

How two South Caucasus nations are confronting the regional recession

*by Daniel Freedman

While Armenia sees its economic prospects hampered by its close links with Russia, Georgia is free to turn towards the West. However, despite its current economic problems, Russia remains the engine of the regional economy and it may not be a bad idea to keep close ties with this major economic power.

Arriving at 4 am in a bustling international airport, you might not be sure if you have landed in Georgia or neighboring Armenia. Both airports are about the same size and busiest at that time of night to ensure that pan-Eurasian flights arrive at convenient times in Western Europe or East Asia. In either country, your taxi to the hotel will likely be a Russian Lada or a Mercedes. The driver may offer to take you to his favorite restaurant, which is run by a family member, for some shashlik (grilled meat) or khachapuri (cheese bread) before dropping you off. Armenia and Georgia, with three and five million inhabitants respectively, have a lot in common. However, the two countries are intrinsically different. This includes the markedly divergent paths they are taking toward economic development, which is especially relevant now as tensions rise again between Russia and the West.

Chances are the taxi driver has taken out a loan from a microfinance institution (MFI) supported by foreign investors operating in the country and serving a clientele made up of self-employed workers and entrepreneurs. Microfinance has become an integral part of both economies, accounting for just under 10% of total financial sector assets. In Georgia, more flexible regulations and a more favorable investment climate have led the country to develop more dynamically and competitively. There, MFIs can transform into a bank, the ultimate goal of large institutions. This is not the case in Armenia. In addition, while the commercial aspect is paramount in Georgia, greater attention is paid to the social mission in Armenia where more development programs exist.

A dominant industrial hub during communism, Armenia has shifted to an agrarian and commodity-based economy, trading primarily with Russia and China. Despite being a member both of the Commonwealth of Independent States (CIS) and the recently established Eurasian Economic Union, Armenia's regional trade prospects are limited. Its borders with Azerbaijan have been closed for decades because of the armed conflict over territorial issues. And the profound dispute with Turkey following the 1915 genocide bars access to this important market. Armenia depends on Russia for security and trade. Georgia is neither a member of the CIS nor of the Eurasian Economic Union and promptly used its military to assert its independence from Russia during the summer of 2008. It also maintains good relations with other former Soviet republics and is proud to have the euro zone as its main trading partner.

In this period of regional economic stagnation, dependence vis-à-vis Russia still darkens the Armenian economic landscape. Remittances from migrants in Russia, which accounted for almost 15% of Armenia's GDP in 2014, declined by almost 50% in 2015. In Georgia, these transfers are mainly from Europe. However, Armenians are resilient and, against all odds and despite predictions of economic contraction, the country should have ultimately recorded 2.3% growth in 2015.

Indeed, even though Georgia's economic prospects seem slightly higher than those of Armenia, the country is not immune to new trials, particularly those stemming from its border with Russia. In this

complex post-Soviet landscape, it is difficult to predict where the divergent strategies of the two neighboring countries will lead them. What is certain, however, is that both have dynamic and prosperous small business sectors that are relatively resilient to geopolitical upheavals. This has offered interesting opportunities for international investors wishing to support these local SMEs. And one last important and indisputable point: the food is excellent in both countries and if an Armenian shashlik is better than a Georgian shashlik, a Georgian khachapuri outweighs that of its Armenian neighbor.

*Symbiotics Investment Analyst based in Geneva