

Armenia : World Bank Urges 'Second Generation Reforms '

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A senior World Bank economist has praised Armenia's "strong" reform record and macroeconomic performance, noting that since 1991 **the economy of Armenia** has grown faster than that of any other CIS member state.

But Saumya Mitra advised that the country needs to embark on "second-generation reforms" if it wants to sustain its success.

Mitra's assessment came during a March 20 press conference in Yerevan, where he unveiled a study titled "Armenia As A Caucasian Tiger. Sustainable Economic Growth Maintenance Policies."

Mitra reportedly explained that the term "tiger" -- an apparent reference to the four Asian tigers -- Hong Kong, Singapore, South Korea, and Taiwan -- whose economies registered high growth rates and rapid industrialization from the early 1960s to the 1990s -- is currently applied to countries that have registered double-digit economic growth and a reduction in poverty for 10 successive years.

Mitra described as "impressive" the fact that Armenia's growth is not based on oil or any one single resource, but has been "fairly balanced."

At the same time, he stressed that in order to sustain that robust growth, the country needs to embark on "second-generation" structural and institutional reforms that would result in better governance, fair competition, and more developed financial services.

"Successful economies require conditions where any entrepreneur can enter a market and leave a market," he said. "Here there are some formal and informal barriers -- some put up by oligarchs, some put up by political and economic interests -- that prevent level and fair competition.

"The [state] competition commission is weak and not able to enforce adequate competition rules," he added.

Monopolized Wealth

That some areas of economic activity in Armenia are effectively monopolized by wealthy businessmen close to the government is a widely recognized fact. That holds true, in particular, for lucrative imports of fuel, wheat, sugar, and other commodities.

But Mitra made no mention of commodity imports, pointing instead to an equally serious lack of competition in civil aviation. He said the government has failed to liberalize it and is keeping air-transport prices artificially high in order to benefit the national airline, Armavia.

"Not many people realize that aviation services are actually quite expensive in Armenia, both for passengers and cargo freight," he said. "This is the result of special privileges for Armavia...for which the consumers of Armenia pay but the shareholders of Armenia benefit."

The World Bank study blames the de facto aviation monopoly for the fact that freight shipped by air to and from the landlocked country, blockaded by two of its neighbors, fell by more than two-thirds between 1997 and 2003.

Among other obstacles to Armenia's sustainable development identified by the study are the high cost and poor quality of telecommunications, as well as underdeveloped financial services such as bank lending and insurance.

The World Bank economists also pointed to serious problems with rule of law and to widespread corruption in the Armenian tax and customs agencies.

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