
The Paradox of Armenian Economy

Haroutiun Khachatrian

Armenia's economy, despite having one of the most liberal legislative frameworks among the states of the former Soviet Union, is struggling with stubborn corruption and emigration. As a result, many Armenians are cautious on the prospects for economic growth.

Armenia experienced significant growth through most of 2001, during a period when the economies of many developed nations stalled or contracted. But the majority of Armenians remains dissatisfied with the situation there because they appear not to believe that the current pace can be maintained for very long. Land-locked Armenia has few natural resources, and limited access to transport routes for exports.

After gaining independence in 1991, Armenia tried for rapid market transition and radical land privatization, aiming to curb the decline in agriculture that plagued other former Soviet republics. In the mid-1990s, Armenia created a stable banking system that withstood the CIS-wide financial crisis in 1998, precipitated by Russia's default on its debt commitments.

Nevertheless, the economy has not been able to provide sufficient employment opportunities for the country's workforce. As a result, between 800,000 and 1.2 million people out of the country's 3.8 million population have emigrated in search of work.

In recent years, officials have attempted to implement a variety of job-creation programs and have passed laws designed to improve the business climate. On the policy level, these efforts have succeeded. Recently, the state has lowered the tax burden and taken steps to remove bureaucratic obstacles to commerce. The top income tax rate is now 20 percent. Legislation has also been adopted that is designed to curb abuse by law enforcement officers and tax inspectors. Registration of a new business now takes only five days and is organized to be convenient for corporate officers. The country also simplified its customs procedures.

Armenian leaders now are hopeful that the country can gain membership in the World Trade Organization in 2002. Meanwhile, the [Heritage Foundation](#), a conservative United States think tank, credited Armenia as one of the ten countries that most dramatically increased "economic freedom" in 2001. Overall, the foundation ranked Armenia higher than any other former Soviet republic and on a par with France and Poland.

The country's 2001 results testify to this progress. According to official statistics, GDP grew 9.1 percent in January-November, exports rose 10.8 percent, including a 27 percent jump in exports of goods that have no relationship with the traditional Armenian stronghold of jewelry. (Overall GDP growth for the year came in at a more modest 3.3 percent according to the Heritage Foundation). In addition, President Robert Kocharyan presented evidence that at least 44,000 new jobs were created in 2001.

Growth appeared to have little impact on living standards, however. Over half the population remains below the poverty line, and at least 50,000 more people left the country in 2001. "Now, the challenge is to follow macro-economic stability with a more aggressive struggle against poverty: ensuring that the fruits of growth reach the poorest segments of society," says Owise Sadat, the World Bank's resident representative to Armenia.

Armenians remain dissatisfied with their country's economic performance, and continue to leave. The combination of a shrinking population and stubborn poverty creates something of a vicious cycle. Market and tax reforms appeal in large part to foreign corporations, yet foreign investments rarely exceeded 10 percent of GDP. According to Tigran Davtian, Deputy Minister of Industry and Trade, this is "a typical value for most of the CIS countries."

But a typical value may not be enough to create political support for extraordinary efforts to stimulate foreign investment. External factors beyond economists' control may be discouraging foreign investment, and fueling domestic discontent. The Spitak earthquake of 1988, the ongoing

war in Nagorno Karabakh, and sporadic blockades of communications passing through Azerbaijan, Turkey and Georgia make Armenian business especially slow going. But the core of the problem is the inability of authorities to implement legislation, especially in tax collection. In addition, corruption remains persistent.

A large and well-organized Armenian Diaspora continues to help prop up the Armenian economy. Armenian-American billionaire Kirk Kerkorian, for example, has provided over \$200 million - a sum that is half of Armenia's annual budget - for restoration of infrastructure and loans for business. In the largest investment deal in recent months, Aeropuertos Argentina signed a 30-year deal to manage the airport in Yerevan. Eduardo Eurnekian, who controls Aeropuertos Argentina, comes from Armenian roots.

Editor's Note: Haroutiun Khachatryan is a Yerevan-based writer specializing in economic and political affairs.