

ARMENIA'S STRATEGY



Over the last four days Armenia has been in a full-fledged war with Turkey and Azerbaijan. Russia is keeping a neutral stance. Armenia's neighbour Georgia has created all sorts of logistical problems for Armenia. Despite all of these hardships, Armenians are fighting for their lives and so far have been winning the war.

Both Turkey's and Azerbaijan's economies are in deep trouble and their leadership desperately needed this war to divert their people's attention.

Turkey's economy is falling apart. Over the last three years, the Turkish Lira has depreciated by around 300% against the US\$ (an incredible speed of currency collapse by any measure), the Turkish central bank has kept interest rates at above 10%, the inflation rate is running at above 10% and the central bank's foreign exchange currency reserves have now fallen to below 5% of GDP (and even half of this amount is denominated in Qatari riyals). This means Turkey is definitely headed for a classical "Balance of Payments" crisis. All of these are coupled with an unstable political situation within Turkey.

Azerbaijan's economy is not even worth analysing, for one very simple reason: The President of Azerbaijan, who has been in power since 2003, is the son of the former President of Azerbaijan. Although Azerbaijan is NOT a monarchy, "father and son" have ruled Azerbaijan for more than 40 years. To add insult to injury, the current President (Aliiev the son) in 2017 changed the Azerbaijani constitution so that his wife could become the first vice-president of Azerbaijan, and second in command.

Unfortunately, both Turkey and Azerbaijan are Armenia's neighbours. The only way for the Armenian State to survive and prosper is to have a very strong economy, which will allow for a modern and powerful military. The current war has indicated, once again, that Armenia can often be on its own.

A few days before the war (last week) Armenia's Prime Minister (PM) presented his government's 30-year vision. Despite the ongoing war and despite all the hardships, it is important for Armenia and all Armenians to think about the long term. Armenia should and will without a doubt turn this adversity into a triumph. In this note we will focus on two of the PM's points, and will highlight *four* very important factors, which the PM should add to his government's strategy.

1. Population & Economic Growth. According to this vision, by 2050 Armenia's population is to reach 5,0 mil and GDP is to rise to about \$250 bn (from its current \$12.0 bn). This means Armenia's GDP per capita will rise from \$ 4,000 today to \$48,000 in 2050. To grow from \$4,000 in 2020 to \$48,000 in 2050, the average growth rate of GDP per capita must be higher than 8.0% per year, for the next 30 years.

Creating explosive productivity growth in Armenia is relatively simple, because Armenia's GDP per capita is still low (at around \$4,000). We know what the requirements are. Most of these requirements are under the direct control of the current Armenian government. These requirements are the following:

- » **Government:** smart, business-friendly, agile and a well-coordinated. By well-coordinated we mean all government agencies working in perfect synchronisation with each other;
- » **Laws:** clarity in the law is indispensable to the rule of law. Simplified laws, rules & regulations (which means eliminating a considerable number of contradictory and useless laws, rules and regulations); simply having a non-corrupt and independent judiciary will not work if laws and regulations are unclear, complex and contradictory.
- » **Taxes:** Special attention should be paid to taxes/tariffs and important lessons should be learnt from Singapore, Luxembourg, Switzerland & Dubai. Armenia should have a clear tax strategy (inheritance taxes, property taxes, personal & corporate income taxes, capital gain taxes, value-added taxes and so on).



- » **Languages:** Armenian government should have at least three or four official languages, to make sure foreigners feel comfortable investing and working in Armenia. This means all official documents and websites should be in these languages (Armenian, English, French & Russian). This is where more than 80% of the Armenian diaspora is and this is where investments and tourism will come from.
- » **Forgive & Forget.** The old American saying "forgive and forget" should be applied to everyone inside Armenia. The enemy is not within Armenia. The enemy is outside Armenia's borders.

2. **Education.** The Prime Minister talked about creating an academic city, having at least three Armenian universities among the top 200, Armenians investing into their education and so on.

These are excellent plans. Education is one of the most important drivers of explosive productivity growth. A good academic education requires a research-oriented culture combined with a natural intellectual curiosity. It requires a culture of discipline and perseverance. In today's world organisational skills and discipline beat talent all the time.

Armenia requires excellent PhD programs, mostly in English, because PhD programs create the culture of research and provide the teaching talent required to expand the education industry. No university can be considered a real university without a fully functional PhD program.

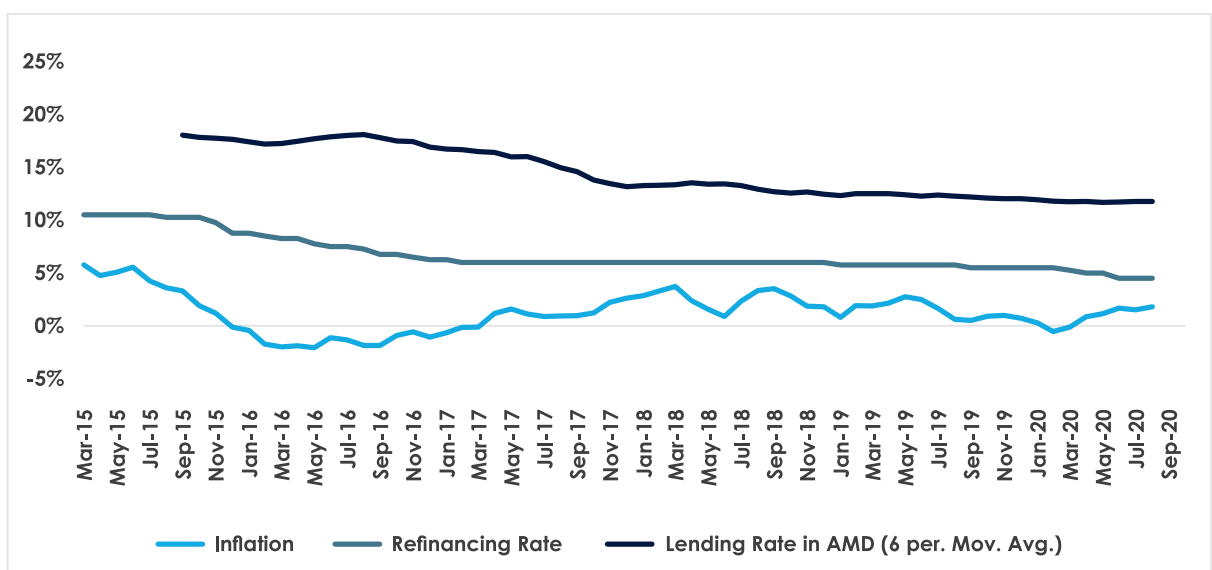
For example, education is one of Dubai's weakest points. The United Arab Emirates (UAE) invested billions of dollars into all sorts of education infrastructure, signed agreements with best universities around the world, yet the cultural revolution of research-oriented mentality and natural curiosity never really took place.

A vibrant education culture is what makes cities such as Boston, London and Montreal so unique. This will require much more than new buildings and nice classrooms. Dubai and Abu Dhabi have very nice university buildings, with wonderful computers and research labs, but these are not enough to allow Abu Dhabi compete with Montreal or Boston in terms of university education.

The four factors the Prime Minister did not mention.

1. **Monetary Policy** is one of the most invisible yet powerful forces in economic prosperity. Armenia's central bank has a very important role to play in this 2050 strategy. As shown in Chart 1, Armenia's interest rates are too restrictive and are suffocating economic growth.

Chart 1: Inflation, Refinancing Rate, and Lending Rate



Source: Central Bank of Armenia

2. **Fiscal Policy** – another very powerful tool at the government's disposal. If Armenia's GDP is expected to rise from around \$12 bn to around \$240 bn, then Armenia's sovereign debt can also rise by at least \$100 bn. Another \$100 bn of private capital can be combined with these \$100 bn of government debt, which will result in \$200 bn worth of infrastructure projects, which generate the explosive economic growth the Prime Minister is talking about.
3. **Immigration Policy** – all developed and functional countries have ministries of immigration, with clear goals and targets of immigrants per year. For example, if Armenia's population is to rise from 3,0 to 5,0 mil within 30 years, that means a population growth rate of nearly 2.0% per year (it is around 0.0% today). What portion of this expected population growth is birth and what portion is immigration? Can people who are not of Armenian origin and do not speak Armenian easily immigrate to Armenia? Will the Armenian government create the right conditions for these people? Will Armenia have a points-based immigration system, just like Canada, Britain and Australia do?
4. **Soft Power** – we will discuss this in our next report on Power.

With best regards,

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