

AMERICAN UNIVERSITY OF ARMENIA

**Armenia and the Eurasian Economic Union (EEU): Why did
Armenia Join?**

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Yerevan 2017

Master's Essay in partial fulfillment of the requirements for the degree of Master of Arts in

Political Science and International Relations

Acknowledgments

First of all, I would like to express my sincere gratefulness and appreciativeness to my Master's essay supervisor Dr. Fuller for his encouragement, valuable pieces of advice and motivation. He helped me find the most appropriate and precise direction and means for writing my essay.

Moreover, I want to specifically stress the role of my family and thank them for their enormous patience, support and love helping me overcome even minor challenges and ensure my success.

I also want to emphasize the role of all the professors in the Department of Political Science and International Affairs in expanding my knowledge and analytical thinking as well as in providing assistance for writing this essay. I am also grateful to the department of International Economic Relations in ASUE, which helped me find valuable data and experts in the field. Lastly, I am thankful to my classmates for sharing knowledge, experience and skills whenever there was a necessity.

Abstract

The aim of economic integration is to ensure the establishment of commercial policies aiming to eliminate trade barriers and restrictions between member countries. The reasons for integration could be varied ranging from economic gains to establishment of security and political stability. Whereas, as dependency theory applies countries being one-sidedly dependent on hegemonic powers are enforced to choose the path of integration. Despite four-year active negotiations with the European Union in the context of Association Agreement and Deep and Comprehensive Free Trade Agreement and efforts to adopt appropriate reforms, Armenian authorities decided to join the Russian-led Customs Union. The aim of this study is to analyze the reasons of Armenian strategic U-turn in 2013 and find out if Russia had any leverage towards Armenia. For the purpose of applying ‘dependency theory’ to Armenian reality and showing the scope of Armenian dependence on Russia, triangulation of the main issues including economic relations and trade, energy supply as well as military supply between Russia and Armenia, have been chosen and examined.

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Introduction

Background and problem statement

Starting from the end of the twentieth century, particularly after the end of World War 2, the dominant feature of international world system was the emergence of the large-scale wave of economic and political integration. This pattern was adopted especially in Western European, Latin American, Asian and North African Arab countries. The reasons and motivations for those countries were various and even contradictory. (Balassa, 1961) For instance, many western countries integrated with exemplary democratic countries for the purpose of establishing better governance, democratic institutions and to cope with large-scale corruption within their countries. (Berry, 2011)

Besides political considerations of many at that time disintegrated European countries, underdeveloped ones were mainly driven by economic factors, such as access to larger markets, large-scale investments and proposition of technological changes and development. By using the principle of economies of scale, they were assumed to have larger opportunities for industrialization and economic growth. Moreover, there was a belief that integration would help these countries to have a better bargaining position in the international arena by increasing their security and decreasing their external vulnerability. (Mwasha, 2010) However, economic integration could lead to expected degree of economic prosperity, only if the bloc of countries have the same size of the market, the same degree of economic development and do not have one-sided dependence from one of the member states. (Caporaso, 1980)

Considering aforementioned reasons for integration, the Republic of Armenia was actively engaged in cooperation with EU in the context of European Association Agreement. EU was

expected to ensure economies of scale, larger markets and Foreign Direct Investments, as well as move towards the reforms establishing more democratic, less corrupt government institutions. It was for the benefit of the Republic of Armenia to sign Association Agreement in 2013. However, Armenia's dramatic policy shift with the intention to join EEU in 2015 met various contradicting explanations. This issue has been examined by many international and domestic experts trying to find out real background reasons.

Theoretical Framework

The forms of integration between nation-states can be examined using theories and conceptual framework of international relations having economic, socio-cultural and political factors in the context. (Berry, 2011) The concepts of integration and regionalism have become widespread, especially since the 1960s when several political units started to create mutually interdependent institutions, formal organizations and political communities. (Ilievski, 2015) This kind of interdependence creates a domain for continuously reciprocated interaction between aforementioned units generally in respect to economic, socio-political and security issues. (Baylis, 1997) This is the general base for integration and cooperation of countries.

However, in EEU, the size of economies, the share of trade with member states, gains from external common tariff structure, benefits from gas and oil sectors make a huge asymmetry within member states. Considering this political and economic asymmetry between the member states in EEU particularly between Russia and Armenia, we will use "*dependency theory*" which divides the world system into countries on the core and periphery. The main ideology was constructed on the belief that the core countries, which are more developed and industrialized, tend to exploit the ones on the periphery extracting cheap labor and resources and other factors

of production. This paper will use this theory to give answers to the questions related to Armenian dramatic policy shift in September 2013.

Purpose and importance of the study

Having in mind the same logic of dependency theory, we can apply it to Armenian reality, showing the scope of unequal relations between Armenia and Russia. Their relations resemble relations of the core and periphery and are based on Armenian dependence on the Russian economy.

In this context, we should examine the reasons and incentives of an unforeseen decision made by the president Serj Sargsyan and its respective consequences on Armenian development. Many liberals in Armenia thought that cooperation with the European Union could help their country to overcome the bureaucratic burden and corruption inherited from seventy years of Communism. They dreamed of more democratic and secure Armenia and were ready to take up the path of the most radical reforms in Armenian history.

Realists, on the other hand, argued that the Kremlin has bargaining power over Armenia, somehow forcing them to join the Russian-led Customs Union. (Friedrich Ebert Fund, 2014) However, trying to delve deeply into this issue, our main focus is on ‘dependency theory’ and its application to Armenian reality trying to show the scope of Armenian economic and political dependence on Russian Federation.

Research questions and Hypothesis

RQ-What are the reasons of Armenian strategic U-turn?

H₁- Dependence on the Russian economy made Armenian officials accept the membership in CU

H₂- Asymmetry of Russian-Armenian relations made Armenia accept the membership in CU

H₃-The threat of economic and political insecurity in the country made Armenian officials accept the membership in CU

H₄-Armenian membership in EEU is driven by Armenian national interests.

Literature review

The concept of integration

Firstly, trying to give a definition of integration, we can argue that continuous interaction, reliance, interdependency or simply dependency of several countries create a pattern of reciprocity and economic, political and diplomatic cooperation. Formal integration can be labeled as economic and political having in mind the type of relations and the scope of integration. (Baylis, 1997)

The theory of Economic integration refers to the establishment of a discriminatory commercial policy aiming to reduce or eliminate barriers and restrictions on trade, transfers and mobility of factors of production between member states. (Salvatore,2004)

It starts with the creation of Preferential Trade Arrangements gradually evolving into Free Trade Areas, Customs Unions, Economic Unions, Common Markets and Complete Economic Integrations. (Mwasha, 2010) Preferential Trade Arrangements were envisaged to provide lower trade restrictions and barriers between member states compared with non-member states. This was the less-developed and most detached form of economic integration. British Commonwealth Preference Scheme could serve as an outstanding example of that kind of integration. (Salvatore, 2004)

In Free Trade Areas all customs duties and tariffs on certain imported or exported goods between member countries are removed. However, in this case, trade tariffs for non-member states exclusively remain in the hands of a state itself. (Balassa, 1961) Whereas, the Customs Union not only abolishes trade tariffs amongst member states, but also creates common tariffs for trade with third party non-member countries. (Baylis, 1997) In consideration of Common Markets and Complete Economic Integration, it is revealed that in those cases all economic restrictions and barriers between member states are abolished and common norms, rules, regulations and laws are established. (Laursen, 2008)

Economic integration could retain several forms including regional integration and international economic integration. The former refers to the type of integration attached to a specific geographic area, whereas the latter is associated with globalization and could be formed by countries without common borders and quite distant from each other. (Madyo, 2008) According to Mwasha (2010), regional integration is more widespread, as it includes the countries from the same region and has similar consumer preferences and tastes as well as low transportation costs. The countries, having common borders, more likely have a common history and thus are more capable and inclined to form common economic policies and rules.

Political integration, on the other hand, refers to more formal and institutional interaction between previously sovereign political units. Common decision-making centers, institutions, shared values and standards are established with respect to domestic, socio-political and security issues. According to Madyo (2008), political integration is characterized by the establishment of common institutional mechanisms for countries forming unions. This form of integration creates a political community with interdependent legislative bodies and somehow hinders sovereignty of member states. (Ilievski, 2015) However, as Biswaro (2003) mentioned, in practice, sharing of

sovereignty is not an easy task, as member countries have to give up a significant share of their decision-making power.

Reasons for integration

As mentioned, the states, willing to share their sovereignty and cooperate with other states, mainly strive for achieving economic prosperity, development and large-scale investments. (Mwasha, 2010) As Hoekman et al (2002) mentioned regional agreements help developing countries to take reforms necessary to improve the investment climate and even have long-term economic benefits because of diversified trade relations.

In this case, if trade barriers and restrictions between the states are removed, resource allocation could take place more efficiently and easily. They start to create a trade between themselves and import and export goods and services from member states without changing the size of trade with the rest of the world. This fact positively affects the welfare of the member states and refers to the concept of *trade creation*. (Madyo, 2008) However, trade creation could also lead to *trade diversion*, which implies to the phenomenon, in which large share of imports from non-member states are substituted by imports from member states. These imported goods and services could even have higher prices leading to economic inefficiency. (Hoekman, 2002)

According to Pangestu (2001), motivations of integration vary across countries but, generally speaking, all of them are dependent on economic, political, security and trade factors. Among the trade motivations, we can emphasize the benefits of market access and economies of scale. Countries having a small size of the market have difficulties concerned with the low level of demand and overproduction. Thus, access to larger markets helps small countries to refrain from this problem. (Pangestu, 2001) Secondly, defensive motivation has to be mentioned, as many countries join economic unions fearing of heavy tariffs and competition existing in the

neighboring economic unions. Small countries enter these unions for the sake of not losing their share of the market, whereas, large countries are doing so to keep their bargaining power and domination in the region. On the other hand, Hoekman et al (2002) emphasized the importance of political objectives and goals referring to security, human rights and governance issues. He argued that economic cooperation can ensure security, as it enhances the familiarity between member states and helps them to refrain from mutual disputes and misunderstandings. However, if the cooperation between member states is based on asymmetric economic relations, the possibility of economic and political insecurity starts to emerge. (Mwasha, 2010)

Generally speaking, the success of economic integration is highly dependent on many factors such as the degree and depth of economic cooperation, development stages of the countries involved as well as the type of agreement. (Hoekman, 2002) Relevant research has suggested that the unions and trade areas established solely by developing countries having the same stage of development and size of the market are more prone to efficiently organize their economic growth. Whereas the unions formed by industrialized large countries tend to exploit small developing countries for the sake of their own domination and economic prosperity. (Pangestu, 2001)

Economic integration and 'dependency theory'

Most of the authors examining the reasons of integration suggested contradicting and exclusive ideas. Some of them, mainly the ones more prone to realism state that there is no supranational body or global government and each nation-state should strive for self-help and security. In this context, if a state feels threatened it should be engaged in military unions and receive arms and weapons from a bigger capable state. In this case integration and interaction between political

units are established merely for defending national interests, strengthening capabilities and gaining bargaining power. (Baylis, 1997, Berry, 2011, Balassa, 1961)

Whereas, some of the liberal authors suggest that despite the existence of an anarchic world, common norms, values, ideologies, justice and tolerance can be achieved through cooperation and international institutions. Their main focus is on Western values, norms, commercial interdependence and globalization. A free-market economy is considered as a positive force for further globalization. Only strong institutions with shared norms and values can ensure sustainability and development of member states. Thus, they view integration as a tool for creating shared democratic Western values and free market economy, gradually leading to globalization. (Laursen, 2008, Pangestu, 2001)

However, lots of authors are inclined to believe that there are cases where foreign policy behavior and willingness of integration of countries are explained not through the security dilemma, nature of states, national interests or mutual interdependence, but through the socioeconomic system and asymmetric relations between states. (Wallerstein, 1974, Smith, 1981, Zimmerman, 1978, Ferraro, 1996) It is thought that this kind of relation somehow inhibits sovereignty and development of smaller dependent states. (Smith, 1981)

Marx's theory of competition of capitalists mainly between the working class and the owners of the means of production can be a unique base for explaining the structure of international relations. According to this theory, the relations between industrialized and developing countries are based on exploitation and unequal exchange. Moreover, socio-political and economic issues in many underdeveloped countries can be explained by their international diplomatic and economic relations. (Baylis, 2011)

Starting from 1970 there was an immense debate between Western scholars about the existence of economic imperialism or 'dependency theory', which entails unequal and unfair relations among states. In which the relations are constructed between developed and underdeveloped states usually on the basis of unequal economic development. (Zimmerman, 1978)

Lenin was the prominent political actor who referred to that theory and stated that even though many dependent states, which are on the periphery, are politically independent they have huge diplomatic, economic and financial dependency on the core countries. (Namkoong, 1999)

According to Wallerstein, who was the founder of the 'World system theory', the world system is inherently exploitative and based on unequal exchange largely manipulated by developed core states at the expense of underdeveloped ones. He divided the world-system into peripheral, semi-peripheral and core states. (Skocpol, 1977) The countries in the periphery are generally underdeveloped and dependent on the core countries. Having political, economic and military power, the core countries exploit the ones in the periphery by unequal exchange of raw materials, agricultural products and by extracting cheap labor, causing a huge asymmetry of trade relations. (Wallerstein, 1974)

Many underdeveloped states have high trade reliance on other developed countries: the need for investments, donations, technologies and access to their markets. The theory argues that the factors defining the success or failure of development of countries on the periphery are not so much dependent on internal characteristics. Instead, the key variables affecting their development are the structure of the international system and relations with developed core countries. (Caporaso, 1980)

Hereby, this kind of dependency forced many states to make decisions for integration and cooperation not seeking security, economic development or simply following their national interests. Instead, their dependence on one state's economic and political development makes them more vulnerable and leaves them without alternative choice. (Ferraro, 1996)

Trying to reveal a more thorough image, we can bring an example of the EU and its cooperation with Sub-Saharan Africa. Their cooperation dates back in 1957, with the establishment of the Treaty of Rome entitled to ensure trade between EU colonies and EU members. Considering the fact that African countries had been the colonies of EU member states for decades, they have strong political and economic ties with the latter. They have formed various regional economic blocs, including bilateral agreements such as Trade, Development and Cooperation agreement with South Africa, aimed to ensure preferential trade agreements and eliminate tariffs and quotas. (Aloziou, 2014)

However, as Massa (2017) mentioned aforementioned cooperation is mainly European-dominated and undermines the development of African countries. Goucher (2004) stated that the essence of the colonial system continues to form the relations between EU and Africa even in the 21st century. EU tries to exploit mainly energy resources from the Democratic Republic of Congo, Nigeria, Angola and several other resource-rich African countries. By signing economic agreements EU tries to ensure its energy security in a long run, usually undermining African economic development. Whereas, African small sized market was usually used for EU exports of manufactured goods, which by the existence of trade diversion led to negative consequences for African economy. In addition, the most widespread concern for African countries was the budget cuts resulted from the decrease or elimination of tariffs on EU imported goods, which is one of the main revenue sources for African governments. (Massa, 2017) The other worrying thing is

concerned with the fact that most of the African countries having vast energy resources lack access to cultivated forms of energy for domestic consumption. (Bossner, 2014)

In a nutshell, the authors suggested that African countries being dependent on EU and its investments continue to cooperate with them without having alternatives. (Goucher, 2004, Massa, 2017, Bossner, 2014, Alozius, 2014) This is the most outstanding evidence of ‘dependency theory’ implying asymmetric relations between EU and most of the African countries.

Even though African case with its history of colonial rule serves as an example of large-scale dependence on hegemonic power, existing literature on political and economic integration failed to notice the factor of the one-sided dependence of member countries in choosing whether to join unions or to refrain from them. Many underdeveloped and developing countries having huge economic, cultural and political links with hegemonic larger states have no alternative to accept enforced membership. That’s why the importance of revealing the depth and essence of Armenian foreign policy shift from the lenses of ‘dependency theory’ is undeniable and would offer the thorough and concrete explanation of the motives of many Armenian politicians and members of the Government. This would have added value for existing literature as it looks into the issue from another stance and promotes examination of new types of incentives for countries decided to share their exclusive sovereignty.

Methodology

This paper involves a multi-vector case study, with the commitment to observe the issue in its full thoroughness. It includes secondary and primary data collection and analysis. Secondary data involves the meta-analysis of several academic pieces, statistics and economic reports not only in

Armenia but also in Russia and in the Eurasian Economic Union. In order to find out the real reasons of Armenian foreign policy shift and the application of dependency theory to the reality in Armenia, the paper uses triangulation of the most important issues related to the topic involving trade and economic relations, gas and energy supply as well as the military supply between Russia and Armenia. Examination of these issues can eventually lead to the proof or rejection of our hypothesis related to the scope of dependence, asymmetry of relations as well as the threat of economic and political insecurity.

In addition, for the purpose of primary data collection and analysis, the paper uses in-depth interviews with 6 experts in Armenia. These experts are outstanding economists and politicians, which have a direct impact on policy-making in Armenia and have their share in educating and forming the knowledge of the younger generation. Afterward, content analysis is used to analyze the speeches of interviewees and to find the common pattern in their responses.

Findings

Armenia and Association Agreement

The European Union trying to pursue more flexible, tailored and demand-driven neighborhood policy started to launch trade agreements with some Eastern countries including Armenia. (Youngs, 2015) This was an outstanding opportunity for Armenia to put emphasis not only on its economic development but also on the protection of human and labor rights within its borders. EU-Armenian cooperation was built on the basis of bilateral trade agreements, which entailed removing all customs duties and quotas on traded goods and services between two parties. (Youngs, 2015)

For around four years the Republic of Armenia has been engaged in active negotiations with EU in the context of Association Agreement. (Friedrich Ebert Fund, 2014) The outstanding interest towards Westward shift has grown particularly since the establishment of Eastern Partnership in 2009 in EU. (Bovt, 2009) It was expected that Armenia together with Ukraine would sign the documents of Association Agreement and Deep and Comprehensive Free Trade Agreement during Vilnius Summit in 2013. (Kostanyan, 2015)

This EU aspiration had outspoken supporters among Armenian political parties, civil society and Diaspora. (Kostanyan, 2015) They all demonstrated their readiness to accept EU standards and norms and ensure Armenian compliance with those norms. (Friedrich Ebert Fund, 2014) Many of them, especially Revolutionary Federation Dashnaktsutyun considered this path as the only driving force for further economic development, fight against corruption and establishment of the rule of law. After twenty years of the transition period, this opportunity appeared to be a guarantor of Armenian long-term internal and economic development. (Babayan, 2011)

Gravitation towards consolidated democracy and the European Union enforced Armenian Government to take up the most radical and intense reforms, especially in the fields of human rights and monitoring of elections. Ethics Commission, Anti-Corruption Strategy, Armenian Ombudsmen were all the products of EU-Armenia cooperation and institutional ties. (Kostanyan, 2015)

Armenian Strategic U-turn

Despite having considerable progress towards EU-Armenian trade relations, in 2013 the president Serj Sargsyan publicly announced Armenian intentions to join the Russian-led Customs Union and its willingness to support member states in process of the establishment of the Eurasian Economic Union. (Friedrich Ebert Fund, 2014) This sudden change in course of

actions was labeled as Armenian strategic U-turn. Some scholars and politicians believe that this turnover is the result of Russian assertive foreign policy and the fragile foundation of EU-Armenian relationships. (Giragosian, 2014)

In response to EU Eastern Partnership, Russia pursued the goal of preserving its role of regional power in its neighborhood trying to block prospects towards implementing Western agreements. (Kostanyan, 2015) Initially, Russia didn't realize the scope of EU's attractiveness for post-Soviet countries considering the countries in 'near abroad' exclusively within its sphere of influence. However, after realizing intense Westward inspiration raised in Ukraine and Moldova, Russian officials tried to use Armenian recent policy shift as a sign of its strength and power in the region. (Babayan, 2011)

Even though geopolitical situation and Armenian large-scale dependence made Armenian officials to abandon the trade deal, the EU with its weak and fragile policy instruments had a big chunk for the creation of the aforementioned situation. During three years of negotiations, EU officials actively worked with the members of Armenian government while failing to negotiate and cooperate with members of the opposition and Armenian civil society. That's why they thought that signing an agreement with the EU would undermine Armenian security and threaten Armenian sovereignty, and the EU almost did nothing to persuade and convince them that the deal was beneficial for Armenia. (Zolyan, 2015)

That's why Armenian government trying to strengthen its legitimacy and position adopted that kind of turnover. The leaders of both Armenian National Congress and Prosperous Armenia heavily criticized Armenian government and argued that EU-Armenian cooperation could undermine Armenian alliance with Russia. In order to eliminate these political confrontations,

the president of Armenia decided, by joining the Customs Union, to reap short-term political gains. (Giragosian, 2014)

As a consequence of Armenian U-turn, the scope of EU-Armenian cooperation has been restrained and limited. However, the EU tried to help Armenia in its dual vector “complementarity” policy aiming to preserve cooperation with both the EU and Russia. It was expected to gain good governance and economic development in cooperation with EU while preserving geopolitical cooperation with Russia. Many Armenian officials considered that the only guarantor of Armenian economic and political modernization was the EU. Nevertheless, in the context of Armenian excessive military and economic dependence on Russia the prospects of that policy were undermined blocking Armenian officials’ ability to make sovereign decisions in regards to the issues of national interests. (Youngs, 2015)

Armenia and EEU

Despite intended benefits of the partnership with EU in respect to the establishment of better regulatory laws in business and governance, an independent judiciary, more democratic civil society and free market economy, the political culture of Armenia was not equipped to immediately adopt that kind of reforms. The main reason for that were the cultural barriers inherited from the years of Ottoman and Soviet rule. (Almasian, 2014)

As it is already mentioned above, there were contradictory arguments and statements by Armenian economists, public officials and other experts, in the context of Armenian integration policy. Many of them contended that Armenian integration with the Eurasian Economic Union could yield benefits for Armenian exports opening up nearly 170-million consumer market.

From the standpoint of being largely import-oriented country, this opportunity was considered vital for trade creation in Armenian economy. (Margaryan, 2015)

Even though the partnership with EU would offer 500 million people market, it would not necessarily lead to the increase of Armenian exports considering the fact of the high level of competition in EU. In contrary, the market of EEU being much less competitive gave Armenia the chance of creating demand for its goods and services. (Almasian, 2014)

Other economists analyzed the possible effects of rejecting the membership in EEU and pointed out some vital consequences. Firstly, the increase in energy prices reaching nearly \$400 per 1000cub m. Secondly, the increase in the prices of military resources largely imported from Russia. They also stressed the fact that the European Union could never export such resources into Armenia. (Tavadyan, 2014) Other consequences harming Armenian economy could be possible sanctions and quotas imposed against Armenia, a decrease of transfers, remittances and foreign direct investments from the member countries, especially from Russia. (Friedrich Ebert Fund, 2014)

Economic relations and trade

Economic relations built due to the enlargement of Eurasian Economic Union in 2015 was merely based on asymmetric build-up and distribution of Unions' GDP, Customs Duties revenues and especially trade turnover between members of the economic bloc. Russian share in the total GDP of the Union is nearly 80 percent compared with Kazakhstan's share of 9 percent, Armenia's share of only 1 percent and Belarusian share of nearly 3 percent. (Kirkham, 2016) In additions, corresponding revenues generated through Customs Duties imposed by the Union during the time period of 2015-2021 would be distributed according to the agreement between

those countries implying that Russia would get the biggest chunk of aforementioned revenue. (Treaty on the EEU) The allocation of the revenue is presented in figure 1.



Figure 1: Source- Treaty on the Eurasian Economic Union, ANNEX 5

In respect to trade between member countries, asymmetry emerges considering the share of Russia in Armenian exports and imports. Especially in 2013, when Armenian officials were occupied by the dichotomy of Association Agreement and the Customs Union, it had appeared that the main trading partner of Armenia at that time was Russia. Figure 2 and 3 illustrate that nearly 20-25 percent of Armenian imports and exports was dominated by Russia. In respect to imports the share of natural gas, oil and wheat constituted nearly 68 percent of all imports from Russia.

Armenian Exports in 2013

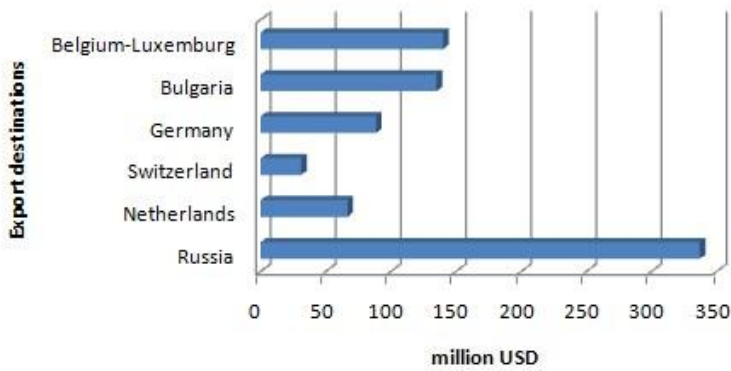


Figure 2: Source- Observatory of Economic Complexity, 2014

Armenian Imports in 2013

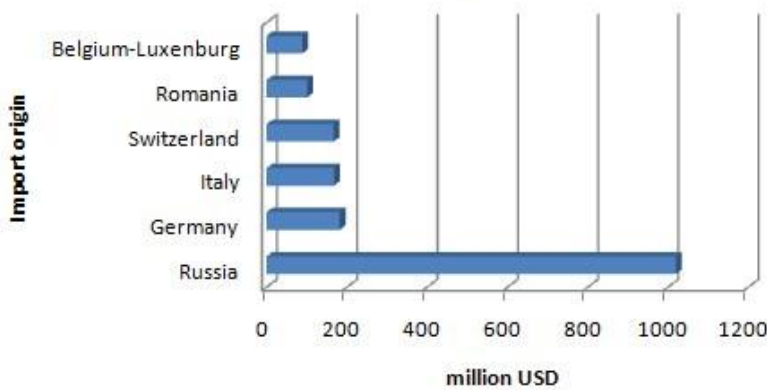


Figure 2 Source- Observatory of Economic Complexity, 2014

Russia is and has always been the most important export destination for Armenia exporting nearly 310 products including alcohol (46 %), diamonds (10%), fish products (10%) and fruits (5%). However, equipped by asymmetric relations, it is proven that at the same time period Armenian share in Russian exports and imports were very tiny constituted nearly 0.2 % for exports and even worse 0.1 % for imports. (Tumasyan et al, 2014)

Moreover, in 2014 nearly 80 % of all tariffs and remittances were from Russia. However, with the devaluation of the Russian ruble, this target was reached about 60 % in 2016. In 2013, nearly

\$2.3 billion were sent by Armenian labor migrants working in Russia. Many experts argue that with the rise in oil prices the volume of remittances will be increased by 4-5 percent by the end of 2017. (Tumasyan et al, 2014)

In addition, in many joint-stock companies, nearly 100 % of stocks were owned by Russian corporate giants. Their presence was outstanding especially in the sectors of telecommunication, banking and energy, insurance, transportation as well as in the mining sector. (Tavadyan, 2014)

Energy and gas supply

As over 0.29 percent of Russian natural gas exports, having the value of \$916 million annually, belong to Armenian market, Russia strives for keeping its competitive advantage over Iran. Respectively, in Armenia, which is proven not to have any natural gas and oil resources, the share of petroleum gas and refined petroleum imports has constituted over 17.7 percent of all the imports. The main import origin and trading partner is the Russian Federation. (Observatory of Economic Complexity, 2015) Russian Gazprom has a monopoly in the region and even bought the considerable chunk of pipelines from Georgia and Iran. (Kramer, 2006)

In 2013 Russia and Armenia signed an agreement with the commitment to energy partnership and trade of gas until 2043. According to which Armenia is obliged to buy gas and petroleum only from Russian Gazprom. This deal would ensure Russian dominance for around thirty years. (Gevorgyan, 2014) Moreover, Russian Gazprom in exchange of Armenian debts owed to RF attempted to own the remaining 20 percent of the stocks in ArmRosGazprom and made the company 100 per cent Russian controlled. (Tavadyan, 2014)

Using the leverage of raising gas prices Gazprom has owned not only pipeline network connecting Russia with Armenia through Georgia, but also over twenty-four miles of Armenia-Iran import route, enabling Russian authorities to control the gas supply of alternative route for Armenia. This leverage was also used in Ukraine and Belarus having only limited success in Belarus. Moreover, in Turkmenistan, Kazakhstan and Uzbekistan Gazprom acquired an opportunity to establish operational control over Central-Asia-Center gas pipeline. By doing this, Russia blocked all the alternative potential origins of gas supply not only for Armenia but also for the European Union. (Kramer, 2006)

Despite having resources to generate electricity domestically, most of the power plants are owned or simply controlled by Russian Federation. In other words, Russian control is spread on over 80 per cent of electricity production in Armenia. Russian corporate giant called Unified Energy Systems (UES) bought the right to control and manage Armenia's electricity company called Electricity Networks of Armenia and respectively receive its annual profits. (Danielyan, 2005) UES also acquired nuclear power plant in Metsamor, a few hydro-electric plants and thermal power plant in Hrazdan in exchange for over \$40 million Armenian debt. (Export Directory of the RA, 2013)

In a nutshell, Russian ownership of energy sector, gas pipelines, nuclear power plant presented a huge threat for Armenia. Moreover, recent developments concerning Mozdok-Tbilisi-Yerevan gas pipeline stating that 25 % of stocks would be owned by the State Oil Company of Azerbaijan more excessively raise the threat coming from Azerbaijan and making Armenia more dependent on Russian course of actions and intentions. (Galstyan, 2016) This fact together with Armenian dependence on Russian military supply and Azerbaijan's growing spending on military resources blocked any alternative integration policies for the Republic of Armenia. (Almasian, 2014)

Military supply

Russian military base in Armenia being the only one in South Caucasus systematically leads to raised confrontations within Armenian Society. (Galstyan, 2016) It was perceived that this fact made Armenian officials change their commitments concerning their partnership with EU. Many Armenians view this base as the only guarantor of its security and its close ties with Russia as a natural phenomenon. However, as the history suggests Russia was never keen on to protect Armenians during real threats coming from Turkey in 1915 and from Azerbaijan during the ongoing Nagorno-Karabagh conflict. (Minasyan, 2013) The abusive factor of the presence of that base was the fact that Armenia was forced by Russia to forego rent of the space occupied by the latter and undertake all operating costs. (Giragosian, 2015)

The main supplier of military resources for Armenia is Russia. There are numerous bilateral agreements and contracts aiming to ensure the delivery of various types of weaponry to Armenia. In 2015, Russian government gave the loan of \$200 million enabling Armenia to be equipped militarily. However, Russian Rosoboronexport signed an agreement with Azerbaijan for delivering modernized weaponry including 18 Smerch rocket systems, over 100 T-90 tanks and 30 helicopters and so on, while supplying less technically developed weapons to Armenia. 85 percent of Azerbaijani military resources are imported from Russia. In order to cynically justify its commercial relations with Azerbaijan, Russia transfers cheaper and technically underdeveloped weapons to Armenia. This fact cannot be undermined due to large-scale violations of the ceasefire and killed soldiers by Azerbaijan using weapons bought by Armenia's strategic partner. (Galstyan, 2016)

Interviews

In-depth interviews conducted with Armenian experts revealed the following pattern: Armenian dependency on Russian economic and political support got the highest degree of intensity. Secondly, the consideration of economic and political security has also been mentioned as the key factor behind Armenian decision to join the Customs Union. Asymmetric relations between Russian Federation and the Republic of Armenia have also been slightly mentioned without giving too much importance. Last but not least, national interests of the RA have got not too much explanatory power in respect to illustrating the reasons of Armenian integration policy.

DEPENDENCY	ASSYMETRY	THREAT OF INSECURITY	NATIONAL INTERESTS
Fragile foundation of ARM-EU relations	Asymmetric build up and distribution	Russian assertive foreign policy	Standards of Armenian production
Regional power	The share of Russia in Armenian exports and imports	Geopolitical situation	Armenian competitiveness
Sphere of influence	Armenian share in Russian exports and imports	Strengthen legitimacy	Demand for Armenian products in Russia
Sign of strength and power	GDP	Importance of Armenian alliance with Russia	Access to larger market
Military and economic dependency	Customs Duties Revenues	Increase of energy prices	Russian role in NK conflict
Main trading partner		Increase of military prices	Low prices of military resources
Russian dominance in trade		Possible sanctions	
Russian ownership		Gas pipeline bought by Azerbaijan	
The main import origin		Russia was never keen on to protect Armenia	

The main export destination	supplier of Armenian military resources
Russian control over electricity production	Russia-Azerbaijan military cooperation
Power plants in exchange to Armenian debts	

Table 1 Categories and codes

As we can see in Table 1, there are four broad categories with their respective codes. Examination and discussion of those categories separately would yield to comprehensive explanations for Armenian strategic U-turn in 2013. In respect to dependency, almost 85 per cent of interviewees mentioned that the creation of the Eurasian Economic Union was the realization of Russian century-long ideology to establish Eurasian civilization and keep post-Soviet space under its tight control and influence. The creation of the Union was considered as a sign of Russian strength and power. All of them slightly mentioned the fact of Russia being a regional power and its endeavor to keep post-Soviet space within its sphere of influence. According to most of the interviewees, Russian side chose a type of integration which in its essence harms the sovereignty of member countries restricting their abilities of sovereign policy-making in respect to their economic policies with non-member countries. This type of restriction created by the Customs Union is itself the proof of the kind of integration aiming to keep the dominant role of the Russia in member countries making them much more dependent. One of the interviewees mentioned:

“After accession to the Customs Union, Heritage Foundation ranked Armenia as an authoritarian state, however before that it was considered as a country with a partly liberal market economy. Deep and Comprehensive Trade Agreement with EU was much more beneficial for Armenia in respect to establishing free market economy”

Most of the interviewees stressed the fact of Russian dominance in Armenian foreign trade being the main trading partner and creating economic dependency. Almost all of them mentioned the fact that Russian market was the expedient export destination for Armenia, as the standards and norms established by the European Union were time-consuming and would lead to short-term economic stagnation. They also highlighted Russian dominance in Armenian FDIs, in banking and insurance sectors as well as in all economic sectors even including military sector, gas and electricity. This fact originated not only economic but also military and political dependency. One of the interviewees mentioned that if the country has an outstanding economic impact on another country, this would gradually lead to dominant political impact.

“90 per cent of our weaponry and military resources are delivered by Russia. In contrast to Azerbaijan which is relatively free to buy military resources from Israel, Pakistan and Turkey on preferential terms, we do not have any alternative. They sold us weaponry by giving us \$200 million loan and signed a deal with Azerbaijan in respect to military supply in order to keep military balance in the region. By doing this they kept their dominance in Armenia, as the latter feared to lose its sole military partner in case of Russian anger.”

All of the experts pointed out the importance of Russia in Nagorno Karabagh conflict and stressed that this fact also creates dependency. The concept of *Armenian inability to solve the conflict without Russian support* has the highest degree of intensity in their speeches. Moreover, one of them mentioned that the settlement of this conflict was not and is not in the scope of Russian interests. 50 per cent of interviewees mentioned that Armenia was forced to take this decision, as current geopolitical situation made the rejection of joining CU impossible. They even excluded this version and rejected to talk about its possibility and consequences.

100 per cent of interviewees mentioned that Armenian dependency on Russian gas supply was also detrimental in decision-making in 2013. There was a threat of raising gas prices in case of rejection of membership leading to economic losses by raising prices of domestic production and harming Armenian exports.

In respect to Russian dominance in the energy sector and its ownership of nuclear power plants in Armenia, one of the interviewees mentioned:

“There are strategically significant sectors, where the foreign country such Russia should not take ownership, as there is a huge possibility that the ownership of those sectors could undermine Armenian sovereignty and create economic and political dependency.”

In a nutshell, all of the interviewees mentioned the significance of Russian market in Armenian foreign trade being the main export destination as well as the importance of Russian investments in economic sectors in Armenia including gas and energy sector. One of the experts stressed that in 2016 Russian investments in Armenia constituted about one milliard USD from which almost 50 percent was directed to gas and energy sectors. 85 per cent of them mentioned the possibilities of raising gas and military resource prices as well as trade tariffs and quotas. Only one of the interviewees rejected the possibility of economic losses in case of not joining the Union. 33 percent of those interviewees mentioned that economic dependency, as well as ongoing conflict with Azerbaijan, created political interest in Armenia with Russian orientation.

“Armenian economic dependence on Russia enabled Russian authorities to suppress Armenia not only economically but also politically creating an obligation to accept the membership”

On the other hand, all of the interviewees mentioned the significance of security both in terms of economy and foreign policy. Due to Armenian geographic location and ongoing conflict with the

neighboring state, the possible absence of Russian economic and military cooperation would significantly damage Armenian status quo. They mentioned the possibilities of indirect sanctions imposed by Russia, which would tangibly harm Armenian economy. Moreover, nearly all of them mentioned that in the case of Armenian denial to join CU, Armenia would be disadvantaged not only economically but also politically. 50 per cent of interviewees pointed out the issue of the Russian-Azerbaijani military deal which represents a huge threat to Armenian national security. One of them even pointed out:

“There is no doubt that denial of membership in CU would bring to the imposition of indirect sanctions leading to the establishment of quotas and limitations in respect to Armenian exports of food and agricultural products. They could raise trade tariffs and customs duties creating a huge barrier to our production. Our products would gradually become less competitive in the Russian market, which has the biggest share in our exports. Russian side could also raise the price of gas, which would become a burden for us. We cannot label them as sanctions, as they constitute the part of the foreign policy adopted towards the third non-member country.”

85 per cent of interviewees indicated that Russia has bargaining power over Armenia using its leverage in gas and military supply, electricity generation, foreign trade and the issue of Nagorno-Karabagh. According to them, gas supply has strategic significance for Armenian development. It is one of the key factors ensuring Armenian national security. One of them mentioned that the presence of Armenian nuclear power plant in Metsamor which gets all the necessary resources from Russia is a temper for Turkey and Azerbaijan. In the case of cutting Russian supply and shutting down the power plant, it would prompt an immense threat for Armenia.

Moreover, all of the experts interviewed mentioned Russian dominance in Nagorno-Karabagh conflict. Armenian military dependence on Russia, Azerbaijan-Georgia and Azerbaijan-Russia cooperation represented a huge menace towards Armenian national security. 50 percent of interviewees said that it was definitely the concern of Armenian national security that induced the authorities to join Russian-led CU. Only one of them indicated that the issues of national security and ongoing conflict with Azerbaijan were exaggerated by Armenian authorities in order to conceal their real interests linked with keeping their legitimacy and power. Only 33 percent of interviewees gave not too much credit on the issue of Nagorno-Karabagh in Armenian strategic U-turn stressing the fact that Armenia-Russia military cooperation is instrumented by CSTO agreements, not EEU ones. They only put emphasis on economic factors triggering to join CU.

Last but not least, two of the interviewees emphasized about Russian role in restraining Azerbaijan-Georgia cooperation and deal in regards to the sale of 25 per cent of the gas pipeline.

“Indeed, we all know that Armenian side is unable to prevent the deal. We do not have any financial or other resources and our hope is on Russia. Russia on its part uses the possibility of the deal to suppress not only Armenia but also Azerbaijan. Russia at any time can use this leverage and let Azerbaijan buy that pipeline in exchange for joining EEU. This deal could give Azerbaijan insurmountable bargaining power over Armenia undermining our security.”

What is obvious in speeches of the most interviewees, they gave a huge role to Armenian national economic and political security in respect to making a decision over what cooperation was beneficial for Armenia.

In respect to the asymmetry of Russian-Armenian relations and its possible impact on Armenian strategic U-turn, only two of the interviewees stated that asymmetric trade relations have led to

the accession of the membership from the Armenian side. One of them mentioned that because of this kind of asymmetric, one-sided dependence, Armenian authorities are very volatile and do not have any bargaining power over Russia. However, 66 percent of the interviewees mentioned that there is not any asymmetry in respect to markets and economic development between those countries. According to them Russia and Armenia are both developing and have a similar degree of competition in their markets. Through the lenses of parity of markets, the asymmetry between Armenia and the European Union is much more obvious and tangible. One of the interviewees pointed out the following argument:

“By the system of GSP+, we were encouraged to export 6400 types of products to the European Union with minimum acceptable tariffs. However, we refused to work in this direction, because there is a huge gap between European standards and Armenian production. The level of competition in the EU is incomparably higher than in EEU. That’s why the real asymmetry exists in EU-Armenia relations.”

Nevertheless, 50 percent of the interviewees slightly mentioned about asymmetric relations existing not only between Russia and Armenia but between the members of the Union as a whole. Their arguments were backed by the fact of uneven distribution of customs duties between member states and the asymmetrical mutual trade within the Union. However, these facts represent possible consequences and effectiveness of the Union, not the reasons why the states chose to accept the membership.

Roundly, the factor of national interests of Armenia in deciding which path is more beneficial and acceptable for Armenian future was examined. Under this concept, we have elaborated economic gains, political and geopolitical advantages that Armenian society and authorities tried

to obtain. The interviewees have contradictory arguments and thoughts. Only two of them slightly mentioned that this decision was based on economic and political interests of Armenia. According to them, Russia has the market, which is fully commensurate with Armenian standards of production. Nearly all economic sectors could benefit from this Union, attracting more Russian investments and transfers. On the other hand, considering the size of Armenian budget and ongoing harsh conflict over Nagorno-Karabagh as well as the need for military resources, this Union would ensure the continuation of Russian-Armenian military cooperation.

Remaining four interviewees definitely stated that the only factor behind that decision was not Armenian national interest, but the immense coercion from Russian authorities. Three of them pointed out that Armenian national interest is connected with the establishment of democratic governance and free market economy. Cooperation with European civilization would be the first and most important factor triggering the development of democracy. One of them clearly stated that Armenian national interests are also closely related to its security. According to him the failure of CSTO to support its member during April four-day war was the proof that membership in EEU was not conditioned by Armenian national interests. It's undeniable that not Armenian society, but Armenian authorities by fearing to be toppled decided to join the Customs Union. Two of them mentioned that in order not to lose their legitimacy, Armenian authorities decided to become more authoritarian and detached from democratic values.

Nevertheless one of the interviewees even stated that Armenia has not developed a clear mission of its development. According to him, Armenian side should decide which direction to choose: establishment of democracy or authoritarian regime within the country. However, one thing is obvious that authoritarian regime established by the membership in EEU is based on preferences of Armenian authorities, not Armenian society as a whole.

To sum up, the notion of national interest was not clearly defined even among experts. Few of them mentioned that Armenian national interests are linked with economic and political gains for this generation. Others think that national interests are definitely linked with European civilization and establishment of long-term gains by democracy and free market economy. This group of experts rejected possibilities of any long-term gains from membership in EEU and stated that Armenian society was simply forced to make such a decision. Finally, one of the interviewees pointed out that Armenian side does not have a clear vision of its future. That's why, arguing that Armenian membership in EEU was or was not backed by its national interests, is not correct and comprehensive.

Discussion of the findings

In order to comprehensively analyze the reasons of Armenian strategic U-turn, four specific issues have been chosen, enabling us to find out motivating factors behind the decision. We have identified the following: Armenian large-scale dependence, asymmetry of economic relations, the threat of insecurity and Armenian national interests. Russia, as a regional power tries to keep the post-Soviet Union countries within its sphere of influence. In respect to Armenian large-scale dependence, the formation and development of Eurasian Economic Union is used by Russia as a sign and proof of its strength and power in the region. In Armenia, the political culture inherited from the Soviet Union created various impediments for signing Association Agreement with the EU. Moreover, Russia is the main trading partner of Armenia, being the main export destination and import origin. Russian dominance is undeniable not only in most of the business sectors in Armenia, owning almost 100 percent of the stocks, but also in energy and gas sector. In order to

keep its competitive advantage over Iran in the gas sector, Russian authorities try to control the gas supply of alternative routes for Armenia by using the leverage of raising gas prices. They even made Armenian officials sign the deal forcing to buy gas from Russia for around 30 years. In addition, Russia used Armenian debts to take control over electricity production industry in Armenia, owning Armenian power plants in exchange of aforementioned debts. Thus, Armenian officials realizing this large-scale economic dependence, the threat of economic sanctions and economic insecurity imposed by Russia chose to accept the membership in EEU.

The second mostly highlighted reason is asymmetric economic relations not only within Russia and Armenia but also within other member states of the Union. Russian share in total GDP of the Union is the highest and it gets the biggest share of Customs Duties Revenues. Moreover, trade relations are built on asymmetric build-up. Russian share in Armenian exports and imports is unprecedentedly larger than Armenian share in Russia's exports and imports. This fact creates large-scale asymmetry in economic relations and undermines the benefits of joint cooperation. It also could serve as one of the reasons for accepting the membership, as in the case of withdrawal Armenian economy would be injured in a more tangible manner than Russian.

On the other hand, the threat of insecurity is the other mostly elaborated reason behind Armenian U-turn. Russian assertive foreign policy, geopolitical situation, Azerbaijani increasing military spending, the military alliance with Russia and Armenian dependence on Russian military supply was the cornerstone of the decision. Fearing of Russian leverage to raise the prices of military and energy resources, Armenian side refused to accept Association Agreement. Besides, domestic affairs in Armenia also had a tangible impact on its strategy, as many political parties thought that EU-Armenia cooperation could undermine strategic alliance with Russia leading to economic and political insecurity. Armenian government trying to oppress opposition parties and

keep its legitimacy decided not to take up the risk of losing Russian alliance. However, the facts and reality showed that Russia was never keen on to protect Armenia during the real threats and also signed a deal with Azerbaijan supplying over 85 per cent of its military resources. This means that Russia uses the dispute between Armenia and Azerbaijan to keep its dominance in the region and develop its military industry and trade.

In respect to Armenian national interests, it is impracticable to come up into definite conclusions, as not only examined academic pieces, facts and statistics but also arguments of most of the interviewees highlight indetermination in Armenian missions and perspectives. Instead of focusing on long-term economic benefits, they stressed Armenian large-scale dependence on Russia. In respect to the issue of Nagorno-Karabagh, things are more complicated. They firstly showed Armenian dependence on Russian military cooperation and then more immensely mentioned about Russian apathy during real threats to Armenian national security. Thus, saying that Armenian decision to join the Customs Union was backed by Armenian national interests comprehensively calculating economic and political gains without suppression from Russia is irredeemable and disparate.

In a nutshell, if a country prefers to integrate with others and form unions its main motivation and goal is to ensure its long-term economic development and political stability. According to the literature review, only countries with the same size of economies and markets can use economic unions for the benefits for all its member states. The unions formed by hegemonic powers are used to practice their power, to force other dependent states to become members, to manipulate the latter and exploit the markets of those states for their production and exports. Armenian case is proven to be similar, as large-scale dependence together with geopolitical situation forced Armenia to accept the membership in CU. This decision was not definitely

driven by its national interests because it somehow undermines long-term economic development and consolidation of democracy suggested by Association Agreement.

Conclusion

This paper outlined the most significant reasons behind Armenian decision to join CU in 2013. Some important linkages between Armenia and Russia concerning trade, energy, gas and military supply were examined to show the scope of Armenian dependence on its northern neighbor. As a consequence, available data showed us that Armenian dependence on Russian economy is very obvious and has been stressed by most of the interviewees. Thus, our first hypothesis can definitely be proved. However, in respect to asymmetric economic build-up between those two countries, the hypothesis can only partially be accepted, because many of the interviewees mentioned that this asymmetry had a minor impact on Armenian decision-making. Most importantly, they mentioned that asymmetry is the byproduct of the Union, not the reason why some of the countries decided to accept the membership. If talking about security, the third hypothesis can also be proved without suspicion, as most of the facts and the speech of the interviewees revealed that political and economic security concerns have the highest degree of priority within Armenian officials and society. Last but not least, the fourth hypothesis concerning national interests has contradictory arguments and baseline, which is in most cases dependent on how you define national security. Only two of the experts slightly mentioned that Armenian economic gains and political stability forced Armenian authorities to make the decision. However, others mentioned that factors behind that decision were Russian assertive policy and coercion, as well as intentions of Armenian authorities to maintain political stability and their legitimacy. The course of actions undertaken by Russian authorities in respect to CSTO

duties and impassibility during real threats to Armenian security undermines the notion of Armenian national interests. Thus, the aforementioned hypothesis can only be partially proved.

Trying to sum up, we can see that ‘Dependency theory’ can definitely be applicable to Armenian recent development and its relations with Russia. Data analysis shows that Russian dominance is insurmountable and enormous maintaining control over Armenian foreign policy and economic development.

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Appendix 1

Interview questionnaire

1. Was the creation of the Eurasian Economic Union conditioned by spreading the power and influence of Russian Federation?
2. Did the dominance of Russian Federation in Armenian Foreign trade promote Armenian decision to accept the membership in EEU?
3. Did the asymmetry existing between Russian Federation and the Republic of Armenia promote Armenian decision to accept the membership in EEU?
4. Would the rejection of the membership in EEU lead tangible economic losses for Armenia?
5. Did Armenian dependence on Russian energy supply force Armenia to join the Union?

6. What impact does Russian-Azerbaijani military cooperation have on Armenian decision-making?
7. Would the rejection of the membership in the Union harm Russian-Armenian military cooperation and military supply?
8. Would the membership lead to short-term or long-term gains for the Republic of Armenia?
9. Would the sale of Georgian gas pipeline to Azerbaijani SOCAR threaten Armenian national security?
10. Would the rejection of the membership in the Union lead to imposing economic sanctions by Russia?