
Armenian economy again ranked most liberal in CIS.

Emil Danielyan 1/24/07
EurasiaNet, NY

24/1/2007

Armenia has received plaudits for possessing the most liberal and open economy in the Commonwealth of Independent States, as the country ranked a highly respectable 32nd in a recent survey on economic freedom. However, government critics and a few independent economists contend that the study does not accurately represent the country's economic conditions.

The survey, prepared by The Wall Street Journal and the Heritage Foundation and released January 16, covered 157 countries. It found an "impressive amount of freedom" in the Armenian economy, which is still recovering from the Soviet collapse and remains hamstrung by the unresolved conflict over Nagorno-Karabakh.

The Index of Economic Freedom rated economies in 10 areas, including the extent of government involvement in economic affairs, trade and monetary policy, property rights and business regulations. Armenia received high scores in most of these categories, surpassing all other non-Baltic ex-Soviet states in recent years' rankings.

WSJ/Heritage researchers went farther this year, putting it ahead of economic powers like France, Italy and South Korea.

"Armenia is ranked 19th freest among the 41 countries in the European region," concluded the study. "Armenia's score puts it above Europe's average -- an impressive feat for an impoverished landlocked country." It cited, among other things, low tax rates, modest government expenditures, a fully private banking sector, and tight government monetary policies.

The WSJ/Heritage appraisal is largely in tune with the findings of similar studies. Armenia, for example, was judged to have the most investor-friendly business environment in the CIS in a 2005 World Bank survey that assessed "the ease of doing business" around the world. Also in 2005 the European Bank for Reconstruction and Development (EBRD) said in a report that it leads the way in the CIS transition to a market economy.

Armenia launched its reform efforts amid adverse circumstances. The conflicts in Karabakh and elsewhere in the South Caucasus effectively cut off the country from the outside world, causing its Gross Domestic Product to shrink by half from 1992-1993. The Armenian economy began its slow but steady recovery after a Russian-mediated truce stopped the Armenian-Azerbaijani war for Karabakh in 1994.

According to government statistics, it grew in 2006 at a double-digit rate for a sixth consecutive year. Official figures also suggest that the poverty rate in the country fell from 56 percent to 35 percent between 1999 and 2005.

The World Bank and the International Monetary Fund say Armenians are finally reaping the benefits of free-market economics. "Armenia's economic performance has been impressive in recent years," the IMF's managing director, Rodrigo de Rato, said during a June 2006 visit to Yerevan.

The Armenian government is certain to seize upon the WSJ/Heritage survey as vindication of its economic policies. Meanwhile, government critics, along with some independent experts, say that economic appearances are deceiving in Armenia's case. The country's economic environment is not as liberal as it is portrayed, due to weak rule of law, endemic corruption, and a lack of judicial independence, they contend. Government connections are still essential for doing business, and virtually all local millionaire businessmen operate with the support and protection of various government factions and pro-establishment parties. The richest of them are believed to have close ties with the country's two most powerful men, President Robert Kocharian and Defense Minister Serge Sarkisian.

"Armenia is the most centralized state in the region," said Hrant Bagratian, a liberal economist who served as prime minister in 1993-1996. "Forty or so families control 58 percent of our GDP."

A controversy surrounding the redevelopment of Yerevan underscores the weak protections for private property. Hundreds of city residents were forcibly evicted and their homes bulldozed so that expensive residential and office buildings could be built. The process has been regulated by a 2002 government directive, despite a constitutional provision requiring that urban renewal be governed by parliamentary approved legislation. Armenia's Constitutional Court declared the redevelopment process unconstitutional in April 2006, but stopped short of ordering the state to pay additional compensation to the evicted families.

Government corruption is another serious problem hampering economic activity and competition in the country. Armenia ranked 93rd out of 163 countries in the Berlin-based Transparency International's most recent Corruption Perception Index. Fearing retribution, local entrepreneurs rarely challenge bribe solicitations by government officials. One of them who did, the owner of a coffee importing company, is currently standing trial on tax evasion charges that were leveled after his public allegations of high-level corruption in the Armenian customs service.

The Index of Economic Freedom acknowledges these problems, putting Armenia's scores in the Property Rights and Freedom from Corruption categories well below the world's average. But its authors' assertion that the low level of Armenian public spending is a blessing will be dismissed by many local and Western economists. The Armenian government's 2006 tax revenues accounted for less than 16 percent of GDP, an extremely low proportion even by ex-Soviet standards that highlights the scale of tax evasion among the local rich.

Consequently, the government's 2007 budget, projected at a record-high \$1.5 billion, will still be insufficient for meeting the basic needs of the country's public sector.

The World Bank and the IMF regard tax evasion as a key economic challenge facing Armenia, pressing the authorities in Yerevan to tackle the problem in earnest. Kocharian admitted its gravity at an extraordinary meeting on January 10 with top government officials. "I don't see in the [tax collection] services sufficient energy to fight against the shadow economy," he told them. "There is improvement, but it can not be considered satisfactory in the existing situation."

Editor's Note: Emil Danielyan is a Yerevan-based journalist and political analyst.
