
**INCLUSIVE VIRUS,
EXCLUSIVE ECONOMIC
OUTCOMES**

CENTER FOR BUSINESS RESEARCH AND
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TITLE

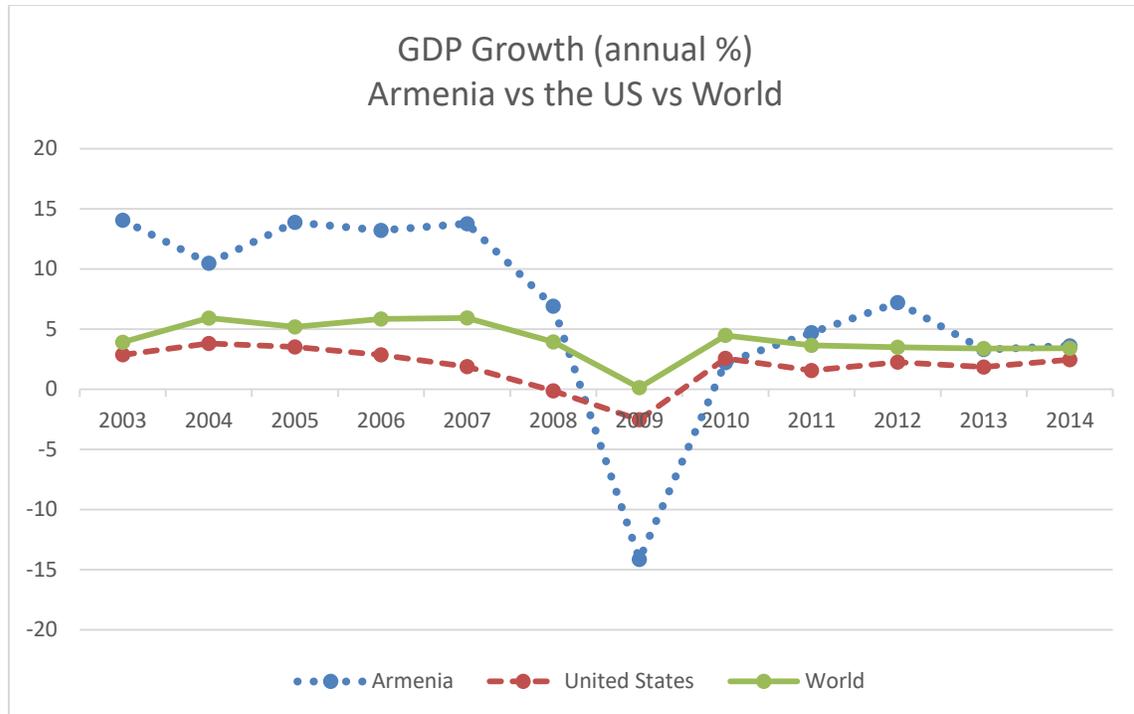
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Key Findings

- Armenian economy will be significantly and negatively influenced by the global COVID-19 pandemic.
- Developing countries, including Armenia will have slow post-crisis recovery rate, resulting in further widening of the income gap between rich and poor countries.
- Massive and revolutionary reforms aimed to eliminate the unnecessary business regulations and malpractices can stimulate the growth of small and medium entrepreneurship in Armenia and help economy to recover faster.

The spread of SARS-CoV-2 (coronavirus) in more than 200 countries and territories has caused a global pandemic. At the end of May, there were about 6 million cases of confirmed diagnosis for COVID-19, a condition caused by the virus. The virus has spread in both developed and developing countries with the US, Brazil, Russia, Spain, the UK, Italy, France, and Germany topping the list of countries with the most reported cases. The virus is wealth-inclusive and does not discriminate among rich and poor, neither between the countries nor within each country. However, I do not expect that the economic outcomes are also going to be inclusive. Historically, economic crises have resulted in the redistribution of wealth, making the rich richer and poor poorer. The economic crisis caused by coronavirus will not be any different. Moreover, given the strength, magnitude, geography, and expected duration of the crisis, I anticipate an unprecedented redistribution of wealth. The wealth gap between rich and poor will become much wider. I also expect a slowdown in the economic growth in most developing countries. As many like to say, the world is not going to be the same “after coronavirus.”

While talking about the wealth redistribution that had already happened and is happening every day, I will share with you my observations for Armenia. I will also provide some directions and approaches for urgent policy steps and changes that, to the best of my understanding, can pause and hopefully redirect the wealth redistribution process both within Armenia and globally between Armenia and rest of the world.



Sources: World Bank national accounts data, and OECD National Accounts data files.

Global economic crises have twofold effects. **First**, they change the dynamics of global development. Under certain conditions, underdeveloped countries are expected to have a much higher economic growth rate and over time catch up with more developed countries. For example, the 5-year average growth rate of the Armenian economy before 2008-2009 crisis was 13%; the world was growing at a 5.35%, and the US was growing at a 2.98% rate. During the post-crisis 5-years, the US economic growth rate averaged at 2.13%, which is a 28% reduction from the pre-crisis level. In the same period, the Armenian economic growth rate declined by 68% and averaged at 4.2% while the world's growth rate decreased by 31% and averaged at 3.68%. I do expect similar dynamics to take place after this crisis, averting many low- and medium-income countries to catch-up with the developed world. As a result, existing pressures on global migration, wars, and instabilities will deteriorate significantly.

The second type of wealth effects of the economic crises are local and are specific to each country. In the US, for example, the gap between low and high-income social groups has widened significantly after the 2008-2009 crisis. The ratio of total personal income of an individual at the 90th percentile to the total personal income of an individual at the 10th

percentile was 46.5 for 2003-2007 and became 609 for 2010-2014. This is a 13-times increase that was recorded immediately after the 2008-2009 crisis.

Personal total income (nominal)	Lowest 10th percentile	Highest 90th percentile	Highest 90th/Lowest 10th
Average 2003-2007	1500	69750	46.5
Average 2010-2014	130	79170	609

Sources: My calculation using MEPS data (meps.ahrq.gov)

In addition to these pre and post-crisis observations, we see that the Armenian economy is more sensitive to economic recessions than the rest of the world. In 2009 the world's GDP growth rate was 0.13%, the US was -2.5%, and Armenian was -14.1%. Since 2009 Armenia has not completed many structural reforms, nor has any significant transformation of the economy taken place. Thus, if the current prediction for the global economy is that it will shrink by 5.2%¹, then the magnitude of economic contraction in Armenia is expected to be unprecedented. I expect the current recession in Armenia to be much bigger and last much longer than it did in 2009.

What should Armenia do to mitigate the recession and set the economy for a higher growth path?

Unlike developed countries, Armenia does not have the luxury to “print” money and support massive stimulus packages. The way to stimulate the economy is through the active promotion of small and medium businesses, local innovation, and investment. The time of slow reforms and baby-step transitions is over. Armenia needs to adopt fundamental, forward-looking principles and, in a short period of time, completely adjust its legislation, business processes, and logistics, so there is no room left for inefficiencies, double-standards, delays, and red-tape. My observations of the past and current business environment make me doubt whether Armenia has a free market economy or a hybrid

¹ Global Economic Prospects <https://www.worldbank.org/en/publication/global-economic-prospects>

economic model with inefficient and useless government regulations. There is a mismatch between the declared priorities for the government and existing laws, procedures, regulations, and business practices. In many cases, businesses are accruing additional costs to satisfy unreasonable, old-fashioned, excessively bureaucratic regulations. I will list a few obvious ones. These are just a small fraction of regulations that should be changed or eliminated. These examples are straightforward, much-discussed, and faced by businesses every day.

The use of free or very affordable point of sale (POS) cloud-based solutions and technologies is widespread; however, Armenia still requires businesses to purchase and use entirely obsolete, stationary check printing machines, so-called “HDMs.” This practice is unacceptable for a country that wants to promote IT. Nowadays, any smartphone can substitute the HDM, while giving the government complete and transparent information about all sales. Another example is the use of mandatory tax-stamps. While the developed world is moving away from the uncreative use of labor, many producers and importers in Armenia are required to physically attach tax-stamps to their products. This is a type of job that cannot be automated given current regulations, and it adds thousands of valueless labor hours and millions of unjustified costs for the businesses. Numerous certification requirements and import procedures are typical examples of red-tape. Importers are required to obtain much worthless paperwork that in no way improves the quality of imported products or protects the safety and health of consumers.

These and many other business practices in Armenia make starting a business, especially local production, very expensive and annoying. I do not know any creative entrepreneur in Armenia who has started or can start a new business without hiring an accountant and running from one government agency to another. This paperwork kills creativity, and the entrepreneur, at some point, sees “better” value in stopping the business, finding a fixed-salary job, and complaining about their income level and living standards. In the Armenian reality, the business doesn’t see the government as a partner and vice versa. The only businesses that will and do thrive in this environment are large importers who can afford to have their own logistical, accounting, and legal departments.

Thus, the time of making revolutionary decisions and changes to promote free entrepreneurship, creativity, and new business creation is now. No one will be investing in Armenia if they have to spend hours solving bureaucratic hurdles. Alternatively, one can invest in the US stock market and earn 6-8% annually without any hustle of paperwork, tax-stamp attaching, need to deal with custom officers, or buying a HDM. The global realities of the coronavirus-driven economic and political changes are apparent. Many countries are adopting self-centered economic policies and regulations. Once prevailing ideas of globalization, open borders and inclusiveness are almost forgotten. Many patients with COVID-19 are asymptomatic with no or just mild symptoms; however, all the economics in the world are in serious or critical conditions due to coronavirus pandemic. A small country like Armenia with no reserves, weak infrastructure, and incomplete regulations has no other way to survive, but to implement extreme measures and immediate, free-entrepreneurship promoting reforms.

Health experts suggest “testing, tracing and isolating” strategy to combat the virus. I suggest Armenia follow a similar strategy to boost investment and business activity. The Armenian government needs to “review, identify and eliminate” worthless laws and regulations. Every single week the Ministry of Economy should motion to simplify, ease, or better off eliminate 3-5 government regulations that pose additional costs (direct monetary or indirect red-tape) on businesses. With this approach, the government can review and ease or eliminate 40-65 regulations in the next three months. The competitive business doesn’t need the government’s support; it needs to be given the freedom to be creative. Thus, the best help is the simplification and elimination of worthless regulations.