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# Armenia : Economy Hit By Georgian War

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ISN Switzerland - 16/10/2008

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Authorities say the country has suffered substantial economic losses as a result of August conflict.

The war between Russia and Georgia has cost the Armenian economy nearly US\$700 million, the Yerevan authorities believe.

They say the economy was hit by severe blows to foreign trade, tax collection and international investment. "The conflict [has been] a serious test for the sustainability of the Armenian economy," said Prime Minister Tigran Sargsian.

Commentators say foreign trade plunged largely because of war-related damage to the principal transportation routes between Armenia and Georgia, through which much of the country's imports and exports pass.

As a result, Georgian imports were cut by an estimated US\$121 million, slashing import tax revenue. At the same time, exports losses amounted to about US\$52 million.

The regional turmoil has also curbed the government's ambitious plans to boost income tax collection by 30 percent this year. "Tension in the area as a result of the South Ossetian conflict meant Armenia did not collect the levels of income from tax anticipated in the budget," said Gagik Minasian, the head of parliament's financial, credit and budgetary issues commission.

But experts say the greatest damage caused to Armenia by the war has been the temporary suspension of foreign investments, totaling about 300 million dollars.

"The region itself is not very attractive in terms of investment, and, today, it has become way too insecure," said Heghine Manasian, director of the Caucasus Research and Resource Centre, CRRC.

Manasian said the situation in Georgia had increased inflation and curbed economic growth.

"If prices go up and people's income remains the same, consumption is likely to decline, meaning that traders won't be able to sell their goods. A difficult situation aggravated by the world financial crisis might emerge," said Manasian.

However, the authorities denied that consumers had been hit by the conflict, insisting that any price increases were caused by panic buying.

"People queued for petrol for two days - because they panicked [that supplies were going to run dry]," said Sargsian, noting that state reserves of fuel had not been touched.

In the wake of the conflict - which officials believe has cost the economy US\$680 million - analysts say it is important Armenia does not rely so heavily on the import and export of goods through Georgia in future.

"Two-thirds of foreign goods are coming through Georgian territory," said Andranik Tevanian, the director of the Institute for Political, Economic and

Legal Research. "This is why the Georgian conflict caused delays to and even suspended the transportation of cargo."

While an alternative transport route through Iran has been proposed as a solution, Tevanian believes it would be a prohibitively expensive option.

There are also indications that Armenia is looking at alternative ways of transporting goods through Georgia.

On a recent visit to Georgia, Armenian president Serzh Sargsian raised the prospect of the building a new highway linking Yerevan with the city of Batumi, the capital of the autonomous republic of Adjara in southwest Georgia - cutting the current 700-kilometer route by about a third.

Previously, much of Armenian exports were ferried through Georgia's land border with Russia, but the conflict has meant that Yerevan will become more reliant on its neighbor's Black Sea port.

"If we start working [on the Yerevan-Batumi route] today, in two years' time, we'll have a transport route that is very important for Armenian economy," Armenian transport and communications minister Gurgen Sargsian told journalists recently.

Experts have also cited the importance of developing alternative trade partners, emphasising the role Turkey could play. They say that the continued closure of the land border between Turkey and Armenia costs the economy around US\$500 million annually.

The Armenian government hopes that the recent thawing of relations with its western neighbor might offer new trading opportunities.

A direct electricity supply from Armenia to Turkey will start in 2009, following the signing of an energy agreement during the visit of the Turkish president Abdullah Gul to Yerevan in September.

"Developing closer political and economic relations with Turkey could be a precursor for...developing Armenia's economy," said Minasian.

But other analysts remain sceptical. While Tevanian acknowledged that normalising relations with Ankara was important for the economy, he pointed out that Armenia had so far gleaned few benefits from the rapprochement.

"We've made a step towards Turkey, but it is Turkey that had so far reaped political dividends in Europe - we see no tangible results from the so-called warming yet," he said.

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