

ARMENIA'S GEOPOLITICAL ENVIRONMENT: THREATS AND OPPORTUNITIES

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The paper analyzes the essential features of Armenia's geopolitical environment. Its main focus is on the particular threats against Armenia, which result from, but which are not confined to, the "no war, no peace" situation with Azerbaijan. It analyzes the direct effects of the war and its aftermath on the Armenian economy, as well as the problem of relative economic performance with Azerbaijan, and why it matters. This analysis is conducted in parallel with an overview of the debate in Armenia regarding the nature and level of this and related geopolitical threats, which took place 5 years ago and resulted in President Ter-Petrosian's resignation. The paper then compares the conditions under which that debate took place with the current conditions.

Keywords: Armenia, Geopolitics.

I. INTRODUCTION

In a recent, yet unpublished paper, Robinder Bhatti identifies four essential factors as impediments to development in the three South Caucasian republics, including Armenia: corruption; war and its aftereffects, as well as the threat of its resumption; weak state capacity; impediments to inter-regional and international trade both resulting from war, and from protectionist/autarkic impulses (Bhatti, 2002). I do not dispute the importance of these factors, nor do I intend to make claims regarding the relative importance of each one of these obstacles on the path of Armenia's

development. With the possible exception of the weak state capacity, all of these factors, and perhaps certain other ones, are indeed very important obstacles. What I would like to do in this paper instead is focus primarily on the relationship between the main external threat to Armenia – the threat of renewed hostilities in Karabagh and issues surrounding that threat – and the country's prospects for development.

I intentionally refer to the *relationship* between the two variables, rather than the effects of one on the other, because I think the effects run in both directions: the threat negatively affects the prospects of economic development, and the weak economy makes meeting the external threats more difficult, and the country more vulnerable. Most people would probably agree with such a claim without argument, because it sounds obvious enough. The problem is that there is no consensus in Armenia on this claim. Indeed, the most important political crisis in the short history of independent Armenia, the crisis, which led to President Ter-Petrossian's resignation in 1998, had much to do with the difference in the way Ter-Petrossian and his opponents analyzed this claim. Therefore, it is probably a good idea to start our analysis with providing some background to the debate that took place in 1998.

II. SECURITY AND ECONOMICS: THE KARABAGH WAR AND ITS IMMEDIATE AFTERMATH

Economic reform and development has been a major concern in Armenia since the election of the Armenian National Movement (ANM) as the ruling party in the summer of 1990. Indeed, privatizing the land was one of the first, and in my view one of the most important early decisions of the ANM, which signaled its views on the future of the Armenian economy, as well as the importance it attached to the economic reform in the country. Nevertheless, while it remained an important concern for the ANM, and while Armenia was one of the first and in many respects most successful examples of economic reform among the post-Soviet republics,¹ economic problems were predictably pushed to the background as the war escalated in Karabagh.

Not only war made reform a secondary issue for Ter-Petrossian's administration, it also imposed certain actions and policies on the government that introduced large-scale inefficiencies and distortions that could have been, and I think would have been, avoided otherwise. For instance, the state was incapable of financing the war from whatever budgetary resources it controlled, and consequently it relied both on coercive measures against certain economic agents to extract the necessary resources, and gave preferential treatment to those economic agents that volunteered

¹ It was the first country among the post-Soviet states, except for the Baltic states, to register economic growth in 1994.

their financial support.² The state had to sell assets very cheaply, both because the buyers' risks depressed the prices of those assets, and because the war had inflated the state's discount factor for the future. Granting economic privileges to veterans and their organizations, because the state had no other means of compensating them, was yet another form of economic distortion, even if it was the right thing to do for a host of non-economic reasons.

Aside from these directly visible and obvious negative externalities, these policies also contributed to corruption and cronyism, because these policies were not and could not be under any legislative control.³ The lack of legislative control deprived the state of any conceivable mechanism to separate the "altruists" and the "opportunists," who were, in one way or another, a part of the extra-legal war economy. What does this mean in practice? It means that when some medium or high-ranking bureaucrat in, say the interior ministry is told to "talk" to a few businessmen in the area of his responsibility and see how much money they can contribute to the war effort, there is no way, or at least no cost-sensible way, to monitor whether that bureaucrat is transferring all the funds to the appropriate account, or whether and how much he is taking home. The consequences of such a system of resource extraction are easily predictable: it starts attracting a large number of "opportunists" fueling corruption and cronyism.

Signing the cease-fire in May 1994 gave the country some breathing space, freed up some resources, and allowed for some economic improvement. It was the year when Armenia registered economic growth for the first time in probably 6 years, and has continued to grow ever since. But the cease-fire could not reverse many of the damages that the war had wrecked on the economy. Many of the distortions I described, particularly the control of the security apparatus over the most lucrative economic activities, such as importing gasoline, sugar, and grain, remained in place. Moreover, and more importantly, the cease-fire did not mean peace. The war's resumption was and is an ever present and real threat, which means the country has had to maintain a very high state of military readiness, spending anywhere between one sixth to a quarter of its annual budget on the military, plus an unknown amount through extra-budgetary means.

The absence of a peace treaty with Azerbaijan following the cease-fire, also generated a concern, which is still valid, that Armenia would be excluded from the

² Robin S. Bhatti, "Tough Choices," p. 17.

³ The word "contributed" is important in this sentence. Corruption certainly was there, and would be there even without the war. Corruption had reached extreme levels in Armenia, as well as many other parts of the former Soviet Union, in the 70's and 80's. Independent Armenia inherited an extraordinarily corrupt system as it was. All I am arguing is that war exacerbated the problem, even though it did not create it.

major economic projects in the region related to the development and export of the Caspian oil. This potential exclusion worried the Armenian leaders, and still worries some, that Armenia not only would incur the enormous opportunity costs of exclusion from these projects, but that Armenia's relative power position with Azerbaijan would start to deteriorate.⁴

Combined with a conclusion that Armenia had reached the limit of what it could get in a peace settlement, some in the previous leadership of Armenia, President Ter-Petrosian (1997) most prominently, argued that it was time to settle the dispute with Azerbaijan. Ter-Petrosian's decision to go public with this in 1997 revealed the crack between himself and a group of his supporters on one hand, and his opponents within his own government, Robert Kocharian, Vazgen Sarkissian, and Serzhe Sarkissian, on the other hand. Ter-Petrosian's opponents essentially had two sets of arguments against him. First, they argued that the fear that Armenia will start declining relative to Azerbaijan did not imply the policy that Ter-Petrosian favored. Instead of accelerating the peace process with Azerbaijan, Armenia should try to improve its economic performance, which they argued, was far from its maximal level of efficiency and productivity. While Ter-Petrosian thought that under the circumstances, Armenia could only achieve marginal improvements insufficient to address the fear of relative decline and economic exclusion, his opponents thought the potential improvements would be sufficient to address these fears. Fighting corruption, improving the political climate in the country by trying to soften the conflicts with the opposition, and improving the relations with the Diaspora could sufficiently improve the economic conditions to ward off these fears, the argument went.⁵ Ter-Petrosian's opponents also maintained that Azerbaijan was a country mired in extreme levels of corruption, therefore even if the aforementioned projects had materialized, the resulting resources were likely to be stolen by the Azerbaijani elite rather than invested in military capability that could threaten the existing balance of power between Armenia and Azerbaijan.

This analysis of the situation implied the second argument of Ter-Petrosian's opponents. Namely, settling the conflict with the terms offered in 1997 was not the best Armenia could get. There was at least one preferable option: Armenia and Karabagh could hold out indefinitely and maintain the "no war, no peace" status quo. Turks were negotiating over Cyprus for 25 years, Israelis were negotiating over the West Bank for 30 years, why couldn't Armenia do the same? And if the fear of

⁴ The word "relative" is important here. Because economy is the foundation of military power, in much of security studies the focus is on relative rather than absolute growth. Even if country X has positive growth, it may be in "relative" decline when compared to country Y, if the latter is growing faster. See Waltz (1979, Chapter 7) and Grieco (1993).

⁵ Incidentally, Kocharian's appointment to the post of Prime Minister with a mandate to do all of those things in the spring on 1997 had much to do with this debate. See Libaridian (1999, pp. 64-68).

relative decline was really exaggerated, then surely this would be better than compromising, because compromising meant making certain costly concessions, whereas holding on to the status quo did not.

The debate thus boiled down to an argument about future economic performance, as well as the exact level of that performance that would be sufficient for holding out indefinitely. In some ways this was not a debate easily decidable on evidence, and still is not. What percentage of annual GDP growth relative to Azerbaijan is sufficient in order for Armenia not to fear relative decline? With how much precision could one estimate the relative economic performance of the two countries into the visible future? How does one account for non-economic variables making up a state's power? For instance, if one accepts that the Armenian and Karabagh armies are superior to the Azerbaijani army in terms of their tactical skill and morale, then simply comparing the Armenian and Azerbaijani defense budgets will not do. Certainly, there is a point where quantity becomes quality (Red Army defeated the *Wehrmacht* after all), but where is that point exactly, and can it ever be estimated *ex ante*?

There was yet another, more subtle dimension to the debate between Ter-Petrossian and his opponents, however. Ter-Petrossian argued that thinking of Azerbaijan as Armenia's and Karabagh's only opponent was dangerously misleading. It was not just Azerbaijan that Armenia and Karabagh were confronted by, but also certain important regional and global actors, which were interested in a peace settlement, and would not tolerate the maintenance of the existing status quo indefinitely. Armenia, Ter-Petrossian argued, had reached a limit with these actors as well, therefore intransigence on the part of Armenia risked not just a re-escalation of the war with Azerbaijan, but also loss of political support from these important international actors with potentially disastrous consequences for both Armenia and Karabagh. To put it less cryptically, the US and the Europeans, whose economic assistance by the way covered around a third of the Armenian national budget at the time, wanted access to the Caspian oil, and Armenia was starting to look like the main impediment to that access. If Armenia came under serious pressure from them, and he thought it was just a matter of time, the situation could very quickly deteriorate. Therefore, it was better to *negotiate* a settlement now, rather than be *coerced* into making concessions later. Again, his opponents disagreed arguing that Ter-Petrossian was being unduly pessimistic.

In some ways this was even a more difficult debate to be decided on evidence, because indeed some of the projections and predictions on both sides were based on highly probabilistic judgements. Indeed who could say with any certainty what the US, the Europeans, or the Russians would do in the Caucasus say 2 or 4 or 8 years down the road? Was it possible that the US would conclude at some point that the costs of major involvement in the Caucasus were not worth the benefits? What would happen to the US policy in the region if Aliyev died and there was a civil war

in Azerbaijan? Was it unreasonable to expect that Russians would try to counterbalance any pressure against Armenia, or any attempt by anyone to play first violin in the Caucasus? What would happen if the major oil companies and their home countries concluded that there was not enough oil in Azerbaijan to justify all the economic and political costs of the involvement in the region? After all, there was still no consensus on these estimates at the time this debate was taking place in Armenia,⁶ and there still is no consensus even now. No one could give conclusive answers to any of these questions, and thus most if not all such predictions of future political shifts and developments were probabilistic judgments with a wide margin of error on both sides. What distinguished the arguments of Ter-Petrosian from those of his opponents in this regard was not necessarily the better evidentiary support or tighter logic of the arguments, although I happen to think he had the upper hand there, but the variation in the risk preferences of the two opposing camps in that debate: Ter-Petrosian was willing to take the sure thing, while his opponents were willing to take a gamble, which entailed a certain probability p of getting a better result than what Ter-Petrosian was willing to take, but also a probability $1-p$ of getting something much worse.

III. THE SITUATION FOLLOWING THE DEBATE

The debate between Ter-Petrosian and his opponents morphed into a serious political crisis in early 1998, which culminated in Ter-Petrosian's resignation. Five years have passed since, and it is interesting to look at what has happened in that period, and which side of that debate has been proven right. The first observation one can easily make is that the sky has not fallen on Armenia. The deterrence has held so far, and the peace has been maintained. There has been no intense pressure on Armenia to make concessions or else. Indeed, Kocharian's diplomacy has been reasonably successful in convincing the mediators of his commitment to the process both in multilateral settings and in his direct dialogue with the President of Azerbaijan, and none of the important and relevant countries has radically changed its policy toward Armenia or the Armenian-Azerbaijani conflict.

The economy has been growing, and last year even at an annual rate of more than 9%, which is quite impressive.⁷ The level of foreign direct investment has not been increasing very steeply, but it has seen some improvement as well. Azerbaijan has been growing at a comparable rate, and it has enjoyed a far higher level of foreign

⁶ Laurent Ruzsakas "State of the Field Report: Energy and Politics in Central Asia and Caucasus," AccessAsia Review, NBR Publications, 1998. www.nbr.org/publications/review/vol1no2/essay2.html

⁷ There is a lot of skepticism regarding the growth rate numbers in Armenia both in the ranks of the opposition, and in the public at large. The IMF and World Bank, however, remain largely in agreement with the claims of the Armenian government.

direct investment, but the improvements there have not been dramatic enough to cause alarm in Armenia. The oil pipeline is yet to be built, and Azerbaijan has yet to cash in the profits from oil. Indeed it is not absolutely clear that the pipeline will be built, because the profitability of the project still raises many questions among potential investors.

On the negative side of the ledger, there is still a very large emigration out of Armenia, which indicates that things are not improving for a large number of people, or that they are not improving fast enough. Corruption and cronyism have become even more menacing problems than they used to be. So menacing, that even the ARF, which is usually very staunch in its support of Kocharian, expressed its concern regarding the scale of the problem and the failure to deal with it in its recent congress, where Kocharian was nominated as ARF's presidential candidate in the upcoming elections. Finally, even if the situation has seen some improvement in Yerevan and the agriculturally rich Ararat Valley, the rest of Armenia lives in miserable economic conditions.

Overall, however, things don't seem to be as bad as Ter-Petrossian and others, including this writer, were predicting at the time.⁸ Most importantly, there has been no re-escalation of hostilities in Karabagh, and the pressure on Armenia to make concessions has not increased dramatically. Should therefore Ter-Petrossian, and those who agreed with him at the time, concede the debate? Should we conclude consequently that indeed Armenia's geopolitical environment 1) is not terribly relevant as far as Armenia's prospects for economic development are concerned; 2) poses no unmanageable challenges regardless of whether Armenia and Azerbaijan settle the conflict or not. The answer is no, because the most fundamental concerns expressed then are as valid today. Even if the Armenian economy is developing today, it could be developing much faster if the country was taken off the war footing. There are also serious concerns regarding the sustainability of the current growth numbers (World Bank, 2002). More importantly, however, there is still a high probability of developments in the region that are not favorable to Armenia in the long run in terms of its relative power position vis a vis Azerbaijan, especially if it continues to pursue the policy that it has been pursuing for the last 5 years. That policy is still a very high risk gamble, and it should be abandoned in favor of a more conservative and risk averse approach, which essentially means a speedy solution to the Karabagh conflict.

⁸ Arman Grigorian, "Alternatives to Ter-Petrossian's Policy: Do They Exist, and What Are They?" *Aravot*, 25-26 June, 1998.

IV. THE UNFAVORABLE DEVELOPMENTS

What are these developments? And why are they unfavorable for Armenia? All of them can be derived from one principle development, which is the possible change of a great power guard in the Caucasus, more specifically, the replacement of Russia with the US as the policeman in the neighborhood. Two questions need to be addressed in this context. First, why is this a necessarily bad thing from Armenia's perspective? Second, how likely is such a development?

If Armenia had normalized relations with all of its neighbors, the change of a guard would not matter much. After all, if the US replaced Russia as a guarantor of Armenia's borders and the general order in the Caucasus, I see no reason why Russia should be preferred for that role. The problem is that Armenia has unsolved problems with two of its neighbors – Turkey and Azerbaijan. Turkey is a very important American ally, and Azerbaijan has oil. It is trivially obvious, therefore, that if the US becomes the principle broker in the region, Azerbaijan's and Turkey's interests would count for more than Armenia's, because the latter does not have anything of comparable value to offer the US.

Moreover, since the collapse of the Soviet Union, the US has been doing what all great powers have done in similar situations. It has been trying to fill the vacuum left by the Soviets. This policy has created new divisions in the vast geopolitical belt around Russia, where countries are either candidates for NATO membership or they are not. And while this has not been a very sharp division to the West of Russia (Poles have maintained good relations with Russia while being enthusiastic about their NATO membership), things seem to be developing somewhat differently in the Caucasus. Georgia has gambled on a stubborn and intransigent policy toward Russia calculating with some justification that this will earn them points in Washington. To a lesser degree Azerbaijan has done the same. Azerbaijan's tensions with Iran also seem to some people in the US as an asset in any future showdown with Iran. Armenia, on the other hand, is a declared opponent to NATO expansion into the Caucasus, has a military alliance with Russia, enjoys a very close cooperation with Iran, and has no diplomatic relations with the only official American ally in that region - Turkey.

This is not to say that Armenia bears responsibility for such a state of affairs in the region, which it does not. Its cooperation both with Russia and Iran has been the correct policy, and Armenia has had little choice but to pursue that cooperation. It is only to point out that in case the US replaces Russia in that region, it has very few reasons to favor Armenia in any conflict with Azerbaijan or Turkey. One also should not exaggerate the sharpness of these divisions, or assume that these conflict and divisions are necessarily zero-sum, and about to escalate into open confrontations. But again, on balance Armenia's positions would not be very strong if we left everything the same in the Caucasus today, and replaced Russia with the US.

How likely is such a dramatic transfer of power in the Caucasus? It is indeed very hard to say. I have often been very skeptical of such suggestions myself. There are many reasons for such skepticism. From the American perspective, it is a remote and messy region, where involvement can be extremely costly. There is always some chance that Russia will dig its heels in the Caucasus and behave differently than it behaved in Eastern Europe, which may have a deterrent effect on the US push in the Caucasus.⁹ Certainly no benefits of controlling the Caucasus is worth a showdown with Russia. One should note, however, that similar arguments have been made in the past regarding NATO expansion into Eastern Europe. Moreover, it is almost incredible how weak Russia has become. Its conventional military is in such an unbelievable state of disarray that taking any Russian threat seriously requires quite a bit of imagination. Combined with a clear increase in the American appetite for vigorous, interventionist foreign policy following September 11, 2001, ever increasing demand for oil, the region's proximity to a certified member of the "axis of evil," and the benefits of establishing presence in this region before Russia has recovered, it is more reasonable to expect an American push in the Caucasus than not, even though it is not certain by any means. And if that succeeds Armenia should expect increased pressure to modify its behavior, which it cannot resist.

I want to stress again that the change of guard in the Caucasus will not matter as much if Armenia has settled its conflict with Azerbaijan (which in turn will make normalization of relations with Turkey possible). Of course, it can be argued that it depends on the terms of the settlement. If the terms of the settlement are sufficiently bad, it may not make a difference if one agrees to them with or without outright coercion. For instance, one can argue, as many have in Armenia, that Ter-Petrosian was capitulating in 1997, and the difference between accepting what he wanted to accept then and signing something in response to outright coercion is no different. And if the probability of such coercion in the future is anything smaller than 1, then going forward with such a settlement makes no sense. Unfortunately, a detailed discussion of the different peace plans Armenia and Azerbaijan have negotiated following the cease-fire in May 1994 are beyond the scope of this paper. Two things are clear, however. The 1997 plan was ensuring nothing short of a *de facto* independence for Karabagh,¹⁰ which was anything but capitulation, and would be worth taking even if there is no fear of escalated pressure on Armenia in the future.

⁹ In the latest crisis with Georgia several months ago, Russia openly threatened military action against Georgia, and interestingly Georgia became very conciliatory quite suddenly. It was very interesting that the US reaction to the Russian military threats was quite mild. In the past, far more innocent actions by Russia in the Caucasus have elicited far more vigorous reactions from the US.

¹⁰ For an excellent discussion of the draft 1997 plan, and its comparison with the draft agreement negotiated by the Kocharian administration in 2000 see Levon Zourabian "Sacrificed Diplomacy: The Truth about the Peace Negotiations," *Aravot*, March 31, 2001 .

Secondly, if Armenia is forced to accept something instead of negotiating it, it will get considerably less.

Even settling the Karabagh conflict unfortunately does not guarantee Armenia a safe and prosperous future. Some of the geopolitical shifts in the neighborhood can affect Armenia, as well as other countries in the neighborhood, negatively irrespective of their behavior. Life in international politics in general is “nasty, brutish, and short,” as Thomas Hobbes famously said, but it is particularly true of small and vulnerable countries like Armenia, and its two other Caucasian neighbors. The region may simply find itself caught in a cross-fire if there is a serious confrontation between the US and Russia, or between the US and Iran played out in some form in the Caucasus. Armenia, and other countries in the region, may be forced to choose sides, with potentially disastrous consequences if they bet on the wrong one. This of course seems too far-fetched, but most things in international politics do until they happen. Who would have predicted a dispatch of American troops to Georgia or Kirgыз Republic on September 10, 2001?

There may be other dangers in the neighborhood, which are out of Armenia’s control, and may affect Armenia quite seriously, and negatively. The political systems of Armenia’s two Caucasian neighbors are very fragile, and may not survive the people who hold them together – Aliyev and Shevardnadze. Both are quite advanced in age, and if they were to leave the scene, serious political instability in both countries is not unlikely. Any instability in Georgia threatens one of the two outlets to the outside world for Armenia, and instability in Azerbaijan may be a fertile ground for all kinds of opportunists to play the Karabagh card in their attempt to capture the state. Upheaval in Iran should also not be ruled out. There is an ongoing political transformation in that country with increasing tension between the reformers and the conservative clerics. Will the clerics yield their positions peacefully and gracefully, or will they resist? What will happen if they resist? A serious upheaval in Iran could not possibly be a good thing for Armenia either.

How likely are these developments? In particular, how likely is the general reorganization of the political order in the Caucasus as a result of American penetration. Very hard to predict indeed. Much will depend on what happens with Iraq. Some of the edge seems to be wearing off the American policy there, and some very difficult problems for the US are rearing their heads as a result of the Iraq policy. North Korea’s very skillful exploitation of the American preoccupation with Iraq, and its withdrawal from the NPT, for instance, point to the limits of what the US can do at an acceptable cost despite its absolutely overwhelming power and influence in the international system. Much will also depend on how the war against Iraq unfolds if it does take place. If it is a replay of the Gulf War, then it will further embolden the US national security elite, and silence opposition both at home and abroad, and it is not inconceivable that Iran will become the next target. If the war with Iraq becomes a protracted and/or very costly engagement, which some analysts

predict it will be, the enthusiasm for changing more regimes in the Middle East, or the appetite for activist policy in general, may quickly evaporate.

Ultimately, a speedy settlement of the Karabagh conflict is preferable even if the worst-case scenarios are very unlikely to become the reality. Armenia so far has been able to exploit the fact that no single great power has a strategic monopoly in the Caucasus, which is what Armenia's leaders mean when they talk about the principle of complementarity in foreign policy. This situation is unlikely to last forever, or even for a very long time. The region will become either a primarily US or a primarily Russian zone of influence, or they will cut a deal. Whatever happens, Armenia will be compelled to settle the conflict with Azerbaijan, and there are absolutely no reasons to believe that any offer will be better than what Ter-Petrosian was willing to consider in 1998. And to repeat what was already said above, a negotiated settlement is always better than an imposed one.

In sum, Armenia's geopolitical environment is characterized by a high level of uncertainty and a set of risks. It presents the Armenian leadership with very difficult challenges in the near future. These risks are particularly acute because of the existing unsolved problems the country has with Azerbaijan and Turkey. These risks constitute threats both to Armenia's security, and to its prospects of economic development. This situation hurts the Armenian economy, because the country is basically on a war footing, it incurs enormous opportunity costs as a result of the absence of economic relations with Azerbaijan and Turkey,¹¹ and its consequent exclusion for a number of regional projects, and because it is a high risk environment for potential investors. Many of the risks and threats cannot be eliminated no matter what the Armenian government does, but some can, and that should be their main task in the near future.

Conversely, if serious progress takes place in the negotiations over Karabagh, these risks will be seriously minimized, and the economic prospects of Armenia will become much brighter. Normalization with Azerbaijan and Turkey by no means is a sufficient condition for a faster and more robust economic development, because there are also non-strategic obstacles, like corruption, on that path. There are certainly many countries in very benign strategic environments, but mired in economic misery. That normalization, however, is a necessary condition for serious economic improvement. Even if one does not dispute the fact of high current growth rates, that is not an argument for holding on to the status quo. These rates can be much higher, and Armenia could certainly use it. It could buy fuel for the Metzamor nuclear power plant with better regularity, it can find resources to revive its enormous scientific and intellectual potential, which has already been quite frighteningly decimated, it can retire the fleet of its civilian aircraft that is not

¹¹ Richard Beilock, "Helping Armenia without Helping the Blockade", in the current volume.

airworthy anymore, but keeps flying, it can invest in its antiquated health care system... In short, the country can use every extra penny (or dram for that matter) to make the still terrible conditions for the majority of Armenians better faster. The growth rate may be high, but apparently it is not high enough, and there is not much confidence that it can be sustained. Reduction of threats against Armenia would also make fighting the war related system of corruption and inefficiency easier. It will simultaneously free up political will and generate more insistent public demands for divorcing the economy from the defense ministry.

One can only hope that President Kocharian will have more elbow room than his predecessor in his second term, as well as desire to normalize the relations with Azerbaijan and Turkey, which still is a precondition for both Armenia's long-term security, and its economic prosperity.

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