

The EURASIA CENTER

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Armenia: An Economic Overview



Moving Toward Economic Stability and Growth:

As with all former Soviet republics, Armenia suffered widespread economic instability after the implosion of the Soviet Union in 1991, which, in the particular case of Armenia, were compounded by an eruption of violence with neighboring Azerbaijan in 1988 over the ethnically Armenian enclave of Nagorno-Karabakh and a massive earthquake which devastated the industrial sector. Consequently, Armenia was forced to adopt an economy oriented more towards small agriculture and the development of new sectors, such as stone processing and jewelry making, and information and communication technology. Armenia's economy has suffered severely from the closure of trade borders with Azerbaijan and Turkey, leaving only unreliable trade routes through Georgia and Iran, although Armenia's severe trade imbalance has been somewhat offset by direct foreign investment and aid from Armenians abroad.



Armenia suffers from high unemployment and a staggering level of poverty (34.6% in 2004, though this is a marked improvement considering the 2001 estimate of 55%), although the currency (the dram) has been stabilized, and GDP growth has been steady, barring the disruption of several major political incidents. The Armenian government, though it

battles a high level of corruption, has made some improvements in tax and customs administration and has started making major investments in the construction and industrial sectors that promise to ensure an annual average real GDP growth of more than 10%.

Economic Indicators:

- Armenia maintains a GDP (PPP) of a little over \$15.99 billion and a per capita GDP (PPP) of \$5,400.¹
- In 2006, the economy grew by roughly 13.4%.²
- As of 2006, Armenia's inflation rate is estimated at a low 2.9%, while unemployment is 7.4%.³
- Armenia's steady economic progress has earned it considerable grants and loans from international institutions, such as the International Monetary Fund, World Bank, European Bank for Reconstruction and Development, with loans since 1993 totaling \$1.1 billion.⁴
- Armenia offers one of the most stable environments within its region for potential businesses, requiring far fewer procedures, time, cost, and minimum capital to start a business than the regional average. Armenia also performs better than the regional average in its ease of dealing with licenses, employing workers, and registering property.⁵

Economic Structure:

- GDP per sector: 17.7% agriculture, 42% industry, and 40.3% services. Investment comprises 20.9% of the country's GDP.⁶
- Growth sectors in the Armenian economy include telecommunications, the assembly of electric and electronic appliances, agriculture and food processing, energy generation and distribution, construction, coal and gold mining, and international air communications.⁷
- Armenia exports \$950.4 million in goods each year, with diamonds, scrap metal, machinery and equipment, brandy, and copper ore comprising most of these exports. Armenia's main export partners are Belgium (18%), Israel (15.3%), Russia (12.5%), the U.S. (8.1%), the Netherlands (7.2%), Iran (5.5%), and Georgia (4.3%).⁸
- Armenia's annual imports total \$1.767 billion worth of goods, consisting mainly of natural gas, petroleum, tobacco products, foodstuffs, and diamonds. Armenia's primary import partners are Russia (11.3%), Belgium (10.1%), Israel (8.4%), the U.S. (7.6%), and Iran (7.1%).⁹

¹ The CIA World Factbook: "Armenia" (<https://www.cia.gov/library/publications/the-world-factbook/geos/am.html>)

² Ibid.

³ Ibid.

⁴ US Department of State - "Background Notes: Armenia" (<http://www.state.gov/r/pa/ei/bgn/5275.htm>)

⁵ The World Bank Group – "Doing Business in Armenia" (<http://www.doingbusiness.org/ExploreEconomies/?economyid=10>)

⁶ The CIA World Factbook: "Armenia" (<https://www.cia.gov/library/publications/the-world-factbook/geos/am.html>)

⁷ Encyclopedia of Nations – "Armenia" (<http://www.nationsencyclopedia.com/Europe/Armenia-ECONOMY.html>)

⁸ US Department of State - "Background Notes: Armenia" (<http://www.state.gov/r/pa/ei/bgn/5275.htm>)

⁹ Ibid.

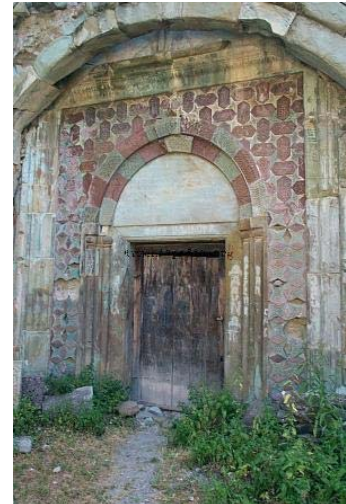
- Armenia's natural resources include primarily copper, zinc, gold, and lead, and hydroelectric power, in addition to small amounts of gas and petroleum.¹⁰

Political Considerations:

- Armenia has been a democratic republic since 1991, in which it held a referendum resulting overwhelmingly in the declaration of independence from the Soviet Union, followed soon afterward by presidential elections. The president of Armenia is elected by direct vote for a term of five years and may serve no more than two consecutive terms. The current president of Armenia is Robert Kocharian, who has served as president since 1998.¹¹
- Armenia's 2005 constitution has increased the power of the legislative branch and allows for more independence of the judiciary in an effort to adopt a Western model of liberal government and the rule of law, although the executive power still remains more powerful than in Western European countries.¹²
- The human rights record of the Government of Armenia is generally considered to be fairly poor, with beating of pretrial detainees, arbitrary arrest and detention, limits on press freedom, and restrictions on freedom of religion, though the state of human rights has generally improved over the past couple of years.

Attractions:

- **Economic Stability:** Since achieving independence from the Soviet Union in 1991, the Government of Armenia has embarked on an IMF-sponsored program for macroeconomic stability which has been, by and large, very successful. The dram has been stabilized to an inflation rate of 2.9%, and unemployment is now a modest 7.4%. In 2001, the targeted real growth under the IMF-guided program was 6% while actual growth was 10%, indicating that the Armenian economy has been exceeding expectations.¹³
- **An Emerging Market Economy:** Since the adoption of the constitution of 2001 and the improvement of the political climate in which it has



¹⁰ Ibid.

¹¹ Encarta: "Armenia" ([http://encarta.msn.com/encyclopedia_761569919_5/Armenia_\(country\).html#s45](http://encarta.msn.com/encyclopedia_761569919_5/Armenia_(country).html#s45))

¹² US Department of State - "Background Notes: Armenia" (<http://www.state.gov/r/pa/ei/bgn/5275.htm>)

¹³ Encyclopedia of Nations – "Armenia" (<http://www.nationsencyclopedia.com/Europe/Armenia-ECONOMY.html>)

resulted, Armenia has been steadily moving towards a market economy. The U.S. Agency for International Development has been particularly instrumental in this regard, implementing a program focusing on the development of a private sector, energy sector reform, good governance programs, social sector reform, and health sector reform.¹⁴

- **A Skilled Workforce:** What Armenia lacks in natural resources, it makes up for with its skilled workforce. Historically, Armenia has always been notable for its craftsmen and artisans, and, since Armenia has had to develop new sectors of its economy since the dissolution of the Soviet Union, skilled labor has made a resurgence with the creation of precious stone processing, jewelry-making, and information and communication technology.¹⁵

Troubled Spots:

- **Disputes with Azerbaijan:** Armenia has had a long-standing dispute with Azerbaijan regarding the status of the ethnically Armenian region of Nagorno-Karabakh, whose secession the Government of Armenia has actively supported, and which they have also occupied militarily. This has



been a hot-button issue between the two countries and has led to severe economic ramifications, as Azerbaijan has continued to lead an economic blockade on Armenia, and economic growth was sliced in half by a terrorist attack in 1999 involving hostage-taking and the deaths of the prime minister and parliamentary speaker.¹⁶

- **Energy Shortages:** While it was a member of the Soviet Union, Armenia imported most of its energy, resulting in massive energy shortages after independence during the early and mid 1990s. To correct this problem, Armenia built a nuclear complex at Metsamor, though this resulted in considerable

international controversy, since Metsamor has a history of seismic activity and thus presents the possibility of an ecological disaster. Thanks to Metsamor, Armenia is now a net exporter of energy, although the

¹⁴ US Department of State - "Background Notes: Armenia" (<http://www.state.gov/r/pa/ei/bgn/5275.htm>)

¹⁵ Ibid.

¹⁶ Encyclopedia of Nations - "Armenia" (<http://www.nationsencyclopedia.com/Europe/Armenia-ECONOMY.html>)

Metsamor complex will likely close within the next couple years, resulting in a return to energy shortages.¹⁷

- **Corruption:** The Armenian government has long had a high rate of corruption, with government and law-enforcement officials often wielding almost completely unchecked power over citizens, leading to common abuses of human rights. Additionally, bribe-taking and embezzlement are rampant among officials, and elections are often rigged, as is alleged to be the case with the 2003 presidential and parliamentary elections. Measures have been taken since then to try to crack down on corruption (graft, in particular) with some positive results, and the international corruption watchdog Transparency International has given Armenia one of the best ratings among CIS members.¹⁸

Acknowledgements:

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Under the Supervision and Coordination of: Dr. Samuel Lee Hancock, CM, Executive Director***

¹⁷ The CIA World Factbook: “Armenia” (<https://www.cia.gov/library/publications/the-world-factbook/geos/am.html>)

¹⁸ EurasiaNet – “Armenia Struggles to Stamp Out Corruption” (<http://www.eurasianet.org/departments/insight/articles/eav021204a.shtml>)