Soviet economic reforms often honors Armenia, acknowledging that market reforms have been more advanced and foreign investment climate quite favorable in Armenia than in other post-Soviet republics. While this was a widely accepted view among Western observers, economists and international organizations, at the end of 2000s foreign investment in Armenia decreased tremendously due to ongoing political and military insecurity resulting from the Karabakh conflict and its unclear prospects. It declined from \$240 million in 1998 to \$100 million in 1999 (Ugurlayan 2001:436). Another reason for the decline in foreign investors’ willingness to invest in Armenia was due to political assassinations during that period.

As mentioned in the introductory part of this chapter, corruption in the process of privatization was another hindrance for the successful and fair sale of companies. Armenian mass media have frequently cited the corruption issue, mentioning that there were charges of bribery and mismanagement. These also served to minimize investor confidence and thwart foreign investment in Armenia. Although important for Armenia, proper measures were

rarely undertaken to ensure open and accurate management of foreign investments. Typically, lack of appropriate economic information regarding the market value of firms that were being privatized and reluctance to implement the sale process based on real market values resulted in the corruption problem.

In 2000, ArmenPress, citing State Property Minister David Vardanian, indicated that Armenian government faced serious challenges in its attempts to privatize around 2,500 small and medium enterprises, which failed to find buyers.<sup>253</sup> According to Vardanian, the lack of appropriate information about these enterprises prolonged the process of their privatization. The minister complained, “There are four approaches towards evaluating their real prices, but all of them have shortcomings. However, the biggest problem is the absence of demand.”<sup>254</sup>

Research shows that developing countries similar to Armenia have achieved solid economic progress by incurring FDI in various sectors of industry and agriculture (Bevan and Estrin 2000, Marino 2000, Shiells 2003, Zarsky 2005). It has been estimated that FDI is strategically the only way to guarantee a sufficient rate of employment and economic growth, as well as social and political stability in Armenia (World Bank 2002). But despite ADA’s optimistic description of foreign investment policies in Armenia, foreign investment has not been flourishing in the republic. The investment climate has not been conducive in the republic. Besides the fact that geopolitically Armenia was not attractive for FDI, the Armenian government in its turn has not taken specific steps to draw FDI in potentially significant sectors, such as internet technologies and software development, jewelry, mining, tourism, textile production, etc.

Table 8.5 shows that based on FDI per capita, Armenia had a better position relative to many of the former USSR countries in 1990s (except the resource-rich countries, such as Azerbaijan, Kazakhstan and the Baltic states). A more careful look of the table, however,

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<sup>253</sup> A major Armenian news agency operating since 1918, ArmenPress is the oldest and biggest agency in Armenia. ArmenPress currently is acting as a closed joint stock company with its shares held by the government of Armenia. It produces domestic, international, regional news bulletins, photo news and provides a wide range of analytical stories covering politics, economy, culture and other areas. News items are issued on a daily basis in Armenian, Russian and English.

<sup>254</sup> “*Privatization of Big Enterprises Opposed, Says State Property Minister*”, ARMENPRESS, Nov. 17, 2000, available online at <http://hyeforum.com/index.php?showtopic=6066>

indicates that Armenia's investment rate was very low compared to the Eastern European transition countries. Besides, as World Bank reports, these data are misleading because they are inflated by high privatization proceeds received from privatization of telecommunication and gas distribution companies. Approximately one third of total reported FDI in Armenia during the period of 1992-1999 came from these transactions. Small and medium investment transactions, including those in start-up companies, have been very low.

**Table 8.5:** FDI Per Capita for Selected Transition Countries, US dollars, 1994-1999

	<b>Annual average 1994-1999</b>	<b>1999</b>
Albania	17.9	13.2
<i>Armenia</i>	<i>18.8</i>	<i>40.5</i>
Azerbaijan	73.8	104
Belarus	9.1	18.5
Bulgaria	33.4	83.3
Croatia	91.7	163
Czech Republic	178.5	339.8
Estonia	183.3	233.3
Georgia	6.6	17.8
Hungary	218.6	156.9
Kazakhstan	51.8	53.3
Kyrgyz Republic	13.9	13.9
Latvia	105.7	60
Lithuania	75.9	108.1
FYR Macedonia	14.2	14.3
Moldova	13.4	39.5
Poland	109.3	168.4
Romania	36.2	59.8
Russia	17.2	23.9
Slovak Republic	60.6	92.6
Slovenia	88.5	75
Tajikistan	2.6	4.9
Turkmenistan	11.9	20.8
Ukraine	8.4	12
Uzbekistan	5.9	9.4
<i>Total for the region</i>	<i>40.4</i>	<i>57.2</i>

Source: A World Bank Country Study, "Growth Challenges and Government Policies in Armenia", 2002.

According to the World Bank data, even when large privatization transactions were included, the per capita FDI rate in Armenia in the mentioned period was below many of other former socialist countries, regardless of the fact whether those countries had oil or not, a resource that would be conducive of more investment. Some of the included countries have large assets of oil, such as Azerbaijan and Kazakhstan, and therefore they attracted more FDI. But even some of the non-oil countries have had higher FDI rates than Armenia, despite Armenia's strong human capital that could have been very effectively utilized in sectors, such as telecommunications, software development, chemical industry, and despite the willingness of thousands of wealthy and nationalistic Diaspora Armenians all over the world to invest in their historic homeland. For example, Armenia's overall per capita FDI for 1992-1999 was nearly 3.5 times below that of neighboring Azerbaijan's. It was 6 times below Poland's FDI, and 10 times below Estonia's FDI. The existing opportunities for FDI promotion have been grossly underutilized.

Another source, "*The Role of the Diaspora in Generating Foreign Direct Investments in Armenia*" by Hergnyan and Makaryan (2006), evaluates FDI comparatively in some transition countries for the period of 1997-2003. It shows that by per capita net FDI rates Armenia lagged behind all of the countries selected for comparison, except Uzbekistan in approximately all of the years. For example, if we compare per capita net FDI inflows for Armenia (39.56) and Azerbaijan (399) in 2003, we observe that it was 10 times less in Armenia.

**Table 8.6:** FDI Statistics for Selected Transition Countries, in US dollars

<b>Armenia</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
GDP per capita	1,839	2,079	2,209	2,422	2,733	3,138	3,671
FDI, net inflows (% of GDP)	3.2	11.7	6.6	5.5	3.3	4.7	4.3
Net FDI Inflows, per capita	16.1	69.4	38.8	33.5	22.6	36.1	39.6
<b>Azerbaijan</b>							
GDP per capita	1,816	2,002	2,177	2,571	2,877	3,218	3,617
FDI, net inflows (% of GDP)	28.1	23.0	11.1	2.5	4.0	22.3	46.0
Net FDI Inflows, per capita	142.2	129.3	63.9	16.1	27.9	170.4	399
<b>Bulgaria</b>							
GDP per capita	4,990	5,216	5,399	5,990	6,483	6,906	7,501
FDI, net inflows (% of GDP)	4.9	4.2	6.3	7.9	6.0	5.8	7.1
Net FDI Inflows, per capita	60.7	65.1	99.8	124.3	102.8	115.0	181.4

**Table 8.6 Continued**

<b>Estonia</b>							
GDP per capita	7986	8453	8665	9779	10803	11806	12913
FDI, net inflows (% of GDP)	5.4	10.4	5.5	7.1	9.1	4.0	9.8
Net FDI Inflows, per capita	190.1	418.8	221.8	282.8	397.7	209.5	658.4
<b>Georgia</b>							
GDP per capita	1,569	1,688	1,775	1,990	2,151	2,333	2,666
FDI, net inflows (% of GDP)	6.91	7.34	2.94	4.31	3.42	4.93	8.46
Net FDI Inflows, per capita	49.5	54.7	17.2	27.8	23.5	36.3	74.0
<b>Kazakhstan</b>							
GDP per capita	3,602	3,624	3,903	4,594	5,330	5,897	6,663
FDI, net inflows (% of GDP)	6.0	5.2	9.4	7.0	12.8	10.5	6.8
Net FDI Inflows, per capita	83.9	74.2	103.8	85.2	190.2	173.7	140.4
<b>Russian Federation</b>							
GDP per capita	6,000	5,894	6,360	7,086	7,573	8,130	9,033
FDI, net inflows (% of GDP)	1.2	1.0	1.7	1.0	0.8	1	1.9
Net FDI Inflows, per capita	33.0	18.8	22.6	18.6	17.1	24.0	55.5
<b>Uzbekistan</b>							
GDP per capita	1,328	1,371	1,435	1,516	1,600	1,664	1,737
FDI, net inflows (% of GDP)	1.1	0.9	0.7	0.6	0.7	0.7	0.7
Net FDI Inflows, per capita	7.1	5.8	5.0	3.0	3.3	2.6	2.7

*Source:* Adapted from Hergnyan and Makaryan (2006:27).

The history of bad investments, low purchasing power of local population, the geopolitical risks, corruption and inadequate legal regulations to protect investors made Armenia less desirable than other former socialist nations for foreign investment in 1990s. The trends of the 1990s continued in the 2000s. The investment climate was still challenged by factors, such as limited local market, weak governance, and weaknesses in the legal system (Shiels 2003). Privatization of Armenian state companies and public services through international tenders has also been complicated by the fact that the Armenian society could not accept easily the fact that foreigners might manage local property and Armenian employees. This trend was characteristic of the mentality of nearly all post-socialist societies.

In September 2000, after attending United Nations Summit of the Millennium, President Kocharyan held meetings with Diaspora Armenian businessmen in New York and later in Geneva to discuss potential and prospects of more active participation of Diaspora businessmen in the economic life of Armenia. Kocharyan then stated that there existed positive conditions for supporting business and investments in Armenia. Nonetheless, many of the investors, particularly Diaspora Armenians, who represent a large percentage of

foreign investors, were skeptical. Sarkis Hacpanian, a businessman, who has lived in Armenia for 10 years, told RFE/RL that conditions for doing business in Armenia had become worse. “The laws which are supposed to support business and investment do not work, they exist only on paper. Sometimes even court decisions in favor of the investor do not work” Hacpanian said. He dismissed the Armenian authorities’ assurances as “just words.” (*Hyeforum*, November 2000)

Several surveys and research (Amirkhonian 1997; Gillespie and other 1999; Freinkman 2001; Gevorgyan and Grigoryan 2003; Gillespie and Adrianova 2004; Manasaryan 2004; Hergnyan and Makaryan 2006; Khachatryan 2011) have tried to determine the perceptions existing in the business community regarding the business environment and barriers for foreign investment in the republic of Armenia. As surveys of entrepreneurs have shown, there existed numerous barriers for investments in Armenia. Those barriers were even more intricate for diaspora Armenians, whose economic role has been important during structural reforms in Armenia.

Diaspora Armenians were the first generators of business investments in Armenia after the Karabakh war and the start of the privatization program in Armenia. Since the launch of structural reforms and privatization initiatives in the republic, Diaspora investors have experienced a series of conflicting political, economic and cultural events in Armenia that either stimulated or discouraged them from investing. When in 1994, the Armenian government banned the activities of the Armenian Revolutionary Federation (ARF), one of the most influential political parties in the diaspora, Armenia became a less attractive destination of investment for Diaspora Armenians.<sup>255</sup> On the contrary, the annulment of the restrictions on ARF by President Kocharyan, and an official declaration of strengthening cultural, economic and business ties with the Diaspora in 1998 boosted Diaspora-related FDI rates. However, the 1999 Armenian parliament shootings and assassination of important politicians, negatively affected the Diaspora-related investments in 2000. Their share of all foreign investments decreased to 57% (Hergnyan and Makaryan 2006:8). “Such an interplay of contradictory factors (convergence of “opportunity” and “shock”) to a large extent

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<sup>255</sup> The context, political origins and consequences of the ban initiated by President Levon Ter-Petrossian’s administration on ARF have been described in Chapter 7.

contributed to “freezing” of the Diaspora involvement in investing in Armenia at a very low level compared to the potential (from 1994 to 2004, there were only 2,526 DCIR (number of Diaspora-connected investors) from the Armenian Diaspora which exceeds 6 million people)” (ibid).

A major barrier for FDI was related to the willingness of top officials to ensure an adequate infrastructure for investors. Sufficient steps were not initiated by government officials to attract and support foreign investors from the beginning of the privatization process. State elites in Armenia have been concerned that the new investors would reduce their power both politically and economically, especially in the long-run (Amirkhanian 1997). They were reluctant to split their political and economic share with new players. While for the short-run, it has been beneficial to the Armenian government to fill the state budget with proceeds of foreign, as well as domestic investment, there has been significant opposition towards the critical role of FDI, particularly from diaspora Armenians. According to Amirkhanian, the local Armenians could not "afford to share their limited resources and opportunities with the outsiders” (Amirkhanian 1997:21). But besides the issue of local Armenians' reluctance, there was also the issue of Diaspora Armenians' credibility towards the Armenian government.

Examining the Diaspora’s contributions to the socio-economic development of Armenia, Amirkhanian (1997) emphasizes a complex relationship between the Armenian Government and the Diaspora. Freinkman (2001) also highlights the imbalance between the lack of Diaspora contributions to Armenia’s development and the efforts of the Armenian state to hone Diaspora investments in Armenia’s transition to a market economy. The Armenian government lacked credibility with the Diaspora Armenians, who were considered a vital part of the economy.

Fourteen large organizations of the Diaspora have provided assistance of about 900 million USD to Armenia. The total amount of material assistance granted to Armenia since independence has reached 1,493,760,000 USD (Manasaryan 2004). While Diaspora Armenians’ contributions to Armenian socio-economic development are irrefutable, the level of private investment on behalf of Diaspora has been limited. According to Manasaryan



(2004) important factors related to Armenia-Diaspora economic relations are affected by the lack of a long-term cooperation strategy towards Armenia's development agenda from both sides. Whereas the Armenian government has not made sufficient attempts to expand diaspora investors' business initiatives, Diaspora businessmen in their turn have failed to adjust their cultural and nationalistic agenda in their efforts to collaborate economically in Armenia. Their historical and cultural connections are weak with Armenia, and they have less tolerance for potential risks associated with doing business in Armenia.

With a case study of three large Armenian Diaspora initiatives to support business development in Armenia, Gillespie and Adrianova (2004) conclude that there are significant constitutional constraints, including barriers to personal involvement in project management. Instead, investors have to entrust management to local partners, such as government agencies and other local firms. The lack of investors' direct participation in project/program management blocked small and medium companies in Armenia from key advantages of Western experience, such as strategic advice on customers, suppliers, and personnel.

Based on a survey of 35 foreign firms in Yerevan, Khachatryan (2011) concludes that foreign companies experienced problems, such as monopolies, corruption among top government officials, and uneven access to information. About half of the investors complained about the limited openness of the economy, mainly due to the problem of privileges for certain families or individuals. Also, they were not satisfied with post-entry restrictions. The survey found out that the Armenian government did not support small businesses sufficiently and it did not implement business regulations successfully and fairly. It failed to support small businesses but was always supportive and protective of big businessmen. A major problem mentioned by the survey respondents was the underdevelopment of insurance industry. According to the investors, insurance services should be more essential and developed, particularly since subsidies for small and medium businesses are not common in Armenia (Khachatryan 2011, pages 71-72).

Since the end of 1990s, Armenian banks have been able to perform foreign currency transactions. They can also conduct foreign exchange auctions. Many companies and organizations have international accounting standards in place. All these factors were

conducive of foreign investment. Yet, relevant legislation was not in place to ensure a consistent pace and process of investments. As a barrier to efficient investment, USAID experts, for example, indicate to the 2000 February rejection of a draft law on Securities Market Regulation by the Armenian National Assembly. This bill was aimed at protection of investor rights and creation of transparent market transactions, including preventions of fraud, and disclosure of transparent information by issuers of securities and other market participants (USAID 2000; Ugurlayan 2001).

There are certain barriers that have been worrisome for both local and foreign investors in terms of the investment environment in Armenia. A major problem is that personal connections and networking are practically required for the success of businesses. The ability to protect their assets due to the lack and deficiency of property rights protection has been another main concern for businessmen.

### **8.5 Privatization and Oligarchs**

It is typical of scholars of Soviet transition to consider that the increase of inequality and the rise of social exclusion are closely related to privatization. While wage decompression created income inequality, it was mainly due to privatization and subsequent consolidation of ownership that produced much-spread wealth inequality in most of the former Soviet countries (Guriev and Rachinsky 2006). The privatization process influenced the dynamics of wealth inequality in the following way: state assets were channeled into the hands of a few, government had a limited role and ability to fund previously public goods and services, and many citizens were left out of economic opportunities.

With the analysis of Russian oligarchs, Guriev and Rachinsky (2006) argue that in Russia and many CIS countries inequality remains high because of post-privatization oligarchic activities, while in CEE countries the governments prepared institutions, as well as entrepreneurs, for greater equality of opportunity prior to privatization.<sup>256</sup> In Russia and some of the CIS countries such as Armenia and Azerbaijan, the transition from planned to market

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<sup>256</sup> The data includes the following information on the examined oligarchs: income tax; employment and sales rates (World Bank estimates); companies/firms they own, major sector(s); employment (in thousands (% of sample)); sales (in billions of rubles (% of sample)); wealth (in billions of U.S. dollars).

economy produced a new class of affluent individuals, whose business activities in the perception of the median voter were basically illegitimate.<sup>257</sup> Following privatization, there has been an extreme concentration of wealth in Armenia, which suggests that the industrial and commercial assets generating this wealth were also strongly concentrated. The wealthiest households accrued very high incomes and large amount of wealth. Table 8.7 provides the income distribution in Armenia in 1999. It reflects the enormously high concentration of income among the richest households. The top decile of the population possessed 45% of all income, while the bottom decile had only 0.7% of all income. The bottom half of the population together received only 15% of income. These estimates of inequality are striking. Moreover, it is a reflection of the fact that not only the poorest, but also the middle and lower middle classes were deprived of appropriate wages and resources. On the other hand, at the top decile of the population were a handful of businessmen, who controlled sufficient resources to influence politics, policy-making and implementation, and judiciary in order to increase their wealth even more. The top decile is comprised of Armenian oligarchs, who emerged as a consequence of consolidation of ownership after the voucher privatization.

**Table 8.7:** Income Distribution in Armenia by Decile, 1999

Decile	Share of Gross Income ( percent)
I	0.7
II	1.9
III	2.9
IV	4.0
V	5.0
VI	6.4
VII	8.1
VIII	10.7
IX	15.3
X	45.0
Total	100

<sup>257</sup> For instance, in 2004, the World Bank researched the activity of 1.3 thousand enterprises in Russia, and based on the research suggests that the achievement of major oligarchs was determined not by their successful management of enterprises but by their monopoly power. Besides, from the viewpoint of efficiency of resource use, these enterprises were less efficient than the smaller companies (<http://www.rg.ru/2004/04/08/Ryul.html>). Although a similar research study has not been conducted on Armenia, there are a few accounts that mention about the same problem of inefficiency in RA. Nranyan (2011) mentions that before the transfer into private operation, the losses of water in the water supply systems amounted to about 40%. Today, the water tariff is several times higher and losses amount to about 80%. For example, in 2010 losses of the company “Yerevan Jur” amounted to 83.5%, losses of "Armvodokanal" amounted to 85.1% (Public Service Regulatory Commission of the Republic of Armenia <http://www.psrc.am/download.php?fid=17236>).

Source: Oxfam, "Growth with Equity: Policy Choice for Poverty Reduction Project," Yerevan, 2002.

This trend continued in the 2000s. Whereas in 2002 Armenia's GDP reached 83.2 percent of its pre-reform level, and equaled to it in per capita terms, the Gini coefficient increased by 0.258 and became 0.528, which caused a significant increase of poverty incidence from 20 to 50.9 percent.<sup>258</sup> For the period of 2004-2009, income inequality and the income gap between the poor and the non-poor were slightly reduced (Table 8.8).<sup>259</sup> The Gini coefficient decreased as well for this period, but it is still high compared to other transitioning countries.

**Table 8.8:** Indicators of income distribution inequality, 2004-2009

	2004	2005	2006	2007	2008	2009
Monetary income ratio between the richest 20% of the population and poorest 20% of the population	10.6	9.5	7.6	8.0	7.8	8.0
Monetary income ratio between the richest 10% of the population and poorest 10% of the population	20.8	17.9	13.9	15.6	14.1	14.5
Gini coefficient	0.395	0.395	0.369	0.371	0.339	0.355

Source: "Social Snapshot and Poverty in Armenia", NSS RA, 2007, 2008, 2010 in IMF Country Report, "Republic of Armenia: Poverty Reduction Strategy Paper—Progress Report", No. 11/191, July 2011.

Plato's ideas on the evolution and nature of oligarchy are very relevant to the origins and character of today's Armenian oligarchy. According to Plato (551b), oligarchs value property and honor wealth more than anything else. Righteousness and merit are not honored. In an oligarchy, the wealthy rule, and the poor are ruled. The latter do not participate in politics. One of the major defects of an oligarchic state is that rulers are appointed on the basis of wealth and not on the basis of qualifications. Oligarchs rise to power unlawfully (Cartledge 1998).

Privatization has been flawed by insufficiencies inherent in the phenomenon of oligarchy, such as favoritism and corruption, during all three presidencies of post-

<sup>258</sup>See Economic Development and Research Center, "Modeling of Economic Policy, Income Distribution and Poverty: Case of Armenia", available online at: [http://old.edrc.am/user\\_files/42.pdf](http://old.edrc.am/user_files/42.pdf), last access December, 2013

<sup>259</sup> See IMF Country Report, "Republic of Armenia: Poverty Reduction Strategy Paper—Progress Report", No. 11/191, July 2011, available online at: [http://planipolis.iiep.unesco.org/upload/Armenia/Armenia\\_PRSP\\_Progress\\_Report\\_2011.pdf](http://planipolis.iiep.unesco.org/upload/Armenia/Armenia_PRSP_Progress_Report_2011.pdf)

independent Armenia. Irrefutably, the oligarchic notion emerged since the initial stages of privatization in Armenia, and there were big businessmen during Levon Ter-Petrosyan's presidency. But the oligarchic power started to meddle into the political affairs of the country towards the end of 2000s. Since then, oligarchs, most of whom are also politicians, have continued to enrich themselves (in most cases unlawfully) without facing challenges from either the government or the legal system.

In my conversation with a former Prime Minister of the Republic of Armenia, Hrant Bagratyan, it was revealed that the first oligarchic clusters emerged in Armenia beginning in 1997-1998, with fuel imports. Bagratyan concluded that in a small country like Armenia the concentration of capital is very typical. "But there is a distinction between concentration of capital occurring in a natural way and concentration of capital, which is organized intentionally through government policies in order for state elites to deal with maximum 20-30 people, the wealthiest ones. This was the politics of Armenian state elites since the end of 1990s."<sup>260</sup>

Mass media accounts indicate that companies and factories privatized in the mid-1990s were small and most often non-operating. But since 1999-2000, the industrial privatization included the biggest, most lucrative and most profitable enterprises, specifically in the construction sector and production of certain commodities. Based on the evidence provided by the independent press these enterprises were purchased for nominal prices – much lower prices than their book values. This type of transactions transformed new capitalists into wealthy industrial tycoons. In return to the granted fortune, the new oligarchs had to offer political, as well as financial support to the government top officials, specifically in times of elections. The basis of private sector development was grounded on "influence-peddling" (borrowed from Astourian 2000:16) between high-rank government officials and owners of the private companies. The officials had "direct, indirect, partial or hidden control over the new companies".<sup>261</sup> The hidden control of the officials was through hidden

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<sup>260</sup> The citation is taken from the author's interview with Hrant Bagratyan conducted on August 20, 2012.

<sup>261</sup> The information is borrowed from Astourian (2000), whose statements are based on a report of U.S.-Armenia Business & Investment Association, "Corruption", in *Investment Climate Report on Armenia*, 15 January 2000.

partnership and shareholding, and the indirect control was based on partnership or shareholding through a family member (of the official) or a friend.

Whereas some believe that oligarchs became an engine for Armenia's economic growth, for many more oligarchic elites who nourish one another have weakened the Armenian economy by creating unfair competition, by stripping assets from companies and by dodging taxes. Some others speculate that they have had a negative impact on the evolution and consolidation of democratic institutions in Armenia by manipulating state politics and policies. "As the market institutions were underdeveloped, there were huge "institutional economies of scale" – large owners have been able to influence the rules of the game through capturing regulators, courts and legislatures" (Guriev and Rachinsky 2006:16).

According to Crisis Group Europe (2012), Armenian oligarchs control the economy and influence policy. They are "centered on several informal commodity-based cartels and semi-monopolies" in specific economic sectors, particularly in the trade of commodities, such as gasoline, sugar, flour, and alcoholic beverages. Two companies reportedly control virtually all cement production and sales. Oligarchs possess most of the mining industry. Taking into account the small territory that Armenia has, it may be considered that the country is rich with valuable resources such as molybdenum and gold. All profits from those lucrative resources are said to belong to a few oligarchs. Among those are Parliament Speaker Hovik Abrahamyan, member of Parliament Tigran Arzakantsyan, and former Minister of Environmental Protection Vardan Ayvazyan.<sup>262</sup>

There have not been effective legal methods that would encourage small and medium entrepreneurs to enter into fair competition with those oligarchs. For instance, every other small-scale businessman or potential importer of sugar or gasoline knows that sugar, flour, gasoline, etc. are monopolistic businesses and do not try to import those commodities. Efforts to import any of the known monopolies by other entrepreneurs have been doomed to failure.

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<sup>262</sup>Aghajanian (2012) records that Ayvazyan was accused of corruption and fraud in the mining business in 2012. A U.S. court ordered him to pay \$37.5 million in damages to a U.S. mining company that was accusing him.

One of my interviewees, Arman Grigoryan, provided very illustrative examples of how the interests of the society at large clashed with the interests of the politically well-connected businessmen.<sup>263</sup> According to Grigoryan, “the artificial high rate of the Armenian currency, which was devouring the savings of the poor people, was detrimental to the politically weak exporters and very beneficial to the politically powerful importers of Armenia”. For a long period of time there was a lot of political demand in the society to do something about this issue, but the President did not initiate any steps, the Parliament did not intervene, and the Central Bank did not do anything to protect the rights of the small entrepreneurs.

Another example of how state policy outcomes have been beneficial to both politicians and large businessman was related to arbitrary practices used by the customs officials. “Well-connected businessmen have their imported goods cleared through the customs very quickly. The not so well-connected businessmen or the ones who are sympathetic to the opposition have their goods lying in the customs for 2-3 months. Sometimes these are perishable items of seasonal goods, so by the time they get it cleared, they are out of competition in the market. This way the latter businessmen are easily defeated”.<sup>264</sup> As a most interesting case to support his statements, Grigoryan provided the example of Khachatur Sukiasyan, some of whose assets were stripped by the government in efforts to bankrupt the businessman in 2008. Grigoryan concluded that the gamut of the government ran from very vulgar and very direct ways, such as seizing one’s business through fraudulent law-enforcement cooperation and keeping goods in customs for a long period of time, to very subtle ways, such as keeping the exchange rate of the Armenian currency high or low to benefit the government-connected businessmen.

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<sup>263</sup>Interview conducted with Arman Grigoryan on March 24, 2010.

<sup>264</sup> The quote is from the author’s interview with Arman Grigoryan on March 24, 2010. There were other interviewed politicians and researchers, who used similar examples regarding subsidized tax privileges for certain businesses and businessmen. Among those were Richard Giragosyan (mentioning the import of fuel/gas and sugar), Heghine Manasyan (fuel), Paruyr Hayrikyan (fuel and cars), Gevork Manoukyan (cars and cellular phones) and Stepan Safaryan (all of the mentioned products and services).

ACRPC Chairmain Gevorg Manukyan presented two other examples of privileges granted to businessmen favored by top officials.<sup>265</sup> One was regarding a famous case of fire extinguishers for cars, imported to Armenia by a big businessman during Interior Minister Vano Siradeghyan's years. So, the government required all cars owners to purchase fire extinguishers. As Manukyan indicated, it was not a bad idea to introduce car fire extinguishers in Armenia; the unfairness of the deal was that the fire extinguishers had to be exclusively of the type that the mentioned businessman imported into the country. It was, in principle, a violation of constitutional rights of other entrepreneurs in the same business, as well as of car owners, who were fined if found by police not to own that exact type of fire extinguisher.

The other example concerned professional photos for Armenian passports, when all citizens were required to change their Soviet passports after independence when the Armenian government began issuing its own national passports after the adoption of a new Armenian Nationality Law. The passport issuing government entities accepted photographs for these new passports taken only by a single photo-making company. According to Manukyan, behind this scheme there was a simple business calculation and certain amount of profit for the state-favored photography business: Armenia had 3 million people, each photograph cost a certain amount of money, so a single photo company would make a certain amount of profit. The requirement of photographs to be taken by the particular company created an outcry by other photographers, who were losing customers. Their protest and complaints however were very quickly silenced by local officials.

Both of these cases, that occurred as consequences of private/market economy, are minor considering the size of finances involved in those deals as compared to tax evasion and other fraudulent activities involved in bigger businesses, such as for example, import and/or production of fuel, sugar, cell phones, cars, dairy, etc. Yet they clearly illustrate how corrupt networks of large businessmen and government officials have created inconveniences for ordinary people through unconstitutional actions.

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<sup>265</sup> The following two examples are from the author's interview with Gevork Manoukyan conducted on May 20, 2009 in Vanadzor, Armenia.



Oligarchic monopolies are acknowledged to have been a major obstacle to business development in Armenia.<sup>266</sup> They also eliminated large groups of the society from the labor market by curtailing workers' rights in many aspects. With the increase of oligarchic businesses, the interests of ordinary people decreased and became a minor priority for the government. Workers' rights protection became minimal on the grounds of protecting the interests of large entrepreneurs. Nanyan (2011:201) mentions that trade unions were almost absent in the country. Moreover, the reform of the Labor Code first adopted in 2004 puts the employer and employee in unequal positions; hence a preference for a policy of low-salary, poor-benefits and low-standard of living for workers is prevalent.<sup>267</sup> The few labor unions that operate in Armenia hardly ever challenge business owners over worker rights.

A simple mechanism is behind the process of social exclusion practiced by oligarchs. First, oligarchs weakened democratic institutions and generated corruption of large-scale levels based on their wealth, resources, and connections, hence excluding all other potential businessmen from entry into business. They also evade and dodge taxes and customs through patronage networks. And finally, oligarchs enjoy customs benefits. Arbitrary practices are frequently used to collect levies and duties, which yet again automatically closes opportunities of new entries into the business sphere. In fact, there are claims that only about 10% of imports pass through proper customs procedures. This is one reason why the

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<sup>266</sup> More specifics on the hampering nature of oligarchic businesses on equitable business development may be found in several reports and observations of international financial institutions, such as "Strategy for Armenia", European Bank for Reconstruction and Development, April 21, 2009 ; "OECD Anti-Corruption Network for Eastern Europe and Central Asia, Istanbul Anti-Corruption Action Plan, second Round of Monitoring Armenia, Monitoring Report", September 29, 2011, p. 7; "Progress Report on the Country Partnership Strategy for the Republic of Armenia", World Bank, June 3, 2011, p. 10.

<sup>267</sup> While the Armenian Labor Code provides a few incentives for certain employees, such as for example, maternity benefits, overall it does not include strong worker protection. As Parliament member Artsvik Minasian, a trained economist, said "employers' interests are taking precedence over employees' interests" (RFL 2010, [http://www.rferl.org/content/Armenian\\_Labor\\_Law\\_Reforms\\_Raise\\_Concerns/2033931.html](http://www.rferl.org/content/Armenian_Labor_Law_Reforms_Raise_Concerns/2033931.html)). The following is some evidence of poor employment benefits and absence of worker protection laws in Armenia:

- According to the 2004 Labor Force Survey (LFS), 23% of Armenian employees in private companies worked based on a verbal labor contracts/agreement (National Statistical Service of the Republic of Armenia, 2005). This is evidence for the need to deepen the legal and contractual regulation of labor relations.
- Overtime work is particularly common in Armenia: by the LFS data, 26% of the workforce works 51 or more hours per week (World Bank 2007). Moreover, there is no wage premium for the overtime employment, particularly if the overtime is verbally agreed between the parties.
- According the World Bank "*Doing Business 2009*" database employment indicators, severance pay for redundancy dismissal after 20 years of employment is very low in Armenia. As compared to the most generous severance pay in other post-Soviet countries, such as Albania (42.9 weeks of pay), followed Slovenia, and Bosnia and Herzegovina (28.9 weeks of pay), Armenia offers the lowest severance pay, only one month of pay. Bulgaria, Georgia, Kazakhstan and Ukraine are similar to Armenia in this regard.

Armenian government collects only about 19.3% of GDP in taxes, compared to the 40% average in the European Union (Crisis Group Europe 2012).

Guriev and Rachinsky (2006) argue that the post-Soviet authoritarian rulers are so affluent that they may be considered the “ultimate oligarchs” of their countries. In the case of Armenia, this speculation is reasonable. U.S. Ambassador to Armenia Marie Yovanovitch similarly observed in 2009: “The murky ownership of Armenia’s major industry clusters is a hidden driver of Armenian politics and elites’ inter-relationships. ... Business elites are thus deeply intertwined with political power, and vice versa, and each has an incentive to preserve the status quo, fearing that regime change could kick off a new campaign of economic redistribution at the expense of today’s oligarchs”. She mentions that there existed two main political/economic pyramids of oligarchs in Armenia, one belonging to the second President Robert Kocharyan, and the other to the current President Sargsyan. According to Yovanovitch, a third major cluster of business enterprises was soon to emerge led by Parliament speaker Hovik Abrahamian (for the years of 2008-2011), who tried to break free of the Kocharyan pyramid.<sup>268</sup>

Not only are many state elites oligarchs in Armenia, but the rest of the oligarchs are ‘endorsed’ and sponsored by the ruling regime. Under top elite’s patronage, oligarchs plague elections with electoral irregularities, such as fraud, bribery, ballot stuffing, intimidation of oppositional voters and party leaders. Garo Yeghukian, an executive board member of Policy Forum Armenia, a U.S.-based research organization, reported that oligarchs influence on Armenian elections is huge. “They’re the ones who distribute election bribes, who intimidate, who break people’s knees, if they have to” (in Aghajanyan 2012).

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<sup>268</sup> Whereas this information is not covert and is frequently discussed among the population, there have been rare, if any efforts by journalists, political scientists, analysts and researchers to officially touch upon this data. There have been a few published stories in the media, which will soon be highlighted in this chapter. In fact, Yovanovitch herself has not mentioned the business of politics openly and publicly; the information was found in a U.S. embassy cable leaked in 2009. There are a series of confidential cables leaked on the topic of oligarchy and how it generated discrepancies and shortcomings in the society related to economic and political issues. Some of these accounts will be discussed here.

The Armenian Constitution does not allow members of Parliament or government to own or run a business, but this law is commonly ignored.<sup>269</sup> For the majority of oligarchs trying to secure a seat in the Armenian Parliament is not so much about influencing policymaking, but more about the immunity and prestige that they get by becoming a government member. Especially prestige is very attractive to those tycoons. In 2011, the first President of post-independent Armenia, Levon Ter-Petrossian claimed that 76 of 131 members of the Armenian Parliament were businessmen. He added that “All of them keep violating the constitution. But they constitute a majority and nothing can be done without them. Today, the parliament is in the hands of oligarchs.” (Ter-Petrossian 2011)

There has never been a detailed examination of the Armenian oligarchy in literature, except spontaneous newspaper coverage on this or that oligarch addressing a specific socio-economic issue that was relevant for a certain period and/or generated public outcry. Although there is very little research or official statistics related to the distribution of assets in the Armenian economy, press coverage and anecdotal data on the wealth of oligarchs in Armenia, who are known and referred by nicknames among people show that a large fraction of this class became rich through controlling the mining and exporting of Armenia’s diamonds, copper, and gold, to name a few<sup>270</sup>. They also dominate major commodity imports, such as gas, wheat, oil, butter, sugar, etc. Aprhamian and Yekikian (2010) state that “business interests of the oligarchic class reflect the makeup of Armenia’s skewed economic landscape as a whole, with imports making up 40% of the GDP, while exports only account

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<sup>269</sup> Article 65 of the Armenian Constitution stipulates: “A Deputy may not be engaged in entrepreneurial activities, hold an office in state and local self-government bodies or in commercial organizations, as well as engage in any other paid occupation, except for scientific, educational and creative work. [Upon entering into business activities] A Deputy shall [resign from his/her parliamentary seat]”. A non-official translation is available on the website of the Armenian government, [www.parliament.am](http://www.parliament.am).

Furthermore, The National Assembly and the Constitutional Court of the Republic of Armenia does not want to or has been so far incapable of enforcing Article 67 of the Constitution of the Republic of Armenia, which states: “The powers of a Deputy shall terminate upon the expiration of the term of office of the National Assembly, dissolution of the National Assembly, *violation of the provisions stipulated in Part 1 of Article 65 of the Constitution*, loss of citizenship, absence from more than half of floor voting in the course of a single session, prison sentence, legal incapacity and resignation from office.” (italics added)

<sup>270</sup>For instance, the following are the nicknames of oligarchs who are at the same time members of Parliament: Lfik (brassiere) Samo, Alyuraghatsi (flour mill) Lyovik, Tsaghik (flower) Rubo, Kombikormi (animal food) Vlad, Lady Hagop, Nemez (Nazi/fascist) Rubo, Dodi (idiot’s son) Gago, etc. Armenians know these businessmen by their nicknames. It wouldn’t be easy for many people to give their real names. Some of these nicknames are based on the products related to which these oligarchs had small businesses before becoming affluent, and some nicknames refer to a feature of their characteristics.

for 10%”. Aprahamian and Yekikian write that 70% of exports are comprised of raw materials, minerals, and stones. Based on this information, one may assume that export activities do not include manufacturing, which in its turn suggests a poor level of employment by these businessmen.

I have compiled an informal chronicle of “who owns what in Armenia”, with the caveat that some of the information is based on rumor, speculation, and interview discussions. Many of the local tycoons included in the list possess businesses that are registered on the names of family members and friends, therefore their wealth presented here may be considered incomplete. For instance, second President Robert Kocharyan’s family assets are estimated to be around 4 billion U.S. dollars. Subsequent president Serzh Sargsyan’s wealth does not lag behind Kocharyan’s wealth.<sup>271</sup> The two presidents are reported to share a significant amount of revenues from a number of government and business revenue streams. According to the US Embassy in Armenia, “it is safe to assume that the sources of this revenue stream include customs proceeds, bribes, and other illegal payments”. Some other oligarchs in the Kocharyan and Sargsyan pyramids are so affluent that their wealth could have been easily included in the international Forbes list. Among them is member of the National Assembly and “Bargavaj Hayastan” (“Prosperous Armenia”) political party leader Gagik Tsarukyan. “The former arm-wrestler started out as a minority shareholder in one of Armenia’s two largest breweries in the late 1990s. The brewery has claimed to be loss-making since then, and it is not clear how exactly the unusually beefy tycoon, who is very close to the ruling regime, has earned his millions” (Danielyan 2005). It is ironic that Tsarukyan’s way to the world of big business and politics began with arm-wrestling. According to Danielyan (2005), Tsarukyan arguably the wealthiest man in the country, owns more than 40 medium and large companies. Only one of the assets belonging to Tsarukyan family, the Bulgarian water bottling company “Gorna Banya”, which was purchased in 2009 by the businessman and his wife Javahir, cost almost 25 million Euros. The mogul’s wealth is rumored to be 400-500 million.

There are no reliable published sources related to activities of oligarchic nature during Ter-Petrosian's presidency. The only businessman hailing from the Ter-Petrosian

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<sup>271</sup> Kocharyan's and Sargsyan's businesses and ownerships wealth are presented in Tables 8.9 and 8.10.

administration, who may be considered to be an oligarch, is Khachatur Sukiasyan.<sup>272</sup> Sukiasyan – a member of the National Assembly (1999-2003 first term and 2003-2012 second term) – continued to hold some businesses after Ter-Petrosian's 1998 ouster. According to the US Embassy Yerevan cable (2011), Sukiasyan owns Restaurant chains Pizza di Roma, Queen burger, Chalet; SIL Hotel and SIL Plaza department store; official distributorship of Phillip Morris; real estates in downtown Yerevan; Golden Wood International (hardwood lumber, flooring strip and finger-joint panel manufacturer); Yerevan Furniture Plant panel manufacturer; Armeconombank (a leading commercial bank); Bjni mineral water plant; Yerevan Polyplast OJSC (manufacturer of various plastic household items, pipes, sanitation piping units, polyethylene film and bags, linoleum and artificial leather); Zovq Factory OJSC (Zovq natural juices factory); a construction business (wood and panel); Star Valley Co. (Dubai): SIL Group's representative in United Arab Emirates; Masis Gofrotara (cardboard and napkin production); and Sevan Grain Milling Company.

Yet again, Sukiasyan family and companies became government targets in retaliation for his support of Ter-Petrosyan's 2008 presidential candidacy. The fact that Sukiasyan's main business, SIL Group, has been substantially disassembled and its most lucrative assets effectively transferred into the hands of President Sargsyan's supporters serves as a good example of how economic power changes in Armenia with the change in political power. For example, in 2008 the government brought tax and other charges against the Bjni Mineral Water Factory, previously belonging to Sukiasyan. The factory was seized by the government and later purchased by another businessman, Ruben Hayrapetyan, a president's loyalist. Sukiasyan supporters say that those charges were fabricated because of Sukiasyan's support for Ter-Petrosian. The government tried to do the same with the "Byuregh" spring water factory, one of the best mineral and spring water production factories in CIS countries, and "Pares Armenia", the exclusive distributor of Phillip Morris tobacco products in Armenia, belonging to Sukiasyan.

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<sup>272</sup>Khachatur Sukiasyan is widely known by the nickname "Grzo" in Armenia. The word 'grzo' does not have any special meaning and is not translated.

Asset stripping, along with bribery, illegal customs proceeds and tax evasion, is considered to be one way of wealth hoarding for some of the oligarchs presented in the following pyramids.

**Table 8.9:** Robert Kocharyan Pyramid

	<b>Type of Business/ Ownership</b>	<b>Government Member/ Public Office</b>	<b>Relation to President/Other Top Official</b>
Robert Kocharyan	<p>MAP CJSC (One of the leading companies in Armenia, manufacturing brandy, wine and canned food) (50% co-owner);                      Areksimbank (co-owner);                      Unibank (co-owner);                      ABB Bank (co-owner);                      Zangezur Copper and Molybdenum Plant (90%);                      Complex Kaputan Sevan (100%);                      Medical Center Nairi (50% together with the Minister of Health Harutiun Kushkyan);                      Brand shops (Emporio Armani, Stefano Ricci, etc.);                      Renko Construction;                      Construction Company “BiShin” (100%);                      Chain stores SAS (50% through Deputy Prime Minister Armen Gevorgian);                      “Noah” konyachno-vinovodochny Mill - 50% (co-owner Gagik Tsarukyan);                      Airport Zvartnots - 50% (30-year lease, co-owner of a citizen of Argentina, Eduardo Eurnekian);                      “K-Telecom” (trade mark VivaCell);                      Agro-industries Ltd. (1870 ha);                      “AraratCement” (33%)                      A large shopping complex in Moscow (co-owner);                      A Casino in Moscow;                      Russia’s “AFK” Sistema<sup>273</sup></p>	Second President of post-independent Armenia (1998-2008)	N/A

<sup>273</sup> Kocharyan is a shareholder and a member of the Board of Directors of Russia’s AFK Sistema. Moscow-based London-listed AFK Sistema is a sprawling operation with interests in some 200 companies ranging from microchips to toy stores. Early on, Sistema created a joint venture with Moscow’s municipal

<b>Table 8.9 Continued</b>			
Gagik Tsarukyan	<p>“Kotayk” Brewery (a joint venture with Castel Beer);</p> <p>“Manana” Grain (one of Armenia’s major wheat importers);</p> <p>Aviaservice CJSC (Airline ticketing; food preparation and service for air passengers);</p> <p>Armenian International Airways (AIA);</p> <p>“Ararat” winery;</p> <p>Multi Group Dairy;</p> <p>Multi Leon chain (gas stations and natural gas stations):</p> <p>“Multi Stone” Plant (travertine export to Europe);</p> <p>Casino Club “Cleopatra”, along with a new casino (“Pyramid”) under construction;</p> <p>Gyumri Textile plant (hidden co-owner);</p> <p>Farm projects (including most of the vegetables sold to the Armenian Military forces);</p> <p>Furniture Salon network (the largest importer of European furniture in the country);</p> <p>Two major retail markets (GUM and Mashtots Ave.);</p> <p>Bulgarian water bottling company “Gorna Banya”</p>	Member of Parliament, 2003-current	Related to Hovik Abrahamyan, Speaker of the National Assembly; Also related to Andranik Manukyan, who has held several top positions in the Armenian government
Sedrak Kocharyan	<p>Converse Bank (30% - 50%)<sup>274</sup>;</p> <p>Ardshininvest Bank (over 50%);</p> <p>“H2” Television station (about 35%);</p> <p>Representation of Toyota company in Armenia;</p> <p>Construction company “Downtown Yerevan”;</p> <p>Network of shops “Star” (30%);</p> <p>Armenian postal service, “HayPost” (50%);</p>	No	Son of the second President Robert Kocharyan

telephone network (MTS) and later received a controlling stake in the network, along with its main assets, which included MTS (now the largest cellular operator in Russia, traded on the NYSE). Since 2008 Sistema has controlled the Indian Sistema Shyam Teleservices Ltd.

<sup>274</sup> Converse Bank is officially owned by billionaire Eduardo Eurnekian, a wealthy businessman from Argentina. He is also the owner “Zvartnoc” airport (Armenia International Airport CJSC) and Gyumri airport. Eurnakian also purchased the Armenian postal service, “HayPost” in 2006.



<b>Table 8.9 Continued</b>			
	Import of mobile phones (80% of the market); Golden Palace Hotel in Yerevan (83%)		
Andranik Manukyan	A monopoly on the import and distribution of Russian Lada cars in Armenia (a booming segment of car market); A share of the Vivacell MTS mobile phone service. Downtown “Metropol” Hotel; Import of Ford, Nissan, and Renault vehicles; A broad range of smaller businesses	Deputy in the Supreme Council of the ASSR, later Member of the National Assembly (1990-1999); Member of the Finance, Credit, Fiscal, and Economic Affairs Committee in NA (1999-2000); Minister of State Revenues (2000- 2001); Minister of Transport and Communication (2001-2008); Advisor to President Sargsyan and RA Ambassador to Ukraine (2008-current)	Related to Gagik Tsarukyan, a member of the National Assembly
Hovik Abrahamyan	A monopoly of significant-scale agribusiness; “ArtFood” company (Armenia’s leading processed food company); A number of alcoholic beverage plants; A considerable percentage of Armenia’s cultivated land and the produce thereof	Member of the National Assembly (1995-current); Minister of Territorial Administration (2000-2008); Speaker of the National Assembly (2008-2011)	Related to Gagik Tsarukyan, a member of the National Assembly

<b>Table 8.9 Continued</b>			
Davit Harutyunyan	A number of businesses, which Harutyunyan does not report <sup>275</sup>	Deputy Minister of Justice (1997 to 1998) Minister of Justice (1998-2007)	No
Yervand Zakharyan	A number of businesses, of which there are no published records or reported disclosures	Deputy Minister of Energy (1992-1993); Minister of Transport (1998-2000); Vice Minister of State Revenues (2000-2001); Minister of State Revenue (2001-2002); Head of state tax service (2002-2003); Mayor of Yerevan (2003-2009); Head of State Committee of Real Estate Cadaster (2009-present)	No
Armen Avetisyan	A number of businesses, of which there are no published records or reported disclosures	Chairman of the State Customs Committee (2000-2008)	

Source: Adapted from Petrov (2010); US. Embassy Yerevan cables (2003 and 2009) available online at [news.am/eng/news/72188.html](http://news.am/eng/news/72188.html) and [www.cablegatesearch.net/cable.php?id=09YEREVAN798](http://www.cablegatesearch.net/cable.php?id=09YEREVAN798)

<sup>275</sup> Press accounts relate Harutyunyan to a number of businesses, although he reports his salary as his sole source of income and asset disclosures. For example, in 2011, “Hetq” investigative Journalists online declare that Harutyunyan’s reported income and the cash deposits in his bank account at the end of the year were very different. The same source states that the Minister is known to be an antiques aficionado with a collection of 198 gold and silver Russian coins and a collection of expensive paintings. These items, according to his asset disclosure, are worth some 8 million AMD. (<http://hetq.am/eng/articles/16464/mp-davit-haroutyunyan-8-million-amd-worth-of-old-coins-and-paintings.html>)

**Table 8.10: Serzh Sargsyan Pyramid**

	<b>Type of Business/Ownership</b>	<b>Government Member/ Public Office</b>	<b>Relation to President/Other Top Official</b>
Hrant Vardanyan <sup>276</sup>	Grand Candy (most dominant Armenian producer of chocolates, sweets, ice creams.); Grand Tobacco (major cigarette producer); Grand Sun (production of and lamps); Alcohol production; Several Company stores and cafe chains	No	Father of Mikhael Vardanyan, Member of the National Assembly
Ruben Hayrapetyan	Co-owner of Grand Tobacco; “Aragats” textile production plant; “Harsnaqar” hotel on Sevan shore (one of the paramount hotels in Armenia); Several gas stations; Other additional minor businesses	Member of the National Assembly (2003-current)	No
Alexander Sargsyan <sup>277</sup>	Large shares in a wide array of big businesses without dominating any sector in particular	Member of the National Assembly (2003-current)	Brother of President Serzh Sargsyan
Harutyun Pambukyan <sup>278</sup>	“MaxGroup” (one of the largest commercial and industrial structures of Armenia, the scope of which ranges from fuel imports to agribusiness); A chain of large retail gas station (GPS); A large candy enterprise; Lusakert Poultry Plant;	Member of the National Assembly (1999-2011)	No

<sup>276</sup> Vardanyan formerly supported both Serzh Sargsyan and Robert Kocharyan, but currently he has devoted his loyalty to the current President Sargsyan and is purely a Sargsyan ally. Thus, Vardanyan has been included in the Sargsyan Pyramid. This concerns most of the oligarchs economically (frequently also politically) active during the last two administrations.

<sup>277</sup> It is widely acknowledged in Armenia that if a businessman faces any problems with taxes, police or other authorities, the easiest way for the businessman to overcome the problem is to give up a significant stake of his business to the brother of third President Sargsyan, Alexander Sargsyan, known as “Sashik”.

<sup>278</sup> “*Haykakan Jamanak*” declares that Pambukyan was a businessman that managed to sell a number of Armenian enterprises to Russians. His biggest deal was selling Armenian distributor electricity networks company to Russians.

<b>Table 8.10 Continued</b>			
	Yeghvard Animal Feed Plant; Stakeholder in Midland Resources (electricity distribution networks)		
Misha Minasyan	Pares Armenia (exclusive distributor of Philip Morris tobacco products in Armenia) <sup>279</sup>	Senior presidential staffer and advisor	Son-in-law of President Serzh Sargsyan
Aghvan Hovsepyan	“Shant” Television; “Shant” Dairy	Prosecutor General (1998-current)	No
Samvel Alexanyan <sup>280</sup>	Lusastgh (Shining Star): produces vodka and vegetable oil, owns supermarkets; Informal ‘Feudal Lord’ of Malatia (a district in Yerevan); Natali Pharm (a chain of pharmacies, imports and distributes drugs); Major importer of wheat, sugar and butter; Other additional minor businesses	Member of the National Assembly (2003-current)	No
Barsegh Beglaryan <sup>281</sup>	Flash Ltd. (One of the two most dominant fuel import companies); Ararat Bank	No	Claimed to be President Sargsyan’s Godfather
Mikhail Baghdassarov	ArmSavings Bank, privatized in 2001; Viktoria Trade (a major wheat importer); Mika Trading (oil products imports and distribution, including 40% of gasoline imports); Armavia (chartered flights to major Russian cities); Hrazdan Cement Plant, renamed to Mika Cement; MIKA Ltd (one of the two most dominant gas station chains);	No	Classmate and best friend of President Serzh Sargsyan

<sup>279</sup> Minasyan owns Pares Armenia, the exclusive distributor of Philip Morris tobacco products in Armenia, when the government deployed the customs service (now the State Revenue Committee) to take control of Pares Armenia from Khachatur Sukiasyan.

<sup>280</sup> Aleksanian, known as “Lfik Samo”, is considered to be a semi-criminal oligarch. He maintains an army of bodyguards and boasts little formal education (maybe the least educated among oligarchs).

<sup>281</sup> Beglaryan is dubbed as “Flash Barsegh”. He is considered to be one of the most loyal businessmen to President Sargsyan, as well the latter’s Godfather.

<b>Table 8.10 Continued</b>			
	Mineral water bottling in Dilijan (Dilijan Frolova); Other major businesses in Russia and Europe		
Serzh Sargsyan	Assets of “Flash” (co-owner) Network of gas-fueling stations; Three wine factories in Nagorno-Karabakh; Distillery (1/3 of all vodka sold in Armenia, 2.3 million liters); Bank “Ararat”; Chain of restaurants “Ararat”; Assets of the company “MIKA” (co-owner), including “Armavia” airlines, imports of fossil fuels, gasoline, kerosene (monopoly), diesel fuel; FC MIKA (estimated 40-50 million USD); Mika-Cement (a construction company), “MIKA House” (more than 5 large elite houses in Yerevan); A Hotel Complex in Moscow; A private house in London; VTB Bank (bought for 300 thousand dollars, sold for \$ 28 million); Network of stores “Jazve”; Supply of small arms by private producers of Bulgaria in the Third World countries; Owner of “Armenakob” and “A1TV” stations	Third President of post-independent Armenia	N/A
Hayrapetyan Family	“Hayastan” Department store; Hotel Ararat; BMW dealer; “Erebuni” textile production plant; A Hotel on Lake Sevan shore; Other additional minor businesses	No	Close to the President’s office, especially to advisor Alexan Harutiunyan

Source: Adapted from Petrov (2010); US. Embassy Yerevan cables (2003 and 2009) available online at <http://news.am/eng/news/72188.html> and [www.cablegatesearch.net/cable.php?id=09YEREVAN798](http://www.cablegatesearch.net/cable.php?id=09YEREVAN798)

Petrov's article (2010), which followed "the first edition of the Armenian Forbes", reveals that six of the businessmen in the below list (those written in italics) have been in the executive branch of the government of the Republic of Armenia (including former and current presidents). The other three businessmen are Members of Parliament. Hrant Vardanyan, who is neither a MP nor a government member, has close ties with the political elites of the country through his son Michael Vardanyan, who is a Member of Parliament. According to law, these politicians were obliged to live 'solely' on their salaries.

1. Gagik Tsarukyan - Chairman of the "Prosperous Armenia" political party;
2. *Armen Avetisyan* - Head of Customs;
3. Mikhail Bagdasarov - President of MICA and the owner of Armavia;
4. Hrant Vardanyan - President of the "Grand Tobacco" and "Grand Candy";
5. Khachatur Sukiasyan – Owner of "SIL group";
6. *Yervand Zakharyan* - Mayor of Yerevan;
7. *Robert Kocharyan* - 1<sup>st</sup> President of Armenia;
8. *Serzh Sargysyan* - Minister of Defense, 2<sup>nd</sup> President of Armenia;
9. *Andranik Manukyan* - Minister of Transport and Communications;
10. *David Harutyunyan* - Minister of Justice

With the presentation of the Armenian wealthiest people, I showed that business interests are closely interrelated with the state's decision-making and the policy outcomes. As observed in Tables 8.9 and 8.10, more than 80% of the top businessmen in the country are government members and representatives of the executive branch, which is illegal by the Armenian law, or closely connected to state elites. It is just a small group of powerful people who control much of the Armenian economic resources and political affairs. This is perhaps common in the world, even in western democracies. The dilemma, however, is that in Armenia as in many transitioning countries the concentration of wealth and power is usually achieved illegally and through violence, which makes the problem of social exclusion more acute.

Regarding the list of the richest people in Armenia, economist Edward Aghajanov said: "If these people paid at least 20% of their incomes to the state budget then good for them. Being rich is not a crime. The only thing that worries our society is what the relations

of these people are with the state budget. As the institute of tax publication is not very developed in our country it is not easy to know the number of rich people and the amount of their capital. In foreign countries this is a quite transparent process. ... In our country rich men do a great job in hiding their actual incomes.” Aghajanov also stated: “If you are from the wing of the government it is not dangerous to be rich. If you are not linked to the government you may be subject to government racket. I know many people, who being successful average businessmen fear to expand their businesses and instead prefer to buy apartments in Armenia.” (Avagyan 2006)

Many believe that Armenia can achieve consolidated democracy, economic success and social equity by eliminating oligarchic monopolies and by reducing oligarchic interference with politics and socio-economic affairs of the country. One of my interviewees, Vazgen Manukyan, for example, believes that social exclusion in Armenia is prevalent because capital and political power are interrelated. While in most countries of the world, including democratic ones, financial elites and political elites support and serve each other, “in Armenia this bond is so tight and massive that the government practically dictates who can become wealthy”. For the rest of the society, specifically those, who have entrepreneurial abilities and motivation to enter into financial markets, the doors are thus shut. The competition is limited not only in economic but also in political sphere. Manukyan added that “it was erroneous of Armenia not to have a law or an act similar to the US Sherman Antitrust Act, a law that restricts and limits a certain level of monopolies and prohibits business activities that reduce competition in the marketplace.”<sup>282</sup>

## **8.6 Conclusion: Results of the Private Sector**

This chapter showed that the privatization process in Armenia increased exclusion of many Armenians from economic life, creating unequal assets, incomes and employment opportunities. Besides the increased economic exclusion, social marginalization of thousands of Armenians also grew, as they lost key channels to education, health care and medicine, basic infrastructure, and social protection due to their reduced purchasing power. The availability, quality, accessibility and affordability of the mentioned social services became

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<sup>282</sup> Quotes are from the personal interview with Vazgen Manukyan conducted on August 29, 2012.

inequitable within the Armenian society. The decrease of financial opportunities and loss of social welfare of the poorer consumers in the private market not only shifted the economic viability and profitability towards the private owners, but it also provided a dominant role for the latter in Armenia's political affairs and policy making. In the absence of inadequate institutions that could protect the rights of the excluded, the latter have persistently experienced insufficient representation in the decision making process. For example, the National Assembly of Armenia has been packed with businessmen and representatives of oligarchic networks, with very little accountability from the public sector. Private ownership of the economy, thus, has increased social exclusion and also made it difficult to ensure political participation for the lower and middle classes of the society. As mentioned in Chapter Two, government leaders together with large business owners "shaped the character of economic and social arrangements, the very stuff of social politics, to their own advantage and to the disadvantage of others" (Byrne 2005). Effectively denied of the economic, political and social rights of citizenship, the disadvantaged groups could not successfully counterbalance the dominant groups.

With the above said, however, it cannot be generalized that privatization process is always a cause of social inequalities, as it has had different outcomes in various Eastern European and post-Soviet countries. The variance in privatization consequences depends on many factors, among them initial conditions of a country, such as geographical location, natural resources, educational and income level of its population, prior economic growth rate, etc. While Armenia's initial conditions (before the structural reforms) that would lead to a successful transition are not considered to be satisfactory, the structural reform itself was poorly conducted in Armenia.<sup>283</sup>

It can be concluded that overall private solutions of the transition period that successfully occurred in some Eastern and Central European countries have not occurred in Armenia. The restructuring process was fraught with unwanted consequences in the Republic of Armenia. An obvious conclusion is that the private sector has played a very weak role in

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<sup>283</sup> Based on initial conditions, such as the level of income, its geopolitical situation, urbanization rate, and natural resources, Armenia was far below the average level of the USSR's initial conditions for a successful transition. The only comparative advantage regarding initial conditions was the very high educational level of Armenian population.



generating employment in Armenia, creating widespread poverty and inequality within the society. Large segments of the population were excluded from productive employment. While the new firms did not secure public employment, the state was not able to guarantee adequate social assistance to the unemployed and underemployed. The main beneficiaries of privatization were the wealthy, the well-connected to government elites, and top government officials themselves. There was a very tiny percentage of really talented entrepreneurs, who were able to secure an economically beneficial place for themselves during privatization due to their knowledge and skills. A majority of the equally talented employees, who could have been new owners of the privatized firms, were excluded from the process, becoming unemployed, underemployed or emigrants working in foreign countries.

State elites in Armenia have nearly always avoided or failed to turn the society into a vigorous participant of political, economic and institutional reforms. While during the first stages of the privatization process, the country lacked an organized civil society, recently developed Armenian civil society has constantly faced enormous objectives in claiming their demands to the state. This concerns public grievances related to transparent information in privatization transactions, discrepancies in the tax system, barriers of business entry and registration for small and medium entrepreneurs, etc.

A very rapid implementation of mass privatization, which was carried out in Armenia through sale of vouchers, implied an already developed level of knowledge and skills, effective methods of corporate management, and institutional capability to create a fair and transparent capital market. However, none of those existed at the beginning of 1990s in Armenia. Instead, privatization transactions were marred with irregularities, most of the auctions were rigged, and illegitimate property rights resulted in expropriation. Armenian mass privatization hampered the production of diffuse ownership of private enterprises due to the following:

- a) Obstacles for entry into the market that impacted the exclusion of specific market players;
- b) fair competition, which implied that market players could influence price formation, either individually or as a group;
- c) transaction costs that were not set reasonably and transparently to all market players; and

d) asymmetry of tax system, i.e., different parties to the same (type of) transaction paid different tax rates.

It also affected social conditions by creating massive unemployment, low salaries, high prices of goods and services due to the following:

- a) Creation of monopolies and a new strata of society – oligarchs;
- b) lack of information and skills to operate companies, due to which newly privatized companies were idle and had to lay off employees; and
- c) asset stripping for gain maximization by new owners.

Most post-privatization companies had to deal with restructuring problems. Maintaining the existing employment levels was for most companies impossible. Financial sustainability and maintenance of high employment levels were conflicting for most companies, particularly the small and medium ones, thus a majority of company employees were fired in order to maintain economic effectiveness. In retrospect, it has been realized that several years were necessary for the players of the privatization process to learn the adequate knowledge necessary to deal with efficient market transactions. An alternative concept of privatization through direct sales and tenders, specifically of medium and large companies with the highest numbers of employees, was not even considered as an option until late 1998. Instead, by 2000 most of the newly privatized companies had low turnover index, which had a direct impact on increasing losses and growing insolvency. Irregular payment and cancellation of salaries for months decreased employees' standard of living. The reaction in terms of protection of rights of the employees and the guaranteed level of minimal payment was the growing dissatisfaction of the masses in Armenia. In conclusion, it is worth bringing in former Prime Minister Darbinian's statement about the role of the state in relation to social protection: "Within the countries in transition, Armenia is among them, re-comprehension of state's role has a definite preponderance, as in the existing conditions the state not only should ensure the uninterrupted activity of state institutions and productive substructures, but as well create favorable conditions for the development and progress through protection of human and citizens' rights and their liberty" (Darbinian 2001:2).

## CHAPTER 9

### Conclusion

“The disposition to admire, and almost to worship, the rich and the powerful and...neglect persons of poor and mean condition...is the great and most universal cause of the corruption of our moral sentiments.” - Adam Smith

### 9.1 Theoretical Implications

This dissertation contributes to understanding the concept of durable social exclusion by focusing on the factors that explain the emergence and persistence of social exclusion in the context of post-Soviet Armenia's twin transition. The aim of the study was not simply to understand what durable social exclusion is in a non-European context, which is the most widely applicable geographic site for the problem, but also to explore alternative factors that would lead to more inclusive societies. This being the primary focus of the dissertation, the particular emphasis was placed on the post-Soviet Armenian society that, based on the available data, was plagued by high degrees of social exclusion. The overarching research question was the following: "What factors contributed to the development of durable social exclusion in post-Soviet Armenia from 1988-2008?"

Based on my theoretical framework, I argued that the industrial and service privatization was an initial trigger for the emergence of social exclusion of the majority of Armenian society in post-Soviet Armenia. It particularly affected the exclusion of citizens from economic opportunities and resources. State militarization after the Karabakh war exacerbated the problem of social exclusion in Armenia, by further intensifying the processes of opportunity hoarding and social closure in the political sphere of public life. In the analysis of the privatization and the state militarization processes, the role of the state, as an important agent that malfunctioned and hampered the development of democratic institutions, was emphasized. The Armenian state elites created an institutional vacuum, which has hindered the promotion of democracy, vibrant civil society, rule of law, human rights, tolerance and non-discrimination, basic prerequisites of social inclusion.

The state apparatus guaranteed the supremacy of the ruling class by the co-option of the main instrument of coercion, the repressive apparatus (army, police, paramilitary forces, etc.). The exploitive domination of politics with a civilian façade, but actually military force, controlled state institutions, particularly the legislative and the judicial branches of the government. This type of state militarization seriously weakened the development of other institutions that could restrict the concentration of the executive power and create more equal social opportunities, thus producing persistent civil unrest. Some of the political and social institutions of the civil state, such as the Armenian political parties and the Armenian civil society, whereas still new, have rapidly developed and strived to protect the rights of ordinary citizens. Nonetheless, the repressiveness of the state, which peaked during president Robert Kocharyan's administration (1998-2008), has gradually eclipsed the rest of the institutions that could support the formation of a socially inclusive society.

Social exclusion is not only important to investigate because many elements of social inclusion, such as economic opportunities and assets, political participation, and social networks are valuable resources in their own right, but also because they influence the success of new generations in basic domains of life, like education, health, family formation. The mentioned elements of social inclusion are also critical for the pace and type of the democratization process in a country. This dissertation contributes to the research literature on social exclusion by studying the following elements of social exclusion: 1) the exclusion of ordinary citizens from economic opportunities and processes, such as unequal and discriminatory prospects in the job market; difficulties in starting a business and investment initiatives; and non-transparent tax system; and 2) political and social marginalization of the same citizens, such as through deficiency of sufficient political participation; resistance to political opposition; deprivation of citizens' rights to influence policy-making; the exploitation of nationalism to achieve political aims; and finally; alack of access to vital social services.

Within the social exclusion literature, the causes of social exclusion were systematized into three main groups: 1) agency-related causes, 2) structural/institutional causes, and 3) causes originating from perverse, pathological, antisocial, and self-destructive values and lifestyles. Causes stemming from the third category were not applicable to this

dissertation, since they are discussed in relation to exclusively social groups at risk (such as the homeless, the alcoholics, drug addicts, pregnant teenagers, etc.), therefore very little attention was paid to causes of exclusion originating from perverse, pathological, antisocial, and self-destructive values and lifestyles.<sup>284</sup> The agency-related causes of social exclusion are somehow related to the third category, and they basically blame human behavior for their own exclusion. Finally, authors, who focus on structures, as the main cause of social exclusion, argue that humans respond to the structures of one kind or another, in which they are situated. A person's economic opportunities, social lifestyle, and political involvement are therefore predicted according to various structures such as class, race and gender, and how a person reacts to the constraints and incentives of those structures.

A myriad of factors that include institutional sources of social exclusion lies within the structural causes of social exclusion. Addressing the particular effects of each of these factors lay outside of the scope of this dissertation, but a few of them, considered to be important in determining social exclusion in the case of Armenia as a transitioning country, were addressed in the theoretical framework of the dissertation. Some were briefly discussed, including the weak/strong civil society, the natural resource abundance, the privatization process and changes in the market labor were briefly discussed. The vital role and significance of courts, the Constitution, and civil society was also mentioned. Acknowledging the importance of the institutional factors, such as the Constitution and Courts, I emphasized that they did not function according to their design *in the presence of authoritarian states, nationalist history and culture*. Thus, the institutional perspective alone, so widely cited for deepening social exclusion in western societies, does not *fully* explain the problem of social exclusion in Armenia.

The limited applicability of the Western society-characteristic accounts of social exclusion to the case of post-Soviet Armenia requires alternative explanations of the problem. It is flawed to discuss social exclusion without the analysis of political power. Consequently, I focused on the various interacting aspects of the problem through the notion

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<sup>284</sup> In the analysis of the problem of social exclusion in post-Soviet Armenia, the emphasis was neither on categorically bounded social groups nor on social groups at risk. The focus was placed on the marginalization of the vast numbers of the society, particularly workers, by powerful state elites and their networks.

of power and employed a range of theories and concepts to study the impact of privatization and state militarization on social exclusion. Each perspective/theory was used to frame some aspect of social exclusion. In particular, the core arguments of the dissertation were basically grounded in the following theories and approaches:

Through the application of the *social closure* and *opportunity hoarding* theories, "instruments of social stratification" (Marshall 1964:110), I analyzed key features of the privatization process in Armenia that resulted in the polarization of the middle and working classes. According to this type of theory of social exclusion, the government was responsible for the regulation of the distribution of resources.<sup>285</sup> "Powerful class and status groups, which have distinct social and cultural identities as well as institutions, use social closure to restrict the access of outsiders to valued resources (such as jobs, good benefits, education, urban locations, valued patterns of consumption)" (Saraceno 2002:7-8). The disadvantaged groups of the society often do not challenge those elites because they are incapable of enforcing rights that undergird inclusion and/or power to do so. I argued that exclusion arose as a consequence of discriminatory policies and practices of Armenian state elites during different stages of the privatization process, who have pursued privileges for themselves excluding other members of a society. The opportunity hoarding was achieved through deficiency of knowledge and skills of ordinary workers to sufficiently operate in the free market totally unfamiliar to them; non-transparent privatization auctions and tenders; artificial barriers to register a private business for the poor and middle class representatives, biased competition practices in the export and import market that favored oligarchs, who, as a class, were created as a result of privatization, and other processes that were discussed in Chapter eight.

Weber's (1919) theory of *state's monopoly on the use of force or violence*, together with Tilly's (1978) concepts of *revolutionary situations and outcomes* were helpful in the comparative analysis of the post-Soviet Armenian state's coercive strength. Incumbents' organizational power, specifically how state elites exercise monopoly on violence, was applied to five post-Soviet countries to emphasize the repressive power of the Armenian

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<sup>285</sup> The assumption derives from state-centered theories of inequality that critique market-driven theories on the basis that capitalists, embroiled in the unregulated market, will act to increase their own wealth, exploiting the lower classes.

regime. The Armenian state's coercive strength was further studied in the context of the Karabakh war. Finally, the consequences of the Armenian state militarization through war was examined in relation to local socio-economic and political affairs, and in this assessment, the *social closure* and *opportunity hoarding* phenomena were re-applied. War-related elites' positioning towards expansion of nationalist politics, by means of which they achieved the elimination of liberal political representatives, as well as the breakdown of social protests and opposition in general in order to maintain their regime, underlined the high degree of political polarization and marginalization in the Armenian society. More than in other post-Soviet countries, the Armenian state elected to "delegate its coercive power as it saw fit", containing revolutionary situations and maintaining alterations in the distribution of power advantageous to economically, politically and militarily powerful members of the society.

A brief outline of the findings of each chapter sustain this dissertation's claim that the combination of the privatization and state militarization processes are relevant to the examination of social exclusion in the post-Soviet transition period of Armenia. In the next section, the main findings of the chapters are discussed and summarized.

## **9.2 Summary of Findings**

To wage an effective attack on the determinants of social exclusion, it was vital to identify the nature and extent of the problem. The first three chapters of the dissertation contributed to this task through a series of analysis. The Introduction chapter focused on the centrality of studying the consequences of social exclusion, highlighting the nefarious effects of the problem on human development in all aspects of life. It underlined the lack of research that deals with causes of the problem in the post-Soviet societies, specifically that its causes and consequences vary significantly in developed and developing countries.

The multidimensional nature of social exclusion, specifically in contrast with the problem of poverty, was the primary discussion of the second chapter. Social exclusion refers to multidimensional disadvantage, whereas the problem of poverty is restricted to monetary shortage. To be labeled "socially excluded", a person/a community/a society needs to be simultaneously excluded along several dimensions. The analysis conducted in the next chapter (Chapter Three) revealed that this is the situation in Armenia. Many Armenians

experience the three forms of exclusion concurrently, adding up to the situation of multidimensional disadvantage. Consequently, if the concept of social exclusion refers to multidimensional disadvantage, "which involves dissociation from major social and occupational milieux from society" (Room 1995:25), it is then relevant to address the issue of social exclusion in discussing economic, social and political problems in post-Soviet Armenia.

The third chapter concerned the problem of social exclusion in post-Soviet Armenia exclusively. The intention to substantiate the critical situation on the problem for the selected case was accomplished through the discussion of the three dimensions of social exclusion (economic, social, and political) separately. Once dubbed the 'Soviet Silicon Valley' because of its high-tech industries, the country became one of the most impoverished in the region (Torosyan 2004). Armenia has lost approximately 20% of its population in recent years; from a population of 3.5 million in 1989, it is estimated that somewhere between 800,000 and 1.2 million Armenians have left the country for employment or residence elsewhere by mid-2000s. It is estimated that 50% of Armenians live below the poverty line, with an average of 570 USD yearly income (Torosyan 2004). Massive unemployment, substantial labor rights violations, migration, the wide gap between the rich and the poor, human rights violations, corruption, political intimidation add to the sense of a society under threat. Moreover, there is an absence of state control over vital spheres of life and weak development of democratic institutions, which have a toll on the moral and psychological atmosphere in society (Nranyan 2011:213-214).

The chapter also demonstrated the durability of social exclusion in Armenia, presenting available data and information on the Gini coefficient, employment trends, challenges of low income families in the educational and health sectors, and human rights issues throughout the 1990s and 2000s, showing that it persisted for more than a decade.

In Chapter Four, I specified the research design of the dissertation, with a thorough discussion of the hypotheses and the operationalization of the important concepts of the study. Given the dearth of theoretical explanations regarding causes of social exclusion in non-Western societies, the analysis of this study was limited to two hypotheses that focused



on the role of the privatization process, and the role of the Karabakhwar and state militarization. It is almost certainly accurate to state that those two factors had a significant effect on the re-structuring of the Armenian society towards a more stratified society. However, the question of whether the consequences of privatization or state militarization on increasing social exclusion should be treated separately or together with other national and international processes and their dynamics merits further exploration. Acknowledging that this is one of the limitations of my study, I note that the examination of social exclusion needs further fine-grained analysis buttressed with alternative hypotheses. Similarly, the recently increasing similar scenarios in the world, with mounting public grievances, social movements, 'revolutions' aiming to overthrow their repressive regimes, and states' responses to those grievances present an interesting laboratory for a comparative study of militarized states and social exclusion. The latest examples of the March 2011-present Syrian civil war, 2012-2013 Egyptian protests, and more recently, the political turmoil in Ukraine, most famously known as Euromaidan (literally Eurosquare) that started in November of 2013 are excellent cases of comparison. On the other hand, in the background of rapidly mounting violence in those countries, it is important to discern when the 'militarization' features transmit to the society, and the socially excluded become the aggressors of violence rather than advocates of social inclusion.

In Chapter Five, using student surveys, I gauged public perceptions of key issues central to Armenian self-perceived exclusion. Results of the survey data revealed public attitudes of overall social exclusion in Armenia that were similar to the social exclusion situation described in Chapter Three. Similar to political elites and researchers interviewed for this dissertation, the surveyed public confirmed that social exclusion exists in Armenia as a serious problem and that it is intensely acknowledged by ordinary citizens.

It was also critical to understand whether the hypothesized factors are crucial for the Armenian citizens in evaluating the problem of social exclusion. What other factors, besides the regime type and the alterations of the labor market due to privatization, affect self-perceptions of exclusion? In this regard, the results pointed towards the direction of primary institutions of the state. The survey concluded that Armenian people relate their dire socio-economic situation and grievances particularly with their president's choices and actions, the

National Assembly's (the parliament) policy-making ability, and the authoritarian nature of the security sector, more than to any other institution or factor, either local or international.

This finding is in line with prior research in Armenia that has dealt with the consequences of latest political regimes on anti-democratic tendencies in Armenia. Harutyunyan (2009), for example, contends that the current political elites and the national identity endorsed by them are predominantly ethno-nationalist; consequently, policy decisions made by state officials are to a large extent "unreflective of citizenry choices".<sup>286</sup> Fraudulent elections are a norm rather than an exception, and elected officials are not obliged by their promises to represent publicly approved policies and societal demands. Based on the survey results, Armenians agree that Armenia's politics does not fit into minimalist procedural definitions of democracy, where electing leaders competitively is a minimum requirement for democracy and where the legitimacy of public decisions and decision-makers is guaranteed as a result of their competitive electoral victory (Harutyunyan 2009).

The core discussion of the sixth chapter was an effort to connect failed social movements to the explanation of growing social exclusion through a comparative examination of five post-Soviet states (Georgia, Ukraine, Kyrgyzstan, Armenia and Azerbaijan) that experienced similar waves of repeated social movements against social exclusion and different outcomes based on their states' repressive capacity.<sup>287</sup> The chapter focused on the conditions that made certain post-Soviet states in transition, namely Armenia and Azerbaijan, more repressive than others. It also analyzed the waves of massive protests in Armenia and Azerbaijan that did not manage to turn into revolutions, in contrast to the Rose revolution in Georgia, the Orange revolution in Ukraine, and the Tulip revolution in Kyrgyzstan. First, through the quantitative examination of the military budgets and

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<sup>286</sup> The ethno-nationalist type of identity as a norm is resistant to and intolerant of alternative explanations and new ideas pertaining to national self-definition. State elites endorsing the ethno-nationalist type of identity block any new ideas that challenge the collectivistic sense and the conventional interpretation of national identity.

<sup>287</sup> One may argue and it is important to note that those five countries experienced different levels of social exclusion. However, although the overall social exclusion might have been less severe in one country than in another, certain dimensions of the problem had high degrees in all of them. Ukraine, for example, might have been characterized with less economic exclusion, than, for example, Kyrgyzstan, Azerbaijan or Armenia, but its social and political dimensions were as critical as of the latter countries. Therefore, if protests and demonstrations resulted due to even one or two forms of social disadvantage, I still considered those movements as grievances against social exclusion in general.

manpower ratios in the selected cases and secondly, through a descriptive analysis of revolutionary situations and outcomes in the mentioned countries, based on the state-centrist approach, I demonstrated the highly militarized nature of the Armenian state. The chapter re-emphasized that the Armenian state elites are indeed apathetic to the demands of the citizenry, and they manage to maintain their aloof dominance by strengthening and co-opting the coercive apparatus. The main conclusion of this chapter was that Armenia, along with Azerbaijan, was more militarized than Georgia, Ukraine and Kyrgyzstan, because of an external war, and that it affected negatively the outcome of social movements.

State and politics each become militarized, when there is an increase in military prerogatives (Bowman, 2002:19; Stepan, 1988). The expansion of the military prerogative in Armenia was rooted in the Nagorno-Karabakh armed conflict. Chapter Seven was devoted to the analysis of this military prerogative, arguing that assertive war-affiliated leadership of Armenia, although not a majority, posed an alarming threat to the development of social democratic reform in the country. It increased social exclusion through arbitrary, forceful sacking of pragmatic and democratic politicians and shifting political developments and socio-economic reform to their own benefit.

The Karabakh war did not create militarization through only symptoms such as rush to obtain armaments, increased military budgets and military manpower, but also through the growing role of field commanders in national affairs even after war. A few of those leaders have been inclined to make Armenia's security a very strong basis for breeding nationalism.<sup>288</sup> They made it a political tool to avoid resolving many serious political and socio-economic problems dominating the public agenda. In this sense, the Armenian militarized state is very similar to a "racketeering state", a state that manipulates insecurity of victory in war (Tilly 1985; Lynch 2002). "Someone, who produces the danger and, at a price, the shield against it is a racketeer" (Tilly 1985). The fear of the Armenian nation not to attain hard-achieved victory became a source of exploitation for the Armenian racketeering state.<sup>289</sup> The racketeering nature of the Armenian state that resulted from *victory* in

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<sup>288</sup> In Chapter Seven, a detailed discussion regarding those leaders, representatives of the "Party of Karabakh", was provided.

<sup>289</sup> The conflict over Nagorno-Karabakh has the characteristics of a "protracted conflict", which denotes hostile interactions between groups or nations that are embedded in deep-seated racial, ethnic, religious and cultural

Karabakhwar thus became a critical source of social exclusion in Armenia. Through the racketeering dimension, coupled with the absence of the rule of law – rudiments of state militarization in Armenia and Karabakh – opportunity hoarding and social closure as a means of exploitation took place. The group of elites, most typically those who had control over armed forces as a result of war, have monopolized resources by closing opportunities for other members of the society and shared their power only with networks supportive of their activities.

One of the findings of the chapter was that the victory in war encouraged “feudalization” of the Armenian state in the military realm, which emphasizes a clientelistic relationship between the state and another institution or [an] individual(s). In exchange for support or for a service, the state allows an official/an individual or an institution to exploit certain resources (Fairbanks 1999). When the “feudalization of the state” expands to the military realm, the “multiple militaries”, including the Interior Ministry, the National Security Service, and the Armed Forces also “moonlight” as bodyguards, protectors of private shipments and warehouses, and the like, relieving the budget while doing political favors. Only a thin line separates this activity from a protection racket.” (Fairbanks 1999:48) The three post-war events analyzed in Chapter Seven were the causes and consequences of the “feudalization of the state” in the military realm, through which government leaders continued their nationalist policies and resource monopolization.<sup>290</sup>

As a result of those nationalist strategies Armenia has a poor economy with a huge gap between the wealthy and the poor. The latter has in its turn also increased the demographic problems in the country, and thousands of people leave the country every year. Those policies have starved Armenia of the opportunities for regional integration and trade. According to the World Bank, with the opening of borders with Turkey (which were closed after the war), Armenia’s exports would double in the short term, and its GDP would

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hatreds, and that persist over long periods of time with sporadic outbreaks of violence (Fisher 2001:308). Whereas the roots of Karabakh war are not embedded on religious or cultural hatreds, but a territorial disagreement, it is the most prolonged frozen conflict in the post-Soviet space, and tensions between the two nations prevail up until today. Both Armenians and Azeris believe Karabakh to be an essential element of their national identity and nationhood, both believe in their historic claims over the region, and this belief creates a sense of insecurity in the face of the threat by the other side.

<sup>290</sup> Those events were: 1) the resignation of president Levon Ter-Petrosian in 1998; 2) the 1999 Parliament shooting, and 3) 2008 March repression of post-electoral protests.

increase by an estimated 30 percent (Polyakov 2001:37). Meanwhile, corruption permeates every aspect of daily life due to legal uncertainty. This dynamic is both an outcome and supporter of the status quo on the Karabakh issue (King 2001).

Armenia is currently less significant in the region and its relations with the West have been undermined. At the same time its dependence on Russia has increased, as Armenian leaders allow Russian military presence in the country for security reasons. Also, the economy is chiefly governed by Russian business interests. An example of an economically negative consequence of the Armenian nationalist policies was that Armenia was bypassed as a transit country in the Baku-Tbilisi-Ceyhan (BTC) pipeline project, because Armenian officials refused to withdraw from occupied Azerbaijani territories.<sup>291</sup> Similar examples are the Baku-Tbilisi-Erzrum (BTE) natural gas pipeline and the Kars-Tbilisi-Baku railway.<sup>292</sup> Both of these projects, similar to the BTC, directly bypass Armenia despite the economic logic and geographic convenience of incorporating Armenia. Armenia, which has no coal, natural gas or oil of its own and had long been suffering from severe energy shortages, should strive to be involved in those types of projects, instead of casting itself out. A key observation here is that the consequences of Armenia's poor economy first of all affect the livelihoods of middle and poorer families, depriving them of employment opportunities.

Some authors, among them Tchilingirian (2005), argue that it is a mistake to attribute democratic deficiencies and the problem of social inequalities in both Armenia and Azerbaijan to the Karabakh conflict and its consequences. Tchilingirian supports his argument by the fact that other post-Soviet states, such as Belarus or Turkmenistan which, as opposed to Armenia and Azerbaijan, lack secessionist conflicts, are not characterized with successful democratic transitions. He instead believes that the absence of democratic development in Armenia, Azerbaijan and other states in the region is due to “a combination of regime-induced and inherited systemic problems” (page 64). Whereas I agree that regime-

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<sup>291</sup> The Baku-Tbilisi-Ceyhan pipeline (BCT) is a 1,768 kilometer-long (1,099 miles) crude oil pipeline that carries oil from the Caspian Sea to the Mediterranean Sea. BCT connects Baku (the capital of Azerbaijan) and Ceyhan, a port in the south-eastern coast of Turkey, through Tbilisi (the capital of Georgia). Being the second largest oil pipeline in the former Soviet Union after the Druzhba pipeline, the BCT marks the Caspian region as a new force in the world's oil markets. The pipeline bypasses Armenia, and thus deepens the economic isolation of Armenia. The first oil was pumped from the Baku end of the pipeline and reached Ceyhan in May, 2005.

<sup>292</sup> The Kars-Tbilisi-Baku railway was a project initiated after the closure of the Kars-Gyumri-Tbilisi railway, which was passing through Armenia.

induced problems, as well as other structural problems inherited from the Soviet legacy are important, I also stress that there are certain factors that make those regimes more autocratic and dictatorial. While nearly all Soviet states inherited systemic problems and non-democratic practices, not all of the post-Soviet states have high levels of state militarization that substantially affect the social exclusion problem through different channels. Those nations, such as Armenians and Azeris, Russians and Chechens, which have gone through a conflict with another country, are more susceptible to nationalist ideas and practices, which often become the basis of coercion and violence on behalf of their states. A nation's vulnerability towards extreme nationalism becomes its own peril. This has been the case of the Armenian nation.

Tchilingirian (2005), although discounting the Karabakh conflict as a cause of the lack of democracy in Armenia and Azerbaijan, describes Armenian and Azeri presidents' statements regarding the settlement of Karabakh as essential for understanding state-society relations in those countries. In September of 2005 President Ilham Aliyev announced: "We are creating a strong military potential, and the enemy must know that Azerbaijan is capable of liberating its lands at any moment"<sup>293</sup>. The Armenian president Robert Kocharyan, a native of Karabakh, retorted putting it more bluntly: "Nagorno-Karabakh has never been part of Azerbaijan and never will be. This is the bottom line. Beyond [that] one can think of some solutions and invent new statuses." (page 64) According to Tchilingirian, political leaders' deterministic judgments like these have had a great impact on public perceptions. He considers that the resolution of the conflict has become a major problem for the Armenian society and its egalitarian development because the Armenian people over-depend on individual leaders. Thus, the centrality of those leaders, rather than institutions and civil society, is a key factor for the development of autocratic practices in Armenia.

Tchilingirian disregards that after independence there was a lack of institutions and civil society in the Republic of Armenia. In those circumstances, it was natural that people's over-dependence on certain political leaders would become a tendency in solving socio-political matters, among them resolving the frozen conflict. Moreover, it is not so much the

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<sup>293</sup> In the same speech, Aliyev publicly stressed that Baku was intending to double its military budget in 2006 to about US\$600 million.

over-dependence of people on individual leaders per se that create non-democratic tendencies in the country, but rather the constant fear of the small nation to be defeated and, therefore, its powerful nationalistic stance on both domestic and foreign affairs. It is this nationalism among the people that allows state leaders to constantly manipulate the danger of a potential war in order to have a strong hold on military forces and use it to their own advantage.

Concerning conflict resolution, Tchilingirian (2005:66-67), also argues that “the extreme forms of ‘othering’, that is the demonization and exclusion of the ‘other group’, whether Armenians in Azerbaijan or Azerbaijanis in Armenia and Karabakh”, has become a formidable and yet an overlooked problem for conflict resolution in South Caucasus.<sup>294</sup> Besides the structural weaknesses of states, the social discourse of ‘othering’ becomes a major factor for both nations and states to have predominantly military-oriented politics and government leaders, who exploit this idea of ‘othering’. Thus, agreeing with the ‘othering’ discourse, yet disagreeing with Tchilingirian that Karabakh conflict has not been essential for the democratization process and the development of equal social, political and economic rights for Armenian citizens, I argued that the above-discussed powerful sense of nationalism, which in post-Soviet Armenia basically was expressed within the framework of the Karabakh conflict, facilitated the exploitation of the idea of ‘othering’ by state elites.<sup>295</sup> Indeed, one of the most emotional issues in Armenia, the issue of Karabakh, “both a source of inspiration and a cause for concern, ... elevates, but it also makes Armenians vulnerable to manipulation from within and without” (Libaridian 1999:14).

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<sup>294</sup> For the Azeri people, the ‘othering’ discourse is embedded in their military defeat in the Karabakh war, loss of territory and the issue of about 800,000 refugees and internally displaced persons (IDPs). For the Armenians, it is mainly embedded in the memory of the 1915 Armenian genocide by Turks, the 1988 Sumgait Pogroms of Armenians in Soviet Azerbaijan by Azeri ethnic groups, as well as the sense and mentality of national victimhood and constant fear of a small nation to be attacked and annihilated (Tchilingirian 2005, pp. 66-67).

<sup>295</sup> This argument may be supported, for example, by the conduct and statements of both Armenian and Azeri authorities in the aftermath of the 2008 post-electoral tumult in Armenia. Close attention to Azeri officials’ indication that the Armenian government organized the clashes on border of Mardakert right after elections in order to distract local grievances reveals the significance of ‘othering’ in controlling public dissent and rebellion. Animosity towards the neighbor nation (in this situation the notion of ‘othering’) serves a ‘reasonable’ ground for an easy distraction. No other cause would be as valid to grip people’s attention, as the cause of external threat.

In their turn, the Armenian authorities blamed Azeri attempts to violate the ceasefire of the 1994 between Armenia and Azerbaijan and organizing the borderline clashes with hopes to make Azeri people’s sense of ‘othering’ even more profound. This would allow the Azeri government to restart war with Armenia. In this regard, Azerbaijan’s President Aliyev has stressed several times that his country was ready to re-take the region by force and has been buying the military hardware and ammunition to do so.

Two issues that have strong political implications for the governing elites in Armenia – to maintain their regime and exclude the less powerful – have dominated recent narratives in Armenia. One, as discussed in Chapter Seven, has been the rhetoric of the Armenian state's military power, legitimized by the power structures and spiced up with national sentiments. The second was the rhetoric of economic growth, manipulated by the neoliberal oligarchy. The main discussion of Chapter Eight related to this rhetoric of 'growth' that was assumed to be a consequence of private market transactions in Armenia. The result of this growth was an increased social polarization, instead of the recovery of existing social problems.

Double-digit growth was recorded due to the privatization in Armenia, but it has been subject to much controversy. “Economic polarization is too high for the greater part of the population to benefit from the rapid economic growth. Worse still, the growth, combined with polarization, serve[d] to further enhance social inequality,” mentioned *Delovoy Express*, a leading business weekly in Yerevan (AGBU News Magazine, 2008, page 7). “Just a few families are the country’s main employers,” said Hrant Bagratian, Armenia’s 1993-1996 Prime Minister. “In the US, ten wealthiest families control 2.3% of the country’s gross domestic product. In Armenia, they control 55%”. (AGBU News Magazine, 2008, page 7)

Many experts agree there is a middle class emerging in the country, although estimates of its size and basic parameters vary. The Armenian Sociological Association estimates it at 10-12% of the population; a study by the Armenian Center for National and International Studies, at just over 15%. Also, one should not over-estimate recent economic development in Armenia. According to data given by Armenian banks, 15% of the GDP is dependent on foreign remittances, and if one includes remittances that take place outside the banking system, this figure could go up to 30% by some estimates (AGBU News Magazine, 2008, page 7).

The chapter concluded that Armenian privatization hampered the production of diffuse ownership of private enterprises and increased dire social conditions by creating massive unemployment, low salaries and poor employment benefits, and high prices of goods and services. The process also created monopolies and oligarchs that have rigorously



excluded other market players from business deals. Those oligarchic interests were not only dominant in the economic realm, but also in the policy-making process (please refer to the *Oligarchic Pyramids*, tables 8.8, 8.9, 8.10). These socially inefficient consequences of the privatization process were due to several factors. At the initial stages of the industrial privatization, Armenian state failed to become an adequate watchdog of economic activities, and market transactions were not properly regulated. Due to the shortage of knowledge and experience related to free-market transactions, free and fair competition was not ensured. At further stages, in the privatization of bigger industries, the interests of entrepreneurs without connections and power were not safeguarded, increasing economic exclusion.

### **9.3 Key Findings and Contributions**

A number of studies exploring social exclusion in developing countries focus on mainly causes and correlates of poverty. Focusing on the identification of merely the economic dimension of social exclusion, these studies have ignored political change and neglected socio-political processes. Moreover, the social exclusion frameworks, particularly the few developed for the context of the post-Soviet region, predominantly analyze characteristics of social exclusion rather than processes that lead to social exclusion. Their theoretical suggestions and practical recommendations are mainly directed towards poverty alleviation policies. The exploration and rectification of political processes that result in overall social exclusion are therefore left behind. A most noteworthy feature of this study is that it brings a shift in the emphasis from outcomes to processes. Such an emphasis in the social exclusion approach will help divert the attention of the research engaged with the problem in developing countries towards political correlates and bring the examination of processes of exclusion to the fore.

I argued that because of high levels of social exclusion coexisting with strong social movements against it, Armenia is an ideal case for empirically testing theoretical expectations pertaining to social exclusion. Indeed, the case study of social exclusion in post-Soviet transitioning Armenia offers a number of valuable insights with broader theoretical implications.

Overall, the findings of my research suggest different possible expansions and revisions of earlier empirically based research of the social exclusion problem on one hand, and possible developments of concepts regarding the problem, on the other. The key findings of my research and possible expansions of earlier research are presented in the following section.

The study presents evidence in support of the hypotheses of privatization and state militarization to explain the vexing problem of social exclusion, and this is a rare approach within the scholarly and policy debates on the issue not only in Armenia but in most transitioning countries. One of the novelties of this research is that it emphasizes the centrality of state elites and their interaction with other structures and layers of the society in the reduction or durability of social exclusion problem. This dissertation, thus, has developed a state-oriented theoretical perspective on the success of social movements, economic growth with an equitable distribution of resources, democratic consolidation, human rights development, and social inclusion prospects in the context of post-Soviet Armenia's transition.

Indirectly and largely, I argued that the mere presence of certain institutions, able to decrease economic or political exclusion, has minor consequences for a more inclusive society, in case the state structure, more specifically the regime type, is not favorable for the former's productive performance. As one of my colleagues put it, "the problem is not so much about the *de jure* laws ..., but in the *de facto* administration and enforcement of those rules. ... The key finding in this respect is that *de jure* laws can be simple but the actual practice of dealing with officials along the way can be quite cumbersome without proper administration" (Kobonbaev 2010:190). Agreeing with Kobonbaev (2010), I should stress that the above-mentioned 'actual practice', 'proper administration', and the 'de facto administration of rules' greatly hinge upon the willingness, will and decency of state elites, at least in the case of peripheral countries.

The main theoretical contribution of this dissertation is that in post-Soviet Armenia the exclusionary character of militarized state elites has been the main driver of durable social exclusion. Particularly a few hegemonic elites, specifically the members of the

"Karabakh Party" ascended from the Karabakh war that have been able to effectively monopolize the privatization benefits on one hand and use the coercive apparatus of the state on the other hand, were detrimental in the marginalization of many citizens in economic and political affairs of the country. Therefore, broadly speaking, this dissertation puts forward a focal policy lesson that controlling social unfairness is not fundamentally about the existence of credible institutions, but more importantly ensuring that in the interaction of state elites with those institutions and different clusters of the society, the checks and balances work appropriately so that the power is not unilaterally skewed towards the executive.

The case of Armenia provides additional evidence supporting the conclusion that institutions in transitioning countries have often great designs with poor performance. In other words, even though the Armenian Constitution is relatively well-written, Armenian civil society is strong and continuously maturing and the Armenian citizens are technologically and intellectually developed, it does not necessarily enhance social inclusion. The courts and the constitution are highly subject to the executive's whims in regard to policies and their implementation. The rest of the institutional framework, such as the unofficial norms and behavior, is consequently, weakened and heavily reliant on the irrational structure and implementation of official rules and norms, or in other words, the government's practices. "In Armenia, where electoral victory largely is not dependent on effective functioning of institutional-procedural mechanisms, politicians neither can reasonably be held responsive and accountable for their decisions nor will they have electoral incentives to confine their decisions to reflect wishes of the electorate" (Harutyunyan 2009:317).

More specifically, first, the findings of this study challenge the extensive literature on the link between privatization and socially positive consequences of economic growth resulting from privatization. Empirically, this finding challenges the simplistic view that privatization promotes economic equality through economic growth and the "trickle-down" effect of that growth to wide segments of the population.<sup>296</sup> It reinforces the argument that

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<sup>296</sup> The "trickle-down" effect is a market-related phenomenon that refers to economic benefits, such as tax breaks, provided to businessmen and the wealthy, which in the long-run are supposed to benefit poorer members of the society by improving the overall economy. The term has been attributed to humorist Will

that fast-paced privatization produced greater income inequality between the top and bottom social groups in post-Soviet Armenia, generated unemployment, under-employment and low salaries. Whereas many aspects of capitalist economy and governance, among them private and corporate ownership of goods, services and industries, might be economically and socially progressive in certain economies, the privatization process did not work efficiently for the Armenian society. Both the quantitative analysis and the qualitative analysis confirmed that the majority of the society, particularly the working class, was excluded from labor markets due to the privatization failures in post-Soviet Armenia. Ordinary citizens had also problems with voucher use and with business registrations; therefore, very few of them could become private owners. These anomalies of privatization remained largely undetected in the extensive post-Soviet literature on privatization, as well as in the rare post-Soviet literature on social exclusion.

Theoretically, the analysis of the hypothesis related to the link between privatization and social exclusion offers a critical discussion of boundaries and processes of social exclusion in the Armenian labor market. Privatization produces and maintains income inequality in developing market economies. An important implication, therefore, concerns the speed and scale of a privatization policy, and that social boundaries are often reinforced by the practice of privatization.

Scholars have long established a link between state militarization and social cohesion. As a second theoretical contribution, this study offers a cautious observation regarding the classical school of state militarization (Andreski 1954 and 1968, Janowitz 1977). It addresses the misleading argument of the traditional assumption that high military participation ratios flatten social stratification and supports the more recent literature that criticize this view, emphasizing that wars benefit elites and leave the brunt of the cost on the masses to bear, particularly in developing countries (Hewedy 1989, Ross 1999, 2001; Bowman 2002; Torvik 2002; Robinson, Torvik, and Verdier 2006; Mehlum, Moene, and Torvik 2006; Scherbak 2008).

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Rogers, who said during the Great depression that "money was all appropriated for the top in hopes that it would trickle down to the needy" (Hunt 2011).

Essentially, the analysis developed in Chapter Eight, demonstrates that assuming unproblematic relationships between the promotion of nationalist policies, intolerant foreign diplomacy, and an extremely coercive state on one hand and a socially inclusive society, on the other, obscures the examination of social exclusion, particularly its political dimension. Consistent with this rare scholarly consensus, I argue that state militarization implies constant failure of social movements, collapse of social demands, consequent political alienation and apathy among people, all of which reflect systemic problems in the durability of social exclusion. Consequently, advancing the scholarship of social exclusion in the framework of opportunity hoarding by repressive state elites is a useful alternative for policy debates concerning the tolerable boundaries of militarized states and their consequences on economic redistribution, political polarization and social marginalization.

As a general conclusion, this research contributes to our further understanding of social exclusion, with implications for societal and structural changes. Most fundamentally, it suggests that fast-paced privatization of industries and social services in institutionally weak societies and concurrently repressive/militarized states is not compatible with policies aimed at social inclusion and social welfare. The creation of a more inclusive society requires a twin commitment of creating opportunity and a bedrock of support. This type of commitment is impossible within militarized states. Unless an autocratic state changes its tendency towards increased militarization, particularly in peacetime, the probability of greater social inclusion in a society is slim. However, since the findings of this research are based on a case study, the generalization of the above suggestions into a grand theory or a policy lesson may be misleading without further comparative studies, as the findings might overlook significant differences existing within other post-Soviet republics and other developing countries. This leads me to the limitations and shortcomings of the current research, which will be discussed in the following section.

#### **9.4 Limitations**

There are several limitations of the current research that need to be acknowledged. This dissertation provides mainly qualitative evidence for the assertions regarding the negative effect of privatization and state militarization on the maintenance of social exclusion

in post-Soviet Armenia based on historical analysis of political events, but it cannot quantitatively test all implications directly due to the shortage of consistent longitudinal data.

Another shortcoming is related to the idea of examining social exclusion of not bounded groups, but as a problem of a larger section of a society versus a small class of powerful people. Here the emphasis is on the power relations rather than particular policies directed to certain marginalized groups. It is not about state policies against a societal class or a group discriminated based on gender, ethnic belonging, creed, or religious practices. It is about the powerful elites, who exercise domination and hegemony over the powerless that are defenseless against the former. It is about a few individuals on top of the state hierarchy and their networks versus the vast majority of citizens.

Indeed, one may collectively call these socially excluded people the underclass, but then there exists the problem of measurement. What are the benchmarks for measuring the excluded? How do we define and measure the underclass without limiting them to poverty lines? Or how do we define and measure the excluders, without including specifications? As mentioned several times in this dissertation, there was a lack of precise benchmarks of social exclusion for the excluded populace over the studied period, therefore durable social exclusion here was examined in a mixed combination of indicators of the three dimensions of social exclusion. Due to this specification issue together with the shortage and inconsistency of annual data on quantitative measures of social exclusion, I have presented a very broad picture of social exclusion in Armenia with broadly defined and measured excluded groups. One may also notice that indicators of economic exclusion, such as high Gini coefficient rates, may have been strong in mid-1990s, and indicators of social and political exclusion, such as political arrests, assassinations, human rights violations, and unconstitutional breakdowns of social protests, have been more prevalent since the end of 1990s; thus the durability of social exclusion in Armenia was not persistently and necessarily expressed by all three aspects in different administrations of the examined period.

Achieving greater social inclusion implies, first of all, the refinement of exclusion measurements. Whereas this study is based on mostly a qualitative evaluation of the problem, one may always think of more accurate, more creative and more quantitative ways of

measuring social exclusion within a society. The choices are ample, but finding the best method to measure social exclusion in a certain society may require a unique approach. In future research, in order to avoid methodological errors and present a more consistent picture of social exclusion over a time period, a specifically narrow layer of the society that is deprived of certain resources and opportunities should be chosen. The importance of a straightforward differentiation between social groups (the excluded and the excluders) is also important in order to meet effectively the needs of the excluded.

A third irksome issue is related to the dynamic nature of the phenomenon of social exclusion. On one hand, a researcher has to consider the multidimensional and durable character of the problem, on the other, he/she needs to be very specific about what factors cause which form or aspect of the problem. For example, it is possible that whereas an agency-related factor explains the *emergence* of social exclusion more accurately, the same factor may not have a significant influence on the *durability* of the problem. The durability of social exclusion might be conditioned by structural factors, rather than agency-related factors. Since the effect of certain factors on social exclusion as a multidimensional phenomenon is complicated to capture, the different dimensions of social exclusion must be disentangled for analytical purposes. A failure to do so may lead to overlooking fundamental causal differences existing among each dimension of social exclusion.

The united analysis of the three aspects of social exclusion has been a major research approach in Western mainstream literature on the theme, which I followed. However, in the case of post-Soviet Armenia, where a narrow-specified group of the excluded was not chosen, the disentangled method of examining economic, political and social dimensions of the problem may have been more appropriate. Also, a clear separation of causal factors in future research is essential. Whereas in this dissertation I have tried to show that the privatization process has impacted the economic aspect of social exclusion in Armenia, and state militarization has affected predominantly its social and political aspects, the task should be handled more distinctively in the early stages of future research on social exclusion.

In the course of conducting this research, comments have been made on both the advantages and shortcomings of the case study as the research design of this dissertation. The first reason for the methodological preference of an exploratory case study over a

comparative study for this research was related to the shortage of research on social exclusion in potentially comparable post-Soviet studies.<sup>297</sup> Comparative research embodies the logic of hypothesis testing with a greater strength and validity and leads to the formation of new perspectives and theories. It allows to discriminate, to connect, and to challenge existing theories by providing historical explanations of several cases. Nonetheless, whereas it is beneficial to conduct comparative research on social exclusion, because it broadens our comprehension of social phenomena, only certain countries can be successfully measured cross-nationally. I have not chosen the comparative method because of the latter's potential limitation to comprehend socio-political actors, institutions, structures and phenomena characterized by the boundaries of a single nation as thoroughly, as a case study can do.

The existence of social exclusion cannot be explained by the same factors in all countries. The formation of social exclusion and emergence of social movements against it, for example, may be the consequence of quite similar welfare policies and similar formal institutional frameworks, but different historical-cultural factors and other contextual variables, which in turn affect a state's structure, alliances between different clusters of society, elite cohesion, strength or weakness of political parties in policy making, and many more. Differences in the institutional frameworks, the state structure, policies and norms can make the comparison between countries difficult, and the more different the countries are the more difficult it can be to make sense of the comparison. The interpretation of the findings then becomes a challenge. In this sense, it is not reasonable, for example, to compare the multidimensional problem of social exclusion of a periphery or a semi-periphery, which Armenia is, with that of a liberal democracy. As already mentioned, the comparison is also difficult, because social exclusion in all its three dimensions has not been studied thoroughly either in Armenia or in most of comparable countries in post-communist transition. Therefore, first of all, a case study with multiple measures of analysis was a most appropriate initial step to my research question.

This research, as a case study, allowed me to conduct an in-depth investigation of economic, social and political processes related to social exclusion and to provide a great

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<sup>297</sup> Earlier in this dissertation, I have explained my choice of the case study as the research method. The reasoning behind this choice was more clearly specified in the "Research Method" section of chapter 4.



amount of detailed description about each of those processes. Whereas it did not intend and did not produce results that account for the emergence of social exclusion in a number of transitioning countries, it generated new perspectives and conjectures that, if applied to other cases, might be expanded into a grand theory. In this regard, this case study provides only a blueprint for generalizing the findings of this research to other transitioning countries. The privatization and the state militarization factors have yet to be tested on other cases in order to be considered valid. Therefore, a cross-national comparative study involving countries with similar socio-economic status, but different degrees of social exclusion (or different socio-economic status, but similar degrees of social exclusion) is an intuitive continuation of this research. Armenia may be relevant to be compared with the South Caucasus countries and Central Asian countries, but difficult, if not irrelevant, to compare with Russia and the Baltic states in the post-Soviet region, or a few of the Eastern European countries in the post-communist space. The latter comparison may indeed lead to remarkable findings but it will require extensive research not only regarding the history and transitional trajectories of the compared countries, but also regarding their geo-political situation, natural resource wealth, and why some have inherited or have been able to design institutional frameworks with separation of powers and the rule of law, while others have failed to do so. Even then, the more paradoxical inquiry is that similarly designed institutional frameworks perform well in one of the compared countries and dysfunction in another, thus increasing social exclusion in the latter.

## **9.5 Future Research and Prospects of Greater Social Inclusion**

As I was writing this dissertation, some interesting themes were nurtured for further research. A particular interest towards the association of militarized state elites, the defeat of social movements, and the increase and durability of social exclusion was developed. Several inquiries in this regard are important: Is the state militarization hypothesis valid for other transitioning countries experiencing the problem of social exclusion? If it is valid for other transitioning/developing countries, does it also pertain to developed countries? For example, in the context of the US, does American involvement in a war (whether direct or indirect),

have any impact on income inequality or other expressions of economic exclusion in the US?<sup>298</sup>

Another question left for additional research is how strongly does recent experience of an external war matter for the militarization of state elites and the failure of repeated collective action?<sup>299</sup> Since state militarization in Armenia was reinforced by individuals, who were in fact civilians with no military training, but became militarized due to war participation, it becomes critical to understand the role of field commanders and paramilitaries as opposed to traditional military officers in non-classical state militarization, modern revolutions, and patterns of social exclusion. Similarly important is whether the experience of a civil war has the same kind of effect on the non-conventional militarization of the state? To test whether the manipulation of an external threat, a potential war, as well as a civil war is a foundation of state militarization and social polarization in developing countries (and not just in post-Soviet Armenia), we can compare the recent modern revolutions that are reactions against several forms of social exclusion.

This dissertation has mostly focused on role of the state elites in explaining social exclusion, paying minor attention to the role of formal and informal institutions. The exploration of a wide range of domestic factors was clearly beyond the scope of a single dissertation project, and is a separate topic for further research. There is definitely need for more research on the complex relationship between not only state elites and socially excluded groups, but also between institutions, economic development and social equality.

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<sup>298</sup> Jonathan Caverly, for example, strongly challenges the prevailing view that democracies are necessarily more casualty averse. At the same time, Caverly (2013) believes that as militaries become more highly capitalized, the idea that wars benefit elites and damage the poor is reversed. This is a view that the findings of this dissertation do not support. Caverly, being a former military officer, argues: “[...] democracies will build larger, highly capitalized militaries as inequality in wealth rises” (Caverly 2013:2). According to him, militarization limits military casualties, and most importantly, shifts the cost burden to tax payers. This makes relatively poorer citizens more supportive of increased defense spending. Caverly emphasizes that an increase in income inequality makes the mentioned trends more pronounced.

<sup>299</sup> In the comparative chapter of this dissertation, I argued that those states that experienced an external war are more militaristic and authoritarian towards their own societies. But, indeed, authoritarian elites can rise without the incidence of a recent war. However, first, war-related elites obtain authority and power more easily. Second, they also more easily sway public perceptions regarding national security, nationalism and the need for militarization. And finally, they use the militarization tendency for national security as a foundation and a cover for their coercive strength in general.

Furthermore, in this dissertation I did not take into account the effects of international factors on social exclusion persistence, leaving the role of the international community to future research. The effects of transnational factors, both constraining and beneficial to social inclusion, were briefly acknowledged but not discussed. Most of the local factors explaining social exclusion in any of the South Caucasus countries, for instance, are often greatly altered by the international involvement in the region. International factors, such as foreign aid, economic sanctions and prospects of diplomatic ties, and the presence of international security forces, interact with domestic conditions to explain the overthrow or persistence of authoritarianism and its effect on democratic consolidation in the post-Soviet region. This is particularly vital for a country like Armenia that is small, poor, has no routes for external trade and is surrounded with countries that egregiously apply economic sanctions on it. Therefore, in the light of the recent wave of political transitions in the Middle East, Asia and more recently in Ukraine and the Crimea, the significance of international dimension in regard to political exclusion, revolutionary successes and democratic consolidation becomes more essential and will offer valuable lessons for policymakers and academics. Numerous international factors that can potentially influence social exclusion should be identified and their interdependence on each other and on domestic factors should be described.

Our knowledge of the subject matter may also be substantively improved by the analysis of specific policies that hamper the economic, social or political inclusion of certain social groups. Earlier, I pointed to the analysis of political processes leading to social exclusion as one of the strengths of the current study. Yet, the present analysis can be expanded and advanced by further narrowing its focus to particular policies. For example, examining particular tax policies unfavorable for the establishment and development of small and medium businesses, granting economic opportunity basically to the wealthy in the country, would lead us to a better identification of economic exclusion of the mentioned social groups. Another specific way of capturing social closure and opportunity hoarding could be achieved by investigating the policy positions of business leaders (to the extent possible) to establish linkage between their policy preferences, state policymakers' preferences, and policy outcomes that discriminate against the poor and the middle classes in several aspects, such as exclusion from basic rights, basic capabilities and basic welfare

rights (access to health, nutrition, education, housing, water supply, sanitation and social security); exclusion from the employment market; and finally, exclusion from political participation and leadership. Research into the mechanisms used to block legislative opposition to these policies would strengthen claims of all three aspects of exclusion. In terms of social implications, addressing the identified policy priorities will permit counterbalancing stratification and supporting the excluded with more concrete measures.

While the situation in Armenia is challenging for many in the society, the hope is that with additional research the problem of social exclusion will be better understood by more citizens and political leaders. Greater understanding and awareness of the problems exacerbated by this level of social exclusion may lead to the formulation and implementation of policy recommendations that will result in more people being included in the decision-making process and treated more equitably within the economic, political and social systems of Armenia. Such changes would improve the lives of many Armenians and allow Armenia to assume a more important political and economic role in the Caucasus region.

The scenarios of greater social inclusion in Armenia are varied, but, considering a socially inclusive transition as a lasting process that takes time to root, an optimistic stance can be taken. The most general recommendation based on this study is to emphasize the significance of an impartial method of economic redistribution in the process of transition to capitalism and the development of anti-militarist frames in the fight against social exclusion in countries with authoritarian regimes, such as Armenia. The privatization process of transition is nearly over in most of the world, and more so in Armenia. Consequently, there is little help that policy recommendations regarding drawbacks of privatization can do in alleviating social problems, such as social exclusion. However, the redistribution of resources and opportunities that were unfairly allocated between different social groups as a consequence of the privatization process requires thorough political reforms and new socio-economic policies. In the case of Armenia, for example, developing regional cooperation by ending the Karabakh conflict, which is a fundamental obstacle to the economic and political dimensions of greater social inclusion, will produce deep socio-economic reforms beneficial to middle classes. Particularly, it will offer prospects of new economic opportunities that might constitute an enhancing factor in economic inclusion of the larger society. In these

political processes, "the role of the elites in power should not be underestimated as a blocking force to reforms that might undermine particular interests" (Freire and Simão 2007:20).

Considering the economic and political processes discussed at length in this dissertation that hinder the formation of egalitarianism and inclusion in the Armenian society, at this point it is difficult to transfer the knowledge stemming from this dissertation to concrete action items. Incapable of providing specific policy recommendations to decrease social exclusion in post-Soviet Armenia, except the more general suggestions related to the private markets and militarized elites, the chapter concludes that the only possible foundation for socially inclusive societies is "a morally and democratically inspired view of the respect due to the dignity of every human being" (O'Donnel 1996:2).<sup>300</sup>

"Ultimately ... [it] can only be a moral argument: the decent treatment that is due to every human being. An additional argument is one of public interest: the improvement of the quality of our democracies is tantamount to advancing toward such decency. (O'Donnel 1996:19-20)

A "decent treatment of every human being" seems to be a good moral agenda of advancing social inclusion. Another most important aspect of this moral agenda is the development of intolerant attitudes towards and punitive treatment of those, who create and perpetuate social exclusion. In the case of developing countries with repressive state elites and with institutions of poor performance, a disciplinary and punitive treatment of elites practicing exclusionary activities should be a primary requirement of achieving greater social inclusion. A first prerequisite of this task is the need to guard against excessive concentration

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<sup>300</sup> Some of the social inclusion scenarios, general guidelines and policies that I came across in existing literature have potentialities but also limitations that prevent us from applying of these strategies to mitigate the increased social exclusion in the case of Armenia. A few of those recommendations are:

- Equipping the excluded individuals with the necessary knowledge and skills to access economic opportunities, therefore supporting them to avoid the poverty trap of welfare dependency;
- Determining participatory techniques that can help facilitate the involvement of the excluded people in political processes and policy-making;
- Ensuring that intermediaries (NGOs, local government, etc.) working with the excluded communities have expertise in working with these groups;
- Embedding the social economy into formal partnerships will provide an opportunity to improve social inclusion (for example, creation of co-operatives and trade unions stimulate multi-sectoral development);
- Investigating how local institutions can be made more responsive and inclusive of the excluded groups (OECD/Noya 2008; Percy-Smith 2000; World Bank 2013).

of power and to support healthy democracies through effectively functioning institutions, such as an independent security system, fair courts, and a parliament with plural political representation. This type of requirement has been largely unaddressed and has certainly been out of the scope of effective policy interventions in regard to the problem of social exclusion. Carving feasible steps towards approaching this agenda may be the target of intellectuals, who are concerned about the problem of social exclusion in developing countries.

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### **Personal Interviews**

Aghajanyan, Artsrun. Secretary of "Orinats Yerkir" (OEK) pro-government party, member of the National Assembly, and a member of the Armenian delegation to the Parliamentary Assembly of the Council of Europe (PACE); interview by author, Yerevan, Armenia, July 23, 2012

Bagratyan, Hrant. 4<sup>th</sup> Prime Minister of post-independent Armenia (1993-1996), currently a Member of National Assembly; interview by author, Yerevan, Armenia, August 20, 2012

Darbinian, Armen. 7<sup>th</sup> Prime Minister of post-independent Armenia in 1998-1999, currently the President of the Russian-Armenian Slavonic University; interview by author, Yerevan, Armenia, 03 September, 2011

Giragosian, Richard. Director of the Armenian Center for National and International Studies (ACNIS), Armenia; interview by author, Yerevan, Armenia, August 02, 2009

Grigoryan, Arman. Assistant professor of International Relations Department at the Lehigh University (formerly worked in the Ministry of Foreign affairs of Armenia); interview by author, Ann Arbor, Michigan, March 24, 2010

Hayrikyan, Paruyr. Leader of the National Self-Determination (UNSD) party; interview by author, Yerevan, Armenia, 08 August, 2011

Libaridian, Gerard. Adviser and then senior adviser to the former President of Armenia, Levon Ter-Petrosyan (1991 to 1997), First Deputy Minister of Foreign Affairs (1993-1994); interview by author, Ann Arbor, Michigan, April 14, 2010

Manasyan, Heghine. Director of Caucasus Research Resource Center (CCRS)-Armenia, interview by author, Yerevan, Armenia, 13 June, 2009

Manukyan, Gevorg. Chairman of the Armenian Constitutional Legal Protection Centre (ACPRC); interview by author, Vanadzor, Armenia, 20 May, 2009

Manukyan, Vazgen. Prime Minister of Armenia (1990-1991) and Chairman of the Public Council since 2008; interview by author, Yerevan, Armenia, August 29, 2012

Safaryan, Stepan. Secretary of “Heritage” oppositional political party, member of the National Assembly; interview by author, Yerevan, Armenia, September 06, 2011

Sakunc, Artur. Director of Vanadzor branch of Helsinki Citizen’s Assembly; interview by author, Vanadzor, Armenia, 02 June, 2011

Sefilian, Jirayr. Famous military commander during Karabakh war, a political prisoner (2008-2009), currently founder and leader of the “Sardarapat” Armenian social movement; interview by author, Yerevan, Armenia, 17 August, 2011

# APPENDIX



## OFFICE OF RESEARCH ADMINISTRATION

### Interdepartmental Correspondence

Name: Anna Martirosyan

Title: Privatization, State Militarization Through War and Durable Social Exclusion in Post-Soviet Armenia

The chairperson of the Human Subjects Committee for UM-St. Louis has reviewed the above mentioned protocol for research involving human subjects and determined that the project qualifies for exemption from full committee review under Title 45 Code of Federal Regulations Part 46.101b. The time period for this approval expires one year from the date listed below. You must notify the Human Subjects Committee in advance of any proposed major changes in your approved protocol, e.g., addition of research sites or research instruments.

You must file an annual report with the committee. This report must indicate the starting date of the project and the number of subjects to date from start of project, or since last annual report, whichever is more recent.

Any consent or assent forms must be signed in duplicate and a copy provided to the subject. The principal investigator must retain the other copy of the signed consent form for at least three years following the completion of the research activity and they must be available for inspection if there is an official review of the UM-St. Louis human subjects research proceedings by the U.S. Department of Health and Human Services Office for Protection from Research Risks.

This action is officially recorded in the minutes of the committee.

Protocol Number	Date	Signature - Chair
081222M	12/23/08	<i>Carl J. Davis</i>





**Department of  
Political Science**

347 SSB, One University Blvd  
St. Louis, MO63121-4400  
Telephone: 314-516-5521  
E-mail: amc06@umsl.edu

**Information for Participation in this Survey**

You are invited to participate in a survey, which is part of a research study about the impact of privatization and state militarization on social exclusion in post-Soviet Armenia conducted by Anna Martirosyan, a doctoral student of Comparative Politics at the University of Missouri-St. Louis. You have been asked to participate in the research because of your student status (I have identified students as a comparatively politicized and informed group representative of Armenian society). Please read this form and ask any questions you may have before agreeing to be in the research. Your participation in this research is voluntary. If you decide to participate, you are free to withdraw at any time.

**What is the purpose of this research?**

The purpose of this survey is to develop data capturing public perceptions and attitudes of social exclusion in Armenia.

**What procedures are involved?**

If you agree to participate in this research, you will be asked to complete a one-time survey of twenty five (25) questions. Completing the questionnaire will take approximately 20 minutes. About 300 students from different universities of Yerevan, Vanadzor and Gyumri are expected to be involved in this research.

**What are the potential risks and discomforts?**

There are no significant physical or psychological discomforts, as well as costs, that may be associated with this research. No other type of risks will arise from the answers provided by the participants, specifically that all the participants will remain anonymous and their answers confidential. There is no question in the survey indicating the identity of the participant.

**Are there benefits to taking part in the research?**

There are no direct benefits to participants for taking part in this research. The primary benefit for participation is to help create an original dataset presenting public perceptions of

social exclusion in post-Soviet Armenia. Without this dataset, the overall research concerning social exclusion will not be completely accurate, which means that your participation is invaluable for the results of the research. If requested, a copy of the findings will be provided at no charge.

**What about privacy and confidentiality?**

The only people who will know that you are a research subject are members of the research team (I, my dissertation advisor and the IRB members). No information about you, or provided by you during the research will be disclosed to others. When the results of the research are published or discussed in conferences, no information will be included that would reveal your identity. Any information that is obtained in connection with this study, and that can be identified with you, will remain confidential and will be disclosed only with your permission or as required by law.

Data collected via this survey will be stored in a database on a campus file server which requires a specific user id and password combination that only I have access to.

**Can I withdraw or be removed from the study?**

Your participation in this research is voluntary. You may withdraw from participating in this research at any time without consequences of any kind. You also may refuse to answer any questions you do not want to answer and still remain in the study.

**Who should I contact if I have questions?**

The researcher conducting this study is Anna Martirosyan, a PhD student at the University of Missouri-St. Louis. You may ask any questions you have now. If you have questions later, you may contact the researcher at [amc06@umsl.edu](mailto:amc06@umsl.edu) or at (374-10) 34-65-73.

## Public Perception of Social Exclusion

*Survey Questionnaire for University Students in Yerevan, Vanadzor and Gyumri*

1. Age
2. Residence
3. What is your understanding of social exclusion?
  - **Labor market exclusion** – because exclusion from the labor market is a very important concept to cause poverty and inequality;
  - **Service exclusion**, such as access to health, educational or social services;
  - **Political incapacity or passiveness**– not being able to participate in politics or policy-making because of poverty and/or social status;
  - **Exclusion from social relationships, networks and/or events**;
  - All of the above
4. Do you think there is social exclusion in Armenia?  

Yes    No
5. Do you think that after independence social exclusion has increased in Armenia?  

Yes        No
6. Are both you and your parents currently employed?  

Yes        No
7. Are your parents currently employed?  

Yes    No
8. If ‘yes’, are you and/or your parents:
  - Self employed
  - Employed by a governmental entity
  - Employed by a local or international non-governmental organization (NGO)
  - Employed by a local or international private /business company
  - Other
9. If ‘no’, what is the reason?
  - Can’t find a job
  - Can’t find a job with decent salary
  - Family matters
  - Retired

- Disability
- Other

10. How far above or below the level of absolute poverty would you say your household is? (“**Absolute poverty** refers to a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services.” (UN, 1995: 57) According to ArmStat, in 2006, the complete poverty line was 21,555 AMD (about US \$70) per month for an Armenian household).

- Considerably above
- A little above
- About the same
- A little below
- Considerably below
- Don’t know

11. How far above or below the level of overall poverty would you say your household is? (**Overall poverty** includes “lack of income and productive resources to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments and social discrimination and exclusion. It is also characterized by lack of participation in decision-making and in civil, social and cultural life. It includes also the poverty of low-wage workers, and the utter destitution of people who fall outside family support systems, social institutions and safety nets.” (UN, 1995: 57))

- Considerably above
- A little above
- About the same
- A little below
- Considerably below
- Don’t know

12. Does your family receive remittances from Russia or any other country abroad?

Yes    No

13. If you were granted an opportunity to leave Armenia for studying, working or just residing in another country, would you accept it?

Yes        No

14. Do you think that Armenia is comparatively an egalitarian society?

- Considerably egalitarian
- A little egalitarian
- Somewhat egalitarian
- A little non-egalitarian
- Considerably non-egalitarian

15. Do you think you are excluded of (doing) something that you deserve to have or to do?

Yes No

16. Would you say that you often use public or private services, such as usage of cell-phone, visiting a doctor, public or private sports facilities, dentist, post-office, cinema or theatre, cafés or restaurants, medium to large supermarkets for clothes and other products, or go for holidays/vacation in or outside Armenia?

Yes No

17. Has anything happened in the last 10 years that makes you feel better about your social and economic status?

Yes No

18. Is there anything that you expect to happen in the near future that will improve your standard of living?

Yes No

19. Have you or a family member currently or in recent years been actively involved in civil activities or organization, such as labor unions, social clubs, political party, pre-election campaign, women's organization, or other volunteer or civic group?

Yes No

20. Is there anything that you expect to happen in the near future that will increase your participation in policy making or political activities?

Yes No

21. Have you ever participated in demonstrations?

Yes No

22. If yes, what was (were) the reason(s)?

23. What/who would you change in order to make Armenia economically, politically and socially a more *egalitarian* country to live in: (you can mention 1, 2, 2 and more of the options)

- Your own lifestyle (your mentality, education, aspirations and habits)
- The President
- The National Assembly of Armenia
- The domestic security system (military and defense system, law and jurisdiction, police activities, customs rules, etc.)
- Political parties
- Mass media
- Human rights organizations and the Ombudsman
- Local NGOs
- The international approach to Armenia, such as more foreign aid and/or fewer sanctions
- All of the above
- Other
- N/A

24. Among these institutions which one(s) do you trust more? Please rate each of those on a scale of 1-10, 1 being the lowest and 10 being the highest score.

- a) The President
- b) The National Assembly of Armenia
- c) The domestic security system (military and defense system, law and jurisdiction, police, customs rules, etc.)
- d) Political parties
- e) Mass media
- f) Human rights organizations and the Ombudsman
- g) Local NGOs
- h) The international NGOs
- i) Diaspora Armenians
- j) Market relations/businesses
- k) Other

**Thank you for your participation!**



**Department of Political Science**  
347 SSB, One University Blvd  
St. Louis, MO63121-4400  
Telephone: 314-516-5521  
E-mail: amc06@umsl.edu

## **Information for Participation in this Interview**

You are invited to participate in an interview, which is part of a research study about the impact of privatization and state militarization on social exclusion in post-Soviet Armenia conducted by Anna Martirosyan, a doctoral student of Comparative Politics at the University of Missouri-St. Louis. You have been asked to participate in the research because, as political elites and representatives of research organizations, you have excellent knowledge and awareness of the political environment in Armenia. Please read this form and ask any questions you may have before agreeing to be in the research. Your participation in this research is voluntary. If you decide to participate, you are free to withdraw at any time.

### **What is the purpose of this research?**

The purpose of this semis-structured interview is to gather data that will help us understand the type of interactions between state elites and (para)military figures in post-Soviet Armenia that act as obstacle of social inclusion.

### **What procedures are involved?**

If you agree to participate in this research, you will be asked 15-18 questions, to which you will answer orally. The interview will take approximately 45-60 minutes. About 15 political elites, representatives of research organizations and think tanks are expected to be involved in the interview process of this research. I will meet with each interviewee individually.

### **What are the potential risks and discomforts?**

To the best of my knowledge, there are no significant physical or psychological discomforts, as well as costs, associated with this research. If there are any, even minimal, risks threatening your well-being that I am not aware of, I would like to ask beforehand if you would like to remain anonymous. Your request to remain anonymous will be honored.

### **Are there benefits to taking part in the research?**

There are no direct benefits to you or any other participant for taking part in this research. The primary benefit for participation is to help understand the factors that affect social exclusion in Armenia and the ways that the Armenian government has dealt with it. Without

stories about specific policies and relationships uncovered during these interviews, the overall research concerning social exclusion will not be completely accurate, which means that your participation is invaluable for the results of the research. If requested, a copy of the findings will be provided at no charge.

**What about privacy and confidentiality?**

Any information that is obtained in connection with this study, and that can be identified with you, will remain confidential if you require and will be disclosed only with your permission or as required by law. When the results of the research are published or discussed in conferences, your ideas will be cited and due credit will be recognized, if you do not wish to remain anonymous.

**Can I withdraw or be removed from the study?**

Your participation in this research is voluntary. You may withdraw from participating in this research at any time without consequences of any kind. You also may refuse to answer any questions you do not want to answer and still remain in the study.

**Who should I contact if I have post-interview questions?**

The researcher conducting this study is Anna Martirosyan, a PhD student at the University of Missouri-St. Louis. You may ask any questions you have now. If you have questions later, you may contact the researcher at [amc06@umsl.edu](mailto:amc06@umsl.edu) or at (374-1) 34-65-73.



## **State Elites' and Researchers' Opinion on Privatization, State Militarization and Social Movements**

*Interview Questions for political party members, research organizations and think tanks,  
Diaspora Armenians involved in Armenian socio-economic and political life*

1. According to several surveys, the Gini coefficient in Armenia is one of the highest among the post-Soviet states. Other socio-economic indicators have also deteriorated for a large number of citizens after the independence in Armenia. Do you think that these facts indicate the emergence of social exclusion in Armenia? Can you talk about the problem, particularly focusing on factors that could have played a role in its emergence and further persistence?
2. How has the Armenian government ever dealt with the problem of social exclusion in the country?
3. How would you describe the privatization process, specifically privatization of firms and social services in Armenia's dual transition? What impact did it have on the labor market?
4. Can you comment on individuals that have acquired firms/factories during the privatization reforms?
5. Can you talk about policies or a policy that have (has) been exclusively beneficial to business leaders in Armenia during the last 15-20 years?
6. What are the existing tax policies regarding the establishment and development of small and medium businesses?
7. Are there any linkages between business leaders' policy preferences, state policymakers' preferences, and policy outcomes? What are, if any, the mechanisms used to block legislative opposition to these policies?
8. How do you explain the repeating waves of demonstrations in Armenia (1996, 2004 and 2008)? What are the claims and demands of the demonstrators?
9. Do you see any similar trends in those demonstrations?
10. Do you think that the demonstrators have fair basis to mobilize?
11. Who are the actors and groups involved in those movements? Do you see any linkages among these social groups and opposition political parties?
12. How important is the role of the Armenian military leaders in the failure of those social movements?

13. Can you describe the military establishment in Armenia, and the role of the Nagorno Karabakh war in the post-war military involvement in the Armenian government and policy making?
14. How would you describe the state elites' relationship with the military authorities in Armenia?
15. Do you have any recommendation or policy lessons for restoring a measure of greater social equity for Armenia's transition to a democracy and capitalism?
16. Do political forces capable of proposing and implementing them exist? Who and why?
17. What can the Diaspora Armenians do to help or can they help at all?
18. Do you have any other comments?

**Thank you for your time and insights!**



## University of Missouri - St. Louis

### Application for Exemption from Review by the Institutional Review Board

1. Using categories described in item II(a) of the Guidelines, list the category of research activity that you believe applies to your research.

*My research method is based on the SURVEY and the INTERVIEW procedures, II (b and c).*

2. Briefly describe the nature of the involvement of the human subjects (personal interview, mailed questionnaire, telephone questionnaire, observation, etc.) and the reason you believe this project qualifies for exemption from review.

*Based on my preliminary assessment, the survey procedure includes at least 300 students (older than 18) from universities in 3 largest cities of Armenia (Yerevan, Gyumri and Vanadzor). Since computer assisted, email and online questionnaires are not feasible to conduct in Armenia due to the lack of Internet and computer technologies in the country, I will personally attend the selected universities and deliver the questionnaires through the support of student friends and/or of university administrators. The survey tries to capture public perceptions and attitudes of social exclusion in post-Soviet Armenia. Students are a comparatively politicized and a representative sample of the Armenian society.*

*The research also includes structured interviews with elected or appointed officials and main political party elites in Armenia. There will be at least 10 personal interviews conducted. Undertaking interviews with political party elites will enable me to better assess coalition-building processes between the military and state elites in Armenia, and how they transform the Armenian state and class structures, creating social mobilization. On the basis of the data gathered in these interviews, I will be able to pinpoint key (para)military leaders active in state politics, and the type of interactions between state elites and those (para)military figures, that act as obstacle of social inclusion.*

*I firmly believe this research qualifies for exemption from review due to the nature of the interview and survey questions that I have constructed. The answers of the participants could not place the subjects at risk of criminal or civil liability and cannot be damaging to their financial standing, employability, or reputation.*

*The survey participants are older than eighteen years. Moreover, the survey will be anonymous. The interviews will be similarly anonymous, provided the interviewee requests for it. If the interviewee requests for anonymity, their request will be honored.*

3. Are the data recorded in such a manner that subjects can be identified by a name or code?

*Only the interviews will be conducted in such a manner that subjects can be identified by their names. If subjects request for anonymity, their names and positions will not be revealed in the research.*

**If yes:**

a) Who has access to the data, and how is it being stored?

*The interviewees will be identified by their names and positions they hold within the government or the political party they represent, unless they require to stay anonymous. The interview digital recordings will be stored in my UMSL student online storage and in my personal computer, both of which are password-protected. I will be the sole individual to have access to that data during the research, which I will share exclusively with my dissertation committee advisor and those, who have legal right to view it, such as IRB members.*

b) If you are using an assessment tool (e.g., the Beck Depression Inventory), what is your procedure for referring the subject for follow-up if his/her scores are significant?

*N/A*

c) Will the list of names and codes be destroyed at the end of the study?

*The list of names and codes will be destroyed after the defense of my dissertation.*

4. Age of subjects: Adults (persons age 18 and older) Yes  No   
Minors (persons under age 18) Yes  No

5. If your project uses a questionnaire or structured interview, attach a copy of the questionnaire or interview questions to this form.

*Both survey and interview questionnaires are attached to this form.*

If a consent form will be used, attach a copy to the protocol.

*A consent form will not be used.*

Submit an original and 1 copy of this application, with attachments (number all pages), to the Office of Research Administration, 341 Woods Hall.