

ARMENIA: ON THE THORNY PATH TO INDEPENDENCE

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The establishment or restoration of independence is the cherished desire and dream of every nation. During their multi-century history, the Armenian people have lost and restored their statehood many times. This also happened at the end of the 20th century, when a Third Republic was set up in Armenia. It was not only formed on the basis of the First (1918-1920) and Second (1920-1991) republics, but also became their legal successor and heir. After existing for two and a half years, the First Republic laid the foundation for the Armenian state of the most recent period, essentially ensuring, albeit in imperfect form, its existence in the form of Soviet Armenia, which some time later became part of the Transcaucasian Federation, and later of the U.S.S.R.

As a constituent of the Soviet Union, the republic achieved significant success in almost all areas of social and economic life. It acquired a developed industry, agriculture, and culture, but it did not and could not become, a politically and economically independent, free national state. At the end of the 1980s-beginning of the 1990s, the U.S.S.R. fell apart as the result of the tempestuous development of political processes, and Armenia, along with the other Soviet republics, became independent, which was legislatively enforced on 21 September, 1991 by the results of a national referendum.¹ A presidential form of rule was introduced in Armenia.

¹ See: *The Republic of Armenia*, 24 September, 1991.

In a short time, the Republic of Armenia (RA) acquired universal international recognition, became a member of the U.N., and established diplomatic relations with many countries of the world. At this time, the RA, like other post-Soviet republics, encountered the need from the very beginning to carry out significant changes throughout the system. These reforms encompassed all areas of society's vital activity (political, economic, legal, social, cultural) and were very far-reaching and deep-cutting in nature.

Carrying out such transformations was unprecedented in its scope for the world community, that is, no other state had yet to resolve such major problems, and this meant there was no corresponding experience. In order to build a democratic, law-based state, it was necessary, in addition to carrying out political reforms, to proportionally and correctly develop different branches of the economy, replace ineffective management mechanisms with more effective market ones, and modernize the structure of the economy, adapting it to the needs created by the new economic system and producing goods and services that were competitive on the world market.

But those countries that encountered the inevitable need to conduct reforms had very little time to carry all this out, since the collapse of the former economic system led to a decrease in the production volume and a drop in the population's standard of living.

Analyzing the course and results of the reforms conducted in the RA over the past 15 years, we come to the unequivocal conclusion that despite the obvious positive shifts, it might have been possible to achieve more, which did not happen for several objective and subjective reasons.

The formation of market relations can be considered one of the main results of the socio-economic reforms in Armenia. The governments that followed each other in close succession liberated prices and foreign trade, introduced a domestic monetary unit, and created new market structures (a banking system, consultative, insurance, and auditing companies, as well as companies acting on the security and real estate market) with a certain amount of success. As a result of the continuing changes in the state governance system, entirely new customs and tax bodies, a price policy for state purchases, and special institutions regulating the civil service system were formed, while the activity of the state administration hierarchy was adjusted to meet the demands of the market economy.

Thanks to the reforms in the judicial-legal sphere, the formation of a new judicial system was completed and new laws and codes were adopted. At present, new civil and criminal codes are in effect, numerous laws and legislative acts have been adopted for regulating the activity of the budget, tax, and banking systems, as well as of various organizations. Widespread privatization has led to the production of the private sector constituting the main part of the GDP. Structural changes have also occurred in power engineering. The national monetary unit, the dram, remained stable, and the budget deficit and inflation became manageable. The reforms in the social sphere—education and health care—were carried out with varying success. Introduction of a system of family benefits was an important step from the viewpoint of rendering assistance to the low-income strata of the population. Significant investments were made in the production structures (mainly in the form of credits and donations) for restoring the disaster zone and developing and modernizing power engineering, motor roads, irrigation and drinking water systems, and communications. Private (including foreign) investments were made in the republic's industry, particularly in the mining-metallurgical, chemical, and pharmaceutical branches, in the processing of precious metals and gems, in the food and the light industries, and so on.

Beginning in 1994, thanks to the above-mentioned reforms and investments, the RA registered an average annual economic increase of 5.9%, in 2001 it was 9.6%, and almost the same figure was recorded in 2005.²

² See: *The Sociopolitical Situation in Armenia, January-December 1994*, Erevan, 1994, p. 8; *The Sociopolitical Situation in Armenia, January-December 2002*, Erevan, 2002, p. 141.

But, despite all of this, during the past 15 years, the Republic of Armenia has been unable to restore the level of socioeconomic development and standard of living of the population that existed during the pre-perestroika period. More than half of the country's residents are considered extremely poor, and the polarization of personal incomes is the highest among the former U.S.S.R. republics. The benefits and pensions granted by the state are approximately 8-fold lower than the cost of the food basket and minimum subsistence level. According to official statistics, the average monthly wage of those employed in production reaches a mere \$43.³ According to some researchers, the number of unemployed is approximately 30-32% of the able-bodied population.⁴ The funds allotted by the government for education, public health, culture, and science have been drastically cut back, which has resulted in immense detriment to these spheres, particularly with respect to the quality of services rendered and the extent to which they reach all those in need of them.

Nor have any dramatic changes been noted in the sectoral structure of the economy, or in the competitiveness of goods on the world market. The volume of exportable production dropped 15-fold compared with the pre-transition period,⁵ and the export structure has drastically changed, the main part of which consists of non-labor-intensive low-value added goods. But along with this, the significant increase in foreign deliveries and volume of foreign investments observed in recent years inspires the hope that positive structural shifts have begun in the economy that will lead to the development of those branches with internal reserves in export.

In this way, despite the efforts aimed at carrying out socioeconomic reforms, Armenia remains a poor country with a great many unresolved social problems.

In order to correctly assess the results of the changes that have occurred during the period under review, the objective and subjective reasons for the difficult socioeconomic situation that has developed must be identified, and those shortcomings and errors pointed out that gave rise to the current situation and made it impossible to rapidly overcome the difficulties of the transition period. In particular, cooperative production ties were destroyed in one fell swoop, and export channels were cut off; the economy and society found themselves in a profound crisis. To these problems we can add the war, blockade, 1988 earthquake, migration, to name a few. There are objective and subjective reasons for the crisis that developed. Among the former, which caused a profound slump in the economy and slow restoration of its pre-transition level, we can single out three (apart from the earthquake and consequences of the war).

1. *No one expected so many drastic changes, and the country proved unprepared for them.* As a result of the rapid collapse of the U.S.S.R. and Russia's, our main trade partner, use of shock therapy for carrying out the economic reforms, Armenia found itself faced with the need to carry out large-scale economic transformations. At the beginning of the 1990s, the ruble quickly became devaluated; under conditions of state control over prices, basic necessities disappeared. But whereas in the Russian Federation and several Eastern European countries rather detailed and lengthy preparations were made for the reforms, the new authorities in the RA were unable to carry out such a high volume of work, which resulted in the transformations begun being incomprehensive and inconsistent, that is, the political changes in the U.S.S.R. took place so quickly that Armenia did not have time to comprehensively prepare for carrying out the reforms required by these changes. This was also hindered by the fact that the country was in an actual state of war with Azerbaijan.
2. *There were not enough resources for successfully carrying out a large number of structural changes.* The abrupt slump in the Armenian economy and its subsequently slow re-

³ National Archives of the Republic of Armenia, rec. gr. 119, inv. 15, f. 53, sheets 1, 21.

⁴ See: *Armenia-2001. Statistika*, Erevan, 2001, p. 21.

⁵ See: *Foreign Trade of the Republic of Armenia, 2000*. Erevan, 2001, p. 13.

covery were caused by the industrial nature of the latter and its complete dependence on the market of the former U.S.S.R. In 2001, the volume of industrial production amounted to only 55% of the 1990 level.⁶ The loss of foreign markets led to significant structural changes in this sphere. As a result of the collapse in the integrated economic space and payment system, reduction in the production volume, as well as the formation of a new competitive environment in all the republics, not only did production but also export volume drastically decrease in Armenia. In 1993, in keeping with the official dollar exchange rate to the ruble, the export volume dropped almost 40-fold compared to 1988,⁷ and, what is more, the largest part of export constituted production from four branches: the food, the light, the chemical, and the machine-building industries. Not one industrial enterprise was ready for such an abrupt change in the situation, the mechanism of guaranteed sales was no longer effective and the industries mentioned were supposed to find sales markets themselves. Adaptation to the new conditions required a fair amount of time, since new knowledge and structures, qualitatively new employees, and, more important, an increase in the competitiveness of the goods produced were needed in order to organize production management and sale in the new situation. Large amounts of resources were needed to carry all this out and achieve success on the foreign market. Even those enterprises at which relatively new equipment and more or less contemporary technology was used were unable to quickly adapt to the new situation. As for reserves, the economy did not have any. Enterprises could not maintain even their circulating assets (high interest banking loan rates made it impossible for enterprises to use them). Financial resources did not become available for enterprises until after the seventh year of the reforms, when international organizations began putting the first credit programs into practice and foreign investments in the economy gradually began to grow. The above-mentioned factors promoted a significant increase in export volumes beginning in 2000. Under the new conditions, it was necessary to form a corresponding environment for the activity of enterprises, as well as preserve a stable domestic political situation, which, unfortunately, was impossible to accomplish in the RA.

The contested results of the 1996 presidential election, the change of power in 1998, as well as the October events of 1999 and the destabilization of the political situation that followed it led to frequent changes in government and, consequently, to a slowdown in the rates of socioeconomic reform in all the spheres. As a result, despite the economic growth noted in the past few years, no positive shifts in the standard of living of the impoverished strata of the population have occurred, not to mention the "reverse processes." Regardless of the fact that a strategy aimed at economic reforms continued to develop, the domestic instability, deterioration of the social status of the people, and other circumstances reigning in the country led to an increase in protest against the reforms in various strata of the population and to an intensification of the domestic political struggle for power, which caused the formation of a weak and impotent system of state administration. After creating an unhealthy situation in the power structures and society, this situation (particularly under the difficult social conditions) made it impossible to concentrate on the consistent implementation of socioeconomic reforms. Official powers began to be abused for the sake of personal and group interests to the detriment of the state and the broad masses; embezzlement of state property and bribery increased in the civil service; as the result of the patron-

⁶ See: *Ekonomicheskiy rost v usloviyakh spravedlivogo raspredeleniya. Vybory ekonomicheskoy politiki, napravlennoy na sokrashchenie bednosti*, Yerevan, 2002, p. 4.

⁷ See: *Promyshlennost' v 1990-1997 gody*, Yerevan, 1999, p. 7.

age of various state bodies, the shadow economy swelled to enormous proportions; and access to carrying out economic activity was made more difficult. Under these conditions, various power bodies merged with new structures: groups formed that used the state's potential to meet their narrow, clan interests. The lack of fair economic and political competition, monopolization, and abuse of power became the main ways in which certain strata of the population became rich or impoverished. This also promoted an increase in the inequality of social groups, some of which, after concentrating power and wealth in their hands, slowed down the further course of the reforms, since otherwise they would have been deprived of their source of wealth. Consequently, the frequent manifestations of instability and the unsophisticated system of state administration made it impossible in the difficult socioeconomic situation to consistently carry out political and socioeconomic reforms and prevented the development of the private sector, a significant increase in the investment of foreign funds, and the implementation of structural changes.

3. *The economic blockade.* As a result of the latter, freight shipments linking the RA with its main trade partners (Russia, as well as Turkmenistan, Ukraine, and other republics of the former U.S.S.R.) became much more expensive. This was a serious blow to the competitiveness of Armenian goods. The blockade is still having a negative effect both on the implementation of domestic economic reforms and on the export volume. The latest results of the studies carried out by the World Bank with respect to the factors preventing regional cooperation show that opening the borders with Azerbaijan and Turkey will make it possible to reduce transportation costs by 30-50%, double the export volume, and increase the GDP by 38%.⁸ Those advantages that Armenia has because of its geopolitical location at the intersection between highways and other supply lines have essentially turned into a factor hindering economic development, due to the unfavorable political situation and the blockade by the two countries mentioned. The socioeconomic situation that has developed at present is, of course, caused not only by the objective circumstances listed. Impressive indices of economic growth and an increase in the population's standard of living could have been achieved even in the situation described if subjective factors had not played their decisive role and subjective errors had not been made.

1) The reforms in Armenia were not carried out comprehensively and consistently and the question of control over their quality and efficiency was not constantly raised. In contrast to the states that chose shock therapy for carrying out their reforms (for example, Poland and, partially, Russia), liberation of prices and foreign trade were not accompanied in the RA by financial stability, macroeconomic balance, and widespread privatization. Shock therapy was essentially not used in Armenia comprehensively, since this method is mainly aimed at the rapid achievement of financial stability and convertibility of the national currency, replenishing the budget deficit, reducing inflation rates and bringing inflation to a standstill, preserving a manageable situation, and creating currency reserves, which is made tangible by liberating prices and foreign trade. In order to ensure structural changes in the economy and economic growth, this process should also be accompanied by the formation of a private sector and the organizations that service it. This was possible in two cases:

a) if the RA, after preparing a corresponding reform program and possessing the necessary resources, introduced its own monetary unit;

⁸ See: *Bankovskiy vestnik*, Central Bank of the Republic of Armenia, Erevan, December 2000, p. 17.

- b) if a corresponding agreement were reached with Russia and both countries carried out the same policy. But at the beginning of 1992, Armenia was not ready to take either of the above-mentioned steps.

The new authorities did not carry out any reliable preparatory work in this area, since they hoped that, by remaining in the ruble zone, they would be able to retain their economic ties with the Russian Federation and other constituents of the former U.S.S.R. for a long time to come. However, this would only have been possible if Armenia carried out a policy coordinated with Russia in monetary and foreign economic spheres, which did not happen at that time.

- 2) The socioeconomic reforms being carried out in the RA were a mechanical transfer of the processes going on in a particular state, whereby without taking local features and traditions into account.

Without a clear program of action and ignoring the management and administration experience accumulated over decades, the organizations and individuals in power strove in one fell swoop to resolve difficult issues relating to the transfer from autocracy to market relations.

- 3) Land privatization began without any serious preparation. Without taking into account the needs of the farmers, universal decollectivization was carried out at breakneck speed. More than 900 collective and state farms were eliminated and approximately 320 thousand individual farms were formed on small land plots, the number of which reached a million.⁹ Even highly productive farms with a solid base were destroyed. As a result, plough land and heads of cattle are decreasing with each passing year; many farmers have given up their dream of having private property, left their homes, and emigrated.

It should be noted that there are still collective and state farms in most former Soviet republics. Their potential was intelligently used to organize agricultural production. Even such a land-rich country as Russia has not yet transferred to large-scale privatization.

Due to the lack of skills of the Armenian statesmen, the absence of a legislative field, and the lack of management, the main agricultural valuables (land, mechanisms, buildings, processing plants) have gone for a song to chance people who have absolutely nothing to do with agriculture, but who have established strong ties with the authorities. Subsequently, after "coming to," the state tried to settle the problems of agriculture and farming by means of certain legislative acts, but the damage done was so great that it was impossible to achieve the anticipated result. Farmers, left to their own devices and without protection, lost faith in the government, became disillusioned, and abandoned their dream of obtaining their own farm.

- 4) The desire to be first led to industry being privatized in an even more disorganized and unplanned way. After acquiring independence and being deprived for objective and subjective reasons of raw materials and energy, some industries stopped functioning. The RA, which had the highest level of industrial development among the former Soviet republics, found itself at the lowest level in the mid-1990s. Privatization of this sphere was also carried out at breakneck speed, which proved more destructive than creative for industry that had been relatively developed in the past.

The privatization of small structural units went quite smoothly. As for large industrial enterprises, the government created conditions whereby they went for a song to the

⁹ See: *Ekonomika*, Vols. 1-3, Erevan, 1999, p. 29; *Statistical Yearbook of Armenia, 1993-1994*, Erevan, p. 129; National Archives of RA, rec. gr. 113, inv. 165, f. 448, sheet 13.

relatives and acquaintances of high-ranking leaders. The organizational chaos resulted in 8% of the families (clans) in Armenia possessing 90% of the privatized facilities. Many expensive enterprises were sold as scrap metal to other states, and no one bothered about putting the rest into operation. This led to a collapse in the economy and an increase in unemployment. It was also the main reason for emigration, which was encouraged by the authorities.

- 5) Some reforms were carried out in the credit and banking spheres aimed at bringing them into harmony with the demands of the times, but even here there was appropriation of large amounts of credit and personal funds, which often took place under the cover of high-ranking officials. In fact, reform of the monetary system weakly promoted the strengthening and development of medium and small businesses. Despite the fact that a whole series of decisions were made in this area in the future, the medium producer was not the main figure and had little effect on both the development of industry or on reducing the level of unemployment and its elimination. Unable to ensure the development of production as the result of privatization, the state began to pay more attention to improving tax mechanisms and replenishing the main part of the budget with legal and illegal taxes. It essentially improved its financial position at the expense of the small and medium producer, willy-nilly patronizing the shadow economy and promoting an increase in polarization.
- 6) The government's role is of course extremely important in the transition period and in the contradictory and difficult conditions of economic and sociopolitical reforms. After the republic gained its independence, Armenia's bigwigs, among whom were many people who took their posts by chance, tried to copy the structure and work methods of the state apparatus in developed European countries, forgetting that these states have a stable production market, legal field, and so on, formed over the span of centuries. Such attempts did not take into account the RA's specific conditions and at best ended in the adoption of empty general socioeconomic laws, mechanisms for the implementation of which were not even drawn up. Democracy and market relations are not permissiveness. Privatization that turned into all-out robbery and market relations that took the form of a street bazaar could not help but have destructive consequences. By encouraging the expansion of commercial ties, the state did not concern itself with selling industrial production, augmenting production, and reducing the import of goods that have exceeded their expiration date. What is more, foreign merchants accounted for a large percentage of the employees on the republic's markets, while the army of the country's own unemployed grew from year to year.
- 7) During the Soviet era, the interests of all the strata of the population were protected by the state's strong social policy, in an organized way and in keeping with a certain program. During the years of sovereignty, Armenia was declared a social state, but a targeted program for protecting the interests of every category of citizens was not drawn up. Mechanisms for protecting society's interests were not launched in this area either, particularly with respect to its disabled strata and invalids. The social reforms carried out did not help to resolve the population's main and vitally important problems. The RA government has done essentially nothing to regulate labor relations and draw up work contracts between employers and hired workers, and all of this is only leading to an increase in the number of unemployed. A market of labor resources has essentially not been formed, republican and regional employment programs have not been drawn up, there is no special information about the movement of manpower; the creation of jobs is nothing more than figures on paper. The state has essentially been unable to alleviate the polarization of society by means

of a planned policy, or reduce the difference in income between the poor and the rich. It is strange, to say the least, that pensioners and employees of the budget organizations are, in addition to refugees and the unemployed, among the very poorest group of the population. Where is the state's social policy? The fact that in 1990-2001, 1.3 million people left the republic (including refugees from Azerbaijan), only an insignificant number of whom returned to their homeland, is a result of the helplessness of this policy.¹⁰ The authorities do not understand the ethnic consequences of mass emigration, which in turn is having a negative effect on the country's socioeconomic development.

- 8) The socioeconomic crisis that developed after independence was declared also had a destructive effect on public health, science, and education. The annual decrease in state subsidies and paid services deprived the impoverished majority of the population of access to these spheres, which had a negative effect on the activity of scientific and educational institutions.

Soviet Armenia with its potential of scientific personnel and level of scientific development always occupied an advanced position in the Soviet system. The almost 22,000-strong army of Armenian scientists enjoyed recognition in many countries of the world, but the difficult economic situation and loss of scientific ties upturned the material-technical base of efficient scientific research during the years of sovereignty. The republic was unable to engage in resolving problems that no longer had any customers. As a result, the number of researchers decreased by approximately 3.8-fold and reached 6 thousand.¹¹ Finding itself in an overall crisis, the government underestimated the role of science, did not understand that it is national property, and was unable to create suitable conditions for its development. The miserly salary white-collar workers earn has forced many of them to leave their jobs and emigrate to other countries. Not until the end of the 1990s were several steps taken aimed at strengthening the material-technical base of science—the use of foreign grants and resources from various foundations. Scientific relations with the diaspora have expanded.

The main institutions engaged in training researchers are higher educational establishments where many attempts at restructuring were undertaken during the years of independence. By ignoring the rich and positive experience accumulated over the decades, changes began to be implemented that mechanically brought the existing system of higher education closer to Western standards. Under the conditions of chaos, several dozen private universities and colleges were created in which the teaching level left something to be desired. At present, the first steps are being taken to establish control over their activity and render assistance in building up those that are indeed helping to advance the education system.

The adoption of the laws On Education and On Higher and Post-Graduate Education have made a great impact on regulating the problems in the development of this system. The decision to switch to a three-stage training system consisting of a Bachelor's program—incomplete higher education, a two-year Master's program, and the training of high-level specialists and postgraduate students, adopted by the government on 12 June, 1992, was an innovation. In 1995, several higher education institutions and, in 2005, almost all higher schools of learning transferred to this education system. Specific steps are being taken to increase the independence of higher learning institutions and strengthen ties between higher learning institutions of the republic and scientific and educational structures abroad.

In the first years of sovereignty, the need arose for developing principles to create a national school called upon to bring up students in the spirit of national traditions and carry

¹⁰ See: *Armenia-2001*, p. 13; *Nishcheta i demokratsiia v Armenii*, Erevan, 2000, p. 72.

¹¹ See: *Znamia*, Iss. 3, February 1999, p. 18.

out teaching on the basis of the latest achievements in science and technology. Several steps were taken in this direction: education in this school was liberated from the pressure of the Communist ideology, during the years of independence work was carried out to change the curriculum, and basic and alternative textbooks were published.

Despite the shortcomings, introduction of the system of family benefits has become a significant event from the point of view of rendering aid to low-income members of the population.

- 9) Deprived for more than 10 years of targeted ideological influence, cultural life has experienced a real crisis. Western values are constantly penetrating and becoming incorporated into different spheres, on the one hand, while the ideas formed during the years of Soviet power are still largely in effect, on the other. What is more, it is obvious that certain national values are beginning to undergo reconsideration. After independence was declared, ideological frameworks were eliminated in Armenia that restrict the development of the national culture, great opportunities have appeared for free creativity, but not until 2000 was a state conception developed according to which the preservation of the cultural heritage and assistance to artistic creative progress were envisaged.

In this way, the attempt to analyze the 15-year history of the development of the Republic of Armenia brings us to the conclusion that the difficulties of the transition period might not have been not so extensive and destructive if the government had carried out a scientifically substantiated socio-economic policy, taking into account the country's specific features. Of course, objective reasons can be given (the war in Nagorno-Karabakh, the blockade, and so on), but the RA leadership was unable to alleviate these problems in a more flexible and subtle way. Along with all this, the achievements relating to preventing a total collapse in the economy, strengthening the defensibility of the state, and enhancing the development of sociopolitical life, as well as other areas show the real potential of a nation that follows the path of independence.