

Weathering the Storm: A commentary on Armenia and “Border Economics”

Richard Giragosian, International Relations

Several recent developments have only confirmed the negative impact of the global financial and economic crisis on the Armenian economy, with signs that the downturn will only continue to worsen in the coming months.

These most recent indicators of a worsening economic crisis in Armenia include a new report released by the Armenian Central Bank showing a significant reduction in the flow of remittances, or money from abroad, coming into Armenia. According to the Central Bank report, released on March 31, the level of cash transfers among banks handling remittances for the first two months of the year was some 20 percent lower for the same period last year.

In addition, because remittances do not rely solely on the banking system, the actual reduction in formal bank transfers suggests an even larger drop in the amount of money coming into the country. Other recent signs point to an even deeper and more lasting economic downturn, however.

For January and February of this year, Armenia’s Gross Domestic Product (GDP) also fell, posting a significant three-percent contraction that formally ended several years of double-digit economic growth. Even more troubling for the Armenian state, was the news that tax collection also fell by some \$230 million, or almost 15 percent, for the same period.

Other recent signs point to an even deeper and more lasting economic downturn. According to Yerevan’s largest private realtors, the real estate market in Armenia, whose exorbitant prices were long thought to be artificially sustained, is now suffering severe pressures from low demand and falling prices. The so-called real estate “bubble” of Yerevan has begun to deflate, with the statistics for real estate transactions reporting a sharp decline in prices for homes and apartment rents alike.

Faced with these developments, the Armenian government has recently decided to “postpone” some \$359 million in planned spending programs until later in the year, hoping to ride out the economic storm through the coming months.

Against the backdrop of several months of constant reassurances and vague optimism expressed by Armenian officials, this move suggests that the severity of the mounting economic crisis has finally become too painful to ignore. In fact, the government’s decision to defer spending is a serious step, as it effectively freezes about 14 percent of total state spending.

Look to the Borders

In light of these negative economic trends, there may be at least a partial way out of this mounting crisis, however. Open borders and free trade have long been recognized as basic prerequisites for economic growth and development. In Armenia’s case, the economic isolation from closed borders and landlocked geography has been particularly severe, and has only tended to exacerbate a deeper economic vulnerability.

Yet it may be the benefits of “border economics” that offer the country a way out of the crisis. For a recent example of the significance of “border economics,” Armenia hosted a massive influx of tourists from neighboring Iran. During the last week of March, an estimated 20,000 Iranian tourists flocked to Yerevan to celebrate the Iranian New Year, known as “Novruz.”

This recent influx of tourists from Iran brought new hope and fresh business to Armenian merchants and hotel operators, as well to restaurants, as thousands of Iranian young people celebrated their temporary “freedom” from Iran’s ban on drinking alcohol.

Even more important than the tourism-related revenue from the Iranian influx to Armenia, with some economists estimating that the average tourist spends about \$1000 per week, was the longer term significance of the event.

Tourists’ Delight

More specifically, the influx of Iranian tourists to Yerevan to celebrate their New Year in a relaxed and hospitable environment affirms the potential benefit for cross-border trade and tourism. And this is also a lesson of what can happen if Turkey opens its long-closed border with Armenia. Instead of Iranian tourists, Armenia can well expect to receive a sudden influx of Kurds and Turks, eager to drive only a few hours across a newly opened border to enjoy a refreshingly welcoming atmosphere in Armenia.

For Kurds, such a new opportunity to come to Armenia offers not only entertainment and tourism, but even more importantly, provides a welcome relief from the repression of daily life under the constant surveillance of Turkish police and security forces.

In this way, the potential for Armenia to emerge as a safe haven for a new boom in tourism is a real opportunity. And Armenia may become the destination for not only Iranians eager for the freedoms of daily life that they are denied in their own country, but also for a new wave of tourists, coming to Armenia through a newly opened Armenian-Turkish border. And this may be one of the most important economic gains from an open border, with benefits apparent for both sides.

But the impetus is now squarely on Turkey, which must open the border that it closed. Turkey must also accept the reality of Armenia as its neighbor by extending normal diplomatic relations, and must come to terms with the reality of addressing the legacy of the Armenian genocide. Only then can an opening of the border help to open minds as well.